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FOR IMMEDIATE RELEASE

Tokyo, February 5, 2015

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 30th Ordinary General Meeting for Shareholders, following verification that the proposals, which concern the exercise of the shareholder's rights to the 30th Ordinary General Meeting for Shareholders, fulfilled legal requirements.

1. Proposing Shareholder

THE CHILDREN'S INVESTMENT MASTER FUND

2. Shareholder's proposals and the Board of Director's view

The Board of Director's general view on the shareholder's proposals

The Board of Directors is opposed to both two 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.

As well as the proposals that were rejected each time at the General Meeting for Shareholders in the last three years from June 2012, the proposals from the proposing shareholder are based upon the premise that a return to shareholders should be the Company's top priority. However, the proposals are against the Company's management principle, the "4S model"—which balances the interests of consumers, shareholders, employees and wider society, and fulfills the Company's responsibilities towards them, aiming to exceed their expectations.

Further, the proposals from the proposing shareholder are based upon a short-term view that is focused on the premise that the Company should return all free cash flow as of December 31, 2014 to shareholders, without taking into account changes in the business environment in the future and the necessities for future business investments. If the proposals were approved, they would restrict business investments which have led our profit growth so far and become an obstacle to increasing corporate value.

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

The agenda and reasons for the 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 30th fiscal year shall be paid in the amount of JPY150 per share of Common Stock.

(Reason of Proposal)

As long term shareholders we believe that the Company would create more long term value for all shareholders if they would return all Free Cash Flow to shareholders through a higher dividend payout and share buy backs. We estimate that the Company's Free Cash Flow for the year ending 31 December 2014 to be JPY425bn, close to JPY230 per share, which is more than sufficient to pay JPY150 per share. The Company generates insignificant returns on any excess cash that it holds. The Company has no net debt and does not need to invest in new capacity as cigarette volumes are contracting. Future acquisitions and participation in dilution of the Government's stake can be financed by raising debt as the company has sufficient room to increase its leverage.

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 average profit growth rate of 11.7% (*2) (*3) during the fiscal years 2000 to 2014 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 average US dollar based EBITDA (*4) growth rate of 20.1% during the period of 2000 to 2014.

Further, the Company has steadily enhanced the amount of return to shareholders with a compound average growth rate of 24.4% in dividend per share (*5) during the past six years through profit growth and a continuous increase in the dividend payout ratio (*6).

The dividend per share at the end of the fiscal year 2014 (a transitional period covering April to December) 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, the total dividend per share for the fiscal year is expected to be ¥100, which increases the dividend per share from the fiscal year 2013, while the fiscal year 2014 is a transitional period covering only nine months from April to December 2014.

In the Business Plan 2015 announced on February 5, 2015, the Board of Directors expects that dividend per share for the fiscal year 2015 (from January to December 2015) to be ¥108 (consolidated dividend payout ratio: 50.7%), while setting out a target rate for the consolidated dividend payout ratio of 50%, which is comparable to global FMCG players. The Company will continue to provide a steady return to shareholders.

In the meantime, the proposing shareholder argues that "the Company does not need to invest in new capacity as cigarette volumes are contracting." However, for the development of more compelling products that suit the tastes of consumers in each market, the Board of Directors considers it appropriate to maintain investments in the tobacco business, which is the Company's core business, for the following purposes:

- Enhancement of the brand equity, for instance, quality enhancement or the packaging improvement of the Company's products centered on GFB (*7);
- Expansion of geographic footprint and product portfolio including not only conventional cigarettes but also emerging tobacco products.

If the proposing shareholder's proposal for return were approved, the total amount of annual dividend per share in the fiscal year 2014 would be ¥200 (including interim dividend), which amounts to a consolidated dividend payout ratio of 100.2% and total dividend amount of ¥363.5 billion. The Board of Directors believes that the proposal, which is based upon the premise that the Company should return all free cash flow to shareholders, is focused on the short-term and if approved, it would restrict business investments for future sustainable profit growth and become an obstacle to the improvement of corporate value.

