

**Investor Field Trip Luxembourg/Trier
September 19-20, 2011**

Japanese Domestic Tobacco Business

**~Effect of tax-led price hike in 2010 and recovery from the
damage of Great East Japan Earthquake**

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*Please be reminded that the figures shown on these slides may differ from those shown in the financial statements as they are intended to facilitate the understanding of individual businesses.

*For details, please refer to the footnotes on the slides.



Caution concerning forward-looking statements

Forward-Looking and Cautionary Statements

This presentation contains forward-looking statements about our industry, business, plans and objectives, financial conditions and results of operations based on current expectations, assumptions, estimates and projections. These statements reflect future expectations, identify strategies, discuss market trends, contain projections of operational results and financial conditions, and state other forward-looking information.

These forward-looking statements are subject to various known and unknown risks, uncertainties and other factors that could cause our actual results to differ from those suggested by any forward-looking statement. We assume no duty or obligation to update any forward-looking statement or to advise of any change in the assumptions and factors on which they are based. Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- 1) health concerns related to the use of tobacco products;
- 2) legal or regulatory developments and changes; including, without limitation, tax increases and restrictions on sales, marketing and use of tobacco products, governmental investigations and privately imposed smoking restrictions;
- 3) litigation in Japan and elsewhere;
- 4) our ability to further diversify our business beyond the tobacco industry;
- 5) our ability to successfully expand internationally and make investments outside Japan;
- 6) competition and changing consumer preferences;
- 7) the impact of any acquisitions or similar transactions;
- 8) local and global economic conditions; and
- 9) fluctuations in foreign exchange rates and the costs of raw materials.

Footnotes

- (1) Total share of key brands: Mild Seven, Seven Stars, Pianissimo (market share for key brands also includes market shares of 'Icene' and 'Lucia', which were migrated into the Pianissimo family in January 2010)
- (2) JT sales volume excludes sales of Japan duty-free and China division
- (3) Adjusted net sales excluding tax excludes revenue from the imported tobacco, Japan duty-free, the China division and other peripheral businesses
- (4) Number of JT employees: from March 2000, the number of JT employees is counted at working base

Agenda

- **Our role and strategies**
- **Tax-led price hike in 2010**
- **Impact of the earthquake**
- **Initiatives to regain market share**
- **Concluding Remarks**
- **Appendix**

Our role and strategies

Core source of profits for the JT Group

JT will strive to achieve continuous growth by overcoming challenges in the Japanese domestic market, such as the continuing declines in total tobacco demand and intensifying competition

Optimize our marketing mix toward sustainable growth by providing quality and services suitable for the price of its products

- **Strengthen the brand portfolio**
- **Secure leading visibility at point of sale**
- **Maximize consumer satisfaction through continuous improvement in quality and enhancement of the quality assurance system**
- **Optimize operations to ensure efficiency**
- **Fulfill our responsibility as the market leader and strive to achieve a harmonious coexistence between smokers and non-smokers**

Strategy following the tax-led price hike in October 2010

Excise Tax Increase in October 2010 (+3.5 JPY per stick)

- 38% tax increase
- Expected significant industry contraction

Optimization of the pricing approach

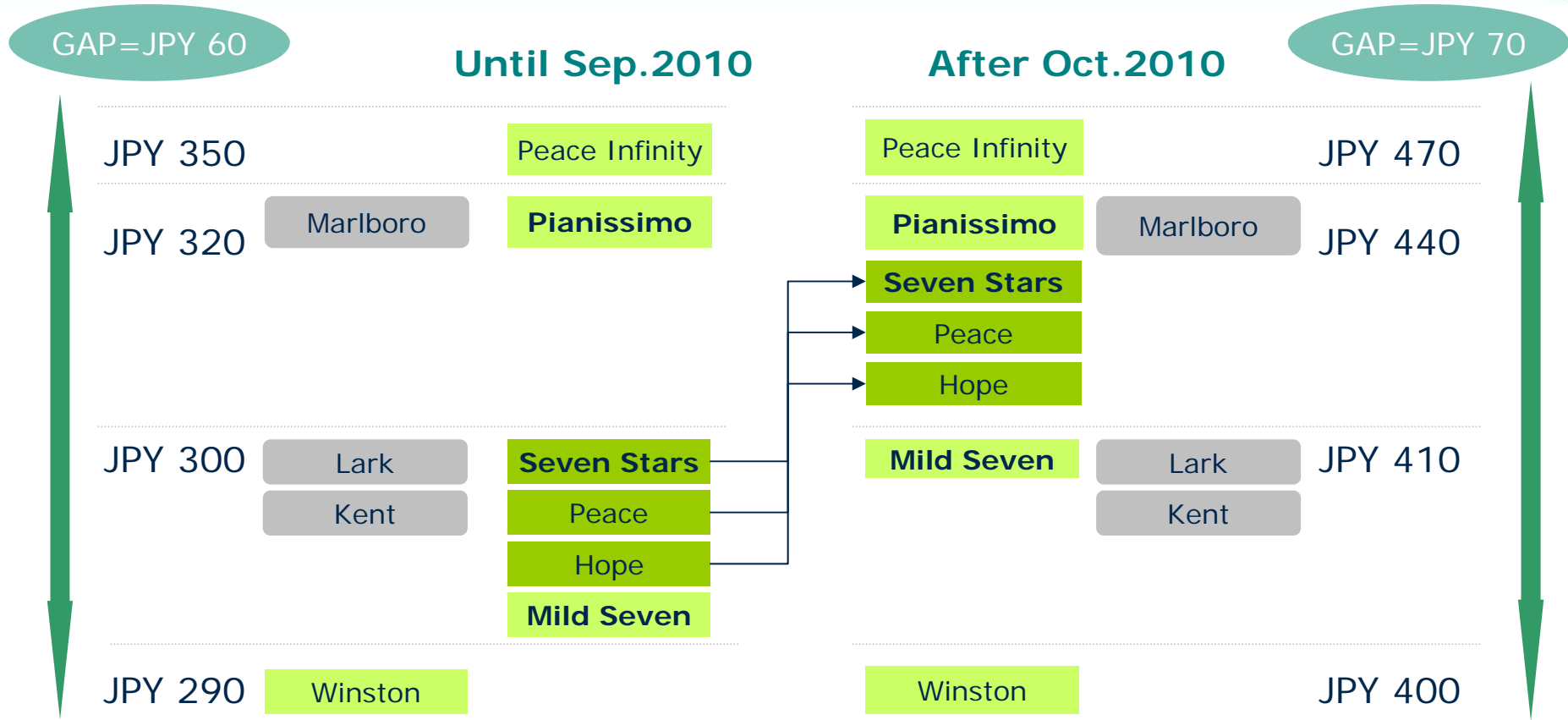
Increase average sales price
excl. tax

Enhance portfolio through:

