

**CONSOLIDATED FINANCIAL RESULTS
FOR THE FIRST QUARTER PERIOD OF THE YEAR ENDING MARCH 2007**

July 31, 2006

Name of the Listed Company: **Japan Tobacco Inc.** (Stock Code: 2914)
Listed Stock Exchanges: Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo Stock Exchanges
Head Office: Tokyo
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

1. MATTERS RELATING TO THE PREPARATION OF QUARTERLY FINANCIAL INFORMATION

1). APPLICATION OF SIMPLIFIED ACCOUNTING PROCEDURES

JT applies simplified accounting procedures on income taxes and other accounts, based on accounting procedures for semi-annual financial statements. These quarterly financial statements are unaudited.

2). CHANGES IN ACCOUNTING POLICY: None

3). CHANGES IN THE SCOPE OF CONSOLIDATION AND APPLICATION OF THE EQUITY METHOD

Number of Consolidated Subsidiaries: 153 (New Consolidated Companies: 1, Exclusion from Consolidation: 5)

Number of Companies applied for the equity method: 12

(New application of the Equity Method: 1, Exclusion from the Application of the Equity Method: 0)

2. RESULTS FOR THE FIRST QUARTER PERIOD (April 1, 2006 to June 30, 2006)

1). FINANCIAL RESULTS

Amounts are rounded down to the nearest 1 million yen.

	Net Sales		Operating Income		Recurring Profit		Net Income	
	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%
Three months ended								
June 30, 2006	1,289,585	12.0	102,071	19.3	103,500	22.7	76,248	60.4
June 30, 2005	1,151,053	△ 0.9	85,540	26.7	84,346	28.8	47,524	9.7
Year ended March 2006	4,637,657		306,946		297,842		201,542	

	Net Income per Share	Diluted Net Income per Share
	<i>yen</i>	<i>yen</i>
Three months ended		
June 30, 2006	7,959.02	-
June 30, 2005	24,803.96	-
Year ended March 2006	105,084.78	-

(Note)

- Percentages under "Net Sales," "Operating Income," "Recurring Profit," "Net Income" indicate changes from the corresponding figures for the previous first quarter period.
- Each share of common stock was split into five shares on April 1, 2006.

2). 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>
Three months ended				
June 30, 2006	3,190,190	1,876,065	57.0	189,743.72
June 30, 2005	2,925,471	1,547,823	52.9	807,834.44
Year ended March 2006	3,037,378	1,762,511	58.0	919,780.33

(Note)

- As for "Net assets," "Ratio of Equity Capital" and "Net assets per share," those figures for the three months ended June 30, 2005 and for the year ended March 2006 show "Shareholders' Equity," "Ratio of Shareholders' Equity" and "Shareholders' Equity per Share," respectively.
- Each share of common stock was split into five shares on April 1, 2006.

3). CASH FLOW RESULTS

	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities	Cash and Cash Equivalents, End of the Periods
	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Millions of yen</i>
Three months ended				
June 30, 2006	105,184	15,941	△ 10,550	1,030,609
June 30, 2005	△ 24,135	△ 17,812	△ 14,334	775,343
Year ended March 2006	150,342	△ 26,357	△ 48,134	920,141

1. Business Results and Financial Condition

(1) Qualitative Information Regarding Progress of Consolidated Business Results

1) Overall Condition

Business Results for the First Quarter (from April 1, 2006 to June 30, 2006)

In May 2006, JT formulated the new medium term management plan "JT 2008" for the three-year period ending March 2009, which will continue the strategies JT has promoted in the past and will take them to a higher level. Under "JT 2008," JT is making an important step towards becoming a "global growth company that develops diversified, value-creating businesses" through forward-looking investments for enhancing the organizational strength, competitive human resources and business foundations.

Net Sales

Net sales were 1,289.5 billion yen, increased by 138.5 billion yen (up 12.0%), compared with the corresponding figure for the previous year, primarily due to artificially inflated tobacco demand in the domestic tobacco business, prior to the amendment of retail price accompanying the tobacco excise taxes increase on July 1, 2006.

