

[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 35

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<Photo>

JTI Torbali factory (The Turkish Republic)

<JT logo>

A Message from Management

In the first half of the fiscal year ending March 31, 2012, adjusted net sales and operating income declined, affected by lower sales volume 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, due to damages to our factories from the Great East Japan Earthquake, our shipments were temporarily suspended. However, we were able to normalize shipments on August 1. Monthly market share has recovered consistently, and we will aim to recover our market share to 60% for the single month of March at fiscal year end. With launches of new products mainly from key brand families and implementation of active sales promotions, all our forces will be devoted to strengthen our competitiveness.

In the International Tobacco Business, except for some markets, the business environment for the International Tobacco Business has remained stable, following the recovery trend that started in the second half of the prior fiscal year. Although concerns over the sovereign debt crisis in Europe are increasing, the impact on our business, such as industry contraction or acceleration of down-trading, has so far been limited. 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, there is a solid line-up of compounds in late stages of development with four compounds in Phase 3 or later. Gilead Sciences, Inc., the licensee company of anti-HIV drug JTK-303, has announced that a new drug application for a single-tablet regimen containing JTK-303 has been submitted to the U.S. Food and Drug Administration (FDA) for approval. We will continue to strive to make steady progress in clinical development and reinforce the R&D pipeline.

In the Food Business, overall net sales declined due to, among others, the closure of the white rice wholesale business in the prior fiscal year. However, EBITDA grew due to continued strong results for the flagship brand “Roots” in the beverage business, improved profitability achieved through the concentration of resources on high-margin staple food products, and through reduction in fixed costs. We will strengthen competitiveness and profitability by concentrating resources to those three businesses.

November 2011

Hiroshi Kimura, President & CEO

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

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

For the first half of the fiscal year ending March 31, 2012, adjusted net sales, EBITDA and operating income declined as shown in Table 1.

Adjusted net sales declined 8.7% to ¥940.3 billion, affected by sales volume decline due to the adverse effect of temporary demand ahead of tax hike in the same period of the previous fiscal year, effect from the tax and price increases, and the earthquake impact in the Japanese Domestic Tobacco Business and negative impact of exchange rates in the International Tobacco Business.

EBITDA declined 3.6% to ¥296.1 billion, as pricing effects in the Japanese Domestic Tobacco Business and International Tobacco Business could not offset the sales decline. Operating income declined 3.8% to ¥193.0 billion.

Ordinary income increased 3.2% to ¥192.5 billion, as an improvement in foreign exchange losses offset the decline in operating income.

Net income increased 17.9% to ¥95.8 billion.

<Figure 1>

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

(Billions of yen)

	Six months ended September 30, 2010 (results)	Six months ended September 30, 2011 (results)	Change
Adjusted net sales *1, *2	1,030.1	940.3	-8.7%
EBITDA *3	307.1	296.1	-3.6%
Operating income	200.6	193.0	-3.8%
Ordinary income	186.4	192.5	3.2%
Net income	81.3	95.8	17.9%

*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	246.8	235.6	-4.5%
Ordinary income	232.6	235.1	1.1%
Net income	127.5	138.5	8.6%

In the Japanese Domestic Tobacco Business, sales volume declined by 41.2% to 50.9 billion cigarettes. This was due to the adverse effect of temporary demand ahead of tax hike in the same period of the previous fiscal year, effect from the tax and price increases, and the earthquake impact. Although pricing effects partially offset the sales volume decline, adjusted net sales, EBTIDA and operating income all declined.

As shown in Figure 3, the market shares of JT and its key brands declined due to the impact of earthquake. However, monthly market share has recovered consistently, with share of JT products for the single month of September at 57.8% and share of key brands at 41.1%. We will continue to recover the market shares with launches of new products mainly from key brand families and implementation of active sales promotions. Regarding one of our key brands of Seven Stars family, we launched “Seven Stars Cutting Menthol,” a super slim product, in August. We will also strengthen Seven Stars by moving an existing product, “Salem Alaska,” with a super strong menthol flavor, into the Seven Stars family starting in late October. As for the Pianissimo family, we launched “Pianissimo ViV Menthol” with capsule in the filter, in early November. In addition, we will renew all five products of the Cabin family, redesign the package of “Zerostyle Mint,” a smokeless tobacco product, and launch “Zerostyle Bitter Leaf” as a non-menthol extension of the Zerostyle line. In order to meet diversifying needs, we will continue to provide appealing products to our customers.

