

[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 33

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<Photos>

<JT logo>

## A Message from Management

I would like to express our sincere sympathy for the people affected by the Great East Japan Earthquake, and we pray for an early recovery from the disaster.

For the full year of the fiscal year ended March 2011, net sales excluding tobacco excise taxes increased slightly due to profit growth as the effect from strategic pricing offset the sharp sales volume declines that followed tax hike and price increase in the Japanese Domestic Tobacco Business and favorable pricing and foreign exchange movements.

In the Japanese Domestic Tobacco Business, sales volume decreased drastically due to the effect from the tax hike and price increase. As the Great East Japan Earthquake affected JT factories and suppliers, JT took temporary measures in order to ensure stable product supply – these measures included temporary suspension of shipments, limiting the number of products supplied and focusing on supply of key products. The number of products supplied will be gradually expanded, with 73 products in early August. Maximum efforts are made for an early recovery from the earthquake damages.

In the International Tobacco Business, to ensure future profit growth, we will continue to raise our top-line by focusing on GFBs, promoting innovation, investing in brands, exploiting pricing opportunities suitable for our brand equity and broadening our market base. Our aim is to achieve 10% growth in EBITDA at constant rates of exchange through strict cost controls and investment to strengthen our business foundation.

In the Pharmaceutical Business, we will continue to strive to enhance the capabilities for clinical development, including late-stage development, and drug discovery research. We will also strengthen efforts to explore opportunities for strategic licensing agreements and enhance cooperation with foreign partners.

In the Food Business, we will strengthen our profitability by focusing on beverages, processed foods and seasonings.

We recognize that the devastation caused by the Great East Japan Earthquake is the greatest challenge that Japan is facing since last war. This disaster is expected to have a significant impact on our values, economic, political and social system, energy policy or even company management.

The JT Group must consider how it should conduct its post-March 11 business, and like other Japanese companies, we will take measures to minimize the effect of earthquakes and other natural disasters, by further strengthening alternative sources of raw materials and supplies, back-up structure for domestic and overseas production facilities. Needless to say, active and voluntary measures will be taken than ever to deal with major changes of the business environment.

June 2011

Hiroshi Kimura, President & CEO

## Report on the Consolidated Financial Results for the Fiscal Year Ended March 31, 2011 (FY2010)

### ● Overview of the Consolidated Financial Results for the Fiscal Year Ended March 31, 2011 (FY2010)

For the full year of the fiscal year ended March 2011, adjusted net sales excluding tobacco excise taxes decreased whilst EBITDA (operating income + depreciation and amortization), operating income, ordinary income and net income increased.

Adjusted net sales excluding tobacco excise taxes decreased 1.2% to ¥1,956.6 billion due to negative impact of exchange rate in the International Tobacco Business.

EBITDA increased 2.7% to ¥541.1 billion due to decrease in depreciation cost related to vending machines and the completion of amortization of some trademarks in the Japanese Domestic Tobacco Business and, decline in the depreciation cost as a result of currency movement impact in the International Tobacco Business.

Operating income increased 10.9% to ¥328.6 billion mainly due to favorable pricing in the International Tobacco Business.

Ordinary income recorded 22.4% to ¥312.4 billion as a result of a decrease in foreign exchange losses and a decline in interest payments.

Net income also increased 4.7% to ¥144.9 billion, despite a decrease in profits from the sale of fixed assets and losses arising from the Great East Japan earthquake.

<Figure 1>

(Table 1) Consolidated financial results for the fiscal year ended March 31, 2011 (FY2010)

(Billions of yen)

	FY2009 (results)	FY2010 (results)	Change
Net sales including tobacco excise taxes	6,134.6	6,194.5	1.0%
Adjusted net sales excluding tobacco excise taxes *1	1,980.9	1,956.6	-1.2%
EBITDA *2	526.7	541.1	2.7%
Operating income	296.5	328.6	10.9%
Ordinary income	255.3	312.4	22.4%
Net income	138.4	144.9	4.7%

\*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

(Billions of yen)

Operating income	393.9	419.7	6.6%
Ordinary income	352.8	403.5	14.4%
Net income	235.8	236.0	0.1%

● Review of Operations

Japanese Domestic Tobacco Business

In the Japanese Domestic Tobacco Business, the sales volume decreased 11.3% due to the price amendment after the October tax hike. However, as the strategic pricing effect offset the volume decline, adjusted net sales excluding tobacco excise taxes remained almost flat while EBITDA and operating income increased.

