

[This is an English translation prepared for reference purpose only. Should there be any inconsistency between the translation and the original Japanese text, the latter shall prevail.]

## **Overview of Business and Trends in Principal Management Benchmarks**

### **1. Overview of Business**

The Group's management principles are based on the pursuit of the "4S" model. The model requires the Group to fulfill our responsibilities to our valued consumers, shareholders, employees and the wider society, carefully considering the respective interests of these four key stakeholder groups, and exceeding their expectations wherever we can.

The Group created its vision and mission based on the "4S" model. The vision is to become a company committed to global growth by providing diversified value that is uniquely available from JT Group. The mission is to create, develop and nurture the Group's unique brands to win consumer trust, while understanding and respecting the environment and the diversity of societies and individuals.

The Group has also adopted "The JT Group Way" as a code of conduct which all members of the Group should follow. The JT Group Way requires that the Group fulfills the expectations of the Group's consumers and behaves responsibly, strives for quality in everything we do through continuous improvement, and leverages diversity across the Group.

The Group, consisting of the Company, its 212 consolidated subsidiaries and 12 companies accounted for by the equity method as of June 30, 2018, is a global company operating the Domestic and International Tobacco Businesses, Pharmaceutical Business and Processed Food Business. The main business activities operated by the Group and the relationship of each affiliates to the Group's business activities are stated below.

#### **Domestic Tobacco Business**

The Domestic Tobacco Business consists of the manufacture and sale of tobacco products. The Company manufactures and sells tobacco products, and TS Network Co., Ltd. conducts distribution-related operations such as distribution of the Company's tobacco products and wholesale of foreign tobacco products (imported tobacco products). Japan Filter Technology Co., Ltd. and other subsidiaries manufacture materials. Moreover, some of the operations related to Natural American Spirit products are carried out by TRUE SPIRIT TOBACCO COMPANY.

##### *Major subsidiaries and affiliates*

TS Network Co., Ltd., JT Logistics Co., Ltd., Japan Filter Technology Co., Ltd., Fuji Flavor Co., Ltd., JT Engineering Inc., TRUE SPIRIT TOBACCO COMPANY

Besides the companies named above, there are 7 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., LLC JTI Russia, Gallaher Ltd., LLC Petro, JT International Germany GmbH, JTI Polska Sp. z o. o., JTI Tütün Urunleri Sanayi A.S.

Besides the companies named above, there are 149 consolidated subsidiaries and 5 companies accounted for by the equity method.

### **Pharmaceutical Business**

The Pharmaceutical Business consists of research and development, manufacture, sale and promotion of prescription drugs. The Company concentrates on research and development while Torii Pharmaceutical Co., Ltd. manufactures, sells and promotes drugs (including the Company's products).

#### *Major subsidiaries and affiliates*

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

### **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 Group runs businesses, including business relating to the rent of real estate. There are 13 consolidated subsidiaries and 2 companies accounted for by equity method deemed as subsidiaries and affiliates not affiliated to any reportable segment.