<Figure 2> Japanese Domestic Tobacco Business results

(Table 2) JT sales volume

	Six months ended September 30, 2010	Six months ended September 30, 2011	Change
JT sales volume	86.5	50.9	-41.2%

(Billions of cigarettes)

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

Market share of JT products

Market share of aggregated JT key brands

International Tobacco Business

In January to June FY2011, the Global Flagship Brands (GFB) shipment volume increased 3.2% to 122.0 billion cigarettes, as positive performance of Winston in Russia, Turkey and Italy and of LD in Russia. Total shipment volume including GFB, increased 0.1% to 204.9 billion cigarettes.

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

Dollar-based core net sales increased 9.3% and EBITDA increased 14.6% due to pricing effects and favorable foreign exchange effects on the local currencies of major markets. Yen-based EBITDA increased 2.9% due to the strong yen.

<Figure 4> International Tobacco Business results

<Figure 5> Market share in major markets

	June 2010	June 2011
Italy	19.0%	20.3%
France	15.5%	16.2%
Spain	20.7%	20.4%
U.K.	39.1%	39.1%
Russia	36.9%	37.1%
Turkey	20.6%	23.4%
Taiwan	37.0%	38.5%

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

(Table 3) Shipment volume results

(Billions of cigarettes)

Total shipment volume *3	Three months ended March 31, 2011	Six months ended June 30, 2011
FY 03/2011	94.1	204.7
FY 03/2012	94.5	204.9
Change	0.5%	0.1%

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

(Billions of cigarettes)

GFB shipment volume	Three months ended March 31, 2011	Six months ended June 30, 2011
FY 03/2011	54.6	118.3
FY 03/2012	55.8	122.0
Change	2.1%	3.2%

Pharmaceutical Business

In the Pharmaceutical Business, net sales grew ¥1.2 billion to ¥24.3 billion. This was due to robust sales of the Remitch Capsule and Truvada at Torii Pharmaceutical Co., Ltd., a JT Group company. EBITDA declined due to an increase in R&D expenses at Torii Pharmaceutical.

There is a solid line-up of compounds in late stages of development with one compound in Phase 3 at JT, and three out-licensed compounds overseas in Phase 3 or later. Gilead Sciences, the licensee company of JTK-303, has announced that a new drug application for a single-tablet regimen containing JTK-303 has been submitted to the U.S. FDA for approval.

Clinical development of JTT-305 and JTK-656 was discontinued, while JTZ-951, key indication being anemia associated with chronic kidney disease, has entered into clinical development. With the addition of JTZ-951, a total of eight compounds are now in the clinical development. We will continue to strive to make steady progress in clinical development and reinforce the R&D pipeline.

Pharmaceutical Business: Clinical development (as of October 31, 2011)

Code (generic name)	Stage	Key indication	Characteristics	Rights
JTK-303 (elvitegravir) (oral)	In preparation for NDA filing of single-tablet regimen containing JTK-303 (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: The company has submitted the single-tablet regimen containing JTK-303 (elvitegravir) to the U.S. FDA for approval.
JTT-705 (dalcetrapib) (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 (granotapide) (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	

Code (generic name)	Stage	Key indication	Characteristics	Rights
JTT-302 (oral)	Phase 2 (Overseas)	Dyslipidemia	Decreases LDL and increases HDL by inhibition of CETP - CETP: Cholesteryl Ester Transfer Protein, facilitates transfer of cholesteryl ester from HDL to LDL - HDL: High-density lipoprotein (“good cholesterol”) - LDL: Low-density lipoprotein (“bad cholesterol”)	
JTT-751 (ferric citrate) (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	
JTZ-951 (oral)	Phase 1 (Japan)	Anemia associated with chronic kidney disease	Increases red blood cells by accelerating production of erythropoietin, an erythropoiesis-stimulating hormone, via inhibition of HIF-PHD. HIF-PHD: Hypoxia Inducible Factor-Prolyl Hydroxylase Domain containing protein	

* The beginning of a development stage is based on when the administration of the drug commences. Changes since the previous announcement on July 28, 2011: JTZ-951 entered the clinical development stage in Japan / Development of JTT-305 and JTK-656 was halted / As single-tablet regimen containing JTK-303 has been submitted by the licensee, Gilead Sciences (U.S.), to the U.S. FDA for approval, this is included in the “Rights” column.

Food Business

In the Food Business, sales for the flagship brand “Roots” continued to deliver strong results for the beverage business, so did the staple food products such as frozen noodles, cooked packed rice and baked frozen bread for the processed food business. However, net sales for the overall Food Business declined ¥9.2 billion to ¥187.5 billion due to, among others, the closure of the white rice wholesale business in the prior fiscal year. EBITDA grew ¥1.3 billion to ¥10.9 billion due to improved profitability achieved through the concentration of resources on high-margin staple food products, and through reduction in fixed costs.

