

**BRIEF STATEMENTS OF ANNUAL FINANCIAL RESULTS FOR THE YEAR ENDED MARCH 2008  
AND FORECASTS FOR THE YEAR ENDING MARCH 2009**



May 1, 2008

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 24, 2008  
Date of Submission of Securities Report: June 24, 2008  
Starting date of the dividend payments: June 25, 2008

Amounts are rounded down to the nearest JPY 1 million.

**1. RESULTS FOR THE FISCAL YEAR (from April 1,2007 to March 31, 2008)**

**1). CONSOLIDATED FINANCIAL RESULTS**

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

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Years that ended								
March 31, 2008	6,409,726	34.4	430,553	29.7	362,681	16.2	238,702	13.3
March 31, 2007	4,769,387	2.8	331,991	8.2	312,044	4.8	210,772	4.6

	Net Income per Share		Diluted Net	Return on Equity	Ordinary Income	Operating Income
	yen	yen	Income per Share	Capital	on Total Assets	on Net Sales
Years that ended						
March 31, 2008	24,916.51	24,916.26		11.8	8.6	6.7
March 31, 2007	22,001.10	-		11.3	9.7	7.0

Reference: Equity in earnings of associated companies: the fiscal year that ended March 31, 2008: 1,773 million yen  
/ the fiscal year that ended March 31, 2007: 25 million yen

**2). CONSOLIDATED FINANCIAL POSITION**

	Total Assets	Net Assets	Ratio of	Net Assets
	Millions of yen	Millions of yen	Equity Capital	per Share
Years that ended				yen
March 31, 2008	5,087,214	2,154,629	40.8	216,707.27
March 31, 2007	3,364,663	2,024,615	58.3	204,617.68

Reference: Equity Capital: the fiscal year that ended March 31, 2008: 2,076,072 million yen/ the fiscal year that ended March 31, 2007: 1,960,253 million yen

**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 that ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2008	145,030	(1,668,634)	519,000	215,008
March 31, 2007	435,958	(149,692)	(32,634)	1,179,522

**2. DIVIDENDS**

	Dividends per Share			Total Dividend Payment (Annual)	Payout Ratio (Consolidated)	Dividend on Net Assets (Consolidated)
	(Record dates)	Interim	Year-end			
Years that ended	yen	yen	yen	Millions of yen	%	%
March 31, 2007	1,800.00	2,200.00	4,000.00	38,320	18.2	2.1
March 31, 2008	2,200.00	2,600.00	4,800.00	45,984	19.3	2.3
Year ending March 2009 (Forecast)	2,600.00	2,600.00	5,200.00		33.7	

**3. FORECASTS FOR THE BUSINESS RESULTS FOR THE YEAR ENDING MARCH, 2009 (from April 1, 2008 to March 31, 2009)**

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

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ending March 2009	6,610,000	3.1	311,000	(27.8)	278,000	(23.3)

	Net Income		Net Income per Share
	Millions of yen	%	yen
Year ending March 2009	148,000	(38.0)	15,448.72

Note: Forecasts for the six months ending September 30, 2008 are not issued.

#### 4. OTHERS

##### 1). CHANGES IN THE SIGNIFICANT SUBSIDIARIES (ACCOMPANYING CHANGES IN SCOPE OF THE CONSOLIDATION): Applicable

New Consolidated Companies: 14

The Name of Companies: Gallaher Group Ltd, Gallaher Ltd., Austria Tabak GmbH, Gallaher Capital Ltd.,

Gallaher Europe Finance, Harrigan Ltd.,

HABET Handels-Beteiligungsgesellschaft mbH & Co. KG Nahrungs- und Genussmittel.

Gallaher AF Luxembourg S.à r.l, Gallaher Luxembourg Overseas Finance S.à r.l

Gallaher Benelux Ltd., Gallaher Investments Luxembourg S.à r.l

Gallaher Investment Finance S.à r.l, Gallaher Finance

KATOKICHI CO., LTD.

##### 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" on page 9.

##### 3). OUTSTANDING SHARES (COMMON SHARES)

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

the fiscal year that ended March 31, 2008: 10,000,000 shares, the fiscal year that ended March 31, 2007: 10,000,000 shares

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

the fiscal year that ended March 31, 2008: 419,920 shares, the fiscal year that ended March 31, 2007: 419,920 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 page13.