The market share of JT products was 64.1% and the share of key brands was 44.5%. This mainly reflects the fact that we varied the margin of price increase by products, coupled by the shortages of some products and temporary suspension of shipment of all products that were caused by the damage inflicted by the earthquake to factories and materials suppliers.

<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 JT products and JT key brands

Market share of JT products

Market share of aggregated JT key brands

(Table 2) JT sales volume

(Billions of cigarettes)

	Three months ended June 30	Six months ended September 30	Nine months ended December 31	Fiscal Year ended March 31
FY 03/2010	39.0	78.6	117.4	151.8
FY 03/2011	35.9	86.5	106.8	134.6
Change	-7.9%	10.1%	-9.0%	-11.3%

## International Tobacco Business

In FY2010, the International Tobacco Business faced a difficult business environment surrounded by a prolonged world-wide recession, tax and price increases in many countries and tighter regulations. Industry contraction has been stabilizing since the second half of 2010 with the exception of a few markets. As a result of that, the total volume declined 1.5% to 428.4 billion cigarettes whilst the Global Flagship Brands (GFB) volume increased 2.7% to 249.8 billion cigarettes.

The share of market continued to grow year on year in most of our key markets.

Dollar-based core net sales excluding tobacco excise taxes increased 5.6% and EBITDA increased 10.7% due to a firm growth of GFB and favorable pricing despite the volume decline and increase of raw material cost. Yen-based EBITDA increased 3.8% despite the strong yen.

### <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> Market share in major markets

	December 2009	December 2010
Italy	18.5%	19.7%
France	14.8%	16.0%
Spain	20.6%	20.8%
U.K.	39.2%	39.0%
Russia	36.8%	37.0%
Turkey	19.0%	22.6%
Taiwan	38.0%	38.4%

\* Data sourced from AC Nielsen, Logista, Altadis and JTI data. 12 months moving average market share.

### (Table 3) Volume results

(Billions of cigarettes)

Total volume <sup>(*)</sup>	Three months ended June 30	Six months ended September 30	Nine months ended December 31	Fiscal Year ended March 31
FY 03/2010	100.9	216.1	325.6	434.9
FY 03/2011	94.1	204.7	319.5	428.4
Change	-6.8%	-5.2%	-1.9%	-1.5%

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

(Billions of cigarettes)

GFB volume	Three months ended June 30	Six months ended September 30	Nine months ended December 31	Fiscal Year ended March 31
FY 03/2010	57.1	121.3	182.4	243.4
FY 03/2011	54.6	118.3	185.1	249.8
Change	-4.4%	-2.5%	1.5%	2.7%

## Pharmaceutical Business

In the Pharmaceutical Business, net sales increased due to growth in sales of products by Torii Pharmaceutical Co., Ltd., a JT Group company, including REMITCH CAPSULES, an oral antipruritus drug for hemodialysis patients, and an anti-HIV drug Truvada. However, EBITDA declined because of an increase in R&D cost due to the payment of an upfront fee following the signing of an agreement with ALK-Abelló A/S of Denmark on the exclusive right to develop and sell in Japan house dust mite allergy immunotherapy products to treat and diagnose asthma and allergic rhinitis.

As for clinic development, JTT-751 for treatment of hyperphosphatemia advanced to Phase 3 of the clinical development stage in Japan. The number of drugs under clinical development totaled 10. We will continue our efforts to steadily move drugs under development to more advanced stages and enhance our R&D pipeline.

### <Figure 6> Pharmaceutical Business results

#### Pharmaceutical Business: Clinical development (as of May 12, 2011)

Code	Stage	Key indication	Characteristics	Rights
JTT-705 (oral)	Phase 2 (Japan)	Dyslipidemia	Decreases LDL and increases HDL by modulation of CETP activity  - 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”)	



Code	Stage	Key indication	Characteristics	Rights
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.
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	
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 3 (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	
JTT-851 (oral)	Phase 1 (Japan)	Type 2 diabetes	Promotes glucose-dependent insulin secretion and corrects high blood sugar	

\* The beginning of a development stage is based on when the administration of the drug commences.

