

[This is an English translation prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

Business Report

To Our Shareholders Volume 30

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<Photo>

JTI UK office

<Photo>

Cigarettes retailer in U.K.

<Photo>

Brand promotion at restaurant

<JT logo>

A Message from Management

In the consolidated financial results for the first three months of the fiscal year ending March 31, 2011, net sales was almost flat as a result of an increase in sales in the international tobacco business offsetting the effects of the lower sales volume in the Japanese Domestic Tobacco Business. Mainly caused by effects from decreased sales in the Japanese Domestic Tobacco Business, EBITDA (operating income + depreciation and amortization) decreased but progress was roughly in line with the initial plan. Furthermore, measures towards accomplishing the initial plans were steadfastly executed in each business.

In the Japanese Domestic Tobacco Business, in addition to secular decline caused by structural factors, sales volume and sales share decreased due to the effects of the announcement in April of new prices after the tobacco excise tax hike in October. Even in such severe environment, the share of key brands of Mild Seven, Seven Star and Pianissimo maintained the same level as that of the previous year for full-year and growing steadily. In addition, JT released limited in Tokyo “Zerostyle Mint” in May. This new product, which does not require a flame, and thus is smokeless, allowing consumers to use it in a variety of locations, being considerate to neighbors at the same time, is well received.

In the International Tobacco Business, we steadfastly increased our market share in U.K., Italy, France, Russia, Turkey and other major markets. On the other hand, a decrease in the overall demand in all markets due to a significant tax increase and high unemployment rate as well as the continuation of an unstable business environment in Iran have brought down the sales volume. Financially, driven by the effects of unit price increase and positive impact from currency exchange fluctuations, both dollar-based net sales and profit grew.

In the Pharmaceutical Business, clinical development of “JTS-653” for the indication of pain treatment etc. moved up to Phase 2. We will continue to steadily advance compounds in the clinical development stage and enhance the R&D pipeline.

In the Food Business, JT continued to effect concentration on the core competencies of the businesses of the TableMark Group in an effort to establish a strong business foundation.

We humbly beseech all our valued shareholders to further their understanding and support for our business.

September 2010

Hiroshi Kimura, President & CEO

Report on the Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2011 (FY2010)

- Overview of the Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2011 (FY2010)

In the consolidated financial results for the first three months of the fiscal year ending March 31, 2011, adjusted net sales excluding tobacco excise taxes was almost flat and profits decreased, as shown in Table 1.

Adjusted net sales excluding tobacco excise taxes was almost flat at ¥474.1 billion due to an increase in sales in the International Tobacco Business offsetting the effects of the lower sales volume in the Japanese Domestic Tobacco Business.

EBITDA (operating income + depreciation and amortization) was ¥132.6 billion, down 6.9% from the same period of the previous fiscal year, due to the decrease in net sales.

Despite the lower interest expenses, non-operating income/loss deteriorated as a result of a worsening foreign exchange gain/loss and a decrease in interest income. Ordinary income fell 9.2% from the same period of the previous fiscal year to ¥71.5 billion.

Net income decreased 46.7% to ¥22.8 billion due to the deterioration of extraordinary income/loss resulting from the recording of a loss from the payment for regulatory fine in Canada prior to JT's acquisition of RJR International and a lower gain on sales of noncurrent assets.

<Figure 1>

(Table 1) Consolidated financial results for the first three months of the fiscal year ending March 31, 2011 (FY2010)

(Billions of yen)

	Three months ended June 30, 2009 (results)	Three months ended June 30, 2010 (results)	Change
Net sales including tobacco exercise taxes	1,463.1	1,467.0	0.3%
Adjusted net sales excluding tobacco excise taxes *1	474.8	474.1	-0.1%
EBITDA *2	142.5	132.6	-6.9%
Operating income	84.2	79.1	-6.1%
Ordinary income	78.8	71.5	-9.2%
Net income	42.8	22.8	-46.7%

*1. Adjusted net sales excluding tobacco excise taxes does not account for imported tobacco, domestic duty free, business in China and others in the Japanese Domestic Tobacco Business, in addition to the distribution business, leaf tobacco sales, contract manufacturing and other peripheral businesses in the International Tobacco Business.

*2. EBITDA = Operating income + depreciation and amortization (Indicates a profit on a cash flow basis.)

Reference: Figures for major profit items before goodwill amortization

Operating income	109.2	102.5	-6.1%
Ordinary income	103.7	95.0	-8.5%
Net income	67.8	46.2	-31.8%

In the Japanese Domestic Tobacco Business, the sales volume decreased by 7.9%. In addition to an overall decline trend in demand due to the advance of aging, the tightening of smoking regulations and other structural factors, there was also the effect of the announcement of the October retail prices amendment and the backlash resulting from a temporary increase in inventories at retail outlets following brand enhancement policies aimed at the Mild Seven family implemented at the end of the previous fiscal year. Affected by a decline in the sales volume, adjusted net sales excluding tobacco excise taxes decreased 7.7% to ¥146.1 billion and EBITDA decreased 12.9% to ¥58.3 billion. Operating income decreased 10.2% to ¥47.2 billion.

Although JT's share fell to 64.5%, we were the only company to announce new retail prices effective from October, and we believe we were impacted early by the announcement of retail prices amendment. Even in such severe environment, the share of key brands (Mild Seven, Seven Star and Pianissimo) was 45.1% and is showing robust performance thanks to the introduction of new products along with brand fostering efforts and active promotional activities. Furthermore, in July 2010, we launched the Mild Seven Aqua Squash Menthol 7 Box, which has a filter with new technology that allows the coexistence of charcoal and menthol, and continued other efforts to enhance the value of our brands.

<Figure 2> Japanese Domestic Tobacco Business results

* Actual results excluding results from imported tobacco, domestic duty free markets, business in China and others of the Japanese Domestic Tobacco Business.

<Figure 3> Market share of core JT brands and JT products

(Table 2) JT sales volume

	(Billions of cigarettes)		
	Three months ended June 30, 2009	Three months ended June 30, 2010	Change
JT sales volume	39.0	35.9	-7.9%

International Tobacco Business

Regarding the sales volume of the International Tobacco Business for the three months ended March 31, 2010, “Winston” grew steadily in the Philippines and France, “Camel” in Turkey and Ukraine. However, effects from a decrease in the overall demand in all markets due to significant tax increase and high unemployment rate as well as the continuation of an unstable business environment in Iran since the latter half of FY2009 have brought down the total sales volume by 6.8% to 94.1 billion cigarettes, with the Global Flagship Brands (GFB) decreasing 4.4% to 54.6 billion cigarettes. Market share rose firmly above the previous year’s levels in almost all major markets.

Despite a decrease in sales volume, dollar-based adjusted net sales excluding tobacco excise taxes and EBITDA increased by 10.4% and 1.8% due to the effects of unit price increase and positive impact from currency exchange. On the other hand, affected by a high yen, yen-based EBITDA decreased slightly by 1.5%.

