Review of Operations

Domestic Tobacco Business

In the fiscal year ending March 2009, the proportion of sales at retail stores, mainly convenience stores, increased because of the introduction of the age verification cigarette vending machines. By implementing vigorous sales promotion and introducing new products, JT's domestic tobacco business overcame this change in the market environment and achieved the second consecutive year of market share increase.

The domestic tobacco business is positioned as the "core source of profits" for the JT Group. Competition for market share is becoming increasingly intense as total tobacco demand continues to decline, due to factors such as the aging of Japanese society, growing awareness about the health risks associated with smoking and the tightening of smoking-related regulations.

In this business environment, JT is resolved to boost the value of its domestic tobacco business by pursuing a strategy for sales growth and enhancing productivity simultaneously.

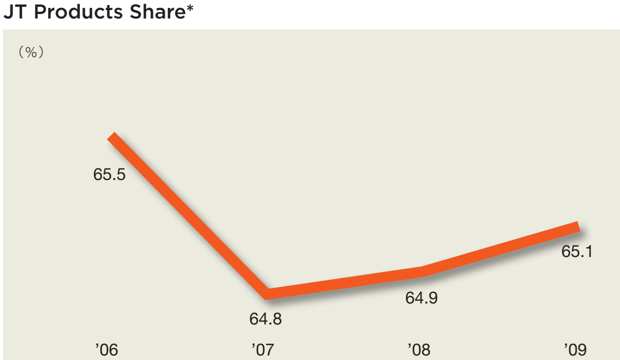
Mitsuomi Koizumi
President,
Tobacco Business

FY 3/2009 Business Performance Summary

• Total sales volume of JT products:	159.9 billion cigarettes,	down	4.7%
• Net sales including excise taxes:	¥3,200.5 billion,	down	4.8%
• Net sales excluding excise taxes(*)	¥ 679.3 billion,	down	5.0%
• EBITDA:	¥ 272.3 billion,	down	11.2%
• Operating income:	¥ 188.3 billion,	down	15.3%

* Excluding imported tobacco

JT Products Share*



* New basis=JT original brands + JTI brands sold in Japan (Camel, Winston, Salem, etc.)

(Years Ended March 31)

* Excluding imported tobacco

Business Performance

The domestic tobacco business faces an increasingly tough business environment as total tobacco demand in Japan continues to decline and competition with other tobacco manufacturers intensifies. In an effort to achieve top-line growth, we have been making constant efforts to enhance our productivity while refreshing and enhancing existing brands as necessary and introducing new products in an effective manner. The introduction of the age verification cigarette vending machines, which JT promoted with industry organizations, started in March 2008 on a region-by-region basis, with a nationwide-introduction completed in July.

In FY 3/2009, we endeavored to enhance the value of our brands by introducing new products mainly in the Mild Seven family, which is our core brand, as well as by strengthening existing brands. Specifically, we are continuing vigorous sale promotion activity, including a sales campaign for the Mild Seven family, which has been under way since FY 3/2008, and a campaign for Seven Stars, for which the 40th anniversary of the first market launch came in February. As for new products, we launched Pianissimo Fram Menthol One (D-spec product), Salem Alaska Menthol and Seven Stars Black Impact. In addition, we started nationwide sales of Mild Seven Impact One 100's Box, which had been gradually introduced on a region-by-region basis, and Seven Stars Light Menthol, which had been available in limited regions. Also, the package designs and names of some products in the Seven Stars family were modified and the “Aqua Menthol” designation was added to the names of two menthol products of the Mild Seven family, whose package designs were redesigned accordingly.

The volume of cigarette sales in FY 3/2009 decreased by 7.8 billion cigarettes (down 4.7%) from the previous year to 159.9 billion cigarettes.* However, our market share rose to 65.1% (up 0.2 point), representing the second consecutive year of market share increase, thanks to active sales promotion activity and the introduction of new products. Net sales excluding excise taxes per 1,000 cigarettes increased to ¥4,057.

Consequently, net sales excluding excise taxes of the domestic tobacco business in FY 3/2009 declined by ¥35.7 billion from the previous year (down 5.0%) to ¥679.3 billion due to a drop in sales volume. Operating income fell by ¥34.1 billion from the previous year (down 15.3%) to ¥188.3 billion, depressed by an increase in sales promotion expenses as well as the reduced sales volume.

