Operation & Contribution

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Note: Financial data disclosed are rounded.
At a Glance

JT Group
The performance of the JT Group has exceeded our expectations in FY3/2012, successfully closing our JT-11 management plan.

In our new management plan, the tobacco business will remain the core profit generator and the profit growth engine of the JT Group. As such, it aims to grow adjusted EBITDA at mid- to high single-digit rate per annum over the mid- to long-term. We expect the Japanese domestic tobacco business to be a highly competitive platform of profitability and the international tobacco business to continue to be the profit growth engine. The pharmaceutical business will strive to strengthen its earnings base through speedy and smooth market launch of compounds in late-stage development. The food business will make constant improvement efforts and seek to strengthen profit-generating capabilities in beverages, processed food, and seasonings.

Regarding mid- to long-term resource allocation, based on our management principles, we will place top priority on business investments that will lead to sustainable profit growth. Therefore, we will prioritize investments in the tobacco business to further enhance competitiveness. As for the pharmaceutical and food businesses, investments will be focused on business fundamentals to further strengthen their profit contribution to the Group.

Revenue Breakdown by Business Segment (FY3/2012) under IFRS

<table>
<thead>
<tr>
<th>Business Segment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japanese Domestic Tobacco Business</td>
<td>31.8%</td>
</tr>
<tr>
<td>International Tobacco Business</td>
<td>47.5%</td>
</tr>
<tr>
<td>Pharmaceutical Business</td>
<td>2.3%</td>
</tr>
<tr>
<td>Food Business</td>
<td>17.7%</td>
</tr>
<tr>
<td>Others</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Japanese Domestic Tobacco Business

We expect the Japanese domestic tobacco business to be a highly competitive platform of profitability.

![Japanese Domestic Tobacco Business Chart](image)

Sales Volume (Fiscal years ended March 31)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales Volume (Billions of cigarettes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>167.9</td>
</tr>
<tr>
<td>2009</td>
<td>158.9</td>
</tr>
<tr>
<td>2010</td>
<td>151.9</td>
</tr>
<tr>
<td>2011</td>
<td>134.6</td>
</tr>
<tr>
<td>2012</td>
<td>198.4</td>
</tr>
</tbody>
</table>

Note:
- 2008: Excluding revenue from the imported tobacco.
- 2009–2012: Excluding revenue from the imported tobacco, domestic duty free, the China Division, and other miscellaneous.
- Figures for fiscal year ended March 2012 reported under IFRS excludes revenue from distribution of imported tobacco in the Japanese domestic tobacco business.

Net Sales Excluding Excise Tax/Core Revenue (Fiscal years ended March 31)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales Excluding Excise Tax/Core Revenue (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>715.0</td>
</tr>
<tr>
<td>2009</td>
<td>648.8</td>
</tr>
<tr>
<td>2010</td>
<td>616.0</td>
</tr>
<tr>
<td>2011</td>
<td>679.8</td>
</tr>
<tr>
<td>2012</td>
<td>596.8</td>
</tr>
</tbody>
</table>

Note:
- 2008: Excluding revenue from the imported tobacco.
- 2009–2012: Excluding revenue from the imported tobacco, domestic duty free, the China Division, and other miscellaneous.

EBITDA/Adjusted EBITDA (Fiscal years ended March 31)

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA/Adjusted EBITDA (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>306.7</td>
</tr>
<tr>
<td>2009</td>
<td>272.3</td>
</tr>
<tr>
<td>2010</td>
<td>251.3</td>
</tr>
<tr>
<td>2011</td>
<td>267.2</td>
</tr>
<tr>
<td>2012</td>
<td>262.3</td>
</tr>
</tbody>
</table>

Note:
- 2010–2012: Before royalty acceptance, we have changed the allocation method of the overhead expenses from 2010.
- Adjusted EBITDA = operating profit + depreciation + amortization of intangible fixed assets + impairment losses on goodwill + restructuring-related income and costs.
International Tobacco Business

The consolidated financial results for the fiscal year ended March 2012 include the international tobacco business results for the period from January 1 to December 31, 2011. Generating more than 50% of the Group profit, we expect the international tobacco business to continue to be the profit growth engine.

<table>
<thead>
<tr>
<th>Fiscal years ended March 31</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Shipment Volumes</td>
<td>386.6</td>
<td>446.9</td>
<td>434.9</td>
<td>428.4</td>
<td>425.7</td>
</tr>
<tr>
<td>GFB Shipment Volumes</td>
<td>208.2</td>
<td>245.5</td>
<td>243.4</td>
<td>249.8</td>
<td>256.5</td>
</tr>
</tbody>
</table>

Note: 2009–2012: Including cigars, pipe tobacco and snus but excludes contract manufactured products.

Pharmaceutical Business

We will strive to establish profitability through rapid and efficient market launch of compounds in late phases of clinical trials.

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<tr>
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<th>2010</th>
<th>2011</th>
<th>2012</th>
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</thead>
<tbody>
<tr>
<td>Net Sales/Revenue (Billion of yen)</td>
<td>48.1</td>
<td>56.8</td>
<td>44.1</td>
<td>47.8</td>
<td>47.4</td>
</tr>
<tr>
<td>EBITDA/Adjusted EBITDA (Billion of yen)</td>
<td>6.4</td>
<td>4.9</td>
<td>-6.3</td>
<td>-9.7</td>
<td>-13.3</td>
</tr>
</tbody>
</table>

Food Business

The beverage business will strive to enhance brand equity, with a focus on “Roots”, and strengthen trade marketing capabilities. The processed food business will aim to achieve operating profit margin on par with, or above, industry average over the medium term.
Review of Operations

Japanese Domestic Tobacco Business

FY3/2012 Business Performance Summary

<table>
<thead>
<tr>
<th>Category</th>
<th>FY3/2012</th>
<th>Percentage Change</th>
</tr>
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<tbody>
<tr>
<td>Sales Volume</td>
<td>108.4 billion cigarettes</td>
<td>Down 19.5%</td>
</tr>
<tr>
<td>Core Revenue¹</td>
<td>¥611.9 billion</td>
<td>Down 3.2%</td>
</tr>
<tr>
<td>Adjusted EBITDA²</td>
<td>¥262.3 billion</td>
<td>Up 6.1%</td>
</tr>
</tbody>
</table>

¹ Excluding revenue from distribution of imported tobacco in the Japanese domestic tobacco business.
² Adjusted EBITDA = Operating profit + depreciation and amortization + impairment losses on goodwill ± restructuring-related income and costs

Core revenue¹

• Revenue declined as the pricing effect was not sufficient to compensate for the volume decline.

