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FOR IMMEDIATE RELEASE

Tokyo, April 24, 2014

Concerning JT's View on Proposals by a Shareholder

Japan Tobacco In. (JT) (TSE: 2914) has today announced that its Board of Directors has resolved to oppose the proposals stated below that will be submitted to the 29th Ordinary General Meeting for Shareholders, following verification that the proposals, which concern the exercise of the shareholder's rights to the 29th Ordinary General Meeting for Shareholders, 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 proposals

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

The Board of Directors believes that it is 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 regarding the return to shareholders and cancellation of treasury shares as those that were rejected at the General Meeting for Shareholders in the last two years. In addition, the proposing shareholder has proposed an amendment to the Articles of Incorporation for the purpose of the more active use of stock options.

The proposed cash return to shareholders is against the Company's management principle, as the proposal is based on the premise that a return to shareholders should be a priority. In addition, it is focused on the short-term, as it significantly exceeds the amount of cash flow generated by the business and would require the Company to engage in additional financial

borrowing from a third party. 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.

Furthermore, given a legal restriction on the issuance of new shares under the relevant provisions of the Japan Tobacco, Inc. Act ("JT Act"), the Company believes that it is important to maintain flexibility to use treasury shares as a substitute for the issuance of new shares and to ensure the flexibility of operations, rather than cancelling all of the treasury shares. 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 adaptability and flexibility to respond to a changing operating environment, and will lead to an increase in the Company's value through sustainable profit growth in the mid- to long-term.

In addition, the remuneration of the Company's Directors and Executive Officers, including stock options granted to them as remuneration, is determined through an appropriate process, and the Board of Directors believes that the remuneration is set at an appropriate level. It is deliberated on by the Remuneration Advisory Committee—which is comprised of the Chairman of the Board and four (4) independent Directors and Corporate Auditors— by benchmarking the remuneration level of a group of major Japanese manufacturers of similar size and profit level conducting business overseas. As shown by the Company's steady and continuous profit growth, the remuneration system for the Company's Executives, including stock options, has worked well as an incentive for improving the Company's value in the mid- to long-term.

Further still, the proposal regarding the stock option plan is inappropriate since it may affect such capital strategy as the issuance of new shares for the purpose of financing, beyond the directors' remuneration.

Therefore, the Board of Directors believes that decisions on the remuneration policy for the Company's Executives should be entrusted to the Board of Directors.

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

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

Shareholder Proposal

Agenda #1: Dividend Proposal

(Agenda)

The year-end dividends on shares of Common Stock for the 29th fiscal year shall be paid in the amount of JPY150 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 31% of its earnings to shareholders as dividends in the last three years which is a substantially lower dividend payout ratio compared to its international competitors. The Company's competitors, British American Tobacco and Philip Morris International, pay 65% of their earnings to shareholders while their net debt to EBITDA ratio is approximately 1.5x. The Company will have sufficient net cash this year to afford a dividend payout ratio which is HIGHER than its competitors.

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 the same time pursuing a competitive level of return to shareholders in comparison to global FMCG players. (*1)

The Company has achieved a compound annual EBITDA growth rate of 7.0% during the fiscal years 2000 to 2013 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 a compound annual US dollar based EBITDA growth rate of 22.3% (*2) during the period.

In the Business Plan announced in April 2013, the Board of Directors set out a target rate for the adjusted EBITDA growth rate (*3) (at constant FX) of 6.1% and a consolidated dividend payout ratio of 40% in the fiscal year 2013. The Company has achieved an adjusted EBITDA growth rate (at constant FX) of 7.5%, far exceeding the target rate. The Board of Directors considers it appropriate to continue such profit growth through business investments.

Further, the Company has steadily enhanced the amount of return to shareholders with a compound annual growth rate of 28.9% in dividend per share during the past five years through profit growth and a continuous increase in the dividend payout ratio.

