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FOR IMMEDIATE RELEASE

Tokyo, April 25, 2013

Concerning JT's view on proposals by a shareholder

Japan Tobacco Inc. (JT) (TSE: 2914) has today announced the Board of Directors' resolution on submitting a shareholder's proposals concerning exercising the shareholder's rights to the 28th Ordinary General Meeting for Shareholders and opposing the proposals, following verification that the proposals stated below fulfilled legal requirements.

1. **Proposer**
   THE CHILDREN'S INVESTMENT MASTER FUND

2. **Shareholder's proposals and the Board of Directors' view**

The Board of Directors' general view on the shareholder's proposal

The Board of Directors is opposed to all four proposals from the proposing shareholder.

The Board of Directors believes that it will be in the best interests of all shareholders to achieve sustainable profit growth in the mid- to long-term through business investments for future profit growth and to increase the company's value thereby.

The proposing shareholder has made substantially the same proposals as those that were rejected at the General Shareholders' Meeting last year. Those proposals are, in summary, related to a return to shareholders and cancellation of treasury shares. Regarding the proposal for return to shareholders, the significantly high amount of the proposed return far exceeds the amount of cash flow generated by the business and would require the company to make additional financial borrowing from a third party. Regarding the proposal for cancellation of treasury shares, this would impose constraints on the flexibility of the company's capital strategy. Thus, in the event that these shareholder proposals were approved, it would become an obstacle to making business investments for future profit growth and increasing the company's value through sustainable profit growth in the mid- to long-term.

The company has a track record to achieve sustainable profit growth through business investments, most notably by two large scale business acquisitions. In addition to such profit growth, the company has steadily improved the return to shareholders by a stable and continuous increase of the consolidated dividend payout ratio and a consistent growth of the amount of dividend per share.

Furthermore, given a legal restriction on the issuance of new shares under the relevant provisions of the Japan Tobacco, Inc. Act ("JT Act"), the use of treasury shares is intended to be an important capital strategy as a substitute for the issuance of new shares in the company. Therefore, the Board of Directors believes that decisions on capital strategy including cancellation of treasury shares should be entrusted to the Board of Directors. This will ensure flexibility responding to changing business environment and then the increase of the company's value through sustainable profit growth in the mid- to long-term.

The Board of Directors recommends all shareholders of the company to oppose all of these shareholder's proposals.

The following are the agenda and reasons for the four proposals made by the shareholder which are stated as presented, together with the Board of Directors' view on each of them.

Shareholder Proposal

Agenda #1: Dividend Proposal

(Agenda)

The year-end dividends on shares of Common Stock for the 28th fiscal year shall be paid in the amount of JPY120 per share of Common Stock.

(Reason for Proposal)

The Company has sufficient cash and retained earnings to pay a higher dividend. The Company has on average returned 30% of its earnings to shareholders as dividends and share buybacks in the last three years which is a substantially lower dividend payout ratio compared to its international competitors. Over the same period the Company's competitors, British American Tobacco and Philip Morris International respectively returned on average 80% and 120% of their earnings to shareholders.

The Board of Directors' view on Agenda #1

The Board of Directors is opposed to this proposal.

The Board of Directors has prioritized business investments for sustainable profit growth in the mid- to long-term, while at thte same time pursuing a competitive level of return to shareholders compared to the global FMCG players. (*1)

The company has achieved an average annual EBITDA growth rate of 5.9% during the fiscal years 2000 to 2012 through business investments which include the acquisitions of RJR International and Gallaher. In the International Tobacco business that we have focused on in particular so far, the company has achieved an average annual US dollar based EBITDA growth rate of 24% (*2) during the period.

In addition to profit growth, the company has increased the consolidated dividend payout ratio. The amount of dividend per share has been increased by an average of 26% per year during the past five years. The company has therefore steadily increased the amount of return to shareholders.