Adjusted EBITDA²

• Adjusted EBITDA increased as the pricing effect and others more than compensated for the effect of the volume decline.

The role of the Japanese domestic tobacco business is to be a highly competitive platform of profitability.

It has overcome challenges in the Japanese domestic market, such as the steep tax hike of October 2010 and the Great East Japan Earthquake of 2011. We have confirmed the future profit potential of this business as it has attained profit growth despite a sharp sales volume decline.

We aim to enhance brand equity and win increased consumer favor by active and effective launches of new products with a focus on our key brands, coupled with sales promotion and other activities.

In addition, we will strive for quality top-line growth by continuing efforts to regain market share.

Akira Saeki
President, Tobacco Business

1 Excluding revenue from distribution of imported tobacco in the Japanese domestic tobacco business.
2 Adjusted EBITDA = Operating profit + depreciation and amortization + impairment losses on goodwill ± restructuring-related income and costs
Market share reached 60% for the single month of March, steadily recovering from the earthquake impact

- Market share temporarily declined due to the brief suspension of supply of products after the Great East Japan Earthquake and the subsequent shipment limits on the range of brands and the volume of products that remained in place until July 2011.
- Since the supply of all brands resumed in July 2011 and the shipment volume limits for all brands were removed in August, we have steadily regained market share by active and effective launches of new products with a focus on our key brands, coupled with sales promotion and other activities.
- In March 2012, we achieved the market share target of 60% on a monthly basis.

Introducing new products, mainly of key brands, in an aggressive and effective manner

Features of Key Brands

**Mild Seven Family**
- The Mild Seven family has won numerous loyal consumers since its launch in June 1977.
- As Japan’s major cigarette brand, Mild Seven has consistently commanded the No. 1 share in the Japanese market for more than 30 years since 1978.
- Today, the Mild Seven family encompasses 24 products (as of May 31, 2012), reflecting the evolution that it has undergone in step with the changing times and brand expansion.

**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 9 products (as of May 31, 2012) centered on Seven Stars, which recorded the top performance by brand in the fiscal year ended March 2012. The Seven Stars family continues to capture a growing share of the market.

**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\(^2\).
- Pianissimo, an FSK (Filter Super King) slim menthol product, has continued to achieve growth after undergoing the first brand integration on the Japanese tobacco market in the fiscal year ended March 2010.
- The Pianissimo family, a core JT tobacco franchise, features a diverse lineup of 8 products (as of May 31, 2012), centered on Pianissimo Aria Menthol, the No. 1 1mg menthol product.

1. Source: TIOJ
2. Less smoke is released from the tip of the cigarette based on a visual comparison with conventional JT cigarette products.

New Products Launched in FY3/2012

<table>
<thead>
<tr>
<th>Month</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2011</td>
<td>Seven Stars Cutting Menthol</td>
</tr>
<tr>
<td>November 2011</td>
<td>Pianissimo ViV Menthol</td>
</tr>
<tr>
<td>December 2011</td>
<td>Zerostyle Bitter Leaf</td>
</tr>
<tr>
<td>January 2012</td>
<td>Mild Seven Style Plus 6</td>
</tr>
<tr>
<td>January 2012</td>
<td>Mild Seven Style Plus One</td>
</tr>
<tr>
<td>February 2012</td>
<td>The Peace</td>
</tr>
<tr>
<td>March 2012</td>
<td>Mild Seven Impact Menthol Box</td>
</tr>
</tbody>
</table>
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 consumer 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.

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

**Strengthen Business Sustainability and Optimize Our Supply Chain**
Based on the lessons learned from the Great East Japan Earthquake, we will strive to improve the sustainability of our business and at the same time strengthen our competitiveness.

**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 Platform of Productivity**
We will ensure that the Japanese domestic tobacco business remains a highly competitive platform of profitability by overcoming challenges in the Japanese domestic market, such as the continuing decline in total tobacco demand and intensifying competition.
Topics: Launching new products and expansion initiatives with focus on key brands

Mild Seven

- The first slim-sized products in the Mild Seven family.
- They maintain the Mild Seven tradition of smooth cigarettes with a clean finish, while also giving consumers a rich taste by using an originally developed tobacco blend.
- The cigarette paper rolled around the cut tobacco is treated with proprietary JT processes designed to reduce the visible smoke emitted from the end of the cigarette, and JT’s original D-spec technology reduces unpleasant cigarette smells.

Expansion Initiatives
- Special package for a limited period of time as active and effective promotions.
  (Started to sell a limited volume in late April, 2012)

Seven Stars

- The first super slim product from the Seven Stars family. Because it is a super slim product, the Seven Stars Cutting Menthol package is extremely thin and portable even though it fits 20 cigarettes.
- Equipped with the “flavor thread filter”, this super slim product offers a rich and sharp menthol flavor that leaves a sharp sensation.
- While the basic color of the new product is silver, in the center we feature a large star, which is the symbol of the Seven Stars brand, highlighting the simple yet original design.
- A star-themed design is also featured prominently in the tipping paper that covers the filter and tobacco.

Expansion Initiatives
- Special package for a limited period of time as active and effective promotions.
  (Starting to sell a limited volume in the middle of August, 2012)

Pianissimo

- Pianissimo ViV Menthol is JT’s first product to feature the “Breath Sparkling Shot” capsule in the filter.
- Before crushing the capsule, the cigarette gives you a fresh menthol taste with mint flavor. After crushing the capsule, you can enjoy a somewhat sweet, strong menthol flavor with a refreshingly clean taste.
- In addition, crushing the “Breath Sparkling Shot” capsule leaves you with a clearer aftertaste.

