Japan Tobacco Inc.
Annual Report FY2013
Year ended March 31, 2014
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Fact Sheets
Available at:
www.jt.com/investors/results/annual_report/index.html

For more information, please visit
www.jt.com
Adjusted EBITDA

(JPY BN)

751.7

Year-on-year change

Reported

+20.9%

Constant Exchange Rates

+7.5%

Dividend Payout Ratio

(%) 40.8

Year-on-year change

+3.2 ppt

Adjusted EPS

(JPY)

225.68

Year-on-year change

Reported

+30.0%

Constant Exchange Rates

+15.7%

Unless the context indicates otherwise, references in this Annual Report to “we,” “us,” “our,” “Japan Tobacco,” “JT Group” or “JT” are to Japan Tobacco Inc. and its consolidated subsidiaries. References to “JT” are to JT Holding B.V., our consolidated subsidiary, and its consolidated subsidiaries. References to “TableMark” are to TableMark Holdings Co., Ltd., TableMark Co., Ltd. and its group companies. References to “Japan Tobacco Inc.” are only to Japan Tobacco Inc. and references to “JT International Holding B.V.” are only to JT Holding B.V. References to “audit & supervisory board” are to “kansayaku-kai” (as defined in the Companies Act of Japan) that performs certain supervisory functions through its monitoring and audit activities within the overall scheme of corporate governance pursuant to the Companies Act of Japan. References to “audit & supervisory board member” are to a member or members of an audit & supervisory board, also referred to in Japanese as “kansayaku” (as defined in the Companies Act of Japan).

Forward-looking statements

This report contains forward-looking statements. These statements appear in a number of places in this report and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “would,” “expect,” “intend,” “project,” “plan,” “aim,” “seek,” “target,” “anticipate,” “believe,” “estimate,” “predict,” “potential” or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized.

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. decrease in demand for tobacco products in key markets;
2. restrictions on promoting, marketing, packaging, labeling and usage of tobacco products in markets in which we operate;
3. increases in excise, consumption or other taxes on tobacco products in markets in which we operate;
4. litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products;
5. our ability to realize anticipated results of our acquisition or other similar investments;
6. competition in markets in which we operate or into which we seek to expand;
7. deterioration in economic conditions in areas that matter to us;
8. economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which we operate;
9. fluctuations in foreign exchange rates and the costs of raw materials; and
10. catastrophes, including natural disasters.
Ploom:

Introduced in 2013 in our first four markets, Ploom is a unique concept driven by an innovative design.

See pages 33 & 37 for more details.
Please be reminded that this section is intended to explain the business operations of JT to investors, but not to promote sales of tobacco products to encourage smoking by consumers.
At a Glance

Our Businesses
FY2013: Results for the year ended March 31, 2014

The JT Group is a leading international tobacco company with operations in over 70 countries. Our products are sold in over 120 countries and our internationally recognized brands include Winston, Camel and MEVIUS. We are also active in pharmaceutical, beverage and processed food businesses and we expect them to establish a foundation for future profit contribution, as we strive for sustainable growth.

International Tobacco Business

Our international tobacco business continues to strengthen its role as the JT Group’s profit growth engine

Today the international tobacco business generates more than 60% of the consolidated profit and is expected to further increase its contribution in the years to come, enabling the JT Group to continue delivering sustainable profit growth in the mid- to long-term. Our brand portfolio is competitive and well-balanced, allowing us to capture down-traders in mature markets and up-traders in emerging markets. We have structured our portfolio into 3 broad categories including ready-made cigarettes, fine-cut and emerging products.

Results for FY2013:
Strong double-digit profit growth at constant exchange rates

Key drivers:
- Robust pricing
- Share of market and share of value gains in most key markets
- Broadened business base

Japanese Domestic Tobacco Business

The role of the Japanese domestic tobacco business continues to be a highly competitive platform of profitability

We are the market leader in Japan with 61% market share. Our Japanese domestic tobacco business continues to be a significant profit contributor to the JT Group, generating over 40% of our consolidated profit. The three core brands are MEVIUS, Seven Stars and Pianissimo.

