

[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.]

<JT logo>

To Our Shareholders and Investors

Business Report

<Logo> Report on the Consolidated Financial Results for the Fiscal Year Ended March 31, 2012

<Logo> JT NEWS

<Logo> JT Group Products

<Logo> “Business Plan 2012”

<Logo> JT Topics

<Logo> A lesson from the past at the end of a journey

<Photo>

Example of smoke separation consulting service: Shibuya Hikarie smoking space

(Opened April 26)

<Photo>

Pick Up and You Will Love Your City Campaign

Held at “Hiroshima Flower Festival” (May 3 to 5)

<Photo>

JT Marvelous

Won two championships in a row in “Kurowashiki Tournament”! (Held May 1 to 6)

Volume 37

TOP MESSAGE

Adapting to a changing environment is the key to sustainable profit growth

As a global company, we have voluntarily adopted IFRS from the fiscal year ended March 31, 2012

My name is Mitsuomi Koizumi, and I recently assumed office as President & CEO. In the Tobacco Business, the Pharmaceutical Business and the Food Business, we will work to provide services and products that give our customers ever higher levels of satisfaction, while also responding to changes promptly and flexibly, delivering sustainable growth and boosting corporate value, even at a time of heightened uncertainty in the business environment.

Review of “JT-11”

During the JT-11 period, we have faced a more challenging business environment than we envisaged at the time of formulating the plan. Despite this, we have achieved the targets we established three years ago through strong business momentum. Under Japanese GAAP, EBITDA (at constant rates of exchange) reached 8.3% CAGR, comfortably exceeding the JT-11 target of 5%.

We are recommending an increase in the dividend per share by ¥1,000 to ¥10,000 for the fiscal year ended March 31, 2012 in order to achieve a dividend payout ratio target of 30%.

Review of FY3/2012

We have voluntarily adopted IFRS from the fiscal year ended March 31, 2012.

Core revenue declined due to the volume decline in the Japanese Domestic Tobacco Business and the impact of the strong yen. Thanks to pricing effects in the Japanese Domestic and International Tobacco Businesses, both operating profit and adjusted EBITDA increased, by 14.4% and 10.6% respectively. Profit attributable to owners of the parent company increased 31.9% due to a one-time decline in corporate tax payment, arising from loss on valuation of stocks of subsidiaries and affiliates in the fiscal year ended March 31, 2011, which was accounted for as tax deductible in the fiscal year ended March 31, 2012.

Forecast for FY3/2013

As for the consolidated forecast, revenue and adjusted EBITDA are both projected to grow due to increases in the total sales volume in the Japanese Domestic Tobacco Business and pricing effects and top-line growth in the International Tobacco Business.

In the Japanese Domestic Tobacco Business, as total sales volume is projected to increase, revenue and profit are forecasted to grow. For the International Tobacco Business, adjusted EBITDA is forecast to grow 10% at constant rates of exchange, driven by pricing strategies. In the Pharmaceutical Business, as R&D expense is projected to increase, adjusted EBITDA is forecasted to decline. In the beverage business, although further growth is expected for our flagship “Roots” brand, revenue and profit are

forecasted to decline due to an increase in expenses arising from our efforts to strengthen trade marketing capabilities. In the processed food business, both revenue and profit are expected to grow as a result of a more organized business base arising from a focus on staple food products. For the Food Business as a whole, both revenue and profit are forecasted to grow.

Mitsuomi Koizumi, President & CEO

Consolidated Financial Results for the Fiscal Year Ended March 31, 2012 (FY2011)

(Billions of yen)

	Fiscal year ended March 31, 2012	Year-on-year change
Revenue	2,033.8	-1.2%
Operating profit	459.2	+14.4%
Adjusted EBITDA *1	577.1	+10.6%
Profit for the year *2	320.9	+31.9%

*1. Adjusted EBITDA = operating profit + depreciation of property, plant and equipment + amortization of intangible assets + impairment losses on goodwill ± restructuring-related income and restructuring-related costs

*2. Attributable to owners of the parent company

Japanese Domestic Tobacco Business

Adjusted EBITDA growth of 6.1%

60% market share achieved for month of March

Core revenue declined as pricing effects only compensated for part of the decline in sales volume.

Adjusted EBITDA increased because of pricing effects and the like. We will continue to strengthen our competitiveness through active and effective launches of new products with a focus on our key brands, coupled with sales promotions and other activities.

(Billions of yen)

	Fiscal year ended March 31, 2012	Year-on-year change
Core revenue	611.9	-3.2%
Operating profit	209.3	+3.4%
Adjusted EBITDA	262.3	+6.1%

Total sales volume

The total sales volume of JT products for the fiscal year ended March 31, 2012 declined 19.5% due to the demand decline from a steep tax hike in October 2010 and the impact of the Great East Japan Earthquake.