(Billions of yen unless otherwise indicated)

	Three months ended		Increase/Decrease	
	June 30, 2005	June 30, 2006		
Consolidated	1,151.0	1,289.5	138.5	12.0%
Domestic Tobacco	865.6	985.2	119.6	13.8%
International Tobacco	196.8	217.5	20.6	10.5%
Pharmaceuticals	13.6	11.7	△1.8	△13.3%
Foods	69.1	70.2	1.1	1.7%
Others	5.7	4.6	△1.1	△19.3%

*Figures above represent external sales.

Operating Income

Operating income was 102.0 billion yen, increased by 16.5 billion yen (up 19.3%), compared with the corresponding figure for the previous year, primarily due to artificially inflated tobacco demand in the domestic tobacco business, prior to the amendment of retail price accompanying the tobacco excise taxes increase on July 1, 2006.

(Billions of yen unless otherwise indicated)

	Three months ended		Increase/Decrease	
	June 30, 2005	June 30, 2006		
Consolidated	85.5	102.0	16.5	19.3%
Domestic Tobacco	59.6	81.5	21.9	36.8%
International Tobacco	19.5	18.5	△1.0	△5.3%
Pharmaceuticals	0.03	△2.0	△2.0	-
Foods	1.0	1.9	0.8	82.3%
Others	1.8	1.9	0.09	5.4%
Elimination/Corporate	3.4	0.1		

Recurring Profit

Recurring profit was 103.5 billion, increased by 19.1 billion yen (up 22.7%), compared with the corresponding figure for the previous year.

Net Income

Net income was 76.2 billion yen, increased by 28.7 billion yen (up 60.4%), compared with the corresponding figure for the previous year, primarily due to an increase in the gains from sales of property, plant and equipment through the progress in sales of properties that were not in use.

2) Financial Results by Business Segment

Domestic Tobacco Business

The domestic tobacco business is positioned as the core source of profits of the JT Group. Anticipating further declines in domestic tobacco demand, JT expects the competition between JT and its rivals to grow fiercer. Under such circumstance, JT is prepared to work constantly to improve productivity through the effective launch of new products within growing segments as well as the refinement of existing brands as necessary.

JT strives to enhance brand equity, maintain or improve the level of product quality, and implement measures in the fields of sales and distribution in order to minimize the effects of the amendment of retail price accompanying the tobacco excise taxes increase on July 1, 2006.

As part of the improvement of core brands' value, JT united the package designs of five products in the Mild Seven family with a new design adopting the "Blue Wind" symbol in May 2006.

JT expanded the sales areas of one of the D-spec products (*1), "Seven Stars Revo Ultra Lights Menthol Box," which had been sold only in limited areas in January 2006, to nationwide coverage in April 2006.

(*1) Products adopting JT's proprietary reduced odor technology that "controls the odor that rises from the tip of the cigarette"

Domestic tobacco sales volume for the three-month period ended June 30, 2006 was 54.0 billion cigarettes (*2), increased by 3.5 billion cigarettes (up 7.0%), compared with the corresponding figure for the previous year, due to the artificially inflated demand prior to the amendment of retail price accompanying the tobacco excise taxes increase on July 1, 2006, despite the decrease in sales volume due to the termination of the licensing agreement in Japan for Marlboro of Philip Morris International at the end of April 2005. The domestic share represented 65.5%, decreased by 4.1 percentage points, compared with the corresponding figure for the previous year, due to the termination of the licensing agreement for Marlboro. Net sales excluding taxes per thousand cigarettes, were 3,852 yen, decreased by 49 yen, compared with the corresponding figure for the previous year.

Net sales were 985.2 billion yen, increased by 119.6 billion yen (up 13.8%), compared with the corresponding figure for the previous year, due to the sales volume increase. Operating income was 81.5 billion yen, increased by 21.9 billion yen (up 36.8%), compared with the corresponding figure for the previous year.

(*2) In addition to the above, the domestic tobacco business sold 0.8 billion cigarettes during the three-month period ended June 30, 2006 at duty-free shops in Japan and in the markets in China, Hong Kong, and Macao, which are covered by JT's China Division.

International Tobacco Business

The international tobacco business is the driving force for profit growth for the entire JT Group, whose core is JT International S.A., JT's subsidiary, and is making efforts to increase sales volume, focusing on Global Flagship Brand (hereinafter "GFB"), such as "Camel," "Winston," "Mild Seven" and "Salem."

