

LISTING MEMORANDUM DATED 3 DECEMBER 2007



€500,000,000

4.50 per cent. Step Up Notes due 2 April 2014

issued by

JTI (UK) Finance PLC

(incorporated with limited liability in England and Wales with registered number 6371681)

unconditionally and irrevocably guaranteed by

Japan Tobacco Inc.

(incorporated with limited liability in Japan)

The €500,000,000 aggregate principal amount 4.50 per cent. Step Up Notes due 2 April 2014 (the **Bonds**) were originally issued by Gallaher Group Plc (the **Original Issuer**) on 2 October 2006 (the **Issue Date**) and unconditionally and irrevocably guaranteed by Gallaher Limited (the **Original Guarantor**) under the £2,000,000,000 Medium Term Note Programme of the Original Issuer dated 26 September 2006 (the **Programme**).

Following an Extraordinary Resolution duly passed by the holders of the Bonds on 15 November 2007 and by virtue of the supplemental trust deed dated 3 December 2007 (the **Supplemental Trust Deed**) executed by, *inter alia*, Gallaher Group Plc, Gallaher Limited, JTI (UK) Finance PLC (the **Issuer**), Japan Tobacco Inc. (the **Guarantor** or **JT**) and HSBC Trustee (C.I.) Limited (the **Trustee**), the Issuer has substituted the Original Issuer as principal debtor and the Guarantor has similarly substituted the Original Guarantor as guarantor under the original trust deed in respect of the Bonds dated 8 February 2001, as amended by the First Supplemental Trust Deed dated 7 September 2001, the Second Supplemental Trust Deed dated 21 May 2004 and the Third Supplemental Trust Deed dated 26 September 2006 (the **Trust Deed**).

Interest on the Bonds is payable annually in arrear on 2 April in each year from and including 2 April 2008. The rate of interest payable on the Bonds is subject to adjustment from time to time in the event of a Step Up Rating Change or Step Down Rating Change, as the case may be, as more fully described in the Annex to the Final Terms dated 29 September 2006 (the **Final Terms**) – see Annex 2.

The Bonds may not be redeemed prior to 2 April 2014 (the **Maturity Date**) except as mentioned below. The Issuer may, however, at its option redeem all (but not some only) of the Bonds at any time at their principal amount if either the Issuer or the Guarantor becomes obliged to pay certain additional amounts in respect of taxes, in either case together with interest accrued to but excluding the date of redemption, as more fully described under “Terms and Conditions of the Bonds – Redemption and Purchase” in the Programme (see Annex 1) as modified by the Final Terms (see Annex 2).

Application has been made to the *Société de la Bourse de Luxembourg* in its capacity as the market operator of the Euro MTF Market under the Luxembourg Act on Prospectuses for Securities (*loi relative aux prospectus pour valeurs mobilières*) dated 10 July 2005 (the **Law on Prospectuses for Securities**) for the Bonds to be listed on the official list of the Luxembourg Stock Exchange and to be traded on the Euro MTF Market of the Luxembourg Stock Exchange (the **Euro MTF Market**). The Euro MTF Market is not a regulated market for the purposes of the Law on Prospectuses for Securities or the Investment Services Directive (93/22/EEC).

The Bonds are currently listed on the official list maintained by the UK Listing Authority (the **UK Official List**) and admitted to trading on the London Stock Exchange plc. The Issuer intends to apply for the removal of the Bonds from the UK Official List and from trading on the London Stock Exchange (the **De-listing**) as soon as practicable following the listing of the Bonds on the official list of the Luxembourg Stock Exchange and admission to trading on the Euro MTF Market.

This document (the **Listing Memorandum**) can only be used for the purposes for which it has been published. It constitutes a prospectus pursuant to Part IV of the Law on Prospectuses for Securities. However, this Listing Memorandum has not been approved as a prospectus for admission to trading of the Bonds on any market in the European Economic Area which has been designated as a regulated market for the purposes of Directive 2003/71/EC (the **Prospectus Directive**).

The Bonds have not been, and will not be, registered under the United States Securities Act of 1933 (the **Securities Act**) and are subject to United States tax law requirements. The Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948 as amended, the **FIEL**) and disclosure under the FIEL has not been and will not be made with respect to the Bonds. Neither the Bonds nor any interest therein may be offered, sold, resold or otherwise transferred, directly or indirectly, in Japan to or for the account of any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and all other applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities. As used in this paragraph, a “resident of Japan” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

This Listing Memorandum may not be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

The Bonds are in bearer form and in the denomination of €50,000 each. The Bonds were initially in the form of a temporary global bond (the **Temporary Global Bond**), which was deposited with a common depository for Euroclear Bank, S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme, Luxembourg (**Clearstream, Luxembourg**). The Temporary Global Bond was exchanged for interests in a permanent global bond (the **Permanent Global Bond**) in 2006. The Permanent Global Bond will be exchangeable in certain limited circumstances in whole, but not in part, for the Bonds in definitive form in the denomination of €50,000 each (each a **Definitive Bond**).

IMPORTANT INFORMATION

Having taken all reasonable care to ensure that such is the case, the information contained in this Listing Memorandum is, to the best of the Issuer's and the Guarantor's knowledge, in accordance with the facts and contains no omissions likely to affect its import. The Issuer and, to the extent the information relates to the business of the Guarantor, the Guarantor accept responsibility for the information contained in this Listing Memorandum.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor and/or the Bonds other than as contained in this Listing Memorandum or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Guarantor.

Neither the delivery of this Listing Memorandum nor the listing of any Bonds shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Listing Memorandum.

This Listing Memorandum does not constitute an offer of, or an invitation to subscribe for or purchase, any Bonds.

Before making an investment decision, prospective purchasers should inform themselves about, and make a detailed evaluation of, the nature of, and financial risks associated with an investment in, the Bonds. For further details see "Risk Factors".

The distribution of this Listing Memorandum in certain jurisdictions may be restricted by law. Persons into whose possession this Listing Memorandum comes are required by the Issuer and the Guarantor to inform themselves about and to observe any such restrictions.

In particular, the Bonds have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered in the United States or to any U.S. persons.

In this Listing Memorandum, unless otherwise specified, references to "**EUR**", "**Euro**" and "**€**" are to the single currency introduced at the start of the Third Stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended. References to "**sterling**", "**pound**" and "**£**" are to the lawful currency of the United Kingdom and references to "**yen**" and "**JPY**" are to the lawful currency of Japan.

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RISK FACTORS

The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their respective obligations under the Bonds. All of these factors are contingencies which may or may not occur; neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with the Bonds are also described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Bonds, but the Issuer and/or the Guarantor may be unable to pay interest, principal or other amounts on or in connection with any Bonds for other reasons and the Issuer and the Guarantor do not represent that the statements below regarding the risks of holding any Bonds are exhaustive. Investors should also read the detailed information set out elsewhere in this Listing Memorandum and any documents deemed to be incorporated by reference herein and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's and the Guarantor's ability to fulfil their obligations under the Bonds

The Guarantor operates in countries and regions that have a diverse range of political, legal, economic, trade and regulatory structures

The Guarantor and its subsidiaries including the Issuer (the **JT Group**) are subject to the same risks as any other diversified multinational manufacturing business. The JT Group has sales in approximately 120 countries worldwide. The JT Group's net sales, profit and financial condition are influenced by the economic, regulatory and political situations in the countries and regions in which it has operations, which can be unpredictable and outside the control of the JT Group. Some countries in which the JT Group operates face the threat of increasing civil unrest and can be subject to regular changes in regime. In others, unforeseen natural disasters, terrorism, conflict and the threat of war may have a significant impact on the business environment. Some countries maintain trade barriers or adopt policies that favour domestic producers, preventing or restricting sales by the JT Group. There can be no assurance that political, social, legal, economic, trade or other developments will not have an adverse impact on the JT Group's investments and businesses or on the JT Group's net sales, profits and financial condition.

Because we derive the majority of our net sales and profits from sales of tobacco products in Japan, reduction in tobacco consumption in Japan may adversely affect our results of operations

Prior to the acquisition of Gallaher Group Plc by the JT Group (see page 24 for further details), sales of tobacco products in Japan, mostly cigarettes, accounted for a substantial majority of the Guarantor's overall net sales and profits. For the year ended 31 March 2007, net sales and operating profit of the Guarantor's domestic tobacco business constituted 71.6% and 73.9% of total net sales and operating profit, respectively. While a portion of these figures included sales to China, Hong Kong and Macau, most of the sales in the Guarantor's domestic tobacco business were attributable to sales in Japan. A substantial majority of such sales in Japan represented sale of tobacco products manufactured by us, with the rest relating to the Guarantor's distribution in Japan of products of foreign tobacco manufacturers. Even after the acquisition of Gallaher Group Plc, the domestic tobacco business is expected to continue to be a major contributor to the JT Group's net sales and profits.

The volume of unit sales of tobacco products in Japan has been declining and is expected to continue to decline as a result of factors such as demographic changes in the adult population, increasing social concern regarding the health effects of smoking, legislation and administrative and industry guidelines on tobacco issues, and the impact of tax increases in the past resulting in higher retail prices for cigarettes. The JT Group expects that demand in the Japanese tobacco market will continue to decline.

Such decline in cigarette consumption in Japan may adversely affect the JT Group's results of operations.

Increasing dependence on tobacco sales in the Commonwealth of Independent States and other developing and emerging markets

The JT Group is increasing its tobacco sales in the Commonwealth of Independent States (CIS) and other developing and emerging markets. The economic conditions in these countries have in the past suffered from substantially depressed economies, devaluation of currencies and an unstable political and commercial environment. Any change or deterioration in the current political and economic conditions may affect the profitability of the JT Group's operations in these countries. The JT Group's expansion into both developing and emerging markets may present more challenging operating environments, where margins in general may be lower and in which commercial practices may be of a lower standard than those in which it has historically operated.

Some of the countries in which the JT Group operates could be subject to certain international sanctions. The JT Group seeks to comply fully with international sanctions to the extent they are applicable to it. In doing so, the JT Group may be restricted in the sources of products that it supplies to these countries or by the nationality of the personnel that it involves in these activities. Future changes in international sanctions may prevent the JT Group from doing business in certain jurisdictions entirely. Further, the JT Group may suffer from adverse public reaction or reputational harm as a result of doing business in countries that have been identified as state sponsors of terrorism by the US State Department or that are subject to international sanctions, notwithstanding that these sanctions do not apply to the JT Group as a Japanese corporation and regardless of the materiality of its operations in such countries to the JT Group's overall operations or financial condition. Any such reaction could have a material adverse effect on the JT Group's net sales, profit and financial condition.

Competition from other tobacco manufacturers may reduce share of the tobacco market in Japan and in overseas markets and may adversely affect profitability

The Guarantor's principal competitors in Japan and worldwide are international tobacco manufacturers such as Altria Group and British American Tobacco, as well as local manufacturers in various markets in which the JT Group sells tobacco products.

In Japan, competition with foreign tobacco manufacturers has increased significantly since the liberalisation of restrictions on the importation of tobacco products in 1985 and the suspension of customs duties on imported tobacco in 1987. The Guarantor's share of cigarette market in Japan has been declining – it was 64.8% for the year ended 31 March 2007, down slightly from 66.4% for the previous year. The decline reflects active marketing and promotion efforts by foreign tobacco manufacturers as well as diversified consumer preferences in Japan. The Guarantor is required to purchase substantially all domestically produced leaf tobacco, which in general is substantially more expensive than foreign leaf tobacco due to higher domestic production costs. Such requirement could become one of the factors which may adversely impact the JT Group's competitive position in Japan, if foreign tobacco manufacturers continue to increase their market share by increasing marketing and promotion efforts or lowering their unit prices in Japan.

