The Japanese domestic tobacco business is positioned as the core source of profits for the JT Group. Under a difficult business environment, the Japanese domestic tobacco business continues to explore opportunities for top-line growth and at the same time to build an optimum operating structure. The international tobacco business is actively exploring opportunities for top-line growth so that it can continue to act as the JT Group’s profit growth engine. In the pharmaceutical business, JT will continue to devote efforts to increasing and advancing compounds in a late phase of clinical trial and enhancing the R&D pipeline. In the food business, we are devoting our efforts to the three business areas of beverages, processed foods and seasonings, striving to further strengthen our business foundation for future growth.
At a Glance

**JT Group**

The Japanese domestic tobacco business is the core source of profits for the JT Group. The business environment is becoming increasingly difficult due to a decline in overall demand in the domestic market and intensifying competition. In this business environment, the Japanese domestic tobacco business continues to explore opportunities for top-line growth and at the same time build an optimum operating structure.

The international tobacco business is continuously exploring opportunities for top-line growth so that it can continue to be the JT Group’s profit growth engine.

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.

In the food business, we are devoting our efforts to the three business areas of beverages, processed foods and seasonings, implementing measures to establish the highest standard of safety management and striving to further strengthen our business foundation for future growth.

---

### Japanese Domestic Tobacco Business

*Years ended March 31*

Overwhelm the competition in the home country market as the core source of profits.

#### Total Market

<table>
<thead>
<tr>
<th>(Billions of cigarettes)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>270.0</td>
<td>258.5</td>
<td>245.8</td>
<td>233.9</td>
<td>210.2</td>
</tr>
</tbody>
</table>

Source: TIOJ

#### Sales Volume

<table>
<thead>
<tr>
<th>(Billions of cigarettes)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>174.9</td>
<td>167.8</td>
<td>159.9</td>
<td>151.9</td>
<td>134.6</td>
</tr>
</tbody>
</table>

#### Net Sales Excl. Excise Taxes

<table>
<thead>
<tr>
<th>(Billions of yen)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>729.4</td>
<td>715.0</td>
<td>648.8</td>
<td>616.0</td>
<td>617.9</td>
</tr>
</tbody>
</table>

Note: 2007 – 2008: Excluding revenue from the imported tobacco.
2009 – 2011: Excluding revenues from the imported tobacco, domestic duty free, the China Division, and other miscellaneous.

#### EBITDA/Operating Income

<table>
<thead>
<tr>
<th>(Billions of yen)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>326.5</td>
<td>306.7</td>
<td>272.3</td>
<td>251.3</td>
<td>257.7</td>
</tr>
</tbody>
</table>

---

### Pharmaceutical Business

*Years ended March 31*

Pursuing high value-added business by developing world-class innovative drugs.

#### Net Sales

<table>
<thead>
<tr>
<th>(Billions of yen)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>45.5</td>
<td>49.1</td>
<td>56.8</td>
<td>44.1</td>
<td>47.0</td>
</tr>
</tbody>
</table>

#### EBITDA/Operating Income (Loss)

<table>
<thead>
<tr>
<th>(Billions of yen)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>-8.2</td>
<td>-6.3</td>
<td>2.0</td>
<td>4.9</td>
<td>-13.4</td>
</tr>
<tr>
<td>Operating Income</td>
<td>-6.3</td>
<td>-9.7</td>
<td>-13.6</td>
<td>-13.3</td>
<td>-17.3</td>
</tr>
</tbody>
</table>
International Tobacco Business  (Years ended December 31)

Attain a sustainable leadership position in profitability and/or market share in a growing number of markets, and continue to be the driving force for profit growth.

Food Business  (Years ended March 31)

Increasing profits by achieving sustainable growth based on the combined strength of group companies with world-class competitiveness.
Review of Operations

Japanese Domestic Tobacco Business

FY3/2011 Business Performance Summary

<table>
<thead>
<tr>
<th>Sales volume</th>
<th>Adjusted net sales excluding taxes*</th>
<th>EBITDA</th>
<th>Operating income</th>
</tr>
</thead>
<tbody>
<tr>
<td>134.6 billion cigarettes</td>
<td>¥ 617.9 billion</td>
<td>¥ 257.6 billion</td>
<td>¥ 212.9 billion</td>
</tr>
<tr>
<td>Down 11.3%</td>
<td>Up 0.3%</td>
<td>Up 2.6%</td>
<td>Up 7.1%</td>
</tr>
</tbody>
</table>

* Adjusted net sales excluding taxes do not account for revenue from the imported tobacco, domestic duty free, China Division and other miscellaneous business.

As products in the premium price segment increased, product mix improved significantly after the price amendment.

- When looking at the component ratio of price segments by JT sales volume, share of premium price segment increased significantly.
- JT leads the market share in the premium price segment above 440 yen.

As the effect of strategic pricing offset the volume decline, adjusted net sales excluding taxes remained broadly flat while EBITDA increased.
The Japanese domestic tobacco business is positioned as the core source of profits for the JT Group.