Sales volume in the international tobacco business was 52.1 billion cigarettes, increased by 3.1 billion cigarettes (up 6.4%), compared with the corresponding figure for the previous year, primarily due to favorable trend of GFB sales, on which the JT Group is focusing primarily for profit growth. GFB sales volume was 32.4 billion cigarettes, increased by 2.1 billion cigarettes (up 7.0%), compared with the corresponding figure for the previous year, due to the sales increase of "Camel" in Italy and France, of "Winston" in Spain, Iran, Italy, the Ukraine and Russia and of "Mild Seven" in Taiwan and Russia.

Net sales were 217.5 billion yen, increased by 20.6 billion yen (up 10.5%), compared with the corresponding figure for the previous year. In spite of the increase in sales volume mainly in GFB, operating income was 18.5 billion yen, decreased by 1.0 billion yen (down 5.3%), compared with the corresponding figure for the previous year, primarily due to the effect of the transfer of a part of Japanese market, which was originally covered by the international tobacco business, to the domestic tobacco business in May 2005 and the tobacco tax hike in Spain.

- (Note) 1. US 1.00 dollar is translated into 116.98 yen and 104.55 yen in the three-month period ended June 30, 2006 and 2005, respectively.
2. With respect to the international tobacco business, the results for the period from January 2006 to March 2006 are included with the results for the first quarter of fiscal year ending March 2007.

JT has been taking necessary measures against an unreasonable Notice of Assessment to its local subsidiaries in Canada and in Russia, and the subsidiaries are operating their businesses continuously. JT Group will continue to operate its businesses appropriately complying with rules in the all countries where it is operating businesses, and JT will intend to take all possible measures, including legal options, against treatments like unreasonable Notice of Assessment.

Pharmaceutical Business

With respect to the pharmaceutical business, JT is making efforts to maximize business value as quickly as possible to make the business the driving force for future growth by firmly advancing its clinical compounds to higher phases of clinical study and further enhancing its R&D pipelines. JT also strives to search for strategic opportunities for licensing in and out.

At present, JT has seven drugs in the clinical development pipeline, after the anti-hyperuricemia drug (JTT-552) entered into a clinical trial stage. In April 2006, JT entered into a license-out agreement with GlaxoSmithKline Inc. for a new chemical compound at the pre-clinical trial stage.

Royalty revenue from “Viracept,” an HIV treatment developed jointly with Agouron Pharmaceuticals, Inc., now a subsidiary of Pfizer Inc., which is currently sold mainly in the United States, Europe and Japan declined due to intensifying competition within the pharmaceutical industry.

Torii Pharmaceutical Co., Ltd., JT’s subsidiary, showed a decrease in net sales despite a sales increase in “Antebate,” protease inhibitor, and “Truvada,” an HIV treatment launched in April 2005, due to the sales decline of its main products such as “Futhan,” an injectable proteolytic enzyme inhibitor and “Stronger Neo-Minophagen C,” agent for liver disease/antiallergic agent, due to several factors, including drug price revisions.

Net sales were 11.7 billion yen, decreased by 1.8 billion yen (down 13.3%), compared with the corresponding figure for the previous year, primarily due to the decline in net sales of Torii and the fact that lump-sum income was recorded in the first quarter of last year from the licensing of an anti-HIV drug, “JTK-303,” to Gilead Sciences, although there was lump-sum income from the licensing in April 2006. In addition to these factors, R&D expenses were increased. Accordingly, operating loss was 2.0 billion yen while the corresponding figure for the previous year was 0.03 billion yen of operating income.

Foods Business

Positioning the foods business as the driving force, JT is concentrating on beverage business, processed foods business, including frozen processed foods, bakery and others, and seasonings business with goal of establishing a competitive advantage and a solid business foundation as a general foods manufacturer.

As for the beverage business, JT has been steadily expanding its business primarily through the vending machine operation of Japan Beverage Inc., JT’s subsidiary. Along with that, JT actively developed and launched new products that pursue thorough uniqueness, with main focus on its core brand “Roots”.

As for the processed foods business, JT has continued to expand and enrich the product lineup of commercial frozen foods, such as “Obento Dai-Ninki!” series and “Imadoki-Wazen” series. JT has also been striving to expand the scale of operation and strengthen earning capacity.

