

April 13, 2010

Company Name: JAPAN TOBACCO INC.
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Stock Code: 2914
(Stock Exchanges: Tokyo/Osaka/Nagoya First Section; Fukuoka and Sapporo)
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Agreement with the Canadian authorities regarding cigarette contraband

We are announcing that our subsidiary JTI-Macdonald Corp.(formerly named RJR-Macdonald Inc.), has agreed with the Canadian authorities* to resolve all contraband problems in Canada in the 1990s, prior to our acquisition**, by concluding a comprehensive agreement designed to form a collaborative structure in order to address contraband and counterfeit problems related to tobacco, and by paying a fine of CAD 150million upon pleading to a regulatory offence in relation to acts which were alleged to have been committed prior to our acquisition.

In connection with this, we have agreed on the treatment of indemnification rights which are stipulated under the purchase agreement with R.J. Reynolds Tobacco Holdings (formerly named RJR Nabisco, Inc.)***, which owned the former RJR-Macdonald Inc. during the time when the acts are alleged to have been committed.

*Federal and all provincial and territorial governments

**RJR-Macdonald Inc. was an operating company in Canada which was acquired by JT from R.J. Reynolds Tobacco Company in 1999.

***At the same time, the RJR Group entered into another agreement with the Canadian authorities making payments totaling CAD400million.

Our group is actively involved in anti-illicit sales efforts, given contraband not only destroys the equity of the brands owned by our group, but they are a detriment to our customers and consumers. Following the agreement with the Canadian authorities, we believe a more efficient and constructive collaborative framework against contraband and counterfeits will be developed with them in addition to our group's anti-illicit sales efforts to date, thereby our brand equity will be better secured against contraband and counterfeits.

The Canadian authorities had filed criminal charges and civil claims against JTI-Macdonald Corp. in connection with allegations of contraband activities preceding our acquisition. Further, JTI-Macdonald Corp. filed for CCAA protection in order to continue its usual business operations following the seizure of receivables and receipt of a tax claim by Revenue Quebec. Given that all the contraband charges and claims against our group by the Canadian authorities will be withdrawn and shortly thereafter we believe JTI-Macdonald Corp. will be able to exit from CCAA protection, we are of the view that this agreement will be instrumental for our group's Canadian business to return to an ordinary state.

As a result of the agreements, including those between the RJR Group and the Canadian authorities, total payments to the Canadian authorities will be CAD550million. As a result of the indemnification rights on the RJRI Purchase Agreement in 1999 and subsequent negotiations with the RJR Group, JT Group and the RJR Group entered into an agreement whereby the JTI-Macdonald would incur CAD150million

among the aforementioned CAD550Million total.

Our payment will be reported by JTI-Macdonald Corp. as its extraordinary loss.

We will release Consolidated earning forecasts for the fiscal year ending March 31, 2011, including our payment on Consolidated Financial Results for the Fiscal Year Ended March, 2010 which will be disclosed on April 28,2010.