Results for FY2013:
Achieved profit growth driven by share increase and temporary demand ahead of tax hike:
- Share growth driven by brand enhancement of core brands, mainly MEVIUS
- Volume growth from temporary demand ahead of April 2014 consumption tax hike
Pharmaceutical Business

We will strive to establish a stronger profit platform through value maximization of each product and R&D promotion for the next generation of strategic compounds.

Results for FY2013:
Significant achievements in late-phase compound developments, revenue increased and profit improved.

Key drivers:
- Progress in out-licensed compound development, driving increase in milestone revenue
- Increase in royalty income from growth in product sales
- Increase in sales at Torii Pharmaceutical

Beverage Business

We expect our beverage business to strengthen the business base for future growth towards profit contribution to the JT Group.

Results for FY2013:
- Increase in sales of JT products driven by positive performance of Momono Tennen-sui, not sufficient to compensate for sales decline from vending machines
- Decline in profit due to decrease in revenue and increase in expenses for further high quality vending machine operation and investment in brand enhancement

Processed Food Business

Our processed food business will strive to achieve operating profit margin on par with industry average towards profit contribution to the JT Group.

Results for FY2013:
- Excluding processed fishery product business, focus on staple food products drove revenue and profit growth
- Increase in profit driven by top-line growth more than compensating increase in cost due to weaker yen

1 Year ended December 31, 2013 for international tobacco business.
2 Consolidated profit: Consolidated adjusted EBITDA.
3 Market share for 12 months between April 2013-March 2014.
## Consolidated Five-year Financial Summary

Japan Tobacco Inc. and Consolidated Subsidiaries

**FY2013**: Results for the year ended March 31, 2014

<table>
<thead>
<tr>
<th>For the year:</th>
<th>FY2009 (JGAAP)</th>
<th>FY2010 (IFRS)</th>
<th>FY2011 (IFRS)</th>
<th>FY2012 (IFRS)</th>
<th>FY2013 (IFRS)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales/Revenue</strong> (Note 1)</td>
<td>6,134.7</td>
<td>2,059.4</td>
<td>2,033.8</td>
<td>2,120.2</td>
<td>2,399.8</td>
</tr>
<tr>
<td>International Tobacco</td>
<td>2,633.6</td>
<td>963.5</td>
<td>966.3</td>
<td>1,010.7</td>
<td>1,270.0</td>
</tr>
<tr>
<td>Japanese Domestic Tobacco</td>
<td>3,042.8</td>
<td>665.8</td>
<td>648.2</td>
<td>687.1</td>
<td>710.3</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>44.1</td>
<td>44.1</td>
<td>47.4</td>
<td>53.2</td>
<td>64.4</td>
</tr>
<tr>
<td>Food</td>
<td>394.7</td>
<td>367.5</td>
<td>359.4</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Beverage</td>
<td>188.8</td>
<td>185.5</td>
<td>184.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processed Food</td>
<td>170.7</td>
<td>168.7</td>
<td>156.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>19.5</td>
<td>18.5</td>
<td>14.6</td>
<td>15.0</td>
<td>13.6</td>
</tr>
<tr>
<td><strong>Adjusted net sales/Core revenue</strong> (Note 2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,200.7</td>
</tr>
<tr>
<td>International Tobacco</td>
<td>906.8</td>
<td>887.8</td>
<td>894.6</td>
<td>943.1</td>
<td></td>
</tr>
<tr>
<td>Japanese Domestic Tobacco</td>
<td>616.0</td>
<td>632.2</td>
<td>611.9</td>
<td>654.0</td>
<td></td>
</tr>
<tr>
<td>Operating income/Operating profit  (Note 3)</td>
<td>296.5</td>
<td>401.3</td>
<td>459.2</td>
<td>532.2</td>
<td>648.3</td>
</tr>
<tr>
<td>International Tobacco</td>
<td>136.9</td>
<td>225.9</td>
<td>252.4</td>
<td>289.4</td>
<td></td>
</tr>
<tr>
<td>Japanese Domestic Tobacco</td>
<td>198.7</td>
<td>202.3</td>
<td>209.3</td>
<td>241.3</td>
<td></td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>(13.6)</td>
<td>(13.3)</td>
<td>(13.5)</td>
<td>(16.2)</td>
<td>(9.0)</td>
</tr>
<tr>
<td>Food</td>
<td>(13.7)</td>
<td>(3.6)</td>
<td>2.0</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Beverage</td>
<td>4.5</td>
<td>2.3</td>
<td>(2.1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processed Food</td>
<td>(2.5)</td>
<td>(5.8)</td>
<td>(0.2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>10.5</td>
<td>(9.9)</td>
<td>9.0</td>
<td>21.2</td>
<td>25.0</td>
</tr>
<tr>
<td><strong>EBITDA/Adjusted EBITDA</strong> (Note 3)</td>
<td>526.7</td>
<td>522.0</td>
<td>577.1</td>
<td>622.0</td>
<td>751.7</td>
</tr>
<tr>
<td>International Tobacco</td>
<td>277.7</td>
<td>277.9</td>
<td>314.8</td>
<td>343.2</td>
<td>451.6</td>
</tr>
<tr>
<td>Japanese Domestic Tobacco</td>
<td>251.3</td>
<td>247.2</td>
<td>262.3</td>
<td>281.3</td>
<td>302.1</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>(9.7)</td>
<td>(9.8)</td>
<td>(10.0)</td>
<td>(12.7)</td>
<td>(5.4)</td>
</tr>
<tr>
<td>Food</td>
<td>14.5</td>
<td>17.7</td>
<td>20.0</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Beverage</td>
<td>14.6</td>
<td>12.4</td>
<td>8.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Processed Food</td>
<td>5.4</td>
<td>7.4</td>
<td>7.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>13.3</td>
<td>(11.0)</td>
<td>(9.8)</td>
<td>(9.6)</td>
<td>(12.7)</td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong> (Note 3)</td>
<td>230.2</td>
<td>118.0</td>
<td>118.8</td>
<td>116.5</td>
<td>132.9</td>
</tr>
<tr>
<td><strong>Net income/Profit (attributable to owners of the parent)</strong> (Note 4)</td>
<td>138.4</td>
<td>243.3</td>
<td>320.9</td>
<td>343.6</td>
<td>428.0</td>
</tr>
<tr>
<td><strong>Free cash flow (FCF)</strong> (Note 5)</td>
<td>250.7</td>
<td>300.4</td>
<td>451.3</td>
<td>316.0</td>
<td>212.6</td>
</tr>
</tbody>
</table>
FY2013: Results for the year ended March 31, 2014