<Figure 4> International Tobacco Business results

- *1. Excluding distribution business, leaf tobacco sales, contract manufacturing and other peripheral businesses
- *2. Prior to royalty payments to JT

<Figure 5> Sales volume of the International Tobacco Business

- *3. Excluding private label and contract manufacturing, and including cigars, pipes and snus (chewing tobacco)

<Figure 6> Market share in major markets

- * Data sourced from AC Nielsen, Core EPOS and JTI data. 12 months moving average market share.

Pharmaceutical Business

In the Pharmaceutical Business, net sales increased by ¥0.6 billion from the same period of the previous fiscal year to ¥11.8 billion with EBITDA improving by ¥0.2 billion to negative ¥2.0 billion due to growth in sales from “REMITCH CAPSULES,” an oral antipruritus drug, and an anti-HIV drug “Truvada Tablets,” at Torii Pharmaceutical Co., Ltd, a JT Group company. Regarding clinical development, “JTS-653,” under development for the indication of pain treatment etc., moved to Phase 2. In addition, at Torii Pharmaceutical Co., Ltd., the start of Phase 3 clinical trials has been decided for a desensitizer drug for cedar pollen allergies that is administered under the tongue. This drug is expected to relieve the burden of injections on patients. We will continue to steadily advance compounds in the clinical development stage and enhance the R&D pipeline.

Pharmaceutical Business: Clinical development (as of July 29, 2010)

Code	Stage	Key indication	Characteristics	Rights
JTT-705 (oral)	Phase 2 (Japan)	Dyslipidemia	Decreases LDL and increases HDL by inhibition of CETP - CETP: Cholesteryl Ester Transfer Protein, facilitates transfer of cholesteryl ester from HDL to LDL - HDL: High-density lipoprotein (“good cholesterol”) - LDL: Low-density lipoprotein (“bad cholesterol”)	Roche (Switzerland) obtained the rights to develop and commercialize the compound worldwide from JT, with the exception of Japan. * Development stage by Roche: Phase 3
JTT-130 (oral)	Phase 2 (Japan) Phase 2 (Overseas)	Dyslipidemia	Treatment of dyslipidemia by reducing absorption of cholesterol and triglycerides via inhibition of MTP - MTP: Microsomal Triglyceride Transfer Protein	
JTK-303 (oral)	Phase 1 (Japan)	HIV infection	Integrase inhibitor which works by blocking integrase, an enzyme that is involved in the replication of HIV - HIV: Human Immunodeficiency Virus	Gilead Sciences (U.S.) obtained the rights to develop and commercialize this compound worldwide from JT, with the exception of Japan. * Development stage by Gilead Sciences: Phase 3
JTT-302 (oral)	Phase 2 (Overseas)	Dyslipidemia	Decreases LDL and increases HDL by inhibition of CETP - CETP: Cholesteryl Ester Transfer Protein, facilitates transfer of cholesteryl ester from HDL to LDL - HDL: High-density lipoprotein (“good cholesterol”) - LDL: Low-density lipoprotein (“bad cholesterol”)	
JTT-305 (oral)	Phase 2 (Japan)	Osteoporosis	Increases BMD and decreases new vertebral fractures by accelerating endogenous PTH secretion via antagonism of circulating Ca on CaSR in parathyroid cells - BMD: Bone Mineral Density - PTH: Parathyroid Hormone - CaSR: Calcium-Sensing Receptor	Merck (U.S.) obtained the rights to develop and commercialize this compound worldwide from JT, with the exception of Japan.

Code	Stage	Key indication	Characteristics	Rights
JTS-653 (oral)	Phase 2 (Japan)	Pain Overactive bladder	Improves pain and overactive bladder via antagonism of TRPV1 on sensory neurons - TRPV1: Transient Receptor Potential Vanilloid subtype 1	
JTT-654 (oral)	Phase 1 (Japan) Phase 2 (Overseas)	Type 2 diabetes mellitus	Improves type 2 diabetes through reducing excessive glucocorticoid action by inhibiting HSD-1 - HSD1: 11 beta-hydroxysteroid dehydrogenase type 1	
JTK-656 (oral)	Phase 1 (Overseas)	HIV infection	Integrase inhibitor which works by blocking integrase, an enzyme that is involved in the replication of HIV - HIV: Human Immunodeficiency Virus	
JTT-751 (oral)	Phase 2 (Japan)	Hyperphosphatemia	Decreases serum phosphorous level by binding phosphate derived from dietary in the gastrointestinal tract	JT obtained the rights to develop and commercialize this compound in Japan from Keryx Biopharmaceuticals (U.S.) (Developed jointly with Torii Pharmaceutical)
JTK-853 (oral)	Phase 1 (Overseas)	Hepatitis C	Treatment of Hepatitis C by inhibiting HCV RNA- polymerase which relates to viral proliferation	

* The beginning of a development stage is based on when the administration of the drug commences. Changes since the previous announcement on April 28, 2010: JTS-653 has moved up from Phase 1 to Phase 2 in Japan.

Food Business

Net sales for our Food Business declined by ¥2.6 billion from the same period of the previous fiscal year to ¥96.2 billion due to mainly a decrease in sales of commercial use products for restaurants in our processed foods business, as well as effects from the exclusion from the scope of consolidation of some subsidiaries. EBITDA increased by ¥0.1 billion from the same period of the previous fiscal year to ¥4.0 billion thanks to further strengthening our flagship “Roots” brand, which 10th anniversary is in this autumn, and earnings capability improvement by a concentration of our forces with respect to, frozen noodles, rice, frozen bread and seasonings such as yeast extract product.

● Earnings Forecasts for FY 03/2011

The earnings forecasts for the fiscal year ending March 31, 2011 have not been changed, as it is necessary to take a hard look at the impact on earnings of the Japanese Domestic Tobacco Business taking into account temporary demand and the changes from October onwards regarding the state of competition and overall demand.

(Table 3) Earnings forecasts for FY 03/2011 (FY2010)

(Billions of yen)

	Fiscal year ended March 2010 (results)	Fiscal year ending March 2010 (projection)	Change
Net sales including tobacco excise taxes	6,134.6	5,980.0	-154.6
Adjusted net sales excluding tobacco excise taxes ^{*1}	1,980.9	1,973.0	-7.9
EBITDA ^{*2}	526.7	513.0	-13.7
Operating income	296.5	295.0	-1.5
Ordinary income	255.3	276.0	20.6
Net income	138.4	133.0	-5.4

*1. Adjusted net sales excluding tobacco excise taxes does not account for imported tobacco, domestic duty free, business in China and others in the Japanese Domestic Tobacco Business, in addition to the distribution business, leaf tobacco sales, contract manufacturing and other peripheral businesses in the International Tobacco Business.

*2. EBITDA = Operating income + depreciation and amortization (Indicates a profit on a cash flow basis.)

