

[This is an English translation prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

Securities Code: 2914  
May 31, 2012

To Our Shareholders

Hiroshi Kimura  
President, Chief Executive Officer and  
Representative Director  
**Japan Tobacco Inc.**  
2-1, Toranomom 2-chome, Minato-ku, Tokyo

## NOTICE OF CONVOCAION OF THE 27TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 27th ordinary general meeting of shareholders of Japan Tobacco Inc. (“JT” or the “Company”) to be held as set forth below.

**If you cannot attend the meeting, you may exercise your voting rights in written form or by electromagnetic means including the Internet. Please see the “Reference Documents for the General Meeting of Shareholders” hereinafter described and exercise your voting rights by 6:00 p.m., on Thursday, June 21, 2012, by returning to us by that time the Voting Rights Exercise Form enclosed herewith indicating whether you are for or against each of the items, or by accessing the web-site designated by us for the exercise of voting rights (<http://www.evotep.jp/>).**

### Particulars

1. **Date and Time of the Meeting:** Friday, June 22, 2012, at 10:00 a.m.
2. **Place of the Meeting:** Tokyo Prince Hotel  
3-1, Shibakoen 3-chome, Minato-ku, Tokyo
3. **Purpose of the Meeting:**
  1. **Matters to be Reported:**
    1. Report on the Business Report, the Consolidated Financial Statements, and the Accounting Auditors’ Report and JT’s Board of Company Auditors Report on the Consolidated Financial Statements for the 27th Business Term (From April 1, 2011 to March 31, 2012)
    2. Report on the Non-Consolidated Financial Statements for the 27th Business Term (From April 1, 2011 to March 31, 2012)

### Matters to be Resolved:

#### Company’s Proposals (Item 1 to Item 4)

- Item 1:** Appropriation of Surplus  
**Item 2:** Partial Amendments to the Articles of Incorporation  
**Item 3:** Election of Nine (9) Directors  
**Item 4:** Election of One (1) Company Auditor

#### Shareholder’s Proposals (Item 5 to Item 8)

- Item 5:** Dividend Proposal  
**Item 6:** Share Buy-back  
**Item 7:** Partial Amendments to the Articles of Incorporation  
**Item 8:** Cancellation of All Existing Treasury Shares

#### **4. Other Decisions on the Convocation of the Meeting**

- (1) If the voting right is exercised both by return of the Voting Rights Exercise Form and via the Internet, only the exercise of the voting right via the Internet shall be valid.
- (2) If the voting right is exercised more than once via the Internet, only the last exercise of the voting right shall be valid.

#### **[Instructions for Exercising Your Voting Rights]**

##### **1. Exercise of the Voting Rights by post:**

Please indicate whether you are for or against each of the items on the Voting Rights Exercise Form enclosed herewith and return it to us.

##### **2. Exercise of the Voting Rights via the Internet:**

Please access the designated web-site for the exercise of voting rights (<http://www.evote.jp/>) from your computer or smartphone and indicate whether you are for or against each of the items following the directions on the web-site using the “Log-in ID” and “Temporary Password” described in the Voting Rights Exercise Form enclosed herewith. You are requested to refer to “Direction for Exercise of the Voting Rights via the Internet” (Japanese only).

##### **3. JT participates in the electromagnetic voting rights exercise system (Voting Rights Exercise Platform) operated and administered by ICJ, Inc.**

##### **4. Relation between Item 1 and Item 5**

Item 1 and Item 5 are incompatible. Accordingly, please note that, in cases where you exercise your voting rights to vote for both Item 1 and Item 5 in written form or by electromagnetic means, the exercise of the voting rights concerning Item 1 and Item 5 will be invalid.

#### **[Information on matters posted on JT’s web-site]**

##### **1. Notes to Consolidated and Non-Consolidated Financial Statements are posted on our web-site (<http://www.jti.co.jp/>) in accordance with laws and regulations, and the provision in Article 14 of the Articles of Incorporation. Therefore, they are not included in this Notice of Convocation of the 27th Ordinary General Meeting of Shareholders.**

In addition to documents stated in the reference documents attached to the Notice of Convocation of the 27th Ordinary General Meeting of Shareholders, Notes to Consolidated and Non-Consolidated Financial Statements posted on the Company’s web-site are included in Consolidated and Non-Consolidated Financial Statements audited by Company Auditors and the Accounting Auditors in the course of preparing Audit Report and Accounting Auditors’ Report respectively.

