To Our Shareholders, Customers, and Employees

The acquisition of Gallaher further solidifies JT's position as the world's third largest tobacco company. In addition to its already strong business foundation in Asia, JT now has an expanded presence in Europe and the CIS region. The improved geographical balance and business opportunities created by this acquisition will provide JT with the foundation for continued, sustainable growth as one of the tobacco industry's leading companies.

Acquisition of Gallaher Group Plc

On April 18, 2007, JT completed the transaction through which Gallaher Group Plc has become a wholly owned subsidiary of the JT Group.

The acquisition of Gallaher further solidifies JT's position as the world's third largest tobacco company. In addition to its already strong business foundation in Asia, JT now has an expanded presence in Europe and the CIS region. The improved geographical balance and business opportunities created by this acquisition will provide JT with the foundation for continued, sustainable growth as one of the tobacco industry's leading companies.

As a result of this acquisition, the integration of the complementary business geography and operations of both groups will expand JT's business scale, and will reinforce our technology and distribution infrastructure. In addition, integration of the businesses will enable us to realize important synergies which will improve our top line and reduce costs through improved business efficiency. Integration process has been establishing to ensure the prompt and optimal realization of these synergies.

FY 3/2007 Performance

Domestic Tobacco Business

The business environment in the Japanese market became even more difficult due to declines in total demand, intensifying competition, and the rise in the tobacco excise tax which took effect from July 2006. Our sales volume declined as overall demand decreased, but we were able to achieve an increase in profit as a result of other factors such as increased unit prices corresponding to sales price revision, reduced costs and improvement in gains and losses from the reappraisal of our domestic leaf tobacco inventories.

International Tobacco Business

The international tobacco business recorded its sixth successive year of EBITDA double-digit growth,

Hiroshi Kimura
President and CEO and
Representative Director

resulting in an annual average EBITDA growth rate in the mid-teens, which is the target set forth in the medium term management plan "JT2008." The excise tax increase and price revision that occurred in Spain at the beginning of 2006 had a negative influence on JT's profitability, but we were able to compensate for this with better results in other markets. In addition, our pricing strategy in Spain resulted in a significant recovery in our market share and represents an important step towards future earnings growth.

Pharmaceutical Business

In the pharmaceutical business, we worked steadily to advance new pharmaceuticals to higher phases of clinical study and to enhance our R&D pipeline. Our goal is to position the pharmaceutical business as a core future business that will quickly deliver increased business value. With the advance of the hyperuricemia drug JTT-552 to the clinical trial stage, we currently have a total of seven in-house developed compounds at this stage. In addition, our strategic search for opportunities for licensing both in and out of compounds continues. In April 2006, we licensed a new pre-clinical trial stage compound to GlaxoSmithKline Inc., and in December 2006, we licensed a pre-clinical trial stage antibody drug candidate to MedImmune Inc.

Foods Business

The foods business achieved increases in both revenue and profit in FY 3/2007 through the expansion of the vending machine sales channel, the expansion of the Roots canned coffee brand in the beverages business, and through higher sales volumes in the frozen processed foods and chilled processed foods businesses.

As a result of the above performance, JT Group net sales totaled ¥4,769.4 billion, an increase of ¥131.7 billion (2.8%) compared with the previous fiscal year. EBITDA totaled ¥464.6 billion, an increase of ¥31.2 billion (7.2%) year on year, while operating income rose by ¥25.0 billion to ¥332.0 billion (8.2%) year on year.

Net income for the fiscal year totaled ¥210.8 billion, an increase of ¥9.2 billion (4.6%) compared with the previous fiscal year. Financing expenses related to the acquisition of the Gallaher Group and expenses related to the introduction in Japan of tobacco vending machines capable of identifying adult customers were offset by an increase in net gains on the sales and disposal of fixed assets, a reduction in impairment charges, and a reduction in business restructuring expenses.

EBITDA, operating income and net income for the fiscal year were all at record high levels and both EBITDA and operating income increased for the sixth consecutive term. Our medium term management plan "JT2008" has thus gotten off to a favorable start in its first year. JT has decided to pay a dividend of JPY 4,000 per share for the full fiscal year that ended March 31, 2007 including interim dividend.

The Second Year of "JT2008"

Based on our performance for FY 3/2007, I would like now to explain the direction JT will take in FY 3/2008 in order to achieve the goals of our medium term management plan "JT2008."

Domestic Tobacco Business

The domestic tobacco business has as its goal under "JT2008" the important challenge of remaining as the core source of profit for the JT Group, by maintaining profit levels and focusing on top line growth. Against this backdrop, FY 3/2008 will mark the 30th anniversary of the launch of Mild Seven. Accordingly, we will further strengthen the equity of our number-one brand, and will strive to improve Mild Seven's market share.

International Tobacco Business

In the international tobacco business, which is regarded as the driving force for profit growth for the JT Group, we will continue to maintain an EBITDA growth rate in the mid-teens for the original JTI business, through the continued expansion of our market and brand portfolio growth. While ensuring the steady growth of our existing JTI businesses, we will proceed smoothly and rapidly with the integration of Gallaher.

Pharmaceutical Business

The pharmaceutical business will continue to focus on expanding new themes and accelerating clinical development by targeting the advancement of clinical compounds to higher phases of clinical study and enhancing the R&D pipeline.

Foods Business

While striving to achieve a consolidated operating margin of 3.5% for FY 3/2009, we will continue efforts to establish and strengthen the competitive superiority of our foods business by further expanding our base as an integrated foods manufacturer. We will also take advantage of emerging opportunities as part of our business expansion strategy.

Maximizing Corporate Value

JT believes that maximizing its corporate value over the medium and long-term, through active business investment to drive continuous profit growth, is fundamental to maximizing shareholder value.

Our basic dividend policy is to provide a level of return to shareholders which is competitive in the capital markets, and which reflects the state of execution of our medium and long-term growth strategy and our consolidated financial results in each period. Taking this into account, JT is currently aiming to increase the dividend level to a consolidated dividend payout ratio of 20%. It should be noted that after FY3/2009 the consolidated payout ratio will be based upon net income for the fiscal year excluding the influence of goodwill amortization.

Moreover, we are allocating cash reserves for current and future business investment and for the acquisition of external resources. In addition, cash reserves will be increased to reduce the burden of interest-bearing debt and to support initiatives which expand the options available to the Company's management, such as stock repurchasing programs.

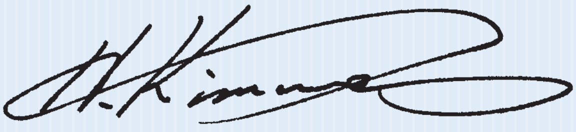
To Our Stakeholders

In January 2007, JT received the "Best Disclosure Award" from the Tokyo Stock Exchange. Each year, the TSE selects companies that are actively tackling the issue of disclosure from among the approximately 2,400 companies listed on the exchange. This year, JT was among the seven companies that received this award.

The receipt of this award provides us with even greater motivation to carry out our social responsibilities and to increase our corporate value in order to meet the expectations of our stakeholders.

In closing, I ask our stakeholders to continue to provide us with your full understanding and support as we implement our management strategy into the future.

June 2007



Hiroshi Kimura
President and CEO and Representative Director