

[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 34

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<Photo>

JTI Taiwan office

<JT logo>

A Message from Management

Following the Great East Japan Earthquake, we temporarily suspended shipment, and after resuming shipment, we limited the range of products shipped and placed ceilings on the purchase orders. However, as we sequentially resumed shipment, we began shipping of all 73 products on July 18. We removed the purchase order ceilings for all products on August 1. We apologize for this inconvenience.

In the first three months of the fiscal year ending March 31, 2012, adjusted net sales and EBITDA (operating income + depreciation and amortization) declined, affected by sales volume decline following the tax and price increases, as well as by the impact of the Great East Japan Earthquake in the Japanese Domestic Tobacco Business and negative impact of exchange rates in the International Tobacco Business.

In the Japanese Domestic Tobacco Business, total sales volume declined considerably due to the impact of the Great East Japan Earthquake. From now on, we will make maximum efforts to strengthen our competitiveness, including aggressive and effective new product launches primarily for our key brands as well as promotion of sales campaign.

In the International Tobacco Business, all indicators showed strong performance compared with the previous year. We will continue delivering profit growth by focusing on GFB growth and improvements in price and product mix due to robust pricing strategies.

In the Pharmaceutical Business, as to the status of clinical development, the development of JTS-653 has been discontinued and as a result, a total of nine compounds are now under clinical trials. We will continue to strive to make steady progress in clinical development and reinforce the R&D pipeline.

In the Food Business, adjusted net sales declined due to the closure of the white rice wholesale business in the previous fiscal year. However, EBITDA increased by positive performance in the beverage, processed food and seasonings. We will strengthen competitiveness and profitability by concentrating resources to those three businesses.

August 2011

Hiroshi Kimura, President & CEO

Report on the Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2012 (FY2011)

- Overview of the Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2012 (FY2011)

For the first three months of the fiscal year ending March 31, 2012, adjusted net sales, EBITDA, operating income and ordinary income declined whilst net income increased.

Adjusted net sales declined 13.1% to ¥409.6 billion, affected by sales volume decline in the Japanese Domestic Tobacco Business and negative impact of exchange rates in the International Tobacco Business. EBITDA declined 8.4% to ¥121.8 billion, as pricing effects in the Japanese Domestic Tobacco Business could not offset the negative decline in sales volume due to the earthquake in the Japanese Domestic Tobacco Business and in the depreciation cost in both the Japanese Domestic Tobacco Business and the International Tobacco Business. Operating income declined 9.5% to ¥71.9 billion.

Ordinary income declined 4.1% to ¥68.0 billion, as improvement in foreign exchange losses partly offset the decline in operating income.

Net income increased 2.4% to ¥22.7 billion, due to a decrease in the payment of income taxes resulting from decline in profits.

<Figure 1>

(Table 1) Consolidated financial results for the first three months of the fiscal year ending March 31, 2012 (FY2011)

(Billions of yen)

	Three months ended June 30, 2010 (results)	Three months ended June 30, 2011 (results)	Change
Adjusted net sales *1, *2	471.5	409.6	-13.1%
EBITDA *3	133.0	121.8	-8.4%
Operating income	79.5	71.9	-9.5%
Ordinary income	70.9	68.0	-4.1%
Net income	22.1	22.7	2.4%

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

*2 Adjusted net sales do not account for tobacco excise taxes, as well as imported tobacco, domestic duty free, business in China and others in the Japanese Domestic Tobacco Business, and the distribution business, contract manufacturing, among others in the International Tobacco Business.

*3. 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	102.9	92.8	-9.8%
Ordinary income	94.3	88.9	-5.8%
Net income	45.6	43.5	-4.5%

● Review of Operations

Japanese Domestic Tobacco Business

In the Japanese Domestic Tobacco Business, total sales volume declined 48.8% affected by the tax and price increases last October and limited shipment due to the Great East Japan Earthquake. Adjusted net sales, EBITDA and operating income declined, as pricing effects could not offset the negative volume impact.

The market share of JT brands was 40.8% and that of key brands was 30.8%, due to the impact that JT factories and suppliers were hit by the Great East Japan Earthquake.

Our month-by-month market share has been steadily recovering from April. From now on, we will make maximum efforts to strengthen our competitiveness, including aggressive and effective new product launches primarily for our key brands as well as promotion of sales campaign. We will also launch new super slim product “Seven Stars Cutting Menthol” from the Seven Stars family in late August.

