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Japanese Domestic Tobacco Business to Further Strengthen its Competitiveness

Tokyo, October 30, 2013 --- Japan Tobacco Inc. (JT) (TSE: 2914) announced today a set of measures to further strengthen the competitiveness and profitability of its Japanese domestic tobacco business, adapting to a changing operating environment and ensuring that it will continue to be a highly competitive platform of the profitability of the JT Group.

Our Japanese domestic tobacco business operates in an increasingly challenging environment, mainly due to consecutive tobacco tax increases, tightening of smoking related regulations, growing health consciousness and an aging society.

Nevertheless, the Company has been consistently pursuing its strategy to grow top-line by continuing to invest in brand equity with a focus on Mevius and new product categories, alongside efforts to optimize the cost base.

However, to proactively address the anticipated consequences of future industry contraction in the mid- to long-term, the Company has come to the conclusion that it needs to implement further measures. These measures include strengthening the Company's top-line competitiveness through the reorganization of the sales operations in addition to further cost optimization.

The Japanese market remains one of the most important markets for the JT Group and a highly competitive platform of the Group's profitability. The measures will further enhance its competitiveness and ensure a significant contribution to the profit growth of the JT Group.

The Company plans to enter into consultation with its labor union from this day forward.

Mitsuomi Koizumi, President and Chief Executive Officer of JT, commented:

"We believe that adaptability to a changing environment is critical to achieving sustainable profit growth in the mid- to long-term."

"The measures that we announced today aim to proactively address anticipated future challenges. By implementing these measures, the Japanese domestic tobacco business will further enhance its competitiveness and profitability, thus continuing to make significant contributions to the profit growth of the JT Group."

"The Japanese domestic tobacco business remains one of the most important markets for the JT Group and a highly competitive platform of the Group's profitability."

Outline of initiatives

1. Sales operations

- Transition to a more agile sales operation by enhancing its regional adaptability
- Optimization of nationwide sales offices as of April 1, 2015
  - Transition from the current 25 area branch offices to 15 regional sales headquarters, which will be responsible for regionalized marketing strategies relevant to local characteristics.

2. Cost competitiveness

A) Closure of two cigarette manufacturing factories
- Koriyama factory (Koriyama City, Fukushima) and Hamamatsu factory (Hamamatsu City, Shizuoka), at the end of March 2015.

B) Closure of two other tobacco-related factories
- Hiratsuka factory (Hiratsuka City, Kanagawa / Tobacco leaf processing factory), at the end of March 2016.
- Okayama printing factory (Okayama City, Okayama / Non tobacco material factory), at the end of March 2015.

C) Change / closure of other operations
- East-Japan Regional Leaf Tobacco Headquarters (Sukagawa City, Fukushima) will cease its leaf processing operation at the end of March, 2015, while continuing its leaf procurement operation.
- Vending Machinery division (Akashi City, Hyogo) which develops, manufactures and sells tobacco vending machines will be closed at the end of March, 2015.

3. Business fundamentals

- Redesign organizations to enhance their agility and adaptability to changes
  - Greater empowerment and autonomy will be given to regional sales headquarters and factories.

4. Voluntary retirement program[1]

- A voluntary retirement program will be offered to eligible employees in the Japanese domestic tobacco business and corporate functions, in order to rightsize the workforce along with the aforementioned measures. The impact is estimated to be approximately 1,600 jobs (the majority of the applicants are expected to leave the Company at the end of March 2015, while some will leave the Company at the end of March 2016).

Reference

Appendix 1: New sales operating structure as of April 1, 2015
Appendix 2: Outline of factories to be closed

[1] The Company will not expect any financial impact of these initiatives in the fiscal year 2013, as it will implement these initiatives from the fiscal year 2014 onwards. The cost reduction effects for these initiatives will be realized from April, 2015 onwards.

Japan Tobacco Inc. is a leading international tobacco product company. Its products are sold in over 120 countries and its internationally recognized brands include Winston, Camel, Mevius/Mild Seven and Benson & Hedges. With diversified operations, JT is also actively present in pharmaceuticals, beverages and processed foods. The company's revenue was ¥2.120 trillion (US$22,543 million(*)) in the fiscal year ended March 31, 2013.

