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

Akira Saeki
Executive Vice President
and Head of Tobacco Business Planning Division

*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

<table>
<thead>
<tr>
<th>Excise Tax Increase in October 2010 (+3.5 JPY per stick)</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ 38% tax increase</td>
</tr>
<tr>
<td>➢ Expected significant industry contraction</td>
</tr>
</tbody>
</table>

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

Until Sep. 2010

- JPY 350: Peace Infinity
- JPY 320: Pianissimo
- JPY 300: Seven Stars
- JPY 290: Mild Seven

After Oct. 2010

- JPY 470: Peace Infinity
- JPY 440: Pianissimo
- JPY 410: Seven Stars
- JPY 400: Mild Seven

GAP = JPY 60

- JPY 350: Marlboro
- JPY 320: Pianissimo
- JPY 300: Seven Stars
- JPY 290: Winston

GAP = JPY 70

- JPY 470: Marlboro
- JPY 440: Pianissimo
- JPY 410: Lark
- JPY 400: Winston

Change

- FY3/2011 Apr-Sep: 298
- Change: 37%

- NS ex tax per M
- 4,053
- 5,536
- 37%
Significant mix improvement

«JT sales volume by price segment »

- JT Share

49.0
47.0
45.0
43.0
41.0
39.0
37.0
35.0
50%
100%

Tax-led price hike
Earthquake

1% JPY440 or above (JPY320 or above until Sep.2010)
27% JPY410 (JPY300 until Sep.2010)
66% JPY400 (JPY290 or below until Sep.2010)
80% JPY400 or above (JPY320 or above until Sep.2010)
13% JPY410 (JPY300 until Sep.2010)
7% JPY400 (JPY290 or below until Sep.2010)

Total share of key brands¹)

²) JT sales volume by price segment

35.0
40%
50%
60%
70%
80%
90%
100%

Apr-Sep FY3/2011

JT Share

Earthquake
Tax-led price hike

1% JPY440 or above (JPY320 or above until Sep.2010)
27% JPY410 (JPY300 until Sep.2010)
66% JPY400 (JPY290 or below until Sep.2010)
80% JPY400 or above (JPY320 or above until Sep.2010)
13% JPY410 (JPY300 until Sep.2010)
7% JPY400 (JPY290 or below until Sep.2010)
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

This slide has been developed to explain JT’s performance to our investors. This slide is not intended to promote the purchase of our products or to induce smoking.
Sales and EBITDA grew in the FY 3/2011

**EBITDA Roadmap**

*(JPY BN)*

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<thead>
<tr>
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<tbody>
<tr>
<td>JT Sales Volume</td>
<td>151.8</td>
<td>134.6</td>
<td>-11.3%</td>
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<tr>
<td>Adjusted Net Sales</td>
<td>615.9</td>
<td>617.9</td>
<td>+0.3%</td>
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<td>excluding tax</td>
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<td>EBITDA</td>
<td>251.2</td>
<td>257.6</td>
<td>+2.6%</td>
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<tr>
<td>Operating Income</td>
<td>198.7</td>
<td>212.9</td>
<td>+7.1%</td>
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*(BNU, JPY BN)*

Change:
- Sales promotion and others: -52.4
- Leaf tobacco reappraisal gains/loss: -4.1
- Sales promotion and others: -13.5
- Price and product mix effect: +70.8
- Volume effect: +5.5
- Cost: +160.0

FY 3/2010: 180.0
FY 3/2011: 200.0

JT Sales Volume 2)
EBITDA
Operating Income
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

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<thead>
<tr>
<th>From Mar 30th to Apr 10th</th>
<th>Apr 11th</th>
<th>Apr 25th</th>
<th>May 9th</th>
<th>Jun 6th</th>
<th>Jul 4th</th>
<th>Jul 18th</th>
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<td>Shipment suspension</td>
<td>7 SKUs</td>
<td>16 SKUs</td>
<td>25 SKUs</td>
<td>36 SKUs</td>
<td>58 SKUs</td>
<td>73 SKUs</td>
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Gradually removed the shipment restrictions

Completely normalized from Aug. 1st
Recovery of sales volume & market share

«Monthly JT Sales Volume²)»

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<th>Month</th>
<th>Sales Volume (BNU)</th>
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<tr>
<td>Apr</td>
<td>2.2</td>
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<td>May</td>
<td>7.2</td>
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<td>Jun</td>
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<td>Jul</td>
<td>12.4</td>
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<td>Aug</td>
<td>10.2</td>
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JT Share

- Feb: 63.6%
- Mar: 61.0%
- Apr: 43.6%
- May: 20.7%
- Jun: 50.9%
- Jul: 57.5%
- Aug: 62.1%

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

Fulfill diversifying needs

- Launch new products
- Deliver innovative package design
- Deliver innovative OTP
- Improve quality and innovation in taste & flavor
- Improve point of sale
- Develop smoking areas

Adding value for consumers

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

➢ Strive to maximize efficiencies
Appendix
Sales volume

(BNU)

Industry volume  JT sales volume 2)

2002/03  2003/03  2004/03  2005/03  2006/03  2007/03  2008/03  2009/03  2010/03  2011/03  2012/03 forecast

230.1  210.1  190.0  170.0  150.0  130.0  110.0  90.0  70.0  50.0  30.0  10.0  0.0

2002/03  2003/03  2004/03  2005/03  2006/03  2007/03  2008/03  2009/03  2010/03  2011/03  2012/03 forecast

20
Number of JT employees and Number of cigarette factories

(Number of employees of JT)
(Number of cigarette factories)

0
5
10
15
20
25
30
35
40

0/03 01/03 02/03 03/03 04/03 05/03 06/03 07/03 08/03 09/03 10/03 11/03
Number of domestic tobacco growers and cultivation area

(Thousands of growers)

(Thousands of hectares)

Number of domestic tobacco growers

Area under domestic leaf tobacco cultivation
## List price of Mild Seven

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### Tax change

- Tobacco tax introduction
- Consumption tax introduction
- National tobacco special excise tax introduction
- Tobacco excise tax hike
- Tobacco excise tax hike

### Tax incidence of Mild Seven per pack

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<tr>
<td>Tax change</td>
<td>56.7%</td>
<td>59.7%</td>
<td>59.7%</td>
<td>59.1%</td>
<td>61.3%</td>
<td>63.2%</td>
<td>63.1%</td>
<td>64.5%</td>
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23
Route to market

This slide has been developed to explain JT’s performance to our investors. This slide is not intended to promote the purchase of our products or to induce smoking.
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»

«Until Jun. 2006»
- JPY 300: Marlboro
- JPY 280: Seven Stars, Cabin, Hope, Peace
- JPY 270: Mild Seven, Winston, Caster

«After Jul. 2006»
- JPY 320: Marlboro
- JPY 300: Mild Seven, Seven Stars, Cabin, Hope, Peace
- JPY 290: Lark, Kent, Winston, Caster

«Market share evolution in the two years following the 2006 tax-led price hike»
- JT Share
- Mild Seven Family Share

Tax-led price hike

(%)
Restoration of market share of JT’s key brands

- **MILD SEVEN**
  - Feb: 31.8%
  - Aug: 30.1%

- **PIANISSIMO**
  - Feb: 3.8%
  - Aug: 2.8%

- **SevenStars**
  - Feb: 8.3%
  - Aug: 7.9%

Total share of key brands:
- **MILD SEVEN**: 43.9%
- **PIANISSIMO**: 41.6%
- **SevenStars**: 43.5%
- **JT**: 40.7%