##### **2. If there is any amendment to the “Reference Documents for the General Meeting of Shareholders,” Business Report (Japanese only), or Non-Consolidated and Consolidated Financial Statements (Japanese only), it will be published on our web-site (<http://www.jti.co.jp/>).**

---

\* For those attending, please present the enclosed Voting Rights Exercise Form at the reception desk on arrival at the meeting. Also, please bring this Notice of Convocation of the 27th Ordinary General Meeting of Shareholders with you.

\* Please note that the meeting will be conducted in Japanese only without an interpreter.



**Item 2: Partial Amendments to the Articles of Incorporation**

1. Reasons for amendments

(1) For the purpose of enlarging the Company’s investor base through reduction of the investment unit amount of the Company’s shares, and in light of the decision of the Japanese Stock Exchanges Conference to standardize the trading unit, the Board has passed a resolution on April 13, 2012 to split the Company’s stock at the ratio of 1:200 or 200 shares to one share, and adopt the share unit system, setting a share trading unit to 100 shares effective July 1, 2012.

As a result, the company is newly establishing provision on the rights with respect to shares which are less than one share unit (Proposed amendment of Article 8) and provision for the demand for the sale of shares which are less than one share unit (Proposed amendment of Article 9).

(2) Following the establishment of the provisions described above, Articles 7 to 31 will be renumbered accordingly.

2. Details of amendments

Details of amendments are as follows:

The amendment is effective July 1, 2012

(Underlined portions designate amendments to be resolved on for the subject agenda item.)

Current Articles of Incorporation	Proposed Amendments
<p>(Authorized shares)</p> <p>Article 6. The total number of shares to be issued by the Company shall be forty million (40,000,000) shares.</p>	<p>(Authorized shares)</p> <p>Article 6. The total number of shares to be issued by the Company shall be eight billion (8,000,000,000) shares.</p>
<p>(Newly established)</p>	<p>(The number of shares per share unit)</p> <p>Article 7. The number of shares per share unit of the Company shall be one hundred (100) shares.</p>
<p>(Newly established)</p>	<p><u>(Rights in respect of shares less than one share unit)</u></p> <p><u>Article 8. Any shareholder of the Company may not exercise any rights in respect of shares less than one share unit other than those listed below:</u></p> <p>(1) <u>the rights as provided for in the items of Article 189, Paragraph 2 of the Companies Act;</u></p> <p>(2) <u>the rights to the allocation of shares offered to shareholders and stock acquisition rights offered to shareholders, in proportion to the numbers of their respective shares; and</u></p> <p>(3) <u>the rights to exercise a demand as provided for in Article 9 hereof.</u></p>

Current Articles of Incorporation	Proposed Amendments
<p data-bbox="363 253 592 286">(Newly established)</p> <p data-bbox="172 479 675 512">Article <u>7</u>. to Article <u>31</u>. (Provisions omitted)</p>	<p data-bbox="810 253 1394 286"><u>(Demand for sale of shares less than one share unit)</u></p> <p data-bbox="810 304 1394 461"><u>Article 9. Any shareholder of the Company may demand the Company to sell the number of shares that would, collectively with the number of his/her shares less than one share unit, constitute one share unit.</u></p> <p data-bbox="810 479 1321 512">Article <u>10</u>. to Article <u>34</u>. (Same as at present)</p>

(Note) With regard to Article 6 and Article 7 of the amendment proposal stated above, a resolution was passed at the Board of Directors' Meeting held on April 13, 2012, with July 1, 2012, as the effective date.

**Item 3: Election of Nine (9) Directors**

The terms of office of all eight (8) present Directors will expire at the conclusion of this ordinary general meeting of shareholders. Accordingly, the election of nine (9) Directors including two (2) Outside Directors is proposed in order to enhance the management system.