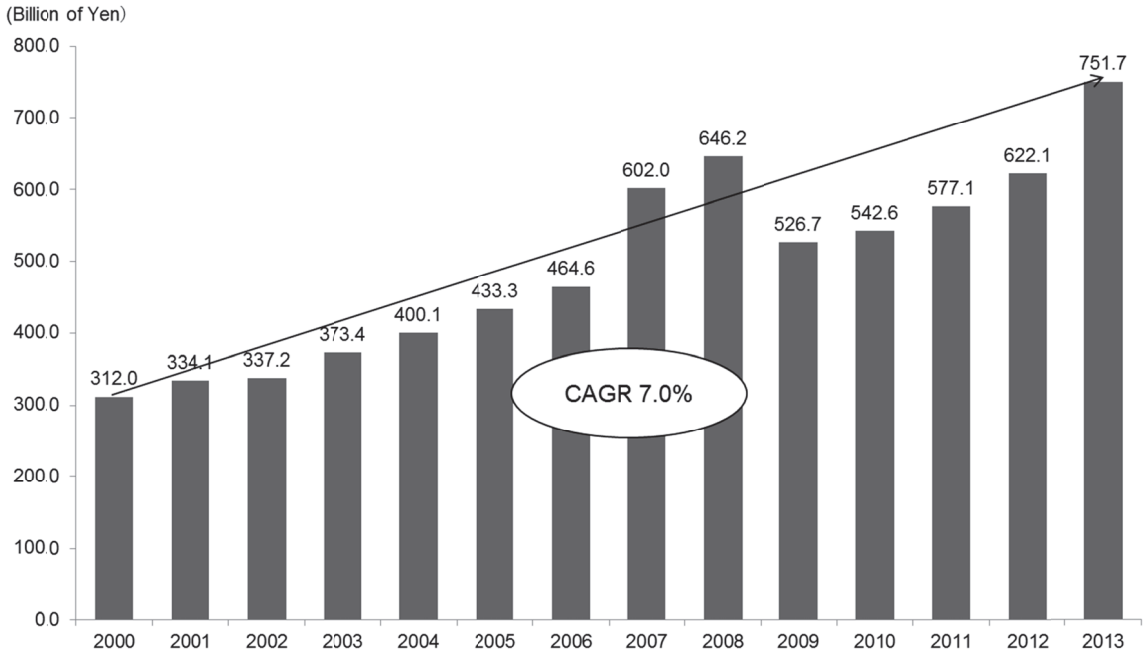
The dividend per share at the end of the fiscal year 2013 is expected to be ¥50 according to the Company's proposal for dividend of surplus to be submitted at the Ordinary General Meeting for Shareholders. As a result, a total dividend per share for the fiscal year is expected to be ¥96, and a consolidated dividend payout ratio is expected to be 40.8%, which exceeds 40% as the target rate set forth in the Business Plan announced in April 2013.

In the Business Plan 2014 announced today, the Board of Directors expects the amount of dividend per share for the fiscal year 2014 to be 100 yen, increasing the dividend per share from the fiscal year 2013, while the fiscal year 2014 is a transitional period covering only 9 months from April to December 2014. The target rate for the consolidated dividend payout ratio has been set out at 50% for the fiscal year 2015 (from January to December 2015), which is comparable to other global FMCG players in terms of an annual consolidated dividend payout ratio. The Company continues to steadily enhance the amount of return to shareholders.

In the meantime, in the event that the shareholder's proposal for return were approved, the total amount of the annual dividend per share in the fiscal year 2013 would be ¥196 (including the interim dividend), which amounts to a total dividend of ¥356.2 billion, or a consolidated dividend payout ratio of 83.2%. At the end of the fiscal year 2013, the amount of the Company's net debt, which is calculated by subtracting cash and cash equivalents from debt with interest, was ¥122.7 billion. Taking the unstable circumstances of capital markets into consideration, the Board of Directors believes that the significantly high return as stated in the proposal, which would require the Company to engage in additional financial borrowing from a third party, is short-term focused harming financial stability and flexibility, and would restrict business investments for future profit growth, resulting in loss of business competitiveness and a decrease in the Company's value in the mid- to long-term.

