[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.]

September 19, 2014

Company Name: JAPAN TOBACCO INC.
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Notice Regarding the Allotment of Subscription Rights to Shares (Stock Compensation-Type Stock Options)

Japan Tobacco Inc. (JT) announced today that it has resolved, at a meeting of its Board of Directors held today, to issue subscription rights to shares as stock options and solicit subscribers for subscription rights to shares for its Directors (excluding Outside Directors) and Executive Officers (*sikkoyakuin*), pursuant to the provisions of Article 238 (1) and (2), and Article 240 (1) of the Companies Act, with the aim of further enhancing their motivation and morale for contributing to the improvement of corporate value, as follows.

JT will pay individuals to be allotted the subscription rights to shares monetary compensation equal to the amount to be paid in for corresponding subscription rights to shares to be allotted. (The amount to be paid in shall be the amount of option price per share as calculated in accordance with the formula provided in "11. Calculation Method of Amount to Be Paid In for Subscription Rights to Shares" below multiplied by the number of subscription rights to shares to be allotted.) Directors and Executive Officers to be allotted subscription rights to shares shall acquire same by offsetting their obligation to pay in the amount for the allotment with their monetary compensation claim to JT in lieu of paying said amount to be paid in at the time of allotment.

1. Name of Subscription Rights to Shares:

   Subscription Rights to Shares of Japan Tobacco Inc., 2014

2. Total Number of Subscription Rights to Shares:

   344

   The above total number is the planned number to be allotted. If the total number of subscription rights to shares to be allotted decreases, including the case where any subscription rights to shares have not been applied for subscription, the total number of subscription rights to shares to be issued shall be the same as the total number of subscription rights to shares to be allotted.

3. Class, Details and Number of Shares to Be Granted upon Exercise of Subscription Rights to Shares:

   The class of shares to be granted upon exercise of subscription rights to shares shall be shares of JT's common stock (standard shares of JT with no rights restrictions whatsoever; the share unit number is 100 shares), and the number of shares to be granted upon exercise of one subscription right to shares ("Number of Granted Shares") shall be 200 shares. If, however, after the date of allotment of the subscription rights to shares designated in 12 below ("Allotment Date"), the shares of JT's common stock are subject to any stock split (including any gratis allotment of the shares of JT's common stock; the same shall apply whenever "stock split" is mentioned

hereinafter) or any stock consolidation, the Number of Granted Shares shall be adjusted using the following formula, and any amount less than one share resulting from the adjustment shall be calculated to the second decimal place and rounding the third decimal place down.

$$\text{Adjusted Number of Granted Shares} = \text{Number of Granted Shares before adjustment} \times \text{Stock split or consolidation ratio}$$

The adjusted Number of Granted Shares shall become effective: (i) in the event of a stock split, on or after the day immediately following the record date of the corresponding stock split (if the record date is not decided, the effective date of the stock split is applied); or (ii) in the event of a stock consolidation, on or after the effective date of the stock consolidation; provided, however, in the event of a stock split to be conducted on the condition that the proposal for increasing the capital or reserves by decreasing the amount of surpluses be approved at the Annual General Meeting of Shareholders of JT, and if the record date of the stock split shall be any day prior to the conclusion day of the corresponding Annual General Meeting of Shareholders, the adjusted Number of Granted Shares shall apply retrospectively to the day immediately following such record date, on or after the day immediately following the conclusion day of the corresponding Annual General Meeting of Shareholders.

In addition to the above, in the event that, after the Allotment Date, it deems appropriate to adjust the Number of Granted Shares, the Number of Granted Shares shall be adjusted as deemed necessary.

Furthermore, when the Number of Granted Shares is adjusted, JT shall give notice to each person holding subscription rights to shares who is registered in the registry of the subscription rights to shares ("Subscription Right to Share Holder"), or make public announcement of necessary matters, no later than the day immediately prior to the day when the adjusted Number of Granted Shares shall become effective; provided, however, if no notice or public announcement can be made no later than the day immediately prior to such effective day, such notice or public announcement shall subsequently be promptly made.

4. Value of Assets to Be Contributed upon Exercise of Subscription Rights to Shares:

   The value of the assets to be contributed upon the exercise of each subscription right to share shall be equal to the amount obtained by multiplying the amount to be paid in of ¥1 per share to be granted upon the exercise of the subscription right to share by the Number of Granted Shares.

5. Period During Which Subscription Rights to Shares May Be Exercised:

   From October 7, 2014 to October 6, 2044

6. Matters Concerning Capital and Capital Reserve to Be Increased in the Event of the Issuance of Shares upon the Exercise of Subscription Rights to Shares:

   (1) The amount of increase in capital, in the event of the issuance of shares upon the exercise of subscription rights to shares shall be a half of the maximum increase in capital or the like calculated in accordance with Article 17 (1) of the Ordinance on Accounting of Companies, with any amount less than ¥1 resulting from the calculation rounded up to the nearest yen.

   (2) The amount of increase in capital reserve, in the event of the issuance of shares upon the exercise of subscription rights to shares, shall be the amount determined by deducting the amount of increase in capital or the like provided for in (1) above from the maximum increase in capital or the like stated in (1) above.