As for the seasonings business, JT is striving to enhance the business foundation through active development and introduction of High IG yeast extract, which was developed through JT’s unique technology.

Net sales were 70.2 billion yen, increased by 1.1 billion yen (up 1.7%), compared with the corresponding figure for the previous year, due to the continued growth through vending machine sales channels and the steady increase in sales of “Roots” in the beverage business, and the expansion of operational scale mainly in the commercial frozen foods in the processed foods business. Operating income was 1.9 billion yen, increased by 0.8 billion yen (up 82.3%), compared with the corresponding figure for the previous year, due to the expansion of operational scale and the reduction in fixed costs resulting from the efficient operation.

Other Businesses

Net sales were 4.6 billion yen, decreased by 1.1 billion yen (down 19.3%), compared with the corresponding figures for the previous year, primarily due to the decrease in the number of consolidated subsidiaries resulting from the transfer of their shares. Operating income was 1.9 billion yen, increased by 0.09 billion yen (up 5.4%), compared with the corresponding figures for the previous year.

(2) Qualitative Information Regarding Changes of Consolidated Financial Position

Cash and cash equivalents as at the end of the current first quarter period ended June 30, 2006 was 1,030.6 billion yen, increased by 110.4 billion yen, compared with the corresponding figure for the previous year. (The balance was 775.3 billion yen as at the end of the previous fiscal year.)

Cash Flow from Operating Activities

Net cash of 105.1 billion yen was provided by operating activities during the first quarter period ended June 30, 2006 while net cash of 24.1 billion yen was used in the first quarter period ended June 30, 2005. This was primarily due to the increase in tobacco excise taxes payable resulting from the artificially inflated tobacco demand in the domestic tobacco business, prior to the amendment of retail price accompanying the tobacco excise taxes increase on July 1, 2006, and the decrease in cash-out associated with voluntary retirement program implemented in the previous year, as well as the stable cash flow generated by the tobacco business.

Cash Flow from Investing Activities

Net cash of 15.9 billion yen was provided by investing activities during the current first quarter period ended June 30, 2006 while net cash of 17.8 billion yen was used in the previous first quarter period ended June 30, 2005. This was primarily due to proceeds from the sale of property, plant and equipment.

Cash Flow from Financing Activities

Net cash of 10.5 billion yen was used in financing activities during the current first quarter period ended June 30, 2006 while net cash of 14.3 billion yen was used in the previous first quarter period ended June 30, 2005. This was primarily due to dividend payments.

2. Forecast of consolidated business results for the fiscal year ending March 2007

There is no change in the forecast of consolidated business results for the fiscal year ending March 2007, as per the table below, from the forecast of April 28, 2006, when JT disclosed business results for the fiscal year ended March 2006.

(Reference)		
Net sales	4,770.0	billion yen
Operating income	270.0	billion yen
Recurring profit	267.0	billion yen
Net income	179.0	billion yen

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.

QUARTERLY CONSOLIDATED BALANCE SHEETS

Japan Tobacco Inc. and Consolidated Subsidiaries
as of March 31, 2006 and as of June 30, 2006

ASSETS			Millions of yen
	as of March 31, 2006	as of June 30, 2006	Increase / Decrease
	JPY	JPY	JPY
CURRENT ASSETS:	1,608,154	1,782,166	174,012
Cash and deposits	322,715	320,283	△ 2,431
Trade notes and accounts receivable	134,182	173,786	39,603
Marketable securities	576,967	695,899	118,931
Inventories	406,832	415,566	8,733
Other current assets	169,231	178,410	9,178
Allowance for doubtful accounts	△ 1,776	△ 1,778	△ 2
FIXED ASSETS:	1,429,180	1,407,987	△ 21,193
Property, plant and equipment:	596,544	593,632	△ 2,911
Buildings and structures	238,049	233,949	△ 4,100
Machinery, equipment and vehicles	144,604	140,523	△ 4,080
Land	138,671	137,534	△ 1,137
Other	75,217	81,624	6,406
Intangible Assets:	579,519	566,277	△ 13,241
Goodwill	355,183	353,531	△ 1,652
Trademarks	190,587	180,953	△ 9,633
Other	33,748	31,791	△ 1,956
Investments and other assets:	253,117	248,077	△ 5,039
Investment securities and other assets	254,941	249,854	△ 5,086
Allowance for doubtful accounts	△ 1,292	△ 1,283	9
Allowance for loss on investments	△ 531	△ 493	38
DEFERRED ASSETS	44	36	△ 7
TOTAL ASSETS	3,037,378	3,190,190	152,811