* In addition to the figure stated above, we also sold 3.6 billion cigarettes at duty-free shops in Japan as well as those in China, Hong Kong and Macau, markets that are under the control of our China Division.

Strategies and Specific Measures

Optimizing our Marketing Mix toward Sustainable Growth

- Product strategy
- Distribution strategy
- Marketing strategy
- Improving quality and productivity
- Fulfilling our responsibility as the market leader

Optimizing Our Marketing Mix to Gain Maximum Results

In the domestic tobacco market, total demand for cigarettes has continued to decline due to the aging of the Japanese population, growing awareness about the health risks associated with smoking and tightening of smoking-related regulations. Increases in the tobacco excise tax that took effect in July 2003 and July 2006 had an additional impact on the market, with the Japanese smoking rate dropping to 25.7%, according to a May 2008 survey. Meanwhile, as tobacco-related regulations are being strengthened in various ways, market share competition with foreign brands is intensifying. JT will overcome the impact of a future decline in sales volume by optimizing our marketing mix through our product, distribution and sales strategies.

Product Strategy

Our product strategy focuses on boosting the value of our main brands and introducing new products in an effective manner. After redesigning the packages of 14 products in the Mild Seven family in 2006 and the packages of all nine products in the Caster brand family in December 2007, we renewed the package designs and names of some products in the Seven Stars family in November 2008 as part of our efforts to boost the value of our main brands. Moreover, we are seeking to raise unit prices by developing and introducing products with high value added, represented by the D-spec brand family. We aim to expand our market share by pursuing a brand portfolio that suits the excellent value of our brands.

MILD SEVEN

Seven Stars

PIANISSIMO

Distribution Strategy

In FY 3/2009, we stepped up efforts to promote sales at retail stores, mainly convenience stores, whose proportion has increased following the introduction of the age verification cigarette vending machines. Such efforts included the introduction of product display cases for the purpose of increasing the exposure of JT products at retail stores and sales promotion intended to strengthen the appeal of our products to customers, and we intend to further enhance sales promotion in the future. Meanwhile, sales through vending machines are now recovering in line with the increasing use of the taspo card compared with the period immediately after the introduction of the age verification cigarette vending machines. JT will maintain the competitiveness in sales through vending machines.

Marketing Strategy

Our marketing force, the vast size of which eclipses the marketing teams of our competitors, satisfies the multitude and variety of needs of retailers scattered across the country. We will continue to engage in efficient and effective marketing activities in ways linked to our product and distribution strategies, while complying with regulations and rules such as restrictions on tobacco advertising and prevention of youth smoking.

Improving Quality and Productivity

We will implement measures to maximize customer satisfaction, including constantly improving product quality and strengthening the shipment assurance system. Productivity improvement is a critical challenge for any manufacturing company. At JT, we will never cease our efforts to satisfy the increasingly diverse needs of our customers and to respond appropriately to any change in the supply-demand balance. As part of such efforts, JT discontinued production at its Kanazawa factory at the end of March 2009 and closed the factory so as to optimize our tobacco production capacity and restructure the domestic tobacco business in ways to make it more competitive. In addition, we will discontinue production at the Morioka and Yonago factories at the end of March 2010 and at the Odawara factory at the end of March 2011. We will continue to pursue improvement in productivity in the future.

Fulfilling Our Responsibility as The Market Leader

We will continue to fulfill our responsibilities as the leading tobacco company in the Japanese market by endeavoring to achieve a harmonious co-existence between smokers and non-smokers. We will also engage in initiatives to improve smoking manners and strive to secure and create space and opportunity for smoking, for example by helping to provide comfortable smoking areas. Meanwhile, the tobacco industry, including JT, will continue to promote initiatives to prevent youth smoking, including those aimed at increasing the use of the taspo card, in cooperation with local governments and other organizations concerned.

As a Core Source of Profits for the JT Group

We will ensure that the domestic tobacco business continues to serve as the JT Group's "core source of profits" by overcoming challenges in the domestic market, such as the continuing decline in total tobacco demand and intensifying competition.

Topics

The ‘taspo’ Initiative

The initiative is implemented by the entire tobacco industry to prevent youth smoking.