Reference: Net income before goodwill amortization (projection)

(Billions of yen)

Net income	235.8	226.0	-9.8
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● Caution Concerning Forward-Looking Statements

This material contains forward-looking statements about our industry, business, plans and objectives, financial condition and results of operations that are based on our current expectations, assumptions, estimates and projections. These statements reflect future expectations, identify strategies, discuss market trends, contain projections of results of operations or of our financial condition, or 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 materially 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) an increase in health concerns related to the use of tobacco products;
- (2) legal or regulatory developments and changes, including, without limitation, tax increases and governmental restrictions on the sales, marketing and usage of tobacco products, and privately imposed smoking restrictions and governmental investigations in Japan and elsewhere;
- (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 of businesses;
- (8) local and global economic conditions; and
- (9) fluctuations in foreign exchange rates and the costs of raw materials.

Consolidated Financial Statements

Consolidated balance sheets

(Millions of yen)

	As of March 31, 2010	As of June 30, 2010	Increase (Decrease)
Assets			
Current assets	1,195,843	1,227,970	32,127 *1
Noncurrent assets	2,676,752	2,633,661	(43,090)
Property, plant and equipment	679,561	679,758	196
Intangible assets	1,769,064	1,743,572	(25,491)
Goodwill	1,387,397	1,377,162	(10,234)
Right of trademark	350,900	336,938	(13,961) *2
Other	30,766	29,470	(1,295)
Investments and other assets	228,127	210,331	(17,795) *3
Total assets	3,872,595	3,861,632	(10,963)
Liabilities			
Current liabilities	1,101,535	1,085,052	(16,482) *4
Noncurrent liabilities	1,047,782	1,052,355	4,573
Total liabilities	2,149,317	2,137,408	(11,909)
Net assets			
Shareholders' equity	2,072,501	2,066,724	(5,777) *5
Valuation and translation adjustments	(423,387)	(418,210)	5,176 *6
Subscription rights to shares	564	621	56
Minority interests	73,599	75,088	1,489
Total net assets	1,723,278	1,724,224	945
Total liabilities and net assets	3,872,595	3,861,632	(10,963)

Note: Millions of yen with fractional amounts discarded.

*1. Due to increases in prepaid tobacco excise taxes and raw materials at JTI.

*2. Due to amortization.

*3. Investment securities decreased due to sale and revaluation of shares.

*4. Interest-bearing debt decreased due to redemption of commercial papers, etc.

*5. Despite the recording of net income, retained earnings decreased due to payment of cash dividends.

*6. Effects of foreign exchange rate fluctuation resulted in the reduction of a negative figure for foreign currency translation adjustment.

Consolidated statements of income

(Millions of yen)

	Three months ended June 30, 2009	Three months ended June 30, 2010	Increase (Decrease)
Net sales	1,463,121	1,467,099	3,977 *1
Cost of sales	1,185,876	1,197,370	11,493
Gross profit	277,244	269,728	(7,516)
Selling, general and administrative expenses	192,970	190,606	(2,364)
Operating income	84,273	79,122	(5,151)
Non-operating income	5,469	2,379	(3,089)
Non-operating expenses	10,928	9,915	(1,013)
Ordinary income	78,814	71,586	(7,227) *2
Extraordinary income	10,243	2,421	(7,822)
Extraordinary loss	5,443	20,092	14,648
Income before income taxes and minority interests	83,614	53,915	(29,698)
Income taxes	39,292	29,554	(9,737)
Income before minority interests	–	24,360	24,360
Minority interests in income	1,452	1,520	67
Net income	42,869	22,840	(20,029) *3

Note: Millions of yen with fractional amounts discarded.

- *1. Despite a decline in the sales volume as a result of a fall in overall demand in the Japanese Domestic Tobacco Business, net sales increased as a result of the effects of unit price increase and the stronger local currencies in major markets in the International Tobacco Business.
- *2. Despite an improvement in financial income/loss, ordinary income decreased as a result of a deterioration of non-operating income/loss caused by a worsening of foreign exchange gain/loss.
- *3. In addition to a lower gain on sales of noncurrent assets, the payment for regulatory fine in Canada resulted in a decrease in net income.

Consolidated statements of cash flows

(Millions of yen)

	Three months ended June 30, 2009	Three months ended June 30, 2010	Increase (Decrease)
Net cash provided by (used in) operating activities	32,943	27,493	(5,450)
Net cash provided by (used in) investing activities	(13,074)	(29,393)	(16,318) *1
Net cash provided by (used in) financing activities	(74,726)	(35,258)	39,468 *2
Effect of exchange rate change on cash and cash equivalents	6,268	368	(5,899)
Net increase (decrease) in cash and cash equivalents	(48,589)	(36,789)	11,799
Cash and cash equivalents at beginning of period	167,257	154,368	(12,888)
Cash and cash equivalents of newly consolidated subsidiaries at beginning of period	–	194	194
Cash and cash equivalents at end of period	118,668	117,773	(894)

Note: Millions of yen with fractional amounts discarded.

*1. Due to a decrease in proceeds from sales of property, plant and equipment.

*2. Due to a large amount of repayments of interest-bearing debt in the previous year.

<Picture> <Logo> Introducing International Tobacco Market Series 2

U.K.

Mature market continuing to grow, one step away from attaining No. 1 domestic market share in U.K.

<Flag> Basic knowledge about U.K. <Map>

Population: 60.975 million (as of 2007)

GDP: 1.4429 trillion pounds

Smoking rate: 22.0% (Male: 24.0% Female: 21.0%) (as of 2007)

Exchange rate: 1 pound = ¥133 (as of June 30, 2010)

Sales volume

- Sales volume grew more than 200 times as a result of the acquisition of Gallaher (2007).
- Steady growth continuing since 2007 at annual average of 5.29%.

Market share

- No. 2 domestic market share (41.2%) in U.K.
- Market share increased sharply as a result of the acquisition of Gallaher (0.3% share prior to the acquisition).
- Mayfair, Benson & Hedges and Sterling growing steadily.

Sales volume Note: 10 set as FY2006

Market share

<Graph>

Annual average of 5.29% growth

<Photo>

Cigarettes retailer in U.K.

<Photo>

Major brands

Mayfair (No. 2 in U.K.)

A brand released in U.K. in 1992 which achieved fast growth.

Benson & Hedges

Originally created for the Prince of Wales in 1873, Benson & Hedges has a proud British heritage.

Sterling

Released in U.K. in 2001. Staying No. 1 in the value segment since 2006.

Mayfair

Benson & Hedges

Sterling

<Graph>

Roll your own (RYO) tobacco

In U.K., roll your own (RYO) tobacco has become mainstream alongside cigarettes. RYO tobacco is for smokers who purchase tobacco leaf, cigarette papers, and filters separately and roll their own cigarettes. JTI's RYO tobacco brand "Amber Leaf" has 30.0% share in the RYO market and is No. 1 brand in the value RYO segment. In order to respond to the popularity of RYO, new products from Benson & Hedges brand were also introduced.

- Trends in overall demand of cigarettes / RYO tobacco

Source: TDC: INTERNATIONAL TOBACCO DOCUMENTATION CENTRE

TS Network Co., Ltd. <Logo>

TS Network Co., Ltd. (TS Network) provides services that take care of all aspects of the distribution of tobacco products including customs clearance, order taking, and flawless delivery to tobacco retailers throughout Japan.