Internationally, the JT Group has expanded its operations primarily through acquisitions, such as the acquisition of non-U.S. tobacco operations of RJR Nabisco, Inc. in 1999 and that of Gallaher Group Plc in 2007. As a result of these acquisitions, we now compete more extensively with major foreign tobacco manufacturers as well as local manufacturers in markets outside of Japan. Market share overseas fluctuates due to factors including competition, pricing strategy, changes in consumer preferences, brand recognition and economic conditions in each market. Competition in those markets may result in reduced market shares, and smaller margins because of downward pricing pressure and higher sales promotion and advertising cost.

Increases in excise, consumption or other taxes on tobacco products in Japan or abroad may adversely affect the JT Group's sales of tobacco products and profitability

The sale of tobacco products in Japan is subject to national and local tobacco excise taxes and national tobacco special excise taxes calculated on the basis of sales volume, as well as consumption tax calculated based on the price of the product. The Japanese government reviews tax policy annually as part of its budgetary process. Outside Japan, tobacco products are subject to taxes, the nature and rates of which vary country by country. It is not possible to accurately predict any change or increase in taxes applicable to tobacco products in Japan or abroad.

If an increase occurs in the tax applicable to tobacco products in Japan or abroad, the JT Group will need to decide whether and to what extent such tax increase will be reflected in the retail price of tobacco products. In considering any price increase, the JT Group takes into consideration various market conditions, including the potential impact on cigarette consumption and expected reactions of the competitors. Reflecting the tax increase in a retail price increase may reduce consumption or cause demand to shift towards lower priced brands; on the other hand, absorbing the tax increase without a retail price increase would reduce profitability. For further details on tobacco taxation, see “Regulations”.

Restrictions on promotion, marketing and usage of tobacco products in Japan and abroad might reduce the demand for tobacco products and adversely affect the JT Group’s results

The Tobacco Business Law of Japan and related regulations (the **Tobacco Business Law**) contain restrictions on the sale of tobacco products in Japan, including restrictions on advertising activities and in particular a requirement that cigarette packages contain cautionary statements with respect to the effect of smoking on health. Pursuant to authority granted by the Tobacco Business Law, the Minister of Finance has established guidelines concerning advertisements for tobacco products. The Tobacco Institute of Japan has also established voluntary restrictions on advertisement and sales promotion of tobacco products, including voluntary restrictions on television and radio advertisements. For further details, see “Regulations”.

In recent years, restrictions on smoking in public places and private facilities, including the creation of designated smoking areas, have increased. The Japanese Ministry of Health, Labour and Welfare recommended in its 2000 report that, among others, public awareness about the effects of smoking on health should be further promoted; greater efforts be made to prevent smoking among minors; the effect of passive smoking on non-smokers be reduced; and the efforts of smokers seeking to quit or reduce smoking be supported. The Health Promotion Law, which came into effect on 1 May 2003, requires that administrators of places accessed by many people such as schools and government offices should be encouraged to take necessary measures to prevent passive smoking.

Abroad, there is a similar trend towards increasingly severe restrictions on promotion, marketing and usage of tobacco products. The European Union (the **EU**) adopted a directive on tobacco products in May 2001 requiring EU member states to approximate their laws and regulations concerning maximum tar, nicotine and carbon monoxide levels, warning labels on individual packages and measuring and reporting of ingredients and other product information. The Framework Convention on Tobacco Control of the World Health Organization (the **Framework Convention**) was adopted by the 56th World Health Assembly in May 2003. This convention calls for, among other measures, price and tax measures, measures for protection from exposure to smoke, regulations on the content and emissions of tobacco products, regulation of tobacco product disclosures, advertising, promotion and sponsorship restrictions, packaging and labelling restrictions, measures to prevent the illicit trade of tobacco products and further restrictions on sales to minors.

In light of such restrictions and increasing social awareness regarding tobacco usage, tobacco manufacturers worldwide including the JT Group have been adjusting their promotional and marketing efforts, including cutbacks on print and television advertisements, outdoor advertisements, product placements and promotional events. Although it is not always possible to predict future legislation, regulation or industry guidelines relating to tobacco products, we expect that the level of restrictions on the promotion, marketing and usage of tobacco products will continue to increase in Japan and elsewhere. Trends towards tighter tobacco-related restrictions might have contributed to, and might continue to contribute to, reduction in demand for tobacco products which may adversely affect the JT Group’s results of operations. Any change in marketing methods could furthermore impact the JT Group’s marketing expense.

New labelling restrictions may make it difficult to market brands which include terms such as “mild” or “light”

The Framework Convention contains a provision that each signatory shall, within a period of three years after the convention comes into force, adopt and implement, in accordance with its national law, effective measures to ensure that tobacco product packaging and labelling do not promote a tobacco product by any means likely to create an erroneous impression about its characteristics or other matters, including any term that creates the false impression that a particular tobacco product is less harmful than other tobacco products. These may include terms such as ‘low tar’, ‘light’, ‘ultra light’ and/or ‘mild’. If ratified by governments worldwide, the Framework Convention or any other similar restrictions could deprive the JT Group of the benefit of the intangible value attached to trademarks for ‘mild’ or ‘light’ branded cigarettes, damage their value as global brands and require the JT Group to expend significant resources on taking measures in response to the imposition of the restrictions. For further details please see “Regulations”.

Adverse litigation and regulatory results could have an impact on profits

There are a number of instances where litigation or regulatory proceedings, hearings or claims are actual, pending or prospective or otherwise threatened against the JT Group. Historically, such claims have focussed upon smoking and health related matters. More recently, regulatory, anti-trust and tax related claims have become more prevalent.

The JT Group could incur substantial costs in connection with litigation in Japan or elsewhere in the world alleging damages resulting from the usage of tobacco products or exposure to tobacco smoke

The JT Group is subject to litigation in Japan and elsewhere alleging adverse health effects resulting from the use of tobacco products or exposure to tobacco smoke. As at the date of this Listing Memorandum, there was one case of tobacco-related proceedings brought against the Guarantor in Japan. Lawsuits outside of Japan related to smoking and health that involve the JT Group as defendants include claims filed by individuals, medical expense recovery lawsuits initiated by governments and insurers and class actions for damages and injunctive relief. As at the date of this Listing Memorandum, a total of 16 such lawsuits were brought against a company within the JT Group or for which RJ Reynolds Tobacco Company (**RJR**) is seeking indemnification following the Guarantor’s acquisition of RJR Nabisco Inc.’s non-U.S. tobacco business.

Plaintiffs in smoking and health class action suits, health care recovery cases and other tobacco-related litigation sometimes seek billions of U.S. dollars in compensation. While to date the JT Group has never lost a case or paid any settlement in connection with any smoking and health-related litigation, the JT Group cannot predict the outcome of any pending or future litigation in which the JT Group has been named as a defendant. Whilst the Guarantor was itself not named in lawsuits brought by certain U.S. states against major tobacco manufacturers, JT International U.S.A., Inc. (**JTI USA**), the Guarantor’s U.S. subsidiary, has been participating in the Master Settlement Agreement with such U.S. states since 1999 in order to continue to market the JT Group’s cigarette brands in the United States. The Master Settlement Agreement requires, among other things, that JTI USA pay annual settlement amounts calculated based on the JT Group’s market share in the United States.

Regardless of the outcome of any litigation, the costs of defending claims may be substantial. There is also no assurance that publicity regarding pending or future litigation against the JT Group and others related to smoking will not affect the acceptance of, or cause an increase in government and other restrictions on, smoking in Japan or elsewhere. The JT Group expects that new health-related claims will continue to be made in the future. Class action lawsuits are currently not possible under Japanese law, but there is no guarantee that such actions will not be introduced in the future. If the number of lawsuits increases substantially, the JT Group may face large legal costs, negative publicity and/or various product restrictions. If the outcome of any of these cases is unfavourable to the JT Group, not only would it directly impact the JT Group’s business and results of operations, but it could also attract negative publicity, encourage further restrictions on smoking and induce similar lawsuits to be brought

against the JT Group or third parties in favour of whom the Guarantor has given indemnity. Any such development could have a material adverse effect on the JT Group's business and results of operations.

The JT Group may incur costs in connection with measures that may be taken to prevent smuggling and counterfeiting of tobacco products and/or tax claims related to smuggling

There is widespread smuggling and counterfeiting of tobacco products, which is one of the major issues that the tobacco industry is confronting. In 2004 Philip Morris International announced that they had signed a 12-year cooperation agreement with the European Commission to combat the illegal trade in cigarettes worldwide. Philip Morris International agreed to make funds available (approximately US\$1.25 billion over 12 years) for anti-contraband and anti-counterfeit measures, whilst the Commission and the relevant member states terminated all prior disputes relating to historic contraband.

The JT Group does not and will not supply cigarettes for the contraband market (and is committed to measures to prevent the JT Group's products being traded in an illicit market). It is however not possible to predict the outcome of any future measures that the JT Group may take to prevent tobacco smuggling or counterfeit.

In Canada, there are Canadian federal and provincial contraband related claims and charges against certain JT Group companies including JTI-Macdonald. In the event that JTI-Macdonald bears any fines, damages or costs associated with these claims or charges, JT's view is that it will be entitled to seek indemnification from RJR Nabisco Inc or its successors, based on the contract entered among JT, RJR Nabisco Inc. and RJR at the time of JT's acquisition of RJR Nabisco Inc's non-US tobacco operations in 1999. However, there is no assurance that the JT Group will be indemnified in whole or in part for any fines, damages or costs associated with these cases. For further details please see "Legal Proceedings".

Our operating results of tobacco business in Japan and abroad may be affected by fluctuations in the price of leaf tobacco and non-tobacco material

Leaf tobacco is the most important raw material in the manufacture of tobacco products. As with other agricultural commodities, the price of leaf tobacco tends to fluctuate. Different regions experience variations in weather patterns which affect crop quality and yields. Though the effect of price fluctuations on the JT Group's operating performance may be limited by the geographic spread of its leaf tobacco sources and by certain months of inventory of leaf tobacco held by the JT Group, which reduces the impact of price fluctuations on profit due to the adoption of the average cost method for leaf tobacco costs, any significant increase in leaf tobacco prices could affect the JT Group's results of operations.

In addition, the JT Group has to source non-tobacco material for use in its products, for example, filter tow and papers. Any adverse fluctuations in prices or consolidation in the non-tobacco materials' supply market could have adverse effects on the JT Group's pricing and ability to source these materials efficiently and cost effectively.

Because the Guarantor has a statutory obligation to enter into contracts with domestic tobacco growers to purchase all of the leaf tobacco produced, which is generally priced substantially higher than imported leaf tobacco, the Guarantor's competitive position and profitability in Japan may be adversely impacted by higher manufacturing costs

The Tobacco Business Law requires the Guarantor to enter into purchase contracts annually with each domestic tobacco grower who intends to cultivate leaf tobacco for sale to the Guarantor. The Guarantor is obliged to purchase all leaf tobacco produced pursuant to such contracts which is suitable for the manufacture of tobacco products. The Tobacco Business Law also stipulates that a statutory body (*hatabako shingikai*), composed of tobacco grower representatives and academic appointees (approved by the Minister of Finance), be consulted to determine prices and the aggregate cultivation area of leaf tobacco; the Guarantor is required to respect the opinions expressed by the body. For further details see "Regulations".