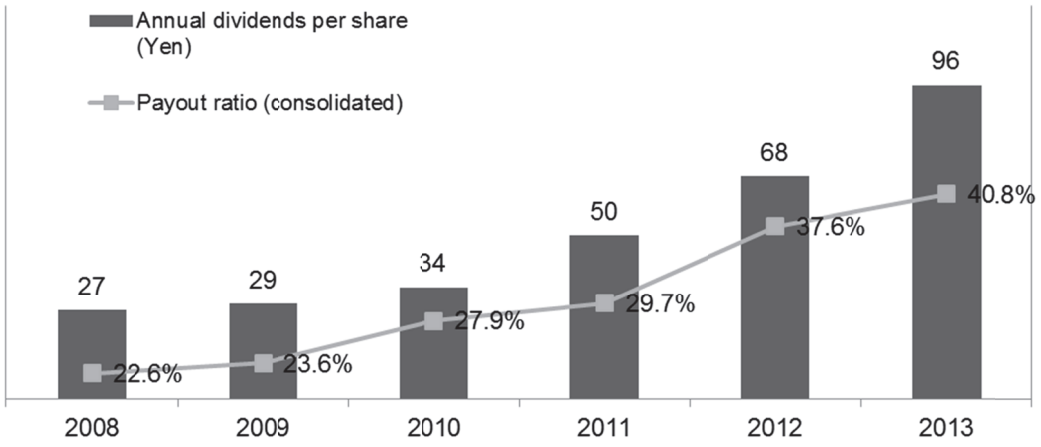
*1 FMCG: Fast Moving Consumer Goods
*2 2000-2009: Based on US-GAAP, 2010-2013: IFRS basis
*3 Adjusted EBITDA = Operating profit + depreciation and amortization ± adjustment items (income and costs)
Adjustment items (income and costs): Impairment losses on goodwill ± restructuring income and costs ± others

Reference: Adjusted EBITDA growth



*4 FY2000-FY2010: EBITDA (J-GAPP basis), 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.

Shareholder Proposal

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: 200,000,000;

• Maximum aggregate amount of consideration: JPY800,000,000,000 (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 prioritize the return of profits to shareholders and to deliver a competitive shareholder return with balance sheet leverage closer to its competitors.

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 in comparison to global FMCG players.

Considering that the amount of the Company's net debt at the end of the fiscal year 2013 was ¥122.7 billion, and the average amount of free cash flow per annum over the last three years was over ¥320.0 billion, the Company would be required to engage in additional financial borrowing of the same amount from a third party in order to implement the share buy-back of ¥800 billion as stated in the proposal. The proposal, which far exceeds the amount of cash flow generated by the business, is short-term focused harming financial stability and flexibility, and would become an obstacle to making business investments for future profit growth, resulting in loss of business competitiveness and a decrease in the Company's value in the mid- to long-term.

Regarding possible future share repurchases, the Board of Directors will determine this in a timely and appropriate manner in accordance with the operating environment from the perspective of properly managing the adjusted EPS (*7) growth rate that is set as the key performance indicator relating to 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 stipulates 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 on the Company as stated above, it is important to maintain flexibility to use treasury shares and to ensure the flexibility of operations, rather than cancelling all of the treasury shares.

The Board of Directors intends to use treasury shares if it determines that the Company can realize profit growth in the mid- to 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 a changing operating environment, leading to an increase of the Company's value through sustainable profit growth in the mid- to long-term.

*8 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, 2014.

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 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 flexibility to use treasury shares as a substitute for the issuance of new shares and to ensure the flexibility of operations, rather than cancelling all of the treasury shares.

Therefore, at this time, the Board of Directors will not consider cancelling all of the treasury shares, since it would limit the Company's flexible capital strategy.

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

Shareholder Proposal

Agenda #5: Partial Amendment to the Articles of Incorporation

(Agenda)

The following new provision will be added as Article 19.3 in Chapter 3 "Shareholders' Meeting" of the Articles of Incorporation:

> Article 19.3 The shareholders' meeting can resolve the matters in respect of share warrants including issuance and allocation of the share warrants, in addition to the matters set forth in the Companies Act of Japan.

(Reason of Proposal)

The Company should use the stock option plan more actively, in order to align the Directors and Executive Officers with shareholders and to attract and retain key management talent and incentivize the attainment of corporate targets medium and long term. At this point in time the Company's stock option plan is insignificant compared to British American Tobacco and Philip Morris International. Stock options granted to 7 directors and 17 executive officers at the Company totaled less than JPY300mn last year which compares poorly with BAT where the top 3 executive directors received around £5mn (approx. JPY 865 million) in performance related pay in 2012 and over $40mn (approx. JPY 4 billion) at PMI. In order to facilitate the active use of the stock option plan, the Articles of Incorporation should be amended so that the shareholders can resolve the matters, such as making awards of stock options under the existing stock option scheme, adopting additional long term management incentive plans and making awards under such long term management incentive plans.