QUARTERLY CONSOLIDATED BALANCE SHEETS

Japan Tobacco Inc. and Consolidated Subsidiaries
as of March 31, 2006 and as of June 30, 2006

	<i>Millions of yen</i>		
	<i>as of March 31,</i> 2006	<i>as of June 30,</i> 2006	<i>Increase /</i> <i>Decrease</i>
LIABILITIES	JPY	JPY	JPY
CURRENT LIABILITIES:	626,355	749,605	123,250
Trade notes and accounts payable	137,454	176,357	38,903
Short-term bank loans	33,292	40,186	6,894
Current portion of long-term borrowings	18,203	18,901	697
National tobacco excise taxes payable	68,184	102,758	34,573
National tobacco special excise taxes payable	12,793	19,037	6,243
Local tobacco excise taxes payable	95,181	140,172	44,991
Income taxes payable	31,992	49,630	17,637
Accrued employees' bonuses	27,610	12,695	△ 14,915
Other allowances	1,869	2,048	178
Other current liabilities	199,772	187,817	△ 11,954
NON-CURRENT LIABILITIES:	590,950	564,519	△ 26,431
Bonds	150,000	150,000	-
Long-term borrowings	15,111	15,702	590
Liabilities for retirement benefits	293,425	286,386	△ 7,038
Liabilities for retirement benefits for directors and corporate auditors	899	750	△ 149
Other non-current liabilities	131,513	111,679	△ 19,834
TOTAL LIABILITIES	1,217,305	1,314,124	96,819
MINORITY INTERESTS:			
MINORITY INTERESTS	57,561	-	△ 57,561
SHAREHOLDERS' EQUITY:			
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
TOTAL SHAREHOLDERS' EQUITY	1,762,511	-	△ 1,762,511
TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	3,037,378	-	△ 3,037,378

QUARTERLY CONSOLIDATED BALANCE SHEETS

Japan Tobacco Inc. and Consolidated Subsidiaries
as of March 31, 2006 and as of June 30, 2006

	<i>Millions of yen</i>		
	<i>as of March 31, 2006</i>	<i>as of June 30, 2006</i>	<i>Increase / Decrease</i>
	JPY	JPY	JPY
SHAREHOLDERS' EQUITY:	-	1,793,139	1,793,139
Common stock	-	100,000	100,000
Capital surplus	-	736,400	736,400
Retained earnings	-	1,031,317	1,031,317
Treasury stock	-	△ 74,578	△ 74,578
VALUATION AND TRANSLATION ADJUSTMENTS:	-	24,620	24,620
Net unrealized gains on investment securities	-	34,168	34,168
Net deferred gains on hedging instruments	-	1,103	1,103
Foreign currency translation adjustments	-	△ 10,652	△ 10,652
MINORITY INTERESTS	-	58,305	58,305
TOTAL NET ASSETS	-	1,876,065	1,876,065
TOTAL LIABILITIES AND NET ASSETS	-	3,190,190	3,190,190

QUARTERLY CONSOLIDATED STATEMENTS OF OPERATIONS

Japan Tobacco Inc. and Consolidated Subsidiaries

For the three months ended June 30, 2005 and 2006 and for the year ended March 31, 2006

