To Our Stakeholders

Hiroshi Kimura
President and CEO and Representative Director

We face intensifying competition not only in the tobacco business but also in the pharmaceutical and foods businesses. However, we believe that we can turn this challenging situation to our advantage and find emerging business opportunities.

We will therefore strive to increase our corporate value by continuing to expand and strengthen our organization, develop our employees and consolidate our business foundations so that we can become a global growth company that develops diversified value-creating businesses.

Hiroshi Kimura
President and CEO and Representative Director
Foreword

Before reporting our business performance and financial results, as the representative director of JT, I would like to offer my sincere apologies not only to people who suffered health problems after consuming certain frozen foods products sold by the JT Group, but also to our customers who have cooperated with our nationwide product recall, business partners, shareholders and other stakeholders. The JT Group will strive to regain the trust of our consumers by seeking to develop the highest level of standards in food safety, via improved in-house inspection systems and engaging third-party expertise, among other measures.

FY 3/2008 Performance

(1) Domestic Tobacco Business
The domestic tobacco business faces an increasingly tough environment, as overall demand declines and competition with other tobacco companies intensifies. Although our sales volume decreased due to declining overall demand, we have achieved the first upturn in our market share since our privatization in 1985. This was as a result of active sales promotion activities, including the campaign marking the 30th anniversary of the market launch of Mild Seven, and the effective introduction of new products. Meanwhile, our profits declined due to the sales volume drop and increases in raw material costs and sales promotion expenses. Nonetheless, the domestic tobacco business continues to serve as core source of profits.

(2) International Tobacco Business
The JT Group has substantially expanded in size following the acquisition of Gallaher Group Plc, consolidating its position as the world’s third largest tobacco company. The integration of JT International and Gallaher is proceeding smoothly, without causing any significant disruption to our existing business momentum. Throughout this integration process, we are pursuing synergy in top-line growth, including the creation of a robust and well-balanced brand portfolio, while also steadily implementing measures to reduce costs through synergy. In terms of business performance, sales volume, revenue and profits all grew sharply from the previous year, thanks to record high levels of organic growth represented by top-line growth of Global Flagship Brand (GFB) products such as Winston and Camel, in addition to the contribution of Gallaher.

(3) Pharmaceutical Business
In order to achieve our goal of developing the pharmaceutical business as a pillar of our operations in the future, we have made steady progress in the clinical development of our compounds and expanded and enhanced our R&D pipeline so that we can rapidly increase the value of this business.

In terms of business performance, revenue increased due to a milestone revenue related to the progress made in the development of dyslipidemia treatment JTT-705, licensed to Roche Group in October 2004, and an increase in the revenue of Torii Pharmaceutical, a JT subsidiary.

(4) Foods Business
The foods business posted an increase in revenue despite a decline in sales of the processed foods business, mainly due to
the consolidation of the Katokichi Group in the consolidated results. Meanwhile, profits declined due to an increase in material costs and the cost of goodwill amortization relating to the acquisition of the Katokichi Group.

As a result of the performance of the individual business units described above, the JT Group’s net sales increased by ¥1,640.3 billion, or 34.4%, from the previous year to ¥6,409.7 billion. EBITDA grew by ¥137.5 billion, or 29.6%, to ¥602.1 billion and operating income increased by ¥98.6 billion, or 29.7%, to ¥430.6 billion. Net income totaled ¥238.7 billion.

We achieved double-digit year-on-year growth in net sales as well as in all profit items: EBITDA, operating income, recurring profit and net income.

We have announced an annual dividend of ¥4,800 per share for the fiscal year ended in March 2008, including an interim dividend.

Our Tasks for FY 3/2009


(1) Domestic Tobacco Business
In our domestic tobacco business, we expect the sales volume to decline due to a temporary dip in demand following the introduction of age verifying cigarette vending machines, in addition to the long-term downward trend of overall domestic demand. In the current fiscal year, we will seek to further expand our market share and consolidate our position as the market leader in Japan by continuing to actively invest in Mild Seven and other main brands, and by introducing new products primarily of main brands in an effective manner. Although the cost of materials such as foreign leaf tobacco is expected to rise in the current fiscal year, we will strive to reduce both fixed and variable costs and make constant efforts to improve our productivity.

(2) International Tobacco Business
We will take advantage of our expanded business platform and newly acquired brands, and invest brand equities and capabilities to sustain and expand quality top-line growth in the long term.

(3) Pharmaceutical Business
In the pharmaceutical business, we will make continuous efforts to achieve our goal of steady progress in clinical development and enhancement of the R&D pipeline.

(4) Foods Business
In the foods business, we are focusing on the beverage, processed foods and seasonings sectors and striving to establish the highest level of standards for food safety, based on our enhanced recognition of the importance of food safety. Moreover, we will consolidate our business foundation as an integrated foods manufacturer by concentrating our processed foods and seasoning businesses at Katokichi and further expanding the beverage business.

We face intensifying competition not only in the tobacco business but also in the pharmaceutical and foods businesses.
However, we believe that we can turn this challenging situation to our advantage and find new business opportunities. We will therefore strive to increase our corporate value by continuing to expand and strengthen our organization, develop our employees and consolidate our business foundations so that we can become a global growth company that develops diversified, value-creating business.

Maximizing Corporate Value

We believe that maximizing our corporate value, in the medium to long term, by achieving sustainable profit growth through active business investment is fundamental to enhancing shareholder value.

Regarding dividend payments, we aim to increase dividends in order to raise our consolidated payout ratio to 20% under the Medium Term Management Plan “JT2008”, excluding the impact of goodwill amortization on net income. We will strive to increase our dividends with due consideration of the implementation status of our medium to long-term growth strategies and forecasts for consolidated financial results, based on our approach of ensuring a competitive return of profits to shareholders in the capital market.

We will use internal reserves to make business investments for our immediate and future needs and to acquire external resources, while securing sufficient funds for such measures as repayment of interest-bearing debts and an own share repurchase to expand the scope of management options.

To Our Stakeholders

The JT Group will continue to be a good corporate citizen, recognized globally and within regional communities through our business activities based on high ethical standards.

We will contribute to the development of the local communities in which we operate, providing support in the following four priority areas: Social Welfare, Arts and Culture, Environmental Protection, and Disaster Relief.

In the domestic tobacco business, we will actively support efforts to ensure the smooth introduction and operation of age verifying cigarette vending machines. As the leader of the tobacco industry, this will contribute to fulfilling our social responsibility in the prevention of youth smoking. In the international tobacco business, the JT Group has for many years engaged in voluntary efforts to combat smuggling and counterfeiting and maintained active cooperation with governments and regulatory authorities around the world. In December 2007, JTI signed a cooperation agreement with the European Commission and 26 Member States of the European Union (EU) to combat the contraband and counterfeit of cigarettes in the EU. The JT Group will continue to actively promote efforts to eradicate cigarette smuggling and counterfeiting, in cooperation with governments and regulatory authorities around the world.

June 2008

Hiroshi Kimura
President and CEO and Representative Director