Due to factors such as the aging of Japanese society and growing awareness about the health risks associated with smoking and tightening of smoking-related regulations, demand has been declining. Moreover, the steep tax increase in October 2010 has resulted in a significant drop in demand and the business environment is becoming increasingly difficult. JT will strive to achieve continuous growth by providing quality and services suitable for the prices of its products. At the same time, JT will improve its productivity in order to increase the value of its Japanese domestic tobacco business in the medium term.

Market share moved significantly, affected by the tax increase and the price amendment.

- Market share was affected by the tax increase and the price amendment as the range for price increase was varied for each product. Market share was also affected by the earthquake due to temporary suspension of shipment of all products.

New products, mainly of key brands, were aggressively introduced.

<FEATURES OF KEY BRANDS>

Mild Seven Family
- The Mild Seven family has won numerous loyal customers since its launch in June 1977.
- As Japan’s major cigarette brand, Mild Seven has consistently commanded the No. 1* share of the Japanese domestic market for more than 30 years since 1978.
- Today, the Mild Seven family encompasses 25 products (as of April 30, 2011), reflecting the evolution that it has undergone in step with the changing times and brand expansion.
  * Source: TIOJ

Seven Stars Family
- Launched in 1969, Seven Stars featured Japan’s first domestically produced charcoal filter in pursuit of better taste.
- Since its launch, Seven Stars has consistently offered unique value in terms of taste, aroma, and product design.
- The Seven Stars family comprises a lineup of 10 products (as of April 30, 2011) centered on Seven Stars, which recorded the top* performance by brand in the fiscal year ended March 2011. The Seven Stars family continues to capture a growing share of the market.
  * Source: TIOJ

Pianissimo Family
- In August 1995, the Pianissimo family saw the launch of Japan’s first 1 mg-tar menthol cigarette product featuring reduced odor and smoke*.
- Pianissimo, an FSK (Filter Super King) slim menthol product, has continued to achieve growth after undergoing the Japanese tobacco market’s first integration of brands in the fiscal year ended March 2010.
- The Pianissimo family, a core JT tobacco franchise, features a diverse lineup of 8 products (as of April 2011), centered on Pianissimo One, the No. 1** 1mg menthol product.
  * Reduced smoke: Less smoke is released from the tip of the cigarette based on a visual comparison with conventional JT cigarette products.
  ** Source: TIOJ

NEW PRODUCTS LAUNCHED IN FY3/2011

- April 2010: Seven Stars Black Impact Box
- May 2010: Zerostyle Mint
- June 2010: Winston Lights 6 Box
- Winston Extra 3 Box
- Winston Ultra One 100’s Box.
- July 2010: Mild Seven Aqua Squash Menthol 7 Box
- November 2010: Pianissimo Super Slims Menthol One
- January 2011: Mild Seven D-SPEC One 100’s Box
Strategies and Specific Measures

- Optimizing our marketing mix toward sustainable growth through the provision of quality and services commensurate with the price

PRODUCT STRATEGY
Our product strategy will focus on enhancing the brand equity so as to provide value commensurate with the price, and building a brand portfolio that offers a wide selection of products. To that end, we will strive to enhance product innovation (enhance R&D capability), broaden the scope of brand extension and strengthen the programs to improve package design and other product features so as to maintain and expand our market share.

DISTRIBUTION STRATEGY
The greatest challenge for our distribution strategy is to secure overwhelming superiority in product exposure at retail stores. We will strive to secure product exposure in ways suited to the characteristics of each store type by making suggestions for store remodeling that will give more visibility to products and by introducing display boxes. As for sales through vending machines, we will strive to make efficient allocation while making investments necessary for increasing the attractiveness of our products.

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. As part of this effort, we will renew the process of raw materials processing and introduce a new tobacco blending method and a new tobacco processing technology so that we can satisfy customers’ diverse preferences by providing products with a wide variety of tastes and aromas.

Regarding productivity improvement, which is a critical challenge for any manufacturer, we closed three factories by the end of March 2011 as scheduled under the current medium-term management plan. As of April, there were six factories in operation in Japan.

We will continue to strive toward an even more cost-efficient operating structure.

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 coexistence between smokers and non-smokers. We will also engage in initiatives to improve smoking manners and strive harder to secure and create space and opportunity for smoking, for example, by helping to provide comfortable smoking areas.

AS A CORE SOURCE OF PROFITS FOR THE JT GROUP
We will ensure that the Japanese domestic tobacco business continues to serve as the JT Group’s core source of profits by overcoming challenges in the Japanese domestic market, such as the continuing decline in total tobacco demand and intensifying competition.
We are aggressively pursuing product innovation in order to ensure quality and services commensurate with the retail price.