	For the three months ended		Increase / Decrease	Millions of yen
	June 30, 2005	June 30, 2006		For the year ended March 31, 2006
	JPY	JPY	JPY	JPY
NET SALES	1,151,053	1,289,585	138,532	4,637,657
COST OF SALES	914,880	1,049,259	134,378	3,734,073
GROSS PROFIT	236,172	240,326	4,153	903,583
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	150,632	138,255	△ 12,377	596,636
OPERATING INCOME	85,540	102,071	16,530	306,946
NON-OPERATING INCOME:	2,787	5,243	2,455	12,655
Interest income	680	1,653	973	4,300
Dividend income	975	1,062	87	1,608
Foreign exchange gain, net	-	1,434	1,434	-
Other	1,132	1,092	△ 39	6,745
NON-OPERATING EXPENSES:	3,981	3,814	△ 166	21,759
Interest expense	1,523	1,362	△ 160	5,775
Periodic mutual assistance association cost	768	678	△ 90	3,074
Other	1,689	1,773	84	12,909
RECURRING PROFIT	84,346	103,500	19,153	297,842
EXTRAORDINARY PROFIT:	4,619	26,440	21,820	65,453
Gain on sales of property, plant and equipment	4,444	26,248	21,804	60,036
Other	175	191	16	5,416
EXTRAORDINARY LOSS:	9,077	3,592	△ 5,484	62,302
Loss on sale of property, plant and equipment	2,111	559	△ 1,551	24,875
Loss on disposal of property, plant and equipment	1,660	1,942	282	12,279
Loss on impairment of property, plant and equipment	1,396	748	△ 648	11,438
Business restructuring costs	3,755	221	△ 3,533	8,009
Other	154	120	△ 33	5,698
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	79,888	126,347	46,458	300,993
INCOME TAXES-CURRENT	31,371	48,275	16,904	49,686
INCOME TAXES-DEFERRED	-	-	-	45,209
MINORITY INTERESTS	992	1,823	831	4,555
NET INCOME	47,524	76,248	28,723	201,542

QUARTERLY CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Tobacco Inc. and Consolidated Subsidiaries

For the three months ended June 30, 2005 and 2006 and for the year ended March, 2006

	For the three months		Increase/ Decrease	Millions of yen
	ended			For the year
	June 30,2005	June 30,2006		ended March 31,2006
	JPY	JPY	JPY	JPY
OPERATING ACTIVITIES				
Income before income taxes and minority interests	79,888	126,347	46,458	300,993
Depreciation and amortization of goodwill	30,358	32,065	1,707	126,444
Loss on impairment of property, plant and equipment	1,396	748	△ 648	11,438
Gain on sales of property, plant and equipment, net	△ 1,377	△ 24,051	△ 22,674	△ 30,018
Increase (decrease) in liabilities for retirement benefits (and accounting change)	△ 994	△ 8,067	△ 7,072	△ 6,591
Interest income and dividend income	△ 1,655	△ 2,715	△ 1,060	△ 5,909
Interest expense	1,523	1,362	△ 160	5,775
(Increase) decrease in trade notes and accounts receivable	△ 3,913	△ 38,761	△ 34,848	765
(Increase) decrease in inventories	29,294	△ 9,005	△ 38,299	44,091
Increase in trade notes and accounts payable	29,590	37,890	8,299	20,260
Increase (decrease) in other accounts payable	△ 76,387	△ 14,608	61,779	△ 125,688
Increase (decrease) in tobacco excise taxes payable	△ 3,274	85,490	88,764	△ 13,972
Increase (decrease) in non-current other accounts payable	△ 34,663	△ 19,204	15,458	△ 87,376
Other, net	△ 38,352	△ 35,858	2,493	△ 31,052
Sub-total	11,435	131,632	120,197	209,158
Interest and dividend received	1,689	2,747	1,058	5,910
Interest paid	△ 1,816	△ 1,763	52	△ 5,712
Income taxes paid	△ 35,443	△ 27,432	8,010	△ 59,014
Net cash provided by (used in) operating activities	△ 24,135	105,184	129,319	150,342
INVESTING ACTIVITIES:				
Purchases of marketable securities	△ 16,235	△ 15,525	709	△ 145,933
Proceeds from sale and redemption of marketable securities	18,694	29,791	11,096	121,700
Purchase of property, plant and equipment	△ 22,967	△ 24,591	△ 1,624	△ 82,850
Proceeds from sale of property, plant and equipment	6,385	28,717	22,331	82,146
Purchase of intangible assets	△ 2,675	△ 3,523	△ 847	△ 8,966
Purchase of investment securities	△ 304	△ 5	299	△ 2,733
Other, net	△ 708	1,079	1,787	10,278
Net cash provided by (used in) investing activities	△ 17,812	15,941	33,753	△ 26,357
FINANCING ACTIVITIES:				
Net increase (decrease) in short-term bank loans	1,703	7,200	5,496	1,552
Repayment of long-term borrowings	△ 407	△ 140	266	△ 19,473
Dividends paid	△ 15,328	△ 17,244	△ 1,916	△ 28,740
Other, net	△ 302	△ 366	△ 63	△ 1,472
Net cash used in financing activities	△ 14,334	△ 10,550	3,783	△ 48,134
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
	2,538	△ 107	△ 2,645	15,204
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	△ 53,744	110,467	164,211	91,054
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD				
	829,087	920,141	91,054	829,087
CASH AND CASH EQUIVALENTS, END OF PERIOD				
	775,343	1,030,609	255,266	920,141