The Board of Directors' view on Agenda #5

The Board of Directors is opposed to this proposal.

The remuneration of the Company's Directors and Executive Officers, including stock options granted to them as remuneration, is determined through an appropriate process, and the Board of Directors believes that the remuneration is set at an appropriate level. It is deliberated on by the Remuneration Advisory Committee—which is comprised of the Chairman of the Board, two (2) independent outside Directors, and two (2) independent outside Corporate Auditors—by benchmarking the remuneration level of a group of major Japanese manufacturers of similar size and profit level conducting business overseas. In addition, as shown by the results of the Company's steady and continuous profit growth, the remuneration system and its level for the Company's Executives, including stock options, has worked well to secure excellent human resources, and as an incentive for improving the Company's value in the mid- to long-term.

On the other hand, a plan involving such a significantly high amount of stock options as proposed is likely to encourage the pursuit of short-term profit, resulting in a loss of competitiveness in the mid- to long-term.

The proposal is aimed at broadening the Company's stock option plan to a great extent by comparing it to those of competitors in Europe and the United States. The content of the proposal itself will, however, also affect such capital strategy as the issuance of new shares for the purpose of financing, beyond the issuance of share warrants used as a stock option plan, and therefore it is inappropriate.

Therefore, the Board of Directors believes that decisions on the remuneration system for the Company's Executives including stock options should be entrusted to the Board of Directors.

[Reference: Process of determining the remuneration for the Company's Executives]

The Company has established a Remuneration Advisory Committee consisting of five (5) members, the Chairman of the Board, two (2) independent outside Directors, and two (2) independent outside Corporate Auditors. It is a voluntary advisory committee for the Board of Directors in order to enhance the objectivity and transparency of the remuneration system for the Company's Executives including the stock option plan. With respect to the policy, system, and calculation method of the remuneration of Directors and Executive Officers, the Remuneration Advisory Committee responds to requests for advice, deliberates and

provides recommendations, and monitors the status of remuneration for the Company's Executives.

Based on the recommendations of the Remuneration Advisory Committee, the basic concepts for remuneration for the Company's Executives are as follows:

- It shall be at an adequate level to secure excellent human resources;
- It shall be linked to performance as a motive to achieve targets;
- It shall be linked to the corporate value in the mid- to long-term; and
- It shall be objectively determined based on a quantitative framework resulting in transparency.

Based on these concepts, the remuneration for the Company's Executives is comprised of three (3) components: (i) monthly “base remuneration”; (ii) “executive bonus” reflecting the performance on a single-year basis; and (iii) stock options as remuneration which are linked to the corporate value in the mid- to long-term.(*)

When setting the level of the remuneration for the Company's Executives, the Remuneration Advisory Committee takes into account independent research concerning the remuneration of corporate management and by benchmarking the remuneration level of a group of major Japanese manufacturers of similar size and profit level conducting business overseas. Based on the opinions of the Remuneration Advisory Committee, to the extent of the upper limit of remuneration resolved at the 22nd General Shareholders Meeting in June 2007 (the aggregate amount for all directors is limited to 870,000,000 JPY per year, and to 190,000,000 JPY per year for all auditors; the maximum amount of stock options as compensation is limited to 800 options and 200,000,000 JPY per year), the remuneration for Directors and Executive Officers is determined by resolution of the Board of Directors, and that for Corporate Auditors is determined by consultation with the Corporate Auditors.

*Stock options as remuneration of the Company provide share warrants which are linked to the share price as a part of the remuneration, instead of paying it all in cash. The stock option as remuneration is different from simple stock options (the right to purchase shares at a pre-determined price), and works as an incentive to improve the corporate value in the mid- to long-term.

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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 and Benson & Hedges. With diversified operations, JT is also actively present in pharmaceuticals, beverages and processed foods. The company's revenue was ¥2.399 trillion (US$23,318 million(*)) in the fiscal year ended March 31, 2014.

**Translated at the rate of ¥102.92 per $1, as of March 31, 2014*

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