

[This is an English translation prepared for reference purpose only. Should there be any inconsistencies 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 diverse value that is uniquely available from the 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 as well as 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 its consumers and behaves responsibly, strives for quality in everything we do through continuous improvement, and leverages diversity across the Group.

As of June 30, 2020, The Group, consisting of the Company, its 231 consolidated subsidiaries and 12 companies accounted for by the equity method, 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 1 company 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 Ürünleri Sanayi A.Ş.

Besides the companies named above, there are 164 consolidated subsidiaries and 7 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 the manufacture and sales of frozen and ambient foods, seasonings and bakery products.

#### *Major subsidiaries and affiliates*

TableMark Co., Ltd.

Besides the companies named above, there are 27 consolidated subsidiaries and 2 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 17 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	31st term	32nd term	33rd term	34th term	35th term
Accounting period	From January 1, 2015 to December 31, 2015	From January 1, 2016 to December 31, 2016	From January 1, 2017 to December 31, 2017	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019
Revenue (Millions of yen)	2,252,884	2,143,287	2,139,653	2,215,962	2,175,626
Profit before income taxes (Millions of yen)	565,113	578,237	538,532	531,486	465,232
Profit for the year (Millions of yen)	490,242	425,773	396,749	387,431	361,622
Profit attributable to owners of the parent company (Millions of yen)	485,691	421,695	392,409	385,677	348,190
Comprehensive income (loss) for the year (Millions of yen)	207,708	235,250	554,198	129,302	365,816
Total equity (Millions of yen)	2,521,524	2,528,041	2,842,027	2,700,445	2,743,611
Total assets (Millions of yen)	4,558,235	4,744,374	5,221,484	5,461,400	5,553,071
Equity attributable to owners of the parent company per share (Yen)	1,369.06	1,371.39	1,541.94	1,468.44	1,501.12
Basic earnings per share (Yen)	270.54	235.47	219.10	215.31	195.97
Diluted earnings per share (Yen)	270.37	235.33	218.97	215.20	195.87
Ratio of equity attributable to owners of the parent company to total assets (%)	53.78	51.77	52.89	48.17	47.95
Ratio of profit to equity attributable to owners of the parent company (%)	19.47	17.19	15.04	14.30	13.16
Price earnings ratio (PER) (Times)	16.53	16.32	16.57	12.15	12.41
Net cash flows from operating activities (Millions of yen)	468,432	376,549	419,212	461,389	540,410
Net cash flows from investing activities (Millions of yen)	(63,271)	(687,509)	(352,632)	(383,307)	(123,571)
Net cash flows from financing activities (Millions of yen)	(254,852)	91,318	(77,032)	(62,360)	(333,832)
Cash and cash equivalents at the end of the year (Millions of yen)	526,765	294,157	285,486	282,063	357,158
Number of employees [Separately, average number of temporary employees] (Person)	44,485 [7,858]	44,667 [7,904]	57,963 [6,744]	63,968 [6,618]	61,975 [7,116]

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.

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

Term	31st term	32nd term	33rd term	34th term	35th term
Accounting period	From January 1, 2015 to December 31, 2015	From January 1, 2016 to December 31, 2016	From January 1, 2017 to December 31, 2017	From January 1, 2018 to December 31, 2018	From January 1, 2019 to December 31, 2019
Net sales (Millions of yen)	732,483	729,286	681,840	696,250	660,805
Ordinary income (Millions of yen)	371,989	203,242	199,336	190,343	278,968
Net income (Millions of yen)	345,009	173,607	160,120	164,595	262,469
Capital stock (Millions of yen)	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
Net assets (Millions of yen)	1,713,068	1,663,675	1,592,966	1,493,562	1,417,365
Total assets (Millions of yen)	2,756,785	2,849,913	2,885,760	2,670,883	2,614,357
Net assets per share (Yen)	955.56	927.93	888.31	832.87	798.18
Cash dividends per share (Yen)	118	130	140	150	154
[Interim dividends per share] (Yen)	[54]	[64]	[70]	[75]	[77]
Net income per share (Yen)	192.18	96.94	89.40	91.89	147.72
Diluted net income per share (Yen)	192.06	96.88	89.35	91.84	147.65
Equity ratio (%)	62.1	58.3	55.1	55.9	54.2
Return on equity (ROE) (%)	20.54	10.29	9.84	10.68	18.05
Price earnings ratio (PER) (Times)	23.26	39.65	43.00	28.48	16.47
Dividend payout ratio (%)	61.4	134.1	156.6	163.2	104.3
Number of employees [Separately, average number of temporary employees] (Person)	7,549 [1,125]	7,298 [1,117]	7,336 [1,222]	7,457 [1,225]	7,464 [1,221]
Total shareholder return (%) [Comparative indicator: Dividend-included TOPIX] (%)	137.9 [112.1]	123.0 [112.4]	120.8 [137.4]	94.8 [115.5]	93.9 [136.4]
Highest share price (Yen)	4,848	4,850	4,243	3,708	2,899
Lowest share price (Yen)	3,101	3,627	3,607	2,481	2,179

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 yearly highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.

5. The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the 35th term, and the principal management benchmarks for the 34th term represent those after this accounting standard, etc. was applied retrospectively.