7. Restriction on Transferring Subscription Rights to Shares by Transfer:

Transferring subscription rights to shares shall be subject to approval of the Board of Directors of JT.

8. Terms for Acquiring Subscription Rights to Shares:

JT may acquire subscription rights to shares, if a proposal relating to (1), (2) or (3) defined below is approved at the Annual General Meeting of Shareholders of JT (or if the Board of Directors of JT resolves or the Representative Executive Officer (defined in the Companies Act) of JT decides to proceed with any of the foregoing proposals in the case where a resolution of the Annual General Meeting of Shareholders is not required), on the date separately determined by the Board of Directors of JT.

In the event stated above, JT shall, in exchange for acquiring each subscription right to share, grant to the Subscription Right to Share Holder the amount of money for each subscription right to share obtained by multiplying the value per share, which shall be calculated in accordance with the following formula, by the Number of Granted Shares (if the Number of Granted Shares is adjusted in accordance with 3 above, the adjusted Number of Granted Shares is applied).

Value per share = Closing price of the regular trading of the shares of JT's common stock on the Tokyo Stock Exchange at the day of approval for the proposal relating to (1), (2) or (3) defined below (or if the Board of Directors of JT resolves or the Representative Executive Officer (defined in the Companies Act) of JT decides to proceed with any of the foregoing proposals in the case where a resolution of the Annual General Meeting of Shareholders is not required) (Closing price shall be the basic price on the trading day immediately following that date, if there is no closing price on that date) – ¥1.

(1) A proposal for approval of a merger agreement under which JT is to become an extinct company;

(2) A proposal for approval of a company split agreement or a company split plan under which JT is to become a split company; or

(3) A proposal for approval of a share-for-share exchange agreement or a stock transfer plan under which JT is to become a wholly-owned subsidiary.

9. Policy of Deciding Particulars on Extinguishment of Subscription Rights to Shares upon Restructuring and Grant of Subscription Rights to Shares of the Restructured Company:

In the event JT conducts a merger (limited to when JT is to be extinct as a result of the merger), an absorption-type company split or an incorporation-type company split (both limited to when JT is to become a split company), or a share-for-share exchange or a stock transfer (both limited to when JT is to become a wholly-owned subsidiary), (collectively "Restructuring"), subscription rights to shares of one of the stock corporations listed in Article 236 (1) (viii) (a) through (e) of the Companies Act (as the case may be) ("Restructured Company") shall be granted to the Subscription Right to Share Holders of the subscription rights to shares remaining at the time immediately prior to the time the Restructuring takes effect ("Remaining Subscription Rights to Shares") in accordance with the following conditions. The time the Restructuring takes effect refers to the day when the absorption-type merger becomes effective regarding an absorption-type merger, the day when the new company is effectively incorporated by the merger regarding a consolidation-type merger, the day the absorption-type company split becomes effective regarding an absorption-type company split, the day when the new company is effectively incorporated by the company split regarding an incorporation-type company split, the day when the share-for-share exchange becomes effective regarding a share-for-share exchange, and the day when the wholly-owning company is incorporated by the stock transfer regarding a stock transfer; provided, however, that the foregoing shall be applied only when the grant of the subscription rights to shares of the Restructured Company, in accordance with the following

terms, is provided for in the corresponding absorption-type merger agreement, consolidation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share-for-share exchange agreement, or stock transfer plan:

(1) Number of subscription rights to shares of the Restructured Company to be granted:

Subscription rights to shares shall be granted to the respective Subscription Right to Share Holders in the same number as the Remaining Subscription Rights to Shares held by them.

(2) Class of shares of the Restructured Company to be granted upon exercise of subscription rights to shares:

Shares of the Restructured Company's common stock

(3) Number of shares of the Restructured Company to be granted upon exercise of subscription rights to shares:

A decision shall be made in the same manner as 3 above, considering the terms for the Restructuring.

(4) Value of assets contributed upon exercise of subscription rights to shares:

The value of assets contributed upon the exercise of each subscription right to share shall be equal to the amount obtained by multiplying the amount to be paid in after the Restructuring by the number of shares of the Restructured Company granted upon exercise of those subscription rights to shares, determined in accordance with (3) above. The amount to be paid in after the Restructuring shall be ¥1 per share of the shares of the Restructured Company to be granted upon the exercise of subscription rights to shares.

(5) Period during which subscription rights to shares may be exercised:

A period commencing on the effective date of the Restructuring and ending on the date of expiration of the period for exercising subscription rights to shares as provided for in 5 above.

(6) Matters concerning capital and capital reserve to be increased in the event of issuance of shares upon exercise of subscription rights to shares:

To be decided in the same manner as 6 above.

(7) Restrictions on acquiring subscription rights to shares by transfer:

Transferring the subscription rights to shares is subject to approval of the Board of Directors of the Restructured Company.

(8) Terms for acquiring subscription rights to shares:

To be decided in the same manner as 8 above.

(9) Other conditions for exercising subscription rights to shares:

To be decided in the same manner as 10 below.

