

## **Business Description and Trends in Principal Management Benchmarks**

### **1. Business description**

Our management principle is based on the pursuit of the “4S” model. We will balance the interests of consumers, shareholders, employees and wider society, and fulfill our responsibilities towards them, aiming to exceed their expectations.

We set our vision and mission based on the “4S” model. Our vision is to become a company committed to global growth by providing diversified value that is uniquely available from JT Group. Our mission is to create, develop and nurture our unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals.

In achieving our mission, we have set “The JT Group Way” as code of conduct which all of the JT Group members are committed to: “fulfilling the expectations of our consumers and behave responsibly”, “striving for quality in everything we do through continuous improvement”, and “leveraging diversity across the JT Group”.

As of March 31, 2015, the main businesses operated by the JT Group comprising JT, its 212 consolidated subsidiaries and 11 companies accounted for by the equity method, and the relationship of each company to the Group’s business activities are stated below.

The JT Group is a global company operating the domestic and international tobacco businesses, pharmaceutical business, beverage business and processed food business.

#### **Domestic Tobacco Business**

The domestic tobacco business consists of the manufacture and sale of tobacco products.

JT manufactures and sells tobacco products, and TS Network Co., Ltd. conducts distribution-related operations such as distribution of JT’s tobacco products and wholesale of foreign tobacco products (imported tobacco products). Japan Filter Technology Co., Ltd. and other subsidiaries manufacture materials.

#### *Major subsidiaries and affiliates*

TS Network Co., Ltd., JT Logistics Co., Ltd., Japan Filter Technology Co., Ltd., Fuji Flavor Co., Ltd., JT Engineering Inc.

Besides the companies named above, there are 6 consolidated subsidiaries and 2 companies accounted for by the equity method.

### **International Tobacco Business**

The international tobacco business consists of the manufacture and sale of tobacco products with JT International S.A. as the core company.

#### *Major subsidiaries and affiliates*

JT International S.A., Gallaher Ltd., JTI Marketing and Sales CJSC, LLC Petro, Liggett-Ducat CJSC, JT International Germany GmbH, JTI Tütün Urunleri Sanayi A.S.

Besides the companies named above, there are 138 consolidated subsidiaries and 5 companies accounted for by the equity method.

### **Pharmaceutical Business**

The pharmaceutical business consists of research and development, manufacture and sale of prescription drugs. JT concentrates on research and development while Torii Pharmaceutical Co., Ltd. manufactures and promotes sales of drugs (including JT's products).

#### *Major subsidiaries and affiliates*

Torii Pharmaceutical Co., Ltd., Akros Pharma Inc.

Besides the companies named above, there is 1 consolidated subsidiary.

### **Beverage Business**

The beverage business consists of the manufacture and sale of beverages. JT develops products while JT Beverage Inc., Japan Beverage Holdings Inc. and certain other subsidiaries sell them.

#### *Major subsidiaries and affiliates*

JT Beverage Inc., Japan Beverage Holdings Inc.

Besides the companies named above, there are 15 consolidated subsidiaries.

JT decided by resolution at a meeting of the Board of Directors held on February 4, 2015, to withdraw from manufacture and sale of JT beverage products. The manufacture and sale of JT beverage products conducted by JT's beverage business division and JT Beverage Inc. are expected to be discontinued by the end of September 2015. In addition, in "Basic Agreement to transfer shares of JT's subsidiaries conducting vending machine operation business and JT beverage brands" dated May 25, 2015, JT announced the conclusion of a basic agreement with Suntory Beverage & Food Limited to transfer shares held by JT in its subsidiaries conducting vending machine operation business, Japan Beverage Holdings Inc., JT A-Star Co., Ltd and Japan Beverage Ecology Inc. The agreement also includes the transfer of JT's beverage brands "Roots" and "Momono Tennensui." The definitive agreement was concluded with Suntory Beverage & Food Limited on July 7, 2015.

### **Processed Food Business**

In the processed food business, TableMark Co., Ltd. and certain other subsidiaries are engaged in manufacture and sale of frozen and ambient processed foods, bakery products and seasonings.

#### *Major subsidiaries and affiliates*

TableMark Co., Ltd.

Besides the companies named above, there are 27 consolidated subsidiaries and 3 companies accounted for by the equity method.

In addition to the reportable segments mentioned above, the JT Group runs businesses including business relating to the rent of real estate. There are 8 consolidated subsidiaries and 1 company accounted for by the equity method deemed as subsidiaries and affiliates not affiliated to any reportable segment.