(Billions of cigarettes)

	Fiscal year ended March 31, 2012	Year-on-year change
JT sales volume	108.4	-19.5%

Market share of JT products and JT key brands

The share of JT products has been steadily recovering from the impact of the earthquake, with market share for the month of March reaching the targeted 60%.

International Tobacco Business

Delivered strong results, driven by top-line growth

Core revenue and adjusted EBITDA grew strongly again in 2011 as a result of robust pricing strategies and improvements in price and product mix due to growth in GFB shipment volume. Adjusted EBITDA grew strongly, reflecting the temporary impact of the payment of a fine in Canada.

(Millions of dollar)

	Fiscal year ended March 31, 2012	Year-on-year change
Core revenue	11,211	+10.9%
Adjusted EBITDA	3,944	+24.6%
Yen-based adjusted EBITDA	¥314.8 billion	+13.3%

Total shipment volume

GFB shipment volume increased 2.6% despite a decline in overall demand, thanks to our continuous investment in the brands. Shipment volume for Winston increased in Russia, Italy and Turkey, while shipment volume for LD increased in Russia and Poland.

(Billions of cigarettes)

	Fiscal year ended March 31, 2012	Year-on-year change
JTI shipment volume	425.7	-0.6%
GFB shipment volume	256.5	+2.6%

Market share in key markets

Continuing on from 2010, we achieved growth in almost all of our key markets.

	December 2010	December 2011	Year-on-year change
France	16.0%	16.4%	+0.4%pt
Spain	20.8%	21.2%	+0.4%pt
Italy	19.7%	20.7%	+1.0%pt
U.K.	38.9%	38.8%	-0.1%pt
Russia	36.9%	36.9%	—
Turkey	22.6%	24.1%	+1.5%pt
Taiwan	38.2%	38.2%	—

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

* “%pt” is an abbreviation of “percentage point.”

Pharmaceutical Business

Solid results with expansion of compounds in late phases of development

Revenue increased ¥3.3 billion to ¥47.4 billion due to revenue increases for REMITCH CAPSULES and Truvada at Torii Pharmaceutical. However, adjusted EBITDA declined ¥0.3 billion to a loss of ¥10.0 billion due to an increase in R&D expenses resulting from advances in compound development. Operating profit declined ¥0.2 billion to a loss of ¥13.5 billion. The pipeline of compounds in late phases of development is being expanded and enhanced by such means as an application by our licensee company for new drug approval of a single-tablet regimen containing JTK-303. In terms of progress in clinical development of our compounds, JTE-052 for the treatment of autoimmune/allergic diseases entered phase 1 of the clinical development stage and JTT-851 for the treatment of Type 2 diabetes mellitus advanced to phase 2 in Japan. On the other hand, we have terminated the development of JTT-130 and JTK-853.

Pharmaceutical Business: Clinical development (as of April 26, 2012)

Code (generic name)	Key indication	Characteristics	Rights	Stage
JTK-303 (elvitegravir)	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.	NDA filing (Japan)
JTT-705 (dalcetrapib)	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 (Note)	Phase 2 (Japan)
JTT-302	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")		Phase 2 (Overseas)
JTT-751 (ferric citrate)	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)	Phase 3 (Japan)

Code (generic name)	Key indication	Characteristics	Rights	Stage
JTT-851	Type 2 diabetes	Promotes glucose-dependent insulin secretion and corrects high blood sugar		Phase 2 (Japan) Phase 1 (Overseas)
JTZ-951	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		Phase 1 (Japan) Phase 1 (Overseas)
JTE-051	Autoimmune/allergic diseases	Suppresses overactive immune response via inhibition of the signal to activate T cells related to immune response		Phase 1 (Overseas)
JTE-052	Autoimmune/allergic diseases	Suppresses overactive immune response via inhibition of JAK, which contributes to the signal to activate immune response - JAK: Janus kinase		Phase 1 (Japan)

Note: On May 7, 2012, Roche announced that it had abandoned all development for JTT-705 (dalcetrapib).

* The beginning of a development stage is based on when the administration of the drug commences. Changes since the previous announcement on February 6, 2012: JTE-052 has newly entered the clinical development stage/JTT-851 has moved up from Phase 1 to Phase 2 in Japan/Development of JTT-130 and JTK-853 was halted

Food Business

Beverage business realized stronger brand equity for “Roots”

Processed food business strengthened business fundamentals through concentration on staple food products

In the beverage business, revenue increased due to a steady performance from the flagship brand “Roots.” There was a decline in the processed food business because increases for staple food products such as frozen noodles and rice were not sufficient to compensate for the impact from the exclusion of some subsidiaries from the consolidated results. Consequently, revenue of the overall Food Business declined. Adjusted EBITDA increased overall due to an increase in sales of “Roots” in the beverage business as well as improved profitability in the processed food business arising from increased sales of higher-margin staple food products and cost cutting efforts.