<Figure 2> Japanese Domestic Tobacco Business results

<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) Status of resumption of supply

April 11	April 25	May 9	June 6	July 4	July 18
7 products	16 products	25 products	36 products	58 products	73 products

(Table 3) JT sales volume

	(Billions of cigarettes)		
	Three months ended June 30, 2010	Three months ended June 30, 2011	Change
JT sales volume	35.9	18.4	-48.8%

International Tobacco Business

In January to March FY2011, total shipment volume increased 0.5% to 94.5 billion cigarettes and the Global Flagship Brands (GFB) volume increased 2.1% to 55.8 billion cigarettes, as positive performance of Winston in Russia, Turkey and Italy and of Mildseven in Taiwan and Korea offset declines in total demand in several markets such as Spain and Ukraine due to the tax hike and price increases.

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

Dollar-based core net sales increased 4.4% and EBITDA increased 10.3% due to pricing effects despite the negative currency movements. Yen-based EBITDA increased 0.2% due to the strong yen.

<Figure 4> International Tobacco Business results

<Figure 5> Market share in major markets

	March 2010	March 2011
Italy	18.7%	20.0%
France	15.1%	16.1%
Spain	20.5%	20.7%
U.K.	39.2%	39.1%
Russia	36.8%	37.0%
Turkey	19.7%	23.2%
Taiwan	37.3%	38.6%

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

(Table 4) Volume results (Billions of cigarettes)

Total volume *3	Three months ended June 30
FY 03/2011	94.1
FY 03/2012	94.5
Change	0.5%

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

(Billions of cigarettes)

GFB volume	Three months ended June 30
FY 03/2011	54.6
FY 03/2012	55.8
Change	2.1%

Pharmaceutical Business

In the Pharmaceutical Business, net sales grew ¥0.1 billion to ¥11.9 billion. This was due to robust sales of the Remitch Capsule and Truvada at Torii Pharmaceutical Co., Ltd., a JT Group company, covering a decline caused by an increase in R&D expenses and the absence of milestone revenue of out-licensed compound in the previous fiscal year.

EBITDA was negative ¥3.5 billion due to higher R&D expenses as a result of progress in compound development.

As to the status of clinical development, the development of JTS-653 has been discontinued and as a result, a total of nine compounds are now under clinical trials. We will continue to strive to make steady progress in clinical development and reinforce the R&D pipeline.

Pharmaceutical Business: Clinical development (as of July 28, 2011)

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")	

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.
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 May 12, 2011: Development of JTT-653 was halted.

Food Business

Nat sales declined ¥4.3 billion to ¥91.8 billion, due to a decline in sales from the closure of the white rice wholesale business and the exclusion of some subsidiaries from the consolidated results in the processed food business in the previous fiscal year, despite positive factors such as post-earthquake demand.

EBITDA grew ¥2.0 billion compared to the previous fiscal year to ¥6.1 billion. It was driven by; further strengthening of the flagship brand “Roots”; concentration of resources on staple food products, such as frozen noodles, packed cooked rice and frozen baked bread, and seasonings, such as yeast extract; and further cost reduction efforts applied to all operations.

● Earnings Forecasts for FY 03/2012

For the fiscal year ending March 31, 2012, consolidated profits are projected to grow due to pricing effects in the Japanese Domestic Tobacco Business as well as in the International Tobacco Business, which will more than offset a decline in sales volume in the Japanese Domestic Tobacco Business caused by the tax and price increases and the impact of the earthquake, and foreign exchange impact of strong yen in the International Tobacco Business.

In the Japanese Domestic Tobacco Business, net sales and profits are projected to decline affected by sales volume decline caused by the tax and price increases and the impact of the earthquake.

In the International Tobacco Business, net sales and profits are projected to increase by improvements in price and product mix.

In the Pharmaceutical Business, while net sales are projected to grow, due to an increase in net sales for Torii Pharmaceutical, EBITDA is projected to decline because of the revision of R&D expenses by considering the progress of compound development.

In the Food Business, profits are projected to grow, driven by an increase in profitability resulting from the concentration of resources on flagship brand “Roots,” staple food products and seasonings as well as from cost reduction.