TS Network aims to provide the highest standard of services that always satisfy the needs of shippers and retailers with “speed,” “care” and “accuracy.” Seeking to satisfy and put a smile on the face of many customers, we are working to further contribute customers we deal with by utilizing the distribution network we have thus far developed.

Providing comprehensive distribution service

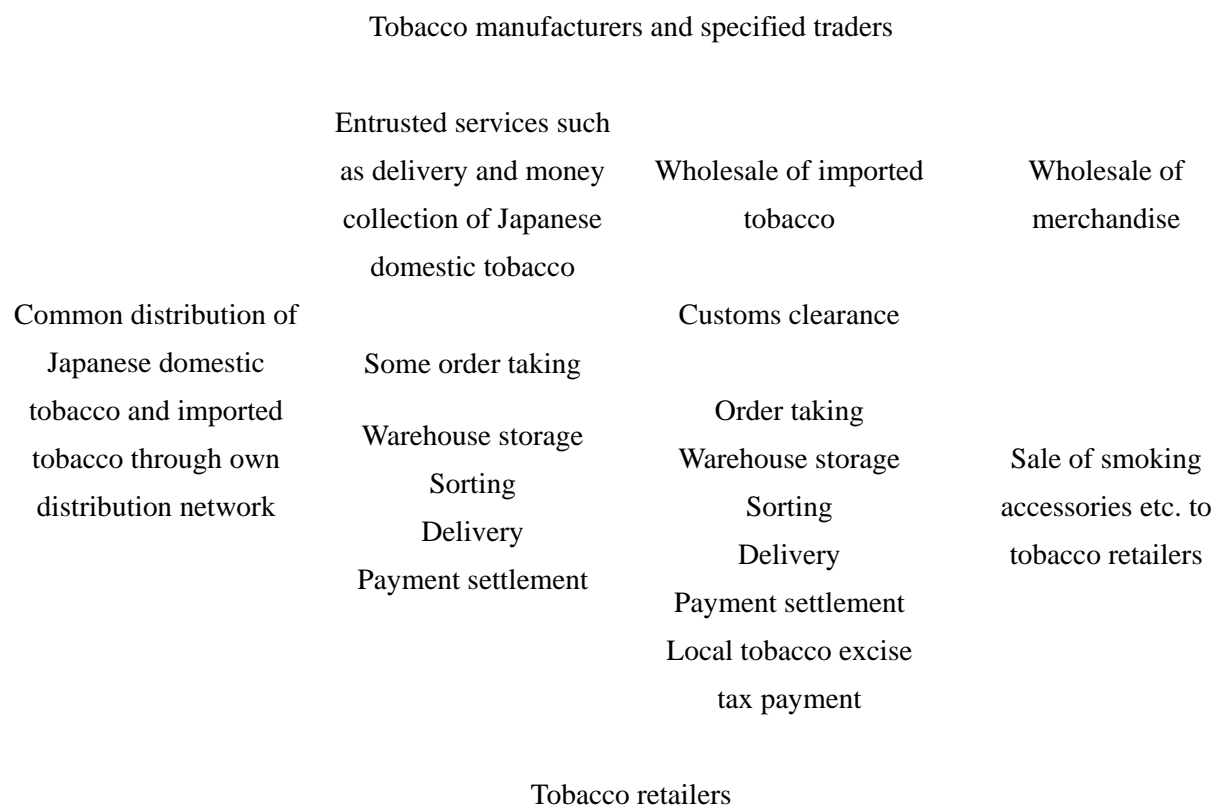
TS Network provides services that cover all aspects of tobacco distribution including customs clearance, storage, order taking, sorting, deliveries and payment settlement. In addition, TS Network performs a whole series of processing tasks including payment of tobacco excise taxes to the national government and local governments (imported tobacco products).

<Photo>

Products are sorted by hand, item by item

<Photo>

Products in storage



Distribution network founded on results and trust

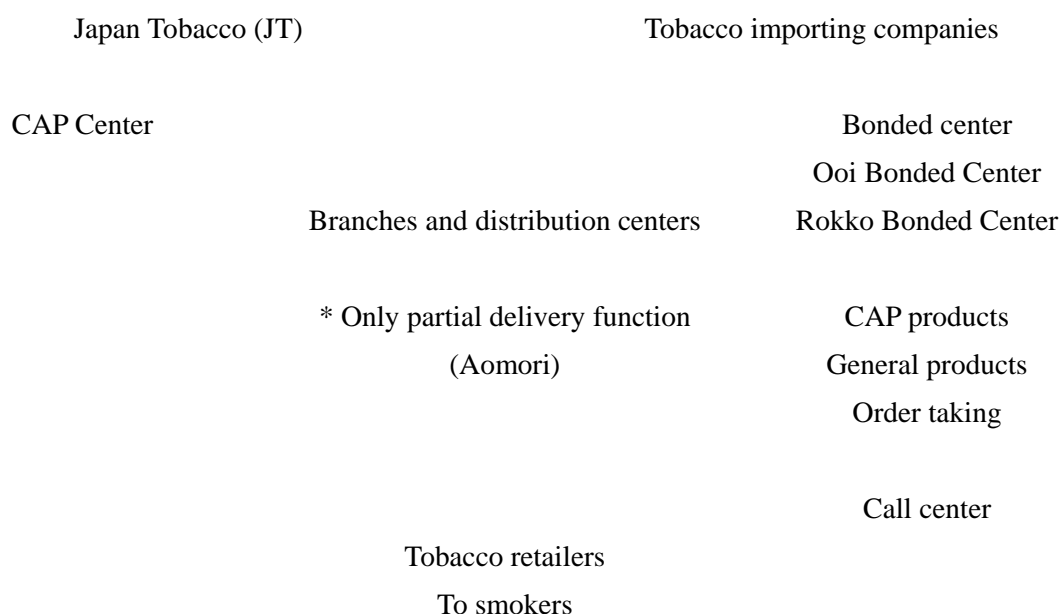
TS Network conducts “common distribution” whereby Japanese domestic tobacco and imported tobacco are carried by the same distribution system. It accurately and efficiently delivers products to customers, and through its intricate service system, it is building trusting relationships with tobacco retailers.