(Billions of yen)

	Fiscal year ended March 31, 2012	Year-on-year change
Revenue	359.4	-8.0
Operating profit	2.0	+5.7
Adjusted EBITDA	20.0	+2.3

Caution Concerning Forward-Looking Statements

This material contains forward-looking statements about our industry, business, plans and objectives, financial conditions and results of operations based on current expectations, assumptions, estimates and projections. These statements reflect future expectations, identify strategies, discuss market trends, contain projections of operational results and financial conditions, and state other forward-looking information. These forward-looking statements are subject to various known and unknown risks, uncertainties and other factors that could cause our actual results to differ from those suggested by any forward-looking statement. We assume no duty or obligation to update any forward-looking statement or to advise of any change in the assumptions and factors on which they are based. Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- (1) health concerns related to the use of tobacco products;
- (2) legal or regulatory developments and changes; including, without limitation on sales, marketing and use of tobacco products, governmental investigations and privately imposed smoking restrictions;
- (3) litigation in Japan and elsewhere;
- (4) our ability to further diversify our business beyond the tobacco industry;
- (5) our ability to successfully expand internationally and make investments outside Japan;
- (6) competition and changing consumer preferences;
- (7) the impact of any acquisitions or similar transactions;
- (8) local and global economic conditions; and
- (9) fluctuations in foreign exchange rates and the costs of raw materials.

Consolidated Financial Statements

Consolidated statements of financial position

(Millions of yen)

	As of March 31, 2011	As of March 31, 2012	Increase (Decrease)
Assets			
Current assets	1,258,863	1,331,050	72,187
Non-current assets	2,396,338	2,335,957	(60,381)
Property, plant and equipment	639,324	619,536	(19,788)
Goodwill	1,176,114	1,110,046	(66,068) *1
Intangible assets	330,194	306,448	(23,745)
Investment property	36,477	67,387	30,910
Retirement benefit assets	6,769	14,371	7,602
Investments accounted for using the equity method	19,072	18,447	(625)
Other financial assets	62,661	67,548	4,887
Deferred tax assets	125,726	132,174	6,447
Total assets	3,655,201	3,667,007	11,806
Liabilities			
Current liabilities	1,077,490	1,157,474	79,984 *2
Non-current liabilities	976,400	794,906	(181,493) *3
Total liabilities	2,053,889	1,952,380	(101,509)
Equity			
Equity attributable to owners of the parent company	1,525,145	1,634,050	108,905
Share capital	100,000	100,000	–
Capital surplus	736,410	736,410	–
Treasury shares	(94,574)	(94,574)	–
Other components of equity	(250,745)	(376,363)	(125,617)
Retained earnings	1,034,054	1,268,577	234,522
Non-controlling interests	76,166	80,576	4,410
Total equity	1,601,311	1,714,626	113,315
Total liabilities and equity	3,655,201	3,667,007	11,806

Note: Yen amounts are rounded to the nearest million.

*1. Goodwill declined because of the appreciation of the yen.

*2. Tobacco excise taxes payable increased because of the effect of holidays.

*3. Interest-bearing debt decreased as a result of repayments of long-term borrowings and redemption of bonds.

Consolidated statements of income

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012	Increase (Decrease)
Revenue	2,059,365	2,033,825	(25,540)
Cost of sales	953,860	892,034	(61,825)
Gross profit	1,105,506	1,141,791	36,285
Other operating income	20,630	48,512	27,881
Share of profit in investments accounted for using the equity method	2,330	2,047	(283)
Selling, general and administrative expenses	727,144	733,169	6,025
Operating profit	401,321	459,180	57,859 *4
Financial income	9,870	5,603	(4,266)
Financial costs	25,949	23,429	(2,520)
Profit before income taxes	385,242	441,355	56,112
Income taxes	136,506	112,795	(23,711) *5
Profit for the year	248,736	328,559	79,823
Profit for the year attributable to:			
Owners of the parent company	243,315	320,883	77,568
Non-controlling interests	5,421	7,676	2,255
Profit for the year	248,736	328,559	79,823

Note: Yen amounts are rounded to the nearest million.

*4. Operating profit increased mainly because of the favorable pricing in the Japanese Domestic and International Tobacco Businesses, an increase in gain on sales of non-current assets, and the absence of a payment for regulatory fine in Canada recorded in the fiscal year ended March 31, 2011.

*5. Income taxes decreased because of tax deductions made in the fiscal year ended March 31, 2012 for loss on valuation of stock of subsidiaries and affiliates recorded in the fiscal year ended March 31, 2011.

Consolidated statements of comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012	Increase (Decrease)
Profit for the year	248,736	328,559	79,823
Other comprehensive income, net of taxes	(297,703)	(136,416)	161,287
Comprehensive income (loss) for the year	(48,967)	192,143	241,110
Comprehensive income (loss) for the year attributable to:			
Owners of the parent company	(54,486)	185,425	239,911
Non-controlling interests	5,519	6,718	1,199
Comprehensive income (loss) for the year	(48,967)	192,143	241,110

Note: Yen amounts are rounded to the nearest million.

Consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2011	Fiscal year ended March 31, 2012	Increase (Decrease)
Net cash flows from operating activities	406,847	551,573	144,726 *6
Net cash flows from investing activities	(125,993)	(103,805)	22,187
Net cash flows from financing activities	(185,379)	(279,064)	(93,686) *7
Net increase (decrease) in cash and cash equivalents	95,476	168,704	73,228
Cash and cash equivalents at the beginning of the year	154,369	244,240	89,871
Effect of exchange rate changes on cash and cash equivalents	(5,604)	(8,204)	(2,599)
Cash and cash equivalents at the end of the year	244,240	404,740	160,500

Note: Yen amounts are rounded to the nearest million.

*6. Net cash flows from operating activities increased because of the generation of a stable cash inflow from the Tobacco Business and an increase in tobacco excise taxes payable in the Japanese Domestic Tobacco Business.

*7. Net cash flows from financing activities mainly consisted of outflows from repayments of long-term borrowings, the redemption of bonds, and the payment of cash dividends.

JT NEWS

Share split and adoption of share unit system

On July 1, 2012, the Company will conduct a share split at the ratio of 1:200 or 200 shares to one share, while also adopting the share unit system, setting a share trading unit to 100 shares. These changes will apply to shareholders as of June 30, 2012.

By conducting the share split and reducing the investment unit amount, the Company intends to further improve the environment for investors to invest in its shares.

Method of share split

Ordinary shares held by shareholders listed or recorded in the final registry of shareholders as of the record date of Saturday, June 30, 2012 will be split at a ratio of 1:200 or 200 shares to one share.

Total number of shares issued prior to or following the share split

- Total number of shares issued prior to the share split
..... 10,000,000 shares
- Total number of shares issued following the share split
..... 2,000,000,000 shares

Schedule of share split

- Public notice of the record date Thursday, May 31, 2012
- Record date Saturday, June 30, 2012
- Effective date Sunday, July 1, 2012

Adoption of share unit system

The Company will adopt the share unit system, setting the size of a share unit at 100 shares.

- Effective date Sunday, July 1, 2012

Minimum investment amount

Currently ¥436,000
From July ¥218,000

* Stock price of ¥436,000 is the closing price on May 1

With the 1:200 share split, the stock price will become ¥2,180

Share trading unit: 100 shares => ¥2,180 x 100
= ¥218,000

Reference

- I. This share split will not involve an increase in share capital.
Share capital as of June 22, 2012: ¥100 billion
- II. Since the effective date of this share split is July 1, 2012, the year-end dividend for the fiscal year ended March 31, 2012 will be applicable to the shares before the share split.
- III. Once the share split has come into effect, holders of at least 100 shares of the Company (the investment unit for shares of the Company) will be able to exercise voting rights at the General Meeting of Shareholders. It will not be possible for holders of less than 100 shares of the Company to exercise voting rights, pursuant to the provisions of Article 189, Paragraph 1 of the Companies Act.

Changes in complimentary gifts for shareholders resulting from this share split will be explained from the next issue of this report.

JT Group Products

Introducing New Tobacco Products

Super strong menthol that strikes like an *inazuma*, or a bolt of lightning!

Hi-Lite Inazma Menthol

Launched in mid-May!

1 mg

<Photo>

Hi-Lite Inazma Menthol One Box

Size: King size filter

Tar value: 1 mg per cigarette

Nicotine value: 0.1 mg per cigarette

Packaging: Box containing 20 cigarettes

Price: ¥410

8 mg

<Photo>

Hi-Lite Inazma Menthol 8 Box

Size: King size filter

Tar value: 8 mg per cigarette

Nicotine value: 0.6 mg per cigarette

Packaging: Box containing 20 cigarettes

Price: ¥410

“Hi-Lite Inazma Menthol One Box” and “Hi-Lite Inazma Menthol 8 Box,” two brands that feature “super strong menthol,” a sharp but rough menthol sensation, went on sale across Japan in mid-May 2012.

The package, while maintaining the simple design of “High-Lite,” also has a logo that extends around the package from the front. In this way, the package expresses a sense of boldness and dynamism that can’t be confined. It also indicates the difference in tar by using separate background colors of black and white.

The launch of two “Hi-Lite Inazma Menthol” products will strengthen JT’s menthol product lineup as the Company continues to pursue further increases in customer satisfaction.

CLOSE UP!

<Photo> <Logo>

The design at the base of the packet. The color of the design is random for each packet

Comments from person in charge

We developed “Hi-Lite Inazma Menthol” with the whole development team working from the common understanding of not being confined by precedents or established customs and taking on new challenges. With features such as the logo featured boldly on the packaging, the super strong menthol, which exceeds established norms, and the memorable expressions used in its advertisements, the concept of being “simple and dynamic” is the root concept for this brand. We also meticulously infused the brand with a sense of playfulness by having three different colors that differ among packets at random.