In the Business Plan announced in April 2012, the Board of Directors set out a target rate for the adjusted EBITDA growth rate(*3) (at constant rates of exchange) of 5.2% and a consolidated dividend payout ratio of 35.9% in the fiscal year 2012. In fact, the company has achieved an adjusted EBITDA growth rate (at constant rates of exchange) of 15.1%, far exceeding the target rate. Further, the consolidated dividend payout ratio will be 37.6%, if the company's proposed dividend is approved by this General Shareholders Meeting.

The total return ratio in the fiscal year 2012 will be 109.5%, taking into consideration the company's share buy-back of approximately 250 billion yen in conjunction with the 4th offering of shares by the government in February 2013, for the purpose of mitigating the market impact.

In the meantime, in the event that the shareholder's proposal for return were approved, the total amount of annual dividend per share in the fiscal year 2012 would be 150 yen (including interim dividend), which amounts to a consolidated dividend payout ratio of 82.8% and a total return ratio of 152.9% taking into consideration the company's share buy-back of 250 billion yen.

The Board of Directors believes that the significantly high return as stated in the

proposal, which far exceeds the amount of cash flow generated by the business and would require the company to make additional financial borrowing from a third party, is short-term focused, and would become an obstacle to making business investments for future profit growth, loss of business competitiveness and decrease of the company's value in the mid- to long term.

In the Business Plan 2013 announced today, the Board of Directors set out the target rate of the consolidated dividend payout ratio of 40% for the fiscal year 2013, and also the ratio of 50% for the fiscal year 2015, and expects the amount of dividend per share for the fiscal year 2013 will be 92 yen (up 35.3% from the previous year, consolidated dividend payout ratio of 40.3%).

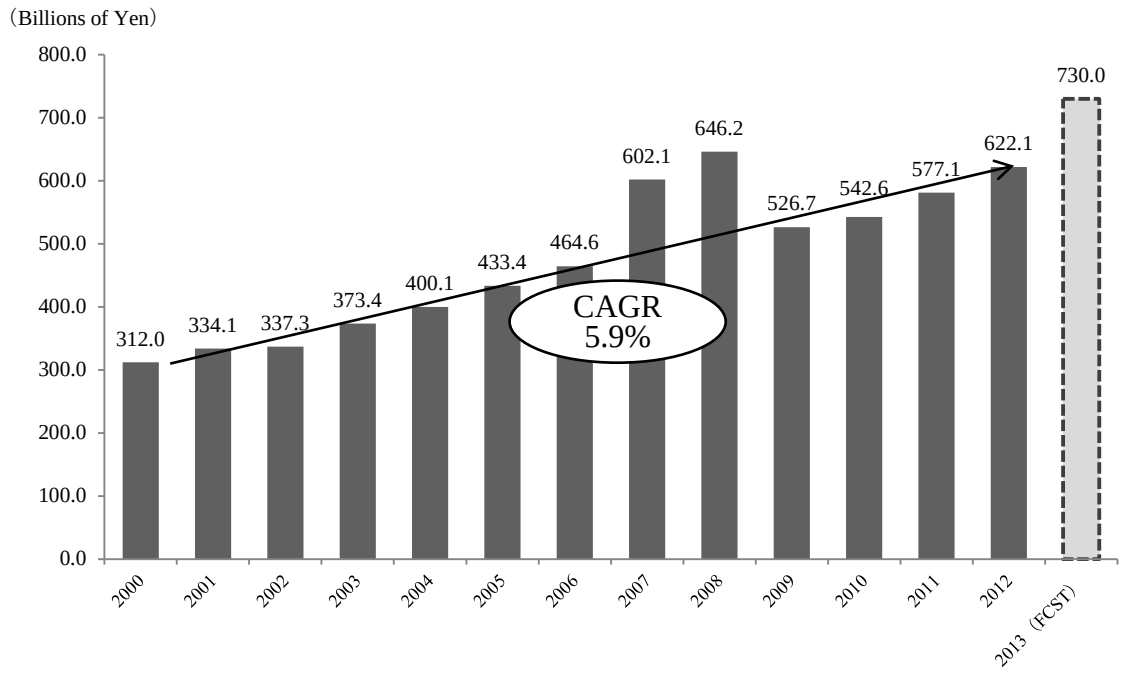
*1 FMCG: Fast Moving Consumer Goods

*2 2000-2009: Based on US-GAAP, 2010-2012: IFRS basis

*3 Adjusted EBITDA = Operating profit + depreciation and amortization ± adjustment items (income and costs)