*1 FMCG: Fast Moving Consumer Goods

*2 FY2000-FY2009: Operating profit based on J-GAAP, FY2010-FY2012: Operating profit based on IFRS, FY2013-FY2014: Adjusted operating profit based on IFRS
(The Company refers to FY2014 as a full calendar year from January 1 to December 31 due to a change in the accounting period. Also, the Company has come to use Adjusted operating profit as one of its key performance indicators since FY2014.)

*3 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

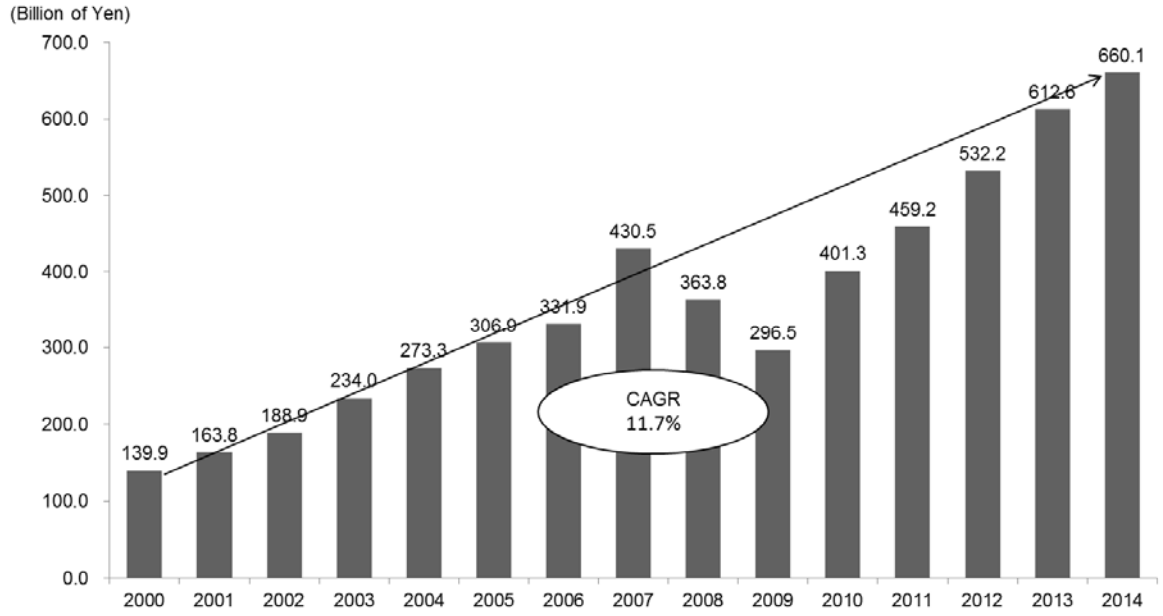
*4 EBITDA = Operating profit + Depreciation and amortization
(2000-2009: EBITDA based on US-GAPP, 2010: EBITDA based on IFRS, 2011-2014: Adjusted EBITDA based on IFRS)

*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.

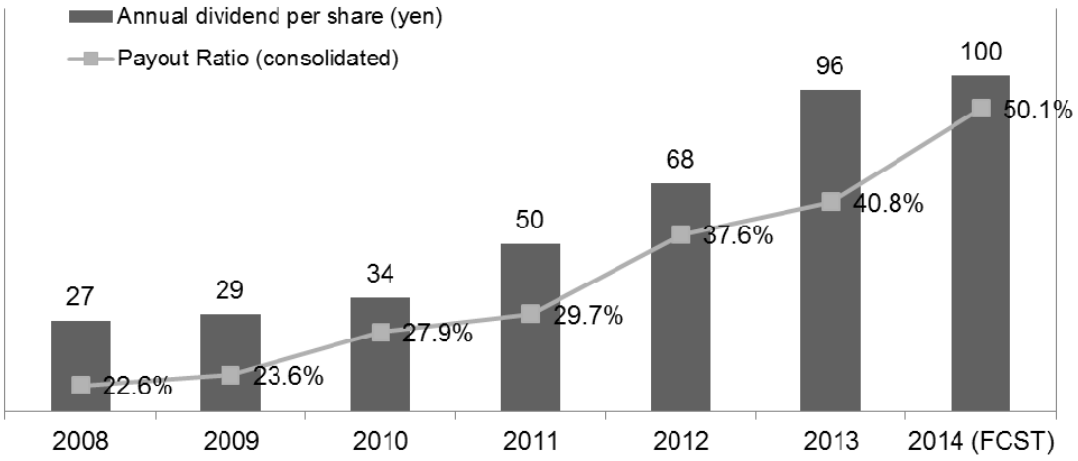
*6 Consolidated dividend payout ratio for FY2010 and prior fiscal years are calculated in J-GAAP based on earning before goodwill amortization. FY2011 and fiscal years thereafter are calculated in IFRS.
(Consolidated dividend payout ratio for FY2014, a transitional period, is based on the nine month period from April 1 to December 31)