#### **[Reference] SUMMARY OF NON-CONSOLIDATED RESULTS**

##### 1. RESULTS FOR THE FISCAL YEAR (from April 1, 2007 to March 31, 2008)

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

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

	Net Sales		Operating Income		Ordinary Income		Net Income	
	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%
Years that ended								
March 31, 2008	2,302,704	(1.2)	188,608	(10.8)	177,757	(6.3)	131,145	(1.0)
March 31, 2007	2,330,453	(1.7)	211,388	9.8	189,730	(1.6)	132,456	4.9

	Net Income per Share		Diluted Net Income per Share	
	<i>yen</i>	<i>yen</i>	<i>yen</i>	<i>yen</i>
Years that ended				
March 31, 2008	13,689.35		13,689.21	
March 31, 2007	13,826.19		-	

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

	Total Assets	Net Assets	Ratio of Equity Capital	Net Assets per Share
	<i>Millions of yen</i>	<i>Millions of yen</i>	%	<i>yen</i>
Years that ended				
March 31, 2008	2,902,509	1,816,727	62.6	189,616.56
March 31, 2007	2,561,865	1,753,067	68.4	182,990.92

Reference: Equity Capital: the fiscal year that ended March 31, 2008: 1,816,727 million yen/ the fiscal year that ended March 31, 2007: 1,753,067 million yen

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.

## CONSOLIDATED BALANCE SHEETS

Japan Tobacco Inc. and Consolidated Subsidiaries  
as of March 31, 2007 and 2008

	<i>Millions of yen</i>		
	<i>as of March 31,</i> 2007	<i>as of March 31,</i> 2008	<i>Increase / Decrease</i>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>	<b>1,840,808</b>	<b>1,234,695</b>	<b>(606,112)</b>
Cash and deposits	555,653	213,885	(341,767)
Trade notes and accounts receivable	149,384	325,075	175,691
Marketable securities	578,066	4,952	(573,113)
Inventories	417,276	558,850	141,573
Deferred tax assets	18,171	32,008	13,836
Other current assets	123,794	104,427	(19,367)
Allowance for doubtful accounts	(1,539)	(4,504)	(2,964)
<b>FIXED ASSETS:</b>	<b>1,523,855</b>	<b>3,852,518</b>	<b>2,328,662</b>
<b>Property, plant and equipment:</b>	<b>600,435</b>	<b>763,332</b>	<b>162,896</b>
Buildings and structures	229,019	281,742	52,723
Machinery, equipment and vehicles	152,900	218,973	66,073
Tools	58,486	73,114	14,628
Land	131,817	157,380	25,562
Construction in progress	28,211	32,120	3,908
<b>Intangible assets:</b>	<b>542,880</b>	<b>2,759,407</b>	<b>2,216,526</b>
Goodwill	360,681	2,106,887	1,746,205
Trademarks	154,980	613,496	458,515
Other	27,218	39,023	11,805
<b>Investments and other assets:</b>	<b>380,538</b>	<b>329,778</b>	<b>(50,759)</b>
Investment securities	262,616	132,173	(130,442)
Long-term loans	808	4,409	3,600
Deferred tax assets	75,456	110,708	35,251
Other assets	43,255	112,743	69,487
Allowance for doubtful accounts	(1,230)	(30,075)	(28,845)
Allowance for loss on investments	(368)	(180)	187
<b>TOTAL ASSETS</b>	<b>3,364,663</b>	<b>5,087,214</b>	<b>1,722,550</b>

