<Key Q&A>

Consolidated Group Result:

Q: How was the overview of consolidated financial results for the third quarter of the fiscal year ended March 2011?

A: For the third quarter of the fiscal year ending March 2011, adjusted net sales excluding tax and EBITDA remained basically flat, although EBITDA declined slightly, operating income increased due to decrease in depreciation cost related to vending machines in the Japanese domestic tobacco business, the completion of amortization of some trademarks in the Japanese domestic tobacco business and, decline in the depreciation cost as a result of currency movement impact in the international tobacco business.

Recurring profit recorded a double digit growth as a result of a decrease in foreign exchange losses and a decline in interest payments. Net income also increased, despite a decrease in profits from the sale of fixed assets.

Q: What are the reasons for the upward revision of the financial forecast for the year ending March 2011?

A: On a consolidated basis, we revised upward our full-term forecast for both net sales and profits for the fiscal year ending March 2011. This is due to an upward revision of our forecast of net sales and EBITDA in the Japanese domestic tobacco business, resulting from the review of the volume forecast, and the upward revision of EBITDA in the international business to 10.6% growth.

Japanese Domestic Tobacco Business:

Q. What are the reasons for total sales volume decline in April-December?

A. In the first half, total sales volume increased 10% year-on-year as the volume increase due to heightened demand ahead of the excise-led price increase was offset by the trend decline and the announcement effect of the tax hike. After the October tax hike, trade de-loading occurred along with a decline in demand due to the price amendment. As a result, total sales volume in April-December declined 9.0% year-on-year.

Q. What are the reasons for the upward revision of the total sales volume forecast for the year ending March 2011?

A. As the impact of sales volume decline following the excise-led price increase as well as the impact of trade de-loading remain, it is somewhat difficult to accurately estimate the sales volume forecast. Nevertheless, in light of the results of our survey on customers' purchase trends before and after the excise-led price increase as well

as recent sales trend, we have revised the assumed price elasticity and the impact of trade de-loading.
The assumed price elasticity has been revised from approximately 0.7 to 0.5. Approximately 6 billion cigarettes of the increase in the forecast volume are attributable to the revision of the assumed price elasticity.
We also reviewed the impact of trade de-loading in light of the fact that some smokers who reduced or quit smoking had stocked up on cigarettes ahead of the tax hike. This factor accounts for 2 billion cigarettes of the increase in the forecast volume.
Our full year volume forecast is therefore amended upward by 8 billion cigarettes to 133.5 billion cigarettes.

International Tobacco Business:

Q. How was volume performance for the full year compared to the previous year?

A. For the July to September period, total and GFB shipment volumes returned to positive growth of 4.8% and 9.4%, respectively. Growth momentum continued in France, Italy, the Middle East and Turkey among other markets. Our shipment volume in Russia also improved *(see next Q&A for details)*. In addition, the high growth was leveraged by comparison with previous year's lower shipment volumes in the Middle East, Turkey and Taiwan due to shipment phasing or higher trade inventory in July. During the January to September period, total shipment volume decreased by 1.9% and GFB shipment volume increased by 1.5%.

Q. What is the full year financial performance?

A. In Russia, a gain in market share helped to increase shipment volume by 1.9% from July to September compared to the previous year. In addition to a deceleration in industry contraction, the trend in consumer up-trading restarted, supporting our performance in Winston. For the January to September period, shipment volume decreased by 4.7% compared to the previous year.
In the UK, Sterling in the super-value segment and Amber Leaf, a roll-your-own product, continued to grow. However, a high trade inventory in June led to lower shipments during the July to September period. As a result, our shipment volume during this period was 7.4% down compared to the previous year. During the January to September period, shipment volume in the UK was almost flat (-0.4%) compared to the previous year.