Purpose of the ‘taspo’ Initiative

Prevention of youth smoking is not only a social demand but also a top priority matter for the tobacco industry. Therefore, starting in March 2008, we gradually introduced the IC-card-based age verification cigarette vending machines that accept the ‘taspo’ card, with the nationwide introduction completed in July 2008. For customers to purchase cigarettes from these vending machines, they need to tap the ‘taspo’ card on the sensor of the machine for adult identification. The ‘taspo’ card is issued to people identified as adults through rigorous verification procedures. The ‘taspo’ initiative has been led by the Tobacco Institute of Japan (TIOJ), the Japan Tobacconist Federation and the Japan Vending Machine Manufacturers Association.

Outline of ‘taspo’ System

Only people who have the ‘taspo’ card, which is issued by the Tobacco Institute of Japan, can purchase cigarettes from the IC-card-based age verification cigarette vending machines. The ‘taspo’ card is issued after the applicant for the card is identified as an adult through rigorous verification and screening procedures. When a customer taps the ‘taspo’ card on the sensor of a vending machine with the adult identification function, information contained on the IC integrated in the card is read instantly for adult identification.

The indication of the name and member number on the card and the facial photo attached to it clarify the ownership of the card, preventing the card from being sold or lent to a non-legitimate owner and helping to enhance the rigorousness of the adult identification. Because of the enhanced rigorousness of the adult identification, the ‘taspo’ card is highly effective in preventing youth smoking.

The ‘taspo’ card can be used to make payment with electronic money “Pidel.” If the card is charged with electronic money, it enables the user to purchase cigarettes from a vending machine without using cash. The card can be recharged through a vending machine.

An age verification cigarette vending machine using IC cards

An age verification IC card ‘taspo’

Number of ‘taspo’ cards issued (As of June 13, 2009)
9,211,025

International Tobacco Business

Japan Tobacco International (JTI), JT Group's international tobacco business, is the profit growth engine of the group by taking advantage of its geographic profile and competitive edge in brands and people. Although the current state of the global economy poses an unprecedented challenge, JTI will strive to mitigate the negative impacts on its businesses. JTI remains committed to the development of its people and brands so as to further enhance its competitiveness.

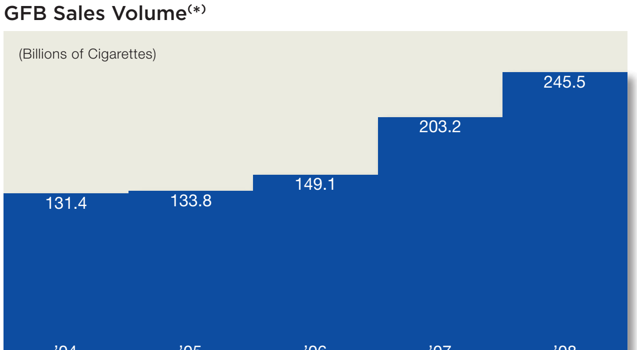
Pierre de Labouchere
President & CEO,
Japan Tobacco International

FY 3/2009 Business Performance Summary

• Total sales volume:	**452.3 billion cigarettes,**	**up**	**17.3%**
• GFB sales volume:	**245.5 billion cigarettes,**	**up**	**20.8%**
• Net sales including excise taxes:	**¥3,118.3 billion,**	**up**	**18.1%**
• Net sales excluding excise taxes (*):	**¥1,102.3 billion,**	**up**	**16.5%**
• EBITDA:	**¥ 338.0 billion,**	**up**	**24.8%**
• Operating income:	**¥ 174.8 billion,**	**down**	**14.9%**

* Excluding distribution business

GFB Sales Volume(*)



(*) GFB in FY2004-2006: Winston, Camel, Mild Seven, Salem
GFB in FY2007-2008: Winston, Camel, Mild Seven, Benson & Hedges, Silk Cut, LD, Sobranie, Glamour

Business Performance

JTI delivered another year of strong results in 2008, maintaining its solid top-line growth momentum through brand equity advancement.

Thanks to continued business momentum, the realization of integration synergies and foreign exchange gains, JTI far exceeded its EBITDA targets.