<Photo> <Photo>

Nationwide delivery from each center

<Photo>

Accurate delivery to customers



Company Profile

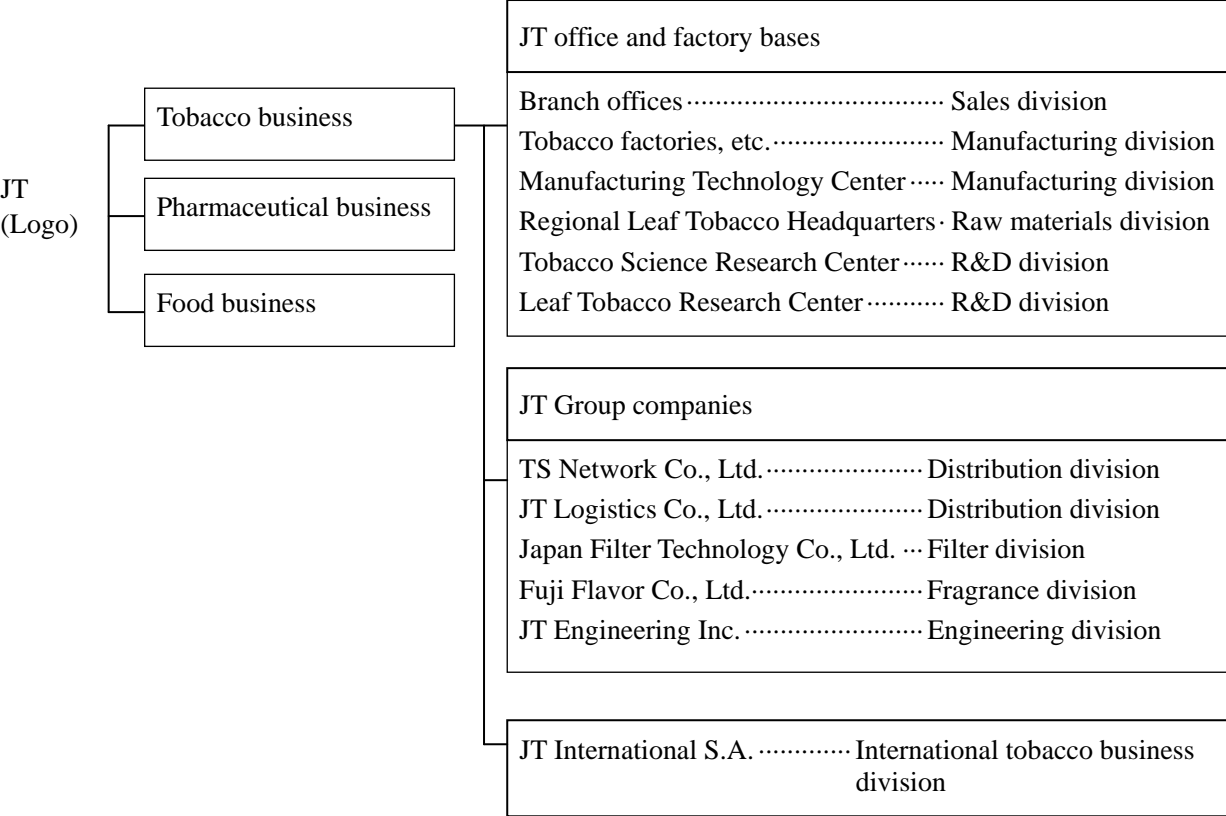
Name: TS Network Co., Ltd.
Head office: 17-7, Asakusabashi 4-chome, Taito-ku, Tokyo
Established: February 1963
Paid-in capital: ¥460 million
Net sales: ¥1.1582 trillion (results for the fiscal year ended March 2009)
Representative: Akihiro Iwanaga, President & CEO
Employees: 1,360 (as of April 1, 2009)

Description of Business

Entrusted services such as delivery and money collection of Japanese domestic tobacco; wholesale of

imported tobacco; bonded warehousing, customs clearance and warehousing for imported tobacco; and wholesale of merchandise

<Chart of TS Network’s Position in the JT Group>



The Lure of Tobacco Smoke

A lesson from the past at the end of a journey

Hadano Tobacco Festival Hadano Tobacco Literature Exhibition [Kanagawa]

<Photo>

Tobacco Festival's literature exhibition displays the history and technology of the old ways

The Hadano Tobacco Festival is held annually on the last weekend of September. Since 2006, the Hadano Tobacco Literature Exhibition has also been held to display the history of leaf tobacco cultivation in Hadano.

Nowadays, the landscape of tobacco fields is but a distant memory for the residents of Hadano, for the town stopped being a center for tobacco cultivation more than twenty years ago. This literature exhibition, which is now held by the town each year as part of the Tobacco Festival, was started to explain the technology and history of leaf tobacco cultivation—the then foundation of the town—and the people that supported this industry.

“Hadano leaf,” the leaf tobacco produced in Hadano was of such high quality it was considered one of the “three premium leaves of Japan” and it was rated highly. Hadano's cultivation technology was so advanced, it was said that Hadano tobacco was made by technology, and many cultivation experts from Hadano instructed cultivation techniques throughout Japan.

The Hadano Tobacco Literature Exhibition uses agricultural tools used at the time and photographic panels to explain simply the technology and the like of tobacco cultivation. Many who visit the literature exhibition are older residents who played a role in tobacco production. While it is an opportunity to reminisce on days gone by, many of these visitors can be observed explaining tobacco cultivation to the younger generations. Therefore, via the subject of leaf tobacco cultivation, this event also provides an opportunity for cross-generational conversations among residents.

<Photo>

The Tobacco Ondo Parade is one of the main events of the Hadano Tobacco Festival. Dancing the “Tobacco Ondo,” which is based on the theme of leaf tobacco cultivation, dancers proceed along a high street alongside Mizunashi River.

<Photo>

The cultivation of leaf tobacco is explained by panels. Agricultural tools and the like were donated by

local farmers who were involved in leaf tobacco cultivation.

<Photo>

Because leaf tobacco was a product under a monopoly system, the grower, cultivation area etc. was strictly controlled. These “unefuda” signboards were displayed in the fields for such purpose.

<Photo>

This drying machine is thought to have been used for leaf tobacco in the last years of cultivation

The first Hadano Tobacco Festival was held in 1948, a time of chaos following the war, as a tribute to the leaf tobacco growers. Warming hearts with kabuki and puppet shows, as well as folk dancing, it started on a small scale in the storage area of the Hadano Monopoly Bureau.

In the third festival, in 1950, the “Tobacco Ondo Gathering,” the initial incarnation of the Tobacco Ondo Parade, started, and the accompanying music, “Hadano Tobacco Ondo,” was composed by Shinpei Nakayama with lyrics by Kiichi Kojima.

Another main event of the Hadano Tobacco Festival, the “Kobo no Himatsuri,” a fire festival, started in the ninth festival, in 1956. This broadened the image of a “tobacco festival” by including the theme of fire, something that is deeply intertwined with tobacco.

The Hadano Tobacco Festival changed from a tribute to the Tobacco growers to a festival enjoyed by the wider community. The festival is also an important reminder of tobacco cultivation’s role in turning Hadano into a flourishing town.

The 63rd Hadano Tobacco Festival Hadano Tobacco Literature Exhibition

Location

Hadano City Hall Honcho Community Center, 1/F Exhibition Area
12-2, Irifune-cho, Hadano-shi, Kanagawa 257-0041, Japan
(12-minute walk from Hadano Station of Odakyu Line)

Inquiries

+81-463-87-9581 (Cultural Properties Section, Lifelong Learning Department, Hadano City Board of Education)

Opening hours

9:00 to 17:15

2010 Exhibition dates

September 25 to 26

Admission fees

Free

<http://navi.city.hadano.kanagawa.jp/s-gakusyu/bunkazai/> (Japanese only)

<Map>

* Read the article on JT website's "SMOKERS' STYLE" (Japanese only)

<http://www.jti.co.jp/sstyle/trivia/know/travel/>

Pick Up and You Will Love Your City Campaign

<Photos>

By picking up trash, JT hopes people will stop littering

<Photos>

Since May 2004, JT has been promoting across Japan a citizen participation cleanup campaign called “Pick Up and You Will Love Your City.” This campaign aims to foster awareness to stop littering through trash pick up activities. So far, we succeeded in holding 1,052 activities in all 47 prefectures with more than 1,090,000 participants. In FY2009, 253 activities were held with 237,179 participants. The campaign has steadily broadened its scale over the years.