## 2. Trends in principal management benchmarks

### (1) Management benchmarks (consolidated)

Term	International Financial Reporting Standards				
	26th term	27th term	28th term	29th term	30th term
Accounting period	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012	From April 1, 2012 to March 31, 2013	From April 1, 2013 to March 31, 2014	From April 1, 2014 to December 31, 2014
Revenue (Millions of yen)	2,059,365	2,033,825	2,120,196	2,399,841	2,153,970
Profit before income taxes (Millions of yen)	385,242	441,355	509,355	636,203	502,299
Profit for the year (Millions of yen)	248,736	328,559	351,448	435,291	368,626
Profit attributable to owners of the parent company (Millions of yen)	243,315	320,883	343,596	427,987	362,919
Comprehensive income (loss) for the year (Millions of yen)	(48,967)	192,143	544,407	850,261	244,868
Total equity (Millions of yen)	1,601,311	1,714,626	1,892,431	2,596,091	2,622,503
Total assets (Millions of yen)	3,655,201	3,667,007	3,852,567	4,616,766	4,704,706
Equity attributable to owners of the parent company per share (Yen)	160,179.52	858.09	993.98	1,378.57	1,395.74
Basic earnings per share (Yen)	25,414.33	168.50	181.07	235.48	199.67
Diluted earnings per share (Yen)	25,407.09	168.44	180.98	235.35	199.56
Ratio of equity attributable to owners of the parent company to total assets (%)	41.73	44.56	46.89	54.27	53.92
Ratio of profit to equity attributable to owners of the parent company (%)	15.30	20.31	19.97	19.85	14.39
Price earnings ratio (PER) (Times)	11.82	13.83	16.57	13.76	16.67
Net cash flows from (used in) operating activities (Millions of yen)	406,847	551,573	466,608	396,496	543,696
Net cash flows from (used in) investing activities (Millions of yen)	(125,993)	(103,805)	(147,928)	(163,473)	(49,110)
Net cash flows from (used in) financing activities (Millions of yen)	(185,379)	(279,064)	(569,473)	(145,189)	(388,859)
Cash and cash equivalents at the end of the year (Millions of yen)	244,240	404,740	142,713	253,219	385,820
Number of employees [Separately, average number of temporary employees] (Person)	48,472 [11,611]	48,529 [10,702]	49,507 [9,313]	51,563 [9,130]	51,341 [8,700]

- Notes:
1. Effective from the 27th term, the consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS").
  2. The yen amounts are rounded to the nearest million.
  3. Revenue does not include consumption taxes.
  4. JT conducted a share split at a ratio of 200 to one with July 1, 2012 as effective date. Consequently, equity attributable to owners of the parent company per share, basic earnings per share and diluted earnings per share are calculated on the assumption that this share split was conducted at the beginning of the 27th term.
  5. The JT Group made a partial change to its accounting policies effective from the 29th term. Related principal management benchmarks for the 28th term have been adjusted retrospectively to reflect the change.
  6. The JT Group made a partial change to its accounting policies effective from the 30th term. Related principal management benchmarks for the 29th term have been adjusted retrospectively to reflect the change.
  7. JT changed its fiscal year end from March 31 to December 31 effective from the 30th term. The same change was made to consolidated subsidiaries with fiscal year ends other than December 31. As a consequence of this change, the 30th term was the 9-month period from April 1, 2014 to December 31, 2014, for JT and its main consolidated subsidiaries that do not belong to the international tobacco business segment. For consolidated subsidiaries that belong to the international tobacco business segment, the 30th term was the 12-month period from January 1, 2014 to December 31, 2014.

Term	Japanese GAAP		
	25th term	26th term	27th term
Accounting period	From April 1, 2009 to March 31, 2010	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012
Net sales (Millions of yen)	6,134,695	2,432,639	2,547,060
Ordinary income (Millions of yen)	255,377	313,066	362,728
Income before income taxes and minority interests (Millions of yen)	276,054	281,147	345,028
Net income (Millions of yen)	138,448	145,366	227,399
Comprehensive income (loss) (Millions of yen)	–	(110,352)	117,047
Net assets (Millions of yen)	1,723,278	1,571,751	1,610,535
Total assets (Millions of yen)	3,872,595	3,544,107	3,472,612
Net assets per share (Yen)	172,139.61	156,996.72	160,570.98
Net income per share (Yen)	14,451.67	15,183.52	23,882.77
Diluted net income per share (Yen)	14,448.89	15,179.19	23,873.42
Equity ratio (%)	42.58	42.18	44.03
Return on equity (ROE) (%)	8.65	9.25	15.04
Price earnings ratio (PER) (Times)	24.08	19.79	19.51
Net cash flows from (used in) operating activities (Millions of yen)	320,024	399,638	551,617
Net cash flows from (used in) investing activities (Millions of yen)	(84,057)	(119,407)	(104,530)
Net cash flows from (used in) financing activities (Millions of yen)	(250,398)	(184,951)	(278,383)
Cash and cash equivalents at the end of the year (Millions of yen)	154,368	244,240	404,740
Number of employees [Separately, average number of temporary employees] (Person)	49,665 [11,870]	48,472 [11,611]	48,529 [10,702]

Notes: 1. Audits pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act have not been conducted for the figures for the 26th term and the 27th term.

