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FOR IMMEDIATE RELEASE

Notice Regarding the Allotment of Stock Options

Tokyo, December 21, 2007 --- Japan Tobacco Inc. (JT) (TSE: 2914) announced today the making of an offering of stock acquisition rights to its Members of the Board and Executive Officers, pursuant to Articles 238 (1), (2) and Article 240 (1) of the Companies Act. The company will pay the persons to be allotted the stock acquisition rights monetary compensation equal to the paid-in amount for relevant stock acquisition rights (The paid-in amount for each stock acquisition right shall be calculated in accordance with the formula described in section 11). Upon issuance of the stock acquisition rights, the company will offset the subscribers' rights to request compensation from the company against their payment obligations to be paid for the stock acquisition rights.

1. Name of Stock Acquisition Rights:

Stock Acquisition Rights of Japan Tobacco Inc., 2007

2. The Number of Stock Acquisition Rights:

426

The above total number is the planned allotted number. If the total number of stock acquisition rights to be allotted decreases, including the case where an application has not been made for subscription, the total number of stock acquisition rights to be allotted shall be the total stock acquisition rights to be issued.

3. Type and Number of Shares to be Delivered upon Exercise of Stock Acquisition Rights:

The type of shares to be delivered upon exercise of stock acquisition rights will be shares of the company's common stock, and the number of shares to be delivered upon exercise of stock acquisition rights ("Allotted Number of Shares") will be one share. If, however, after the date of allotment of the stock acquisition right ("Allotment Date") designated in section 12 below, the shares of the company's common stock are subject to any stock split (including any gratis allotment of the shares of the company's common stock; and the same being applied whenever "stock split" is mentioned in the following paragraphs) or any stock consolidation, the Allotted Number of Shares will 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.



$$\text{Adjusted Allotted Number of Shares} = \text{Number of Shares Before Adjustment} \times \text{Stock split / Stock Consolidation Ratio}$$

The adjusted Allotted Number of Shares shall apply: (i) on or after the following day of the record date of the relevant stock split in the event of a stock split (if the record date is not decided, the effective date of the stock split is applied); or (ii) on or after the effective date of the stock consolidation in the event of a stock consolidation. However, in the event of a stock split to be conducted on the condition that the proposal for increasing the capital or capital surplus by decreasing the retained earnings be approved at the Annual General Meeting of Shareholders of the company, and if the record date of the stock split shall be any day prior to the conclusion day of the relevant Annual General Meeting of Shareholders, the adjusted Allotted Number of Shares shall apply retrospectively to the following day of such record date, on or after the following day of the conclusion day of the relevant Annual General Meeting of Shareholders.

In addition to the above, if, after the Allotment Date, there is an unavoidable reason for requiring the adjustment of the Allotted Number of Shares, the Allotted Number of Shares will be adjusted to a reasonable extent.

Furthermore, when the Allotted Number of Shares is adjusted, the company shall give notice or publicly announce to the respective person holding stock acquisition rights, who is registered in the registry of the stock acquisition rights (“Stock Acquisition Right Holder”), of the necessary matters, no later than the day prior to the day when the adjusted Allotted Number of Shares will apply. However, if no notice or public announcement can be made on the day prior to the day when the adjusted Allotted Number of Shares applies, such notice or public announcement shall subsequently be promptly made.

4. Value of Assets Contributed upon Exercise of Stock Acquisition Rights:

The value of the assets to be contributed upon the exercise of each stock acquisition right is equal to the product of: ¥1 to be paid for each share that will be delivered upon the exercise of the stock acquisition right; and the Allotted Number of Shares.

5. Period during which Stock Acquisition Rights may be Exercised:

From January 9, 2008 to January 8, 2038.

6. Matters Concerning an Increase in Capital and Capital Surplus in the Event of the Issuance of Shares upon the Exercise of Stock Acquisition Rights:

- (1) The amount of an increase in capital, in the event of the issuance of shares upon the exercise of the stock acquisition rights, will be equal to the amount of the maximum increase in the amount of capital or the like calculated in accordance with Article 40 (1) of the “Corporate Calculation Rules” multiplied by one half (1/2), with any amount less than ¥1 resulting from the calculation rounded up to the nearest yen.
- (2) The amount of an increase in the capital surplus, in the event of the issuance of shares upon the exercise of stock acquisition rights, will be equal to the amount of the maximum increase in the amount of capital or the like provided for in (1) above, less the amount of the increase in capital provided for in (1) above.



7. Restriction on Acquiring Stock Acquisition Rights by Transfer:

Acquiring stock acquisition rights by transfer is subject to approval of the Board of Directors of the company by resolution.