(Table 5) Earnings forecasts for FY 03/2012 (FY2011)

(Billions of yen)

	Fiscal year ended March 31, 2011 (results)	Fiscal year ending March 31, 2012 (forecasts)	Change
Adjusted net sales *1 *2	1,946.9	1,915.0	-32.0
EBITDA *3	542.5	550.0	7.4
Operating income	333.2	336.0	2.8
Ordinary income	313.0	324.0	10.9
Net income	145.3	161.0	15.6

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

*2. Adjusted net sales do not account for tobacco excise taxes, as well as imported tobacco, domestic duty free, business in China and others in the Japanese Domestic Tobacco Business, and the distribution business, contract manufacturing, among others in the International Tobacco Business.

*3. 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	233.3	246.0	12.6
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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, 2011	As of June 30, 2011	Increase (Decrease)
Assets			
Current assets	1,240,943	1,245,483	4,540
Noncurrent assets	2,303,163	2,419,890	116,726
Property, plant and equipment	663,550	675,454	11,903
Intangible assets	1,408,037	1,486,935	78,898 *1
Goodwill	1,094,366	1,160,963	66,597
Right of trademark	286,435	298,787	12,351
Other	27,234	27,185	(49)
Investments and other assets	231,576	257,500	25,923
Total assets	3,544,107	3,665,374	121,266
Liabilities			
Current liabilities	1,057,892	1,013,423	(44,468) *2
Noncurrent liabilities	914,464	984,102	69,637
Total liabilities	1,972,356	1,997,525	25,169
Net assets			
Shareholders' equity	2,137,768	2,122,389	(15,379)
Accumulated other comprehensive income	(642,928)	(533,343)	109,584 *3
Subscription rights to shares	763	812	48
Minority interests	76,146	77,990	1,843
Total net assets	1,571,750	1,667,848	96,097
Total liabilities and net assets	3,544,107	3,665,374	121,266

Note: Millions of yen with fractional amounts discarded.

*1. Goodwill and right of trademark increased due to foreign exchange effects.

*2. Income taxes payable decreased due to income taxes paid.

*3. Foreign currency translation adjustment increased due to the stronger local currencies and the impact of yen depreciation.

Consolidated statements of income

(Millions of yen)

	Three months ended June 30, 2010	Three months ended June 30, 2011	Increase (Decrease)
Net sales	588,553	588,176	(377) *1
Cost of sales	318,629	337,419	18,790
Gross profit	269,924	250,756	(19,167)
Selling, general and administrative expenses	190,378	178,779	(11,598)
Operating income	79,545	71,976	(7,568)
Non-operating income	2,379	4,333	1,953
Non-operating expenses	10,986	8,248	(2,738)
Ordinary income	70,938	68,061	(2,877) *2
Extraordinary income	2,421	256	(2,164)
Extraordinary loss	20,092	20,857	765
Income before income taxes and minority interests	53,266	47,459	(5,806)
Income taxes	29,562	23,170	(6,391)
Income before minority interests	23,704	24,289	584
Minority interests in income	1,520	1,582	62
Net income	22,184	22,706	522 *3

Note: Millions of yen with fractional amounts discarded.

*1. Decrease due to the negative effects of foreign exchange in the International Tobacco Business.

*2. Improvement in foreign exchange losses partly offset the decline in operating income.

*3. Increase due to a decrease in the amount of income taxes recorded resulting from a decline in profit.

Consolidated statements of cash flows

(Millions of yen)

	Three months ended June 30, 2010	Three months ended June 30, 2011	Increase (Decrease)
Net cash provided by (used in) operating activities	27,493	(39,407)	(66,900)
Net cash provided by (used in) investing activities	(29,393)	(20,639)	8,753
Net cash provided by (used in) financing activities	(35,258)	(40,767)	(5,509) *
Effect of exchange rate change on cash and cash equivalents	368	2,791	2,423
Net increase (decrease) in cash and cash equivalents	(36,789)	(98,022)	(61,232)
Cash and cash equivalents at beginning of period	154,368	244,240	89,871
Cash and cash equivalents of newly consolidated subsidiaries at beginning of period	194	–	(194)
Cash and cash equivalents at end of period	117,773	146,217	28,443

Note: Millions of yen with fractional amounts discarded.

* Decrease due to the payment of increased dividends

<Picture> <Logo> Introducing an International Tobacco Market Series 5

Taiwan

Asia's core market, with JT ranked No. 1

<Flag> Basic knowledge about Taiwan <Map>

Population: 23.16 million (at the end of 2010)
GDP: 428.9 billion U.S. dollars
Smoking rate: 20.0% (Male: 35.4% Female: 4.0%) (as of 2009)
Exchange rate: 1 Taiwan dollar = ¥2.7 (as of July 31, 2011)

Sales volume

- Sales volume decreased due to a tax increase implemented in 2009.
- There has been a recovery trend since the second half of 2010.