Also, local governments, companies, schools, volunteers and executive committees of events and participating organizations cooperate in the management of the campaign.

With a hope of “increasing more and more the number of people who don’t litter,” JT will work to encourage manners all across the country.

Current Results of Activities

Number of activities held 1,052

Number of participants 1,098,438

Number of organizations 2,124

From May 3, 2004 to June 30, 2010

Activities are spreading all across Japan

Aiming to foster awareness to stop littering through trash pick up activities

The 49th Hakata Dontaku Port Festival (Fukuoka Prefecture)

<Photo>

The Hakata Dontaku is a traditional event dating back to 1179

Fukuoka International University volunteers working to reduce littering at the festival and campus festival

<Photo>

<Photo>

“It was fun!” say girls who participated in the campaign before performing on stage.

Two days of abundant participation assisted by initiative and guidance of students and other locals

Each year the Hakata Dontaku Port Festival draws more than two million spectators. JT Fukuoka Office conducted a “Pick Up and You Will Love Your City” (Pick Up City) campaign, over two days in conjunction with this public festival. In the space of one day, more than 2,000 people participated in the festival’s “Pick Up City.” It was the seventh time citizen cleanup campaigns have been operating with the festival since the idea was initiated in 2004, and campaign operators are now very experienced. With cooperation from JT Kyushu Plant employees, participant entry processing and collection activities were carried out smoothly. Along with volunteers from the Fukuoka City Hall, those working as campaign operators also included officers of the Student Association and other students from Fukuoka International University. It was the fifth time the Student Alumni Association participated and while learning how to operate “Pick Up City,” which is also conducted in conjunction with the university’s campus festival, the students also conducted their own campaigns relating to trash sorting and neighborhood cleanup activities.

Hamamatsu Festival (Shizuoka Prefecture)

<Photo>

May skies have since long ago been spectacle to kites celebrating the growth and health of kids.

Waiting queue in front of the entry booth

<Photo>

<Photo>

Family visiting on holidays. “An opportunity for the kids to think about the environment.”

With better booth location and blessed weather, participants were up from last year.

Hamamatsu Festival is a time-honored event in May in Hamamatsu City, Shizuoka Prefecture. With participation from the city’s 174 towns, it attracts more than a million spectators. It was the fifth time JT Shizuoka Branch conducted the “Pick Up City” at this festival. This time, the entry booth was located close to the festival entrance and it attracted youths garbed in festival attire, kids and parents, and festival sightseers. The booth staff was kept busy throughout the day from 10 o’clock in the morning. In splendid weather, people made obvious concerted effort to pick up litter as they headed towards the festival event

area. What is striking about this festival is that many people participate every year. Now the fifth time it has been conducted at the festival, “Pick Up City” is becoming widely recognized among Hamamatsu residents and sightseers from broader afield. This year the number of participants was up from the previous year and it proved to be a day in which JT activities achieved greater recognition than anticipated.

For the latest information on Pick Up and You Will Love Your City Campaign, see www.hiromachi.jp
(Japanese only)

<Picture>

Report of Shareholder Questionnaire Results

We would like to thank you for your cooperation in the questionnaire sent out with the June 2010 Business Report Volume 29. We received responses from about 9,000 shareholders.

The following are results of the questionnaire on complimentary gifts for shareholders (Shareholder Special Benefit Plan) and the Business Report.

Shareholder Special Benefit Plan

Contents of this year's complimentary gifts

Satisfied	70.9%
Not satisfied	5.2%
No opinion	21.6%
Unclear	2.4%

The breakdown of shareholders choices of complimentary gifts were: beverage set (approximately 50%), rice set (approximately 30%) and soup and condiment set (approximately 20%).

JT's Stock

How many shares of JT's stock do you own?

1	25.0%
2	9.6%
3	5.9%
4	2.9%
5	41.6%
6 to 9	2.9%
10 to 14	5.2%
15 or more	4.4%
None at present	0.4%
Unclear	1.9%

How long have you held JT's stock?

Less than 6 months	1.5%
Between 6 months and less than 1 year	3.2%
Between 1 year and less than 3 years	16.4%
Between 3 years and less than 5 years	11.6%
Between 5 years and less than 10 years	20.7%
10 years or more	42.8%

Unclear 3.7%

Out of shareholders with holding of 10 years or more, 80% have been holding shares since the listing in October 1994. Of shareholders with holding of between 5 years and less than 10 years, 60% have been holding shares since the public offering in June 2004.

Average number of shares held of 4.8, over an average period of 8.4 years.

Business Report Volume 29

Article of the Business Report which was of interest to you (multiple answers possible)

	(%)
Report on the Consolidated Financial Results	55.3
JT Group Products	37.7
Introducing a JT Group Company	34.5
Introducing an International Tobacco Market	28.3
Corporate Philanthropy	23.2
A lesson from the past at the end of a journey	19.2
“Zerostyle Mint” Released	12.5
Recipe with TableMark product	12.3
JT Volleyball Teams	8.3

Topic you would like more information on in the future (multiple answers possible)

	(%)
Pharmaceutical Business	60.6
Food Business	52.5
International Tobacco Business	23.6
Product information	23.4
Financial information	20.5
Japanese Domestic Tobacco Business	19.9
Social contribution information	15.2
Other business	5.5

Results show that many shareholders are very interested in financial results and would like more information on our Pharmaceutical Business and Food Business in the Business Report. As the calls for enrichment of information on the pharmaceutical and food businesses have been increasing, we have increased the number of articles on the Food Business since Volume 29. Also, for the Pharmaceutical Business, we plan to introduce a group company in the next issue, Volume 31.

Bulletin Board

NEWS

– Building Character with Shogi –

The 2010 JT Shogi Japan Series has begun!

This year's JT Shogi Japan Series, our 31st, started with the Kumamoto Tournament on June 12. Under the theme "Building Character with Shogi," this Series is held in 11 cities across the country and features the Kids Tournament for "hands-on learning" where kids get to engage in serious competition and the Official Pro Tournament for "watching" top professionals in serious competition. Both tournaments are held on the same day at the same venue. Through playing shogi with various opponents, the Kids Tournament is an opportunity for kids from all over Japan to experience the fun of shogi: to experience sweet victories and bitter defeats and to empathizing with their opponents. This year, to commemorate the tournament's tenth anniversary, the kids who did well in their local tournaments converged on Tokyo to compete in the "Kids Championship Tournament." Held directly after the Kids Tournament, the Official Pro Tournament gives kids the opportunity to watch shogi professionals at the apex of their careers in serious competition. This allows kids to learn from the poise, concentration and etiquette demonstrated by these professionals. Before the tournaments, under the "Shogi Lessons by Visiting Pros" program, professional shogi players visit elementary schools in the cities where tournaments are held. Through giving instruction in shogi and recounting personal experiences, the professionals give children insight into the appeal of shogi. JT is sponsoring the tournament for the sound development of young people through the traditional Japanese game of shogi.