## CONSOLIDATED BALANCE SHEETS

Japan Tobacco Inc. and Consolidated Subsidiaries  
as of March 31, 2007 and 2008

	<i>Millions of yen</i>		
	<i>as of March 31,</i> <i>2007</i>	<i>as of March 31,</i> <i>2008</i>	<i>Increase /</i> <i>Decrease</i>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>	<b>813,196</b>	<b>1,284,396</b>	<b>471,199</b>
Trade notes and accounts payable	129,764	175,369	45,604
Short-term bank loans	53,706	269,034	215,328
Current portion of bonds	-	73,054	73,054
Current portion of long-term borrowings	10,549	6,668	(3,881)
Other payable	93,567	79,014	(14,553)
National tobacco excise taxes payable	134,573	200,875	66,302
National tobacco special excise taxes payable	21,991	10,898	(11,093)
Local tobacco excise taxes payable	181,374	88,839	(92,535)
Income taxes payable	60,108	71,693	11,585
Deferred tax liabilities	2,246	6,547	4,300
Other allowances	31,309	41,481	10,171
Other current liabilities	94,003	260,919	166,915
<b>NON-CURRENT LIABILITIES:</b>	<b>526,851</b>	<b>1,648,188</b>	<b>1,121,337</b>
Bonds	150,000	643,631	493,631
Long-term borrowings	5,012	396,907	391,894
Deferred tax liabilities	43,435	174,395	130,959
Liabilities for retirement benefits	282,377	283,387	1,010
Liabilities for retirement benefits for directors and corporate auditors	1,017	743	(273)
Provision for loss on guarantees	-	257	257
Other non-current liabilities	45,007	148,866	103,858
<b>TOTAL LIABILITIES</b>	<b>1,340,047</b>	<b>2,932,584</b>	<b>1,592,537</b>
<b>NET ASSETS</b>			
<b>SHAREHOLDERS' EQUITY:</b>	<b>1,920,159</b>	<b>2,106,311</b>	<b>186,152</b>
Common stock	100,000	100,000	-
Capital surplus	736,400	736,400	-
Retained earnings	1,158,337	1,344,490	186,152
Treasury stock	(74,578)	(74,578)	-
<b>VALUATION AND TRANSLATION ADJUSTMENTS:</b>			
<b>ADJUSTMENTS:</b>	<b>40,094</b>	<b>(30,238)</b>	<b>(70,333)</b>
Net unrealized gains on investment securities	33,329	21,338	(11,990)
Net deferred gains on hedging instruments	14,580	219	(14,360)
Pension liability adjustment of foreign consolidated subsidiaries	(15,560)	(10,711)	4,848
Foreign currency translation adjustments	7,745	(41,085)	(48,831)
<b>SUBSCRIPTION RIGHTS TO SHARES</b>	<b>-</b>	<b>185</b>	<b>185</b>
<b>MINORITY INTERESTS</b>	<b>64,362</b>	<b>78,370</b>	<b>14,008</b>
<b>TOTAL NET ASSETS</b>	<b>2,024,615</b>	<b>2,154,629</b>	<b>130,013</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>3,364,663</b>	<b>5,087,214</b>	<b>1,722,550</b>

## CONSOLIDATED STATEMENTS OF INCOME

Japan Tobacco Inc. and Consolidated Subsidiaries

For the years that ended March 31, 2007 and 2008

	For the year that ended		Increase/ Decrease	Comparison to previous year
	March 31, 2007	March 31, 2008		
	Millions of yen	Millions of yen	Millions of yen	%
<b>NET SALES</b>	<b>4,769,387</b>	<b>6,409,726</b>	<b>1,640,339</b>	<b>34.4</b>
<b>COST OF SALES</b>	<b>3,844,768</b>	<b>5,228,925</b>	<b>1,384,157</b>	<b>36.0</b>
<b>GROSS PROFIT</b>	<b>924,619</b>	<b>1,180,801</b>	<b>256,181</b>	<b>27.7</b>
<b>SELLING, GENERAL AND</b>				
<b>ADMINISTRATIVE EXPENSES</b>	<b>592,628</b>	<b>750,247</b>	<b>157,619</b>	<b>26.6</b>
<b>OPERATING INCOME</b>	<b>331,991</b>	<b>430,553</b>	<b>98,562</b>	<b>29.7</b>
<b>NON-OPERATING INCOME:</b>	<b>16,033</b>	<b>21,533</b>	<b>5,499</b>	<b>34.3</b>
Interest income	10,384	11,238	854	
Dividend income	1,718	2,171	453	
Other	3,930	8,122	4,192	
<b>NON-OPERATING EXPENSES:</b>	<b>35,980</b>	<b>89,405</b>	<b>53,424</b>	<b>148.5</b>
Interest expense	6,939	41,758	34,818	
Foreign exchange loss	14,464	31,789	17,324	
Financial support for domestic leaf tobacco growers	3,504	2,004	(1,499)	
Periodic mutual assistance association cost	2,713	2,333	(380)	
Other	8,357	11,519	3,161	
<b>ORDINARY INCOME</b>	<b>312,044</b>	<b>362,681</b>	<b>50,637</b>	<b>16.2</b>
<b>EXTRAORDINARY PROFIT:</b>	<b>50,854</b>	<b>68,964</b>	<b>18,110</b>	<b>35.6</b>
Gain on sale of property, plant and equipment	47,506	66,747	19,240	
Other	3,348	2,217	(1,130)	
<b>EXTRAORDINARY LOSS:</b>	<b>25,703</b>	<b>59,032</b>	<b>33,328</b>	<b>129.7</b>
Loss on sale of property, plant and equipment	3,151	3,261	110	
Loss on disposal of property, plant and equipment	10,402	6,306	(4,096)	
Write-down of investment securities	-	11,154	11,154	
Impairment loss	2,712	3,825	1,112	
Business restructuring costs	-	6,442	6,442	
Introduction costs for vending machines with adult identification functions	5,746	12,878	7,132	
Costs related to the recall of frozen foods products	-	5,623	5,623	
Other	3,690	9,539	5,849	
<b>INCOME BEFORE INCOME TAXES AND</b>				
<b>MINORITY INTERESTS</b>	<b>337,195</b>	<b>372,614</b>	<b>35,418</b>	<b>10.5</b>
INCOME TAXES-CURRENT	84,480	117,271	32,791	38.8
INCOME TAXES-DEFERRED	36,923	11,107	(25,816)	(69.9)
MINORITY INTERESTS	5,018	5,532	513	10.2
<b>NET INCOME</b>	<b>210,772</b>	<b>238,702</b>	<b>27,929</b>	<b>13.3</b>