- Mix improvement
- Wider price range

Provide products with superior benefits in line with the new price

New price structure after tax hike

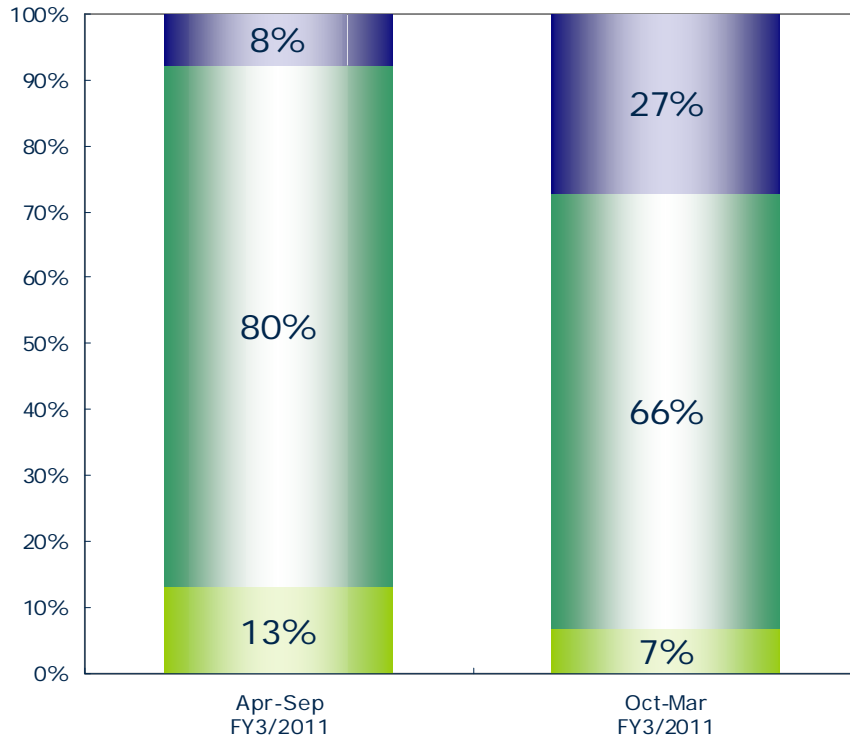


	FY3/2011 Apr-Sep	FY3/2011 Oct-Mar	Change
Retail Sales Price (20sticks/pack)	298	408	37%
NS ex tax per M	4,053	5,536	37%

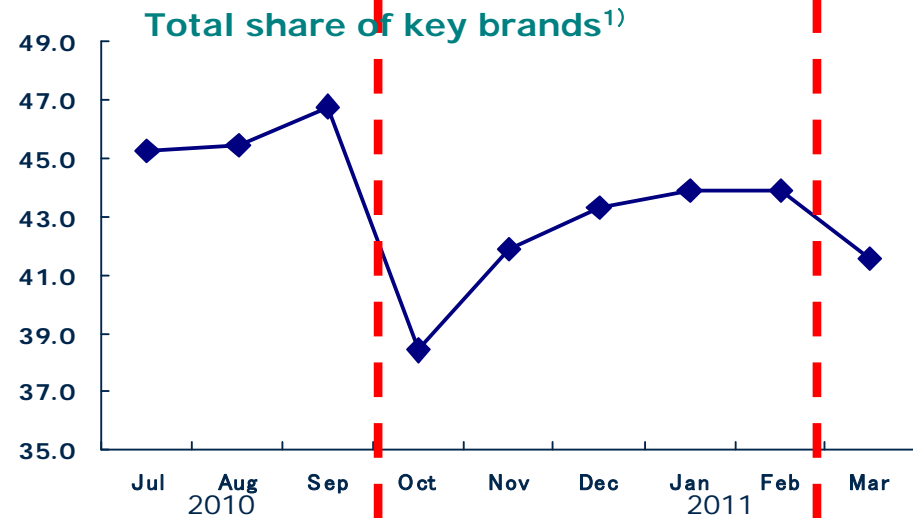
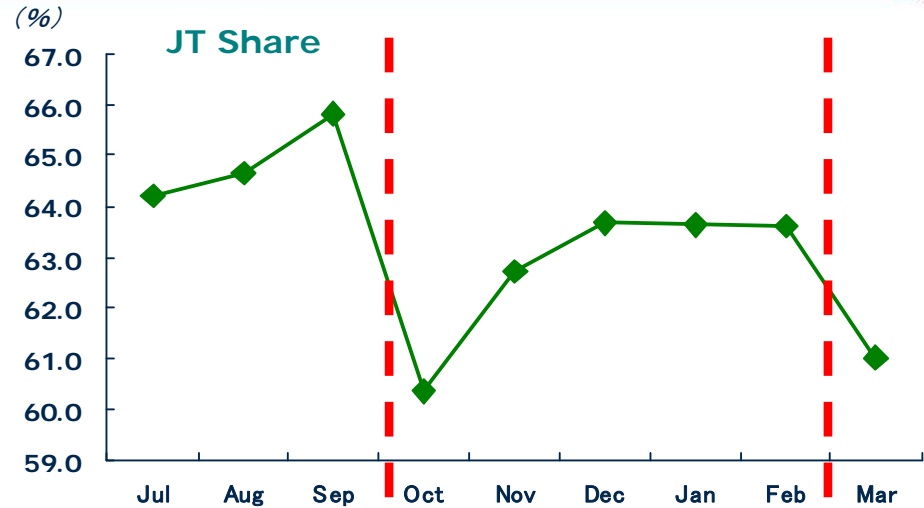


Significant mix improvement

«JT sales volume by price segment»



- JPY440 or above (JPY320 or above until Sep.2010)
- JPY410 (JPY300 until Sep.2010)
- JPY400 (JPY290 or below until Sep.2010)