<Photo>

Kids in serious battle

<Photo>

Watching dueling pros up close

Newly introduced from "Mild Seven," the No. 1^{*1} brand in terms of domestic market share!

"Mild Seven Aqua Squash Menthol 7 Box" released nationwide in mid July

JT released a new product "Mild Seven Aqua Squash Menthol 7 Box" nationwide in mid July. The brand characteristic of Mild Seven is a "refreshing tastiness" drawn from the charcoal filter.^{*2} The new member of the Mild Seven lineup boasts a filter that, through original JT technology, enables the coexistence of charcoal and menthol, a combination that has never before been achieved. Smokers can now enjoy the refreshing after taste together with the menthol sensation.

*1. According to market research conducted by JT

*2. Activated charcoal is mixed in with the filter

Mild Seven Aqua Squash Menthol 7 Box

Size: King size filter

Filter type: Advanced charcoal tech filter

Tar value: 7 mg per cigarette

Nicotine value: 0.6 mg per cigarette

Packaging: Round box containing 20 cigarettes

Price: ¥300

Easy Recipe with
<TableMark Logo>

Use what's in the fridge for a simple, delicious meal.
“Perfect light dish for summer! *Shio-Kobu Udon* Noodles”

When you have a craving for *udon* noodles, this is the perfect recipe for making a simple dish out of ingredients you already have. The selling point is that you put your own pickles and *shio-kobu* in a plastic bag together with *udon* noodles and mix them.

A deliciously salty aroma mixes throughout the *udon* noodles.

This dish is recommended as a perfect dish for summer days when you desire something light and refreshing.

<Photo>

Quick and easy cooking with TableMark's “Frozen *Udon* Noodles”!

Ingredients

1 serving (200g × 1 bundle) TableMark “Frozen Sanuki *Udon* Noodles”

Men-tsuyu (soup stock for noodles)

[a]

10g cucumber and aubergine pickles (sliced)

10g *shio-kobu* (seasoned shredded dried kelp) (reduced salt type)

1 teaspoon sesame oil

[b]

Lettuce (torn into pieces)

Radish sprouts

1 pickled plum

* The measurements of ingredients are rough guide for when using reduced salt ingredients such as *asazuke* (light pickles) and *shio-kobu* with reduced salt. Adjust the measurements accordingly depending on the ingredients used.

Preparation

Put “Frozen Sanuki *Udon* Noodles” in the microwave (600W) for 3.5 minutes.

* Wash in cold water and drain well.

Directions

1. Put [a] and *Udon* noodles in a plastic bag and gently massage to mix together.
2. Thoroughly mix in the *shio-kobu* flavor base and serve in dish together with [b].
3. Add diluted *men-tsuyu* to taste and serve with pickled plum topping (pickled plum to be mixed in sparingly while eating).

Many more *udon* noodle summer recipes online! (Japanese only)

www.tablemark.co.jp/

<Picture>

JT Group Products (available only in Japan)

Roots “Aroma Black Hot Blend”

Renewal

275g aluminum bottle/¥130 (tax not included)

Richer aroma! Fuller taste!

- The new hot-blend coffee made from roughly ground beans has richer aroma and fuller taste so that it is delicious as it is. The new blend also achieves acidity reduction for a smoother taste.
- Its packaging is designed specifically for a hot-blend coffee. The new gold cap adds a sense of class.

<Photo>

“Nidai-me Komezukuri

Released on September 6

410ml pet bottle/¥140 (tax not included)

Back again this year by popular demand in a new incarnation!

- “Komezukuri” that became a hit topic last year as been launched again this year in joint development with a *sake* maker “Ozeki.” Using a rice-flour saccharified solution from rice grown in Japan and milk material we have developed a refreshingly tasty carbonated beverage.
- Through this product, we participate in “FOOD ACTION NIPPON,” which promotes improving Japan’s food self sufficiency ratio.

* For details on “FOOD ACTION NIPPON” please visit <http://syokuryo.jp/> (Japanese only).

<Photo>

“Fried Rice with Shrimp and More”

Renewal

1 serving (450g)

<Photo>

New improved pan-fried crispiness and fluffiness

- “Bakucha” is now even better with extra pan-fried feel. It has extra fried pork, charred soy sauce is used and the savory seafood flavor has been enhanced.

- Bakucha utilizes original food processing technology (rice frying technology) that we have perfected through research.

“Steaming Niigata Koshihikari Rice (Divided)”

Renewal on September 6

4 servings (600g)

<Photo>

First in the industry! Adoption of portion display

- The 150-gram serving portion is exactly a single rice bowl serving. We have adopted the icon that indicates “one portion = one rice bowl serving” which is an innovation for this industry designed to make it easier to judge portion sizes.
- Niigata Koshihikari Rice cooked with underground water from Uonuma, is fluffy and flavorsome.

You can shop online for JT Group beverage products anytime, right from your own home.

JT Online Shop (beverage) <http://www.shopjt.com/> (Japanese only)

Share Handling Procedures

(1) Where do I inquire about share handling procedures?

Generally, we ask that you inquire about all matters pertaining to handling the shares of the Company at the securities company where you have your account. For those shareholders using special accounts, please inquire at Mitsubishi UFJ Trust and Banking Corporation, the special-account managing institution.

Change of Address

Notices of convocation of general meeting of shareholders, dividend warrants or statements, complimentary gifts, etc. will be forwarded to the registered address. In the event of a change of address as a result of moving, etc., we ask that you please immediately notify the securities company where you have your account. For those shareholders using special accounts, we ask that you please immediately notify Mitsubishi UFJ Trust and Banking Corporation, the special-account managing institution.

(2) How to receive dividends

Methods to receive dividends

Dividends can be received in cash or by bank remittance. If selecting bank remittance, dividends can be received safely and securely. Shareholders wishing to receive dividends in cash will be forwarded a dividend warrant. Please retrieve it at your earliest convenience at any Japan Post Bank office or post office. Shareholders wishing to receive dividends by bank remittance will have dividends remitted to the bank, Japan Post Bank or other account designated in advance. In addition, a year-end (interim) dividend statement will be forwarded.

Bank remittances may be effectuated in the following three methods.

1. Method whereby dividends are received by designating a deposit account at a bank, etc. for each issue held

Deposit accounts held at banks, etc. to which dividends are to be remitted may be divided for each issue held.

2. Method whereby dividends for all issues held are received in a lump-sum at a deposit account held at a bank, etc.

Dividends for all issues held are received in a lump-sum in the registered remittance account (held at a bank, etc.). Remittance account designation is limited to one (1) financial institution.