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Japan Tobacco Inc. and Consolidated Subsidiaries  
For the years that ended March 31, 2007 and 2008

(For the year that ended March 31, 2007)

Millions of yen

	Shareholders' equity					Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock		
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)			<b>(17,244)</b>
Cash dividend paid			(17,244)			<b>(17,244)</b>
Bonuses to directors and corporate auditors (Note1)			(196)			<b>(196)</b>
Net income			210,772			<b>210,772</b>
Adjustment to retained earnings for change in the number of equity method affiliates			(79)			<b>(79)</b>
Net changes of items other than shareholders' equity			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 foreign consolidated subsidiaries (Note2)	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2006	35,531	-	-	(7,353)	28,178	57,561	<b>1,820,073</b>
Changes of items during the accounting period							
Cash dividend paid (Note1)							<b>(17,244)</b>
Cash dividend paid							<b>(17,244)</b>
Bonuses to directors and corporate auditors (Note1)							<b>(196)</b>
Net income							<b>210,772</b>
Adjustment to retained earnings for change in the number of equity method affiliates							<b>(79)</b>
Net changes of items other than shareholders' equity	(2,202)	14,580	(15,560)	15,098	11,915	6,800	<b>28,534</b>
Total changes of items during the accounting period	(2,202)	14,580	(15,560)	15,098	11,915	6,800	<b>204,542</b>
Balance as of March 31, 2007	33,329	14,580	(15,560)	7,745	40,094	64,362	<b>2,024,615</b>

Note:

1. Cash dividend paid and bonuses to directors and corporate auditors are items that were approved at the general shareholders' meeting in June 2006.
2. "Pension liability adjustment of foreign consolidated subsidiaries" is unfunded obligation recognized by foreign consolidated subsidiaries applying U.S.GAAP.

(For the year that ended March 31, 2008)

Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2007	100,000	736,400	1,158,337	(74,578)	<b>1,920,159</b>
Changes of items during the accounting period					
Changes of retained earnings due to the new accounting standard adopted by foreign consolidated subsidiaries applying U.S.GAAP (Note 2)			(10,548)		<b>(10,548)</b>
Cash dividend paid			(42,152)		<b>(42,152)</b>
Net income			238,702		<b>238,702</b>
Adjustment to retained earnings for change in the number of equity method affiliates			151		<b>151</b>
Net changes of items other than shareholders' equity					
Total changes of items during the accounting period	-	-	186,152	-	<b>186,152</b>
Balance as of March 31, 2008	100,000	736,400	1,344,490	(74,578)	<b>2,106,311</b>

