



JAPAN TOBACCO INC.
2-1, Toranomon 2-chome, Minato-ku
Tokyo 105-8422 JAPAN
Phone:03-3582-3111

Contact: Yukiko Seto
General Manager
Media and Investor Relations Division
Japan Tobacco Inc.
Tokyo: +81-3-5572-4292

FOR IMMEDIATE RELEASE

**Gallaher to Make a Valuation Payment to Reynolds
Following the Termination of Joint Venture**

Tokyo, February 21, 2008 – Japan Tobacco Inc. (JT) (TSE: 2914) announced today that Gallaher Limited (Gallaher), a JT International (JTI)¹ Group company, has agreed with R.J. Reynolds Tobacco C.V. (RJRCTV)² that, following the termination of their joint venture, Gallaher would pay a total of €265 million to RJRCTV as a Valuation Payment, in accordance with the terms of the joint venture agreement.

In 2002, RJRCTV and an affiliate of Gallaher formed a Swiss joint venture, “R.J. Reynolds – Gallaher International SARL” (RGI), with the aim of manufacturing and marketing American-blend cigarettes in certain European markets. Each party holds a 50 percent stake in the joint venture.

JT acquired Gallaher Group Plc in April 2007, upon which RJRCTV elected to terminate the joint venture prior to its expiration date, pursuant to the terms of the joint venture agreement. Subsequently, the RGI business was terminated on December 31, 2007.

According to the joint venture agreement, the party whose licensed trademarks have the greater value shall, upon termination of the joint venture, make a payment to the other party of a mutually agreed amount calculated in accordance with the terms and principles set forth in the agreement.

Of the total payable amount of €265 million, Gallaher will pay €106 million on or before April 20, 2008 (London time), and €26.5 million will be paid in each of the following six years.

The Valuation Payment is booked as a liability in the purchase price allocation related to JT’s acquisition of Gallaher, which will begin to be amortized in the fiscal year ending March 31, 2009. As a result, no impact on JT’s earnings forecast is expected for the fiscal year ending March 31, 2008.

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¹ JTI is the international tobacco arm of JT.

² RJRCTV is an indirect wholly owned subsidiary of Reynolds American Inc.



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.