● Earnings Forecasts for FY 03/2012

On a consolidated basis for the fiscal year ending March 31, 2012, our business is steadily gaining momentum due to the upward revision of the sales volume forecast for the Japanese Domestic Tobacco Business and favorable pricing in the International Tobacco Business. However, negative forex impact of local currencies' depreciation against the U.S. dollar as well as the negative forex impact of the yen's appreciation against the U.S. dollar will outweigh the aforementioned positive effects, and our forecasts for adjusted net sales, EBITDA, operating income and ordinary income are revised downward.

In the Japanese Domestic Tobacco Business, we have made upward revisions for adjusted net sales, EBITDA and operating income, as sales volume forecast is revised up 1.0 billion cigarettes. In the International Tobacco Business, we have revised down the total shipment volume by 2.0 billion cigarettes, taking into account the decline in shipment volume of low-end local brands in Russia. However, as for the GFB shipment volume, which is driven by the strong performance of Winston and LD, the forecast remains unchanged. We revised up the forecasts for core net sales and EBITDA at constant rates of exchange in light of overall GFB mix improvement of JTI. In the Pharmaceutical Business, we revised upward the net sales and profit forecasts in light of an expected increase in milestone revenue and the review of JT's R&D expenses. In the Food Business, we revised up the net sales forecast, as "Roots" is expected to continue the good performance.

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

				(Billions of yen)
	Projections at end of first quarter for fiscal year ending March 31, 2012	Projections at end of first half for fiscal year ending March 31, 2012	Change	Fiscal year ended March 31, 2011 (results)
Adjusted net sales *1 *2	1,915.0	1,895.0	-20.0	1,946.9
EBITDA *3	550.0	537.0	-13.0	542.5
Operating income	336.0	329.0	-7.0	333.2
Ordinary income	324.0	318.0	-6.0	313.0
Net income	161.0	161.0	0.0	145.3

*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	246.0	242.0	-4.0	233.3

● 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 September 30, 2011	Increase (Decrease)
Assets			
Current assets	1,240,943	1,239,973	(969) *1
Noncurrent assets	2,303,163	2,354,093	50,929
Property, plant and equipment	663,550	662,628	(922)
Intangible assets	1,408,037	1,431,835	23,798 *2
Goodwill	1,094,366	1,118,063	23,697
Right of trademark	286,435	285,598	(837)
Other	27,234	28,173	938
Investments and other assets	231,576	259,629	28,053
Total assets	3,544,107	3,594,067	49,959
Liabilities			
Current liabilities	1,057,892	1,098,986	41,094 *3
Noncurrent liabilities	914,464	790,691	(123,772) *4
Total liabilities	1,972,356	1,889,678	(82,678)
Net assets			
Shareholders' equity	2,137,768	2,195,557	57,789
Accumulated other comprehensive income	(642,928)	(570,644)	72,284 *5
Subscription rights to shares	763	812	48
Minority interests	76,146	78,663	2,516
Total net assets	1,571,750	1,704,389	132,638
Total liabilities and net assets	3,544,107	3,594,067	49,959

Note: Millions of yen with fractional amounts discarded.

*1. Cash and deposits and short-term investment securities decreased as a result of repayments of interest-bearing debt.

*2. Goodwill increased due to stronger local currencies and depreciation of the yen.

*3. In the International Tobacco Business, national tobacco excise taxes payable increased.

*4. Interest-bearing debt decreased as a result of redemption of bonds.

*5. Despite the effects of an appreciation of the yen against the U.S. dollar, foreign currency translation adjustment increased as a result of stronger local currencies.

Consolidated statements of income

(Millions of yen)

	Six months ended September 30, 2010	Six months ended September 30, 2011	Increase (Decrease)
Net sales	1,297,494	1,277,503	(19,990)
Cost of sales	705,468	708,520	3,051
Gross profit	592,025	568,983	(23,041)
Selling, general and administrative expenses	391,384	375,956	(15,428)
Operating income	200,640	193,027	(7,613) *1
Non-operating income	5,844	14,313	8,469
Non-operating expenses	20,009	14,825	(5,184)
Ordinary income	186,475	192,515	6,040 *2
Extraordinary income	3,698	8,597	4,898
Extraordinary loss	29,192	43,222	14,029 *3
Income before income taxes and minority interests	160,981	157,890	(3,090)
Income taxes	76,277	58,750	(17,527)
Income before minority interests	84,703	99,139	14,436
Minority interests in income	3,382	3,264	(117)
Net income	81,321	95,875	14,554 *4

Note: Millions of yen with fractional amounts discarded.