*7 GFB: The eight brands that play the central role in the brand portfolio of the Company's group—"Winston," "Camel," "Mevius," "Benson and Hedges," "Silk Cut," "LD," "Sobranie," and "Glamour"

Reference: JT Group's profit growth



Reference: Dividend payment per share and consolidated dividend payout ratio



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: 40,000,000;
- Total aggregate amount for acquisition: JPY150,000,000,000 (the "Proposed Amount"); provided that, if the total 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 general shareholders meeting.

(Reason of Proposal)
The capital structure of the Company is underleveraged and the Shares are undervalued. The Company should use its excess cash resources to buy back shares and to raise its dividend payout. 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. We propose that the Company returns all Free Cash Flow to shareholders in the form of dividends and share buy backs. The Company's measure of Free Cash Flow should be earnings before depreciation, amortization, interest payments and tax, less capital expenditure, less net interest payments and less tax.

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.

The Board of Directors aims for high single digit growth of adjusted EPS (*8) (at constant rates of exchange), which we set as the key performance indicator regarding return to shareholders, in the mid- to long-term and will consider the share buy-back as a supplemental measure for EPS growth.

The Board of Directors believes that it is the best that it will determine the share buy-back, including authorizing a share buy-back and its timing, upon its own responsibility and discretion so that the Company can buy back its shares in a timely and appropriate manner in accordance with necessities for business investments, financial conditions, or others, based upon the Company's business principles and capital strategy. The Company has determined the share buy-back of 36,000,000 shares at a total amount of ¥100,000,000,000 at a maximum as of February 5, 2015.

In the meantime, the proposing shareholder argues in its proposal that "share buy-back 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 Company, however, has announced its strategy to pursue a competitive return to shareholders in comparison to global FMCG players based upon the business principles of the "4S model," aiming at balancing business investments and returns to shareholders.

The proposal is based upon the premise that the Company should return all free cash flow to shareholders, and is short-term focused. If the proposal were approved, it would restrict business investments for future sustainable profit growth and become an obstacle to the improvement of corporate value.

*8 Adjusted EPS = (Profit or loss attributable to owners of the parent company ± Adjusted items (income and costs) ± Tax and minority interests adjustments) / (Weighted-average common shares + Increased number of ordinary shares under subscription rights to shares)
*Adjusted items (income and costs): Impairment losses on goodwill ± Restructuring income and costs ± Others

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Japan Tobacco Inc. is a leading international tobacco company. Its products are sold in over 120 countries and its internationally recognized brands include Winston, Camel, Mevius and LD. With diversified operations, JT is also actively present in pharmaceuticals and processed foods. The company's revenue was ¥2,154 trillion (US$17,867 million(*)) in the fiscal year ended December 31, 2014(**).

**Translated at the rate of ¥120.55 per $1, as of December 31, 2014*
***Due to a change in the accounting period from March 31 to December 31, the fiscal year 2014 covered nine months for Japanese domestic businesses and 12 months for the consolidated subsidiaries which operate the Group's international tobacco business. On a comparable full calendar year basis, revenue was ¥2,433 trillion (US$20,186 million(*)).*

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