

Presentation on Medium Term Management Plan “JT2008”

(FY 3/2007 - FY 3/2009)

Japan Tobacco Inc.



Caution concerning forward-looking statements

Forward-Looking and Cautionary Statements

This presentation contains forward-looking statements about our industry, business, plans and objectives, financial conditions and results of operations based on current expectations, assumptions, estimates and projections. These statements discuss future expectations, identify strategies, discuss market trends, contain projections of operational results and financial condition and 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 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, 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.



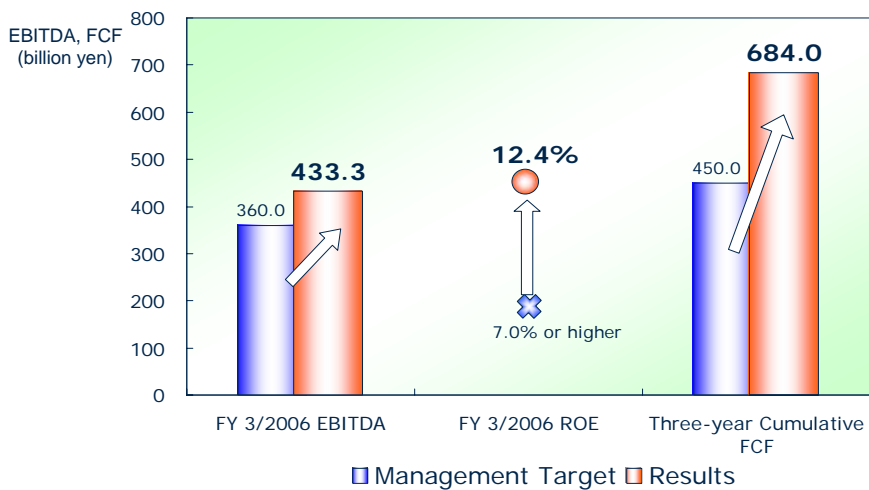
Medium Term Management Plan “JT2008”

(FY 3/2007 - FY 3/2009)



Overview of Medium Term Management Plan “JT PLAN-V” (FY 3/2004 - FY 3/2006)

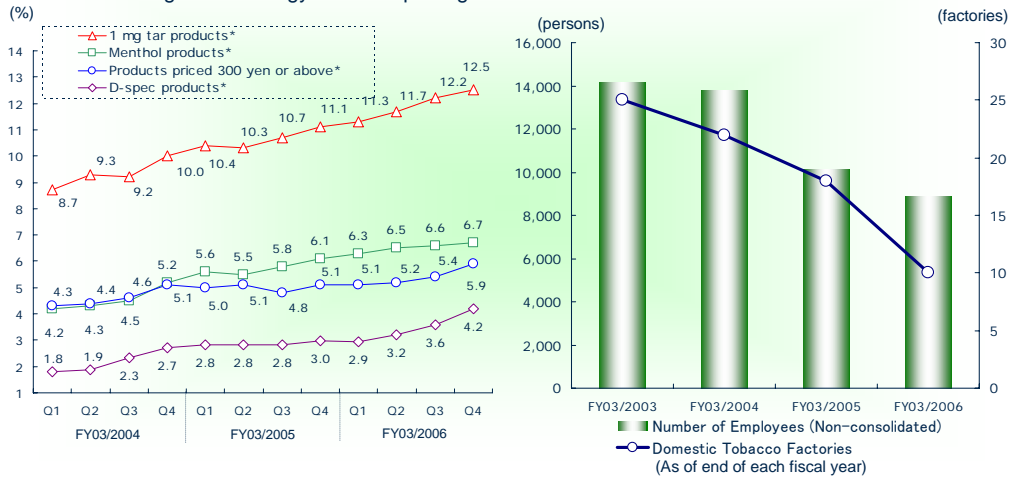
✓ Achieved All Management Targets



Overview of Medium Term Management Plan "JT PLAN-V" (FY 3/2004 - FY 3/2006)

✓ Domestic Tobacco Business

- ◆ Sales growth strategy aimed at profit growth and drastic reform of cost structure