### PRODUCT INNOVATION MEASURES IMPLEMENTED IN FY3/2011

<table>
<thead>
<tr>
<th>Date</th>
<th>Products Description</th>
<th>Changes/Redesigns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early April 2010</td>
<td>All 9 products in the Caster family</td>
<td>Change-over to the D-Spec type</td>
</tr>
<tr>
<td>Mid-November 2010</td>
<td>4 menthol products in the Mild Seven family</td>
<td>Adoption of a round-corner box package</td>
</tr>
<tr>
<td>Mid-February 2011</td>
<td>5 regular products in the Mild Seven family</td>
<td>Adoption of a round-corner box package</td>
</tr>
<tr>
<td>Mid-February 2011</td>
<td>Mild Seven Impact One 100’s Box</td>
<td>Package redesign</td>
</tr>
<tr>
<td>Late February 2011</td>
<td>3 products in the Seven Stars family</td>
<td>Full renewal of tastes, aromas and names</td>
</tr>
<tr>
<td></td>
<td>Seven Stars Menthol Box</td>
<td>Seven Stars Deep Menthol Box</td>
</tr>
<tr>
<td></td>
<td>Seven Stars Black Charcoal Menthol Box</td>
<td>Seven Stars Solid Menthol Box</td>
</tr>
<tr>
<td></td>
<td>Seven Stars Black Impact Box</td>
<td>Seven Stars Solid Box</td>
</tr>
</tbody>
</table>

### D-SPEC

Regarding the Caster brand, which many customers have applauded for its low level of odor, its balance of aromatic essences has been improved so as to further reduce odor while keeping the taste unchanged. As a result, the Caster brand has been renewed as a product that meets JT’s D-spec low odor standard that enhances the enjoyment of taste.

### ROUND-CORNER BOX

Regarding the box package products in the Mild Seven family, we adopted a round-corner box package as widely requested by customers. As a result, these products feature the Mild Seven family’s image of being stylish and graceful and are also user-friendly as their package shape follows the contours of the hand.

### DESIGN UNIFICATION

The package of the Mild Seven Impact One 100’s Box was changed from a regular box to a round-corner box. In addition, the Blue Wind symbol of the Mild Seven family is indicated on the package in the shape of a sharp streamline, as on the package of the Mild Seven Impact One Menthol, so as to convey the sense of “impact.”

### PRODUCT UPGRADE

We are striving to upgrade our products so that we can satisfy customers’ diversifying needs.

### RENEWAL OF 3 PRODUCTS IN THE SEVEN STARS FAMILY

We will build a more sophisticated lineup of products in response to customers’ requests for better package design, taste and aroma.

**<Seven Stars Deep Menthol Box (former Seven Stars Menthol Box)>**

The strong menthol flavor and rich taste of this product have become more distinct as a result of the renewal.

**<Seven Stars Solid Menthol Box (former Seven Stars Black Charcoal Menthol Box)>**

The renewed product features a sharp, strong and solid menthol flavor.

**<Seven Stars Solid Box (former Seven Stars Black Impact Box)>**

After the renewal, this product, for which we used to emphasize a rich smoke volume, enriched aroma and full-bodied taste, now features a sharp and solid flavor.

Please be reminded that this section is intended to explain the business operations of JT to investors, but not to promote sales of tobacco products or encourage smoking by consumers.
International Tobacco Business

FY3/2011 Business Performance Summary

Total shipment volume* 428.4 billion cigarettes  Down 1.5%
GFB shipment volume 249.8 billion cigarettes  Up 2.7%
Core net sales excluding excise taxes** $10,223 million  Up 5.6%
EBITDA $3,282 million  Up 10.7%

<At Constant Rates of Exchange>***
Core net sales excluding excise taxes** $10,144 million  Up 4.8%
EBITDA $3,194 million  Up 7.7%

Core net sales increased by 5.6% driven by:
- Robust pricing
- Market share gains in key markets owing to our continued investment in our brands and our excellence in trade marketing
- Favorable currency exchange movements

Strong EBITDA growth of 10.7%, or 7.7% at constant rates of exchange driven by:
- Continued price/mix improvements, more than compensating for the impact of shipment volume decline due to industry contraction as well as for increasing leaf costs and additional investment in brands and global infrastructure
- Favorable currency exchange movements

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International Tobacco Business – Core Net Sales Excluding Taxes* (Millions of US dollars)***

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>2,965</td>
<td>3,024</td>
</tr>
<tr>
<td>Price/product mix</td>
<td>-44</td>
<td>+568</td>
</tr>
<tr>
<td>FY3/2011 at constant rates of exchange****</td>
<td>3,149</td>
<td>3,127</td>
</tr>
<tr>
<td>Forex impact**</td>
<td>-223</td>
<td>+85</td>
</tr>
</tbody>
</table>

International Tobacco Business – EBITDA (Millions of US dollars)***

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>2,965</td>
<td>3,024</td>
</tr>
<tr>
<td>Price/product mix</td>
<td>-44</td>
<td>+568</td>
</tr>
<tr>
<td>Others</td>
<td>-223</td>
<td>+85</td>
</tr>
<tr>
<td>FY3/2011 at constant rates of exchange****</td>
<td>3,149</td>
<td>3,127</td>
</tr>
<tr>
<td>Forex impact**</td>
<td>+85</td>
<td>-223</td>
</tr>
</tbody>
</table>

---

* Core net sales exclude revenue from distribution, contract manufacturing and other peripheral business.
** The forex impact represents the fluctuation between the US dollar and other currencies.
*** The US dollar is the reporting currency for our International Tobacco Business.
**** Applying the previous year currency exchange rates.
Camel is an iconic international brand and originator of the American Blend type of cigarette since 1913. Now sold in more than 100 countries around the world. Camel’s 2010 performance has been strengthened by the successful introduction of Black & White line extension and the new Brand World leading to market share gains in most key markets.