Expansion Initiatives
- Special package for a limited period of time as active and effective promotions.
  (Started to sell a limited volume in the middle of April, 2012)

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

(Years ended Dec. 31)

FY3/2012 Business Performance Summary

<table>
<thead>
<tr>
<th>Total Shipment Volume¹</th>
<th>425.7 billion cigarettes</th>
<th>Down 0.6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>GFB Shipment Volume</td>
<td>256.5 billion cigarettes</td>
<td>Up 2.6%</td>
</tr>
<tr>
<td>Core Revenue²</td>
<td>$11,211 million</td>
<td>Up 10.9%</td>
</tr>
<tr>
<td>Adjusted EBITDA³</td>
<td>$3,944 million</td>
<td>Up 24.6%</td>
</tr>
</tbody>
</table>

¹ Including cigars, pipe tobacco and snus but excluding contract manufactured products.
² Excluding revenues from distribution, contract manufacturing and other peripheral business.
³ Adjusted EBITDA = Operating profit + depreciation and amortization + impairment losses on goodwill ± restructuring-related income and costs.

Pricing and improved GFB mix drove core revenue growth

- Market share gains in most key markets contributed to resilient total shipment volumes in a declining environment
- Mix improvement continued through strong GFB volume performance, benefiting from solid brand equity across our broad geographic footprint
- Robust pricing in all key markets
- Favorable currency exchange movements

Pierre de Labouchere
President & CEO, Japan Tobacco International

Japan Tobacco International (JTI), JT Group’s international tobacco business, continued to be the profit growth engine of the Group, achieving strong EBITDA growth, despite the ongoing challenging environment. Our consistent investment in our business and brands has allowed us to keep growing share of market in most key markets.

In addition, we broadened our earnings base for the future by expanding our presence in emerging markets with our acquisition of HCTF in Sudan and in Europe through our recently-announced acquisition of Gryson. We also invested in the emerging product category through our partnership with Ploom.

Another challenging year is ahead of us. With dedicated people continuing to focus on top-line growth and broadening the earnings base, we will keep delivering strong results into the future.
Adjusted EBITDA grew 24.6% driven by top-line gains

- Pricing and continued GFB volume mix improvements drove profitability, along with productivity and efficiency gains.
- Cost increases are explained by higher investment in marketing to support brands and future growth, in developing the capabilities of our people, and in manufacturing due to the Low Ignition Propensity (LIP) regulation in Europe.
- Favorable currency movement changes

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**Global Flagship Brands Portfolio**

The eight Global Flagship Brands (GFB) constitute the core of JTI’s brand portfolio and drive quality top-line growth

**Engine**

Winston and Camel are the engine brands driving JTI’s growth.

- First introduced in 1954, Winston has proved its status as JTI’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 growth in 2011, driven by the Core family packaging modernization and the success of the compact formats within the XS innovative range.

- Camel is an iconic international brand and originator of the American blend type of cigarettes since 1913. Now sold in more than 100 countries around the world. Camel’s 2011 performance was strengthened by the roll-out of Camel Black & White and the introduction of Camel Activate line extension, leading to market share gains in most key markets.

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**Stronghold**

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. Its key markets outside Japan are Taiwan, Korea, Russia and Malaysia. Mild Seven benefited from innovative launches, such as Revo, our offering combining our unique Less Smoke Smell technology, a super slim format and a slide pack.

**B&H**

Originally established in 1873, Benson & Hedges has a proud British heritage as a leading premium brand. Today, JTI owns the B&H trademark in EU markets (excl. Baltics) and is continuously evolving its portfolio to adapt to consumers’ lifestyles, successfully launching B&H Slide and B&H London brand extensions across Western and Central Europe.

**LD**

Launched in 1999 as a mid-price proposition in the Russian market. The brand achieved immediate success and is now recognized as a compelling international proposition. Since 2007, LD has grown continuously, expanding its presence to more than 30 countries supported by its constant portfolio expansion in response to consumer aspirations.

**SILK CUT**

Launched in 1964, Silk Cut established its credentials as one of the first low tar brands in the 1970’s, long before it became the norm for other manufacturers. JTI owns the Silk Cut trademark throughout the EU, with the core markets being the UK, Ireland and Greece, where the brand continues to grow share in the premium segment.

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**Future Potential**

Sobranie and Glamour have strong future growth potential.

- 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 rolled out across CIS markets.

- Glamour is JTI’s leading Super Slims brand. Since its introduction in 2005, Glamour has achieved remarkable growth, consolidating its position as a Super Slims brand in several CIS markets. Glamour is constantly expanding its geographical presence and evolving its portfolio in the growing Super Slims segment.
Operating performance

- JTI gained share in most key markets demonstrating the strength of its business fundamentals. This is supported by a well-balanced portfolio to capture up-trading and down-trading trends, as well as innovation and strong trade marketing capabilities.
- Total shipment volume decreased by 0.6% to 425.7 billion cigarettes due to global industry contraction caused by economic difficulties and excise tax-led price increases.
- GFB shipment volumes grew 2.6% to 256.5 billion cigarettes, driven by our strong brand equity, which we are constantly strengthening and which will continue to drive our performance in the future.

GFB shipment volumes continued to grow, representing 60.2% of our total shipment volume

Our key strategies are the following:
- Build and nurture outstanding brands
- Continue to enhance productivity
- Sharpen focus on responsibility and credibility
- Develop human resources as a cornerstone of growth

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

Strategies and specific measures

JTI’s share of market continued to grow across most key markets.

<table>
<thead>
<tr>
<th>Share of Market</th>
<th>Dec. 2011</th>
<th>ppt change vs. last year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>36.9%</td>
<td>0.0</td>
</tr>
<tr>
<td>France</td>
<td>16.4%</td>
<td>+0.4</td>
</tr>
<tr>
<td>Italy</td>
<td>20.7%</td>
<td>+1.0</td>
</tr>
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<td>Taiwan</td>
<td>38.2%</td>
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- Twelve months moving average
- Market shares do not include Roll-Your-Own/Make-Your-Own

Data source: AC Nielsen, Logista and Altadis

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Operating performance

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- Develop human resources as a cornerstone of growth
Cluster Breakdown

South & West Europe (Billions of cigarettes) FY3/2012 Year-on-Year change
Total shipment volume 49.1 +0.3%
GFB shipment volume 23.4 +4.7%
- Solid GFB shipment volume growth and increasing presence in Czech Republic, Germany and Poland.
- Strong pricing drove core revenue and adjusted EBITA growth.
- At constant rates of exchange, core revenue and adjusted EBITA grew 4.2% and 9.4%, respectively.