Millions of yen

	Valuation and translation adjustments					Subscription rights to shares	Minority interests	Total net assets
	Net unrealized gains on investment securities	Net deferred gains on hedging instruments	Pension liability adjustment of foreign consolidated subsidiaries (Note1)	Foreign currency translation adjustments	Total valuation and translation adjustments			
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>
Changes of items during the accounting period								
Changes of retained earnings due to the new accounting standard adopted by foreign consolidated subsidiaries applying U.S.GAAP (Note 2)								<b>(10,548)</b>
Cash dividend paid								<b>(42,152)</b>
Net income								<b>238,702</b>
Adjustment to retained earnings for change in the number of equity method affiliates								151
Net changes of items other than shareholders' equity	(11,990)	(14,360)	4,848	(48,831)	<b>(70,333)</b>	185	14,008	<b>(56,139)</b>
Total changes of items during the accounting period	(11,990)	(14,360)	4,848	(48,831)	<b>(70,333)</b>	185	14,008	<b>130,013</b>
Balance as of March 31, 2008	21,338	219	(10,711)	(41,085)	<b>(30,238)</b>	185	78,370	<b>2,154,629</b>

Note:

- "Pension liability adjustment of foreign consolidated subsidiaries" is unfunded obligation recognized by foreign consolidated subsidiaries applying U.S.GAAP.
- Foreign consolidated subsidiaries applying U.S.GAAP adopted "Accounting for Uncertainty in Income Taxes" (FASB Interpretation from the current period. First year's effect of adoption was recorded in changes of retained earnings.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Tobacco Inc. and Consolidated Subsidiaries

For the years that ended March 31, 2007 and 2008

	<i>Millions of yen</i>		
	<i>For the year that ended</i>		<i>Increase/ Decrease</i>
	<i>March 31. 2007</i>	<i>March 31. 2008</i>	
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	337,195	372,614	35,418
Depreciation and amortization	130,105	167,658	37,552
Impairment loss	2,712	3,825	1,112
Net gain on sale and disposal of property, plant and equipment	(39,284)	(60,768)	(21,484)
Amortization of goodwill	2,537	3,883	1,345
Write-down of investment securities	-	11,154	11,154
Decrease in liabilities for retirement benefits	(21,163)	(4,932)	16,231
Interest income and dividend income	(12,103)	(13,410)	(1,307)
Interest expense	6,939	41,758	34,818
(Increase) decrease in trade notes and accounts receivable	(9,476)	47,484	56,961
(Increase) decrease in inventories	(6,171)	27,114	33,285
Decrease in trade notes and accounts payable	(12,877)	(16,650)	(3,772)
Decrease in other payable	(22,087)	(39,955)	(17,868)
Increase (decrease) in tobacco excise taxes payable	160,020	(213,133)	(373,154)
Other, net	(28,781)	(31,029)	(2,247)
<b>Sub-total</b>	<b>487,566</b>	<b>295,612</b>	<b>(191,953)</b>
Interest and dividend received	12,071	18,226	6,155
Interest paid	(6,493)	(36,083)	(29,590)
Income taxes paid	(57,185)	(132,724)	(75,539)
<b>Net cash provided by operating activities</b>	<b>435,958</b>	<b>145,030</b>	<b>(290,927)</b>
<b>INVESTING ACTIVITIES:</b>			
Purchases of marketable securities	(330,715)	(2,353)	328,362
Proceeds from sale and redemption of marketable securities	386,189	4,224	(381,965)
Purchases of property, plant and equipment	(96,717)	(124,832)	(28,114)
Proceeds from sale of property, plant and equipment	57,093	83,335	26,242
Purchases of intangible assets	(7,927)	(6,830)	1,097
Purchases of investment securities	(158,385)	(22,562)	135,822
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(4,085)	(1,608,080)	(1,603,995)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	-	1,449	1,449
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	(387)	-	387
Other, net	5,243	7,015	1,772
<b>Net cash used in investing activities</b>	<b>(149,692)</b>	<b>(1,668,634)</b>	<b>(1,518,942)</b>
<b>FINANCING ACTIVITIES:</b>			
Net increase in short-term bank loans	18,571	136,063	117,492
Proceeds from long-term borrowings	-	378,862	378,862
Repayment of long-term borrowings	(19,840)	(90,198)	(70,358)
Proceeds from issue of bonds	-	149,723	149,723
Repayment of bonds	-	(10,000)	(10,000)
Proceeds from minority shareholders	4,927	-	(4,927)
Dividends paid	(34,488)	(42,152)	(7,664)
Dividends paid to minority shareholders	(1,474)	(2,889)	(1,415)
Other, net	(330)	(407)	(77)
<b>Net cash provided by (used in) financing activities</b>	<b>(32,634)</b>	<b>519,000</b>	<b>551,635</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>5,749</b>	<b>40,090</b>	<b>34,341</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>259,380</b>	<b>(964,513)</b>	<b>(1,223,893)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>920,141</b>	<b>1,179,522</b>	<b>259,380</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>1,179,522</b>	<b>215,008</b>	<b>(964,513)</b>