In 2008, JTI's total sales volume increased by 66.7 billion cigarettes (up 17.3%) from the previous fiscal year, to 452.3 billion cigarettes. This was mainly due to Winston's sales growth in Russia, Turkey, Ukraine, Spain, France and Italy; Camel's sales growth in Italy, Russia and Spain; and Mild Seven's sales growth in Korea, Taiwan, Russia and Malaysia. The sales volume of Global Flagship Brands (GFB) totaled 245.5 billion cigarettes.

Consequently, net sales excluding excise taxes of the international tobacco business increased by ¥156.3 billion from the previous year (up 16.5%) to ¥1,102.3 billion, and EBITDA increased by ¥67.2 billion (up 24.8%) to ¥338.0 billion. The strong results were attributed to increased sales, and the inclusion of the full-year results of Gallaher. Meanwhile, operating income dropped by ¥30.6 billion (down 14.9%) to ¥174.8 billion, due to the amortization of goodwill.

Note: Average foreign exchange in 2008 of ¥103.48 per dollar, compared to ¥117.85 in the previous fiscal year.

Outline of Cluster Sales Volume Performance

South & West Europe

- Sales volume grew 7%, with GFB (85% of total sales) posting a 9% increase.
- Camel and Winston posted sales volume growth of 6% and 17% respectively, as a result of successful marketing initiatives.
- Sales volume in FY 2008: 64.0 billion cigarettes

Shares in Key Markets in South & West Europe

	2007	**2008**	Market Position
Spain	20%	**21%**	No. 3
France	13%	**14%**	No. 4
Italy	16%	**17%**	No. 3
Greece	14%	**15%**	No. 3

North & Central Europe

- Although sales volume declined 2%, the GFB mix improved as a result of increased brand investment.
- Excluding sales of private-label products, sales volume increased 1.7%.
- Sales volume in FY 2008: 50.8 billion cigarettes

Shares in Key Markets in North & Central Europe

	2007	**2008**	Market Position
UK	39%	**39%**	No. 2
Ireland	49%	**49%**	No. 1
Austria	38%	**37%**	No. 1
Sweden	34%	**36%**	No. 1

CIS+

- Sales volume grew 3%, with GFB sales volume increasing 17%.
- Winston posted a 15% increase in sales volume, solidifying its position as the No. 1 brand in the CIS+ region.
- Sales volume in FY 2008: 219.7 billion cigarettes

Shares in Key Markets in CIS+

	2007	**2008**	Market Position
Russia	35%	**36%**	No. 1
Kazakhstan	42%	**42%**	No. 2
Ukraine	30%	**29%**	No. 2
Romania	29%	**27%**	No. 3

Rest of the World

- Sales volume grew 11%, with GFB posting a 13% increase.
- Sales volume in FY 2008: 117.7 billion cigarettes

Shares in Key Markets in the Rest of the World

	2007	**2008**	Market Position
Taiwan	36%	**39%**	No. 1
Malaysia	18%	**19%**	No. 2
Turkey	14%	**17%**	No. 3
Canada	12%	**13%**	No. 3

* Growth and market share on a like-for-like basis (includes proforma Gallaher 2007).
** As the market segmentation data shown above are for reference only, they do not represent the segmentation of JTI's management structure.
*** Share of market as annual average, obtained from external sources (Trade Exchange, ACNielsen, EPOS), excluding Austria and Canada (JTI estimate).

Strong GFB Portfolio

2008 Performance

On a like-for-like basis, GFB sales volume grew 13.3% in 2008, compared with a 5.1% growth in total sales volume. GFB is the main driver of JTI's strong top-line growth and accounted for 54% of the total sales volume in 2008. Of the eight GFB, six posted double-digit growth in 2008. Winston registered a 14% growth in sales volume in 2008, solidifying its leadership in the sub-premium segment. This was due in part to improved pack design and the introduction of super slims mainly in CIS+. Camel posted 10% sales volume growth, following a successful pack upgrade in 2007 and innovative programs to enhance its premium stature. Glamour, JTI's leading super slims brand in the sub-premium segment, recorded remarkable growth of 40%, mainly due to growth in Russia.

GFB Portfolio

JTI's focus on innovation has solidified its position and contributed to the growth of the GFB portfolio. Innovation remains a key priority for future growth, and JTI will continue to make aggressive investments in this area in order to enhance its brand equity.

JTI's GFB portfolio is strongly represented across most price segments, providing good balance during the economic downturn.