North & Central Europe (Billions of cigarettes) FY3/2012 Year-on-Year change
Total shipment volume 49.1 +0.3%
GFB shipment volume 23.4 +4.7%
- Eurozone sovereign debt crisis worsened, and Spain experienced its 3rd consecutive year of double-digit industry volume contraction.
- Excluding Spain, total and GFB shipment volumes grew 2.1% and 2.2%, respectively.
- JTI gained market share, notably in Italy, France and Spain.
- Favorable pricing drove core revenue growth, more than offsetting shipment volume decline.
- At constant rates of exchange, core revenue grew at 0.5% while adjusted EBITA declined 1.7%.

CIS+ (Billions of cigarettes) FY3/2012 Year-on-Year change
Total shipment volume 197.8 –2.8%
GFB shipment volume 112.2 +6.5%
- Challenging economic environment in Ukraine and Belarus.
- In Russia, JTI increased share of value leadership position with stable share of market, through strong brand equity.
- Strengthening JTI market share, GFB shipment volume growth and favorable pricing drove core revenue and adjusted EBITA growth.
- At constant rates of exchange, core revenue and adjusted EBITA grew 14.1% and 34.1%, respectively.

Rest-of-the-World (Billions of cigarettes) FY3/2012 Year-on-Year change
Total shipment volume 118.0 +4.7%
GFB shipment volume 67.4 +0.7%
- Includes our recent acquisition in Sudan.
- Strong shipment volume growth in the Middle East and Africa, along with pricing gains in Canada, Korea and Taiwan drove profitability.
- At constant rates of exchange, core revenue and adjusted EBITA grew 8.9% and 53.6%\(^3\), respectively.

FY3/2013 Outlook: keep growing the top-line and broadening the earnings base

In FY3/2012, our strategic focus led us to achieve 24.6% adjusted EBITDA growth at constant rates of exchange, despite the recession. This performance was driven by GFB mix improvements combined with robust pricing.

Looking into FY3/2013, we should expect continued uncertainties. However, we are confident that with our strong brand portfolio, our focused strategy of growing the top-line and our strong track record, we will continue to deliver strong results.


Note: EBITDA margin excludes revenues from distribution, private label, contract manufacturing and other peripheral business since FY3/2010; from FY3/2011 EBITDA and EBITDA margin are based on IFRS disclosure and adjusted EBITDA definition; adjusted EBITDA = Operating profit + depreciation and amortization + impairment losses on goodwill + restructuring-related income and costs.
**JTI’s #1 Brand and the World’s 2nd Best-selling Cigarette**

**2011, Winston’s Rejuvenation Year**
- Focus on consumer driven “true satisfaction”
- All about quality, satisfaction and freedom
- Innovation remains a key passion of the brand since 1954, from the first widely accepted filter cigarette to the slimmest cigarette in the world with XS Micro

**Clearly Articulated Visual and Portfolio Identities**
- Presence in full flavor, low tar and nicotine, and fresh segments
- Complete format coverage from king size to micro slims

**Performance Summary**
- A truly global brand present in 110 markets
- Successful in up-trading and down-trading environments
- The 2nd largest cigarette brand in the world
- A major contributor for JTI
  - #1 JTI brand in 8 markets
  - 283% growth, or an incremental 96.6 billion units since 2000

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**Growing our presence in the Roll-Your-Own (RYO)/Make-Your-Own (MYO) category**

**JTI’s Competitive Advantage: a Strong and Mixed Portfolio**
- JTI’s RYO/MYO proposition is based on stand-alone heritage brands, such as Amber Leaf and Old Holborn, and line extensions from cigarette brands like Winston, Camel, LD and Benson & Hedges
- Innovative product offerings to drive growth
- While global RYO/MYO volumes have grown 15% since 2009, JTI’s RYO/MYO volumes grew 33%

**Enhancing Further Our Presence and Expertise**
- In May 2012, we announced the acquisition of Gryson, a leading European RYO/MYO company
- Bringing on board a strong and diverse portfolio with key brands such as Fleur du Pays, Orlando and Domingo, and a leadership position in France
- Additional geographies with 65 export countries worldwide

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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.
Diversity, a cornerstone of JTI’s DNA

Harnessing the Collective Efforts of Multinational Teams

- JTI today is a much larger organization than when it was established in 1999. Our workforce has grown much more diverse, both organically and as a result of our acquisitions. This diversity makes us stronger; the blend of over 100 nationalities and many cultures defines who we are and our own culture as an organization.
- Our strength is in our ability to leverage the best of the practices and traditions that form our collective organization. We have brought together a portfolio of internationally recognized brands, and combined a diverse workforce to create our culture.
- We are dynamic, creative and full of energy, yet we are precise, thinking about the long-term and quality driven.

Diversity in Numbers (as of Dec. 31, 2011)

- 24,237 employees worldwide
- 106 nationalities represented
- Presence in 70 countries
- 581 international assignees
- 23 factories
- 5 tobacco processing centers
Pharmaceutical Business

**FY3/2012 Business Performance Summary**

- **Revenue**
  - ¥47.4 billion
  - Up ¥3.3 billion

- **Adjusted EBITDA**¹
  - ¥-10.0 billion
  - Down ¥0.3 billion

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Muneaki Fujimoto  
President, Pharmaceutical Business

In the pharmaceutical business, JT will pursue high-value-added business through the creation of world-class innovative drugs by continuing to build world-class, unique R&D capabilities and reinforcing its market presence through innovative drugs. As a mid- to long-term business objective, we will strive to establish profitability through the rapid and efficient market launch of compounds in late phase of clinical trials and R&D concerning next-generation strategic compounds.

In FY3/2012, revenue increased due to sales growth at Torii Pharmaceutical, but adjusted EBITDA declined as a result of an increase in R&D expenses following progress in drug development.

- Torii Pharmaceutical posted growth in both net sales and profits.
- Sales increased for both REMITCH CAPSULES, an anti-pruritus drug for hemodialysis patients, and anti-HIV drug Truvada.