- *1. Operating income declined as a result of a decrease in sales due to a decline in sales volume in the Japanese Domestic Tobacco Business and effects from an appreciation of the yen in the International Tobacco Business, despite the favorable pricing effects in the Japanese Domestic Tobacco Business and International Tobacco Business.
- *2. Ordinary income increased because the decline in operating income was offset by an improvement in foreign exchange gains/losses.
- *3. Net extraordinary income/loss worsened, mainly as a result of the additional recording of loss on the Great East Japan Earthquake and the recording of cooperation fee for terminating leaf tobacco farming.
- *4 Net income increased as a result of a decrease in the amount of income taxes recorded due to a decline in profit.

Consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2010	Six months ended September 30, 2011	Increase (Decrease)
Net cash provided by (used in) operating activities	341,734	200,065	(141,669)
Net cash provided by (used in) investing activities	(70,635)	(35,852)	34,782
Net cash provided by (used in) financing activities	(215,211)	(189,956)	25,255 *
Effect of exchange rate change on cash and cash equivalents	(7,616)	(521)	7,095
Net increase (decrease) in cash and cash equivalents	48,270	(26,264)	(74,535)
Cash and cash equivalents at beginning of period	154,368	244,240	89,871
Increase in cash and cash equivalents from newly consolidated subsidiary	194	–	(194)
Cash and cash equivalents at end of period	202,834	217,975	15,140

Note: Millions of yen with fractional amounts discarded.

* This is the result of repayment of commercial papers last year.

<Picture> <Logo> Introducing an International Tobacco Market Series 6

Turkey

Where JTI has the fastest growth in the market

<Flag> Basic knowledge about the Turkish Republic <Map>

Population:	73.70 million (December 2010)
GDP:	735.8 billion U.S. dollars
Smoking rate:	48.8% (Male: 51.7% Female: 17.8%) (as of 2009)
Exchange rate:	1 Turkish lira = ¥43 (as of October 31, 2011)

Shipment volume

- In 2010, volume grew 4.9% despite an industry contraction.
- Shipment volume of GFB, an area of particular focus, grew 10.3%.

Market share

- No. 3 domestic market share (23.6%: as of September 2011) in Turkey
- Maintained fastest growth in market thanks mainly to increased Winston market share

<Figure 1>

Turkish market

In 2010, JTI achieved shipment volume growth of 4.9%, despite a 9.6% decline in overall demand due to a substantial tax hike in January. In this increasingly competitive environment, JTI has continued to have the fastest growth in the market thanks to Winston's increased market share. JTI has also achieved increases in the market shares of Camel and Monte Carlo thanks mainly to aggressive introductions of new products.

<Figure 2>

Market share by fiscal year

Major brands

Winston

The No. 1 brand in Turkey and a driver of increased market share.

<Photos>

Monte Carlo

A well-liked brand with high growth and a popular price

<Photos>

Camel

Shipment volume and market share are both growing strongly thanks to heightened brand value from the aggressive introduction of new products and the like

<Photos>

Torbali factory

JTI has its Torbali factory in Izmir, Turkey's third-largest city. Boasting one of the top production volumes of JTI's 29 factories, the factory underpins JTI's growth in Turkey.

<Photo>

Torbali factory (Izmir)

◆Regarding the Recent Earthquake in Turkey

JT would like to express our deepest sympathies to all those affected by the earthquake that struck eastern Turkey on October 23, 2011. We hope for the earliest possible recovery of the affected areas.

JT decided to donate US\$40,000 in relief money through the Embassy of the Republic of Turkey in Japan to provide help with relief for those affected by the earthquake and reconstruction of the affected areas.

JTI is also carrying out support activities such as rescue efforts in the affected areas through GEA Search Rescue and Ecology Group, a Turkish-based relief agency that is backed by the JTI Foundation and JTI Turkey.

Japan Tobacco Imex Co., Ltd.

Japan Tobacco Imex Co., Ltd. outsources the manufacture of non-cigarette tobacco products such as pipe tobacco and cigars to overseas makers, and imports and sells them.

The company operates a specialist tobacco business and is developing it with a particular focus on its mainstay brand, the little cigar “KEITH.”

Turning point in the transfer of specialist tobacco brands

Japan Tobacco Imex Co., Ltd. was established in 1987 as a company handling the import and export of tobacco raw materials and the like to and from overseas. From these origins, the company expanded its operations to encompass importing and selling overseas brands of pipe tobacco and cigars.