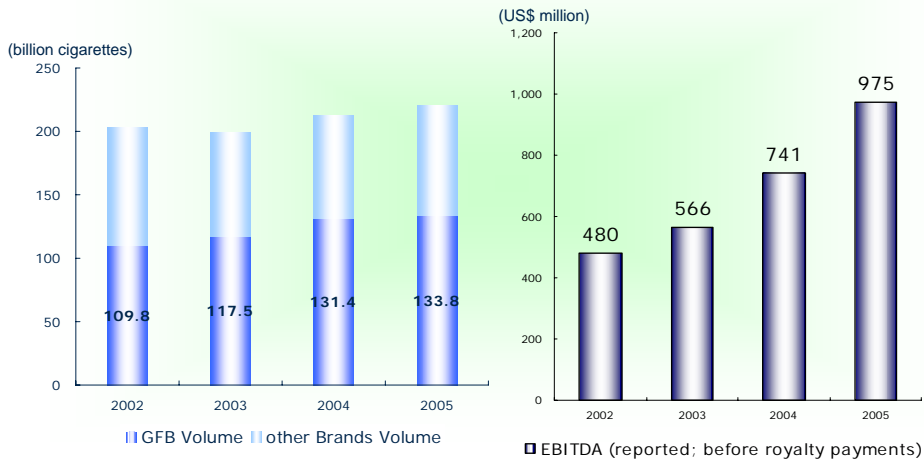
*JT original brands + JTI products for the domestic market (CAMEL, Winston, Salem, etc.)



Overview of Medium Term Management Plan "JT PLAN-V" (FY 3/2004 - FY 3/2006)

✓ International Tobacco Business

- ◆ Organic growth by focusing on GFB and core markets



Overview of Medium Term Management Plan “JT PLAN-V” (FY 3/2004 - FY 3/2006)

✓ Pharmaceuticals Business

- ◆ Make three compounds with potential to become world-class new drugs enter the clinical development.

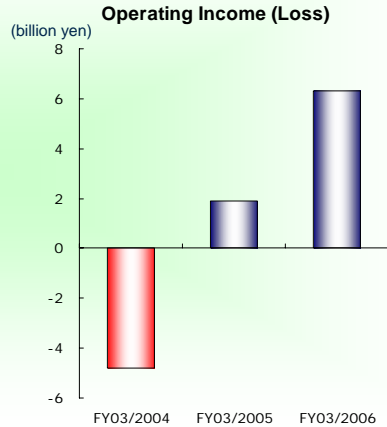
Clinical Developments (as of April 28, 2006)

Code	Indication	Development Stage
JTT-705 (oral)	Dyslipidemia	Domestic: Phase1
JTT-130 (oral)	Hyperlipemia	Domestic: Phase2 Overseas: Phase1
* JTK-303 (oral)	Anti-HIV	Domestic: Phase1
* JTT-302 (oral)	Dyslipidemia	Overseas: Phase1
* JTT-305 (oral)	Osteoporosis	Domestic: Phase1
* JTT-551 (oral)	Type 2 diabetes mellitus	Domestic: Phase1

* Compounds entering clinical development during period

✓ Foods Business

- ◆ Achieve positive operating income.



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Corporate Image – Long-term Vision

“A global growth company that develops diversified, value-creating businesses”

- ◆ **Domestic Tobacco Business**
Overwhelm the competition in the home country market as “the core source of profits”.
- ◆ **International Tobacco Business**
Attain a sustainable leadership position in profitability and or market-share within a growing number of markets, and continue to be “the driving force for profit growth”.
- ◆ **Pharmaceuticals Business**
Continuously deliver profits based on a strong foundation as a core business.
- ◆ **Foods Business**
Establish a global competitive advantage as a general foods maker.

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Medium Term Management Plan "JT2008" – Objective and challenge

**Increasingly difficult operating environment for domestic tobacco business
Medium/long-term risks due to evolving environment**

➤ Continue making efforts to realize a corporate structure and organizational culture aligned with the corporate image. Overcome operating environment changes and continue to grow over the medium/long-term.

➤ "JT PLAN-V" achievement was a *step* towards building the desired corporate image and organizational culture.