Changes since the previous announcement on February 7, 2011: JTT-751 has moved up from Phase 2 to Phase 3 in Japan.

## Food Business

In the Food Business, although net sales for the beverage business increased due to the favorable impact of summer heat waves and the robust sales of the Roots brand, those for the processed food business declined due to the closure of the rice wholesale business and the exclusion of some subsidiaries from the consolidated results as well as a decline in sales of products for restaurants. As a result, net sales for the Food Business declined ¥19.6 billion to ¥375.0 billion.

EBITDA grew ¥2.7 billion to ¥17.2 billion as a result of the strong performance of the beverage business and the absence of the one-time expense in the fishery product business that dragged down the previous year's earnings.

In the future, in the beverage business, in order to further strengthen the flagship Roots brand, we will reinforce competitiveness by implementing various measures to enhance the brand equity and by continuing with efforts toward efficiency improvement.

In the processed food business, we will strengthen our profitability by further concentrating resources on highly profitable staple products, such as frozen noodles, cooked rice and frozen bread.

In the seasonings business, we will improve profitability by expanding the business scale through increased sales of yeast products.

Regarding food safety control, we will continue to make efforts to establish the highest level of food safety control.

<Figure 7> Food Business results

- Dividends

For the fiscal year ended March 2011, we paid an annual dividend of ¥6,800 per share, including an interim dividend. The dividend payout ratio excluding the impact of goodwill amortization is 27.6%. We did repurchase of our own shares worth around ¥20 billion from February to March 2011, although the return to shareholders is basically paying dividends. For the fiscal year ending 2012, we plan to pay an annual dividend of ¥8,000 per share.

While considering the situation of our medium to long term growth strategy execution and our consolidated earnings outlook, we are aiming to provide shareholder return that is competitive in the capital market.

As for dividends, we will strive to increase per-share dividend payments in a steady and sustainable manner, aiming for a consolidated dividend payout ratio of 30% on a pre goodwill amortization basis.

- Earnings Forecasts for FY 03/2012

The forecasts for fiscal year ending March 2012 are provided in ranges for the consolidated adjusted net sales and EBITDA with certain conditions. This is because it is difficult to make rational projections of effect from the Great East Japan Earthquake. We plan to make our regular forecast announcement for operating income, ordinary income and net income at the financial results announcement for the 1st quarter scheduled at the end of July.

For the Japanese Domestic Tobacco Business, sales volume is projected to decline considerably, due to the impact from the previous years' tax hike and price increase in the first half, and the decline trend in the second half of the fiscal year. Moreover, we consider volume decline due to the impact of the earthquake disaster in the first quarter, coupled with impact of changes of consumers' demands after our shipment recovery.

In the International Tobacco Business, core net sales and EBITDA is projected to grow driven by price mix and favorable exchange impact.

In the Pharmaceutical Business, net sales are projected to grow due to an increase in net sales for Torii Pharmaceutical while EBITDA is projected to decline due to an increase in R&D expenses and in the absence of the milestone revenue for out-licensed compounds received in fiscal year ended March 2011.

In the Food Business, sales for the processed food business is projected to remain flat, while sales for the beverage business is projected to decline due to the effect of earthquake damages. Overall, net sales for the food business are projected to decline. As it is difficult to make accurate projections for the decrease in revenues due to the effect of the earthquake damages for the beverage business, the decrease in profits is projected subject to certain conditions.

(Table 4) Earnings forecasts for FY 03/2012 (FY2011)

(Billions of yen)

	Fiscal year ended March 2011 (results)	Fiscal year ending March 2012 (forecasts)	Change
Adjusted net sales <sup>*1 *2</sup>	1,956.6	1,925.0 – 1,970.0	-31.6 – 13.3
EBITDA <sup>*3</sup>	541.1	540.0 – 574.0	-1.1 – 32.8

\*1. The former name “adjusted net sales excluding tobacco excise taxes” has been changed to “adjusted net sales.”

\*2. Adjusted net sales 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.

\*3. EBITDA = Operating income + depreciation and amortization (Indicates a profit on a cash flow basis.)