3. Method whereby dividends are received in securities company trading accounts

Dividends may be received in a trading account held at a securities company (if a balance exists at several securities companies, allocation as per said balances). This method is not available for

shareholders using special accounts.

Changing the dividend payment method

Please contact the securities company where you have your account. Even if accounts are held at several securities companies, procedures may be effectuated at a single securities company. We ask shareholders using special accounts to please contact Mitsubishi UFJ Trust and Banking Corporation, the special-account managing institution.

(3) In the event dividend related documents were not received, the dividend warrant has been lost or the dividend payment period has lapsed

We ask that shareholders who have not received dividends due to the abovementioned or other reasons to please contact Mitsubishi UFJ Trust and Banking Corporation, the shareholder registry administrator.

Inquiries concerning special accounts

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

0120-232-711 (toll-free number/available only in Japan)

(Business hours: 9 a.m. to 5 p.m. on weekdays excluding public holidays)

Mailing address

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan

Request for procedure forms related to special accounts

0120-244-479 (toll-free number/available only in Japan)

(24-hour automatic answering service operated by Mitsubishi UFJ Trust and Banking Corporation)

Members of the Board, Auditors, and Executive Officers

Members of the Board

Chairman of the Board	Yoji Wakui
Representative Director, President	Hiroshi Kimura
Representative Director, Executive Deputy President	Munetaka Takeda
Representative Director, Executive Deputy President	Masaaki Sumikawa
Representative Director, Executive Deputy President	Mitsuomi Koizumi
Representative Director, Executive Deputy President	Masakazu Shimizu
Member of the Board	Noriaki Okubo
Member of the Board	Mutsuo Iwai
Member of the Board	Yasushi Shingai

Auditors

Standing Auditor	Hisao Tateishi
Standing Auditor	Gisuke Shiozawa
Auditor	Takanobu Fujita
Auditor	Koichi Ueda

Executive Officers (*sikkoyakuin*)

President, Chief Executive Officer	Hiroshi Kimura
Executive Deputy President, Assistant to CEO in Compliance and Finance	Munetaka Takeda
Executive Deputy President, Assistant to CEO in Strategy, HR, Legal, Operational Review and Business Assurance, and Food Business	Masaaki Sumikawa
Executive Deputy President, President, Tobacco Business	Mitsuomi Koizumi
Executive Deputy President, Assistant to CEO in CSR, Communications and General Administration	Masakazu Shimizu
Senior Executive Vice President, Head of Manufacturing General Division, Tobacco Business	Kenji Iijima
Senior Executive Vice President, President, Pharmaceutical Business and Vice President of Business Planning Dept, Pharmaceutical Division	Noriaki Okubo
Senior Executive Vice President, Chief Legal Officer	Ryuichi Shimomura
Executive Vice President, Chief Marketing & Sales Officer, Tobacco Business	Yoshihisa Fujisaki
Executive Vice President, Chief R&D Officer, Tobacco Business	Tadashi Iwanami
Executive Vice President, Head of Tobacco Business Planning Division	Akira Saeki
Executive Vice President, Chief Strategy Officer, Assistant to CEO in Food Business	Mutsuo Iwai
Executive Vice President, Chief Financial Officer	Hideki Miyazaki

Senior Vice President, Head of Domestic Leaf Tobacco General Division, Tobacco Business	Shinichi Murakami
Senior Vice President, Head of China Division, Tobacco Business	Atsuhiro Kawamata
Senior Vice President, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business	Kazuhito Yamashita
Senior Vice President, Head of Central Pharmaceutical Research Institute, Pharmaceutical Business	Junichi Haruta
Senior Vice President, Head of Soft Drink Business Division	Ryoko Nagata
Senior Vice President, Chief Human Resources Officer	Satoshi Matsumoto
Senior Vice President, Chief General Affairs Officer	Ryoji Chijiwa
Senior Vice President, Chief Communications Officer	Yasuyuki Tanaka

Trends in Share Price

Share prices of JT, from IPO on October 27, 1994 to July 2010 (closing prices on the TSE, monthly basis)

<Chart of JT's share price>

First sale

Sale by bidding

Contract price ¥1,362,000 to ¥2,110,000 (fixed date of the contract price August 29, 1994)

Sale without bidding

Sale price ¥1,438,000 (fixed date of the sale price August 31, 1994)

Second sale

Sale price ¥815,000 (fixed date of the sale price June 17, 1996)

Third sale

Sale price ¥843,000 (fixed date of the sale price June 7, 2004)

* The Company implemented stock split of 5-for-1 on April 1, 2006. The share prices before that date are retroactively adjusted although the share prices listed above as the sales price for first sale through third sale have not been revised to reflect such split.

Memo for Shareholders

Closing date: March 31 of each year

Annual General Meeting of Shareholders: June of each year

Record date for year-end dividend: March 31 of each year

Record date for interim dividend: September 30 of each year

Method of public notice:

Electronic public notice

Public notices will be posted on JT's website: <http://www.jti.co.jp/>

* If JT is unable to make electronic public notice due to an accident or any other compelling reason, it will make an alternative public notice in "The Nikkei" newspaper.

Shareholder registry administrator/special-account managing institution:

Mitsubishi UFJ Trust and Banking Corporation

(Office for handling business)

4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

(Inquiry/mailing address)

10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081, Japan

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

0120-232-711 (toll-free number/available only in Japan)

(Business hours: 9 a.m. to 5 p.m. on weekdays excluding public holidays)

(Request for procedure forms related to special account)

The special-account managing institution accepts requests for administrative procedure for shareholders using special accounts (including notification of change of address, forms for designation or change of direct deposit of dividends, and forms for requesting procedures for inheritance of shares) at toll-free number (0120-244-479) 24 hours a day.

Concerning share handling procedures:

Shareholders are asked to contact the securities company where they have accounts.

How to Receive Your Complimentary Gift

In June 2010, JT forwarded to all shareholders registered as of March 31, 2010 instructions on how to receive their complimentary gift. Those shareholders who have sent us an application by the deadline should have received their gift from the end of July. However, if the gift has not yet arrived, please contact us at the toll-free number below.

JT Shareholder Special Benefit Plan Office

(Merchandise distribution agent: JT Creative Service Co., Ltd.)

0120-791-187 (toll-free number/available only in Japan)

(Business hours: 9 a.m. to 5 p.m. on weekdays excluding public holidays)

Complimentary gifts for shareholders are forwarded to the address recorded in the shareholder registry.

In the event of a change of address as a result of moving, etc., we ask that you please immediately notify the securities company where you have your account. For those shareholders using special accounts, we ask that you please immediately notify Mitsubishi UFJ Trust and Banking Corporation, the special-account managing institution.

Japan Tobacco Inc.

JT Building

2-1, Toranomom 2-chome, Minato-ku, Tokyo 105-8422, Japan

Tel.: +81-3-3582-3111

URL: <http://www.jti.co.jp/>

This Report was printed using soy inks along with FSC approved paper (chlorine-free bleach) to protect our forests.