Please try out the intense stimulation of this rough menthol taste that hits you like a lightning bolt, and recommend it to your friends and other people you know.

Hiroki Sato, Marketing & Sales Group, Brand Planning Division, Tobacco Business, Japan Tobacco Inc.

Introducing New Beverage Products

<Photo>

Renewal

> Renewal with even richer aroma

> Rich aroma and clear aftertaste

Roots “Aroma Black”

300g aluminum bottle/¥130 (tax not included)

Comments from person in charge

The capped bottle can, which holds a large volume of coffee, is greatly expanding the canned coffee scene, helping the market to grow at an accelerated pace. “Aroma Black,” which was created in 2003, is a pioneering product that drives the market as a key player. The taste and aroma of this product, which satisfies even the most demanding customers, is enjoyed by our customers in many different situations, whether they are on the move, at the office, or having a meal.

Ryo Tanaka, Product General Department, Soft Drink Business Division, Japan Tobacco Inc.

<Photo>

Renewal

> Low sugar coffee with milk that has a “revolutionary” aroma

> A subtle sweetness without an aftertaste

Roots “Aroma Revolute Low Sugar”

275g aluminum bottle/¥140 (tax not included)

<Photo>

Renewal

Peach Spring Water

500ml pet bottle

¥140 (tax not included)

Renewal

<Photo>

Tsujiri Green Tea Containing Uji Powdered Tea

500ml pet bottle

¥140 (tax not included)

Introducing New Food Products

<Photo>

Released

“Shitamachi Shokudo Fried Rice”

400g

- > Featuring the aromatic flavor of soy sauce and fish sauce!
- > With the unique stir-fry method, which uses high temperatures in a short time, the outside of the rice is non-sticky while the inside remains fluffy and soft

Comments from person in charge

We developed this product to have a simple taste that takes people down memory lane by reminding them of food halls in department stores or street-side *ramen* noodle shops. Through the unique technique of frying the rice at high temperatures over a short time, we have realized an end product that recreates the texture of non-sticky rice on the outside but soft and fluffy rice on the inside, even when heated in a household microwave! We also recommend arranging the dish in different ways, such as by adding lettuce for lettuce fried rice or sprinkling the rice with powdered *kudzu* to make *kudzu* fried rice. Please enjoy it with all the family.

Mayumi Ota, Product Development Division, TableMark Co., Ltd.

Key product lineup

- > Inaniwa-style *udon* noodles realizes the dish’s typical chewy, supple texture and ease of eating
- > Can be prepared as chilled *udon* noodles or hot *udon* noodles!

“Inaniwa-fu *Udon* Noodles made with Japanese-Wheat 5 packs”

5 servings/1000g

<Photo>

<Photo>

Frozen bread series

“Croissant”

Pack of 6

<Photo>

Lunch box series

“Mini Spring Rolls”

6 rolls/150g

Feature

“Business Plan 2012”

Adapting to a changing environment is the key to sustainable profit growth

The JT Group aims to realize sustainable profit growth by managing its global business appropriately in an increasingly uncertain business environment. As such, the JT Group recognizes that enhancing its ability to adapt to unforeseen changes and events swiftly and flexibly, while challenging business plan assumptions to better anticipate the future - its “adaptability to a changing environment” - is an important theme.

Consequently, the management plan will evolve from a three-year fixed plan to annual rolling plans with a three-year term, in order to proactively face unexpected changes with a greater sense of urgency. This section describes “management principles,” “medium and long-term direction” and “FY3/2013 targets.”

Our management principles center on the “4S” model

4S model

Ensure that in all our activities, we satisfy and fulfill our responsibilities towards consumers, shareholders, employees and wider society, while balancing the interests of these key stakeholder groups.

We believe it is critical to continuously offer additional value and satisfaction to consumers, while maintaining a medium- to long-term perspective and prioritizing business investment for future growth. Furthermore, we firmly believe that the 4S model will increase the company’s value in the medium to long-term, and is consequently in the best interest of all stakeholders, including investors and our shareholders.

Over the medium to long-term, resources will be allocated based on the “4S” model

Investment in our business for sustainable future profit growth will be prioritized.

In addition, we will improve the attractiveness of our shareholder returns.