Market share

- No. 1 domestic market share (38.5%) in Taiwan (as of June 2011)
- Market share is recovering steadily, despite declining in FY2009 due to retail price changes resulting from the tax increase.

<Figure>

History of the Taiwan market

The history of JTI Taiwan in the Taiwan market is a long one, starting with the export of the JT brand in the 1960's, during JT's time as Japan Tobacco and Salt Public Corporation. After various changes, a locally incorporated company was established in 1993. In 1998, Taiwan became such a large market that it accounted for about 40% of overseas tobacco sales volume. Subsequently, following the JT's acquisition of RJR International in 1999, the company became JTI Taiwan in its present form.

From its entry into the market onwards, JTI Taiwan steadily grew its market share. It gained the No. 1 share in the Taiwan domestic market in 2005 and has maintained that position to the present day.

Major brands

Mild Seven

The No. 1 brand in Taiwan. It was released in 1981, at the same time as the global expansion of Mild Seven.

<Logo>

Mi-Ne

Released in Japan in 1973 as a high-quality product. In Taiwan, it was released in 1992.

<Logo>

More

An American blend tobacco released in 1975. In Taiwan, it was released in 2006.

<Logo>

CSR Activities

JTI supports adults and older people in need of economic and livelihood support in more than 40 countries.

In Taiwan, older people already account for 10% of the population, and the government forecasts that this rate will climb to 30% within 50 years. JTI Taiwan has therefore developed a partnership with the Hondao Senior Citizens Welfare Foundation to carry out projects that fulfill both the physical and psychological needs of the elderly and find new ways to increase social inclusion: in 2010, the “Move to Music” and “Dreams Never Get Old” programs were accomplished.

<Photo>

Dreams Never Get Old program

Fuji Foods Corporation <Logo>

Fuji Foods Corporation undertakes the manufacture and sales of high value-added seasonings under its basic philosophy of “a world food culture and a smile for all,” as the core of the JT Group’s Food Business and the TableMark Group’s seasonings business.

It forms the core of the JT Group’s seasonings business.

Since its incorporation as a company in 1958, Fuji Foods Corporation has implemented unique business development under basic philosophy of “a world food culture and a smile for all.”

In April 2008, Fuji Foods Corporation formed a business and capital alliance with JT, and in July of the same year it became a consolidated group company of Katokichi Co., Ltd. (now TableMark Co., Ltd.). Further, in 2009, it established a basis to meet customers’ needs to an even more wide-ranging extent than before by integrating with the seasonings division of JT Foods Co., Ltd.

Currently, as the core of the JT Group’s seasonings business, Fuji Foods Corporation carries out the development, manufacture and sales of seasonings for domestic use centered around oyster sauce, as well as seasonings extracted from sources such as kelp and bonito using natural, fine ingredients, and bouillon/soup stock based on these to produce new flavors, and the sales of yeast extract seasoning.

In addition, a structure was developed for the expansion of the JT Group’s seasonings business, with the development of various foundations for the maximization of the JT Group’s synergy, including the new construction of a building for powdered and granulated seasonings in the Kanaya factory in Shizuoka Prefecture, in July 2010.

Network with world hubs

In 1982 Fuji Foods Inc.’s Greensboro factory (North Carolina, U.S.A.) was established, in 1996 its Burlington factory (also North Carolina) was established, and in 2003 Fuji Foods (Suzhou) Co., Ltd. (Suzhou, China) was established. Fuji Foods Corporation is increasing its group synergy by forming a network while carrying out the procurement of ingredients, research and development, manufacturing, market development and other activities at local areas.

Fuji Foods Corporation is also aggressively making inroads in overseas markets with a focus on Asia. It is not just exporting products, but also pressing ahead with overseas development through joint development and technical cooperation with local companies.

<Photo>

Kanaya factory in Shizuoka Prefecture

<Photo>

Fuji Foods (Suzhou) Co., Ltd.

<Photo>

Fuji Foods Inc.

Greensboro factory

<Photo>

Fuji Foods Inc.

Burlington factory

Introducing a Group Company

As a food pioneer

Fuji Foods Corporation has been leading the market as a food pioneer, with such innovations as the first product commercialization in Japan of consommé soup cubes, soup powder for noodles, and oyster sauce for professional use.