First introduced in 1954, Winston has proved its status as JTIL’s key growth driver, becoming in 2007 the 2nd* largest cigarette brand in the world. After almost a decade of strong momentum, Winston further accelerated its sales volume growth in the Middle East, Western Europe & CIS in 2010. Winston’s performance has been strengthened by Super Slims brand extensions and ongoing product innovation.

* Source: Euromonitor

Originating in Japan and launched in 1977, Mild Seven is the top-selling premium charcoal brand. Its key markets outside Japan are Taiwan, Korea, Russia and Malaysia.

Originally created for the Prince of Wales in 1873, Benson & Hedges has a proud British heritage. Today, JTIL owns the Benson & Hedges trademark in EU markets (excl. Baltics) where it is a leading Virginia premium brand. Benson & Hedges is continuously evolving its portfolio and brand extensions to adapt to its consumers’ lifestyles.

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. Since 2009 a new generation Sobranie range has been rolling out across CIS markets.

Glamour is JTIL’s leading Super Slims brand. Since its introduction in 2005, Glamour has achieved remarkable growth consolidating its No. 1 position as a Super Slims brand in several CIS markets. Glamour is constantly expanding its geographical presence and evolving portfolio in the growing Super Slims segment.

Japan Tobacco International (JTIL), JT Group’s international tobacco business, continues to be the profit growth engine of the JT Group, mainly thanks to its brands, its people and its diversified geographic profile. Our continued investment in our business and innovation meant that share of market grew in most key markets, despite ongoing economic difficulties and a challenging operating environment.

While the economic recovery is still fragile and pressure is mounting on the regulatory front, we believe that, based on our quality top-line growth and strong brand portfolio, we will continue delivering strong results in the future.

Pierre de Labouchere
President & CEO, Japan Tobacco International
Operating Performance

- JTI gained share in key markets as a result of our strength in all price segments, as well as our excellence in trade marketing.
- GFB shipment volumes grew 2.7% to 249.8 billion cigarettes building on our strong brand equity, which we are constantly strengthening and which will continue to drive our performance in the future.
- Total shipment volumes decreased by 1.5% to 428.4 billion cigarettes due to global industry contraction caused by economic difficulties and excise tax increases.

GFB PORTFOLIO MOMENTUM

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>Year-on-year change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>243.4</td>
<td>249.8</td>
<td>+2.7%</td>
</tr>
<tr>
<td><strong>Unit:</strong> billion cigarettes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium and above brands</td>
<td>1.1</td>
<td>1.1</td>
<td>+1.4%</td>
</tr>
<tr>
<td>Sub-premium</td>
<td>3.3</td>
<td>3.3</td>
<td>+2.5%</td>
</tr>
<tr>
<td>Mid/Value</td>
<td>2.1</td>
<td>2.1</td>
<td>+6.1%</td>
</tr>
</tbody>
</table>

**Share in key markets**

<table>
<thead>
<tr>
<th>Market</th>
<th>2009</th>
<th>2010</th>
<th>Ppt. change</th>
</tr>
</thead>
<tbody>
<tr>
<td>RUSSIA</td>
<td>36.7%</td>
<td>36.9%</td>
<td>+0.2%</td>
</tr>
<tr>
<td>FRANCE</td>
<td>14.8%</td>
<td>16.0%</td>
<td>+1.2%</td>
</tr>
<tr>
<td>ITALY</td>
<td>18.5%</td>
<td>19.7%</td>
<td>+1.2%</td>
</tr>
<tr>
<td>SPAIN</td>
<td>20.6%</td>
<td>20.8%</td>
<td>+0.2%</td>
</tr>
<tr>
<td>UK</td>
<td>39.2%</td>
<td>39.0%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>TURKEY</td>
<td>19.0%</td>
<td>22.6%</td>
<td>+3.6%</td>
</tr>
<tr>
<td>TAIWAN</td>
<td>38.0%</td>
<td>38.4%</td>
<td>+0.4%</td>
</tr>
</tbody>
</table>

* Twelve months moving average
** Market shares do not include Roll-Your-Own/Make-Your-Own.
Data source: AC Nielsen, Logista and Altadis

GFB shipment volumes grew 2.7% versus 2009, representing 58.3% of our total shipment volume

- Winston drove GFB growth, performing strongly in the Middle East and Italy, while LD performed strongly in Poland, Turkey and Hungary.
- Our volume in the premium and above segments grew 1.4%, or 1.1 billion cigarettes, driven by markets such as Korea, Turkey, France and Czech Republic.

REGIONAL BREAKDOWN
Strategies and Specific Measures

Quality top-line growth is JTI’s overriding priority. JTI remains committed to deploying its key strategies under the guiding principle of continuous improvement.

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

2011 Outlook: keep growing the top-line and continue to be JT Group’s profit growth engine.

In 2010, pricing remained robust despite the recession and drove our performance, as we achieved 7.7% EBITDA growth at constant rates of exchange.

We will remain focused on growing the top-line, through continued investment in our business. Looking into 2011, we are cautiously optimistic. Despite the lingering economic uncertainty, we are confident that with our strong brand portfolio and our focused strategy of growing the top-line, we will continue to deliver strong results.