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

(Matters Related to the Scope of Consolidation)

Number of consolidated subsidiaries: 299

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

In addition, the consolidated financial statements include 151 newly consolidated subsidiaries: Katokichi Co., Ltd. and other 20 subsidiaries in Japan; and Gallaher Group Ltd., Gallaher Ltd., Gallaher Capital Ltd., Gallaher Europe Finance, Harrigan Ltd., Austria Tabak GmbH, HABET Handels-Beteiligungsgesellschaft mbH & Co. KG Nahrungs- und Genußmittel, Liggett-Ducat CJSC and other 122 subsidiaries overseas.

Frontier REIT Management Inc. is excluded from the scope of consolidation because of the sellout of all its shares. And four former consolidated subsidiaries, including Eagle Collection (M) Sdn. Bhd., are excluded from the scope of consolidation, as liquidation proceedings have been completed.

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

### **CHANGES IN ACCOUNTING POLICIES**

(Accounting Standard for Measurement of Inventories)

“Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 5, 2006) can be applied to consolidated accounting years beginning prior to March 31, 2008. Accordingly, the accounting standard is applied from the current consolidated accounting period. The impact of this change on operating income, ordinary income and income before income taxes and minority interests for the fiscal year that ended March 31, 2008 is insignificant.

Conventional write-downs on raw materials and half-finished goods are discontinued from the current consolidated accounting period.

(Changes in the Depreciation Method for Property, Plant and Equipment)

In accordance with revisions to the Corporate Tax Law (Ordinance 6 of March 30, 2007, partially revising the Income Tax Law and other laws and Ordinance 83 of March 30, 2007, partially revising the Corporate Tax Law Enforcement Ordinance), JT and domestic consolidated subsidiaries applied the depreciation method based on the revised Corporate Tax Law to property, plant and equipment acquired from April 1, 2007 from the current consolidated accounting period.

Furthermore, the depreciation method based on the Corporate Tax Law prior to these revisions is applied to property, plant and equipment acquired up to March 31, 2007. Accordingly, the difference between the equivalent of 5% of the acquisition cost and the memorandum value is depreciated evenly over a five-year period starting from the consolidated accounting period subsequent to the period during which the asset is depreciated to 5% of the acquisition cost.

The impact of this change on operating income, ordinary income and income before income taxes and minority interests for the fiscal year that ended March 31, 2008 is insignificant.

Furthermore, details other than those described above have been omitted as there have been no other major changes since the Company’s recent annual securities report (issued June 22, 2007).

## SEGMENT INFORMATION

### 1. OPERATIONS BY INDUSTRY SEGMENT

(For the year that 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

(For the year that ended March 31, 2008)

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	3,362,397	2,639,968	49,063	336,420	21,876	6,409,726	-	6,409,726
(2) Intersegment sales	48,980	35,341	-	115	22,331	106,768	(106,768)	-
Total	3,411,378	2,675,309	49,063	336,535	44,207	6,516,495	(106,768)	6,409,726
Operating expenses	3,189,030	2,469,949	58,707	335,868	33,759	6,087,316	(108,143)	5,979,173
Operating income (loss)	222,347	205,359	(9,643)	666	10,448	429,179	1,374	430,553
2. Assets, depreciation and amortization, and capital expenditure								
Assets	847,123	3,804,413	111,422	353,283	90,000	5,206,242	(119,028)	5,087,214
Depreciation and amortization	83,290	65,397	3,374	4,891	11,606	168,559	(900)	167,658
Impairment loss	344	345	-	380	-	1,069	2,755	3,825
Capital expenditure	57,201	48,430	4,257	6,033	14,792	130,715	(1,160)	129,554

#### 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, 2007 and 2008 are 584,863 million yen and 99,421 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 that ended March 31, 2007	1,117	-	-	1,419	-	2,537
For the year that ended March 31, 2008	1,088	-	-	2,794	-	3,883

- The domestic tobacco segment includes the sales by TS Network Co., Ltd., JT's subsidiary. TS Network Co., Ltd. distributes domestic tobacco products and sells imported tobacco products by wholesale.