Tax-led price hike

Earthquake



Launching products with superior benefits

《Product / Package Innovation》



Seven Stars
Rejuvenation



Mild Seven
New package with round corners

Limited Edition Packs



Pianissimo Super Slims
Menthol One:
Launched in November 2010



Mild Seven D-Spec One
100's Box:
Launched in January 2011



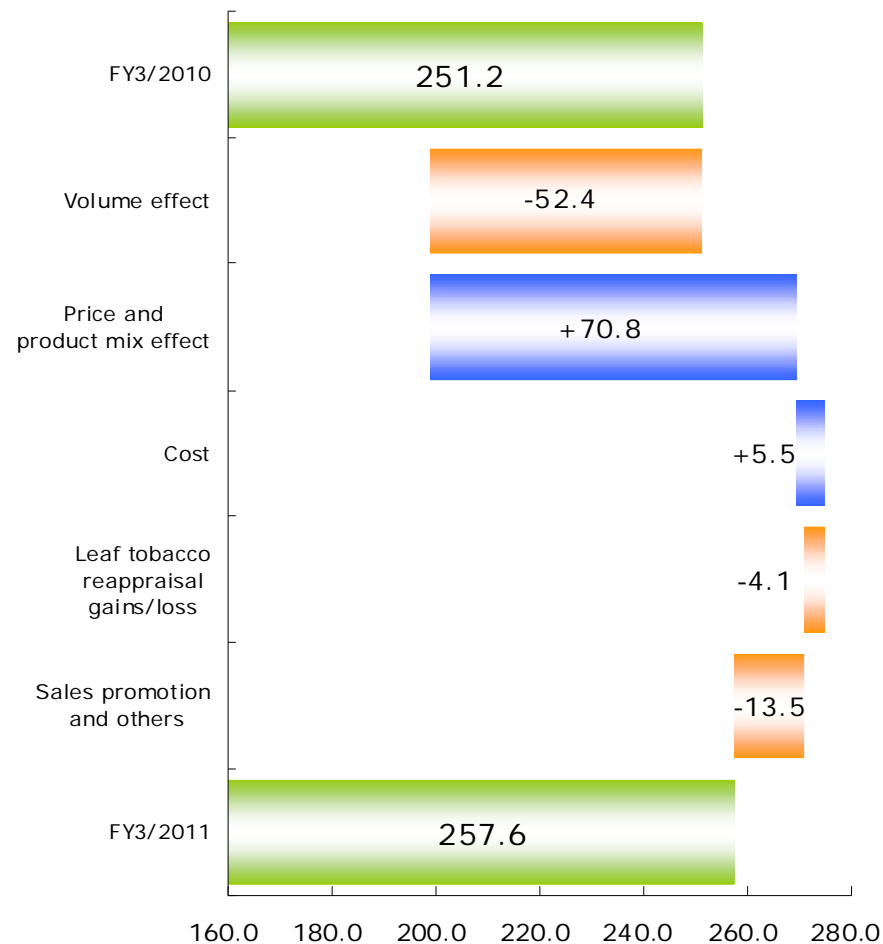
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Sales and EBITDA grew in the FY 3/2011

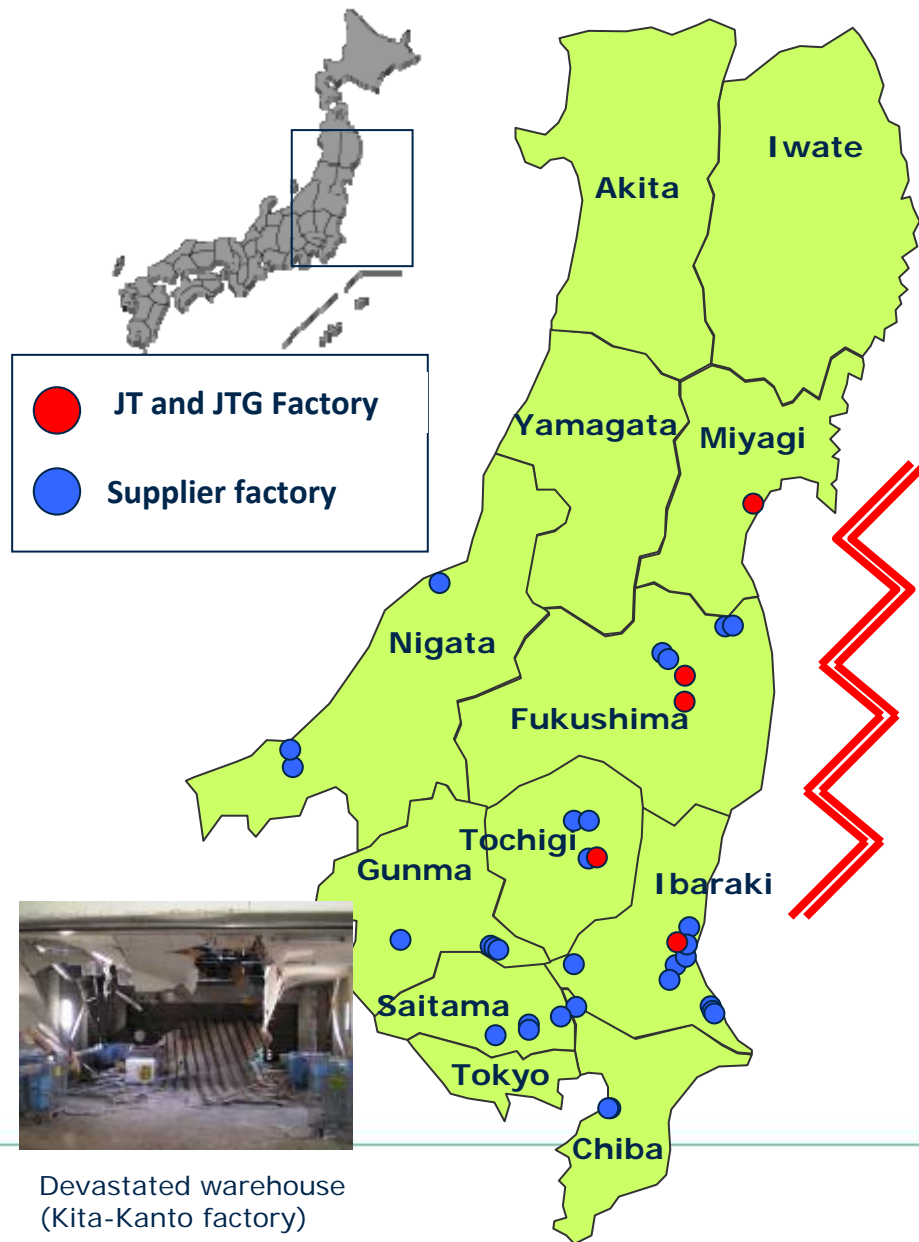
《EBITDA Roadmap》

(JPY BN)