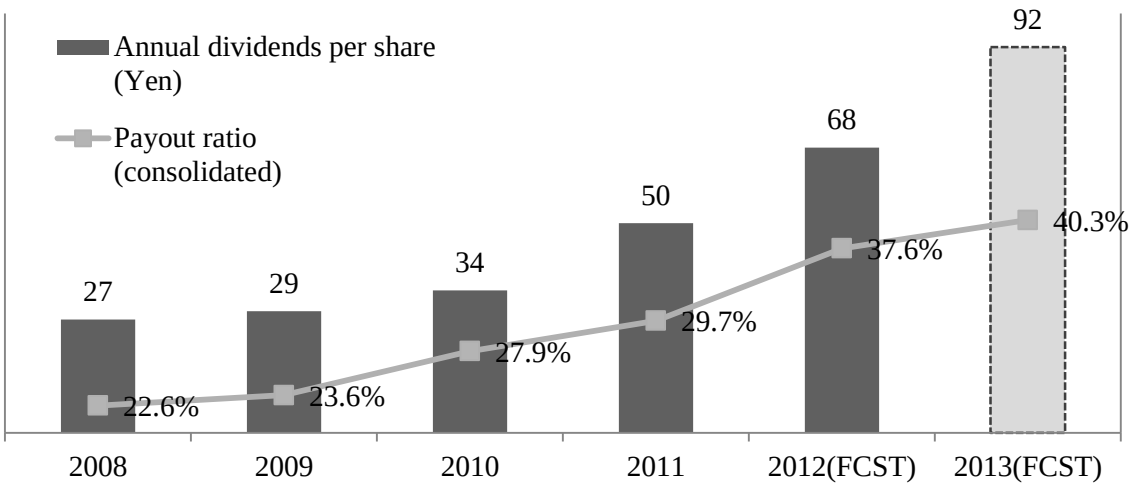
Adjustment items (income and costs): Impairment losses on goodwill ± restructuring income and costs ± others

Reference: Adjusted EBITDA Growth



*4 FY2000-FY2010: Based on J-GAPP, FY2011- : Adjusted EBITDA (IFRS basis)

Reference: Dividend Payment per share and consolidated dividend payout ratio



*5 A 200 for 1 share split was effectuated as of July 1, 2012. The above numbers are calculated on the assumption that the share split was retroactively effective.

*6 Consolidated dividend payout ratio for FY2010 and prior fiscal years are calculated in JGAAP based on earning before goodwill amortization. FY2011 and fiscal years thereafter are calculated in IFRS.

<u>Shareholder Proposal</u>

Agenda #2: Share Buy-back

(Agenda)

Pursuant to Article 156.1 of the Companies Act, the Company will acquire its shares of Common Stock in exchange for cash as follows:

- Shares to be acquired:100,000,000;
- Maximum aggregate amount of consideration: JPY350,000,000,000 (the "Proposed Amount"); provided that, if the aggregate amount for acquisition as permitted under the Companies Act (the "Distributable Amount" as set forth in Article 461 of the Companies Act) is less than the Proposed Amount, it shall be reduced to such amount as permitted under the Companies Act; and
- Period for the acquisition: Within 1 year from the end of this Ordinary General Meeting for Shareholders

(Reason for Proposal)

The capital structure of the Company is underleveraged and the shares are undervalued. The Company should use its cash resources to buy back shares and then to raise its dividend payout in line with its international peers. This will ensure the Board delivers on its pledge to prioritise the return of profits to shareholders and to deliver a competitive shareholder return.

The Board of Directors' view on Agenda #2

The Board of Directors is opposed to this proposal.

The Board of Directors has prioritized business investments for sustainable profit growth in the mid- to long-term, and is also pursuing a competitive level of return to shareholders compared to the global FMCG players.