These statutory requirements adversely impact Guarantor's competitive position in Japan as against foreign competitors which are under no such obligations. For the year ended 31 March 2007, the price at which the Guarantor purchased unprocessed domestic leaf tobacco was approximately four times that of foreign processed leaf tobacco. For the same period, approximately 40% of the Guarantor's total production (i.e. volume by weight of leaf tobacco used for the manufacture of tobacco products in Japan for the domestic market) were sourced within Japan. Any increase in the price of domestically grown leaf tobacco or the volume of leaf tobacco the Guarantor is obliged to purchase could further adversely affect its competitive position and profitability.

Uncertainty of identifying further acquisition opportunities

The JT Group has in recent years engaged in acquisitions, which have been complementary to the organic growth of the JT Group. Additional acquisition is dependent on, among other things, identifying suitable acquisition or investment opportunities and successfully consummating those transactions. Anti-trust or similar laws may make it difficult for the JT Group to pursue additional acquisitions if regulators in countries where the JT Group and potential acquisition targets operate believe that a proposed transaction will have an adverse effect on competition in the relevant market or economic region. Even if the JT Group is able to identify candidates for acquisition, it may be difficult to complete transactions. Competition for acquisitions could limit the JT Group's ability to grow by this method or could raise the price of acquisitions and make them less attractive to it. In addition, if the JT Group is unable to secure necessary financing, it may not be able to grow its business through acquisition.

Any acquisitions or similar investments may not yield the anticipated results and may adversely affect the Guarantor's financial condition and results of operations

The JT Group has made a number of acquisitions in recent years to expand its business. The non-U.S. tobacco operations of RJR Nabisco, Inc. in 1999 and Gallaher Group Plc in 2007 are the most notable acquisitions, but the JT Group has also made other acquisitions in the area of tobacco, pharmaceutical and foods businesses. It may consider further acquisitions, investments in other companies, joint ventures or similar arrangements in the tobacco, pharmaceutical or foods industries if suitable opportunities arise. To the extent that any acquisition or similar investments does not generate the operational and financial results expected, the JT Group may be required to expend additional financial or managerial resources. There can be no assurance that the Guarantor's expansion strategy in Japan or abroad will be successful in yielding anticipated results.

Also, the goodwill arising out of an acquisition by a JT Group company which adopts US GAAP may be subject to impairment if the fair value of goodwill falls below its book value. As of 30 September 2007, such goodwill accounted for approximately 40% of the Guarantor's consolidated assets primarily because JTI (UK) Management Limited, a subsidiary of the Guarantor and the acquiring vehicle for Gallaher Group Plc adopts US GAAP. The impairment of goodwill may adversely affect the JT Group's financial condition and results of operations.

Termination of joint venture agreement with Reynolds American, Inc.

Certain subsidiaries of Gallaher Group Plc and Reynolds American, Inc. (i.e. Austria Tabak GmbH and R.J. Reynolds Tobacco C.V., respectively) are parties to a joint venture involving the manufacture, marketing, distribution and sale of American blend cigarettes in certain European countries including France, Italy and Spain. Each party holds a 50% interest in the joint venture entity, R.J. Reynolds-Gallaher International Sàrl (a Swiss limited liability company).

Under the terms of the agreement each party can terminate the joint venture upon the occurrence of certain events, including change of control in the other party. Following the Guarantor's acquisition of Gallaher Group Plc in April 2007, R.J. Reynolds Tobacco C.V. gave notice on 15 May 2007 that it wished to terminate the joint venture due to the Gallaher change of control and specifying 30 November 2007 as the effective date of termination. The termination negotiation is underway and may result in a payment of a significant amount by the JT Group.

Difficulty in developing and managing growth

Part of the JT Group's business strategy is to pursue growth and start-up operations in new and existing markets. The JT Group's ability to achieve its planned growth depends on a number of factors, including: (a) the JT Group's ability to compete in existing markets and identify new markets in which it can successfully operate; (b) the access to additional financial resources; (c) the JT Group's ability to hire, train and retain appropriately skilled management and other employees; and (d) the increased cost to the business of pension funding and regulations relating to employees.

The JT Group will also need to adapt its operating systems to accommodate the expanded operations. Such planned expansion may not be achieved or the JT Group may not be able successfully to manage the expanded operations. Failure to manage such growth effectively could adversely affect the JT Group's net sales, profit and financial condition and its prospects.

Efforts to reduce the dependency of the JT Group results of operations and prospects on the tobacco business by expanding pharmaceutical and foods businesses may not succeed

The JT Group is seeking to diversify its business operations and reduce its dependency on the tobacco business by expanding pharmaceutical and foods businesses. However, such efforts may not succeed for reasons such as:

Risks and uncertainties in respect of the pharmaceutical business:

- the Guarantor's ability to develop new commercially viable pharmaceutical products;
- significant time as well as research and development expenses needed to develop new pharmaceutical products;
- risk that even if the Guarantor is able to develop new commercially viable pharmaceutical products, net sales derived from such products may be insufficient to recoup fully the costs of research and development associated with the products;
- dependence in part on the Guarantor's ability to successfully license and market pharmaceutical products developed by other companies;
- high dependence on a small number of key pharmaceutical products for the JT Group's net sales;
- highly regulated nature of the pharmaceutical industry;
- degree of efforts of third parties with which the JT Group enters into arrangement to develop or market pharmaceutical products;
- risk that the JT Group may have to terminate the research and development and/or marketing of certain products due to the decisions of its business partners with which the JT Group enters into arrangement to develop or market pharmaceutical products and/ or factors beyond the JT Group's control;
- dependence on a small number of suppliers for key materials;
- the JT Group's ability to produce or outsource manufacturing of certain pharmaceutical products efficiently and cost-effectively on a large scale;
- risk that commercial success that the JT Group's pharmaceutical product enjoys could be curtailed by newer products offered by competitors and/or government-mandated price reduction and/or other pricing pressures;
- risk that the JT Group may be forced to discontinue research into, production or development of, or sales of a pharmaceutical product due to the occurrence of an unexpected side effect or insufficient clinical benefit; and
- risk that the JT Group may be subject to litigation, including a product liability claim, in connection with the JT Group's products.

Risks and uncertainties in respect of the foods business:

- the JT Group's ability to develop food products which meet consumer needs and preferences;
- short product life of many food products;
- competition from larger processed foods and beverage companies with larger distribution channels and networks, stronger development capabilities and longer operating histories;
- risk that the JT Group may be subject to product liability and other claims if its food products cause injury or contain defects;
- the JT Group's ability to improve its cost structure and achieve economies of scale and thereby generate operating income;
- government regulations on the production or distribution of food products;
- fluctuations in the cost of raw materials for food products;
- the JT Group's ability to market its food products in an efficient manner;
- the JT Group's ability to produce or outsource manufacturing of food products in an efficient, stable and cost effective manner; and
- reliance on domestic outsourcing of all beverage manufacturing.

We cannot provide any assurance that the JT Group's non-tobacco businesses will generate sufficient profits to reduce its dependence on the tobacco business.

The JT Group is exposed to funding and liquidity, foreign exchange rate, interest rate, and counterparty risks

Funding and liquidity risks may expose the JT Group to shortages of cash and cash equivalents needed in the JT Group's operations and for refinancing of existing debt. The JT Group cannot assure that it will at all times have access to the bank and capital markets and that the failure to achieve such access will not have an adverse effect on the JT Group's funding and liquidity position and on its credit ratings.

The JT Group is exposed to changes in currency rates on the translation of the net assets of overseas subsidiaries into the JT Group's reporting currency, Japanese yen. The JT Group is also exposed to currency changes from the translation of profits earned in overseas subsidiaries; these exposures are not normally hedged. Exposures also arise from foreign currency denominated trading transactions, part of which are hedged, but it is not possible to completely eliminate such exposures. The JT Group maintains both floating and fixed rate debt. Where appropriate the JT Group also uses derivatives for interest rate risk management. Changes in currency values and interest rates could have an adverse impact on the financial condition or operations of the JT Group.

Cash deposits and other financial instruments give rise to credit risk and, in the case of other financial instruments, liquidity risk on the amounts due from counterparties. As of 30 September 2007, JTI-Macdonald Corp., a Canadian subsidiary of the Guarantor, held 171 million Canadian dollars in third party asset-backed commercial papers (ABCPS), which were not redeemed at the original maturities, due to the liquidity problem affecting the Canadian ABCP market. The failure of any counterparty to meet its obligations to the JT Group could have an adverse affect on the financial condition or operations of the JT Group.

Distribution interruption and potential credit risk with the distributors for tobacco products overseas

In certain markets, distribution of the JT Group products is through channels managed by third parties, and is often licensed by governments. In such circumstances, loss of distribution, and therefore a reduction in sales volumes and revenues, is a possibility.

In some of the JT Group's markets it makes the majority of its sales to small numbers of independent distributors. This can mean that the JT Group has large credit exposures with a relatively limited number of customers. Whilst the JT Group has robust credit control procedures in place throughout its business, the failure of one of these customers to pay receivables due to the JT Group could have a material effect on the Group's total profit from operations and on the cash flow of the JT Group's business. The JT Group's business relationships with distributors internationally are governed by the JT Group's policy. While the JT Group closely monitors adherence to this policy, a material breach by any distributor could force the JT Group to discontinue trade, which could have a material effect on the JT Group's total profit from operations, cash flow and financial condition.

Any defect in products or non-compliance with applicable regulations may cause harm to users or lead to expensive product recalls or product liability claims and adversely affect the JT Group's results of operations and its reputation

The JT Group is primarily engaged in the design, development, manufacture and marketing of tobacco, pharmaceutical and foods products, and invests heavily in the quality and image of the JT Group's products and company itself. If any product of the JT Group causes harm to customers, is otherwise found to be defective or does not comply with applicable regulations, the JT Group may be forced to conduct expensive product recalls and/or find itself liable for product liability and other claims. Although the JT Group maintains a general liability and product liability insurance, coverage may not be sufficient to offset potential liabilities from significant product liability or other claims. In addition, negative publicity associated with a product recall or any claim, regardless of merit, may harm the reputation of the products and the JT Group. A successful claim against any entity within the JT Group in excess of the insurance coverage or negative publicity associated with any defective or allegedly defective product or product recall could adversely affect the JT Group's results of operations and its reputation.

Any claims relating to improper handling, use, manufacture, storage or disposal of hazardous materials used in the JT Group's business, such as radioactive and bacteriological materials, may also adversely affect its results of operations

The JT Group's research and development and manufacturing processes involve the controlled use of hazardous materials, including radioactive materials and bacteriological materials, and produce hazardous waste. It is not possible to eliminate completely the risk of accidental contamination or discharge and any resultant injury from these materials or waste. Real properties owned or used by the JT Group either now or in the past, or those we may own or use in the future, may contain undetected contamination resulting from production activities or the activities of prior owners or occupants of those sites (including the JT Group). National and local laws and regulations in Japan and abroad impose substantial potential liability for the improper use, manufacture, storage, handling and disposal of hazardous materials as well as land contamination. The JT Group may be sued for any injury or contamination that results from the JT Group's use or the use by third parties of these materials. The JT Group currently does not have an insurance coverage for such injury or contamination. The reputation of the JT Group may be harmed from publicity related to any alleged or actual injury or contamination. Compliance with environmental laws and regulations may be expensive, and current or future environmental regulations may impair the JT Group's research, development and production efforts.