#### Dividends

(Yen)

Cash dividends per share	6,800	8,000	1,200
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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 March 31, 2011	Increase (Decrease)
<b>Assets</b>			
Current assets	1,195,843	1,247,820	51,977
Noncurrent assets	2,676,752	2,324,107	(352,645)
Property, plant and equipment	679,561	663,550	(16,010)
Intangible assets	1,769,064	1,461,487	(307,577)
Goodwill	1,387,397	1,147,816	(239,581) *1
Right of trademark	350,900	286,435	(64,464)
Other	30,766	27,234	(3,531)
Investments and other assets	228,127	199,069	(29,057)
<b>Total assets</b>	<b>3,872,595</b>	<b>3,571,927</b>	<b>(300,668)</b>
<b>Liabilities</b>			
Current liabilities	1,101,535	1,063,374	(38,161) *2
Noncurrent liabilities	1,047,782	917,350	(130,431) *3
<b>Total liabilities</b>	<b>2,149,317</b>	<b>1,980,724</b>	<b>(168,592)</b>
<b>Net assets</b>			
Shareholders' equity	2,072,501	2,142,025	69,523
Accumulated other comprehensive income	(423,387)	(627,732)	(204,345) *4
Subscription rights to shares	564	763	198
Minority interests	73,599	76,146	2,547
<b>Total net assets</b>	<b>1,723,278</b>	<b>1,591,202</b>	<b>(132,075)</b>
<b>Total liabilities and net assets</b>	<b>3,872,595</b>	<b>3,571,927</b>	<b>(300,668)</b>

Note: Millions of yen with fractional amounts discarded.

\*1. Decrease due to amortization and effect of foreign currency movement

\*2. Decrease in short-term loans payable and commercial papers.

\*3. Decrease due to a portion of bonds being transferred from the long-term to the current portion and the impact of the strong yen.

\*4. Decrease in foreign currency translation adjustment due to the strong yen.

## Consolidated statements of income

(Millions of yen)

	Fiscal year ended March 31, 2010	Fiscal year ended March 31, 2011	Increase (Decrease)
Net sales	6,134,695	6,194,554	59,858 *1
Cost of sales	5,022,637	5,074,074	51,437
Gross profit	1,112,057	1,120,479	8,421
Selling, general and administrative expenses	815,552	791,798	(23,754)
Operating income	296,504	328,680	32,176 *2
Non-operating income	15,608	12,029	(3,579)
Non-operating expenses	56,736	28,222	(28,513)
Ordinary income	255,377	312,487	57,110 *3
Extraordinary income	58,516	20,600	(37,915)
Extraordinary loss	37,838	52,590	14,751
Income before income taxes and minority interests	276,054	280,497	4,442
Income taxes	131,303	130,889	(413)
Income before minority interests	144,751	149,607	4,856
Minority interests in income	6,302	4,646	(1,656)
Net income	138,448	144,961	6,513 *4

Note: Millions of yen with fractional amounts discarded.

\*1. Increase as the effect of favorable pricing offsetting sales volume declines both in the Japanese Domestic Tobacco Business and the International Tobacco Business.

\*2. The Domestic Tobacco Business and the International Tobacco Business both enjoyed increased sales and profit.

\*3. Increase as a result of operating income growth and better non-operating income and loss due to decrease in foreign exchange losses and decline in interest payments.

\*4. Slight increase due to deteriorated extraordinary income and loss as a result of decline in gains on sales of fixed assets and losses arising from the Great East Japan Earthquake.

Consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2010	Fiscal year ended March 31, 2011	Increase (Decrease)
Net cash provided by (used in) operating activities	320,024	399,638	79,613
Net cash provided by (used in) investing activities	(84,057)	(119,406)	(35,349)
Net cash provided by (used in) financing activities	(250,398)	(184,950)	65,447 *
Effect of exchange rate change on cash and cash equivalents	1,542	(5,604)	(7,146)
Net increase (decrease) in cash and cash equivalents	(12,888)	89,676	102,565
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	154,368	244,240	89,871

Note: Millions of yen with fractional amounts discarded.