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1 Adjusted EBITDA = Operating profit + depreciation and amortization + impairment losses on goodwill ± restructuring-related income and costs
R&D status in FY3/2012

JTT-851, a drug to treat Type 2 diabetes mellitus, advanced to Phase 2 in Japan, and JTZ-951, a drug to treat renal anemia (under development in Japan and abroad), and JTE-051 (under development abroad) and JTE-052 (under development in Japan), both of which are drugs to treat autoimmune diseases and allergic problems, entered the clinical development stage.

Clinical Development (as of April 26, 2012)

<table>
<thead>
<tr>
<th>Code</th>
<th>Key Indication</th>
<th>Stage</th>
<th>Rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>JTK-303 (Oral)</td>
<td>HIV infection</td>
<td>In preparation for NDA filing of single-tablet regimen containing JTK-303 (Japan)</td>
<td>Gilead Sciences (U.S.) obtained the rights to develop and commercialize this compound worldwide, with the exception of Japan. The company has submitted the single-tablet regimen containing JTK-303 (elvitegravir) to the U.S. Food and Drug Administration (FDA) for approval.</td>
</tr>
<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 3¹</td>
</tr>
<tr>
<td>JTT-302 (Oral)</td>
<td>Dyslipidemia</td>
<td>Phase 2 (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 (U.S.) (Developed jointly with Torii)</td>
</tr>
<tr>
<td>JTT-851 (Oral)</td>
<td>Type 2 diabetes mellitus</td>
<td>Phase 2 (Japan)</td>
<td></td>
</tr>
<tr>
<td>JTZ-951 (Oral)</td>
<td>Anemia associated with chronic kidney disease</td>
<td>Phase 1 (Japan)</td>
<td></td>
</tr>
<tr>
<td>JTE-051 (Oral)</td>
<td>Autoimmune/allergic diseases</td>
<td>Phase 1 (Overseas)</td>
<td></td>
</tr>
<tr>
<td>JTE-052 (Oral)</td>
<td>Autoimmune/allergic diseases</td>
<td>Phase 1 (Japan)</td>
<td></td>
</tr>
</tbody>
</table>

¹ On May 7, 2012, Roche announced the termination of the development of JTT-705 (Dalcetrapib).

Business objectives

- **Rapid and efficient market launch of compounds in late phase of clinical trials**

Currently, one compound in-licensed and two compounds out-licensed to foreign partners are in Phase 3, the last stage of clinical development. We aim to establish profitability through rapid and efficient market launch of compounds in late phase of clinical trials.

**[In-licensed compound]**
- **JTT-751**: Anti-hyperphosphatemia drug
  - In Phase 3 clinical development in Japan

**[Out-licensed compounds]**
- **JTK-303**: Anti-HIV drug
  - Gilead Sciences applied for single-tablet regimen containing JTK-303 in the United States, etc.
- **MEK inhibitor**
  - GlaxoSmithKline completed Phase 3 clinical development of the MEK inhibitor as a drug to treat melanoma (a type of skin cancer) and is preparing to apply for regulatory approval.

- **Promotion of R&D on next-generation strategic products**

We will strive to further enhance the R&D pipeline by focusing on R&D on next-generation strategic compounds and actively exploring opportunities for strategic in- and out-licensing.

**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>3/2007</td>
<td>Pre-clinical trial stage new compound (MEK inhibitor)</td>
<td>GlaxoSmithKline (UK)</td>
</tr>
<tr>
<td>3/2007</td>
<td>Pre-clinical trial stage anti-body drug candidate (Anti-ICOS Monoclonal Antibody)</td>
<td>Medimmune (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>
<tr>
<td>3/2012</td>
<td>Cobicistat (PK enhancer)</td>
<td>Gilead Sciences (US)</td>
</tr>
</tbody>
</table>

JAPAN TOBACCO INC. Annual Report 2012
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 and carry out initiatives to establish the highest level of safety control, with a view to retaining the trust of customers by serving the people’s daily lives through our offering of food products.

**Revenue**

- **Revenue of the overall food business declined.**
  - **Beverage business:** Increased
    - Steady performance of the flagship brand “Roots”.
  - **Processed food business:** Declined
    - Exclusion of some subsidiaries in the previous year impacted revenue decline.
Adjusted EBITDA\(^1\)

- Adjusted EBITDA of the overall food business increased
  - Beverage business: Increased
    - Increasing in sales of Roots brand contributed to adjusted EBITDA growth.
  - Processed food business: Increased
    - Increasing in sales of higher-margin staple food products.
    - Decreasing in fixed costs contributed to adjusted EBITDA growth.

\(^1\) Adjusted EBITDA = Operating profit + depreciation and amortization + impairment losses on goodwill ± restructuring-related income and costs

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 control and striving to further strengthen our business foundation for future growth.

Beverage business

- In addition to further enhancing the Roots brand, we will develop and enhance successor brands, including the “Tennen sui” (natural water) series, in order to achieve top-line growth.
- To enhance our sales networks led by Japan Beverage Holdings Inc., a JT subsidiary responsible for operating vending machines, and to strive to provide conscientious services.
- Strengthen cost competitiveness by curbing raw materials procurement costs and using expenses in an effective and efficient manner.

Processed food business

- To expand the business volume and strengthen profitability by strategic concentration in staple food products (frozen noodles, frozen and packed cooked rice and frozen baked 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, including procurement, manufacturing and sales.
- To strengthen cost competitiveness by further pursuing efficiency in all business operations.

Food safety control

- We will exercise food safety control through the following four key initiatives in order to win consumers’ trust as the leading food supplier.

I. Food safety (FS) initiative
   - To review product-specific food safety hazards as needed and conduct inspection and audit based on detailed risk information.
   - To ensure appropriate operation of food safety management systems (e.g., ISO 22000 and FSSC 22000).
   - To manage and inspect procured raw materials in accordance with new radioactivity standards under the Food Sanitation Act.

II. Food defense (FD) initiative
    - To promote efforts to have the risk management integrated program entrenched in business operations\(^1\)

III. Food quality (FQ) initiative
    - To strengthen coordination across the whole supply chain and promote company-wide total quality management (TQM) in order to provide more delicious foods to consumers.
    - To enhance product value and consumer satisfaction by making constant improvements based on inquiries and information from consumers.