## 2. Trends in principal management benchmarks

### (1) Management benchmarks (consolidated)

Term	28th term	29th term	30th term	31st term	32nd term	33rd term
Accounting period	From April 1, 2012 to March 31, 2013	From April 1, 2013 to March 31, 2014	From April 1, 2014 to December 31, 2014	From January 1, 2015 to December 31, 2015	From January 1, 2016 to December 31, 2016	From January 1, 2017 to December 31, 2017
Revenue (Millions of yen)	2,120,196	2,399,841	2,019,745	2,252,884	2,143,287	2,139,653
Profit before income taxes (Millions of yen)	509,355	636,203	502,526	565,113	578,237	538,532
Profit for the year (Millions of yen)	351,448	435,291	368,626	490,242	425,773	396,749
Profit attributable to owners of the parent company (Millions of yen)	343,596	427,987	362,919	485,691	421,695	392,409
Comprehensive income (loss) for the year (Millions of yen)	544,407	850,261	244,868	207,708	235,250	554,198
Total equity (Millions of yen)	1,892,431	2,596,091	2,622,503	2,521,524	2,528,041	2,842,027
Total assets (Millions of yen)	3,852,567	4,616,766	4,704,706	4,558,235	4,744,374	5,221,484
Equity attributable to owners of the parent company per share (Yen)	993.98	1,378.57	1,395.74	1,369.06	1,371.39	1,541.94
Basic earnings per share (Yen)	181.07	235.48	199.67	270.54	235.47	219.10
Diluted earnings per share (Yen)	180.98	235.35	199.56	270.37	235.33	218.97
Ratio of equity attributable to owners of the parent company to total assets (%)	46.89	54.27	53.92	53.78	51.77	52.89
Ratio of profit to equity attributable to owners of the parent company (%)	19.97	19.85	14.39	19.47	17.19	15.04
Price earnings ratio (PER) (Times)	16.57	13.76	16.67	16.53	16.32	16.57
Net cash flows from operating activities (Millions of yen)	466,608	396,496	543,696	468,432	376,549	419,212
Net cash flows from investing activities (Millions of yen)	(147,928)	(163,473)	(49,110)	(63,271)	(687,509)	(352,632)
Net cash flows from financing activities (Millions of yen)	(569,473)	(145,189)	(388,859)	(254,852)	91,318	(77,032)
Cash and cash equivalents at the end of the year (Millions of yen)	142,713	253,219	385,820	526,765	294,157	285,486
Number of employees [Separately, average number of temporary employees] (Person)	49,507 [9,313]	51,563 [9,130]	51,341 [8,700]	44,485 [7,858]	44,667 [7,904]	57,963 [6,744]

- Notes: 1. The Group prepares the consolidated financial statements in accordance with International Financial Reporting Standards.
2. The yen amounts are rounded to the nearest million.
  3. Revenue does not include consumption taxes.
  4. The Company 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 28th term.
  5. The 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 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. The Company 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 the Company 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.
  8. The Group has classified "Beverage Business" as discontinued operations from the 31st term, and the figures presented for the 30th term have been restated. Consequently, only revenue and profit before income taxes from continuing operations are presented for the 30th and 31st terms.

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

Term	28th term	29th term	30th term	31st term	32nd term	33rd term
Accounting period	From April 1, 2012 to March 31, 2013	From April 1, 2013 to March 31, 2014	From April 1, 2014 to December 31, 2014	From January 1, 2015 to December 31, 2015	From January 1, 2016 to December 31, 2016	From January 1, 2017 to December 31, 2017
Net sales (Millions of yen)	781,067	809,967	572,323	732,483	729,286	681,840
Ordinary income (Millions of yen)	210,568	230,900	159,746	371,989	203,242	199,336
Net income (Millions of yen)	149,773	168,779	108,656	345,009	173,607	160,120
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)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Net assets (Millions of yen)	1,714,529	1,734,379	1,649,151	1,713,068	1,663,675	1,592,966
Total assets (Millions of yen)	2,784,914	2,732,637	2,729,270	2,756,785	2,849,913	2,885,760
Net assets per share (Yen)	942.65	953.45	906.45	955.56	927.93	888.31
Cash dividends per share (Yen)	68	96	100	118	130	140
[Interim dividends per share] (Yen)	[30]	[46]	[50]	[54]	[64]	[70]
Net income per share (Yen)	78.93	92.86	59.78	192.18	96.94	89.40
Diluted net income per share (Yen)	78.89	92.81	59.75	192.06	96.88	89.35
Equity ratio (%)	61.5	63.4	60.4	62.1	58.3	55.1
Return on equity (ROE) (%)	8.24	9.80	6.43	20.54	10.29	9.84
Price earnings ratio (PER) (Times)	38.01	34.89	55.67	23.26	39.65	43.00
Dividend payout ratio (%)	82.5	103.4	167.3	61.4	134.1	156.6
Number of employees [Separately, average number of temporary employees] (Person)	8,925 [1,390]	8,774 [1,377]	8,915 [1,272]	7,549 [1,125]	7,298 [1,117]	7,336 [1,222]

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

2. The yen amounts are rounded to the nearest million.

3. Net sales do not include consumption taxes.

4. The Company conducted a share split at a ratio of 200 to one with 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 28th term.

5. The Company 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.