

[This is an English translation prepared for reference purpose only. Should there be any inconsistency between the translation and the original Japanese text, the latter shall prevail.]

[Cover]

Document to be filed:	Extraordinary Report
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	June 15, 2018
Company name (Japanese):	日本たばこ産業株式会社 (<i>Nihon Tabako Sangyo Kabushiki-Kaisha</i>)
Company name (English):	JAPAN TOBACCO INC.
Title and name of representative:	Masamichi Terabatake, President, Chief Executive Officer and Representative Director
Location of head office:	2-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-3582-3111 (Main)
Contact person:	Kei Nakano, Senior Vice President, Communications
Place of contact:	2-1, Toranomom 2-chome, Minato-ku, Tokyo, Japan
Telephone number:	+81-3-3582-3111 (Main)
Contact person:	Kei Nakano, Senior Vice President, Communications
Place where the document is available for public inspection:	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo)

1. Reason for filing

JT resolved, at a meeting of its Board of Directors held on June 15, 2018, to solicit subscribers for subscription rights to shares for its Directors (excluding Outside Directors) and Executive Officers (*sikkoyakuin*) on July 2, 2018, pursuant to the provisions of Articles 238, paragraphs (1) and (2) and Article 240, paragraph (1) of the Companies Act, therefore, this document is filed pursuant to the provisions of Article 24-5, paragraph (4) of the Financial Instruments and Exchange Act and Article 19, paragraph (2), item (ii-2) of the Cabinet Office Ordinance on Disclosure of Corporate Information.

2. Content of report

(1) Name Subscription rights to shares of Japan Tobacco Inc., 2018

(2) Number of issue 891

(3) Issue price

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 shares to be granted, with any amount less than ¥1 resulting from the calculation rounded up to the nearest yen.

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

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 regular trading of the shares of JT's common stock on the Tokyo Stock Exchange on July 2, 2018 (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 July 2, 2003 through July 2, 2018.
- 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 June 30, 2017 and December 31, 2017 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

(4) Total issue price To be determined

(5) 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 share ("Number of Granted Shares") shall be 200 shares.

If, however, after the date of allotment of the subscription right to share designated in (14) 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.

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

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 the respective person holding subscription rights to shares, who is registered in the registry of the subscription rights to shares ("Subscription Rights to Shares 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.

(6) Amount to be paid in 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.

(7) Exercise period of subscription rights to shares

From July 3, 2018 to July 2, 2048

(8) 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, subscription rights to shares are forfeited.

(9) Amount of inclusion in capital of the amount of issue price of shares if such are issued upon 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 Corporate Accounting Rules, 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.

(10) Matters concerning the transfer of subscription rights to shares

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

(11) Number of individuals solicited to apply for acquiring subscription rights to shares and breakdown thereof

344 subscription rights to shares are to be allotted to the 5 members of the Board of Directors (excluding Outside Directors) of JT and 547 subscription rights to shares are to be allotted to the 18 Executive Officers (*sikkoyakuin*) of JT who do not also serve as JT's members of the Board of Directors.

(12) In the event a solicited individual is a director, accounting advisor, executive officer (defined in the Companies Act), auditor or employee of a company provided for in Article 2 (2) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc., whereby said company is related to the filing company, relation between such company and the filing company

No items to report

(13) Arrangement between the solicited individual and the filing company

Subscription Right to Share Holders or their successors shall not transfer, pledge, mortgage, send a gift during life, make a bequest or otherwise dispose their subscription rights to shares either in whole or in part to a third party.

(14) Date of allotment of subscription rights to shares

July 2, 2018

(15) Payment date of money in exchange for subscription rights to shares

The payment date shall be July 2, 2018.

(16) 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 (5) 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.

(17) 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 become 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 (5) 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 (7) 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 (9) 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 (16) above.

9) Other conditions for exercising subscription rights to shares:

To be decided in the same manner as (8) above.