With JT’s discontinuation of domestic manufacture of non-cigarette tobacco products, the specialist brands it had been manufacturing, including “KEITH,” “Asuka” and “Momoyama,” were transferred to Japan Tobacco Imex in 2005. With this change, Japan Tobacco Imex made a new start, newly specializing in outsourcing the manufacture of pipe tobacco and cigars and the like, and the import and sale of such products.

At present, the company outsources the manufacture of ex-JT brands overseas and sells them under its own name. With respect to the other products it handles, the company imports and sells overseas brands as a distributor.

Focusing on the promotion of tobacco culture

From 2009, the company has turned its attention to the cultural aspects of specialist tobacco, focusing on activities to maintain specialist tobacco culture and pass it on to new generations. The company carries out promotion activities in collaboration with cultures other than tobacco, and these are garnering an ever wider response, from smokers and non-smokers alike. In addition, people who had their first experience of specialist tobacco through these activities have developed an interest in the fascinating nature of specialist tobacco implements and smoking styles. In response, the company newly participated in a smoking implement business, “SMOKE & COMPANY.” Tools (smoking implements) are indispensable items for bringing an extra dimension to tobacco culture promotion activities.

■ Smoking Collection 2011 “tobacco and smoking implement fair” exhibition

<Photo>

A demonstration of making a *kiseru* traditional Japanese pipe

<Photo>

Cigar demonstration

<Photo>

Display and sale of new products

Introducing a Group Company

Contribution to JT Group

Japan Tobacco Imex Co., Ltd. is a company in which employees can experience the whole operational flow from product development to sales, and get a deeper feel for specialist product and industry knowledge, as well as the appeal of tobacco as a luxury to be savored. Because of this, the company also focuses its efforts on the training of human resources.

The company will continue to make its contribution to the JT Group under the idea of “tobacco as one,” including pipe tobacco and cigars.

<Photo>

Koiki (shredded tobacco), *kiseru* and tobacco tray (smoking implement)

<Photo>

Ceramic *kiseru* “SHIEN” (smoking implement)

<Photo>

Don Tomas Clasico Robusto (premium cigar)

<Photo>

KEITH Mild (little cigar)

<Photo>

TOSCANELLO Aroma Caffè (dry cigar)

<Photo>

MARIPOSA (cigarrillo)

<Photo>

Momoyama (pipe tobacco)

Company Profile

Name: Japan Tobacco Imex Co., Ltd.

Head office: 5th floor, JT Shibuya Building, 5-1 Nanpeidai-cho, Shibuya-ku, Tokyo

Established: 1987

Paid-in capital: ¥50 million

Representative: Hikaru Kamachi, President & CEO

Employees: 12 persons, 9 other non-permanent sales employees (as of October 1, 2011)

Description of Business

Outsourcing manufacture of pipe tobacco and cigars to overseas makers, importing and sales, etc.

<Chart of Japan Tobacco Imex's Position in the JT Group>

The Lure of Tobacco Smoke

A lesson from the past at the end of a journey

Nanbu Tobacco Museum [Iwate]

<Photo>

Visiting the main growing area for “*Nanbuha*,” cultivated by the sky and ground of Hayachine

Despite suffering considerable damage from the earthquake disaster, Iwate Prefecture is steadily pushing ahead with the reconstruction process. Within the prefecture, Ohasama in Hanamaki City, which is located at the foot of Mount Hayachine, has a long history of flourishing leaf tobacco cultivation. Currently, the town produces leaf tobacco of the “Burley” variety of tobacco. In the built-up area of the town, there are still a large number of old style drying rooms for “Yellow” tobacco, which was cultivated there between 1933 and 1964.

Building on that history, it was the cultivation of leaf tobacco used as the material for cigars that flourished until 1980 at Ohasama. Called “*Nanbuha*,” this was a treasured variety of leaf tobacco that could only be cultivated in this area, even within Japan. The “Nanbu Tobacco Museum” provides an introduction to “*Nanbuha*.”

The museum preserves and displays historical exhibits such as materials and old documents pertaining to the manufacture and sale of tobacco in Ohasama before the advent of the tobacco monopoly sales system, including agricultural tools used in the cultivation of “*Nanbuha*.” Among these exhibits, there is a detailed explanation of the history of “*Nanbuha*,” and visitors can learn the story of how the leaf tobacco seeds were brought directly from the Philippines and this variety eventually came to be known as “*Nanbuha*.”

In Ohasama, one can still feel the area’s zeal for leaf tobacco in the present day. Why not support reconstruction after the earthquake by going along to this town, which provides an account of the history of tobacco cultivation?