Global Flagship Brand Portfolio

The eight Global Flagship Brands (GFB) constitute the core of JTI's brand portfolio, to drive quality top-line growth.

Brand Portfolio		2008 Volume (Billions of cigarettes)	YoY %* Growth
Engines	Winston and Camel are "Engine" brands driving JTI's growth.		
Winston	First introduced in 1954, Winston has proven its status as JTI's key growth driver by becoming the 2nd largest cigarette brand in the world in 2006, demonstrating excellent results in CIS+, South & West Europe and the Rest of the World. Winston has experienced double-digit growth over the last eight years and its strong momentum continues through brand extensions and ongoing product innovation.	126.4	13.8
Camel	First introduced in 1913, Camel is the originator of American Blend. Sold in over 100 countries, Camel currently is the 5th largest cigarette brand in the world. In 2008, Camel further accelerated its sales volume in all regions. Camel Natural Flavor and other line extensions contributed to Camel's success.	42.3	10.3
Strongholds	Four stronghold brands have a significant presence in their respective regions increasing the competitive power of JTI's portfolio.		
Mild Seven	Originating in Japan and launched in 1977, Mild Seven is the top-selling premium charcoal brand worldwide and is the 4th largest cigarette brand. Its key markets outside Japan are Taiwan, Korea, Russia and Malaysia.	18.8	11.4
B&H	Originally created for the Prince of Wales in 1873, Benson & Hedges has a proud British heritage. Today, JTI owns the Benson & Hedges trademark in EU markets (excl. Baltics) where it is a leading Virginia premium brand. Benson & Hedges evolves continuously to reflect the needs of premium consumers.	11.2	-2.4
Silk Cut	Launched in 1963, Silk Cut established itself as one of the leading brands in the Virginia segment, both in the UK and Ireland. JTI owns the Silk Cut trademark throughout the EU with the core markets being the UK, Ireland and Greece, where the brand enjoys a significant market share in the premium segment.	5.2	-3.0
LD	LD was launched in 1999 as a mid-price proposition in the Russian market. The brand achieved immediate success and is accepted as a credible international proposition. Now available in more than 30 countries, LD is synonymous with innovation and responding to consumer aspirations, including the successful extension of Round Corner packs, Slims and Super Slims formats.	29.0	20.7
Future potential	The market presence of these brands is still small, but they have growth potential.		
Sobranie	Sobranie is one of the world's oldest tobacco brands and has been synonymous with luxury cigarettes since 1879. This heritage, exquisite style and the best selected tobaccos have made Sobranie one of the most prestigious brands in the world.	2.3	18.7
Glamour	Glamour is JTI's leading Super Slims brand. Since its introduction in 2005, Glamour has achieved remarkable growth in CIS+, consolidating its No. 1 position as a Super Slims brand in Russia, Ukraine and Belarus. Glamour was launched in Western Europe (Italy) in 2009.	10.3	40.1

* Growth on a like-for-like basis (includes proforma Gallaher 2007).

Strategies and Specific Measures

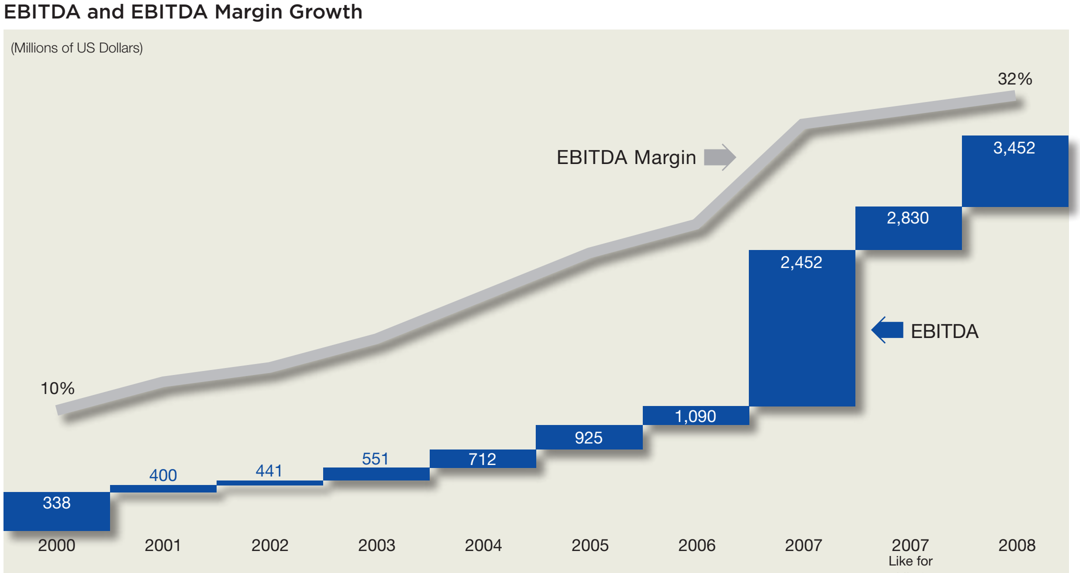
- Build and nurture outstanding brands
- Continue to enhance productivity
- Sharpen focus on responsibility and credibility
- Develop people as a cornerstone of growth