(BNU, JPY BN)	FY 3/2010	FY 3/2011	Change
JT Sales Volume ²⁾	151.8	134.6	-11.3%
Adjusted Net Sales excluding tax ³⁾	615.9	617.9	+0.3%
EBITDA	251.2	257.6	+2.6%
Operating Income	198.7	212.9	+7.1%



Impact of 3.11 earthquake



- Damages to 2 cigarette factories, 2 raw material factories and 1 affiliated filter factory, along with shortages of raw material



- ✓ Urgently imported semi-finished goods from JTI
- ✓ Swift change of suppliers

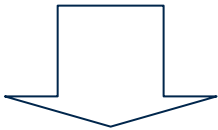
- ✓ Increased production of factories in western area
- ✓ Early restoration of devastated factories



- By June, all factories, except the filter one, were restored. Combined with raw material availability, this allowed resumption of supply

Resumption of supply

- Temporarily suspended product shipments from Mar 30th to Apr 10th
- Supply of product resumed sequentially and shipment restrictions were gradually removed from Apr 11th
- Supply of all 73 SKUs from July 18th
- Removed the shipment restrictions from August 1st

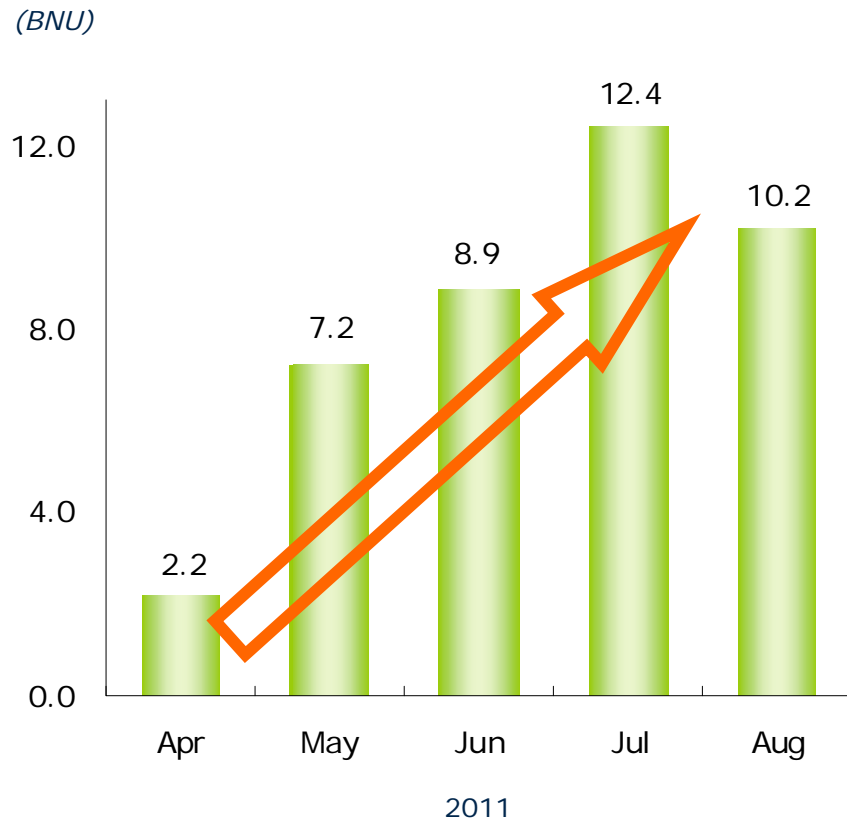


- Normalized product supply

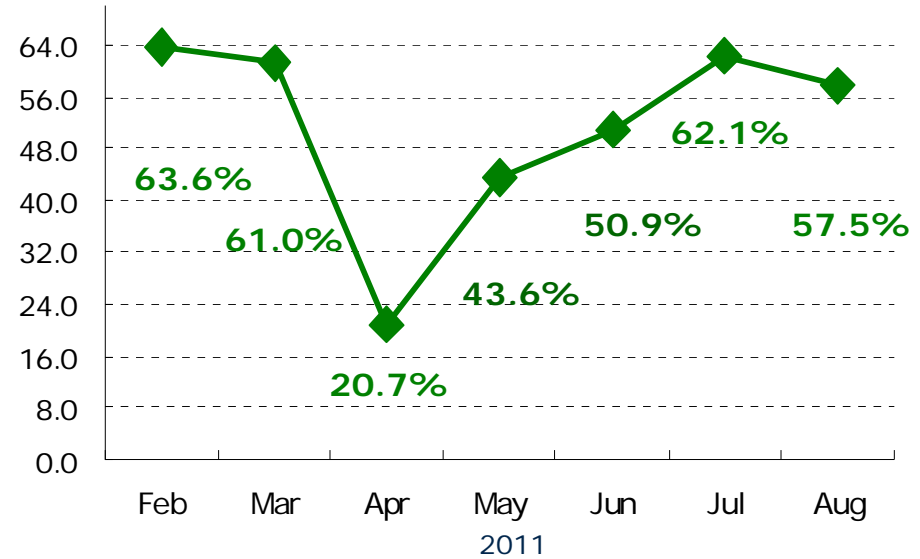


Recovery of sales volume & market share

《Monthly JT Sales Volume²⁾》



(%) JT Share



Store shelves during shortage of goods



Store shelves after supply normalization

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Initiatives to regain market share

- **New product launches**
 - Focusing on key brands
- **Consumer Promotion**
 - Directly approaching consumers
- **Trade Promotion**
 - Enhancing motivation of retailers

New product launches -focusing on key brands

■ Seven Stars Cutting Menthol



- The first super slims product from the Seven Stars family
- Rich and sharp menthol flavor with "flavor thread filters"

Nationwide launch from late August 2011



■ Seven Stars Alaska Menthol Box



- New 5mg tar "super strong menthol" product
- Innovative "Triple-mint blending" and "Triple flavoring"