Claims involving intellectual property infringement could require the JT Group to spend substantial time and expenses and adversely affect its ability to develop and market products

The JT Group's commercial success depends in part on its ability to conduct its business without infringing patents and other proprietary rights of third parties and breaching any licences granted by third parties. Any person may have filed, and may in the future file, patent applications covering substance composition, techniques and methodologies relating to products and technologies that the JT Group has developed or intends to develop or use. If patents relevant to the JT Group's operations were to be issued to third parties, the JT Group may have to rely on licences from such third parties, which may not be available on commercially reasonable terms in a timely manner, or not at all.

Regardless of their merit, claims by third parties that the JT Group's use of any technologies or substances infringes their patents could result in the JT Group incurring substantial costs, including the diversion of management and technical resources, in order to defend against such claims. In the event that a claim of intellectual property infringement brought against the JT Group is successful, the JT Group may be required to pay damages and incur ongoing expenses to pay for licences. It may not be possible to obtain these licences in a timely manner at a reasonable cost, or not at all. Defending claims and/or the failure by the JT Group to obtain the licences required to conduct its business could adversely affect its ability to develop and commercialise products.

If the JT Group does not adequately protect its intellectual property, third parties may be able to use the JT Group's technology

The JT Group is able to protect its intellectual property rights and prevent unauthorised use by third parties only to the extent that the JT Group's technologies and products are covered by valid and enforceable patents or are effectively maintained as trade secrets. The JT Group applies for patents covering our technologies and products as and when appropriate. However, these applications may be challenged or may not necessarily result in issued patents. The JT Group's existing and future patents may not be sufficiently broad to prevent others from using the technologies or from developing competing products. Furthermore, any person may independently develop similar or alternative technologies or design their products around the existing JT Group patents. The JT Group's intellectual property rights may be challenged, invalidated or fail to provide competitive advantages. Government action may also affect the value of the JT Group's intellectual property. The laws of certain countries may not sufficiently protect intellectual property rights to the extent expected by the JT Group, and the JT Group may encounter significant problems in protecting and defending such rights in some jurisdictions.

Cost of compliance with regulatory requirements

The JT Group is subject to increasing costs associated with regulatory requirements, for example pension funding obligations and compliance with enhanced corporate governance and specific regulations impacting upon the tobacco sector within Japan and elsewhere. Changes in asset returns, salary increases, inflation, long term interest rates and other actuarial assumptions could have an adverse impact on the financial condition or operations of the JT Group.

The JT Group may be adversely affected by its significant market position in certain markets

The JT Group has significant market shares in certain markets in which it operates. As a result, the JT Group may be subject to investigation for alleged abuse of its position in these markets, which could result in adverse regulatory action by the authorities, including monetary fines and negative publicity.

In particular, in August 2003, the UK Office of Fair Trading (**OFT**) notified the former Gallaher group of an enquiry into vertical agreements between manufacturers and retailers in the UK cigarette, tobacco and tobacco-related markets. The JT Group is co-operating with the enquiry that remains at an information gathering stage. At this stage, it is not possible to assess whether or not the OFT will reach an adverse decision. Similarly, it is not possible, in the event that an adverse decision is reached, to assess the extent (if any) of any fines. However, in the event that the OFT considers a company has infringed UK competition law, it has the authority to levy a fine against the infringing company. Until 30th April, 2004, the maximum fine could not exceed 10% of that company's UK turnover during the relevant period. As from 1st May, 2004, that limit is set by reference to worldwide turnover although it is unclear whether this new limit applies retrospectively. The Group has been advised that any fine would be net of duty payments. In the three years ended 31st December, 2003, the former Gallaher group's aggregate UK net turnover was £1,776m (and its worldwide turnover was £8,701m). In the event of an adverse decision by the OFT, however, the JT Group would have rights of appeal. As at the date of this Listing Memorandum, no notice has been filed by the OFT indicating its intention to reach an adverse decision in relation to this matter. The JT Group will defend its own position in relation to this enquiry.

Reliance on information technology

The JT Group is increasingly reliant on information technology systems for its internal communications, controls and reporting and for communication with customers and suppliers. A significant disruption, due either to computer viruses or malicious intrusions, to these systems for a significant period of time could affect the JT Group's communications and operations.

The Issuer is a special purpose vehicle

The Issuer is a special purpose vehicle which was formed for the purposes of implementing certain reorganisation plans begun by JT (the **Gallaher Integration Plan**, see "Japan Tobacco Inc. – Recent Developments") and replacing the Original Issuer in connection with the Bonds on the terms set out in this Listing Memorandum. The Issuer's ability to pay interest on or redeem the Bonds depends solely on any interest the Issuer may receive from the Original Issuer on the intra-group indebtedness created following the substitution. The Issuer does not have any other source of income.

Factors which are material for the purpose of assessing the market risks associated with the Bonds

The Bonds may not be a suitable investment for all investors

Each investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Listing Memorandum;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the investor's currency;
- (d) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. An investor should not invest in the Bonds which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of the Bonds and the impact this investment will have on the investor's overall investment portfolio.

Bonds subject to optional redemption by the Issuer

An optional redemption feature of the Bonds is likely to limit their market value. During any period when the Issuer may elect to redeem the Bonds, the market value of those Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem the Bonds when its cost of borrowing is lower than the interest rate on the Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds being redeemed and may

only be able to do so at a significantly lower rate. The investors should consider reinvestment risk in light of other investments available at that time.

Risks related to the Bonds generally

Set out below is a brief description of certain risks relating to the Bonds generally.

Events of Default

The conditions of the Bonds provide that the Trustee may, and if so requested in writing by the holders of at least one quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall, declare an Event of Default. Pursuant to these provisions, an individual Bondholder may not declare the Bonds due and payable on an Event of Default unless the Trustee fails to act in accordance with a written request or Extraordinary Resolution of the Bondholders.

Modification, waivers and substitution

The conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The conditions of the Bonds also provide that the Trustee, the Issuer and the Guarantor may, without the consent of Bondholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds or (ii) determine without the consent of the Bondholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Bonds in place of the Issuer, in the circumstances described in Condition 16.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or for, an individual or certain other persons resident in that other Member State. However, during the current transitional period Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (in the case of Switzerland, a withholding system has been adopted).

If, following implementation of this Directive, a payment were to be made or collected through a specific Member State which has opted for a withholding system and an amount of or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax. However, the Issuer intends to maintain a Paying Agent in at least one Member State that will not be obliged to withhold or deduct tax pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to, the Directive.

Change of law

The conditions of the Bonds are based on English law in effect as at the date of this Listing Memorandum. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Listing Memorandum.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Bonds.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds and the Guarantor will make any payments under the guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (a) the Investor's Currency-equivalent yield on the Bonds, (b) the Investor's Currency-equivalent value of the principal payable on the Bonds and (c) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the fixed-rate Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each investor should consult its legal advisers to determine whether and to what extent (a) the Bonds are legal investments for it, (b) the Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

DOCUMENTS INCORPORATED BY REFERENCE

The Issuer confirms that the following documents are incorporated by reference in, and form part of, this Listing Memorandum.

- The Guarantor's Annual Report 2007
 - Consolidated balance sheets (p70)
 - Consolidated statements of operations (p72)
 - Notes to the Consolidated Financial Statements (p76)
 - Independent Auditors' Report (p98)
- The Guarantor's Annual Report 2006
 - Consolidated balance sheets (p62)
 - Consolidated statements of operations (p64)
 - Notes to the Consolidated Financial Statements (p67)
 - Independent Auditors' Report (p92)
- Unaudited half-yearly consolidated financial statements of the Guarantor for the six months ended 30 September 2007

Any statement contained in the Listing Memorandum or in any document incorporated or deemed incorporated by reference into this Listing Memorandum shall be deemed to be modified or superseded for the purpose of this Listing Memorandum to the extent that a statement contained herein modifies or supersedes such earlier statement. Any statement so modified or superseded shall not be deemed to constitute a part of this Listing Memorandum except as so modified or superseded.

Copies of the documents incorporated by reference in this Listing Memorandum can be obtained free of charge from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg.

JTI (UK) FINANCE PLC

General

The Issuer, JTI (UK) Finance PLC, is a wholly owned indirect subsidiary of the Guarantor, Japan Tobacco Inc. It was incorporated in England and Wales under the United Kingdom Companies Act 1985 (the **Companies Act**) on 14 September 2007 (registered number 6371681). Its registered office is located at Members Hill, Brooklands Road, Weybridge, Surrey KT13 0QU.

Share capital

The authorised share capital of the Issuer as at the date of this Listing Memorandum is £50,000 divided into 50,000 ordinary shares of £1.00 each. As at the date of this Listing Memorandum, 12,500 shares in the capital of the Issuer are in issue, fully paid up.

Principal activities

The Issuer is a special purpose vehicle established solely for the purpose of the listing of the Bonds. It is not engaged in any other commercial activity and has not carried out any business since its incorporation.

Financial information

Historic financial information of the Issuer is not yet available as the Issuer was only recently incorporated. The first financial year of the Issuer will come to an end on 31 December 2008.

Management

As at the date of this Listing Memorandum, the board of directors of the Issuer (all of whom are employees of the Guarantor or a subsidiary of the Guarantor) comprises:

<u>Name</u>	<u>Responsibility</u>
Manabu Yamaguchi	Executive director
Hideki Yokoyama	Executive director
Peter Whent	Executive director
Andrew Bingham	Company secretary

The address of all the directors is Members Hill, Brooklands Road, Weybridge, Surrey KT13 0QU.

Auditors

The auditors of the Issuer are Deloitte & Touche LLP, of Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.

Recent developments

There have been no new trends or recent developments in the business of the Issuer since its incorporation, which are expected to have a material adverse effect on the financial position of the Issuer.

JAPAN TOBACCO INC.

The following information is supplemented by the more detailed information contained in the documents incorporated by reference. See section entitled "Documents Incorporated by Reference".

General

The Guarantor, Japan Tobacco Inc. (**JT**), is a joint stock corporation (*kabushiki kaisha*) incorporated on 1 April 1985 under the Commercial Code of Japan and pursuant to the Japan Tobacco Inc. Law (the **JT Law**, see below).

The Guarantor and its subsidiaries (the **JT Group**) are the world's third largest global tobacco company, selling internationally recognised cigarette brands worldwide. In Japan, JT is the leading tobacco company, selling eight out of the ten top cigarette brands in the country. It is in fact Japan's sole manufacturer of tobacco products as provided under the Tobacco Business Law of Japan. Its share of the Japanese tobacco market (by sales volume) in the year ended 31 March 2007 was approximately 64.8 per cent.

The Guarantor also operates a pharmaceutical business, which focuses on the research and development of prescription drugs, and a foods business which principally manufactures and sells beverages, processed foods and seasonings for the domestic Japanese market.

The business environment surrounding the JT Group has seen a decline in aggregate demand in Japan, increased competition between JT and its rivals in the Japanese domestic tobacco business, and increased tobacco excise taxes in Japan, which came into effect in July 2006. In this context, the JT Group is pursuing measures aimed at sustainable growth for the future. JT's international business continues to grow in accordance with its plans.