In order to implement the share buy-back of 350 billion yen as stated in the Proposer's proposal, the company would be required to make additional financial borrowing from a third party. The Board of Directors believes that the significantly high return as stated in the proposal, which far exceeds the amount of cash flow generated by the business is short-term focused and would become an obstacle to making business investments for future profit growth, to loss of business competitiveness and to decrease of the company's value in the mid- to long-term.

Regarding possible future share buy-backs, the Board of Directors will determine this in a timely and appropriate manner in accordance with business environment from the perspective of properly managing the adjusted EPS(*7) growth rate that we set as the key performance indicator regarding return to shareholders.

*7 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): Impairment losses on goodwill ± restructuring income and costs ± others

Shareholder Proposal

Agenda #3: Partial Amendment to the Articles of Incorporation

(Agenda)

The following new provision will be added as Article 19.2 in Chapter 3 "General Meeting for Shareholders" of the Articles of Incorporation:

Article 19.2 The general meeting for shareholders can resolve the matters in respect of cancellation of treasury shares including the class and the number of shares to be cancelled, in addition to the matters set forth in the Companies Act.

(Reason for Proposal)

The Company has been holding treasury shares without using them properly or cancelling them. If the treasury shares are to be allocated to the public or particular third parties, the interest of the existing shareholders will be significantly damaged.

In order to protect the interest of the shareholders, the general meeting for shareholders should have the authority to resolve matters in respect of cancellation of treasury shares by its resolution.

The Board of Directors' view on Agenda #3

The Board of Directors is opposed to this proposal.

Under the JT Act, the company has a legal restriction on the issuance of new shares pursuant to the provision that requires the approval of the Minister of Finance and the provision that prescribes the obligation of the government to hold one-third or more of the total number of the issued shares of the company. (*8) (*9)

Treasury shares can be utilized in a capital strategy as a substitute for the issuance of new shares. The Board of Directors believes that, considering the legal restriction of the company as stated above, it is important to maintain the flexibility of the company in utilizing treasury shares, rather than cancelling all of them.

The Board of Directors intends to use treasury shares if it determines that the company can realize profit growth over the medium and long term and it will be in the best interests of all shareholders.

The Board of Directors believes that decisions on capital strategy including cancellation of treasury shares should be entrusted to the Board of Directors, and that this will facilitate flexible operations in accordance with changing business environment and then to the increase of company's value through sustainable profit growth in the mid- to long-term.

*8 The number of the votes to which the shareholders who may not exercise their votes on certain matters. The total number of the issued shares is calculated without the number of shares for which it is provided that the voting rights may not be exercised in connection with all matters to be resolved at the shareholder's meeting.

*9 The percentage held by the Minister of Finance is 33.35% as of March 31, 2013.

Shareholder Proposal

Agenda #4: Cancellation of all existing Treasury Shares

(Agenda)

Based on the amendment of the Articles of Incorporation in Agenda No. 3, we propose the following:

All the treasury shares owned by the Company shall be cancelled.

(Reason for Proposal)

The Company has no need to hold shares in treasury. Cancelling shares also ensures that the benefits of repurchasing shares are fully obtained. If the treasury shares are to be allocated to the public or particular third parties, the interest of the existing shareholders will be significantly damaged.

The Board of Directors' view on Agenda #4

The Board of Directors is opposed to this proposal.

As stated in our view on the Agenda #3 above, the company has a legal restriction on the issuance of new shares under the relevant provisions of the JT Act. The Board of Directors believes that it is important to maintain the flexibility of the company in utilizing treasury shares as a substitute for the issuance of new shares, rather than cancelling all of them.

Therefore, at this time, the Board of Directors will not consider cancelling all of the treasury shares, by which the company's flexible capital strategy would be limited.

The figures concerning return to shareholders such as the consolidated dividend payout ratio, EPS, and etc. is calculated excluding the treasury shares in accordance with accounting standards, and whether the company cancels the treasury shares will not affect these figures used as an index showing the level of return to shareholders.

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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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