<table>
<thead>
<tr>
<th>At year-end:</th>
<th>FY2009 (JGAAP)</th>
<th>FY2010 (IFRS)</th>
<th>FY2011 (IFRS)</th>
<th>FY2012 (IFRS)</th>
<th>FY2013 (IFRS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets/Assets</td>
<td>3,872.6</td>
<td>3,655.2</td>
<td>3,667.0</td>
<td>3,852.6</td>
<td>4,611.4</td>
</tr>
<tr>
<td>Interest-bearing Debts (Note 6)</td>
<td>874.3</td>
<td>709.1</td>
<td>502.4</td>
<td>327.2</td>
<td>375.9</td>
</tr>
<tr>
<td>Liabilities</td>
<td>2,149.3</td>
<td>2,053.9</td>
<td>1,952.4</td>
<td>1,960.1</td>
<td>2,015.4</td>
</tr>
<tr>
<td>Net Assets/Equity</td>
<td>1,723.3</td>
<td>1,601.3</td>
<td>1,714.6</td>
<td>1,892.4</td>
<td>2,596.1</td>
</tr>
</tbody>
</table>

Major Financial Ratios

| ROE (Note 7) | 8.6% | 15.3% | 20.3% | 20.0% | 19.9% |
| ROA (Note 8) | 6.6% | 10.2% | 12.1% | 13.5% | 15.0% |
| Equity Ratio (Note 9) | 42.6% | 41.7% | 44.6% | 46.9% | 54.3% |

Amounts per share: (in yen)

| Diluted EPS (Notes 10/11) | 14,448 | 25,407 | 168.44 | 180.98 | 235.35 |
| Book value per share/attribution to owners of the parent) (Note 11) | 172,139 | 160,180 | 858.09 | 993.98 | 1,378.57 |
| Dividend per share (Note 11) | 5,800 | 6,800 | 50 | 68 | 96 |

Dividend payout ratio before goodwill amortization/Dividend payout ratio (Note 12) 23.6% 26.8% 29.7% 37.6% 40.8%

Notes:

1. (JGAAP): Including the tobacco excise taxes.
(IFRS): Excluding tobacco excise taxes and revenue from agent transactions.
2. (JGAAP): Excluding revenue from the imported tobacco, domestic duty free, the China Division, and other miscellaneous items in the Japanese domestic tobacco business, in addition to the distribution, private label, contract manufacturing, and other peripheral businesses in the International tobacco business.
(IFRS): Excluding revenue from distribution business of imported tobacco, among others, in the Japanese domestic tobacco business, in addition to the distribution, private label, contract manufacturing, and other peripheral businesses in the International tobacco business.
3. (JGAAP): EBITDA = Operation income + Depreciation and amortization + Depreciation and amortization = depreciation of tangible fixed assets + amortization of intangible fixed assets + amortization of long-term prepaid expenses + amortization of goodwill.
(IFRS): Adjusted EBITDA = Operating profit + depreciation and amortization + Adjustment items (income and costs)*.
* adjustment items (income and costs) = impairment losses on goodwill + restructuring income and costs + others.
4. (IFRS): Under IFRS, profit is presented before deducting non-controlling interests. For comparison, we show the profit attributable to the owners of the parent company.
5. FCF = (cash flow from operating activities + cash flow from investing activities) excluding the following items:
From “cash flows from operating activities”: Dividends received/interest received and its tax effect/interest paid and its tax effect.
From “cash flows from investing activities”: Purchase of securities/proceeds from sale and redemption of securities/payments into time deposits/Proceeds from withdrawal of time deposits/others (but not business-related investment securities, which are included in the investment securities item).
6. Including lease obligation.
7. (JGAAP): Return on equity.
(IFRS) Return on equity attributable to owners of the parent.
8. (JGAAP): ROA=(Ordinary income)/Total assets (average of beginning and ending balance for the period)
(IFRS): ROA=(Profit before income taxes)/Total assets (average of beginning and ending balance for the period)
9. (JGAAP): Equity ratio.
(IFRS) Equity ratio attributable to owners of the parent.
10. (IFRS) Based on profit attributable to owners of the parent company.
11. A 200-for-one share split is done, effective as of July 1, 2012.
Calculated on the assumption that this share split was conducted at the beginning of FY2011 (April 1, 2011).
12. (JGAAP): Dividend payout ratio before goodwill amortization.
(IFRS) Based on profit (attributable to owners of the parent).
13. Financial data disclosed herein is basically rounded.
It is a great pleasure for us to report that in the fiscal year 2013 the JT Group posted record profits, despite the prolonged difficult operating environments. This success was made possible particularly by our belief in the “4S” model, the JT Group’s adaptability to the changing environment, each employee’s relentless efforts and unflagging support from our stakeholders.

**Strong business performance yet again**
In the tobacco business, the most notable accomplishment was the well-executed rebranding of Mild Seven to MEVIUS. In Japan, one of the brand’s most important markets, the rebranded MEVIUS drove our market share gain, winning the intensifying competition. We are also proud of another strong year by the international tobacco business, which overcame industry volume declines in key markets and once again achieved double-digit profit growth at constant exchange rates. Consistent investment to enhance brand equity led to this outstanding performance. Our pharmaceutical business had another year of remarkable progress since the launch of the first drug containing our original compound in 2012, receiving several approvals for market launch from relevant authorities. With these business performances, adjusted EBITDA of the JT Group grew strongly by 7.5% from the previous year at constant rates of exchange.

**Delivered shareholder return commitment**
Shareholder return was enhanced in the context of the strong business result. Dividend payout ratio exceeded our commitment and reached 40.8%. Dividend per share of 96 yen represents an increase of four yen from initial forecast and a considerable growth of 41.2% from the previous year, while adjusted EPS on a constant currency basis grew strongly by 15.7%. Our return to shareholders has been improving faster than profit growth.

**Reinforced communication with capital markets**
We are implementing initiatives to strengthen communication with capital markets. From fiscal year 2015, our accounting period will be unified throughout the group with fiscal year 2014 being a transitional period; this enables us to deliver financial information and business updates in a more timely and transparent manner. In addition, from fiscal year 2014, we introduce a new KPI, “adjusted operating profit”, replacing the previous adjusted EBITDA. There is no change in our policy to prioritize business investments to attain sustainable growth for mid- to long-term period. Introduction of this new KPI will not only further validate that our business investments generate appropriate returns, but also improve comparability with competitors’ performances.