**Translated at the rate of ¥94.05 per $1, as of March 29, 2013*

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(Appendix 1: New sales operating structure as of April 1, 2015)

New regional sales offices

Newly established regional sales headquarter	Current area branch office	Prefecture
Hokkaido	Hokkaido	Hokkaido
Tohoku	Morioka	Aomori
		Akita
		Iwate
	Sendai	Miyagi
		Yamagata
	Utsunomiya	Fukushima
Kita-Kanto		Tochigi
	Saitama	Saitama
Joshinetsu	Takasaki	Gunma
		Nagano
	Niigata	Niigata
Higashi-Kanto	Chiba	Chiba
	Mito	Ibaraki
Tokyo	Tokyo	Tokyo (23 wards)
	Tachikawa	Tokyo (excluding 23 wards)
		Yamanashi
Kanagawa	Yokohama	Kanagawa
Tokai	Shizuoka	Shizuoka
	Nagoya	Mie
		Aichi
		Gifu
Hokuriku	Kanazawa	Ishikawa
		Fukui
		Toyama

Newly established regional sales headquarter	Current area branch office	Prefecture
Kita-Kansai	Kobe	Hyogo
	Kyoto	Kyoto
		Shiga
		Nara
Osaka	Osaka	Osaka
		Wakayama
Chugoku	Hiroshima	Hiroshima
		Shimane
		Yamaguchi
	Okayama	Okayama
		Tottori
Shikoku	Shikoku	Kagawa
		Ehime
		Tokushima
		Kochi
Kyushu	Fukuoka	Fukuoka
		Saga
		Nagasaki
	Kumamoto	Kumamoto
		Oita
	Okinawa	Okinawa
Minami-Kyushu	Kagoshima	Miyazaki
		Kagoshima

Under the new sales operating structure, sales offices will be placed in all prefectures as subordinate bodies of 15 regional sales headquarters.

(Appendix 2: Outline of factories to be closed)

Cigarette Manufacturing Factories

■ Koriyama Factory

Address:	8-1, Sotogawara, Koriyama City, Fukushima
Operations Began:	July 1969
Factory General Manager:	Tomohiro Kuroda
Production Volume:	approx. 13.0 billion cigarettes (in FY2012)
Major SKUs Manufactured:	Cabin Mild Box, Caster One 100's Box, Wakaba
Lot Area:	approx. 112,392 square meters
Number of Employees:	244 (as of September 2013)

■ Hamamatsu Factory

Address:	40-1, Nishiibacho, Naka-ku, Hamamatsu City, Shizuoka
Operations Began:	March 1949
Factory General Manager:	Akihiro Koyanagi
Production Volume:	approx. 9.5 billion cigarettes (in FY2012)
Major SKUs Manufactured:	Pianissimo Lucia Menthol, Caster One 100's Box
Lot Area:	approx. 107,034 square meters
Number of Employees:	280 (as of September 2013)

Other Tobacco-Related Factories

■ Hiratsuka Factory

Address:	1-77, Kurobeoka, Hiratsuka City, Kanagawa
Operations Began:	March 1987
Factory General Manager:	Yutaka Nakamura
Major Products Manufactured:	Tobacco material (Tobacco raw material)
Lot Area:	approx. 94,668 square meters
Number of Employees:	66 (as of September 2013)

■ Okayama Printing Factory

Address:	120-12, Mitsutakazu, Kita-ku, Okayama City, Okayama
Operations Began:	April 1993
Factory General Manager:	Katsuhiko Watabe
Major Products Manufactured:	Tobacco material (tipping paper)
Lot Area:	approx. 67,712 square meters
Number of Employees:	112 (as of September 2013)

Others

■ East-Japan Regional Leaf Tobacco Headquarters

Address:	25-1, Chabatakemachi, Sukagawa City, Fukushima
Operations Began:	July 1969
General Manager:	Masaru Otsuki
Major Products Manufactured:	Tobacco material (Tobacco raw material)
Lot Area:	approx. 136,729 square meters
Number of Employees:	174 (as of September 2013)

■ Vending Machinery Division

Address:	111, Okubomachi, Okubocho, Akashi City, Hyogo
Operations Began:	August 1986
Vice President:	Makoto Shibata
Major Products Manufactured:	Tobacco vending machines
Lot Area:	approx. 58,815 square meters
Number of Employees:	89 (as of September 2013)