The candidates for the office of Director are as follows:

Candidate Number	Name (Date of Birth)	Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
1	Hiroshi Kimura (April 23, 1953)	<p>Apr. 1976    Joined the Company (Japan Tobacco and Salt Public Corporation)</p> <p>Jan. 1999    Vice President of Corporate Planning Division</p> <p>May 1999    Senior Manager in Tobacco Business Planning Division, Tobacco Business Headquarters Executive Vice President, JT International S.A.</p> <p>Jun. 1999    Member of the Board</p> <p>Jun. 2001    Retired from Member of the Board</p> <p>Jun. 2005    Member of the Board</p> <p>Jun. 2006    President, Chief Executive Officer and Representative Director (Current Position)</p>	133
2	Mitsuomi Koizumi (April 15, 1957)	<p>Apr. 1981    Joined the Company (Japan Tobacco and Salt Public Corporation)</p> <p>Jun. 2001    Vice President of Corporate Planning Division</p> <p>Jun. 2003    Senior Vice President, and Head of Human Resources and Labor Relations Group</p> <p>Jun. 2004    Senior Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters</p> <p>Jun. 2006    Executive Vice President, and Vice President of Tobacco Business Planning Division, Tobacco Business Headquarters</p> <p>Jun. 2007    Member of the Board, Executive Vice President, and Head of Marketing &amp; Sales General Division, Tobacco Business Headquarters</p> <p>Jul. 2007    Member of the Board, Executive Vice President, and Chief Marketing &amp; Sales Officer, Tobacco Business Headquarters</p> <p>Jun. 2009    Representative Director, Executive Deputy President, and President, Tobacco Business (Current Position)</p> <p>(Significant Concurrent Positions outside the Company) Chairman, JT International Holding B.V.</p>	95

Candidate Number	Name (Date of Birth)	Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
3	Yasushi Shingai (January 11, 1956)	<p>Apr. 1980    Joined the Company (Japan Tobacco and Salt Public Corporation)</p> <p>Jul. 2001    Vice President of Financial Planning Division</p> <p>Jun. 2004    Senior Vice President, Head of Finance Group</p> <p>Jul. 2004    Senior Vice President, and Chief Financial Officer</p> <p>Jun. 2005    Member of the Board, Senior Vice President, and Chief Financial Officer</p> <p>Jun. 2006    Member of the Board Executive Vice President, JT International S.A.</p> <p>Jun. 2011    Executive Deputy President, Representative Director, Assistant to CEO in Strategy, HR, Legal and Food Business (Current Position)</p>	86
4	Noriaki Okubo (May 22, 1959)	<p>Apr. 1983    Joined the Company (Japan Tobacco and Salt Public Corporation)</p> <p>Apr. 2000    Vice President of Business Development Dept., Pharmaceutical Division</p> <p>Jun. 2002    Vice President of Business Planning Dept., Pharmaceutical Division</p> <p>Jun. 2004    Member of the Board, Senior Vice President, and President, Pharmaceutical Business</p> <p>Jun. 2006    Member of the Board, Executive Vice President, and President, Pharmaceutical Business</p> <p>Jun. 2009    Member of the Board, Senior Executive Vice President, and President, Pharmaceutical Business (Current Position)</p>	42
5	(Newly appointed) Akira Saeki (August 25, 1960)	<p>Apr. 1985    Joined the Company</p> <p>Jun. 2005    Vice President of Corporate Strategy Division</p> <p>Jun. 2007    Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business</p> <p>Jun. 2008    Senior Vice President, Head of Tobacco Business Planning Division, Tobacco Business and Chief External Affairs Planning Officer</p> <p>Jun. 2010    Executive Vice President, Head of Tobacco Business Planning Division, Tobacco Business (Current Position)</p>	46

Candidate Number	Name (Date of Birth)	Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
6	(Newly appointed) Hideki Miyazaki (January 22, 1958)	Apr. 1980    Joined Nomura Securities Co., Ltd. Jul. 2005    Senior Manager of Accounting Division of the Company Jan. 2006    Deputy Chief Financial Officer Jun. 2008    Senior Vice President, and Chief Financial Officer Jun. 2010    Executive Vice President, and Chief Financial Officer (Current Position)	32
7	Mutsuo Iwai (October 29, 1960)	Apr. 1983    Joined the Company (Japan Tobacco and Salt Public Corporation) Jun. 2003    Vice President of Corporate Planning Division Jun. 2005    Senior Vice President, and Vice President of Food Business Division, Food Business Jun. 2006    Member of the Board, Executive Vice President, and President, Food Business Jun. 2008    Executive Vice President, and Chief Strategy Officer Jun. 2010    Member of the Board, Executive Vice President, Chief Strategy Officer and Assistant to CEO in Food Business Jun. 2011    Member of the Board (Current Position) Executive Vice President, JT International S.A. (Current Position)  (Significant Concurrent Positions outside the Company) Executive Vice President, JT International S.A.	80
8	(Newly appointed) Motoyuki Oka (September 15, 1943)	Apr. 1966    Joined Sumitomo Corporation Jun. 1994    Director, Sumitomo Corporation Apr. 1998    Managing Director, Sumitomo Corporation Apr. 2001    Senior Managing Director, Sumitomo Corporation Jun. 2001    President and CEO, Sumitomo Corporation Jun. 2007    Chairman of the Board of Directors, Sumitomo Corporation (Current Position)  (Significant Concurrent Positions outside the Company) Chairman of the Board of Directors, Sumitomo Corporation	0