**Towards further growth**
In the fiscal year 2013, our profit reached a record high and shareholder return improvement was on track. Looking ahead, we expect our operating environment to remain challenging due to industry contraction and growing competition in key markets for our tobacco business. At the same time, the business circumstances surrounding us keep evolving; in particular, consumers’ needs have been diversifying, leading to a growing emerging product category, and geopolitical risks are rising in certain areas. As such, the economic, regulatory and competitive environment will change globally and faster than ever. We turn this challenge ahead of us into an opportunity and aim for sustainable profit growth, leveraging our firm belief in the “4S” model as well as further developing our ability to adapt to the changes.

As for shareholder return, we aim to achieve a dividend payout ratio of 50% in the fiscal year 2015. In the mid- to long-term perspective, our target remains a competitive return comparable to global FMCG players, while ensuring at least 50% payout ratio. Dividend per share of 100 yen, a four yen increase from the previous year, is planned for the fiscal year 2014, despite being a transitional year due to the accounting period harmonization with only nine months of Japanese businesses to be consolidated.

The JT Group is determined to expand its contribution to society. Sustainable business growth cannot be achieved without continuous development of society and its understanding in our businesses. Social needs will be identified through dialogue with our relevant stakeholders, and CSR programs to meet such needs will be globally developed. Furthermore, we will continue to invest in our employees in order to keep them satisfied and pursue diversity among them. The JT Group encourages these highly motivated employees with a strong sense of engagement to inspire each other by sharing the best practices worldwide.

We believe that our persistent policy to prioritize business investment led to the track record of profit growth and shareholder return improvement. In the years to come, we will continue to pursue the “4S” model and grow profit in a sustainable manner through the existing policy; thus striving to exceed our stakeholders’ expectations.
The JT Group delivered a robust performance in a difficult operating environment as we continued to invest in our business.

Group performance overview
The JT Group has achieved sustainable profit growth in the mid- to long-term by prioritizing business investment and the fiscal year 2013 was no exception. We achieved year-over-year improvement in all the key financial measures and posted a record high profit driven by continuous quality top-line growth. This strong result further increased my confidence in our approach to prioritize business investment. We also launched an initiative to further strengthen our competitiveness in the Japanese domestic tobacco business for future growth.

Achievement of each business
In the international tobacco business, the difficult operating environment continued and our total shipment volume declined due mainly to industry contraction in many markets where we operate. Despite this, we once again delivered double-digit growth in adjusted EBITDA at constant exchange rates. Leveraging a brand portfolio strengthened through consistent investment over the years, robust pricing and share of market gains in most key markets drove this strong performance.

In addition, we continued to broaden our earnings base in both product and geographical footprint for future growth. Ploom, an innovative tobacco vapor product, was launched in several markets and has been well-received by consumers and trade partners. We are expanding our presence into Myanmar and Brazil, as well as into the Egyptian cigarette market, through our acquisition of Nakhlä. Moreover, we acquired a 20% stake in the leading distributor in Russia, the most important market for our international tobacco business. With these initiatives in place, we are well-positioned to continuously grow top-line.

Japanese domestic tobacco business increased its share of market 1.4 points from the previous year to 61.0%, driven by MEVIUS, formally known as Mild Seven. This outstanding performance proves that the unprecedented rebranding, initiated in early 2013, was completed successfully. Sales volume also grew, driven by solid momentum demonstrated by the share of market gain as well as a temporary demand increase ahead of tax hike in April 2014.
In October 2013, we announced a set of initiatives to further strengthen the competitiveness of the Japanese domestic tobacco business in anticipation that challenging operating conditions remain for the mid- to long-term. Specifically, to optimize sales operations for quality top-line growth, the current 25 area branch offices will be transformed to 15 regional sales headquarters, which will have an extended responsibility in regionalized marketing strategies relevant to local characteristics. To build competitive cost base, four factories – two cigarette manufacturing and two other tobacco-related factories – will be closed in response to industry contraction. These initiatives will further strengthen the business foundation as well as enhance competitiveness and profitability. Japanese domestic tobacco business, as the highly competitive platform of profitability for the JT Group, will continue to contribute to the group profit.