Nationwide launch from late October 2011

Consumer promotion-directly approaching consumers

■ Japanese Tobacco Campaign

- The biggest campaign to date, launched on September 1st



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Trade promotion-enhancing motivation of retailers

《Investment in point of sale》



Investment in store fixtures



Support store refurbishment



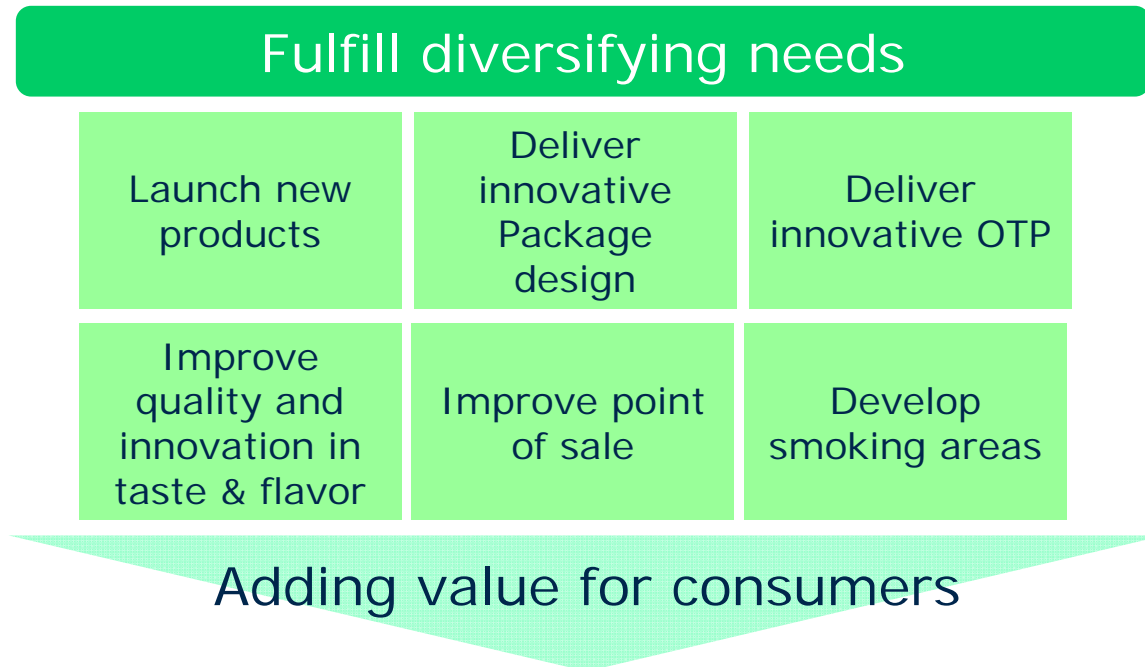
Mild Seven Shop

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Strategies for future growth

Core source of profits for the JT Group

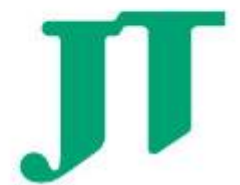
- Continue to deliver superior value to consumers



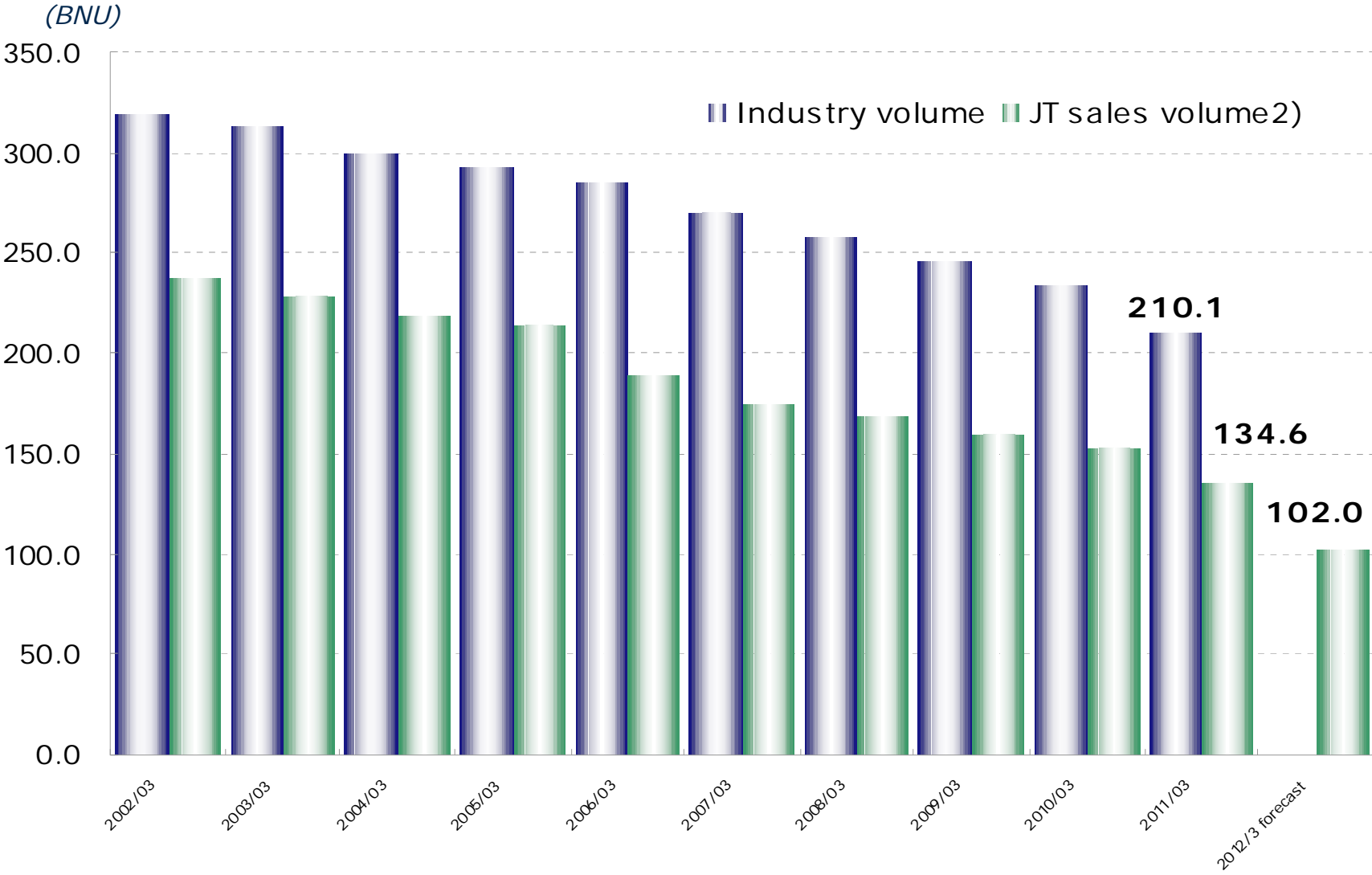
- Products with superior benefits in line with the new price
 - Enhanced quality