Business investment

- Prioritize investments in the Tobacco Business to further enhance competitiveness
- Focus investments on business fundamentals in the Pharmaceutical and Food Businesses to strengthen their profit contribution for the Group

Shareholder return

- Set targets for dividend payout ratio and adjusted EPS^{*1} growth rate
 - Benchmark dividend payout ratio against global FMCG^{*2} players
 - Grow adjusted EPS mainly through business growth, while considering share buy-back as a complementary initiative
 - Buy back a certain amount of shares in the event of government share offering in FY3/2013 to mitigate equity market impact
 - Consider partial buyback in case of further government share offerings in the future

*1 Adjusted EPS = (profit or loss attributable to owners of parent company + impairment losses on goodwill ± restructuring-related income and costs ± tax and minority interests adjustments) / weighted average number of diluted ordinary shares (excluding shares held as treasury shares)

*2 Fast Moving Consumer Goods

New medium- to long-term targets go beyond the JT-11 targets

Consolidated profit target

Adjusted EBITDA growth rate at constant rates of exchange

- Mid to high single-digit growth per annum over the medium to long-term^{*1}

Shareholder return

Consolidated dividend payout ratio

- 40% by the fiscal year ending March 31, 2014, subsequently aiming to reach 50% in the medium term

Adjusted EPS growth rate at constant rates of exchange

- High single-digit^{*2} growth per annum in the medium- to long-term

*1 This level exceeds the previous JT-11 growth target of 5% CAGR

*2 EPS growth level at some 2ppt above the level of adjusted EBITDA growth rate per annum

Tobacco remains our core business and profit growth engine

We set business target for each business to achieve the medium- to long-term target.

Business targets

Tobacco Business

- Grow adjusted EBITDA at mid to high single-digit rate per annum over the medium to long-term in the core business and profit growth engine of the JT Group
Japanese domestic: Highly competitive platform of profitability
International: Profit growth engine, generating more than 50% of the Group profit

Pharmaceutical Business

- Strive to establish profitability through rapid and efficient market launch of compounds in late phases of clinical trials

Food Business

- Strengthen profit generation capability through continuous improvement, and contribute to the Group profit
Beverage: Enhance brand equity with a focus on “Roots,” and strengthen trade marketing capabilities
Processed food: Achieve operating profit margin on par with, or above, industry average over the medium term

Proactive plans to enhance corporate governance as a global company

Evolve disclosure standards

As a global company, we have voluntarily adopted IFRS from the fiscal year ended March 31, 2012 and started preparations to harmonize the accounting periods throughout the Group starting from January 1, 2015.

Appoint independent and external members to the Board of Directors

We plan to appoint two independent and external members to the Board of Directors at the June 2012 Annual General Meeting of Shareholders.

Further expand Corporate Social Responsibility activities

We will also further expand our activities in the area of Corporate Social Responsibility, aiming to balance business and society and to increase sustainability.

FY3/2013 targets based on medium- to long-term directional guidance

In the fiscal year ending March 31, 2013, we target an adjusted EBITDA growth rate of 5.2%, at constant rates of exchange, and a dividend payout ratio of 35.9%.

Group-wide profit target (IFRS)

Adjusted EBITDA at constant rates of exchange	+5.2%
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Returns for shareholders (IFRS)

Dividend per share ^{*1 *2}	+¥2,000
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Consolidated dividend payout ratio	+6.2%pt
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*1 A 200 for 1 share split is planned, effective as of July 1, 2012. The above numbers do not take account of this planned share split.

*2 Dividend per share target will be revised based on the status of the share buyback.

IFRS

The JT Group adopted IFRS voluntarily from the fiscal year ended March 31, 2012 to improve international comparability of financial information in the capital markets and to diversify the Group's sources of financing via international markets.

In addition to financial figures in IFRS, we also provide additional information on items that are not defined in IFRS but those which we believe are useful in grasping the JT Group's business results. This is intended to show the underlying growth rate excluding the effects of one-time factors as part of the JT Group's effort to achieve sustainable growth.

Additional information: Core revenue/Adjusted EBITDA/Adjusted EPS

Changes to IFRS

Revenue (former net sales)

Judging that sales of distribution activities in the Japanese Domestic Tobacco Business are categorized as agents, treatment of purchase prices of such agent transactions are changed to deduction from net sales and cost of sales.

	(Billions of yen)
Japanese GAAP (Net sales)	2,547.1
Deduction of purchase prices of agent transactions (Tobacco & Others)	-502.1
Change of treatment of some rebates (Pharmaceutical /Food Businesses)	0.1
Change of the recognition timing of some goods sales transaction (Pharmaceutical/ Food Businesses)	-10.9
Others	-0.3
IFRS (Revenue)	2,033.8

Operating income/profit

- Ceasing periodical amortization of goodwill
- Changes on retirement benefits
- Change in the depreciation method of Japanese domestic companies from the declining-balance method to the straight-line method (unification with the International Tobacco Business)
- Items in non-operating income/expenses and extraordinary income /loss accounts under Japanese

GAAP are reclassified to cost of sales, other operating income, share of profit on investments accounted for using the equity method, and selling, general and administrative expenses, respectively under IFRS

	(Billions of yen)
Japanese GAAP (Operating income)	374.7
Reclassification from non-operating income/expenses and extraordinary income/loss	-14.7
Posting of supplies as expense (e.g. goods for advertising)	0.7
Property, plant and equipment (e.g. depreciation method)	1.9
Retirement benefits	12.1
Ceasing amortization of goodwill	82.8
Others	1.6
IFRS (Operating profit)	459.2

Financial income/costs

Items in non-operating income/expenses and extraordinary income/loss accounts under Japanese GAAP are reclassified to financial income/costs respectively under IFRS.