In the pharmaceutical business, Stribild® Combination Tablets, an anti-HIV drug containing JTK-303 among four compounds, was launched in Japan in May 2013. After manufacturing and marketing approval in January 2014, Riona® Tablets 250mg for the hyperphosphatemia treatment has been in the market since May this year. Cedartolen Sublingual Drop – Japanese Cedar Pollen, an immunotherapy drug, developed by Torii Pharmaceutical Co., Ltd., our subsidiary, also obtained approval in January 2014.

As for our compounds licensed to partners, JTK-303 was approved as a standalone agent by the European Medicines Agency (EMA) and is to be marketed as Vitekta®, which is also awaiting approval from the U.S. Food and Drug Administration (FDA). MEK inhibitor was approved by FDA in May 2013 for the treatment of melanoma, and was launched in the U.S. as Mekinist. An application for the approval of the same drug was also submitted to EMA.

Beverage business marked a record high volume for JT branded products, led by Momono Tennen-sui, a focus brand as the second pillar behind ‘Roots’. Our efforts extended to foundation building for future profit contribution including investment in further quality vending machine operation.

In the processed food business, staple food products, our strategic focus category, performed well. As a result, profit grew year-over-year overcoming cost pressure from the imported materials due to the weakening yen.

Looking ahead
In the fiscal year 2013, each business fulfilled its expected role, and we repeated strong results as a group. I strongly believe that the key factors for this success were our consistent emphasis on business investment and adaptability to change. We will strive to achieve sustainable profit growth over mid- to long-term by pursuing the “4S” model and enhancing our competitiveness.
Management Principle

Our management principle is the “4S” model, and it has been driving the JT Group.

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.

Our strong business and financial performances in the past prove that our products meet, if not exceed, consumers’ expectations. We will remain committed to delivering additional value to our consumers through business investments, and thus achieve sustainable profit growth over the mid- to long-term. In the context of profit growth, we are poised to offer attractive return to our shareholders.

To realize this, it is vital that our employees are highly motivated with a strong sense of involvement. The JT Group actively communicates with its employees to encourage their engagement and make the company a better place to work.

At the same time, we are determined to contribute to the sustainability of society where we operate. Sustainability of society is the base for sustainability of our business.

Strategic Framework

Strategic framework forms the basic concept for our business strategies across the JT Group. Each business develops its own initiatives based on this framework.

<table>
<thead>
<tr>
<th>Quality top-line growth</th>
<th>We will achieve quality top-line growth by consistently offering additional or new value to our consumers, which enhances their satisfaction.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive cost base</td>
<td>Our pursuit of a competitive cost base is persistent. Efficiency is sought across the business to optimize costs and improve profitability, without sacrificing quality.</td>
</tr>
<tr>
<td>Robust business foundation</td>
<td>It is continuous improvement conceived and initiated by our employees which builds our robust business foundation. We will further strengthen our pool of talented and diverse employees in order to tackle this challenge.</td>
</tr>
</tbody>
</table>
Resource Allocation

In our resource allocation, we prioritize business investment for sustainable profit growth in the mid-to long-term. At the same time, we also pursue a competitive shareholder return among global FMCG players.

Business Investment
Our resources have been and will continue to be primarily allocated in tobacco businesses to enhance competitiveness.

Leveraging the acquired assets, International Tobacco Business grew profit strongly, as the past record shows.

Investments in other businesses are focusing on foundation building so that they can contribute to the group’s profit.

Investments and EBITDA development in International tobacco business
(USD MM)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY1999</td>
<td>Nakhla, Megapolis</td>
</tr>
<tr>
<td></td>
<td>Gryson</td>
</tr>
<tr>
<td></td>
<td>Haggar Cigarette &amp; Tobacco Factory (Sudan)</td>
</tr>
<tr>
<td></td>
<td>Kannenberg, Tribac Leaf</td>
</tr>
<tr>
<td></td>
<td>Gallaher</td>
</tr>
<tr>
<td></td>
<td>RJR International</td>
</tr>
<tr>
<td>FY2000</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2001</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2002</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2003</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2004</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2005</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2006</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2007</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2008</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2009</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2010</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2011</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2012</td>
<td>4,623</td>
</tr>
<tr>
<td>FY2013</td>
<td>4,623</td>
</tr>
</tbody>
</table>

Shareholder Return
The JT Group has consistently increased dividend and improved payout ratio. In FY2013, our dividend per share and payout ratio were 96 yen and 40.8%, respectively.