In particular, oyster sauce for domestic use this year reached its 35th anniversary since its commercialization as a product. With this in mind, the product was renewed in January 2011 with the aim of further improvement in its quality. In addition, the product “Kiwami,” using the extract of domestically produced oysters, was released in the previous year, FY2010, and its cultivation in the market as a value-added product is being strengthened.

<Photos>

Company Profile

Name: Fuji Foods Corporation

Head office: Mamedo-cho 94, Kohoku-ku, Yokohama, Kanagawa

Established: August 1, 1958

Paid-in capital: ¥37.35 million

Representative: Shigeru Yamaguchi, President & CEO

Employees: 573 (as of July 1, 2011)

Description of Business

Manufacturing and sales of soup, general seasonings and other foods products

URL

<http://www.fuji-foods.co.jp/>

<Chart of Fuji Foods Corporation's Position in the JT Group>

The Lure of Tobacco Smoke

A lesson from the past at the end of a journey

Showa Neon Takamura Kanban (Signboard) Museum [Tokyo]

<Photo>

A historical heritage of advertizing design

Signboard design rich in professional techniques

Showa Neon Co., Ltd., which has its head office in Shinagawa-ku, is a company that produces advertizing signboards for display outdoors and similar items, focusing on neon signs for rooftops and walls. The company, which began operations in 1922 as “Takamura Kanbanten,” has a museum, the “Showa Neon Takamura Kanban Museum,” which exhibits a large variety of wooden signboards made from the Edo period to the beginning of the Showa period.

All of the wooden signboards displayed in the museum were collected by the former President of the company, Goro Takamura. The thoroughly crafted wooden signboards, each of which was hand-made by craftsmen, have mostly been destroyed because they were thought of as having limited artistic value, despite being valuable artifacts. Mr. Takamura began collecting the signboards in order to preserve the historical materials of the advertizing designs for future generations.

Currently, there are approximately 180 wooden signboards exhibited in the museum, including signboards in the shape of *kiseru* pipes and signboards boldly featuring cigarette brand names, smoking implements and the like. Of the multiplicity of signboards from various business sectors assembled together, most are from the Meiji period, but there are also some rare signboards from the Edo period in the collection.

Looking at the hand-crafted wooden signboards, which display a variety of workmanship, visitors to the museum can get an idea of the period of the signboards’ culture, manners and customs, and even changes in advertizing. The signboards are full of timeless appeal.

<Photo>

A signboard for “Tengu Cigarettes,” established by Matsuhei Iwaya, one of the Kings of cigarettes in the Meiji period. The name of the product and the words “King of cigarettes in the East” are written on the brightly colored, large signboard.

<Photo>

A Meiji period tobacco tray made as a novelty for soap and medicinal goods. The tobacco tray, on which the name of a brand is written, was distributed to sales outlets such as pharmacists and used inside the shops.

<Photo>

A Meiji period signboard for a dentist. The sign is impactful, featuring the word “Ireba” (false teeth) in large letters.

<Photo>

The “Showa Neon Takamura Kanban Museum” is located at what was previously Shinagawa-juku on the old Tokaido Road. Although present-day Shinagawa-juku has few buildings or other remnants of the Edo period, the area still values its history, and there are explanatory plaques at sites that have historical interest or retain traces of their history.

In-keeping with the area’s make-up, when the head office of Showa Neon Co., Ltd. was renovated in 2006, the company established “Showa Neon Takamura Kanban Museum,” which is open for all to appreciate, on the same site. Through its wooden signboards, the museum passes on the culture and history of Japan from the Edo period to the Meiji period.

To immerse oneself in the world of wooden signboards while browsing the cultural heritage that remains in Shinagawa-juku... Through this, one may be able to explore and know the culture and history of Edo from various angles.

■ Showa Neon Takamura Kanban Museum

Location

Showa Neon Co., Ltd., 2F, 1-7-17 Minami-Shinagawa, Shinagawa-ku, Tokyo 140-8701

(Walk for 5 minutes from Shimbamba Station on Keikyu Line)

Inquiries: Tel 03-3471-4140

Opening hours: 10:00–16:00

Closed: Saturdays, Sundays and public holidays

Admission: Free

<http://www.showaneon.co.jp/museumu.html> (only in Japanese)

<Map>

JT TOPICS

The 26th Ordinary General Meeting of Shareholders

We would like to express our heartfelt gratitude to the 789 shareholders who attended the 26th Ordinary General Meeting of Shareholders, which was held on June 24. On the day, after we fielded 17 questions from 12 shareholders, our proposals for the appropriation of surplus, partial amendments to the articles of incorporation, and the election of four auditors were all approved by the shareholders as proposed.