Net sales of imported tobacco products via TS Network Co., Ltd. for the years that ended March 31, 2007 and 2008 were 1,216,248 million yen and 1,193,178 million yen, respectively

- With respect to international tobacco business, as the closing date of the accounting period of international consolidated subsidiaries is set on December 31, operating results from January 1, 2007 to December 31, 2007 have been included in the current consolidated period

## 2. OPERATIONS BY GEOGRAPHIC SEGMENT

(For the year that 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.

(For the year that ended March 31, 2008)

Millions of yen

	Japan	Western Europe	Others	Total	Elimination/ Corporate	Consolidated
1. Sales and operating income						
Sales						
(1) Sales to customers	3,711,762	1,678,769	1,019,194	6,409,726	-	6,409,726
(2) Intersegment sales	52,308	181,062	29,211	262,582	(262,582)	-
Total	3,764,071	1,859,832	1,048,405	6,672,309	(262,582)	6,409,726
Operating expenses	3,541,731	1,803,896	897,007	6,242,635	(263,462)	5,979,173
Operating income	222,339	55,936	151,398	429,674	879	430,553
2. Assets	1,160,749	3,436,184	420,169	5,017,103	70,110	5,087,214

### 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, UK, 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 that 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.

(For the year that ended March 31, 2008)

*Millions of yen*

	Western Europe	Others	Total
1) Overseas sales	1,634,920	1,070,540	2,705,461
2) Consolidated sales			6,409,726
3) Percentage of overseas sales to consolidated sales (%)	25.5	16.7	42.2

**NOTE:**

1. Overseas sales are sales of the Company and consolidated subsidiaries in countries and areas other than Japan.
2. Operations by geographic area are categorized based on geographical approximation.
3. Main countries and areas included in each category
  - 1) Western Europe Switzerland, UK, and Germany
  - 2) Others Canada, Russia, and Malaysia
4. For the year that ended March 31, 2008, "Overseas sales" is divided into "Western Europe" and "Others", because the overseas sales related to Western Europe exceed 10% of consolidated net sales.  
Overseas sales and its percentage to consolidated sales related to Western Europe for the year that ended March 31, 2007 are as below:

For the year that ended March 31, 2007 : 326,032 million of yen (6.8%)

**PER SHARE INFORMATION**

Year that ended March 31, 2007	Year that ended March 31, 2008
Net assets per share           204,617.68 yen	Net assets per share
Net income per share         22,001.10 yen	216,707.27 yen
There is no figure disclosed for the diluted net income per share, as no such securities causing dilution exist.	Net income per share
	24,916.51 yen
	Diluted Net Income per Share
	24,916.26 yen
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.	

Notes relating to Lease Transactions, Related Party Transactions, Income Taxes, Securities, Derivatives, Retirement Benefits, Stock Option and business combinations are omitted considering their minor significance on the Brief Statements.

## ADDITIONAL INFORMATION

(Business Combinations)

- I. Via consolidated subsidiary JTI (UK) MANAGEMENT LTD, on April 18, 2007, JT acquired the outstanding shares of the Gallaher Group Plc (now known as “Gallaher Group Ltd.”) of the United Kingdom through an acquisition method under English law known as a scheme of arrangement, converting Gallaher Group Plc into a wholly owned subsidiary.

As the direct acquirer of the outstanding shares in Gallaher Group Plc was JTI (UK) MANAGEMENT LTD, which follows generally accepted accounting principles and practices in the United States (“U.S. GAAP”), said business combination was accounted for under the purchase method, based on FASB Statement No. 141.

In August 2007, JT reorganized JTI (UK) MANAGEMENT LTD into a subsidiary of JT International Holding B.V., a consolidated 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 Group Plc, 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. Period of operating results included in the consolidated financial statements

As the closing date of the accounting period of the acquired company is set on December 31, operating results from April 18, 2007 to December 31, 2007 for this company have been included in the current consolidated period.

3. Acquisition costs

The acquisition was conducted for 7.5 billion sterling pounds in cash.