- Effective from the 27th term, the method used for the consolidated financial statements in accordance with Japanese GAAP has been changed to one which excludes the amount equivalent to tobacco excise taxes from net sales and cost of sales. As a consequence, the consolidated financial statements in accordance with Japanese GAAP for the 26th term are presented reflecting retrospective application of this accounting policy change.
- Effective from the 27th term, the “Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2, June 30, 2010) and the “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4, June 30, 2010) are applied. As a consequence, diluted net income per share for the 26th term (Japanese GAAP) is presented reflecting retrospective application of this accounting policy change.
- Foreign subsidiaries classified under the JT Group’s international tobacco business apply IFRS effective from the first quarter of the 27th term. As a consequence, the figures for the 27th term presented above are consolidated closing figures in accordance with Japanese GAAP that include the portion of the international tobacco business to which IFRS is applied. In addition, all figures for the 26th term are consolidated closing figures in accordance with Japanese GAAP that reflect retrospective application of this accounting policy change related to the international tobacco business.
- Whereas the JT Group previously discarded fractional amounts of less than ¥1 million, effective from the 26th term, they are rounded to the nearest million.
- Net sales do not include consumption taxes.

## (2) Filing company's management benchmarks (non-consolidated)

Term	25th term	26th term	27th term	28th term	29th term	30th term
Accounting period	From April 1, 2009 to March 31, 2010	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012	From April 1, 2012 to March 31, 2013	From April 1, 2013 to March 31, 2014	From April 1, 2014 to December 31, 2014
Net sales (Millions of yen)	2,052,654	749,252	734,902	781,067	809,967	572,323
Ordinary income (Millions of yen)	161,606	182,819	198,071	210,568	230,900	159,746
Net income (Millions of yen)	107,361	32,216	142,726	149,773	168,779	108,656
Capital stock (Millions of yen)	100,000	100,000	100,000	100,000	100,000	100,000
Total number of shares issued (Thousands of shares)	10,000	10,000	10,000	2,000,000	2,000,000	2,000,000
Net assets (Millions of yen)	1,901,759	1,854,401	1,924,739	1,714,529	1,734,379	1,649,151
Total assets (Millions of yen)	3,027,503	2,879,354	3,016,651	2,784,914	2,732,637	2,729,270
Net assets per share (Yen)	198,452.58	194,679.73	1,010.20	942.65	953.45	906.45
Cash dividends per share (Yen)	5,800	6,800	10,000	68	96	100
[Interim dividends per share] (Yen)	[2,800]	[2,800]	[4,000]	[30]	[46]	[50]
Net income per share (Yen)	11,206.74	3,365.00	74.95	78.93	92.86	59.78
Diluted net income per share (Yen)	11,204.58	3,364.04	74.92	78.89	92.81	59.75
Equity ratio (%)	62.8	64.4	63.8	61.5	63.4	60.4
Return on equity (ROE) (%)	5.73	1.72	7.56	8.24	9.80	6.43
Price earnings ratio (PER) (Times)	31.05	89.30	31.09	38.01	34.89	55.67
Dividend payout ratio (%)	51.8	202.1	66.7	82.5	103.4	167.3
Number of employees [Separately, average number of temporary employees] (Person)	<u>8,961</u> [1,349]	<u>8,928</u> [1,387]	<u>8,936</u> [1,393]	<u>8,925</u> [1,390]	<u>8,774</u> [1,377]	<u>8,915</u> [1,272]

Notes: 1. The financial statements of the filing company are prepared in accordance with Japanese GAAP.

- Effective from the 27th term, the method used for the financial statements has been changed to one which excludes the amount equivalent to tobacco excise taxes from net sales and cost of sales. As a consequence, the financial statements for the 26th term are presented reflecting retrospective application of this accounting policy change.
- Effective from the 27th term, the "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, June 30, 2010) and the "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, June 30, 2010) are applied. As a consequence, diluted net income per share for the 26th term is presented reflecting retrospective application of this accounting policy change.
- Cash dividend per share for the 25th term of ¥5,800 includes the 25th anniversary commemorative dividend of ¥200.
- Whereas JT previously discarded fractional amounts of less than ¥1 million, effective from the 26th term, they are rounded to the nearest million.
- Net sales do not include consumption taxes.
- JT conducted a share split at a ratio of 200 to one effective as of July 1, 2012 as effective date. Consequently, net assets per share, net income per share and diluted net income per share are calculated on the assumption that this share split was conducted at the beginning of the 27th term. However, total number of shares issued and cash dividends per share are not calculated with the impact of the share split taken into consideration.
- JT changed its fiscal year end from March 31 to December 31 effective from the 30th term. As a consequence of this change, the 30th term is the 9-month period from April 1, 2014 to December 31, 2014.