Share capital

The total outstanding share capital of the Guarantor as at the date of this Listing Memorandum is JPY100 billion.

The Guarantor's shares were offered to the public for the first time in October 1994 following the decision by the Japanese Minister of Finance to release its holding of 394,276 shares (19.71 per cent. of the issued shares of JT at the time) to the domestic market. Further 272,390 shares (13.62 per cent. of the issued shares of JT at the time) and 289,334 shares (14.47 per cent. of the issued shares of JT at the time) were sold in a global offering in 1996 and 2004, respectively. A five-for-one share split in 2006 increased the number of the Guarantor's issued shares from 2 million to 10 million. The JT shares are listed on each of Japan's five stock exchanges.

Group structure

As of 30 September 2007, the Guarantor has 284 consolidated subsidiaries and 22 associated companies worldwide. Major subsidiaries are listed on page 10 of the Guarantor's unaudited half-yearly consolidated financial statements for the six months ended 30 September 2007, which are herein incorporated by reference.

Principal activities

The Guarantor has three main lines of business: tobacco, pharmaceutical and foods.

For the financial year ended 31 March 2007, the tobacco business accounted for approximately 93 per cent. of net sales (of which 21 per cent. was attributed to the international tobacco business), the pharmaceutical business approximately 1 per cent and the foods business approximately 6 per cent.

International operations

Since the acquisition of the non-US tobacco business of RJR Nabisco, Inc. in 1999, the JT Group has been actively expanding its international operations in the global tobacco business. JT has recently acquired Gallaher Group Plc, details of which are set out in the section entitled “Recent developments” below. JT’s international tobacco business focuses on a portfolio of leading international cigarette brands, including the Global Flagship Brands such as Winston, Camel, Mild Seven, Benson & Hedges, Silk Cut, LD, Sobranie and Glamour.

Financial information

Historic financial information of the Guarantor is set out in the audited consolidated financial statements of the Guarantor for the year ended 31 March 2007, which can be found in the Guarantor’s Annual Report 2007, and the unaudited consolidated financial statements of the Guarantor for the six months ended 30 September 2007, both of which are herein incorporated by reference (also available from the JT website at <http://www.jti.co.jp>).

For the financial year ended 31 March 2007, JT reported a consolidated income before income taxes and minority interests of JPY337 billion on net sales of JPY4,769 billion and had total assets as at that date of JPY3,365 billion. In its unaudited results for the first half year ended 30 September 2007, which was announced on 31 October 2007, JT reported a consolidated income before income taxes and minority interests of JPY206 billion on net sales of JPY2,914 billion and had total assets as at that date of JPY5,382 billion.

Below is a summary table of JT’s recent consolidated balance sheets as at 31 March 2006 and 31 March 2007 respectively:

(in millions JPY)	As of 31 March 2006	As of 31 March 2007
Current assets	1,608,154	1,840,808
Property, plant and equipment (net of accumulated depreciation)	596,544	600,436
Investments and other assets	832,681	923,419
Assets, total	3,037,379	3,364,663
Current liabilities	626,356	813,196
Non-current liabilities	590,950	526,851
Minority interests ¹	57,561	-
Equity	1,762,512	1,960,254
Minority interests	-	64,362
Liability and equity, total	3,037,379	3,364,663

¹ Please note that due to a recent change in the Japanese generally accepted accounting standards, the minority interests, which had traditionally been shown as an independent item, are now shown in the “equity” section.

Below is a summary table of JT's consolidated statements of income for the years ended 31 March 2006 and 2007 respectively:

(in millions JPY)	2006	2007
Net sales	4,637,657	4,769,387
Operating income	306,946	331,991
Income before income taxes and minority interest	300,993	337,196

Management

As at the date of this Listing Memorandum, the board of directors of the Guarantor comprises:

<u>Name</u>	<u>Responsibility</u>
Yoji Wakui	Chairman of the Board
Hiroshi Kimura	Representative Director
Kazuei Obata	Representative Director
Munetaka Takeda	Representative Director
Ichiro Kumakura	Representative Director
Ryoichi Yamada	Representative Director
Noriaki Okubo	Member of the Board
Mutsuo Iwai	Member of the Board
Mitsuomi Koizumi	Member of the Board
Yasushi Shingai	Member of the Board
Katsuhiko Honda	Member of the Board, Corporate Counselor

As at the date of this Listing Memorandum, the executive officers of the Guarantor were:

<u>Name</u>	<u>Responsibility</u>
Hiroshi Kimura	President and Chief Executive Officer
Kazuei Obata	Executive Deputy President and Assistant to CEO in Planning, CSR, HR and Operational Review and Business Assurance
Munetaka Takeda	Executive Deputy President, Chief Financial Officer and Assistant to CEO in Compliance and Food Business
Ichiro Kumakura	Executive Deputy President, President, Tobacco Business and Assistant to CEO in Vending Machinery
Ryoichi Yamada	Executive Deputy President and Assistant to CEO in Communications, General Administration and Legal
Ryuichi Shimomura	Senior Executive Vice President and Chief Legal Officer
Zenjiro Watanabe	Executive Vice President and Deputy President, Tobacco Business
Mitsuomi Koizumi	Executive Vice President and Chief Marketing and Sales Officer, Tobacco Business
Kenji Iijima	Executive Vice President and Head of Manufacturing General Division, Tobacco Business

<u>Name</u>	<u>Responsibility</u>
Tatsuya Hisano	Executive Vice President and Head of Domestic Leaf Tobacco General Division, Tobacco Business
Seiki Sato	Executive Vice President and Chief Corporate, Scientific and Regulatory Affairs Officer, Tobacco Business
Noriaki Okubo	Executive Vice President and President, Pharmaceutical Business
Shigeo Ishiguro	Executive Vice President and Head of Central Pharmaceutical Research Institute, Pharmaceutical Business
Mutsuo Iwai	Executive Vice President and President, Food Business
Yoshiyuki Murai	Executive Vice President and Chief Human Resources Officer
Masakazu Shimizu	Executive Vice President and Chief Communications Officer
Hirotooshi Maejima	Senior Vice President and Head of Research and Development General Division, Tobacco Business
Yoshihisa Fujisaki	Senior Vice President and Head of Brand General Division, Tobacco Business
Tadashi Iwanami	Senior Vice President and Head of Blending and Product Development General Division, Tobacco Business
Akira Saeki	Senior Vice President and Head of Tobacco Business Planning Division, Tobacco Business
Gisuke Shiozawa	Senior Vice President and Head of Soft Drink Business Division, Food Business
Miyoharu Hino	Senior Vice President and Head of Food Business Division, Food Business
Sadao Furuya	Senior Vice President and Chief Strategy Officer
Kazuhiro Nishino	Senior Vice President and Chief General Affairs Officer

The address of all the directors and officers is 2-1, Toranomom 2-chome, Minato-ku, Tokyo 105-8422 Japan.

Corporate auditors

As at the date of this Listing Memorandum, the corporate auditors of the Guarantor were:

<u>Name</u>	<u>Responsibility</u>
Masaaki Sumikawa	Standing auditor
Hisao Tateishi	Standing auditor
Hiroyoshi Murayama	Auditor
Takanobu Fujita	Auditor

The address of all the corporate auditors is 2-1, Toranomom 2-chome, Minato-ku, Tokyo 105-8422 Japan.

Independent auditors

The auditors of the Guarantor are Deloitte Touche Tohmatsu, of MS Shibaura Building 4-13-23 Shibaura, Minato-ku, Tokyo 108-8530 Japan.

Recent developments

Acquisition of Gallaher Group Plc

On 18 April 2007, JT completed the acquisition of Gallaher Group Plc (together with its subsidiaries, the **Gallaher Group**) by way of a scheme of arrangement pursuant to section 425 of the Companies Act 1985.

Prior to the acquisition, the Gallaher Group was the world's fifth largest global tobacco company. The Gallaher Group has held leading market positions in the United Kingdom, Austria, Kazakhstan, the Republic of Ireland, Russia and Sweden and its strategic brand portfolio included Benson & Hedges, LD, Mayfair, Memphis, Ronson, Silk Cut, Sobranie, Sovereign, Hamlet and Old Holborn. It is also involved in the distribution of tobacco and other products in certain markets in Europe.

For the year ended 31 December 2006, the Gallaher Group reported an audited consolidated profit before tax, amortisation of intangible assets and exceptional charges of £597 million on sales of £8,401 million and had total assets as at that date of £3,933 million. In its unaudited results for the six months ended 30 June 2006, Gallaher Group Plc reported a consolidated profit before tax, amortisation of intangible assets and exceptional charges of £275 million on sales of £4,028 million and had total assets as at that date of £3,941 million.

The shares in Gallaher Group Plc were traded on the London Stock Exchange and its American Depositary Shares were traded on the New York Stock Exchange. Upon acquisition of Gallaher Group Plc by JT, these shares were delisted on 18 April 2007 and Gallaher Group Plc has become a wholly owned subsidiary of JT.

JT post-acquisition

The acquisition of the Gallaher Group has consolidated JT's position as the world's third largest tobacco company. In addition to its already strong business base in Asia, the JT Group now has an expanded presence in Europe and the CIS region. The acquisition of the Gallaher Group has improved JT's geographical operational balance and afforded new business opportunities, allowing JT to achieve continued, sustainable growth as one of the leading global tobacco companies.

As a result of the Gallaher acquisition, the integration of the complementary business geography and operations of both groups has expanded the scale of business and is set to reinforce JT's technology and distribution infrastructure worldwide. The integration of the Gallaher Group is currently well underway and is expected in due course to realise cost savings and top-line synergies.

On 9 August 2007, JT announced the Gallaher Integration Plan, which is available from the JT website at <http://www.jti.co.jp>.

Frozen foods business consolidation

On 22 November 2007, the Guarantor announced that it, Nissin Food Products Co., Ltd. (**Nissin**) and Katokichi Co., Ltd. (**Katokichi**) reached an agreement to integrate their respective frozen foods businesses. This would take the form of the Guarantor making a takeover bid to acquire all of the outstanding shares of Katokichi, which would then be followed by the transfer to Nissin of the 49% of the shares in Katokichi. The respective frozen foods divisions of both the Guarantor and Nissin are expected to be merged to Katokichi. Further details can be found on the Guarantor's website at: www.jti.co.jp.

JT Law

Please see 1(b) of "Regulations" on page 31.

LEGAL PROCEEDINGS

The following information is a summary of certain legal proceedings involving an entity within the JT Group, which were ongoing as at the date of this Listing Memorandum. The Issuer and the Guarantor express no opinion as to the outcome of any of these proceedings, and it is not possible to predict the impact of any such outcome on the financial position of the Issuer and the Guarantor. This section should be read in conjunction with the Risk Factors.

1. General

JT and its subsidiaries (the **JT Group**) are subject to litigation in Japan and elsewhere related to tobacco products. Claims related to tobacco products may be generally classified as: (i) smoking and health cases brought by individual plaintiffs or on behalf of classes of individual plaintiffs alleging personal injury resulting from cigarette smoking or exposure to passive smoking, (ii) health care cost recovery cases brought by governmental and non-governmental plaintiffs seeking reimbursement for allegedly excess health care expenditures incurred for treatment of smoking-related disease, and (iii) suits by governments seeking to recover damages for taxes lost as a result of the allegedly illegal importation of cigarettes into their jurisdictions. Damages claimed in some of the smoking and health class actions, health care cost recovery cases and other smoking and health-related litigation range into the billions of U.S. dollars. To date, no member of the JT Group ever lost a case or paid any settlement award in connection with smoking and health-related litigation against any JT affiliate.