4. Amount of goodwill recognized, basis for recognition, and method and period for amortization of goodwill

(1) Amount of goodwill recognized

¥ 1,721,368 million

(2) Basis for recognition

Goodwill was recognized because the acquisition cost of the company exceeded the net value allocated to the assets acquired and liabilities assumed.

(3) Method and period for amortization of goodwill

In accordance with FASB Statement No. 142, “Goodwill and Other Intangible Assets,” the amount of goodwill recognized shall not be amortized. Rather, the decision of whether to recognize impairment shall be made once each year, or each time an event occurs indicating that the fair value of goodwill might fall below its book value.

5. Principal details of assets received and liabilities assumed on the day of the business combination are as follows :

Current assets: ¥ 410,572 million

Non-current assets: ¥ 2,531,125 million

Total assets: ¥ 2,941,697 million

Current liabilities: ¥ 405,712 million

Non-current liabilities: ¥ 749,478 million

Total liabilities: ¥ 1,155,191 million

Regarding allocation of acquisition costs, the major intangible asset that was acquired in addition to goodwill was ¥523,263 million in trademarks. This asset has an amortization period of 20 years.

Note: Amount of yen mentioned above is translated at the exchange rate as of the business combination date. The amount of goodwill (¥1,791,188 million) included in Non-current assets differs from the amount of goodwill which is described in 4.(1)(consolidated balance sheets amount).

- II. On January 8, 2008, JT converted Katokichi Co., Ltd. into a subsidiary through tender offer for Katokichi share. In addition, JT acquired all of Katokichi's voting rights on April 18, 2008.
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: Katokichi Co., Ltd.
    - (2) Business contents: The main business contents are manufacturing and selling of frozen foods and frozen fishery products. The other business contents are distribution business incidental to the main business and service business such as hotel and restaurant management.
    - (3) Main reasons for business combination  
JT anticipated that we could realize further expansion of its business value as we enjoy the effect of supplementing each other and a synergy of management resources of the two companies through the business combination.
    - (4) Date of business combination: January 8, 2008
    - (5) Legal form of the business combination: The issued shares were acquired for cash.
    - (6) Ratio of voting rights acquired: 93.89%
  2. Period of operating results included in the consolidated financial statements  
From January 1, 2008 to March 31, 2008
  3. Acquisition costs  
The acquisition was conducted for 108.6 billion yen in cash.
  4. Amount of goodwill recognized, basis for recognition, and method and period for amortization of goodwill
    - (4) Amount of goodwill recognized  
¥ 41,885 million
    - (5) Basis for recognition  
Goodwill was recognized because the acquisition cost of the company exceeded the net value allocated to the assets acquired and liabilities assumed.
    - (6) Method and period for amortization of goodwill  
Method for amortization: straight-line method  
Period for amortization: for five years
  5. Principal details of assets received and liabilities assumed on the day of the business combination are as follows :
 

Current assets:	¥ 89,278 million
<u>Non-current assets:</u>	<u>¥ 136,994 million</u>
Total assets:	¥ 226,273 million
Current liabilities:	¥ 84,812 million
<u>Non-current liabilities:</u>	<u>¥ 24,532 million</u>
Total liabilities:	¥ 109,344 million

## IMPORTANT SUBSEQUENT EVENTS

1. JT's board of directors decided on April 18, 2008, that regarding the company's defunct condominiums and unused warehouses, the company would demolish the existing buildings on the individual properties, should it contribute to the sale of the land or increase its property value. The company estimates losses resulting from the demolition to be at approximately 15.0 billion yen, which would be allocated as extraordinary losses in the fiscal year ending March 31, 2009.

2. On April 25, 2008, JT's tobacco subsidiary in the United Kingdom, Gallaher Ltd. (Gallaher), together with several other companies, had received a statement of objections from the Office of Fair Trading (OFT), the UK competition authority. The statement of objections addresses the possibility of anti-competitive behavior with respect to retail prices for tobacco products in the UK market prior to JT's acquisition of Gallaher.

In August 2003, the OFT notified Gallaher of an inquiry into vertical agreements between manufacturers and retailers in the UK cigarette, tobacco and tobacco-related markets. Since that time Gallaher has been fully cooperating with the OFT regarding the inquiry.

The JT Group is reviewing the statement of objections, and will be responding to the OFT as required.

While the matter is still under review, an allowance of undisclosed amount, based on the company's current assumptions, has been booked as a liability in the purchase price allocation related to JT's acquisition of Gallaher.