Candidate Number	Name (Date of Birth)	Brief Personal History, Positions and Responsibilities in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
9	(Newly appointed)  Main Kohda  (April 25, 1951)	Sep. 1995 Started independently as Novelist (Current Position) Jan. 2003 Member of Financial System Council, Ministry of Finance Japan Apr. 2004 Visiting professor, Faculty of Economics, Shiga University Mar. 2005 Member of the Council for Transport Policy, Ministry of Land, Infrastructure, Transport and Tourism Nov. 2006 Member of the Tax Commission, Cabinet Office, Government of Japan Jun. 2010 Member of the Board of Governors, Japan Broadcasting Corporation (Current Position)  (Significant Concurrent Positions outside the Company) Novelist Member of the Board of Governors, Japan Broadcasting Corporation	0

(Notes) 1. No conflict of interest exists between the Company and each of the above candidates.

Although JT has had a business relationship related to manufacturing machine, etc. with Sumitomo Corporation for which Motoyuki Oka has served as a chairman of the board of directors, the transaction amount accounted for just about 0.1% of our consolidated sales revenue in the fiscal year ended March 31, 2012, which has no material impacts to generate special interest.

2. Motoyuki Oka and Main Kohda are candidates for the office of Outside Director.

3. Relevant matters concerning the candidates for the office of Outside Director are described as follows:

(1) For Motoyuki Oka

The election of Motoyuki Oka as Outside Director is proposed, as he would be able to reflect his abundant experience and extensive insight into management of global companies in management of the Company.

(2) For Main Kohda

The election of Main Kohda as Outside Director is proposed, as she has abundant insight into international finance, and would be able to reflect her extensive experience as university professor and member of governmental advisory bodies, etc. and deep insight and objective point of view used through activities as a novelist in management of the Company.

4. Should the election of Motoyuki Oka and Main Kohda be approved, pursuant to the provision of Article 23 of the Articles of Incorporation, the Company intends to enter into an agreement with each of them to limit their liabilities stipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by the laws and ordinances.

5. The Company intends to register Motoyuki Oka and Main Kohda as independent director provided under the stock exchange rules to the stock exchange.

**Item 4: Election of One (1) Company Auditor**

Company Auditor Gisuke Shiozawa will resign at the conclusion of this ordinary general meeting of shareholders. Accordingly, the election of one (1) Company Auditor as his replacement is proposed.

The Board of Company Auditors has approved this proposition.

The candidate for the office of Company Auditor is as follows:

Name (Date of Birth)	Brief Personal History, Positions in the Company, and Significant Concurrent Positions outside the Company	Number of the Company's Shares Held
(Newly appointed) Futoshi Nakamura (November 23, 1957)	Apr. 1981    Joined the Company (Japan Tobacco and Salt Public Corporation) Jul. 2004    Head of Procurement Planning Division Sep. 2005    Senior Manager of Operational Review and Business Assurance Division Vice President, JT International Holding B.V. Vice President Jul. 2009    Senior Manager of Accounting Division Jul. 2010    Head of Operational Review and Business Assurance Division (Current Position)	5

(Note) No conflict of interest exists between the Company and the above candidate.

## **Shareholder's Proposals (Item 5 to Item 8)**

The proposals from Item 5 to Item 8 were made by a shareholder. The number of voting rights of the shareholder (one) is 49,379.

The following are the agenda and reasons for the proposals made by the shareholder which are stated as they are.

### **Item 5: Dividend Proposal**

#### **1. Agenda**

The year-end dividends on shares of Common Stock for the 27th fiscal year shall be paid in the amount of JPY20,000 per share of Common Stock.