EBITDA AND EBITDA MARGIN, 2000–2010

(Millions of US dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA</th>
<th>EBITDA Margin (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>338</td>
<td>10%</td>
</tr>
<tr>
<td>2001</td>
<td>400</td>
<td>10%</td>
</tr>
<tr>
<td>2002</td>
<td>441</td>
<td>10%</td>
</tr>
<tr>
<td>2003</td>
<td>451</td>
<td>10%</td>
</tr>
<tr>
<td>2004</td>
<td>712</td>
<td>10%</td>
</tr>
<tr>
<td>2005</td>
<td>925</td>
<td>10%</td>
</tr>
<tr>
<td>2006</td>
<td>1,090</td>
<td>10%</td>
</tr>
<tr>
<td>2007</td>
<td>2,452</td>
<td>32%</td>
</tr>
<tr>
<td>2008</td>
<td>3,452</td>
<td>32%</td>
</tr>
<tr>
<td>2009</td>
<td>2,965</td>
<td>32%</td>
</tr>
<tr>
<td>2010</td>
<td>3,282</td>
<td>32%</td>
</tr>
</tbody>
</table>

* As of 2009, EBITDA margin based on the revenue which excludes distribution, contract manufacturing and other peripheral business.
### Russian Market

Russia is JTI’s largest market, where we lead both in terms of share of market and share of value.
- In 2010, JTI strengthened its market share leadership and grew share of value.
- Over the last 18 months, JTI has led industry pricing to fully recover excise tax increases and cost inflation. After a 3.6% decline in 2009 due to the economic crisis, overall market contraction stabilized in the second half of 2010, slowing to 2.7% decline in year 2010.

We steadily increased our GFB market share, despite a competitive environment that continues to be challenging.
- We will continue to focus on GFB brand equity building and portfolio optimization through new launches and innovations.

### Turkish Market

Turkey, the largest market in the Rest-of-the-World cluster, is also the 2nd largest market by shipment volume for JTI. We continued to be the fastest growing manufacturer in this market.
- Winston remained both the largest and fastest-growing brand in the market.
- In the competitive popular and value segments, JTI maintained its position, capturing down-trading consumers.

GFB enjoyed strong volume and share growth thanks to their increasing consumer appeal and growing brand equity, despite rising competitive pressure.
- Continuing to invest in our brand equity with a focus on Winston and Camel.
- Strengthening our portfolio to enhance its relevance to consumers.
To continue strengthening our brand equity and further enhance the growth momentum of our GFB, JTI’s strategy places significant emphasis on investment behind brands, including innovations. These innovations take several forms:

**LINE EXTENSIONS TO WIDEN THE SCOPE OF EXISTING BRANDS:**

- Camel Black & White, successfully introduced in France and now available in 11 markets worldwide, represents a modern interpretation of the Camel brand. It was built as a flexible proposition that can adapt to local market needs through different formats, to address relevant consumer trends.

- Camel Essential was extended into Roll-Your-Own with a unique pack.

- Winston’s launch of XS King Size Super Slims in the CIS markets became the year’s biggest innovation story. Sales in excess of 3 billion units in 2010 propelled XS to regional number 2 position in the King Size Super Slims segment and strengthened Winston’s leadership in Russia.

- LD Club was successfully launched in Russia and Ukraine in 2010 as the first compact format cigarette in the Value segment. LD Club offers a cosmopolitan premium style, up-to-date and convenient format at an accessible price and contributes to the LD image as a modern and international brand. In Russia, LD Club has become number 3 position in the King Size Super Slims segment after Winston XS.


- Benson & Hedges Slide, representing the modern, progressive style of the B&H brand, has been launched in 10 markets across Europe, achieving strong growth in Central Europe in 2010. The Slide range, in tune with a new and socially interactive style that takes its cues from the design codes of technological innovation, provides a new target audience with a relevant proposition from Benson & Hedges.

- Amber Leaf new mini pouch CPB (Crush Proof Box) – a 12.5g pouch with papers offered together in a cigarette pack format, addresses the key consumer needs of increased convenience and freshness.

**TECHNOLOGY TO TAKE ADVANTAGE OF OUR ENGINEERING KNOW-HOW:**

- LSS (Less Smoke Smell) line extension is Mild Seven’s strategic innovation anchor and its success helped Mild Seven retain its status as the fastest growing international brand in the Korean market.

- WRC (Wrapped Re-functional Charcoal) filter is the newly invented technology to compete in the emerging premium menthol segment, especially in Asia. WRC technology delivers perfect balance between refreshing menthol and smooth tobacco taste.
Pharmaceutical Business

FY3/2011 Business Performance Summary

Net sales in FY3/2011 grew driven by the strong performance of Torii Pharmaceutical Co., Ltd. and from milestone revenue of out-licensed compounds while profits declined due to an up-front payment by Torii Pharmaceutical in respect of a license agreement, among others.

Torii Pharmaceutical Co., Ltd. posted a rise in net sales and a decline in profits.

- Sales of REMITCH CAPSULES, an anti-pruritus drug for hemodialysis patients, and sales of anti-HIV drug Truvada grew.
- An up-front fee following the signing of an agreement with ALK-Abelló A/S of Denmark on the exclusive right to develop and sell in Japan house dust mite allergy immunotherapy products to treat and diagnose asthma and allergic rhinitis.