\* Due to large repayment of interest-bearing debt last year



<Picture> <Logo> Introducing an International Tobacco Market Series 4

France

JTI expands share to advance to third place in market

<Flag> Basic knowledge about France <Map>

Population: 65 million (as of 2011)

GDP: 2.6340 trillion euro

Smoking rate: 29.5% (Male: 33.9% Female: 25.3%) (as of 2007)

Exchange rate: 1 euro = ¥116 (as of May 2011)

Sales volume

- Sales volume ended firmly, boosted by new product launches in popular brands such as Camel and Winston.
- Firm growth of an annual average of 5.14% has continued since 2007.

Market share

- No. 3 domestic market share (16.1%) in France (as of March 2011)
- Market share has been expanding for five consecutive years.

<Figure>

Ranked third in market share

By launching new products and improving existing products, the brands Camel and Winston enjoyed growth, which helped market share to expand in France. This growth in share was stronger than all the other competitors operating in France, and we were elevated to third place in market share in 2010.

<Photo>

A tobacco retailer in France

Major brands

Camel

Camel is the third most popular brand in France. It was first released as an American brand in 1913. Presently the brand is sold in over 100 countries worldwide and it is the sixth best selling brand in the world.

Aiming to enhance the brand lineup, “Camel Essential Flavor” was released in October 2006 and “Camel Black and White” was released in February 2010. Both product additions were received positively by customers. These new product launches helped to raise brand recognition and the strategy to enhance the

“Camel” brand worked successfully.

#### Winston

Winston is the fourth most popular brand in France. Launched in 1954, it has grown to be ranked second in the world in 2007. In France, Winston is the fastest growing brand and in the three years from 2007 to 2009, its brand ranking grew from eighth to fourth. In response to the raising popularity, a rich variety of new Winston products are being launched including Menthol, 100's size, and 25-cigarette packs.

#### RYO (Roll Your Own tobacco)

RYO packets of popular brands Camel and Winston have been launched and popularly received.

## The Lure of Tobacco Smoke

A lesson from the past at the end of a journey

Takahashi City Museum of History and Traditional Crafts [Okayama]

<Photo>

Visit the history and culture of the town that cultivated “Bitchu leaf”

Takahashi City Museum of History and Traditional Crafts is located in Takahashi City, an old-Japan-style scenic town and castle town of one of Japan’s three major mountain castles, Bitchu-Matsuyama Castle. On display at the museum together with many practical implements of daily life that were collected through cooperation with people of the community are many resources related to tobacco.

The reason there are so many tobacco related materials is because from the beginning of the Edo period, the Bitchu region, centering on Takahashi City, was a booming region for tobacco leaf cultivation.

Leaf tobacco, which can grow on mountain and uncultivated fields, was an important commercial product for this mountain-locked region, and the Bitchu-Matsuyama Domain, which governed the area, positively protected and encouraged the cultivation of leaf tobacco. This “Bitchu leaf” became well known throughout Japan.

Although Bitchu leaf is not presently cultivated, many tobacco leaf related materials remain at the Takahashi City Museum of History and Traditional Crafts.

The items on display include agricultural tools used from the end of the Edo period into the early Showa period, book-bound old documents containing cultivation records etc. and tobacco related books. From these materials, it is possible to learn the cultivation and tillage processes of the Bitchu leaf that was once grown.

Through the numerous materials related to Bitchu leaf on display at the Takahashi City Museum of History and Traditional Crafts, the museum is passing down to future generations the history and culture of leaf tobacco cultivation along with the history of Takahashi City.

<Photo>

Bronze statue of Hokoku Yamada, standing at the entrance of the building. Hokoku was instrumental in establishing an agricultural promotion agenda for the financially struggling Bitchu-Matsuyama Domain and a promoter of leaf tobacco cultivation.

<Photo>

Exhibition of books. There is a large collection of literature ranging from the Taisho period to the Showa period which is a precious heritage and tell the history of tobacco in Japan.

<Photo>

The museum building was constructed in the Meiji period as an elementary school. It is fun to explore the exhibits inside, which are crammed full of various daily implements arranged like a flea-market.

<Photo>

Field of tobacco plants donning caps

In Takahashi City, which prospered as the center of the Bitchu-Matsuyama Domain, the townscape is still filled with remnants of the Edo period, including samurai residences, shops, and most prominently, Bitchu-Matsuyama Castle which looks down upon the town from the peak of Mt. Gagyū. The streetscapes that most notably retain an old-Japan look are in the “Fukiya” district in Nariwa-cho, which is said to be first place in the area to grow tobacco.