**A global growth company that develops
diversified, value-creating businesses**

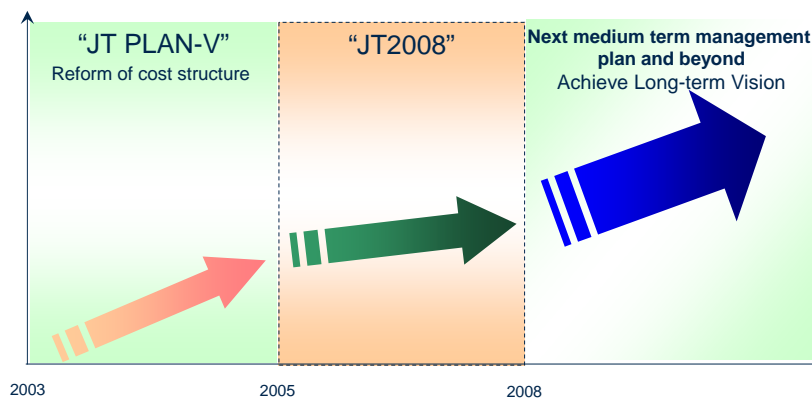
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Positioning of Medium Term Management Plan "JT2008"

A three-year plan designed to achieve the *desired corporate image*

➤ **Make forward looking investments during the three-year period, to enhance organizational strength, personnel and business foundations.**



2003

2005

2008

Develop personnel in order to enhance competitiveness
Establish a culture in which each employee can demonstrate his/her entrepreneurship

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Medium Term Management Plan “JT2008” – Objectives

Objectives

Aim to achieve long-term sustainable growth while overcoming challenges in operating environment.

- ✓ Group-wide EBITDA for FY 3/2009:
Aim to exceed FY 3/2006 result by approximately 20 billion yen

<<Objectives by Business>>

Domestic Tobacco Business

Aim to maintain the EBITDA level attained during the “JT PLAN-V” period in FY 3/2009 by mitigating the effects of declining consumption.

International Tobacco Business

Grow sustainable EBITDA in the mid-teens and solidify its role as the driving force for profit growth of the JT Group.

Pharmaceuticals Business

Aim to advance its clinical compounds to higher phases of clinical study and enhance the R&D pipeline.

Foods Business

Aim to achieve a consolidated operating margin of 3.5% or higher for FY 3/2009 as a pillar business.

*JT2008 is based on organic growth and not on the premise of large-scale M&A figures.



Medium Term Management Plan “JT2008” – Use of Funds

Use of Funds

- ◆ Business Investment is top priority
 - Recurring business investment such as capital expenditure and R&D
 - Acquisition of external resources
 - Enhancement of retained earnings for business investment (including acquisition of external resources)
- ◆ Dividends
- ◆ Share Buyback
 - Expansion of management options



Medium Term Management Plan "JT2008" – Allocation of Resources and Return to Shareholders

Allocation of Resources

- ◆ Actively pursue growth opportunities by acquiring external resources, especially in the international tobacco business and foods business.
 - ROI should at least exceed capital costs

Return to Shareholders

- ◆ Aim to provide a competitive level of returns to shareholders in the capital market
 - The company's basic dividend policy aims to provide a competitive level of return to shareholders in the capital market, while considering the status of implementation of the medium/long-term growth strategies and our consolidated financial results outlook. We intend to enhance the dividend level and, for the time being, aim to achieve a consolidated dividend payout ratio of 20%.



Strategies of Each Business during Medium Term Management Plan "JT2008"



Strategies of Each Business during Medium Term Management Plan “JT2008” (Domestic Tobacco Business)

As “the Core Source of Profits”, Aim to Maintain the Profit Level attained during the “JT PLAN-V” period

⇒ **Aim to maintain the EBITDA level attained during the “JT PLAN-V” period by mitigating the effect of declining consumption.**

✓ Growth Strategies

Product Strategy

- ◆ Effectively launch new products within growing segments.
- ◆ Improve value of core brands (e.g. Redesign *Mild Seven* family).
- ◆ Improve unit price by developing and launching value added products as exemplified by D-spec.
- ◆ Enhance portfolio by leveraging equity of our brands.



Channel Strategy

- ◆ Enhance activities in growing sales channels, e.g. convenience stores.

Promotion Strategy

- ◆ Improve efficiency and effectiveness of communication based on One-to-One marketing.
 - Effective approach based on identification of accurate customer profiles

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Strategies of Each Business during Medium Term Management Plan “JT2008” (Domestic Tobacco Business)

As “the Core Source of Profits”, Aim to Maintain the Profit Level attained during the “JT PLAN-V” period

⇒ **Aim to maintain the EBITDA level attained during the “JT PLAN-V” period by mitigating the effect of declining consumption.**

✓ Improve productivity

- ◆ Introduce high-speed machines (more than 10,000 sticks per minute) for a flexible manufacturing framework adapted to changes in demand and supply.