Although we believe the JT Group has valid defence and counterclaims in these pending cases, litigation is subject to many uncertainties and it is not possible to predict with certainty their outcome. The JT Group could incur substantial costs in connection with litigation in Japan or elsewhere in the world alleging damages resulting from the use of tobacco products or exposure to tobacco smoke or alleging loss of taxes from allegedly illegal importation of tobacco products.

2. Litigation in Japan

Three smokers who contend that they developed diseases allegedly as a result of smoking filed a joint lawsuit in January 2005 with the Yokohama District Court against JT, the Government of Japan, et al., asking for a total of 30 million yen in compensation for damages and a strengthening of the wording of warnings placed on tobacco packages. The first hearing in this case took place in April 2005 and the case is still pending in the district court.

3. Litigation in the United States and elsewhere

The JT Group's exposure to litigation in the U.S. is relatively low compared to other major tobacco companies, as its presence in the U.S. market is limited even after the acquisition of the non-U.S. tobacco operations of RJR Nabisco, Inc. Certain JT affiliates are however exposed to active litigation in Canada.

Master Settlement Agreement

Although the JT Group has not been by any state in the United States, its US subsidiary, JT International U.S.A., Inc. (**JTI USA**), voluntarily became a party in 1999 to the Master Settlement Agreement (the **MSA**) with certain US states in order to continue selling the JT Group products within the United States. The MSA, which settled alleged claims by the settling states against certain major US tobacco companies, prohibits the signatory tobacco companies from targeting youth in advertising and marketing, restricts tobacco industry lobbying, and requires the signatory tobacco companies to make payments based on their US market share. JTI USA has paid amounts ranging from no payment to up to US\$9 million per a year pursuant to the MSA. Gallaher Group Plc's subsidiary, CIC, also became a party to the MSA in 2003. CIC no longer makes US sales but, pursuant to the forbearance agreement entered into between CITA/CIC and the MSA states, CITA/CIC remain liable for annual payments ranging from US\$1.5 to US\$2.8 million each year through 2023 related to past sales.

Smoking and health-related litigation

Lawsuits related to smoking and health in which JT subsidiaries are defendants outside Japan include damages claims filed by individuals, medical expense recovery lawsuits filed by governments and insurers, and class actions for damages and injunctive relief. As of the date of this Listing Memorandum, a total of 16 such lawsuits were pending against JT or its subsidiaries (including Gallaher Group Plc's subsidiaries) or for which RJR (as defined above) has sought indemnification following JT's acquisition of RJR Nabisco Inc's non-US tobacco operations.

Among these lawsuits, there are three actions in Canada: one is brought in January 2001 by the province of British Columbia against major cigarette companies, including RJR and the Canadian subsidiary of JT, JTI-Macdonald Corp (**JTI-Macdonald**), seeking the recovery of health care costs incurred as a result of the defendants' alleged misconduct; the other two are class actions in Quebec against the major Canadian cigarette companies, including JTI-Macdonald, authorised in February 2005 and filed in September 2005. The British Columbia action is brought under a provincial statute entitled the "Tobacco Damages and Health Care Recovery Act", which was enacted for this action only. Several defendants challenged the statute's constitutionality. This challenge was finally rejected by the Supreme Court of Canada in September 2005. For the time being, both the Quebec class actions and the British Columbia action remain in pre-trial proceedings with no decision yet to be made as to JTI-Macdonald's or RJR's liability.

European Community tax suits

In November 2000, the European Commission brought a lawsuit against the JT Group, as well as against RJR and Philip Morris, in the Federal District Court for the Eastern District of New York alleging that the JT Group had conspired with various third parties and contributed to smuggling tobacco products, thereby reducing tax revenues and harming other EU economic interests. The federal district court dismissed this case in July 2001. In August 2001, another lawsuit was brought on behalf of the Commission and 10 of the EU member states against RJR and Philip Morris before the same court making similar claims. The court dismissed the case and a federal court of appeals affirmed the judgment in January 2004. The plaintiffs petitioned the US Supreme Court to grant a review of the decision. This petition was later denied in January 2006.

In January 2002, a third lawsuit was brought on behalf of the Commission and 10 of the EU member states before the same court against the JT Group alleging claims similar to those in the earlier suits. The court dismissed the case, but in January 2004 the federal court of appeals vacated the first instance decision and remanded to the district court because of a procedural flaw in the district court proceedings. We were never served with a summons or other proceedings in relation to this third lawsuit. In October 2002, a fourth lawsuit was brought on behalf of the Commission and 10 of the EU member states before the same court against RJR, alleging its involvement in money laundering activity rather than smuggling. As at the date of this Listing Memorandum there was no decision yet.

In 2004 Philip Morris International announced that they had signed a 12-year cooperation agreement with the European Commission to combat the illegal trade in cigarettes worldwide. Philip Morris International agreed to make funds available (approximately US\$1.25 billion over 12 years) for anti-contraband and anti-counterfeit measures, whilst the Commission and the relevant member states terminated all prior disputes relating to historic contraband.

The JT Group currently has sales in over 120 countries and territories, and its corporate policy is strictly to comply with all local laws and regulations. The JT Group does not and will not supply cigarettes for the contraband market and is committed to doing everything possible to prevent its products from ending up on the black market. However, further revenue collection efforts by EU member states or further allegations of complicity in the contraband trade in tobacco products could result in additional litigation, potential damage awards or other payments, and could adversely affect the JT Group's operations by harming its reputation or leading to increased restrictions on the sale of tobacco products.

Canadian tax suits

In August 2003, the Canadian federal government filed a civil action in Ontario against RJR and its subsidiaries as well as JT and its subsidiaries, including JTI-Macdonald, which was acquired by JT when it took over the former non-U.S. tobacco operations of RJR Nabisco Inc in 1999. The suit mainly claims damages allegedly suffered by the Canadian government in connection with the alleged illicit importation of tobacco products into Canada.

In August 2004, JTI-Macdonald received a Notice of Assessment from the Quebec Ministry of Revenue requiring immediate payment of approximately 1.36 billion Canadian dollars on claims that it had allegedly contributed to tobacco smuggling from 1990 to 1998. The amount consisted of allegedly lost tobacco taxes with penalties and interest. Had the assessed amount not been paid JTI-Macdonald would have faced the risk that it would not be able to continue its usual business operations in the face of collection action by the Quebec Ministry of Revenue. In order to continue its operations therefore, JTI-Macdonald filed an application under the Companies' Creditors Arrangement Act (CCAA)² with the Ontario Superior Court of Justice. JTI-Macdonald has since been continuing its business as usual under CCAA protection at least through 30 May 2008.

Filing for CCAA protection is not an admission that JTI-Macdonald contributed to smuggling as claimed by the Quebec Ministry of Revenue. JTI-Macdonald intends to challenge the tax notice submitted by the Quebec Ministry of Revenue through all appropriate means. Furthermore, in the event that JTI-Macdonald bears any damages or costs associated with this case, JT's view is that it will be entitled to seek indemnification from RJR Nabisco Inc or its successors, based on the contract entered among JT, RJR Nabisco Inc and RJR at the time of JT's acquisition of RJR Nabisco Inc.'s non-US tobacco operations in 1999.

Subsequent to the CCAA filing six other provinces have filed claims similar to Quebec's, seeking taxes, interest, and penalties. No procedure is yet established for adjudicating these claims.

In May 2007, after a preliminary hearing on various criminal charges arising from the alleged smuggling of tobacco products into Canada in the 1990s, a court in Ontario ordered JTI-Macdonald and one former employee to stand trial. This ruling determined neither the guilt nor innocence of the defendants, which is to be determined at trial. The Crown has sought leave to appeal the preliminary hearing court's dismissal of certain individual defendants. JTI-Macdonald and the former employee ordered to stand trial have sought leave to appeal the preliminary hearing court's decision to commit them to trial.

Certain other actions

JT and certain subsidiaries filed a lawsuit in August 2003 against the Dutch government challenging a regulation that requires tobacco manufacturers to disclose details of tobacco product ingredients and would therefore force JT to reveal trade secrets inherent in its tobacco products, including cigarette brand recipes. After a court of first instance dismissed the JT claims in December 2005, the JT Group appealed to an appellate court, where the matter is now pending.

² Companies doing business in Canada are eligible to seek protection under the CCAA if they encounter a financial situation that creates noticeable difficulties in their business operations. The CCAA's intent is to enable these companies to continue their operations while restructuring. Many Canadian companies have undergone restructuring processes under the CCAA. Unlike bankruptcy proceedings, CCAA proceedings are not undertaken for liquidation. The fundamental characteristics of the CCAA are as follows:

- The company continues to manage and control its business and property;
- The CCAA is a very flexible law that can be tailored to fit the circumstances of each case;
- The company may seek to restructure its businesses or deal with contingent and other claims under court protection with the assistance of a court-appointed monitor;
- All lawsuits against the companies and other procedures are stayed, and companies are able to continue their businesses and carry out their restructuring;
- After the claims against the company are determined, the company may put a Plan of Arrangement before its creditors or some of them; and
- If creditors have agreed to the aforementioned plan and the court approves it, it will be binding on the company and all affected creditors.

In July 2004, a Russian subsidiary of JT, JTI Marketing & Sales (**M&S Corp.**), which oversees distribution-related businesses in the Russian market, received an assessment from the Moscow tax authorities in which it was ordered to pay approximately 2.4 billion rubles (approximately 8.8 billion yen at the exchange rate at the time) primarily in VAT for the period of January to December 2000. The amount includes unpaid taxes, interest and additional taxes. M&S Corp. believes that the assessment from the Moscow tax authorities is based upon a misconception of general business practices and brought an action in court to have the assessment declared invalid. Although lower courts dismissed the claims by M&S Corp., the Russian Federation Higher Arbitration Court reversed the lower courts' decisions and sent the case back to the court of first instance in April 2006. In October 2007, that court gave a judgment fully in favour of M&S Corps. The tax authorities have 30 days to lodge an appeal.

In March 2005, a subsidiary of the Guarantor terminated the distribution contract of a Middle Eastern distributor and commenced proceedings in the High Court in England, seeking a declaration that the contract had been terminated in accordance with its terms, citing material breach and that no payment was payable by the JT Group company. In its defence and counterclaim served in July 2005, the distributor asserted that the termination was unlawful and claimed significant (but not particularised) losses. In an amended claim received in February 2006, the distributor set out some details of its alleged losses of around US\$500 million, which primarily related to future profits. Following an order made in December 2006, the distributor provided security of £1.45 million towards the Guarantor's costs in defending the counterclaim. The court's order is procedural and does not reflect its views about the merits of the parties' cases. The Guarantor believes the counterclaim to be without substance, and will continue to contest it vigorously through the court process.