<Photo>

Meiji Era tobacco materials including the accounts ledgers of tobacco manufacturers, as well as *hokashi* paper that was wrapped around shredded tobacco, are displayed in the museum.

<Photo>

The history of “*Nanbuha*” is clearly explained with 14 panels. A large number of agricultural tools that

were in practical use are also displayed.

<Photo>

A sample of a cigar made with “*Nanbuha*.” “*Nanbuha*” was used for the material for the wrapper around the outermost part of the cigar.

<Photo>

Tobacco Shrine

Surrounded by mountains, Ohasama is lightly wreathed in mist in the mornings and evenings of the leaf tobacco cropping season in a similar way to Cuba, a country famous for producing cigars. It is this weather and climate, which allows the growth of a different variety of leaf tobacco to other regions, that produced “*Nanbuha*.”

In the vicinity of the “Nanba Tobacco Museum,” which displays the history of “*Nanbuha*,” one can find the “Atago Shrine.” Inside its grounds, one can see the “Tobacco Shrine” and a monument in honor of a leaf tobacco grower.

The “Tobacco Shrine” was built in 1941 and is distinctive for its front shrine, which was made mainly from Japanese cypress in the *gongen* shrine style. The monument honors Keinosuke Ryosen, a man who devoted his energies to the cultivation of “*Nanbuha*,” and is inscribed with the following *haiku* composed by Ryosen: “Tobacco sown after the struggle to clean deep snow.”

■ Nanbu Tobacco Museum

Location

28-17-3 Ohasama-machi-sotokawame, Hanamaki-shi, Iwate 028-3202

(Walk for 20 minutes from Ohasama Bus Terminal, Iwateken Kotsu Bus)

Inquiries: Tel 0198-45-1311(Cultural Property Division, Hanamaki City Board of Education)

Opening hours: 9:00 – 16:00

Closed: Saturdays, Sundays, public holidays and during the New Year holidays (December 28 - January 3)

Admission: Free (Advance applications: Hanamaki City Cultural Center, Tel 0198-29-4567)

<http://www.city.hanamaki.iwate.jp/culture/> (only in Japanese)

<Map>

Close Up Introducing a New Tobacco Product

“Pianissimo ViV Menthol” launched in early November 2011

“Pianissimo ViV Menthol,” the first JT product to have a capsule in its filter, was launched nationwide in early November 2011.

Smoked as it is, the cigarette has a menthol taste with mint flavor. Smoking it after crushing the capsule enhances the menthol taste, giving the cigarette a fresher, more refreshing taste and leaving a clean sensation in the mouth.

This is a completely new type of capsule product which leaves a less imposing tobacco odor in the mouth than if the cigarette is smoked without crushing the capsule.

<Photo>

A cool and stylish design!

The packaging features a colorful capsule motif on top of a sleek, cool black base. This design is meant to communicate the sense of exhilaration, excitement and fun from crushing the “Breath Sparkling Shot” capsule, as well as the two types of flavors offered by the cigarette.

The name “ViV” derives from the English word “vivid,” meaning “invigorating” and “fresh.” It was chosen not only because it will stick in the customer’s mind but because it embodies a sense of vibrancy.

Size: King size filter

Filter type: Cavity filter with capsule and blue FTF

Tar value: 6 mg per cigarette

Nicotine value: 0.5 mg per cigarette

Packaging: Round box containing 20 cigarettes

Price: ¥440

■ First JT product to feature this technology!

“Pianissimo ViV Menthol” is JT’s first line of cigarettes to feature the “Breath Sparkling Shot” capsule in the filter. Before crushing the “Breath Sparkling Shot” capsule the cigarette gives you a fresh menthol taste with mint flavor. After crushing the capsule, you can enjoy a somewhat sweet, strong menthol flavor with a refreshingly clean taste.

In addition, crushing the “Breath Sparkling Shot” capsule leaves you with a cleaner aftertaste and a less imposing tobacco odor in your mouth than not crushing it.

<Picture>

The filter contains the newly developed “Breath Sparkling Shot” capsule

The sharpness of the taste changes after the capsule is crushed! You can enjoy two tastes

<Picture>

“Zerostyle Bitter Leaf” to go on sale in early December 2011

In early December, as a new addition to its new style of smokeless tobacco product “Zerostyle,” JT will be launching the new “Zerostyle Bitter Leaf” with accompanying refill cartridges. The new product will be made available in Tokyo, Kanagawa, Saitama, Chiba, and selected retail stores nationwide.