SEGMENT INFORMATION

OPERATIONS BY INDUSTRY SEGMENT

(For the three months ended June 30, 2005)

Millions of yen

	Domestic Tobacco	International Tobacco	Pharmaceuticals	Foods	Others	Total	Elimination	Consolidated
Sales								
(1) Sales to customers	865,642	196,897	13,603	69,136	5,773	1,151,053	-	1,151,053
(2) Intersegment sales	10,851	23,204	-	36	6,022	40,114	(40,114)	-
Total	876,493	220,101	13,603	69,173	11,795	1,191,167	(40,114)	1,151,053
Operating expenses	816,877	200,529	13,572	68,124	9,954	1,109,058	(43,544)	1,065,513
Operating income (loss)	59,616	19,572	31	1,048	1,841	82,109	3,430	85,540

(For the three months ended June 30, 2006)

Millions of yen

	Domestic Tobacco	International Tobacco	Pharmaceuticals	Foods	Others	Total	Elimination	Consolidated
Sales								
(1) Sales to customers	985,276	217,566	11,799	70,283	4,660	1,289,585	-	1,289,585
(2) Intersegment sales	11,703	5,439	-	41	5,727	22,911	(22,911)	-
Total	996,979	223,005	11,799	70,325	10,387	1,312,497	(22,911)	1,289,585
Operating expenses	915,411	204,478	13,816	68,413	8,447	1,210,567	(23,052)	1,187,514
Operating income (loss)	81,567	18,527	△ 2,016	1,911	1,940	101,930	140	102,071

(For the year ended March 31, 2006)

Millions of yen

	Domestic Tobacco	International Tobacco	Pharmaceuticals	Foods	Others	Total	Elimination	Consolidated
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

NOTE:

1. Operations by industry segment are categorized based on types of products, characteristics and markets.

2. Main products or services under each category are as follows:

1) 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.

2) International Tobacco

Tobacco products

3) Pharmaceuticals

Prescription drugs

4) Foods

Beverages and processed foods

5) Others

Rent of real estate, leasing, engineering and others

3. The following table shows depreciation and amortization and goodwill amortization amounts by industry segment which are included in operating expenses for the three months ended June 30, 2005 and 2006 and for the year ended March 31, 2006.

Depreciation and amortization (Property, plant and equipment / Intangible assets other than goodwill / Long-term prepaid expenses)

Millions of yen

	Domestic Tobacco	International Tobacco	Pharmaceuticals	Foods	Others	Total	Elimination	Consolidated
For the three months ended June 30, 2005	20,722	5,314	809	1,255	3,512	31,615	(1,409)	30,205
For the three months ended June 30, 2006	19,191	7,448	722	1,005	2,975	31,343	(167)	31,176
For the year ended March 31, 2006	84,570	23,061	3,253	5,041	13,466	129,394	(4,539)	124,854

Goodwill amortization

Millions of yen

	Domestic Tobacco	International Tobacco	Pharmaceuticals	Foods	Others	Consolidated
For the three months ended June 30, 2005	-	-	-	153	-	153
For the three months ended June 30, 2006	272	-	-	617	-	889
For the year ended March 31, 2006	1,088	-	-	501	-	1,590

4. 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 distribution-related operations, such as sales and distribution of imported tobacco products. The following table shows net sales of imported tobacco products via TS Network Co., Ltd. for the three months ended June 30, 2005 and 2006 and for the year ended March 31, 2006.

	<i>Millions of yen</i>
For the three months ended June 30, 2005	265,196
For the three months ended June 30, 2006	345,851
For the year ended March 31, 2006	1,160,744

5. With respect to international tobacco business, the results for the period from January 2006 to March 2006 are reported as the results for the three months ended June 30, 2006. International consolidated subsidiaries, with the core operation by JT International S.A., set the settlement date of December 31 for the fiscal year.