This area also prospered as a production area of a red pigment called “bengara” from the end of the Edo period. Even today, there are rows of houses painted red with this pigment.

Some parts of Takahashi City continue, still today, to cultivate tobacco leaf, concentrating on the yellow leaf variety. Each year in mid April, the tobacco seedlings are donned with caps to prevent frost damage, which is a farming practice unique to the area. The effect of this is to make the fields transform into a scene resembling many yachts with billowing sails.

While getting firsthand experience of the history and culture of Takahashi to which tobacco is deeply connected, why not try taking a stroll through the tobacco fields sprawling with caps.

#### ■ Takahashi City Museum of History and Traditional Crafts

Location

21 Muko-cho, Takahashi City, Okayama 716-0029

(Walk for 10 minutes from Bitchu-Takahashi Station on JR Hakubi Line)

Inquiries: Tel 0866-22-1479

Opening hours: 9:00–17:00

Closed: Dec 29–Jan 3

Admission: adults ¥300; Elementary and Junior High Students ¥150 (Group discounts available)

<Map>

## Product supply situation in the Japanese Domestic Tobacco Business

JT would like to express first and foremost our deepest sympathies to all those who have been affected by the Great East Japan Earthquake. We hope that recovery will proceed quickly.

JT's Kita-Kanto, Koriyama and Tomobe factories, East-Japan Regional Leaf Tobacco Headquarters and Tagajo factory of Nihon Filter, a JT Group company, suffered damage to facilities etc. from the earthquake that struck on March 11. In addition, transportation of semi-finished products and non-tobacco-materials are being affected by the deteriorated distribution conditions. Also, some of our suppliers of non-tobacco materials are being affected by damaged facilities etc.

Considering these circumstances, as temporary measures to ensure stable and assured product supply, we temporarily limited the number of products that we supply. Even now, limits have been placed on the number of products that we are shipping. We deeply apologize to our customers and tobacco retailers for the considerable inconvenience that this has caused.

Of the Company's Japanese Domestic Tobacco Business facilities that were damaged, operations were resumed at the Kita-Kanto factory at the end of June, and at the Koriyama factory in May. In addition, operation resumed at the semi-finished goods factory Tomobe factory and at the East-Japan Regional Leaf Tobacco Headquarters at the end of May. Concerning the Tagajo factory, it is still uncertain when restoration will be completed, but substitute production is being carried out in the factories that have not been damaged.

With respect to the number of products shipped, since operations were restored at damaged business sites on June 6, the number of products has been expanded to 36. In early July, we expect this to expand to 58 products, and in early August, we expect to establish a supply structure of 73 products.

Furthermore, we have decided to discontinue the supply of 23 products other than the 73 products which had constituted our portfolio before the earthquake, due to small sales volumes in the past, which would not be fully recovered after a long period off the shelves. In addition, it was assumed that it would be difficult to maintain and manage the product quality of the same level as before.

While working to ensure we achieve the 73 product shipment system by early August, we will focus on improving the taste, aroma, design and packaging and other elements in order to bring even greater satisfaction to customers. In addition to this, while very actively launching new products, particularly within the major brands, and expanding effective sales promotion activities, we will strive to recover our market share as early as possible, placing utmost attention on strengthening the competitiveness of our products.

	April 11	April 25	May 9	June 6	Early July	Early August
Number of shipped products	7	16	25	36	58	73
Number of products added		+9	+9	+11	+22	+15



## Relief Supplies Donated

The following relief supplies were donated to support the stricken areas.

- Mineral water “Daichiga Migaita Kireina Mizu 520ml PET” – 240,000 bottles, green tea “Tsuji 275g canned bottle” – 240,000 bottles
- TableMark’s “‘Home Run’ - Ken” (cup-type instant noodles) – 50,000 cups
- Jelly drink, winter clothes, household medicines, disposable body warmers, and household essentials such as emergency blankets equivalent to ¥50 million in total

## Donations by Group Employees

The JT Group has been participating in “matching gift” program whereby the respective company donates an amount equivalent to employees’ donations. As of May 12, a total of 7,078 employee participants donated ¥60.3 million (which amounted to ¥120.6 million after the matching donations were added). The planned recipient of the donation is the Central Community Chest of Japan.

