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**FOR IMMEDIATE RELEASE**

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**JT Group Announces New Operating Model  
Company Aims to Strengthen its Tobacco Business**

**Japan Tobacco Inc. (JT) (TSE:2914)** announces a new operating model to further strengthen the competitiveness and profitability of its tobacco business. The changes include the consolidation of the Company's current international and Japanese-domestic tobacco businesses into one tobacco business, as well as the optimization of its operations in the Japanese market. These new initiatives will firmly position the JT Group (JTG) to best address the changes in its operating environment in order to achieve long-term profitability and sustainable growth.

JT Group President and CEO, **Masamichi Terabatake** commented:

*“Over the years, the JT Group has consistently anticipated new challenges and managed to successfully transform itself during rapidly changing business environments. We achieved this through large-scale transformative acquisitions, such as RJRI and Gallaher, and geographical expansions into emerging markets. In parallel, we continuously enhanced our portfolio's brand equity, with a focus on Global Flagship Brands, and invested in Reduced-Risk Products (RRP) to expand sales.*

*“Since I assumed office as the CEO of the Group, we have made progress in several areas to strengthen our global competitiveness and business foundation, including the formation of global teams for our R&D and RRP functions as well as transforming the operating and organizational structures in the international tobacco business.*

*“Today's announcement is an acceleration of our transformation and will elevate the JT Group to the next level. We are consolidating the organizations of the international and Japanese-domestic tobacco businesses to enable us to fully leverage our company-wide resources and clearly prioritize business investments globally. I am confident that this organizational structure will efficiently and effectively deliver products and services, exceeding consumer expectations. We believe this new model is essential to strengthen our worldwide competitiveness, especially in the RRP category, enabling us to deliver sustainable profit growth in the mid- to long-term.*

*“The RRP category in Japan is the most mature and competitive in the world, so maximizing the value offered to our consumers by strengthening our competitiveness is a clear priority. In reflection to this and the decline of the sales volume in recent years as well as a highly uncertain operating environment, we had to take some difficult yet necessary decisions.”*

Rapid changes in the tobacco industry include perception of smoking and health, heightened tobacco regulations and tax reforms in various countries, increasingly diverse consumer preferences and expansion as well as intense competition in product development in the RRP category. Having closely reviewed the business environment from a long-term perspective, JTG concluded that a revision of its strategic focus in its tobacco business is necessary. The Group's objective going forward is to operate with a stronger consumer-centric mindset and prioritize investments in heated tobacco sticks in the RRP category while maintaining necessary investments towards combustible products. The combination of the two tobacco businesses will enable efficient and effective deployment of resources within the Group.

## **Overview of the initiatives**

### **Consolidate the existing tobacco businesses into one tobacco business**

- Objectives:
  - Strengthen the competitiveness in the growing RRP category by leveraging global resources
  - Simplify the organization structure to improve speed in decision-making while building an effective and efficient organization structure
  - Maximize the value offered to consumers through timely resource allocation in a prioritized manner, from a global perspective
  - Unify the tobacco business operations further into one team to proactively offer a portfolio of products and services to anticipate the needs of individual markets
  - Share and deploy best practices on a global basis to accelerate the learnings across different categories and markets
  
- Actions:
  - Consolidate the headquarter functions of the tobacco business, including the Japan market, currently in Tokyo into the existing headquarters of the international tobacco business in Geneva
    - Strategy development functions, performance management functions and decision-making processes for the tobacco business will be consolidated
  - Operate the Japanese market as a key market in a new unified tobacco business
  - Consolidate the reporting lines of supply chain functions of the global tobacco business (manufacturing, leaf procurement, quality assurance, etc.) following the successful consolidation of the R&D functions

The consolidation of the tobacco businesses is scheduled for January 2022.

### **Strengthen the competitiveness in the Japanese market**

- Objective:
  - Establish an organizational structure to enhance consumer satisfaction
  
- Actions:
  - Reform the Japanese Market Head-office and sales organization to address the changes in the operating environment, diverse consumer needs in a prompt and effective manner
    - Reform the Japan Market Head-office in January 2022 to further strengthen the marketing and sales function
    - Reform the sales organizational structure to further promote sales activities to address consumer needs in each of the regions, from April 2022:
      - ◇ Restructure the sales organization from 3-tier structure (Market HQ - Regional sales office - branch) to 2-tier structure (Market HQ - New sales office)
      - ◇ Migrate from a system of 15 regional sales offices and 145 branches to a new system of 47 new sales offices

### **Redefine the organizational structure in the Japanese market to correspond to the operating environment**

- Objective:
  - Ensure competitiveness and adjust the operating model to meet domestic sales volumes
  
- Actions:
  - JT measures
    - Optimization of workforce reflecting the reorganization of the sales operations and optimization of administrative tasks from April 2022

- JT Kyushu Tobacco Factory (Chikushino city, Fukuoka) will be closed at the end of March 2022
- Optimize Leaf procurement footprint
  - ◇ Integrate Chu-Shikoku Leaf Tobacco Branch (Takamatsu city, Kagawa) and Minami-Kyushu Leaf Tobacco Branch (Miyakonojo city, Miyazaki) into the West Japan Leaf Services Headquarters (Koshi city, Kumamoto) from April 2022
- Group subsidiary measures
  - Filter factory Closure
    - ◇ Japan Filter Technology Co., Ltd. (JFT) Tagawa Factory (Tagawa city, Fukuoka) will be closed at the end of March 2022
  - Liquidation of JT Engineering Inc.
    - ◇ Tobacco related functions will be consolidated into JT from April 2023. JT Engineering Inc. is expected to be liquidated after termination of System Integration services and external business services