In addition, the lighting and air conditioning were turned down low at this year's General Meeting to conserve electric power. At the same time, we called off the food tasting event for TableMark Group products, which had a positive reception last year, and donated the equivalent cost through the Central Community Chest of Japan "Red Feather Disaster Relief Volunteer & NPO Support Fund" as part of reconstruction support efforts in response to the Great East Japan Earthquake.

<Photo>

The 26th Ordinary General Meeting of Shareholders

<Photo>

We set up an exhibit space at the meeting venue and introduced our businesses

Complimentary gifts to shareholders

JT offers complimentary gifts to shareholders comprised of items made by the JT Group so that they may get to know our products and increase their understanding of our businesses. For the complimentary gifts to shareholders we offered most recently (for shareholders as of March 31, 2011), we provided a new option in which shareholders can opt to forego the complimentary gift and instead, have the equivalent money donated by JT to the Central Community Chest of Japan.

A large number of our shareholders supported us in this, with 2,729 shareholders choosing to donate, raising a total of ¥7.305 million.

<Logo>

The Central Community Chest of Japan

The Central Community Chest of Japan carries out activities in all 47 prefectures of Japan, such as planning community chest campaigns, awareness enhancing advertizing, research and study, and supporting community chest activities in prefectures, with the Red Feather as its symbol. The organization also has a large role in the promotion of public welfare business in the private sector

through such means as the acceptance and coordination of donation money for use by several prefectures.

We would like to thank our shareholders for their cooperation.

Report of Shareholder Questionnaire Results

We would like to thank you for your cooperation in the questionnaire sent out with the June 2011 Business Report Volume 33. We received responses from about 8,000 shareholders.

The following are results of the questionnaire on complimentary gifts for shareholders (Shareholder Special Benefit Plan) and JT's Stock.

Shareholder Special Benefit Plan

Contents of this year's complimentary gifts

Satisfied	75.0%
Not satisfied	4.4%
No opinion	19.1%
Unclear	1.6%

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	27.1%
2	9.6%
3	5.4%
4	2.6%
5	39.7%
6 to 9	3.3%
10 to 14	5.3%
15 or more	4.4%
None at present	0.6%
Unclear	2.0%

How long have you held JT's stock?

Less than 6 months	2.4%
Between 6 months and less than 1 year	3.0%
Between 1 year and less than 3 years	13.4%
Between 3 years and less than 5 years	12.6%
Between 5 years and less than 10 years	22.9%
10 years or more	41.9%

Unclear 3.8%

Out of shareholders with holding of 10 years or more, 75% have been holding shares since the listing in October 1994. Of shareholders with holding of between 5 years and less than 10 years, 50% have been holding shares since the public offering in June 2004.

Average number of shares held of 4.8, over an average period of 8.9 years.

Holding of stock

Reason for holding JT's stock

	(%)
Expecting stable growth in results	57.5
Attracted by complimentary gifts to shareholders	28.2
Attracted by development of Pharmaceutical Business	23.6
Sound financial composition	22.6
Attracted by dividends	19.1
Attracted by Food Business	17.6
Global business expansion	16.5
High level of technology / capacity in research and development	15.6
Position / predominance in sector	15.1

Approximately 30% of our shareholders have chosen complimentary gifts to shareholders as their reason for holding JT's stock. We continue to work for the further enhancement of our complimentary gifts in order to be able to provide attractive complimentary gifts for shareholders.

As there are also many shareholders who find the development of our Pharmaceutical Business and our Food Business appealing, we will continue our provision of information regarding both of these businesses in our Business Reports.

Building Character with Shogi

<Logo> Shogi Japan Series

Kids Tournament / Official Pro Tournament

The 2011 JT Shogi Japan Series is currently being held!

This year's JT Shogi Japan Series, our 32nd, is now underway. The series, which is the country's largest Shogi event, is being held in 10 cities nationwide, with the theme, "Building Character with Shogi."