Over the past 3 years, dividend per share grew at a CAGR of 39%.

Adjusted EPS growth is another indicator we emphasize. If profit from businesses is not sufficient for the adjusted EPS growth target, share buy-back will be an option to achieve it.
Business Plan 2014

The JT Group’s Business Plan covers a three-year period, and is rolled-over annually to reflect the changes in our business environment including economics, geopolitics and competition. By leveraging and enhancing our ability to adapt to changes, we will achieve sustainable profit growth.

Group profit target:
- Annual average growth rate of adjusted operating profit at constant currency:
  - Mid to high single-digit over the mid- to long-term

Shareholder return targets:
- Consolidated dividend payout ratio:
  - 50% in FY2015
  - Beyond 2015, comparable to global FMCG benchmarks while ensuring at least 50%
- Annual average growth rate of adjusted EPS at constant currency:
  - High single-digit over the mid- to long-term

New KPI
From the Business Plan 2014, we have evolved our KPI to adjusted operating profit from adjusted EBITDA.

The most notable change is that our KPI now includes the cost of investments, in the form of depreciation, which fluctuate as a result of capital expenditures.

As we prioritize business investment, our intention is to further clarify that fair returns are generated from the investments.

Amortization of acquired assets, which is essentially at fixed amount every year, is excluded from the indicator.

This new KPI represents improved comparability with our key competitors.

New KPI definition:
Adjusted operating profit = operating profit + amortization of acquired intangibles + adjusted items (income and costs)*.

* Adjusted items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others.

Forecast for FY2014

Adjusted operating profit on a like-for-like basis* is forecast to grow:
- 6.0% at constant exchange rates driven by top-line growth of international tobacco business
- 1.6% including unfavorable currency impact

We will increase dividend per share despite our FY2014 consolidated accounting period to include only nine months of Japanese operations.

* See Glossary of Terms on page 158 for further details of ‘like-for-like basis’
Role and Priority of Each Business

In view of Business Plan 2014, the role and priorities of each business in the mid-to-long-term are as follows.

Tobacco Business

Grow adjusted operating profit at mid to high single-digit rate per annum over the mid- to long-term as the core business and profit growth engine of the JT Group

International Tobacco Business

- Prioritize quality top-line growth – strengthen further our brand equity with focus on core brands
  - growing or maintaining market share in existing key markets;
  - broadening the geographical base; and
  - creating emerging product categories.
- Continue to improve cost base.

Pharmaceutical Business

Establish stronger profit platform through product value maximization and R&D promotion of strategic compounds for next generation

Beverage Business

Strengthen the business base for future growth, aiming to make profit contribution to the JT Group

- Enhance profitability through top-line expansion.
- Improve efficiency at vending machine operating subsidiaries.

Processed Food Business

Achieve operating profit margin on par with industry average, aiming to make profit contribution to the JT Group

- Increase attractiveness of our offerings with a particular emphasis on staple products by meeting consumer needs with our own expertise.
- Minimize the negative impact of rising raw material costs and weak yen.
Performance Measures

FY2013: Year ended March 31, 2014

In our Business Plan 2014, targets are set for adjusted Operating Profit* growth rate at constant exchange rates, as well as consolidated dividend payout ratio and adjusted EPS growth rate at constant exchange rates. While they are mid- to long-term targets, we also monitor the performance measures introduced here annually.

In our strategic framework to achieve adjusted Operating Profit growth rate, the JT Group places a particular emphasis on “quality top-line growth”, while, at the same time, focusing on building a “competitive cost base” and “robust business foundations”. In line with our strategic emphasis, the measures to review our business performance are skewed towards top-line related indicators. As for shareholder return, we have selected three indicators to monitor the improvement.

* See page 14 for new KPI.

Tobacco sales volume

International tobacco (BnU)

Calendar year basis

2011 425.7
2012 436.5
2013 416.4

-4.6% to 416.4 BnU

For the international tobacco business, total shipment volume includes fine cut, cigars, pipe tobacco and snus, but excludes contract manufactured products and waterpipe tobacco products.