#### **2. Reason of Proposal**

The Company has sufficient cash and retained earnings to pay a higher dividend. The Company has on average returned 25% 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 JT's competitors, British American Tobacco and Philip Morris International respectively returned on average 70% and 120% of their earnings to shareholders.

#### The Board of Directors' view on Item 5

#### **The Board of Directors is opposed to this proposal.**

The Company aims to achieve sustainable profit growth over the medium to long-term with a view that investing in business for future profit growth is in the best interests of all shareholders. The Company has achieved a combined annual EBITDA growth rate of 5.7% over the past 10 years through business investments thus far which include the acquisitions of RJR International and Gallaher. Concurrently, we have been returning capital to shareholders by progressively increasing our consolidated dividend payout ratio excluding the impact of goodwill amortization to a most recent level of 30% in the fiscal year ended March 31, 2012, on the basis of the Board of Directors' recommendation, thereby attaining the target announced by the Company in its efforts to improve the attractiveness of shareholder return.

On the other hand, the Board of Directors believes that delivery of a substantially high return as stated in the proposals is short-term focused, and it would result in constrained business investment for future profit growth, loss of business competitiveness and shareholder value.

In Business plan 2012, we have set out the dividend payout ratio target of 40% in the fiscal year ending March 31, 2014, followed by a further increase to 50% over medium-term subsequently.

## Item 6: Share Buy-back

### 1. 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: 1,600,000\*;
- 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 general shareholders meeting

### 2. Reason of Proposal

The capital structure of the Company is under levered 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.

\*Following our Board of Directors’ resolution of April 13, 2012 concerning stock split at the ratio of 200 shares to one share effective July 1, 2012, this equals to 320,000,000 shares after the stock split comes into effect.

### The Board of Directors’ view on Item 6

#### **The Board of Directors is opposed to this proposal.**

The Company aims to achieve sustainable profit growth over the medium to long-term with a view that investing in business that will drive future profit growth is in the best interests of all shareholders.

On the other hand, the Board of Directors believes that the large share buyback proposed by the shareholder could negatively impact the Company’s flexibility to make business investments and financing, resulting in loss of business competitiveness and shareholder value.

JT has introduced an EPS growth rate target as a key performance indicator (KPI). As part of managing the EPS growth rate set out as one of our shareholder return initiatives, the Company will actively monitor the business environment and expeditiously buy back shares at appropriate times.

In addition, taking into account the current cash flow projections, anticipated business investments and credit rating considerations, the Company is considering a possible buy-back of up to ¥250 billion in the event of the Japanese Government share offering, which is a portion of the anticipated shares to be offered.

## **Item 7: Partial Amendments to the Articles of Incorporation**

### 1. Agenda

The following new provision will be added as Article 16.2 in Chapter 3 “Shareholders’ Meeting” of the Articles of Incorporation:

Article 16.2           The shareholders’ meeting can resolve the matters in respect of cancellation of treasury shares including the type and number of shares to be cancelled, in addition to the matters set forth in the Companies Act of Japan.

### 2. Reason of 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 shareholders meeting should have the authority to resolve the matters in respect of cancellation of treasury shares by its resolution.

### The Board of Directors’ view on Item 7

#### **The Board of Directors is opposed to this proposal.**

We believe that the Board of Directors should retain authority on the cancellation and use of treasury stock, a funding source, owing to the need to evaluate and act with speed in the current business environment. Accordingly, there is no need to amend the articles of incorporation for shareholders meetings to resolve these matters, in line with the principle of the Companies Act of Japan.

We view treasury stock as a funding source, similar to new share issuances in our evaluation of future business investments including acquisitions, and taking into account our constraints on financing through new share issuances due to the Japan Tobacco Inc. Law.

The EPS growth rate managed as our KPI will exclude treasury stock. Any decision reached to utilize treasury stock for future business investments will only be made after giving careful consideration to whether it contributes to long-term sustainable profit growth and best serves the interest of all shareholders.

## **Item 8: Cancellation of All Existing Treasury Shares**

### 1. Agenda

Based on the amendment of the Articles of Incorporation in Item 7, we propose the following:

All shares of Common Stock owned by the Company are cancelled.

### 2. Reason of 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 Item 8

#### **The Board of Directors is opposed to this proposal.**

Currently, the Company does not intend to cancel all the treasury shares, taking into account the potential use of treasury stock for business investments through future acquisitions and the constraints on financing through new share issuances due to the Japan Tobacco Inc. Law.