- Strive to maximize efficiencies

Appendix



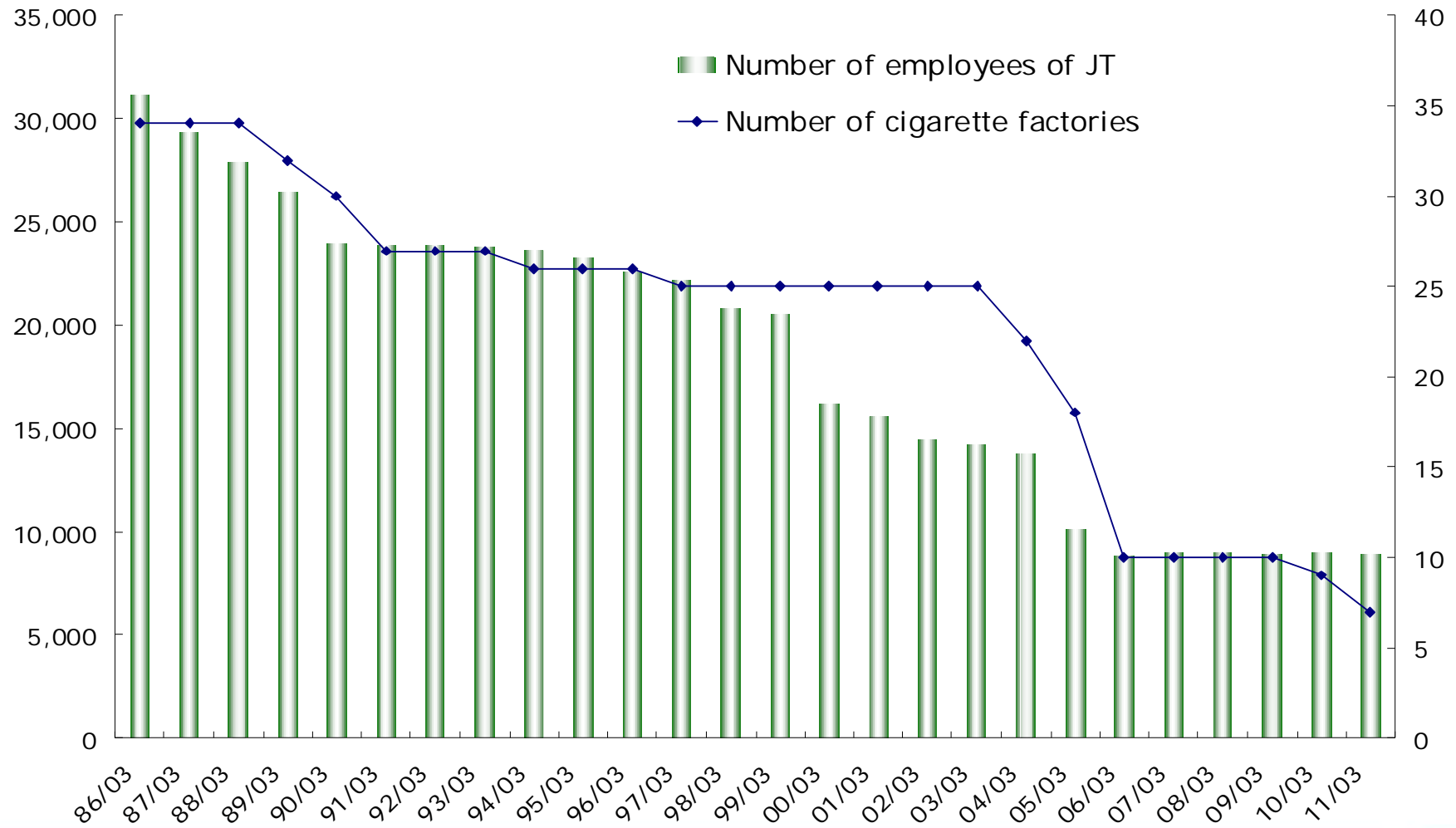
Sales volume



Number of JT employees ⁴⁾ and Number of cigarette factories

(Employees)