“Zerostyle” is a new style snuff tobacco product. As the product does not require a flame, it is smokeless, allowing consumers to use it in a variety of locations, being considerate to neighbors at the same time. As Japanese consumers are unfamiliar with conventional snuff products, the “Zerostyle Mint” design was developed, adopting a replaceable cartridge that fits into a cigarette-shaped pipe which contains tobacco leaves.

<Photo>

“Zerostyle Bitter Leaf”

Packaging: Box with side opening

(Same sized packaging as ordinary 100mm cigarettes)

Contents: One product unit and two refill cartridges

Taste: Regular type

Price: ¥410

<Photo>

“Zerostyle Bitter Leaf Refill Cartridges”

Packaging: Box with side opening

(Same sized packaging as ordinary 100mm cigarettes)

Contents: Two refill cartridges

Taste: Regular type

Price: ¥300

Introducing a new flavor and aroma

Since the launch of “Zerostyle Mint” we have received requests from a number of consumers asking for a product with the flavor and aroma of a regular product.(*). To meet the consumer demand, JT is launching the new regular flavored “Zerostyle Bitter Leaf” as part of the smokeless “Zerostyle” brand line. Through JT’s unique production method, which brings out the natural flavor and aroma of tobacco, you can enjoy the slightly bitter taste with a light, mild sensation without using a flame.

* A product without a menthol flavor or aroma.

“Zerostyle Mint” also renewed!

The “Zerostyle Mint” line will also be getting a new design in the same black-based, stylish avant-garde “Zerostyle Bitter Leaf” package.

Also, the number of refill cartridges sold in “Zerostyle Mint Refill Cartridges” will be changed from four to two. This will impart a sense of consistency to the “Zerostyle” line-up.

<Photos>

Complimentary Gift for 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. We would like to introduce the “Complimentary Gifts for Shareholders” we offered most recently (for shareholders of the Company as of September 30, 2011).

Course A

Shareholders owning one to four shares of the Company: Products equivalent to ¥2,000

This timing’s gifts will come with a JT calendar.

1. Beverage Assortment Gift Set

<Photo>

2. Rice Assortment Gift Set

<Photo>

3. GENTRY Soup and Seasonings Assortment Gift Set

<Photo>

Course B

Shareholders owning five or more shares of the Company: Products equivalent to ¥3,000

This timing’s gifts will come with a JT calendar.

1. Beverage and Rice Assortment Gift Set

<Photo>

2. Rice Assortment Gift Set

<Photo>

3. GENTRY Soup and Seasonings Assortment Gift Set

<Photo>

4. Donation to Reconstruction Support Efforts in Response to the Great East Japan Earthquake

Shareholders owning one to four shares of the Company: ¥2,000 donation in place of complimentary gifts

Shareholders owning five or more shares of the Company: ¥3,000 donation in place of complimentary gifts

As a part of relief efforts for those affected by the Great East Japan Earthquake and reconstruction support for the affected areas, we provide an 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's "Red Feather Disaster Relief Volunteer & NPO Support Fund." This option has been in place since the previous offer of complimentary gifts, when 2,729 shareholders chose to make a donation, resulting in a total of ¥7,305,000, which was donated on July 20. We would like to express our sincere gratitude to all of the shareholders who chose to make a donation.

Bulletin Board

NEWS

TableMark supported “Nippon Gymnastics” as official partner of “Artistic Gymnastics World Championships Tokyo Cup 2011”!

TableMark Co., Ltd. sponsored the “43rd Artistic Gymnastics World Championships, Tokyo Cup,” which was held from October 7, 2011 to October 16, 2011, as its official partner. At the championships, members of the male and female national teams earned the right to represent Japan at the forthcoming London Olympics. The championships focused a great deal of attention on the achievements of Japanese athletes, including Kohei Uchimura’s feat of becoming the first gymnast to win three consecutive world championship individual all-around titles. TableMark also broadcast a television commercial with the theme “Together With Nippon Gymnastics” to coincide with the opening of the championships, and the TableMark logo was featured in such places as on competitors’ uniforms and advertizing boards around the venue.

In 2012, TableMark will continue to support “Nippon Gymnastics” as an official partner at the “National Championships,” the Olympic trials selection for representatives of Japan (to be held in April 2012), and at the “NHK Cup” (to be held in May 2012).

<Photo>

Television commercial themed “Together With Nippon Gymnastics.”

<Photo>

Kohei Uchimura, the first ever gymnast to win three consecutive individual all-around titles.

“Green Fund” raised through “JT Forest” spring afforestation activities delivered to the National Land Afforestation Promotion Organization

As part of its “JT Forest” afforestation activities, JT called for employees that participated and related parties to raise funds in support of the areas affected by the Great East Japan Earthquake.