IV. Food communication (FC) initiative
    - To enhance consumer response by having the ISO 10002 complaint management system entrenched in business operations.
    - To promote a new kind of communication with consumers by providing traceability information and actively disclosing information through factory tours and other programs.

\(^1\) Risk management integrated program: To set risk management items that must be complied with from the perspective of both knowhow (management system) and hardware (security) and to check and follow up on the compliance status through factory audits.
Activities Contributing to the Environment and Society

The JT Group strives to fulfill its social responsibilities by addressing social issues where it operates. In all our activities, we seek to operate in harmony with the environment as a responsible corporate citizen. To this end, we communicate openly with all our stakeholders: consumers, shareholders, employees and society.

Our Approach to Protecting the Global Environment

Protecting the global environment is critical to our efforts to fulfill our social responsibility and is a top priority for our corporate management. In accordance with the JT Group Environmental Charter, the JT Group has acted as a responsible corporate citizen in all of the countries and regions in which it operates and promoted companywide initiatives to further reduce the environmental impact of its activities.

Moreover, we established the JT Group Environmental Action Plan (2009–2012) as a medium-term plan for concrete environmental protection activities, with the aim of realizing the philosophy outlined in the JT Group Environmental Charter. The operational divisions of JT, as well as subsidiaries and affiliates, have been striving to achieve the targets set forth under this medium-term plan.

Group Environmental Management

The JT Group recognizes that in order to deal with challenges with which the international community as a whole is confronted, such as the preservation of the environment and sustainable utilization of resources, we have to further enhance environmental management of the entire JT Group. Therefore, under the JT Group Environmental Action Plan (2009–2012), we have expanded the scope of environmental management to cover all consolidated subsidiaries, both in Japan and abroad, as we work together to build an environmental management system for the entire JT Group. In addition, we have made all consolidated subsidiaries subject to environmental management targets—reduction targets for the emission of greenhouse gases, water usage and the generation of waste—and aim to steadily achieve them.

Fight Against Global Warming

By setting the target of reducing overall greenhouse gas emissions by 10% in FY3/2013 compared with FY3/2008, we are making active reduction efforts.

In FY3/2012, facilities with less burden on the environment were introduced, energy savings were made by improving the management of energy usage and efficiency in transportation was facilitated. As a result, in Japan, JT achieved a 54.6% reduction compared with FY3/1996, and as JT Group, a 10.9% reduction compared with FY3/2008.

Effective Use of Resources

In order to preserve limited natural resources, the JT Group is striving to reduce water usage and the generation of waste and is promoting the reuse and recycling of used materials.

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**Trends in Greenhouse Gas Emissions**

<table>
<thead>
<tr>
<th>JT</th>
<th>36 Japanese subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>225.8</td>
<td>390.6</td>
</tr>
<tr>
<td>(Years ended March 31)</td>
<td>(Years ended March 31)</td>
</tr>
</tbody>
</table>

**Trends in Water Usage Amount**

<table>
<thead>
<tr>
<th>JT</th>
<th>36 Japanese subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>6,148</td>
<td>5,976</td>
</tr>
<tr>
<td>1,977</td>
<td>1,682</td>
</tr>
<tr>
<td>(Years ended March 31)</td>
<td>(Years ended March 31)</td>
</tr>
</tbody>
</table>

**Trends in CO₂ Emissions Intensity**

<table>
<thead>
<tr>
<th>JTI</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.456</td>
</tr>
<tr>
<td>(Years ended December 31)</td>
</tr>
</tbody>
</table>
Toward Better Smoking Manners and a More Favorable Smoking Environment

(This section only describes activities in Japan)
We aim to help create a society in which smokers and nonsmokers can coexist in harmony. Enshrined in this goal is our wish to see our valued consumers fully enjoy smoking at their own discretion and, at the same time, to make sure they avoid causing inconvenience to nonsmokers.

By engaging in various initiatives, we will fulfill our social responsibility as a tobacco company.

Examples of the Various Initiatives
Setting Up Smoking Areas
We work closely with local governments and facility managers in setting up smoking areas in public facilities, such as railway stations and airports, in order to promote coexistence between smokers and nonsmokers.

Advice on Separation of Smoking and Nonsmoking Areas
We provide consultation on how to separate smoking and nonsmoking areas within public facilities, commercial facilities and offices in a manner suited to the characteristics of the respective facilities and the needs of users. In our consulting service, we offer our know-how and put forward proposals to achieve the kind of separation that would satisfy smokers while giving due consideration to the concerns of nonsmokers.

“Smoking Manners” Campaign Advertising
Since JT believes that improving the “smoking manners” of individuals is essential to improving those of society as a whole, we are constantly engaged in a campaign to raise awareness about the need for appropriate smoking manners, under the slogan “Pay attention, and you can change your manners”. The advertisements used in this campaign describe specific everyday situations in which smokers should show good manners, in order to prompt them to pay attention, think, and act appropriately.

Community Clean-up Event
JT has been engaged in the “Pick Up and You Will Love Your City” initiative since May 2004 in an effort to eradicate public littering by raising awareness of the problem and organizing rubbish collection.
This initiative is aimed at occasions such as community festivals and other public events and is conducted in cooperation with local governments, companies and volunteers. Since these activities began in May 2004, community clean-up events have been held in all of Japan’s prefectures, as of March 5, 2012, bringing the number of participating parties to 2,723 and the number of individual participants to approximately 1.32 million.

For further information about JT’s efforts to improve the smoking environment, please access our website.
URL: http://www.jti.co.jp/asstyle/index.html
**JT Group’s Social Engagement**

The JT Group is committed to a number of initiatives that positively contribute to the development of the communities in which it operates. JT Group companies in Japan consistently support their local communities, with the aim of demonstrating ‘good corporate citizenship’, and sustaining a harmonious relationship with Japanese society as a whole.

Japan Tobacco International (JTI), a tobacco business operating in more than 120 countries worldwide, also plays a key role in supporting the development of the local communities in which it operates. JTI focuses on two specific agendas: improving the quality of life of the less advantaged, and promoting the arts.

The following are only some examples of the many local, regional and international projects that the JT Group supports.