	(Billions of yen)
Japanese GAAP	-
Reclassification	6.4
Differences in recognition and measurement	-0.8
IFRS (Financial income)	5.6
Japanese GAAP	-
Reclassification	-22.9
Differences in recognition and measurement	-0.5
IFRS (Financial costs)	-23.4

Profit for the year

Under IFRS, profit is presented before deducting non-controlling interests and then breakdown is presented, while net income presented under Japanese GAAP excludes minority interests.

(Billions of yen)

Japanese GAAP (Net income)	227.4
Differences in recognition and measurement	93.5
IFRS (Profit attributable to owners of the parent company)	320.9

Core revenue (former adjusted net sales): Definition was changed

Japanese Domestic Tobacco Business:

Adjusted net sales: Sales from imported tobacco, domestic duty free, the China Division and other peripheral businesses are excluded.

Core revenue: Revenue from distribution of imported tobacco in the Japanese Domestic Tobacco Business among others is excluded.

International Tobacco Business: Nothing changed other than the naming.

The Lure of Tobacco Smoke

A lesson from the past at the end of a journey

Princess Gallery [Tokyo]

<Photo>

Creating handbags also involves cigarette case-making skills!

The “Princess Gallery” is operated as an exhibition gallery by Princess Toraya Co., Ltd., which has been manufacturing and selling handbags since its foundation in 1939. The gallery boasts a collection of handbags and other bags from countries all around the world, in addition to products by the company itself. Rather surprisingly, the gallery also features cigarette cases that were made between the Edo period and the start of the Showa period.

The Japanese name for the gallery includes the word “*fukuromono*,” which is a collective term for containers in the form of a sack, such as bags. These items were created by expert makers of bags. In truth, the manufacture of such products has had a deep relationship with the history of the handbag industry in Japan.

From around the start of the Showa period, culture and fashion in Japan went through profound changes. Partly due to the impact of such changes, demand for bags declined. As a consequence, the craftspeople turned their hands to the creation of new products. Specifically, they paid attention to handbags for women, which until then had not been made in large numbers in Japan.

Reflecting this background, handbags made in Japan extensively incorporate the bag-making skills that had been accumulated since the Edo period. In this sense, the “Princess Gallery” shows visitors in the present day that the bags exhibited there, including cigarette cases, which on the surface don’t seem to have any relation with handbags, are the roots of handbag making in Japan.

<Photo>

A cigarette case made in the Edo period. The case was made incorporating a unique stitching technique known as “*kanseinui*,” in which the seam is left visible along the edges of the case and stitching stretches across the length of the case.

<Photo>

The bag corner, which includes cigarette cases. Cigarette cases made from the Edo period to the beginning of the Showa period are displayed according to their periods of origin.

<Photo>

A type of hold-all sack, which could be said to be the basic shape for a bag. The picture shows a

“*Shingen Bag*,” which was prevalent in present day Yamanashi Prefecture and other areas. The bag has the shape of a drawstring pouch with cloth-mounted basket work at its bottom.

<Photo>

The “Princess Gallery” was opened in 1989 to celebrate the 50th anniversary of the founding of Princess Toraya Co., Ltd. While the gallery displays around 350 items of bags, the exhibits are changed over every so often by drawing on a collection of over 5,000 items. The exhibits and the contents of each exhibition are put together according to themes such as showing how products reflect the various periods.

From his beginnings as an apprentice at a shop selling bags, Mr. Kojiro Miyazawa, the founder of Princess Toraya Co., Ltd., built up one of Japan’s foremost handbag makers. Mr. Miyazawa, who had a long involvement with bags himself, has passed on to the “Princess Gallery” the role of showing future generations the culture and history of bags, which could be said to be the backbone of the company he founded.

■ Princess Gallery

Location

Princess Toraya Co., Ltd. Building, 4-1 Asakusabashi 2-chome, Taito-ku, Tokyo 111- 0053

(Walk for 3 minutes from Asakusabashi station on the JR Sobu Line and Toei Asakusa Subway Line)

Inquiries: Tel 03-3862-2111 (Main switchboard)

Opening hours: 10 a.m. to 4 p.m.