### Optimization of JT workforce

- Objective:
  - Optimization of workforce in line with the initiatives to strengthen competitiveness and redefine the organizational structure in the Japanese market
- Actions:
  - Offer voluntary retirement program and seek retirement of about 1,000 employees
  - Remove field partner organizational structure (part-timers who support the sales activities); as a result, early retirement packages will be offered to about 1,600 field partners
  - Offer voluntary retirement program and seek retirement of about 150 senior employees (contractors or part-timers who are reemployed after their retirement)
  - The above voluntary retirement and field partner organization restructuring measures are expected to be completed at the end of March 2022

In addition, early retirement package will be offered to certain employees of the group companies, following the closure of JT Kyushu and JFT Tagawa factories.

Relevant aspects of the above measures will be discussed with the labor union from today onward.

### Financial impact

The cost associated with these initiatives is expected to be about JPY 37 billion and has been factored into the 2021 earnings forecasts announced today.

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*Japan Tobacco Inc. is a leading international tobacco company with operations in more than 130 countries. With approximately 62,000 employees, it manufactures and sells some of the world's best-known brands including Winston, Camel, MEVIUS and LD. The JT Group is committed to investing in Reduced-Risk Products (RRP) and currently markets its tobacco vapor products under the Ploom brand and various e-cigarette products under its Logic brand. The Group is also present in the pharmaceutical and processed food businesses. For more information, visit <https://www.jt.com/>.*

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(Appendix)

**Organizational Structure in the Japanese Market (Effective April 1, 2022)**

One sales office will be setup for each prefecture.

New sales office	Current sales office
Hokkaido branch	Hokkaido branch
Aomori branch	Tohoku branch
Iwate branch	
Miyagi branch	
Akita branch	
Yamagata branch	
Fukushima branch	
Tochigi branch	
Saitama branch	
Gunma branch	Joshinetsu branch
Niigata branch	
Nagano branch	
Ibaraki branch	Higashi Kanto branch
Chiba branch	
Tokyo branch	Tokyo branch
Yamanashi branch	
Kanagawa branch	Kanagawa branch
Gifu branch	Tokai branch
Shizuoka branch	
Aichi branch	
Mie branch	
Toyama branch	
Ishikawa branch	Hokuriku branch
Fukui branch	

New sales office	Current sales office
Shiga branch	Kita Kansai branch
Kyoto branch	
Hyogo branch	
Osaka branch	Osaka branch
Nara branch	
Wakayama branch	Chugoku branch
Tottori branch	
Shimane branch	
Okayama branch	
Hiroshima branch	
Yamaguchi branch	Shikoku branch
Tokushima branch	
Kagawa branch	
Ehime branch	
Kochi branch	Kyushu branch
Fukuoka branch	
Saga branch	
Nagasaki branch	
Kumamoto branch	
Oita branch	
Okinawa branch	
Miyazaki branch	Minami Kyushu branch
Kagoshima branch	

## **Overview of factories and offices planned for closure**

### **Kyushu Factory Overview**

Name	JT Kyushu Factory
Address	2-1-1 Kamikoga, Chikushino city, Fukuoka
Commencement of operations	March 1986 (Started operations as JT Kita Kyushu Factory)
Plant Manager	Tetsuya Shiga
Annual production volume	8.7 BNU (as of 2020)
Major Manufacturing Brands	Seven star, Natural American Spirit, Ploom S Tobacco sticks, etc.
Plant site area	165,886 Sq. m
Number of employees	231 (as of December 2020)

### **Chu-Shikoku Leaf Tobacco Branch Overview**

Name	JT Chu-Shikoku Leaf Tobacco Branch
Address	3-8-86, Asahi-cho, Takamatsu city, Kagawa
Operations start date	April 1985 (started operations as Shikoku Branch)
Regional president	Tetsuya Terada
Main Functions	Procurement of leaf tobacco
Number of employees	14 (as of December 2020)

### **Minami Kyushu Leaf Tobacco Branch Overview**

Name	JT Minami-Kyushu Leaf Tobacco Branch
Address	4836-15 Sencho, Miyakonojo city, Miyazaki
Operations start date	April 1985 (started operation as Kagoshima Branch Office)
Regional president	Kiyotaka Ogawa
Main Functions	Procurement of leaf tobacco
Number of employees	17 (as of December 2020)

### **Japan Filter Technology, Co., Ltd. Tagawa Factory Overview**

Name	Japan Filter Technology, Co., Ltd. Tagawa Factory
Address	467-1 Oza Sumiyoshi, Tagawa city, Fukuoka
Operations start date	April 1964 (Started operations as Kyushu Filter Technology Co., Ltd.)
Plant Manager	Kazuhiko Oya
Main products	Cigarette filter plugs
Plant site area	30,336 Sq. m.
Number of employees	183 (as of December 2020)

### **JT Engineering Inc. , Overview**

Name	JT Engineering Inc.
Address	1-17-7 Yokogawa, Sumida-ku, Tokyo
Operations start date	October 1987
Plant Manager	Kazuo Hayashi
Business Activities	Technology development and design related to production facilities and utility facilities, construction subcontracting and maintenance of various construction, development and sales of information processing software, etc.
Number of employees	340 (as of December 2020)