**Harmonious Coexistence in Japan**

JT’s business establishments in Japan conduct various social contribution activities to maintain harmonious relationship with society. Among these, JT has been engaged in clean-up activities in the neighborhood of its establishments for years as a member of communities. Sales offices, manufacturing sites and group companies’ establishments across Japan conduct clean-up activities participated by employees. In addition, employees take part in clean-up activities held at various community events.

JT, along with local communities, conducts the “JT Forest” initiative to revitalize the forest of Japan. The JT Forest has expanded to nine sites, ranging from Hokkaido in the north to Kagoshima in the south; where JT and local stakeholders cooperate in the reforestation.

Moreover, JT focuses on “NPO (non-profit organization) Support Project” to support NPOs across Japan. The project is designed to support activities of NPOs in cooperation with communities. Since the launch in FY1999, the cumulative amount of financial assistance of the project has surpassed one billion yen, with the number of recipient organizations totaling 882.

Furthermore, JT engages in supporting arts and culture including development of musicians and professional orchestras, organizing JT Forum cultural events, operation of the Tobacco and Salt Museum and operating the JT Art Hall Affinis.
Combating hunger with the “Caritas Georgia” Soup Kitchen
Bringing relief, aid and comfort to the elderly is one of the cornerstones of our Corporate Philanthropy policy. JTI works closely with Caritas Georgia to assist poor and disadvantaged older persons. In 2011, JTI lent its support to the Caritas “Soup Kitchen” in Tbilisi, which provides 185 elderly individuals registered with the State Social Program with a daily serving of nutritious hot food.

Supporting cultural heritage at the Mariinsky Theatre
Russia’s Mariinsky Theatre, whose origins date back to 1783, is an historic venue for opera and ballet in St. Petersburg, currently under the artistic direction of the world famous maestro Valery Gergiev. JTI is the theater’s long-term partner, and supports its two major annual programs – the Moscow Easter Festival and the Stars of the White Nights Festival.

Promoting literacy and knowledge with Emmaüs
JTI is committed to promoting adult literacy. In France, JTI supports Association Emmaüs, which works with disadvantaged individuals in the community to combat the causes of exclusion. Since 2004, JTI France has assisted Emmaüs’ Literacy Centers to develop new programs for illiterate adults, helping them to flourish as more independent citizens through its educational curriculum, and artistic and cultural workshops.

Promoting culture and art at the Rijksmuseum
JTI supports The Netherlands’ famous Rijksmuseum – one of the nation’s largest and most visited cultural heritage spaces. JTI Netherlands provides funding for the Museum’s “special” exhibitions, held every summer – including the Museum’s 2011 collaboration with renowned artist Ed Kiefer in an experimental event inspired by Rembrandt’s famous “Night Watch” painting.
Aiding the elderly with Prague’s Život90
Since its foundation in 1990, the Czech civic association Život90 has been recognized as the country’s primary relief agency for Prague’s elderly citizens. In 2009, JTI launched a long-term program of support for Život90 with a fundraising performance at the National Theatre. JTI also supports a number of Život90’s individual projects, including its rehabilitation centers, and the telephone help-line at its “Portus House” community center.

Engaging with Japanese art and technology in Poland
Bringing Japanese culture to the world is a central tenet of our Corporate Philanthropy policy. Since 2009, JTI has partnered with the Museum of Japanese Art and Technology Manggha, based in the historic Polish city of Krakow. JTI provides financial and organizational support for events that attract more than 100,000 visitors annually. Recent JTI-partnered events at the venue include the Open Academy of Japanese Cinema and the Butoh Dance Festival.

Building businesses in South Africa’s poorer communities
JTI supports the South African “Kasi Phezulu” project, which promotes enterprise in townships and other disadvantaged locations. The initiative focuses on businesses including shops and taverns that are often at the heart of struggling communities. It aims to transform these into “community hubs” that help to empower local people. “Kasi Phezulu” has assisted 4,000 enterprises to date – with JTI widely recognized as a “Partner of Choice” by the businesses and community leaders it serves.

Reconnecting seniors with the digital world
Since 2007, JTI-Macdonald has partnered with reBOOT Canada – a charity that refurbishes donated computers for reuse by non-profit organizations. With the support of JTI-Macdonald, the related reCONNECT project provides seniors at over 100 centers across Canada with up-to-date technology, equipment and training. Seniors are taught how to communicate with their families using the internet – by e-mail and webcam – empowering them to use this technology to enhance the quality of their lives.
Partnering with the Busan International Film Festival

JTI is a partner of Korea’s Busan International Film Festival (BIFF), which promotes the development of new cinematic talent, and is one of Asia’s most significant film festivals. During the nine days of the 2011 Festival – attended by 190,000 people – BIFF focused on showcasing new films and first-time directors of Asian origin.

Disaster Relief Activities

JT Group companies in and outside Japan cooperate in disaster relief activities. Some disaster relief activities abroad are conducted through the JTI Foundation.

Disaster Relief in Areas Hit by the Great East Japan Earthquake

The JT Group has conducted a variety of disaster relief activities, including monetary donations by group companies and employees and donation of relief goods. Immediately after the earthquake, we donated relief goods such as beverages and processed foods produced by the JT Group as well as winter clothes and prepared on-site meals.

We also support volunteer activities by JT Group employees.

The JTI Japan Disaster Relief Fund

Immediately after the Great East Japan Earthquake of March 2011, JTI established the Japan Disaster Relief Fund, and raised a total of nearly USD 6 million to assist victims of the catastrophe. The funds have been administered by the JTI Foundation, whose mission is to help victims of disasters across the world, cooperating with organizations that specialize in disaster relief or disaster-risk reduction. In collaboration with renowned organizations including Peace Winds Japan, AAR Japan and NICCO, the Fund has supported a variety of humanitarian projects – ranging from the delivery of food and essential non-food items, the provision of cash grants, supplying vehicles for people with disabilities – to financing community-based economic recovery projects in Japan’s most affected prefectures. The JTI Foundation will continue supporting mid- and long-term recovery projects, including the reconstruction and rehabilitation of community centers and other facilities vital for local communities. More information about the JTI Foundation, and its partners and projects worldwide, can be found at www.jtifoundation.org.

Support for the fishing industry in the port of Ofunato, Iwate prefecture

On-site meal preparation

BIFF official opening ceremony
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. Act, or the JT Act. 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 the 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.

History in Japan from the early 20th century to 1984, when the Japan Tobacco Inc. Act was enacted.