✓ Efficiently introduce and operate vending machines with adult identification functions.

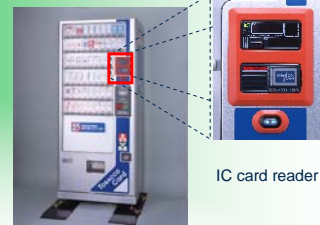
✓ Pursue an environment in which smokers and non-smokers harmoniously exist.



Smoking lounge at Narita Airport



Smoking space in front of Shibuya Station



Vending machine with adult identification functions

IC card reader

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Strategies of Each Business during Medium Term Management Plan "JT2008" (International Tobacco Business)

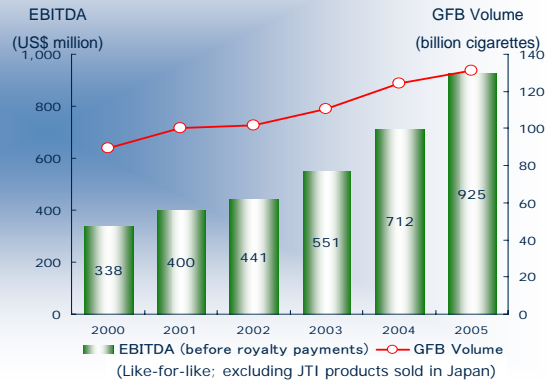
As "the Driving Force for Profit Growth", Continue Leading the industry in organic growth



Grow sustainable EBITDA in the mid-teens
during the plan period.

- ✓ **Generate top-line growth and broaden earnings base by executing consistent core strategies**

- ◆ Strengthen GFB equity
- ◆ Leverage and deploy brand portfolio
- ◆ Improve impact at point of sales
- ◆ Concentrate on core markets
- ◆ Reduce cost base while delivering quality products



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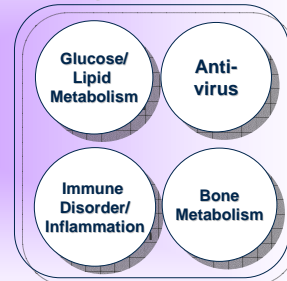


Strategies of Each Business during Medium Term Management Plan "JT2008" (Pharmaceuticals Business)

Aim to advance its clinical compounds to higher phases of clinical study and enhance the R&D pipeline

- ✓ **Advance its clinical compounds to higher phases of clinical study.**
- ✓ **Further enhance R&D pipelines by promoting research in drug discovery.**
- ✓ **Explore opportunities for strategic leads.**

<<Priority Research Fields>>



Level of R&D expenses during period:
Expected to be around 70 billion yen due to upgrading of pipelines

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Strategies of Each Business during Medium Term Management Plan "JT2008" (Foods Business)

Establishing Foundations as a General Foods Maker



Aim to achieve a consolidated operating margin of 3.5% or higher for FY3/2009 as a pillar business

✓ Basic Strategy

- ◆ Establish competitive advantage.
- ◆ Establish synergies as a general foods maker.
- ※ Push ahead with M&A for further profitable growth.

✓ Business Areas

- ◆ **Beverage Business:** Realize further increase in business value by following and further evolving the "JT PLAN-V" strategies.
- ◆ **Processed Foods Business:** Establish a superior structure while maintaining the upward trend in revenue and profit (frozen processed foods, bakery, chilled processed foods, processed preserved foods).
- ◆ **Seasonings Business:** Enhance and expand the natural extract business foundation, while establishing a foundations as a bouillon/soup stock maker.

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Medium Term Management Plan "JT2008" – Group-wide Challenges

Strengthening the Corporation

- ✓ **Enhance Personnel and Organizational Strength**
 - ◆ Effectively operate and solidify the new personnel system (April 2006 onwards)
 - ◆ Identify and train personnel who will be responsible for the future.
- ✓ **Optimize Assets Owned by JT**
 - ◆ Idle real estate as of March 31, 2006 (JT non-consolidated)
Valuation of fixed assets: 84.9 billion yen (book value: 12.7 billion yen)
- ✓ **Relentlessly Pursue and Exploit Cost-saving Opportunities**

Harmonious Coexistence with Society

- ◆ Pursue an environment in which smokers and non-smokers harmoniously exist.
- ◆ Make efforts to protect the global environment.
- ◆ Enhance relationship with local communities.

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Aiming to Achieve Sustainable Growth