R&D Status

Increased and advance compounds in late phase of clinical trials and enhance R&D pipeline toward the final year of JT-11.

JTS-653 a drug for pain and overactive bladder and JTT-751 for treatment of hyperphosphatemia advanced to Phase 2 and Phase 3, respectively, in Japan as well as Type 2 diabetes mellitus drug JTT-851 advanced to the clinical development stage in Japan.
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

**Strategies and Specific Measures**

**Enhance clinic development capabilities, particularly for compounds in late-stage clinical trials**
- To strengthen the capability for clinical development in order to keep up with the progress in clinical development

**Further Strengthen R&D pipeline**
- To continue concentrating R&D resources on the following four areas: glucose and lipid metabolism; virus research; immune disorders and inflammation; and bone metabolism

**Enhance licensing activities and strengthen relationships with partners**
- To continue exploring opportunities for out-licensing
- To engage in in-licensing activity with emphasis on early market launch

**Further develop Torii Pharmaceutical’s expertise in its areas of strength**
- Developing expertise in the field of HIV, renal disease and hemodialysis, among others
- Acquisition of new products for marketing and development
- Expand R&D in the allergen area (cedar pollen allergies)

**CLINICAL DEVELOPMENT (AS OF MAY 12, 2011)**

<table>
<thead>
<tr>
<th>Code</th>
<th>Key indication</th>
<th>Stage</th>
<th>Rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>JTT-705 (oral)</td>
<td>Dyslipidemia</td>
<td>Phase 2 (Japan)</td>
<td>Roche (Switzerland) obtained the rights to develop and commercialize the compound worldwide, with the exception of Japan. (Development stage by Roche: Phase 3)</td>
</tr>
<tr>
<td>JTT-130 (oral)</td>
<td>Dyslipidemia</td>
<td>Phase 2 (Japan)</td>
<td>Gilead Sciences (US) obtained the rights to develop and commercialize this compound worldwide, with the exception of Japan. (Development stage by Gilead Sciences: Phase 3)</td>
</tr>
<tr>
<td>JTK-303 (oral)</td>
<td>HIV infection</td>
<td>Phase 1 (Japan)</td>
<td>Merck (US) obtained the rights to develop and commercialize this compound worldwide, with the exception of Japan.</td>
</tr>
<tr>
<td>JTT-302 (oral)</td>
<td>Dyslipidemia</td>
<td>Phase 2 (Overseas)</td>
<td></td>
</tr>
<tr>
<td>JTT-305 (oral)</td>
<td>Osteoporosis</td>
<td>Phase 2 (Japan)</td>
<td></td>
</tr>
<tr>
<td>JTS-653 (oral)</td>
<td>Pain Overactive bladder</td>
<td>Phase 2 (Japan)</td>
<td></td>
</tr>
<tr>
<td>JTK-656 (oral)</td>
<td>HIV infection</td>
<td>Phase 1 (Overseas)</td>
<td></td>
</tr>
<tr>
<td>JTT-751 (oral)</td>
<td>Hyperphosphatemia</td>
<td>Phase 3 (Japan)</td>
<td>JT obtained the rights to develop and commercialize this compound in Japan from Keryx Biopharmaceuticals (US). (Developed jointly with Torii)</td>
</tr>
<tr>
<td>JTK-853 (oral)</td>
<td>Hepatitis C</td>
<td>Phase 1 (Overseas)</td>
<td></td>
</tr>
<tr>
<td>JTT-851 (oral)</td>
<td>Type 2 diabetes mellitus</td>
<td>Phase 1 (Japan)</td>
<td></td>
</tr>
</tbody>
</table>

**OUT-LICENSING DEALS**

<table>
<thead>
<tr>
<th>FY</th>
<th>Code</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/2005</td>
<td>JTT-705 (anti-dyslipidemia drug)</td>
<td>Roche (Switzerland)</td>
</tr>
<tr>
<td>3/2005</td>
<td>JTK-303 (anti-HIV drug)</td>
<td>Gilead Sciences (US)</td>
</tr>
<tr>
<td>3/2007</td>
<td>Pre-clinical trial stage new compound</td>
<td>GlaxoSmithKline (UK)</td>
</tr>
<tr>
<td>3/2007</td>
<td>Pre-clinical trial stage anti-body drug candidate</td>
<td>MedImmune (US)</td>
</tr>
<tr>
<td>3/2009</td>
<td>JTT-305 (anti-osteoporosis drug)</td>
<td>Merck (US)</td>
</tr>
</tbody>
</table>

**IN-LICENSING DEALS**

<table>
<thead>
<tr>
<th>FY</th>
<th>Code</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/2004</td>
<td>Three anti-HIV drugs</td>
<td>Gilead Sciences (US)</td>
</tr>
<tr>
<td>3/2008</td>
<td>JTT-751 (anti-hyperphosphatemia drug)</td>
<td>Keryx Biopharmaceuticals (US)</td>
</tr>
</tbody>
</table>
Factors behind the net sales decline

- Net sales for the overall food business declined.
- Net sales for the beverage business increased due to the favorable effects of the summer heat waves and the robust sales of the Roots brand.
- Net sales for the processed food business declined due to the closure of the rice wholesale business and the exclusion of some subsidiaries from the consolidated results as well as a decline in sales of products for restaurants.