Quality top-line growth continues to be JTI's overriding priority and it remains committed to deploying its key strategies under the guiding principle of continuous improvement.

Toward Sustainable Growth

JTI has delivered yet another year of remarkable performance through the execution of consistent business strategies. Since 2000, JTI has grown its EBITDA by a compound annual average rate of 34%. Although the current state of the global economy poses an unprecedented challenge, JTI will strive to mitigate the negative impacts on its businesses. JTI is also resolved to continue dedicating resources to its people and brands so as to maintain and enhance its competitiveness. While making the most of its strong business foundation supported by its geographic profile, brands and people, JTI remains committed to maintaining an annual EBITDA growth rate of at least 10% at constant exchange rates, so as to secure its role as the growth engine of the JT Group.

EBITDA and EBITDA Margin Growth



* includes proforma Gallaher

Pharmaceutical Business

In the pharmaceutical business, JT will continue to build world-class, unique R&D capabilities and reinforce its market presence through innovative drugs by devoting efforts to increasing and advancing compounds in a late phase of clinical trial and enhancing the R&D pipeline, so that it can pursue a high-value added business based on the development of world-class innovative drugs.

Noriaki Okubo
President,
Pharmaceutical Business

FY 3/2009 Business Performance Summary

• Net sales:	¥56.8 billion,	up	15.7%
• EBITDA:	¥ 4.9 billion,	up	¥ 11.2 billion
• Operating income:	¥ 1.0 billion,	up	¥10.7 billion

Business Performance

In the pharmaceutical business, JT is striving to steadily advance the development of compounds in the clinical development stage and enhance the R&D pipeline so as to increase the value of this business at an early date. While we have abandoned the development of anti-obesity compound JTT-553, anti-Hepatitis C compound JTK-652, anti-hyperuricemia compound JTT-552 and anti-diabetes compound JTT-651, the development of anti-HIV compound JTK-656 and anti-hyperphosphatemia compound JTT-751 proceeded to the clinical trial stage, bringing the number of compounds currently in this stage to nine.

Moreover, we are exploring strategic opportunities to conclude licensing agreements to acquire rights to drugs developed by other companies, or give others rights to our drugs.

In September 2008, JT concluded a licensing agreement with Merck & Co., of the United States concerning anti-osteoporosis compound JTT-305, which gives Merck the exclusive rights to develop and commercialize this compound worldwide excluding Japan.

Meanwhile, Torii Pharmaceutical Co. Ltd., a JT Group company, posted growth in sales of anti-HIV drug Truvada, the Dovonex ointment for the treatment of psoriasis vulgaris, the Zefnart antifungal agent for external use and the Antebate topical adrenocortical hormone. However, as sales of the Stronger Neo-minophagen C agent for the treatment of liver and allergic diseases were terminated at the end of March 2008 and sales of the Futhan protease inhibitor declined due to a price revision that took effect in April 2008 and the promotion of the use of generic drugs, Torii Pharmaceutical's net sales decreased.

In March 2009, Torii Pharmaceutical started selling the Remitch Capsule, an antipruritus drug for hemodialysis patients which was codeveloped by Toray Industries Inc., JT and Torii Pharmaceutical and for which Toray obtained approval for domestic production and sales in January 2009.