Liggett-Ducat (and an associated company), a subsidiary of the Guarantor, is subject to various challenged tax assessments and claims (including penalties and fines) by the Russian tax authorities. To date, Liggett-Ducat has successfully defended all assessments that have reached final determination. As at the date of this Listing Memorandum, Liggett-Ducat is challenging claims and assessments the aggregate value of which is estimated to be in the region of US\$12.6 million. Liggett-Ducat has so far successfully challenged assessments having a value of around US\$9.1 million at either the first or second tiers within the court system and is awaiting the outcome of the appeals. The remaining US\$ 3.5 million is also subject to legal process, but that claim is at an earlier stage. While the eventual outcome of these various challenges cannot be predicted with certainty, management believes, based upon the facts and matters currently known, that its actions are meritorious and it will continue to pursue them vigorously through the court process.

REGULATIONS

1. Regulation of the Tobacco Business in Japan

(a) The Tobacco Business Law

Overview

The Tobacco Business Law was enacted in 1984 and implemented in 1985 in conjunction with the end of the government tobacco monopoly and the incorporation of Japan Tobacco Inc. to assume the business operations, assets and liabilities of JTS, the wholly government owned corporation that had conducted the tobacco monopoly. The Tobacco Business Law is designed to promote the sound growth of the Japanese tobacco industry so as to ensure stable tax revenues and contribute to Japan's economic development through the coordination of the production and purchase of domestically grown leaf tobacco and the manufacture and sale of tobacco products.

Tobacco procurement and production

The Tobacco Business Law and related regulations govern the Guarantor's domestic leaf tobacco procurement. The Tobacco Business Law requires JT to enter into purchase contracts in advance with each domestic tobacco grower who intends to cultivate leaf tobacco for sale to JT. These contracts specify the total cultivation area for each variety of leaf tobacco to be cultivated and the prices of leaf tobacco by variety and grade. JT must purchase all leaf tobacco produced pursuant to such contracts which is suitable for the manufacture of tobacco products.

Before conclusion of the contracts, JT must consult with the Leaf Tobacco Deliberative Council (*hatabako shingikai*), a deliberative body organised under the Tobacco Business Law to provide opinions as to the aggregate cultivation area for each variety of leaf tobacco and the prices for leaf tobacco by variety and grade. JT is legally required to respect the opinion of the council. The council is charged with examining and deliberating important matters relating to the production and purchase of domestically produced leaf tobacco. The council consists of eleven or fewer members appointed by JT with the approval of the Minister of Finance from among representatives of domestic leaf tobacco growers and academics. The council must provide its opinion as to the appropriate prices of leaf tobacco based on the level which would allow continued domestic production of leaf tobacco by taking into account economic conditions such as production costs and commodity prices.

JT must conclude individual contracts in accordance with the regional breakdowns of the total land area used for each variety of leaf tobacco, which JT determines taking into account the opinion of the Japan Tobacco Growers Association (*zenkoku tabako kosaku kumiai chuokai*), the central organisation of regional tobacco growers' associations throughout Japan.

Manufacture and pricing of tobacco products

Under the Tobacco Business Law, tobacco products shall not be manufactured by any person other than Japan Tobacco Inc. A new tobacco product introduced by JT may not be shipped to a wholesaler or retailer unless JT first establishes a maximum wholesale price and a retail price for the new tobacco product, which includes the required amounts of consumption tax and tobacco excise taxes as described in "Taxation of Tobacco Products" below, and receive approvals from the Minister of Finance for these prices. Any change in such maximum wholesale price or retail price is subject to approval by the Minister of Finance.

Retail pricing

The retail price of each tobacco product produced by JT or imported by a registered importer, and any change in retail prices, must be approved by the Minister of Finance. The Minister of Finance is required to approve the price unless it finds that the proposed retail price would unduly prejudice the

interests of consumers or be unduly low in comparison with the product's approved maximum wholesale price or the import price.

Sale of tobacco products

Any person or company that meets applicable requirements may register as a registered importer with the Minister of Finance in order to engage in the business of selling tobacco products imported by it. Wholesalers of tobacco products must also meet certain qualifications and are required to register with the Minister of Finance. However, JT and registered importers are exempted from this registration requirement with respect to the wholesale of tobacco products manufactured or imported by JT or by such registered importers, as the case may be. Retailers must obtain permission from the Minister of Finance with respect to each of their outlets at which tobacco products are sold.

Cautionary statements

The Tobacco Business Law further requires that tobacco products sold in Japan contain cautionary statements to consumers with respect to the effect of smoking on health. The text of the cautionary statements is to be prescribed by an ordinance of the Ministry of Finance of Japan. The text of such cautionary statements was amended pursuant to an ordinance issued in November 2003. The amended ordinance prescribes, among other things, that:

- Eight new cautionary statements with respect to the effect of smoking on health are to be used on a rotating basis. These cautionary statements consist of two groups, one group consisting of four cautionary statements regarding the relationship between active smoking and lung cancer, myocardial infraction, cerebral apoplexy and emphysema, and another group consisting of four cautionary statements regarding smoking when pregnant, passive smoking, smoking dependence and youth smoking prevention;
- One or more kinds of the cautionary statements to be selected from each group must be described on each "principal display area" of each cigarette package and those texts must rotate in order that each of the eight cautionary statements with respect to the effect of smoking on health will appear almost equally throughout the year; and
- The cautionary statements must be large, clear and legible, and must cover no less than 30% of each "principal display area" of each cigarette package.

In addition, the amended ordinance also includes a new provision which provides that if we use such terms as "mild" and "light" on the cigarette package, a cautionary statement with respect to the effect of smoking on health must be printed on such cigarette packs in order to inform customers that these terms do not indicate that the tobacco product is less harmful than other tobacco products. Furthermore, except for certain cases provided by the Minister of Finance, these ordinances mandate that all cigarette packages shall specify the tar and nicotine content.

The Tobacco Business Law also requires advertisers to take into account youth smoking prevention and the effect of smoking on health and also endeavour to refrain from excessive advertisement. The law also gives authority to the Minister of Finance to prescribe guidelines on advertising of tobacco products and to issue necessary instructions to advertisers who are in violation of such guidelines. In 1989, the Minister of Finance issued a guideline which, among other things, sets out criteria concerning the volume and broadcast hours of, and cautionary statements to be used in, television or radio advertising of tobacco products. In response to this guideline, the tobacco industry has implemented voluntary restrictions on the advertising of tobacco products. In March 2004, the Ministry of Finance issued new guidelines concerning advertising of tobacco products, effective 1 April 2004. The new guidelines required, among other things, certain forms of previously permitted public advertising such as outdoor advertising for tobacco products, including advertising on billboards, buildings and public transport, to be prohibited, whilst allowing for a transitional period to accommodate existing advertising agreements. In accordance with these new guidelines, the Tobacco Institute of Japan revised its voluntary restrictions – see "Other Laws and Regulations".

(b) The Japan Tobacco Inc. Law

The Japan Tobacco Inc. Law (the **JT Law**) established JT, which is engaged in management and operation of manufacturing, selling and importing tobacco products, in order to realise the purposes set out in the Tobacco Business Law. The JT Law also permits JT to engage in other activities necessary to accomplish its purposes, subject to approval by the Minister of Finance.

The JT Law also provides for the Japanese government's obligation to hold a certain proportion of the shares in JT. In April 2002, the JT Law was amended to modify such obligation. The law had previously required the government to hold at least two-thirds of JT's issued share capital, which was amended to provide that the government continue to hold at least one-half of all of the original 2,000,000 shares which the government had acquired upon JT's establishment, as adjusted for any subsequent stock split or consolidation of shares and that, even if JT issues new shares in the future with the approval of the Minister of Finance, the government shall continue to hold more than one-third of all of JT's issued shares. After completion of this later offering, the government will be unable to dispose of additional JT shares without further amendment of the JT Law.

JT is subject to oversight by the Minister of Finance. The Minister, in the course of implementing the JT Law or the Tobacco Business Law, may issue orders to JT and require it to submit reports in relation to JT's activities. The Minister may also conduct investigations of JT's offices, books and records. In addition, JT must obtain the approval of the Minister of Finance for, among other things:

- any amendment to its articles of incorporation;
- any merger, corporate split, or dissolution of JT;
- any expansion of JT's business into areas beyond tobacco and related businesses;
- the appointment or removal of JT directors and corporate auditors;
- any appropriation of retained earnings;
- any transfer or encumbrance of manufacturing facilities or similar significant assets;
- any issuance of new shares, stock acquisition rights or bonds with stock acquisition rights; and
- JT's annual business plan.

To date, none of JT's applications for the Minister's approval has been rejected. In addition, JT is required to submit annual financial statements and business reports to the Minister of Finance within three months of each fiscal year end.

The JT Law provides that the holders of bonds (*shasai*) issued by JT have statutory preferential rights (*ippan tanpo*) over the general assets of JT over holders of other unsecured obligations of JT including (a) loans issued by JT and (b) bonds and loans guaranteed by JT (with the exception of obligations in respect of national and local taxes and certain other statutory exceptions), in respect of the rights represented by such securities in liquidation and insolvency proceedings of JT. Holders of the Bonds do not have the benefit of such statutory preferential rights. As at the date of this Listing Memorandum, JT had a total of JPY300 billion principal amount of bonds outstanding that have a statutory preferential right under the JT Law.

(c) Other Laws and Regulations

The Health Promotion Law, which seeks to reduce passive smoking, came into effect on 1 May 2003. The law requires, among other things, that administrators of places accessed by many people, such as schools and government offices, shall endeavour to take necessary measures to prevent passive smoking.

In recent years, Japan's Ministry of Health, Labour and Welfare and its predecessor entities (**MHLW**) have examined social and health issues related to cigarette smoking. MHLW guidelines introduced in 1996 and revised in 2003 recommended that, to the extent possible, private enterprises take steps to

prevent passive smoking by non-smokers by limiting smoking to designated smoking rooms in the workplace. The report issued by advisory bodies to the MHLW in 2000 also recommended, among other things, that knowledge about the effects of smoking upon health be promoted, greater efforts be made to prevent smoking among minors, the effect of passive smoking on non-smokers be reduced, and the efforts of smokers seeking to cease or reduce smoking be supported.

In November 2001, the Tobacco Institute of Japan (**TIOJ**), the Japan Tobacconist Federation and the Japan Vending Machine Manufacturers Association reached an agreement to cooperate in developing and implementing cigarette vending machines with adult identification functions, and have been working together towards equipping all vending machines throughout Japan with such functions by 2008. Vending machines with these functions are designed to prevent minors from purchasing cigarettes from vending machines and will dispense cigarettes only after scanning and verifying special IC cards that prove that the purchaser is an adult.

The TIOJ also drafted self-regulatory standards in line with these guidelines and all TIOJ member companies, including JT, are abiding by such standards. The guidelines stipulate that outdoor advertising of tobacco products (e.g. posters, billboards) must not be displayed except where tobacco products are sold, or in designated smoking areas. They also provide that consideration must be given to methods of advertising in daily newspapers (with the exception of tabloids) and set out criteria for the display and content of cautionary statements required for all tobacco advertising. In consideration of these guidelines, the TIOJ has established voluntary codes and its member companies, including JT, continue to implement new measures as required, such as banning outdoor billboard advertising or brand-specific advertising in public transportation, limiting the volume of advertising in newspapers and specifying which sections of newspapers may contain such advertising.

Restrictions on smoking in public places and private facilities, including the creation of designated smoking areas, have increased in recent years in Japan, and are expected to continue to increase in the future.