In the Series, the "Kids Tournament" for hands-on learning and "Official Pro Tournament" for watching are being held in the same venue on the same day, and we are carrying them out with the idea of seeking to develop the character of children by allowing them to experience various emotions through the traditional Japanese game of Shogi. This year's JT Shogi Japan Series, our 32nd, started with the Kumamoto Tournament on June 11. It will be held in 10 cities nationwide until the Tokyo Tournament on November 20, which will be the final stage of the Series.

■ Kids Tournament

<Photo>

The "Kids Tournament," held for the 11th time this year, had a total of 7,895 participants last year. Participation in the Tournament is open to all those in elementary school and under who know the rules of Shogi, and those who advance to the final will play that game on the same stage as the "Official Pro Tournament" wearing a *haori* (a traditional type of coat) and *hakama* (a traditional type of skirt or kilt).

■ Official Pro Tournament

<Photo>

The "Official Pro Tournament," which is carried out following the "Kids Tournament," is a tournament that is played in public by the 12 top professional Shogi players. It is said that the tournament gives rise to exciting and excellent play due to its ultra-quick game rule.

■ Shogi Lessons by Visiting Pros

<Photo>

Prior to each tournament, the professional Shogi players visit elementary schools and other places in the areas where the tournaments are held, and communicate themes such as the enjoyableness of Shogi, polite behavior, and the importance of working towards ones dreams, through sharing their experiences as professional Shogi players, as well as coaching in Shogi.

The 2011 JT Shogi Japan Series

Schedule of Kids Tournament / Official Pro Tournament (August onwards)

Tournament	Date	Venue
Chugoku Tournament	August 27 (Saturday)	Hiroshima Sunplaza Hall
Hokkaido Tournament	September 3 (Saturday)	Sapporo Convention Center
Fukuoka Tournament	September 17 (Saturday)	Fukuoka Convention Center
Osaka Tournament	October 1 (Saturday)	Osaka Municipal Central Gymnasium
Tokai Tournament	October 29 (Saturday)	Port Messe Nagoya
Tokyo Tournament: Final	November 20 (Sunday)	Tokyo Big Sight

Activities to help out with reconstruction in response to the Great East Japan Earthquake: Sending everybody's hearts

In the JT Shogi Japan Series for this fiscal year, under the theme, "sending everybody's hearts," we are carrying out activities that allow the people who take part in and attend the tournaments in each area to help out the children of the areas stricken by the Great East Japan Earthquake.

Fund-raising activities

<Photo>

We are having the professional Shogi players (those engaged in commentating, listening and reading out) appearing at each area carry out fund-raising activities.

Charity sales of mini colored paper

<Photo>

We are having charity sales of colored paper (mini size) signed by professional Shogi players from the Japan Shogi Association.

Soliciting messages of encouragement

<Photo>

We have set up a "messages of encouragement corner" and are soliciting messages of encouragement for the children of the stricken areas.

Official tournament homepage (only in Japanese): <http://www.jti.co.jp/knowledge/shogi/>

Bulletin Board
NEWS

Release of “CSR Report 2011” summarizing JT Group’s CSR initiatives

JT has released the “CSR Report 2011” in order to foster deeper understanding of the JT Groups thinking and initiatives for CSR (Corporate Social Responsibility). The report covers the year ended March 31, 2011, which is the second year of the three-year CSR Promotion Plan (2009-2011). It consists of the four domains and areas established in the “JT Group CSR Promotion Policy,” namely “Base Domain of Business Management,” “Business Environment Area,” “Global Environment Area,” and “Social Contribution Area,” and reports mostly on the important activities provided in the CSR Promotion Plan.

The special topics of the report introduce a food safety program at a cutting-edge factory of JT Group company TableMark Co., Ltd. (the Uonuma Mizunosato Factory) and a flora-fauna ecosystem survey conducted in company-owned JT forest Shigetomi in Kagoshima Prefecture. This report also covers the impact of the Great East Japan Earthquake on the JT Group and the various efforts undertaken to continue the Group’s operations.

<Photo>

* The report can be viewed in “Corporate Social Responsibility” in JT’s official website:

<http://www.jti.co.jp/csr/> (Japanese)

<http://www.jt.com/csr/> (English)

The first super slim product in the Seven Stars family
“Seven Stars Cutting Menthol” released!!