Factors behind the EBITDA growth

- EBITDA for the overall food business increased.
- EBITDA for the beverages business increased due to the favorable effect from the summer heat waves and the robust sales of the Roots brand.
- EBITDA for the processed foods business grew due to the absence of the one-time factor in the fishery product business in the previous year.
- One-time factor: Recording of loss provisions related to delays in the collection of some accounts receivable and valuation losses due to a steep drop in the market prices of some products.

Factors behind the operating income growth

- The operating income growth was led by the increased EBITDA.
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.

Strategies and Specific Measures

In the food business, we are devoting our efforts to the three business areas of beverages, processed foods and seasonings, implementing measures to establish the highest standard of food safety management and striving to further strengthen our business foundation for future growth.

BEVERAGES BUSINESS

• To strengthen the Roots flagship brand, which is acclaimed for its authentic coffee taste created by JT’s original technology, so as to enhance brand equity.
• To enhance our sales networks led by Japan Beverage Inc., a JT subsidiary responsible for operating vending machines, and to strive to provide conscientious services.
• To strengthen the profit base by pursuing efficiency in all business operations.

PROCESSED FOODS BUSINESS, ETC.

• To expand the business volume and strengthen profitability by strategic concentration in staple food products (frozen noodles, frozen and packed cooked rice and frozen bread) and yeast products in seasonings, for which we can make maximal use of acquired technology and product development power in the TableMark group.
• To establish a strong business foundation by continuing efforts to strengthen the value chain in the whole business process, from procurement, to manufacturing, and production of sales.
• To strengthen cost competitiveness by further pursuing efficiency in all business operations.

FOOD SAFETY CONTROL

I. Actions for reducing risks

• Promoting the acquisition of ISO 22000 certification for food safety management systems as well as efforts to ensure food defense against external purposeful attack.

II. Improving consumer response

• Collecting customer feedback on a 365-days-a-year basis and responding to the feedback quickly and appropriately by using JT’s own food safety management system to strengthen cooperation between relevant business divisions.

III. Strengthening the institutional capability

• Promoting a group-wide food safety initiative by establishing a food safety management section at each of the beverages, processed foods and seasonings businesses as the entity responsible for overseeing food safety and analyzing raw materials and products of the beverages business at TableMark’s Tokyo Quality Control Center.
• Actively incorporating diverse knowledge and viewpoints into food safety control by seeking assessment and advice from outside experts appointed as food safety advisers, and reflecting these in business activities.
History of the JT Group

Before 1985

JT is a joint stock corporation that was incorporated in April 1985 under the Commercial Code of Japan, pursuant to the Japan Tobacco Inc. Law, or the JT Law.

JT’s history in Japan dates back to 1898, when the government formed a monopoly bureau to operate the exclusive sale of domestic tobacco leaf.

The JT Group’s overseas history began with the founding of Austria Tabak in 1784. Roughly 70 years later, Tom Gallaher started out in business in Northern Ireland, laying the foundations for Gallaher Group. Meanwhile, R.J Reynolds Tobacco Co. (RJR), which would subsequently create the Camel and Winston brands, was established in 1874 in the US.

In this manner, the current JT Group can trace its origins to many different countries and regions such as Austria, Northern Ireland, the US and Japan. The JT Group has a long history and extensive experience in the tobacco business.

Before 1985

1784
- Austria Tabak is founded by Emperor Joseph II.

1784
- The Moscow-based Ducat factory is founded.

1857
- Tom Gallaher sets up his business (Londonderry, Northern Ireland).

1857
- HOPE (10) is launched as Japan’s first domestically produced filter cigarettes.

1891
- The Monopoly Bureau becomes the Japan Tobacco and Salt Public Corporation.

1891
- The Japanese Monopoly Bureau is established for the sale of domestic leaf tobacco.

1898
- Mild Seven is launched (Japan).

1898
- Mild Seven is launched internationally.

1949
- The Monopoly Bureau becomes the Japan Tobacco and Salt Public Corporation.

1949
- Winston is launched.

1954
- Winston is launched.

1957
- HOPE (10) is launched as Japan’s first domestically produced filter cigarettes.

1957
- Silk Cut is launched.

1981
- Mild Seven is launched internationally.
The growth in demand for cigarettes in Japan began to slow in the mid-1970s as a result of demographic trends and growing concern about health risks associated with smoking. This trend continued, such that growth in industry sales essentially stopped. In addition to the structural change, the domestic tobacco market opened up substantially to foreign suppliers, triggering competition between domestic and foreign tobacco products in Japan. Foreign countries stepped up pressure on Japan to take further measures to open the market that were difficult to implement within the framework of the monopoly tobacco sales system. Amid such pressure as well as moves toward the reform of government-run public corporations, a government panel was established in March 1981 to conduct research on the public corporation system. In its third report (July 30, 1982), the panel proposed drastic reform of the monopoly and public corporation systems. In response to this proposal, the government conducted a comprehensive review of these systems and drafted bills to:

- Abolish the tobacco monopoly law to liberalize tobacco imports and establish a tobacco business law to make necessary adjustments related to the tobacco business.
- Abolish the JTS law, reorganize JTS as a joint stock corporation so as to enable it to pursue rational corporate management as much as possible and establish the Japan Tobacco Inc. Law, which provides for a necessary minimum level of regulation in light of the corporation’s need to compete with foreign tobacco companies on an equal footing in the domestic market following the liberalization of tobacco imports.