To sum up the financial results of the JT Group's pharmaceutical business, net sales increased by ¥7.7 billion (up 15.7%) from the previous year to ¥56.8 billion as a decline in Torii Pharmaceutical's sales was offset by the receipt of an upfront payment for the licensing of anti-osteoporosis compound JTT-305 and a milestone revenue associated with progress in the development of the JTT-705 compound for the treatment of dyslipidemia, which was licensed to Roche (Switzerland) in October 2004. Operating income came to ¥1.0 billion (an improvement from a loss of ¥9.6 billion in the previous year).

Strategies and Specific Measures

- To strengthen the capability for clinical development, including late-stage development, and the capability for drug discovery research.
- To enhance in-licensing and out-licensing activities and strengthen cooperation with foreign partners.

Strengthening of Capability for Clinical Development, including Late-Stage Development, and Capability for Drug Discovery Research

In the pharmaceutical business, JT will strengthen the capability for clinical development in order to keep up with progress in the clinical development and will enhance the capability for drug discovery research in order to reinforce the R&D pipeline.

While making use of our accumulated knowledge, we have narrowed our R&D focus, allocating our resources mainly to four areas: (1) glucose and lipid metabolism, (2) virus research, (3) immune disorders and inflammation and (4) bone metabolism.

Enhancement of In-Licensing and Out-Licensing Activities and Strengthening of Cooperation with Foreign Partners

In the face of intensifying global R&D competition, it is becoming increasingly important to speed up R&D activity and bring new products to market quickly. Therefore, JT is exploring strategic opportunities for licensing agreements to acquire rights to drugs developed by other companies (in-licensing) or give others rights to its own drugs (out-licensing) so that we can rapidly increase the value of the business.

As for out-licensing, we concluded licensing agreements with Roche (Switzerland) with regard to anti-dyslipidemia agent JTT-705 and with Gilead Sciences (U.S.) with regard to anti-HIV agent JTK-303 in fiscal 2004. In fiscal 2006, we licensed a new pre-clinical trial stage compound to GlaxoSmithKline (U.K.) and licensed a pre-clinical trial stage antibody drug candidate to MedImmune (U.S.). In addition, JT concluded a licensing agreement with Merck & Co. of the United States to license the JTT-305 anti-osteoporosis oral compound to Merck. By tapping external R&D resources through these out-licensing deals, we have sped up the development of our drugs.

Regarding in-licensing, meanwhile, we concluded a licensing agreement in fiscal 2003 to acquire rights to commercialize in Japan three anti-HIV drugs developed by Gilead Sciences. These drugs are now sold by Torii Pharmaceutical. JTT-751, regarding which the JT-Torii group signed a licensing agreement with Keryx Biopharmaceuticals Inc. of the United States in fiscal 2007 and acquired the exclusive rights for development and commercialization in Japan, is now in the clinical trial stage.

Pursuit of Innovative Drugs

We are engaged in an unceasing quest to develop innovative and globally competitive drugs, which we regard as the most critical mission for our pharmaceutical business. The development of new drugs is a tough challenge, which we are tackling with a sense of pride and high motivation. We are endeavoring to make the kind of achievements that we alone can realize and make available drugs that we alone can offer, so that we may deserve the respect and appreciation of patients and medical staff around the world.

Food Business

In the food business, we are striving to provide delicious foods that people can consume safely while wishing to "provide products that your loved ones want to eat." We will continue to devote our efforts to the three business areas of beverages, processed foods and seasonings, aiming to retain the trust of customers by serving the people's daily lives through our offering of food products.

Sadao Furuya
President,
Food Business

FY 3/2009 Business Performance Summary

• Net sales:	¥436.0 billion, up	29.6%
• EBITDA:	¥ 17.0 billion, up	103.9%
• Operating income:	-¥ 11.5 billion, down	¥12.1 billion

Business Performance

We have devoted efforts to three areas—beverages, processed foods and seasonings—and promoting efforts to achieve the world's highest standard of safety management. At the same time, we are striving to strengthen the business foundation for future growth.

In the beverages business, we have steadily expanded our vending machine sales channels, mainly through Japan Beverage Inc., a JT subsidiary, and actively launched new products developed for the purpose of achieving differentiation from competitors, focusing mainly on the flagship Roots brand.