JT had the nationwide release of the new “Seven Stars Cutting Menthol,” the first super slim menthol product in the Seven Stars family, one of the major brands in Japan, from late August 2011. Centered around the “Seven Stars” product, which occupies the No. 1 slot ^{*1} for domestic tobacco sales figures, the brand, which has seven products in its line-up, is one of the biggest brands in Japan. The recently released new product is the first super slim product to be released in the Seven Stars family. Years of research and experience at JT have made possible the use in super slim products of “flavor thread filters,”^{*2} which enable these super slim cigarettes to offer a rich and strong, sharp, piercing menthol sensation.

* 1. Based on sales figures for the top 20 products from the Tobacco Institute of Japan (TIOJ) for the year ended March 31, 2011.

* 2. Filters using threads to which menthol and other flavorings have been added.

“Seven Stars Cutting Menthol”

Size: King/super slim size filter

Filter type: Flavor thread filter

Tar value: 7 mg per cigarette

Nicotine value: 0.6 mg per cigarette

Packaging: Half round box containing 20 cigarettes

Price: ¥440

Easy Recipe with
<TableMark Logo>

Escape from summer tiredness with this lively recipe!
“Pork and bitter gourd *Udon* noodle stir-fry!”

When it gets to the summer, the dish we’d most like to eat is a “bitter gourd stir-fry” from Okinawa. Bitter gourd, which is a summer vegetable, actually goes together with *Udon* noodles perfectly. As the staple food can be eaten in one dish with meat and vegetables, the nutritional balance is just right!

<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”

Bitter gourd (sliced) 1/4

Pork fillet (sliced) approx. 100g

Garlic (sliced) a half clove

Sesame oil 2 teaspoons

Salt and pepper pinch

Bonito flakes

Korean pickle (kimchi)

[A]

Men-tsuyu (soup stock for noodles) 1 tablespoon

Oyster sauce 1 tablespoon

Preparation

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

* Wash in cold water and drain well.

Directions

1. Put the garlic in a frying pan with some sesame oil and heat up.
2. Once the aroma comes, add the bitter gourd and fry for 1-2 minutes.
3. Add the pork fillet, continue frying, and add salt and pepper.
4. Once the color changes, add the *Udon* noodles and season with [A].

5. Serve the dish and sprinkle bonito flakes and Korean pickle on top.

Many more great recipes online! (Japanese only)

www.tablemark.co.jp/

<Picture>

JT Group Products (available only in Japan)

Renewal

Roots “Aroma Black”

300g aluminum bottle/¥130

Towards an even more fragrant, richer aroma!

- By keeping the method of roasting the coffee as it is and newly combining coarsely ground roast beans with finely ground roast beans, we gave it an even richer aroma and taste.
- The packaging has an expression of commitment to quality with a simple design featuring fragrant coffee beans.

<Photo>

Renewal

Roots “Aroma Revolut Low Sugar”

275g aluminum bottle/¥140

Realization of astounding aroma!

- This is a low sugar coffee with added milk, with the normal coffee taste and aroma heightened further based on the formula for Roots “Aroma Black.”
- We gave it a subtle sweetness without an aftertaste by reducing the sugar by 55% *.

* 55% less sugar than regular coffee beverages (7.5g/100 ml)

<Photo>

Renewal on September 1

“Sanuki *Udon* Noodles 5 packs”

5 servings (1000g)

<Photo>

Delivering the delicious taste of the Sanuki tradition!

- Making the most of Sanuki *Udon* noodles’ unique chewiness, this product uses flour suitable for *Udon* noodles from several countries to retain sound quality. As it is quick-frozen, its taste is as good as if it were freshly made.
- The inner bag has been changed from a pre-packed bag to a pillow package that can be handled easily even after heating the *Udon* noodles in the microwave. We have also reduced uneven thawing at the time of microwave heating.

Renewal on September 1

“Fried Rice with Shrimp and More”

1 serving (450g)

<Photo>

Pervasively rich flavor right from the first bite!

- This fried rice boasts a rich flavor created by our unique “Bakucha” frying method.
- This fried rice is even more delicious than before, with large pieces of shrimp cut into bite-size pieces giving it a full texture.
- We have realized a supple consistency and rich flavor worthy of rice fried in a Chinese-style wok by a chef specializing in Chinese cuisine, as each grain of rice is fried at a high temperature for a short amount of time.

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	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, Tobacco Business	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	Atsuhiko 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 July 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.

How to Receive Your Complimentary Gift

In June 2011, JT forwarded to all shareholders registered as of March 31, 2011 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 vegetable oil inks along with FSC approved paper (chlorine-free bleach) to protect our forests.