Through JT International and other companies, employees in Japan and overseas conducted fundraising activities, which collectively raised ¥160 million.

## Initiative to donate from the complimentary gifts to shareholders system

The next time JT offers complimentary gifts to shareholders, shareholders will be given a new option whereby they can opt to forego the complimentary gift and instead, have the equivalent money donated by JT to the Central Community Chest of Japan.



JT Marvelous achieves stunning two title victory

Thank you for your immense support!

Volleyball

After four months of ferocious battles, JT Marvelous won the 2010/11 V Premier League to earn their first ever championship.

They then followed this up by winning the “60th Kurowashiki Tournament” to achieve two titles in the same season.

Early close to the 2010/11 V Premier League

The V Premier League is where Japan’s top volleyball teams face off. This season, due to the Great East Japan Earthquake, the entire schedule was deemed ended and the results as of March 6 became the final results. This left JT Marvelous victorious and JT thunders in fifth place.

JT Marvelous <Logo>

JT made up for last year’s disappointment by winning their remarkable first league title!

This season JT Marvelous fought as a team united in the mission to win the championship. In every game, they constantly kept their sights on the final round to achieve a 20:6 win loss record for the regular round and the season with the league title for the first time since the club was established in 1956.

Already looking to the next V Premier League season, the team aims to maintain its winning form and further boost its team depth to win the title for two consecutive years.

<Photo>

<Photo>

JT Thunders <Logo>

12 wins provide strong foundation for next season

Ended season in fifth place

JT Thunders were unable to wield results in the previous season. This season, although they strengthened their offence and battled fiercely each match, they ended fifth place with 12 wins and 12 losses.

Although ended outside the top group this season, they aim to use the battles won in this season to fuel their determination to not only enter the top group next season, but also win the championship title.

JT Marvelous earns first victory in the “60th Kurowashiki Tournament”

JT Marvelous maintained their “V Premier League” winning form to perform with strong consistency to clinch their remarkable first title in the final game of this season.

<Photos>

Emerging from their elimination round group in first place after three consecutive wins, JT Marvelous defeated Ageo Medics in the quarter finals, and Toyota Auto Body Queenseis in the semi finals. On the last day in the grand final, they were challenging the NEC Red Rockets for their first title in this championship. Although they allowed the opposition to take an early lead, JT Marvelous then grabbed a steady offensive rhythm and took control of the game to win the first set. Then in the second half of the second set, the opposing team began to deftly receive JT Marvelous’ offensive maneuvers, and left unable to recover their previous flow of form, JT Marvelous slipped behind. However, their mood switched again in the third set and they recovered their offensive rhythm to clinch the set. Maintaining this rhythm in the fourth set, their varied offensive patterns subdued their opponents and JT Marvelous won the match 3 sets to 1. Following up their maiden victory in the 2010/11 V Premier League with this second title was the ultimate end to the season.

<Photos>

## Bulletin Board

### NEWS

#### NPO support projects for youth development

JT decides on the organizations to receive support in fiscal 2011

As part of its activities in the field of social welfare, recognizing the importance of human resource development, JT supports the joint-initiatives of non-profit organizations and communities to promote sound youth development, particularly that of younger generations who will bear societal responsibilities in the generations to come. JT believes that such initiatives are essential for promoting revival and revitalization in regional communities and building better societies.

Of 193 applicants from all over Japan who applied for the fiscal 2011 grants, 45 support grants were approved, amounting to a total of ¥55 million.

Fiscal 2011 marks the thirteenth year since JT began providing such support grants in fiscal 1999. Including JT's support during this fiscal year, JT has provided grants to 837 projects with a cumulative worth of over ¥1 billion. To commemorate this achievement, JT plans to hold a presentation of past activity results given by the grant recipient organizations of the previous fiscal year to be held in conjunction with the support grant ceremonies that will be conducted at business offices throughout Japan. As a fellow member of society, JT plans to continue its involvement in social contribution activities.