8. Terms for Acquiring Stock Acquisition Rights:

The company may acquire stock acquisition rights, if proposals relating to (1), (2) and (3) defined below is approved at the company's Annual General Meeting of Shareholders (or if the Board of Directors resolves to proceed with any of the foregoing proposals in the case where a resolution of an Annual General Meeting of Shareholders is not required), on the date separately determined by the Board of Directors of the company.

In the event stated above, the value per each relevant stock acquisition right, which the company will pay to Stock Acquisition Right Holders in exchange for acquiring their stock acquisition rights, will be calculated in accordance with the following formula: the Allotted Number of Shares (if the Allotted Number of Shares is adjusted in accordance with section 3 above, the adjusted Allotted Number of Shares is applied) multiplied by the closing stock price on the Tokyo Stock Exchange (or the basic price on the following trading day, if there is no closing price on that date) at the day of approval for proposals relating to (1), (2) and (3) defined below (or if the Board of Directors resolves to proceed with any of the foregoing proposals in a case where a resolution of a Annual General Meeting of Shareholders is not required) minus ¥1.

- (1) A proposal for approval of a merger agreement under which the company is to become a dissolved company.
- (2) A proposal for approval of an absorption-type demerger agreement or incorporation-type demerger plan under which the company is to become a demerged company.
- (3) A proposal for approval of a share-for-share exchange agreement or a stock transfer plan under which the company is to become a wholly-owned subsidiary.

9. Policy of Dissolving of Stock Acquisition Rights upon Restructuring and Issuing of Stock Acquisition Rights of the Restructured Company :

In the event the company conducts a merger (limited to when the company is dissolved as a result of the merger), an absorption-type demerger, an incorporation-type demerger (limited to when the company is to become a demerged company), a share-for-share exchange, or a stock transfer (limited to when the company is to become a wholly-owned subsidiary), (collectively "Restructuring"), stock acquisition rights of one of the stock corporations listed in Article 236 (1), Item 8(a) through(e) of the Companies Act (as the case may be) ("Restructured Company") will be delivered to the holders of the stock acquisition rights remaining at the time the Restructuring takes effect ("Remaining Stock Acquisition Rights") in accordance with the following conditions. Time the Restructuring takes effect means: regarding an absorption-type demerger, the day when the absorption-type demerger becomes effective; regarding a consolidation-type demerger, the day the new company is effectively incorporated by the merger; regarding an incorporation-type company split, the day the new company effectively becomes incorporated; regarding share-for-share exchange



and stock transfer, the day all of its issued shares or stocks are acquired by the newly incorporated stock company.

However, the foregoing applied only when the delivery of the stock acquisition rights of the Restructured Company, in accordance with the following terms, is provided for in the relevant merger agreement, absorption-type demerger agreement, consolidation-type demerger plan, absorption-type company split agreement, incorporation-type demerger plan, share-for-share exchange agreement, or stock transfer agreement:

- (1) Number of Stock Acquisition Rights of the Restructured Company to be Delivered:

Stock acquisition rights will be delivered to the respective holders of stock acquisition rights in the same number as the Remaining Stock Acquisition Rights held by them.

- (2) Type of Shares of the Restructured Company to be Delivered upon Exercise of Stock Acquisition Rights:

Shares of the Restructured Company's common stock.

- (3) The number of shares of the Restructured Company to be Delivered upon Exercise of Stock Acquisition Rights:

A decision will be made subject to section 3 above, considering the terms for the Restructuring.

- (4) Value of Assets Contributed upon Exercise of Stock Acquisition Rights:

The value of assets contributed upon the exercise of each stock acquisition right is equal to the product of the paid-in amount after the Restructuring; and the number of shares of the Restructured Company delivered upon exercise of those stock acquisition rights, determined in accordance with (3) above. The paid-in amount after the Restructuring shall be ¥1 for each share in the Restructured Company issuable upon the exercise of stock acquisition rights.

- (5) Period during which Exercising Stock Acquisition Rights 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 stock acquisition rights as provided for in section 5 above.

- (6) Matters Concerning Increase in Capital and Capital Surplus in the Event of Issuance of Shares upon Exercise of Stock Acquisition Rights:

To be decided subject to section 6 above.

- (7) Restrictions on Acquiring Stock Acquisition Rights by Transfer:

Transferring the stock acquisition rights is subject to the approval of the Board of Directors of the Restructured Company.

- (8) Conditions for Acquiring Stock Acquisition Rights:

To be decided subject to section 8 above.