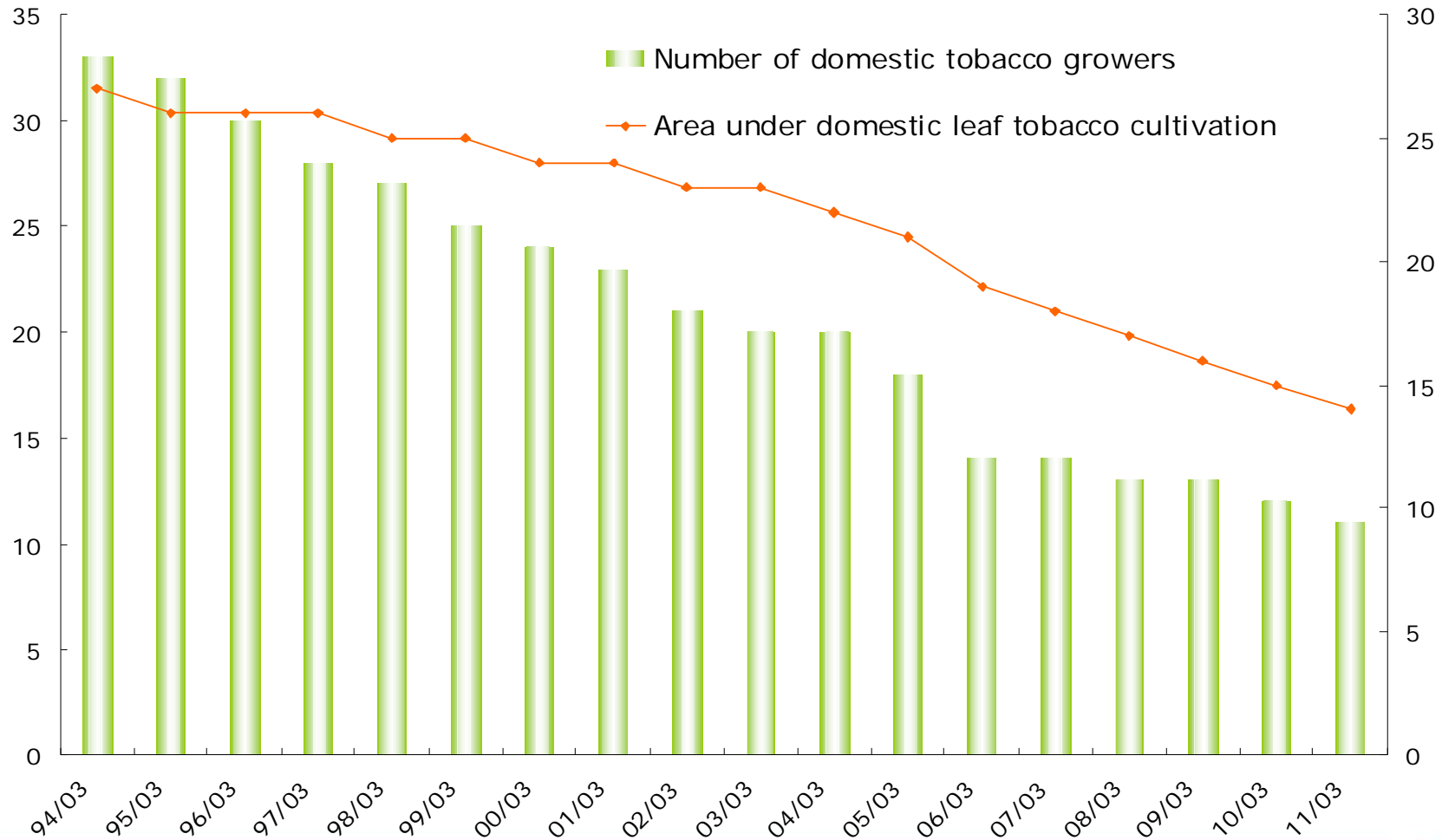
(Factories)



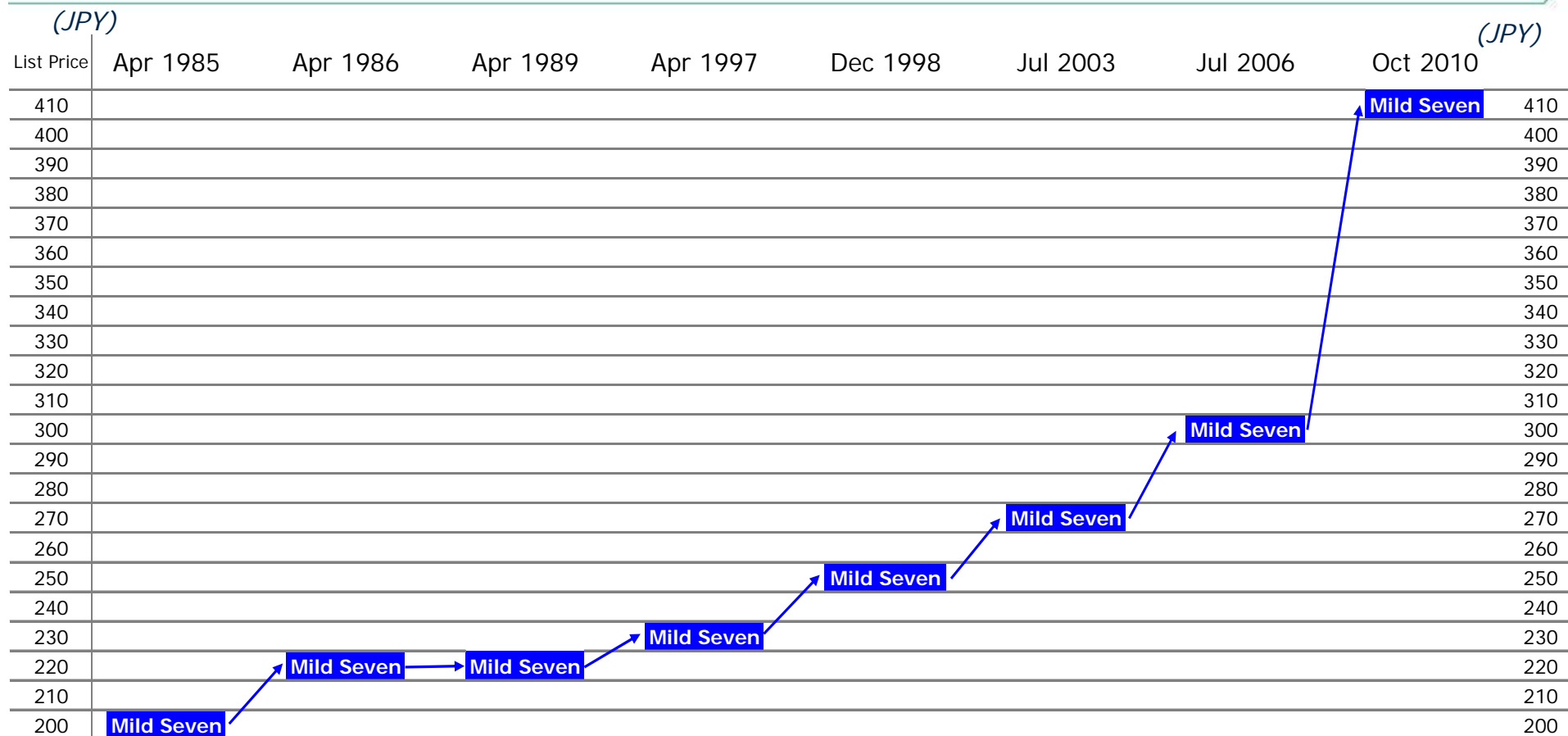
Number of domestic tobacco growers and cultivation area

(Thousands of growers)

(Thousands of hectares)



List price of Mild Seven



Tax change

Tobacco tax introduction	Tobacco tax hike	Consumption tax introduction	Consumption tax hike	National tobacco special excise tax introduction	Tobacco excise tax hike	Tobacco excise tax hike	Tobacco excise tax hike
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Tax incidence of Mild Seven per pack