Japanese domestic tobacco (BnU)

FY2011 108.4
FY2012 116.2
FY2013 120.1

+3.3% to 120.1 BnU

For Japanese domestic tobacco, total sales volume excludes sales volume of Japanese domestic duty free and the China business.

GFB shipment volume

GFB shipment volume (BnU)

Calendar year basis

2011 256.5
2012 268.8
2013 266.6

-0.8% to 266.6 BnU

Shipment volume of GFBs, namely Winston, Camel, MEVIUS, B&B, Silk Cut, LD, Glamour and Sobranie in the international tobacco business.
## Core revenues

### International tobacco (US$ MM)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>Business 2013 at constant exchange rates</th>
<th>FX</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 Restated*</td>
<td>11,211</td>
<td>11,655</td>
<td>12,362</td>
<td>-89</td>
<td>12,273</td>
</tr>
</tbody>
</table>

* See glossary of terms.

+6.1% at constant exchange rates to US$ 12,362 MM

+3.9% including currency impact to US$ 12,273 MM

For the international tobacco business, US dollar-based core revenue includes revenue from waterpipe tobacco products, but excludes revenues from distribution, contract manufacturing and other peripheral businesses.

### Japanese domestic tobacco (JPY BN)

<table>
<thead>
<tr>
<th></th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>611.9</td>
<td>654.0</td>
<td>676.2</td>
<td></td>
</tr>
</tbody>
</table>

+3.4% to JPY 676.2 BN

For the Japanese domestic tobacco business, core revenue excludes revenue from distribution of imported tobacco in Japan, among others.

### Revenue (JPY BN)

<table>
<thead>
<tr>
<th></th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,033.8</td>
<td>2,120.2</td>
<td>2,399.8</td>
<td></td>
</tr>
</tbody>
</table>

+13.2% to JPY 2,399.8 BN

Revenue on a consolidated basis which, for the avoidance of doubt, excludes excise and other similar taxes, as well as sales from transactions in which the JT Group acts as an agent.
Performance Measures

continued

FY2013: Year ended March 31, 2014

Adjusted EBITDA

<table>
<thead>
<tr>
<th>FY2011</th>
<th>FY2012</th>
<th>Business</th>
<th>FY2013 at constant exchange rates</th>
<th>FX</th>
<th>FY2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>577.1</td>
<td>622.0</td>
<td>46.4</td>
<td>668.3</td>
<td>83.4</td>
<td>751.7</td>
</tr>
</tbody>
</table>

+7.5% at constant exchange rates to JPY 668.3 BN

+20.9% including currency impact to JPY 751.7 BN

Operating profit excluding depreciation, amortization and adjustment items (income and costs).

* Adjustment items (income and costs) are impairment losses on goodwill, restructuring related income and costs and others.

Dividend payout ratio

<table>
<thead>
<tr>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>29.7</td>
<td>37.6</td>
<td>40.8</td>
</tr>
</tbody>
</table>

+3.2ppt to 40.8%

Dividend per share divided by profit attributable to owners of the parent company per share.

CAGR 14.1%

adjusted EBITDA (JPY) growth rate over the past three years
Dividend per share

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Dividend (JPY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2011</td>
<td>50</td>
</tr>
<tr>
<td>FY2012</td>
<td>68</td>
</tr>
<tr>
<td>FY2013</td>
<td>96</td>
</tr>
</tbody>
</table>

+41.2% to JPY 96

The sum of interim and year-end dividends per share, the record dates of which fall in the relevant fiscal year.

Adjusted EPS (diluted)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Adjusted EPS (diluted) (JPY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2011</td>
<td>152.65</td>
</tr>
<tr>
<td>FY2012</td>
<td>173.64</td>
</tr>
<tr>
<td>FX</td>
<td>24.72</td>
</tr>
<tr>
<td>FY2013</td>
<td>225.68</td>
</tr>
</tbody>
</table>

+15.7% at constant exchange rates to JPY 200.96

+30.0% including currency impact to JPY 225.68

Adjusted EPS is calculated as follows:

Adjusted EPS = (Profit or loss attributable to owners of the parent company ± adjustment items (income and costs) ± tax and minority interests adjustments) / (weighted-average common shares + increased number of ordinary shares under subscription rights to shares).

* Adjustment items (income and costs) are impairment losses on goodwill, restructuring related income and costs and others.