10. Other Conditions for Exercising Subscription Rights to Shares:

(1) A Subscription Right to Share Holder may exercise his/her subscription rights to shares only if he/she forfeit his/her all position as director (including *sikkoyaku* at a company with committees), auditor and executive officer (*sikkoyakuin*).

(2) If a Subscription Right to Share Holder renounces his/her subscription rights to shares, same shall be forfeited.

11. Calculation Method of Amount to Be Paid In for Subscription Rights to Shares:

The amount to be paid in for each subscription right to share shall be equal to the amount obtained by multiplying the option price per share calculated based on the basic figures described in (2) through (7) below in accordance with the following Black-Scholes model by the Number of Granted Shares, with any amount less than ¥1 resulting from the calculation rounded up to the nearest yen.

$$C = Se^{-qT}N(d) - Xe^{-rT}N\left(d - \sigma\sqrt{T}\right)$$

In this formula,

$$d = \frac{\ln\left(\frac{S}{X}\right) + \left(r - q + \frac{\sigma^2}{2}\right)T}{\sigma\sqrt{T}}$$

(1) C = Option price per share
(2) S = Share price: the closing price of the regular trading of the shares of JT's common stock on the Tokyo Stock Exchange on October 6, 2014 (or the basic price on the trading day immediately following that date, if there is no closing price on that date)
(3) X = Exercise price: ¥1
(4) T = Expected time to maturity: 15 years
(5) σ = Volatility: share price volatility rate calculated based on the closing price of the regular trading of the shares of JT's common stock on each transaction date from October 6, 1999 through October 6, 2014
(6) r = Risk-free interest rate: interest rate on Japanese government bonds for the remaining years to the maturity corresponding to the expected time to maturity
(7) q = Dividend yield: dividend per share (actual dividends paid over the last 12 months (dividends with September 30, 2013 and March 31, 2014 as record dates) of JT's common stock) divided by the share price defined in (2) above
(8) $N(\cdot)$ = Cumulative distribution function of the standard normal distribution

12. Date of Allotment of Subscription Rights to Shares:

October 6, 2014

13. Payment Date of Money in Exchange for Subscription Rights to Shares:

The payment date shall be October 6, 2014.

14. Persons to Be Allotted Subscription Rights to Shares and Number of Such Persons; and Number of Allotted Subscription Rights to Shares:

178 subscription rights to shares are to be allotted to the six Directors (excluding Outside Directors) of JT and 166 subscription rights to shares are to be allotted to the 19 Executive Officers (sikkoyakuin) of JT who do not also serve as JT's Directors.

15. Request for Exercise of Subscription Rights to Shares and Payment Method:

(1) Upon exercise of the subscription rights to shares, the necessary items shall be entered on the "Request for Exercise of Subscription Rights to Shares" form by the Subscription Right to Share Holder, in a manner designated by JT, with name and seal affixed, then the "Request for Exercise of Subscription Rights to Shares" shall be submitted at the "Place for Requests for Exercise of Subscription Rights to Shares" as defined in 16 below.

(2) Along with the submission of the "Request for Exercise of Subscription Rights to Shares" stated in (1) above, the amount equal to the value of assets contributed upon the exercise of each subscription right to share multiplied by the number of subscription rights to shares to be exercised shall be remitted in cash to the bank account designated by JT at the "Payment Handling Place upon Exercise of Subscription Rights to Shares" as defined in 17 below, no later than the time designated by JT.

16. Place for Request for Exercise of Subscription Rights to Shares:

The Human Resources Division of JT (or any department then in charge of tasks relating to subscription rights to shares)

17. Payment Handling Place upon Exercise of Subscription Rights to Shares:

Tokyo Main office of Mizuho Bank, Ltd. (or the then succeeding bank of the corresponding bank or the then succeeding branch of the corresponding branch)

18. Time When Exercise of Subscription Rights to Shares Comes into Effect, etc.:

(1) The exercise of subscription rights to shares shall be effective at the time when JT has received the "Request for Exercise of Subscription Rights to Shares" as defined in 15. (1) above and has confirmed the payment as defined in 15. (2) above by JT.

(2) JT will carry out the procedures necessary for stating or recording shares to be acquired by Subscription Right to Share Holders upon exercise of their subscription rights to shares in the accounts in their name, which they have established in advance at a financial instruments business operator or the like designated by JT, promptly after the exercise of subscription rights to shares comes into effect.

19. Handling Following Replacement of Terms or Other Measures Regarding Provisions of Terms and Conditions of Issuance:

If any replacement of terms or any other measures regarding the provisions of the terms and conditions of issuance become necessary, JT may change the terms and conditions of issuance in respect of the relevant matters in a manner deemed appropriate by JT in accordance with the provisions of the Companies Act and the purpose of the subscription rights to shares, and such change shall be incorporated into the terms and conditions of issuance.

20. Public Notice of Terms and Conditions of Issuance:

JT shall keep a copy of the terms and conditions of issuance of the subscription rights to shares at its head office so as to be available to Subscription Right to Share Holders for review during regular business hours.

21. Any other necessary matters relating to the subscription rights to shares shall be exclusively delegated to the President of JT.

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