<Photo>

Fiscal 2010 grant recipient NPO Karuizawa Kyouiku Network (Nagano Prefecture)

“Karuizawa Nature Education Project”

<Photo>

Fiscal 2010 grant recipient NPO Whitebell (Gunma Prefecture)

“Nagano Dam Relaxing Walking Course Plan”

#### JT afforestation and forest conservation activities

JT updates its forest conservation accord “JT Forest Kosuge” for another 5 years

JT Forest Kosuge is an accord concluded in 2006 between JT and Kosuge village in Yamanashi Prefecture as a forest conservation initiative, under which JT and local residents have continued forest conservation activities. Although the term of this accord ended in March this year, because it is important that forest maintenance continues, JT updated the forest conservation accord with Kosuge village to

extend the term of its involvement in activities for another five years.

The scope of forest covered by the accord remains unchanged from the first term. Targeting sections of unmanaged cedar and cypress plantations, the trees will be spaced and deciduous saplings will be introduced. In the larch plantations, the grass will be cut around the saplings. Activities such as these need to be continued in order to foster the growth of deciduous trees planted up until now. The forest covered by the accord is an important drainage basin for the source of two major rivers, the Tama river and the Sagami river, which flow through Tokyo metropolitan area. JT plans to continue such activities in the future to “develop a mixed forest” in order to raise the water storage function of forests.

<Photo>

Easy Recipe with  
<TableMark Logo>

Simple sauce with winning taste!

“*Udon* noodles with tofu wasabi sauce”

*Udon* noodles served cold with an easy-to-prepare tofu wasabi sauce is a perfect cooling summer dish!  
Its attractive appearance also makes it a smart choice when entertaining friends.

<Photo>

Easy to prepare using TableMark’s “Frozen *Udon* Noodles”!

<Photo>

Ingredients (serves 1 person)

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

Soft tofu 1/2 block

Wasabi paste 1/2 tsp or to taste

Salt pinch

Okra (steamed or boiled) 1 or 2

Boiled prawn

Alfalfa or radish sprouts

*Men-tsuyu* (soup stock for noodles)

Preparation

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

\* Wash in cold water and drain well.

Directions

1. Make the soft tofu into a smooth paste using a whisk etc. and mix in the wasabi and salt.
2. Place *udon* noodles on a plate with 1 on top.
3. Top with the remaining condiments and add *men-tsuyu*. The dish is ready to serve.

Many more great recipes online! (Japanese only)

[www.tablemark.co.jp/](http://www.tablemark.co.jp/)

<Picture>

## 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	Mitsuomi Koizumi
Representative Director, Executive Deputy President	Masakazu Shimizu
Representative Director, Executive Deputy President	Yasushi Shingai
Member of the Board	Noriaki Okubo
Member of the Board	Mutsuo Iwai

### Auditors

Standing Auditor	Hisao Tateishi
Standing Auditor	Gisuke Shiozawa
Auditor	Koichi Ueda
Auditor	Yoshinori Imai

### Executive Officers (*shikkoyakuin*)

President, Chief Executive Officer	Hiroshi Kimura
Executive Deputy President, Assistant to CEO in Compliance, Finance, Operational Review and Business Assurance	Munetaka Takeda
Executive Deputy President, President, Tobacco Business	Mitsuomi Koizumi
Executive Deputy President, Assistant to CEO in CSR, Communications and General Administration	Masakazu Shimizu
Executive Deputy President, Assistant to CEO in Strategy, HR, Legal, and Food Business	Yasushi Shingai
Senior Executive Vice President, Chief Marketing & Sales Officer, Tobacco Business	Kenji Iijima
Senior Executive Vice President, President, Pharmaceutical Business	Noriaki Okubo
Senior Executive Vice President, Chief Legal Officer	Ryuichi Shimomura
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 Financial Officer	Hideki Miyazaki
Executive Vice President, Chief General Affairs Officer	Ryoji Chijiwa
Senior Vice President, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business	Kazuhito Yamashita
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, Head of Manufacturing General Division, Tobacco Business	Masahiko Sato
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 Communications Officer	Yasuyuki Tanaka
Senior Vice President, Chief Strategy Officer, in charge of Food Business and Head of Corporate Strategy Division	Masamichi Terabatake

#### Trends in Share Price

Share prices of JT, from IPO on October 27, 1994 to May 2011 (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.

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 vegetable oil inks along with FSC approved paper (chlorine-free bleach) to protect our forests.