These bills were enacted on August 3, 1984 in the 101st session of the Diet and promulgated on August 10 of the same year. In April 1985, JT was founded as an entity that took over the whole of the business operations and assets of JTS.
In and After 1985

The corporate history of JT is summarized in the table below. As for the international tobacco business, the history before JT’s acquisitions of RJR Nabisco’s non-US tobacco operations and Gallaher is included.

The operating environment for JT changed drastically in just two years after the foundation of the company, with the yen’s strong appreciation following the Plaza Accord in 1985, a tobacco tax hike in 1986 and the abolition of tariffs on imported cigarettes in 1987. Amid the yen’s upsurge, a price increase for JT products due to the tobacco tax hike coupled with price cuts for imported cigarettes attributable to the tariff abolition eliminated the price advantage of JT products over imported products, which had stood at around ¥60 to ¥80 when JT was founded in 1985. As a result, competition between JT and foreign tobacco makers intensified in the Japanese market, leading to a decline in JT’s market share from 97.6% in fiscal 1985 to 90.2% in fiscal 1987. To cope with the rapid deterioration of the operating environment, JT implemented rationalization measures to enhance its cost-competitiveness and pursued diversification while taking measures to strengthen its marketing capability. In the 1990s, JT’s competition with foreign rivals in the Japanese
market intensified further. Furthermore, overall cigarette demand in Japan peaked out in the latter half of the 1990s due to a contraction of the adult population and growing concerns with health problems associated with smoking. Amid the increasingly difficult operating environment for the domestic tobacco business, JT took additional rationalization steps, pursued consolidation of operations in its areas of business diversification and expanded the international tobacco business, thereby strengthening its business foundation. JT significantly strengthened the international tobacco business by acquiring RJR Nabisco's non-US tobacco operations in 1999 and Gallaher in 2007. With its international sales volume exceeding its domestic sales volume, the JT Group continues to grow as a global tobacco company. The international tobacco business is the engine of the JT Group’s profit growth through its comprehensive brand portfolio which includes Winston, Camel and Mild Seven as well as Benson & Hedges, Silk Cut, LD, Sobranie and Glamour.

1992
- Acquisition of Manchester Tobacco Company Ltd.
- Acquisition of AS-Petro (Russia).

1993
- September
  - The Central Pharmaceutical Research Institute is established to enhance in-house research capabilities.

1994
- October
  - Government releases first tranche of outstanding JT shares for initial public offering (394,276 shares offered at 1,438,000 yen apiece).
  - JT stock is listed on the first sections of stock exchanges in Tokyo, Osaka and Nagoya.
  - JT stock is listed on stock exchanges in Kyoto, Hiroshima, Fukuoka, Niigata and Sapporo.

1998
- April
  - JT signs an agreement with Unimat Corporation (currently, Japan Beverage Inc.) on a tie-up regarding beverage business.
  - JT later acquires a majority stake in Unimat.
- December
  - JT acquires a majority stake in Toni Pharmaceutical Co., Ltd. through a tender offer.

1999
- May
  - JT acquires the non-U.S. tobacco business of RJR Nabisco Inc.
- July
  - JT acquires the food business of Asahi Kasei Corporation, including Asahi Foods and seven other subsidiaries.
- October
  - Under a business tie-up between JT and Torii Pharmaceutical Co., Ltd., the two companies’ R&D operations related to medical pharmaceuticals are concentrated at JT, while their promotion operations are combined at Torii Pharmaceutical.
  - LD launched (Russia).

2004
- June
  - Government releases third tranche of outstanding JT shares (289,334 shares offered at 843,000 yen a piece), reducing its stake in JT to the minimum level allowed under law.
- November–March 2005
  - JT repurchases 38,184 of its own shares to increase its management options.

2005
- April
  - JT terminates a licensing contract under which it had exclusive rights to produce and sell Marlboro brand products in Japan and use the Marlboro trademark in the country.
- June
  - Acquisition of CRES Neva Ltd. (Russia).
  - Glamour is launched (Russia, Ukraine, Kazakhstan).

2009
- May
  - JT celebrates its 10th anniversary.
- June
  - JT Leaf Services (US) LLC is established.
- October
  - Acquisition of leaf suppliers Kannenberg & Cia. Ltda. (Brazil) and Kannnenberg, Barker, Hal & Cotton Tabacos Ltda. (Brazil).
- November
  - Acquisition of leaf suppliers Tribac Leaf Limited (UK).

2010
- January
  - Katokichi Co., Ltd. is renamed TableMark Co., Ltd.
- May
  - Smokeless tobacco product Zerostyle Mint is launched.

Note: ● Main topics of the JT Group.
- Main topics of RJR Nabisco’s non-US operations before participating in the JT Group.
- Main topics of Gallaher before participating in the JT Group.