56.7%	59.7%	59.7%	59.1%	61.3%	63.2%	63.1%	64.5%
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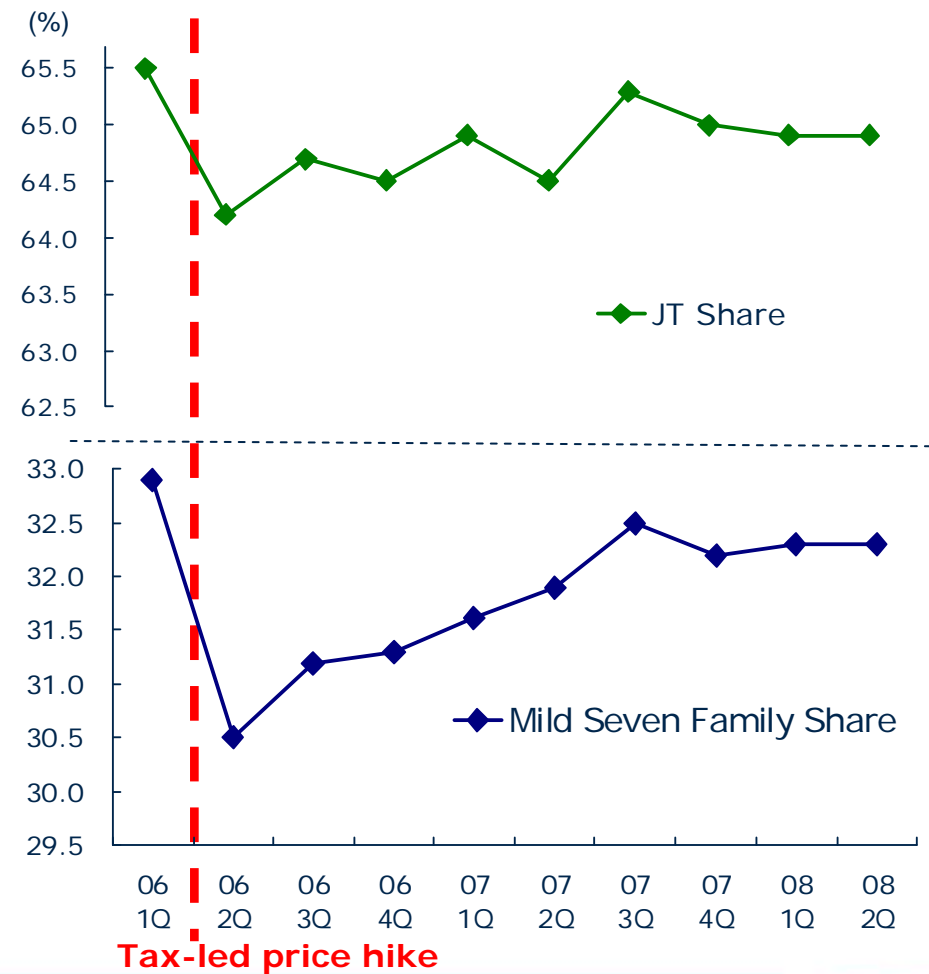
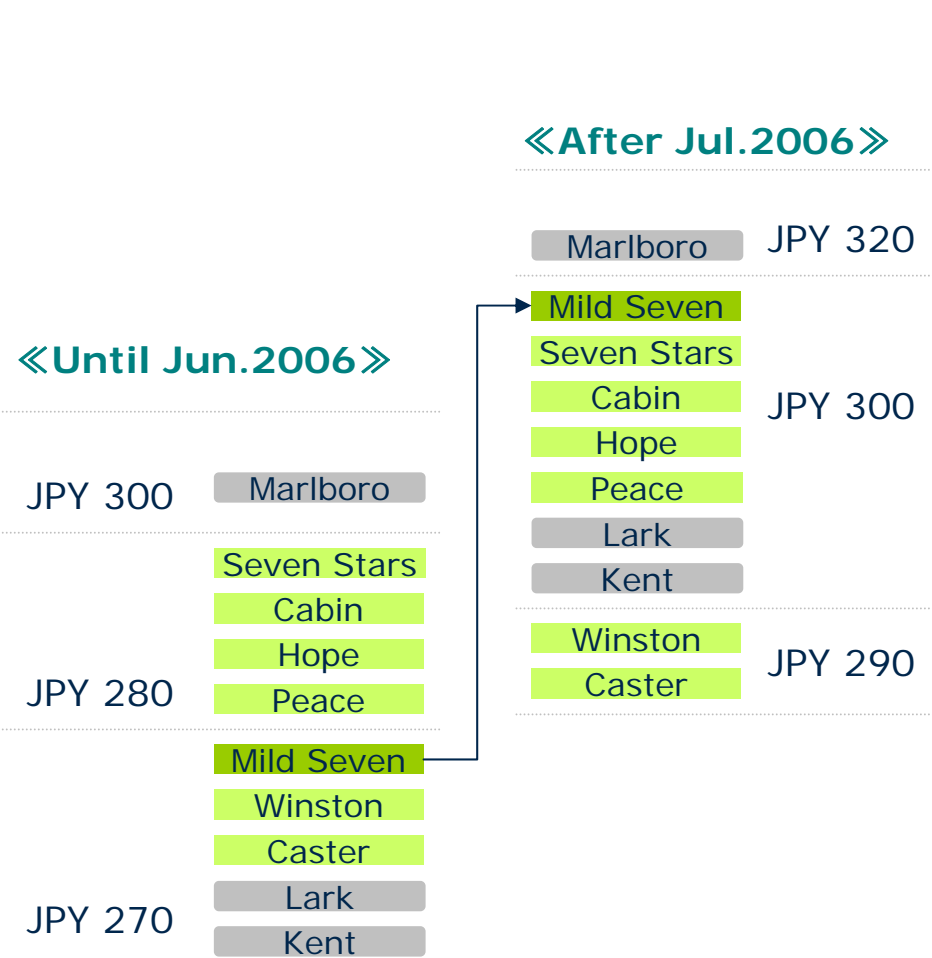
Route to market



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Case study: Pricing strategy and market share of Mild Seven following 2006 tax hike

«Market share evolution in the two years following the 2006 tax-led price hike»



Restoration of market share of JT's key brands¹⁾