While sales of frozen food products slumped in the processed food business due to the impact of the frozen foods products contamination, the JT Group as a whole has been engaging in efforts to ensure thorough safety management and make further improvements, including conducting checks for agrochemicals in imported frozen foods at inspection centers in Japan and China, actively disclosing information concerning food materials and seeking advice from outside experts appointed as its food safety advisers, so that we can better assure food safety and gain the trust of customers.

In the seasonings business, we have been focusing on the development of natural seasonings, such as high-value yeast products, based on our in-house technology, and expanding sales of such products, and we are striving to further strengthen our business foundation by sharing business resources related materials procurement, production and sales with Fuji Foods Corporation, which became a JT subsidiary in April 2008, to complement the operations of each other.

In addition, the JT Group reorganized the processed foods and seasonings businesses so as to consolidate and integrate the group's functions such as quality control, R&D, procurement and sales, with Katokichi Co. Ltd., a JT Group company, as the core of the reorganized operations. In addition, we are striving to strengthen the business foundation by implementing measures necessary for pouring increased efforts into core areas.

To sum up the financial results of the food business, net sales increased by ¥99.5 billion (up 29.6%) from the previous year to ¥436.0 billion as the integration of the Katokichi Group in the consolidated results offset a decline in sales of processed foods due to the impact of the frozen foods products contamination and a drop in sales of beverage products attributable to unfavorable weather conditions and increased competition as well as a slump in general consumption caused by the severe economic downturn. Meanwhile, the JT Group posted an operating loss of ¥11.5 billion (against an operating profit of ¥0.7 billion in the previous year), because of increased general expenses, higher materials prices and the goodwill amortization related to the integration of the Katokichi Group.

Strategies and Specific Measures

Aiming to increase profits by achieving sustainable growth based on the combined strength of group companies with world-class competitiveness, we will:

- Devote our efforts to the three business areas of beverages, processed foods and seasonings.
- Further strengthen our business foundation for remarkable growth in the future.
- Implement measures to establish the highest standard of safety management.

Beverages Business: In the beverages business, we will aim to increase our presence in the market for coffee drinks, mainly canned coffee, by strengthening our flagship brand "Roots," which is renewed for its rich taste realized by our unique technology. At the same time, we will develop and launch products developed with a focus on differentiation and high quality based on our superior technology and development capability. Furthermore, we will aim to enhance our sales networks led by Japan Beverage Inc., a JT subsidiary responsible for operating vending machines nationwide, and to provide conscientious services and will strive to establish a solid profit base by pursuing efficiency.

Processed Foods and Seasonings Businesses: In the processed food business and the seasoning business, we will strive to further strengthen our business foundation by pursuing synergy effects from the business integration, concentrating business resources on priority areas and fostering a sense of unity at the Katokichi Group. In the frozen food business, we will strive to offer delicious frozen products of various sorts that customers can eat safely by using Katokichi Co., Ltd. as the core of the business, with a view to ensuring food safety from the point of production through to the delivery to consumers. Thus, we will aim to become the leading company in the frozen foods industry. In the seasonings business, Fuji Foods Corporation, a JT Group company that has been leading the market with pioneering products, will play the central role in the development of a broad range of seasonings products for a diverse range of foods, including Japanese, Western and Chinese foods. As for natural seasonings, we will devote our efforts to producing and expanding sales of high value-added yeast products based on our in-house technology and extract products using superior materials.

Processed Foods Seasonings

Measures to Strengthen Safety Management

The JT Group is implementing measures to drastically strengthen the management of food safety in order to develop the highest standard of safety management, with the three pillars of "Actions for reducing risks," "Improving consumer response" and "Creating stronger organization and operating base."

I Actions for reducing risks

The JT Group has been conducting strict audits on factories, promoting the acquisition of the ISO 22000 certification for food safety management systems and devoting increased efforts to food defense.

II Improving consumer response

The JT Group is striving to enhance a system that enables collection of customer feedback on a 365-day-per-year basis and quick and appropriate group-wide sharing of the feedback and to actively disseminate information useful for customers.

III Creating stronger organization and operating base

The JT Group is strengthening the safety management system by promoting coordination between the R&D functions and the quality control functions and is actively incorporating diverse knowledge and viewpoints into its operations by seeking assessment and advice from outside experts appointed as its food safety advisers.