The call for fund-raising was made for the “Green Fund,” which is devoted to post-earthquake reconstruction support efforts. The ¥209,153 that was collected at six venues in the first half of the fiscal year is being put to use in an initiative to donate “*Kudeju*” assembly furniture kits, which are made of materials from Japan, to evacuation centers and the like, through the National Land Afforestation Promotion Organization. As living space and lifestyle needs vary, furniture is one of the more difficult items with which to provide support. This kit, however, is an invaluable item that can be used to make

furniture of varying shapes and sizes, and as it can easily be disassembled and reused, it can also be used in temporary housing. In addition, it is a way of effectively utilizing resources and contributing to afforestation, as the kit can be made from left-over wood and wood from forest thinning.

For the afforestation activities carried out at nine venues in the autumn, we have continued to call for cooperation in the “Green Fund.”

<Photo>

We delivered the money that was raised.

Tomohiro Kimata, National Land Afforestation Promotion Organization (Right) and Ryuji Takagi, Vice President of JT’s CSR Division (Left)

<Photo>

Example of use at an evacuation center.

It can be used in a variety of ways, including as a partition or a study desk.

Easy Recipe with
<TableMark Logo>

Warming the body and the spirit!
Salty *Chanko Nabe Udon*

The season when we yearn for *nabe* hot pot is here!
How about a *nabe* with plenty of ingredients and a light salt flavor that's not heavy on the stomach?
Put the *udon* noodles into the pot at the end and enjoy right to the last morsel!

<Photo>

They can be put in after microwaving or still frozen!

<Photo>

Ingredients (serves 3-4 people)

TableMark "Frozen Sanuki *Udon* Noodles" 2-3 bundles

Chicken wings 6-8

Green onion (fine diagonally sliced) 1

Carrot (thinly sliced) 1

Potherb mustard 2-3 bundles

Other ingredients such as enoki mushroom and tofu

Cayenne pepper powder and chili oil to taste

Roasted sesame to taste

[A]

Water 1200cc

Sake 50cc

Chicken stock (powder) 2 tablespoons

Bonito bouillon powder 1/2 teaspoon

Light color soy sauce 1/2 teaspoon

Salt 1/2 teaspoon

Grated garlic 1 clove

Preparation

Put "Frozen Sanuki *Udon* Noodles" in the microwave, wash with running water and drain well.

Directions

1. Put [A] and the chicken wings in the pot and heat it up.
2. Once the mixture starts to boil, cook the chicken wings until they are soft while carefully taking the froth from the surface of the soup.
3. Put in the remaining ingredients, take the pot to the dining table, and continue to heat it there.
4. Add cayenne pepper powder and chili oil to taste.

Udon Noodles in Soup

- [1] Put the *udon* noodles into the remaining soup and bring to the boil.
- [2] Boil for one or two minutes and add roasted sesame.
- [3] Add cayenne pepper powder and chili oil to taste and have the last part of the meal with *udon* noodles.

Many more great recipes online! (Japanese only)

www.tablemark.co.jp/

<Picture>

JT Group Products (available only in Japan)

“Roots Aroma Impact” series

Richer aroma with the “Aromazip Method” in which coffee beans are rapidly cooled down after roasting!

- Released

Roots Aroma Impact

“REAL SPIRIT”

185g tumbler can/¥115 (tax not included)

<Photo>

A rich, strong drinking sensation

- Renewal

Roots Aroma Impact

“Low Sugar SPECIAL”

185g tumbler can/¥115 (tax not included)

<Photo>

Even stronger and clearer

- Renewal

Roots Aroma Impact

“BLACK”

185g tumbler can/¥115 (tax not included)

<Photo>

A clear taste that provides the freshness of a rich flavor

Renewal

“Sanuki *Udon* Noodles 5 packs”

5 servings (1000g)

<Photo>

Just microwave in its inner bag and enjoy!

- The inner bag has been changed from a pre-packed bag to a pillow package that can be handled and opened easily after heating the *udon* noodles in the microwave. With microwave heating, they can be

prepared quickly without a pot while also helping to conserve water.

- Depending on the arrangement, they can be enjoyed in various ways, including Japanese style and Western style. Perfect for the cold season to come, we also recommend them as the last part of a *nabe* meal.

Released

“Croissant”

Pack of 6

<Photo>

Debut of “Bakers Select” frozen bread brand!

- You can easily enjoy a freshly baked, authentic croissant in your own home whenever you want.
- This product, in which cultured butter from France is folded into 24 layers of dough, has a crisp texture that brings out the aroma and sweetness of the butter.

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 October 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.