Closed: No fixed holidays

Admission: Free (Telephone reservation necessary)

<http://www.princessbag.co.jp/gallery/> (only in Japanese)

<Map>

Share Handling Procedures

Shareholders holding accounts with securities companies

[Procedures and contents of inquiries]

- Change in registered address
- Method to receive dividends
- Various share handling procedures and similar matters

=> The securities company where the account is opened

- Shipment / return of mail items
- Dividends after the payment period has passed
- Problems including non-receipt of documents and loss of dividend warrants and similar matters

=> Mitsubishi UFJ Trust and Banking Corporation

Shareholders using special accounts

[All procedures and inquiries]

Inquiries

Mitsubishi UFJ Trust and Banking Corporation

Corporate Agency Division

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

0120-232-711 (toll-free number available only in Japan; 9 a.m. to 5 p.m. on weekdays)

Requests for procedure forms

- Requests by interactive voice response telephone service

0120-244-479 (toll-free number available only in Japan; 24 hours)

How to receive dividends

Shareholders can receive dividends safely and securely by opting to receive them by bank remittance.

Cash	Shareholder	Dividend warrants	JT
		←==	
		Dividend warrants	Japan Post Bank Post Office
		==>	
Bank remittance	Designated financial institution account	Dividends	JT
		←==	
	◇ In the case of receiving dividends by designating a deposit account at a bank, etc. for each issue held		
	Designated financial institution account X	Dividends	JT
		←==	
	Designated financial institution account Y	Dividends	Company A
		←==	
	◇ In the case of receiving dividends for all issues held in a lump-sum at a deposit account held at a bank, etc.		
	Designated financial institution account X	Dividends	JT
		←==	
Designated financial institution account X	Dividends	Company A	
	←==		
◇ In the case of receiving dividends in a trading account held at a securities company (if a balance exists at several securities companies, dividends are allocated according to balance)			
Securities company X / JT shares / ● shares	Dividends from ● shares	JT	
	←==		
Securities company Y / JT shares / ○ shares	Dividends from ○ shares		
	←==		
* Not available for use by shareholders who use special accounts			

Members of the Board, Auditors, and Executive Officers

Members of the Board

Chairman of the Board	Hiroshi Kimura
Representative Director, President	Mitsuomi Koizumi
Representative Director, Executive Deputy President	Yasushi Shingai
Representative Director, Executive Deputy President	Noriaki Okubo
Representative Director, Executive Deputy President	Akira Saeki
Executive Deputy President	Hideki Miyazaki
Member of the Board	Mutsuo Iwai
Member of the Board	Motoyuki Oka
Member of the Board	Main Kohda

Auditors

Standing Auditor	Hisao Tateishi
Standing Auditor	Futoshi Nakamura
Auditor	Koichi Ueda
Auditor	Yoshinori Imai

Executive Officers (*shikkoyakuin*)

President, Chief Executive Officer	Mitsuomi Koizumi
Executive Deputy President, Assistant to CEO in Compliance, Strategy, HR, General Administration, Legal, Operational Review and Business Assurance	Yasushi Shingai
Executive Deputy President, Assistant to CEO in Pharmaceutical Business and Food Business	Noriaki Okubo
Executive Deputy President, President, Tobacco Business	Akira Saeki
Executive Deputy President, Assistant to CEO in CSR, Finance and Communications	Hideki Miyazaki
Senior Executive Vice President, Chief Marketing & Sales Officer, Tobacco Business	Kenji Iijima
Senior Executive Vice President, Assistant to CEO in Compliance and General Administration	Ryoji Chijiwa
Executive Vice President, Head of Domestic Leaf Tobacco General Division, Tobacco Business	Shinichi Murakami
Senior Vice President, Chief Corporate, Scientific & Regulatory Affairs Officer, Tobacco Business	Kazuhiro Yamashita
Senior Vice President, Head of Manufacturing General Division, Tobacco Business	Masahiko Sato
Senior Vice President, Head of China Division, Tobacco Business	Atsuhiro Kawamata

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 Strategy Officer	Masamichi Terabatake
Senior Vice President, Chief Communications Officer	Yasuyuki Tanaka
Senior Vice President, Chief R&D Officer, Tobacco Business	Yasuyuki Yoneda
Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business	Junichi Fukuchi
Senior Vice President, President, Pharmaceutical Business	Muneaki Fujimoto
Senior Vice President, Chief Human Resources Officer	Chito Sasaki
Senior Vice President, Chief Financial Officer	Naohiro Minami
Senior Vice President, Chief General Affairs Officer	Haruhiko Yamada
Senior Vice President, Chief Legal Officer and Vice President, Legal Division	Kiyohide Hirowatari

Trends in Share Price

Share prices of JT, from IPO on October 27, 1994 to May 2012 (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)

<Photo>

JT forest Shigetomi

Designated as a national park (March)

<Photo>

JT Asia Scholarship

2012 Certificate Bestowing Ceremony

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; 9 a.m. to 5 p.m. on weekdays)

■ 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

0120-244-479 (toll-free number available only in Japan) 24 hours a day.

Concerning share handling procedures:

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

This Report was printed using vegetable oil inks along with FSC approved paper to protect our forests.

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/>