Our history in Japan dates back to 1898, when the government formed a monopoly bureau to undertake the exclusive sale of domestic leaf tobacco. In the early 1900s, the government extended this monopoly to all tobacco products in Japan and to the domestic salt business. On June 1, 1949, the bureau was established and duly named the Japan Tobacco and Salt Public Corporation, or JTS. This corporation helped to ensure the stable supply of tobacco and secure fiscal revenues for the government.

- 1784: Austria Tabak is founded by Emperor Joseph II.
- 1857: Tom Gallaher starts business in Londonderry, Northern Ireland.
- 1891: The Moscow-based Ducat factory is founded.
- 1898: The Japanese Monopoly Bureau is established for the sale of domestic leaf tobacco.
- 1949: The Monopoly Bureau becomes the Japan Tobacco and Salt Public Corporation.
- 1954: Winston is launched.
- 1957: HOPE (10) is launched as Japan’s first domestically produced filter cigarettes.
- 1964: Silk Cut is launched.
- 1977: Mild Seven is launched (Japan).
- 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. Act, 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.

- RJR is founded by Richard Joshua Reynolds in Winston, North Carolina.
- Sobranie is registered in London, to become one of the oldest cigarette brands in the world.
- Camel is launched.
- Cellophane is introduced by RJR in order to preserve the freshness of tobacco.
- Benson & Hedges is acquired by Gallaher.
- Salem is launched.
- Gallaher is acquired by the American Tobacco Company.
- Seven Stars is launched, featuring Japan’s first domestically produced charcoal filter.
- Japan Tobacco Inc. Act is enacted.
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,

### In and After 1985

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>April</td>
</tr>
<tr>
<td></td>
<td>Japan Tobacco Inc. is established. (Japanese tobacco market opened to foreign tobacco manufacturers.)</td>
</tr>
<tr>
<td></td>
<td>The Business Development Division is established to promote new businesses.</td>
</tr>
<tr>
<td></td>
<td>The Business Development Division is later reorganized into operational divisions engaged in the food and pharmaceutical businesses, finishing in July 1990.</td>
</tr>
<tr>
<td>1987</td>
<td>April</td>
</tr>
<tr>
<td></td>
<td>Import tariffs on imported cigarettes are abolished.</td>
</tr>
<tr>
<td>1988</td>
<td>October</td>
</tr>
<tr>
<td></td>
<td>“JT” communication name is introduced.</td>
</tr>
<tr>
<td>1995</td>
<td>May</td>
</tr>
<tr>
<td></td>
<td>Head office is moved back to Minato-ku from Shinagawa-ku following completion of new head office building.</td>
</tr>
<tr>
<td></td>
<td>Peter I is launched (Russia).</td>
</tr>
<tr>
<td>1996</td>
<td>June</td>
</tr>
<tr>
<td></td>
<td>Government releases second tranche of outstanding JT shares (272,380 shares offered at 815,000 yen apiece).</td>
</tr>
<tr>
<td></td>
<td>Acquisition of Tanzanian tobacco production facility.</td>
</tr>
<tr>
<td>1997</td>
<td>April</td>
</tr>
<tr>
<td></td>
<td>JT ends its salt monopoly business in line with abolition of the salt monopoly system.</td>
</tr>
<tr>
<td></td>
<td>The Tobacco Mutual Aid Pension scheme is integrated into the Employees’ Pension scheme.</td>
</tr>
<tr>
<td></td>
<td>American Brands spins off Gallaher which becomes Gallaher Group Plc and is listed on the London and New York stock exchanges.</td>
</tr>
<tr>
<td>2000</td>
<td>April</td>
</tr>
<tr>
<td></td>
<td>JT acquires a majority stake in Katokichi Co., Ltd. through a tender offer.</td>
</tr>
<tr>
<td>2001</td>
<td>April</td>
</tr>
<tr>
<td></td>
<td>JT acquires all outstanding shares of Gallaher Group Plc.</td>
</tr>
<tr>
<td>2003</td>
<td>October</td>
</tr>
<tr>
<td></td>
<td>JT repurchases 45,800 of its own shares to increase its management options.</td>
</tr>
<tr>
<td>2006</td>
<td>April</td>
</tr>
<tr>
<td></td>
<td>JT implements a five-for-one stock split in order to expand the investor base, effective April 1, 2006.</td>
</tr>
<tr>
<td></td>
<td>May</td>
</tr>
<tr>
<td></td>
<td>Acquisition of AD Duvanska Industrija Senta in Serbia.</td>
</tr>
<tr>
<td>2007</td>
<td>April</td>
</tr>
<tr>
<td></td>
<td>JT acquires all outstanding shares of Gallaher Group Plc.</td>
</tr>
<tr>
<td>2008</td>
<td>January</td>
</tr>
<tr>
<td></td>
<td>JT acquires a majority stake in Katokichi Co., Ltd.</td>
</tr>
<tr>
<td></td>
<td>April</td>
</tr>
<tr>
<td></td>
<td>JT acquires a majority stake in Fuji Foods Corporation.</td>
</tr>
<tr>
<td></td>
<td>July</td>
</tr>
<tr>
<td></td>
<td>JT concentrates its processed food operations, including frozen food and seasonings operations, at the Katokichi Group.</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>Acquisition of Manchester Tobacco Company Ltd.</td>
</tr>
<tr>
<td>1993</td>
<td>The Central Pharmaceutical Research Institute is established to enhance in-house research capabilities.</td>
</tr>
<tr>
<td>1994</td>
<td>Government releases first tranche of outstanding JT shares for initial public offering (394,276 shares offered at 1,438,000 yen apiece).</td>
</tr>
<tr>
<td>1998</td>
<td>JT acquires the non-U.S. tobacco business of RJR Nabisco Inc.</td>
</tr>
<tr>
<td>1999</td>
<td>October</td>
</tr>
<tr>
<td>2004</td>
<td>May</td>
</tr>
<tr>
<td>2005</td>
<td>June</td>
</tr>
<tr>
<td>2009</td>
<td>May</td>
</tr>
<tr>
<td>2010</td>
<td>January</td>
</tr>
<tr>
<td>2011</td>
<td>March</td>
</tr>
</tbody>
</table>