(9) Other Conditions for Exercising Stock Acquisition Rights:

To be decided subject to section 10 below.

10. Other Conditions for Exercising Stock Acquisition Rights:

- (1) If a Stock Acquisition Right Holder can exercise the stock acquisition rights only when the Stock Acquisition Right Holder loses his/her position as a Member of the Board, Auditor, or Executive Officer of the company.
- (2) If a Stock Acquisition Right Holder renounces his/her stock acquisition rights, stock acquisition rights are forfeited.

11. Calculation Method of Paid-in Amount for Stock Acquisition Rights:

The paid-in amount for each stock acquisition right shall be equal to the product of: the option price per share calculated based on the basic figures described below in accordance with the following Black-Scholes model; and the Allotted Number of Shares.

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

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 common stock of the company under a regular transaction at the Tokyo Stock Exchange on January 8, 2008 (or the basic price on the following trading day, if there is no closing price on that date)
- (3) X = Exercise price: ¥1
- (4) T = Projected remaining period: 15 years
- (5) σ = Volatility: share price volatility rate calculated based on the closing price of the common stock of the company under a regular transaction on the transaction days from October 27, 1994 through January 8, 2008.
- (6) r = Risk-free interest rate: interest rate on Japanese government bonds for the remaining years corresponding to the projected remaining period.
- (7) q = Dividend yield: dividend per share (annual average dividend yield (dividend result for March 2007 and September, 2007.) of the common stock of the company 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 Stock Acquisition Rights:

January 8, 2008.

13. Payment Date of Money in Exchange for Stock Acquisition Rights:

Payment date shall be January 8, 2008.

14. The Number of Allottees and the Number of Allotted Stock Acquisition Rights:

233 stock acquisition rights are to be allotted to the eleven Members of the Board of the company and 193 stock acquisition rights are to be allotted to the sixteen Executive Officers who do not also serve as the company's Members of the Board.

15. Request for Exercise of Stock Acquisition Rights and Payment Method:

(1) Upon exercise of the stock acquisition rights, the necessary items shall be filled in on the "Request for Exercise of Stock Acquisition Rights" form by the Stock Acquisition Rights Holder, in a manner designated by the company, with a seal or sign affixed, then the "Request for Exercise of Stock Acquisition Rights" shall be submitted to the place of acceptance of the request for exercise defined in section 16 below.

(2) Along with the submission of the "Request for Exercise of Stock Acquisition Rights" stated in (1) above, the amount equal to the value of assets contributed upon the exercise of each stock acquisition right multiplied by the number of stock acquisition rights to be exercised shall be remitted in cash to the bank account designated by the company at the payment handling place defined in section 17 below, no later than the date designated by the company.

16. Place of Acceptance of Request for Exercise of Stock Acquisition Rights:

The Human Resources Division of the company (If there is any change in the departments in charge of the administration relating to the stock acquisition rights, then the relevant department after such change.)

17. Payment Handling Place upon Exercise of Stock Acquisition Rights:

The head office of Mizuho Bank, Ltd. (or the then succeeding bank of the relevant bank or the then succeeding branch of the relevant branch.)

18. Effective Period of Exercising Stock Acquisition Rights, etc.:

(1) A Stock Acquisition Rights Holder who exercises stock acquisition rights shall become a shareholder of the company in accordance with Article 282 of the Companies Act.

(2) The company shall issue a stock certificate after the completion of the exercise procedures without delay. However, no stock certificates shall be issued for shares that are less than one unit share.

19. Handling in Connection with Re-reading of the Provisions or Other Measures in this Terms and Conditions of the Issuance:

If any re-reading of the provisions or any other measures in this Terms and Conditions of the Issuance become necessary, the company may change this Terms and Conditions of the Issuance in connection therewith in a manner deemed



appropriate by the company in accordance with the Companies Act and the purposes of the stock acquisition rights, and such change shall be incorporated into this Terms and Conditions of the Issuance.

20. Public Disclosure of Terms and Conditions of the Issuance:

The company shall keep a copy of this Terms and Conditions of the Issuance of the stock acquisition rights at its head offices so as to be available to Stock Acquisition Right Holders for their review during its business hours.

21. Any other necessary matters relating to the stock acquisition rights shall be exclusively delegated to President of the company.

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Japan Tobacco Inc. is the world's third largest international manufacturer of tobacco products. The company manufactures internationally recognized cigarette brands including Winston, Camel, Mild Seven and Benson & Hedges. Since its privatization in 1985, JT has actively diversified its operations into pharmaceuticals and foods. The company's net sales were ¥4.769 trillion in the fiscal year ended March 31, 2007.