The Act Concerning Prohibition of Private Monopolisation and Maintenance of Fair Trade (the **Antimonopoly Law**) generally provides that the Fair Trade Commission may order an enterprise to transfer part of its business or to take any other measures the Fair Trade Commission deems necessary to restore competition with respect to goods or services provided by the enterprise if the enterprise's share in a particular market exceeds a prescribed percentage; there is a detriment to the market; and certain other conditions are met. Under the Tobacco Business Law, JT is the only company permitted to engage in the manufacture of tobacco products in Japan. JT's market share of cigarettes in Japan, based on unit sales volume, was 64.8% for the year ended 31 March 2007, which has down from 97.6% for the year ended 31 March 1986. As at the date of this Listing Memorandum, no notice of hearing or other official actions by the Fair Trade Commission under the Antimonopoly Law was given to, or taken against, us.

(d) Taxation of Tobacco Products

In addition to the five percent consumption tax which is imposed on essentially all goods sold and services rendered in Japan, all tobacco products sold in Japan are subject to national and local tobacco excise taxes and national tobacco special excise tax. The national tobacco excise tax and the national tobacco special excise tax are payable generally on a monthly basis upon delivery of tobacco products from the manufacturing factory for domestically manufactured tobacco products and upon delivery from a Japanese customs bonded area for imported tobacco products. Local tobacco excise taxes consist of prefectural and municipal taxes and are payable on a monthly basis by the domestic manufacturer, the wholesaler or the registered importer for the tobacco products sold to retailers within the prefecture or municipality. All tobacco excise taxes imposed on tobacco products are calculated on a per unit basis. As at the date of this Listing Memorandum, subject to a few minor exceptions, the national tobacco excise tax was JPY3,526 per thousand units, the national tobacco special excise tax was JPY820 per thousand units, the local tobacco excise tax (prefectural) was JPY1,047 per thousand units, and the local tobacco excise tax (municipality) on tobacco products was JPY3,298 per thousand units. For example, of the JPY300 retail price of a pack of 20 units of our Mild Seven brand cigarettes, the national, local and national tobacco special excise taxes account in the aggregate for JPY174.9,

with the consumption tax accounting for an additional JPY14.3. Together, the tobacco taxes and the consumption tax amount to JPY189.2, or approximately 63.1% of the total retail price.

In March 2006, the Japanese government passed legislation which raised both national and local tobacco excise taxes. The national tobacco excise tax increased from JPY3,126 per thousand units to JPY3,552 per thousand units and the local tobacco tax increased from JPY3,946 per thousand units to JPY4,372 per thousand units beginning in July 2006.

Japan's Tax Commission reviews overall tax policy annually as part of the government's budgetary process. The consumption tax increased from 3% to 5% in 1997 and the national tobacco special excise tax was introduced in 1998. Prior to the 1997 increase, there had been no tax increases since the introduction of the national consumption tax in 1989. JT is not able to accurately predict whether and to what extent the rate of tobacco excise taxes or consumption taxes will increase further in the future. While it is expected that any increase in taxation will require JT to review the pricing of its tobacco products, JT cannot predict the effect of such tax increases on JT's results of operations or competitive position with respect to foreign tobacco companies.

2. Regulation of the Tobacco Business Internationally

JT is subject to various restrictions on the manufacture and marketing of tobacco products in all of the international markets in which JT operates. Major recent international regulatory developments include:

(a) WHO Framework Convention on Tobacco Control

During the May 1999 World Health Assembly of the WHO, a resolution was adopted to commence work that lead to adoption of the Framework Convention on Tobacco Control (**FCTC**). Following six rounds of intergovernmental negotiation, the FCTC was adopted in May 2003 and entered into force on 27 February 2005. As of 31 October 2007, 151 countries in total (including Japan and the EU) are parties to the FCTC. The FCTC contains a number of provisions, some of which are legally binding for the parties while others allow for discretion by each party with respect to interpretation and implementation. Key provisions include:

- Establishing price and tax measures (imposition of taxation policies, price policies, restrictions on duty-free sales, etc. as appropriate without prejudice to national sovereign taxation policies)
- Packaging and labelling measures (adoption of effective measures to ensure that tobacco product packaging and labelling do not promote a tobacco product by any means that likely to create an erroneous impression that a particular tobacco product is less harmful than other tobacco products, and that health warnings on tobacco packaging cover not less than 30% of the principal display areas)
- Advertising (a comprehensive ban on tobacco advertising, promotion and sponsorship or restrictions if a country is not in a position to undertake a comprehensive ban because of its constitution or constitutional principles)
- Sales to minors (adoption and implementation of effective measures to prohibit sales of tobacco products to minors)
- Providing support for alternative activities (promotion of alternative activities for tobacco workers, growers and individual sellers as appropriate)

The JT Group has long been committed to many of the FCTC's provisions, including prevention of underage smoking and curbing illicit trade. JT believes, however, that it is better for tobacco to be regulated by individual countries who can best determine the most appropriate legislative and regulatory framework in the light of their own conditions and taking into account their own unique legal systems, cultures and social circumstance. As needed, the JT Group cooperates with the government of each signatory nation on appropriate and reasonable measures in accordance with the situation of each country through which the FCTC's provisions can be implemented.

Within the EU, the European Commission issued a harmonised reporting format for the submission of tobacco products ingredient information. The Commission also requested the Scientific Committee on Emerging and Newly-Identified Health Risks (**SCENIHR**) to prepare an opinion on the 'health effects of smokeless tobacco products'. The draft report was issued for consultation until September 2007. Separately, the Commission is considering possible initiatives regarding 'lower ignition propensity' cigarettes.

In 2003, the Commission adopted a decision that establishes the rules for the use of colour photographs or other illustrations to depict and explain the health consequences of smoking. It is for member states to decide whether or not to introduce such pictorial health warnings and on which product groups. Belgium requires pictorial health warnings to be printed on all cigarette packs manufactured after 30 November 2006. In the UK, the Department of Health (**DoH**) published a regulation on the introduction of pictorial warnings as of September 2008.

The EU has adopted a directive concerning the registration, evaluation, authorisation and restriction of chemicals which may include some or all of the ingredients used in the manufacture of tobacco products.

A number of European countries have recently established, or are considering, further legislation and/or voluntary agreements that restrict or prohibit smoking in public places and the workplace, which may also include bars and restaurants. These countries include all the EU member states, Switzerland and Norway. In the UK, the Health Act 2006 prohibits smoking in all enclosed public places and workplaces in England, with certain limited exceptions. The legislation also contains provisions for the Welsh assembly to establish legislation for smoking in public places in Wales. These restrictions as well as restrictions in Northern Ireland were implemented in the summer of 2007. The UK, with the exception of Northern Ireland, has enacted a regulation changing the legal age of sale from 16 to 18 years and strengthening sanctions against retailers for underage sale of tobacco. In Scotland, smoking in all public places and workplaces was banned, with certain limited exceptions, from March 2006.

In Russia, further restrictions of tobacco advertising came into force from 1 July 2006, with an outdoor advertising ban effective from 1 January 2007. Several bills are being considered in parliament which would, if enacted, restrict smoking in public places, introduce lower tar and nicotine levels, and increase the size of health warnings. A technical regulation document is being developed which will combine all existing tobacco product and packaging regulations.

(b) International Tobacco Product Marketing Standards

In September 2001, JT and several other tobacco companies reached an agreement on International Tobacco Product Marketing Standards. These standards set a baseline for responsible tobacco product marketing worldwide. The cornerstones of the standards are to ensure that brand marketing has no particular appeal to youth; restricting youth exposure to tobacco marketing; and ensuring that adult smokers are properly informed about the risks of smoking. Accordingly, marketing activities in Japan are subject to the standards. The key features of the international standards include:

- Uniform definitions of advertisement, promotional events, and sponsorship.
- Tough guidelines applicable to advertising tobacco products:
 - Print advertising is limited to publications with at least 75 percent adult readership.
 - Billboard advertising must not exceed 35 square meters in size.
 - Advertising on television, radio and the Internet are prohibited unless a 100% adult audience can be verified.
 - Advertisements cannot run in cinemas unless there is a reasonable basis to believe that at least 75% of the audience is adult.
 - Advertisements cannot feature celebrities, show individuals that appear younger than 25, or suggest that smoking enhances athletic, professional, personal or sexual success.

- Display of health warnings on advertisements and other mediums:
 - Except for in a very small number of cases such as point-of-sale materials that are smaller than 250 sq. cm, health warnings must appear on virtually all advertising, promotional and merchandising materials.
- Restrictions on sponsorship:
 - For events or activities that bear a tobacco product brand name, all participants who compete or otherwise actively participate must be adults.
 - From 1 December 2006, attendance at an event or activity sponsored for the purpose of tobacco product brand promotion must be comprised of at least 75% adults, and these events can only generate incidental coverage in electronic media.
- All promotional activities are limited to verified adult smokers.

(c) Prevention of Youth Smoking

The prevention of youth smoking is an issue to be addressed by all members of society. The JT Group has been taking various steps towards dealing with this problem in the countries in which it operates, based on its own standards, relevant local laws and regulations, and the International Marketing Standards (IMS).

For detailed information on JT's efforts to prevent smoking by youths, please refer to the JT website.

<http://www.jti.co.jp/sstyle/think/underage/index.html> (for efforts in Japan)

http://www.jti.com/english/corp_responsibility/youth_smoking_prevent.aspx (for efforts overseas)

(d) Tobacco taxation

The European Commission is currently reviewing its excise directive which governs the structure and rates of excise applied to all tobacco products within the EU. The Commission is expected to present its proposal (new draft directive) to the European Council and European Parliament during 2008. Adoption is expected by 2009 by the latest.

In the EU excise duty increases continue to have a significant impact on pricing, sales and margins. Nine new EU member states are still required to implement significant excise increases in order to comply with the current minimum cigarette excise tax requirements. Implementation must take place by 1 January 2010.

As of October 2007, four EU member states (Austria, France, Italy and the Republic of Ireland) had minimum retail price legislation in place. The European Commission has sent France, Italy, Austria and Ireland reasoned opinions stating that they are acting against Community laws and in March 2007 decided to challenge the French legislation before the European Court of Justice. Similar actions may be taken against the other three countries if they fail to amend their laws. If these countries repeal their legislation (voluntarily or after losing a ECJ court case) the sales mix of the JT Group's brands may be affected which may have a material adverse effect on the JT Group's turnover, profit and finances. The wide tax and price differentials between EU member states continue to drive the cross-border trade in genuine product (both legitimate and illegal) and the smuggling of counterfeit cigarettes. The result is that several member states have significant levels of non-tax paid consumption.

In 2006, the UK adopted tobacco supply chain legislation which applies to all cigarettes and hand-rolling tobacco manufactured or distributed in the UK. The government has recently agreed with the tobacco companies operating in the UK market to introduce an anti-counterfeit tear tape on all domestic products.

Outside of the EU, in Russia a mixed tobacco excise system with an ad valorem component based on maximum retail prices was implemented in January 2007. In March the government put forward its three year cigarette excise schedule (2008-2010), which provides for annual excise increases of 20 to 30%.

3. Regulation of the Pharmaceutical Industry

The pharmaceutical industry operates in a highly controlled regulatory environment. There are stringent regulations relating to analytical, toxicological and clinical standards and protocols for testing of pharmaceuticals, as well as regulations covering research, development and manufacturing procedures. In addition, in many markets, marketing and pricing strategies are subject to national legislation, and regulatory authorities have administrative powers such as forcing product recalls and suspending manufacturing.

4. Regulation of the Foods Industry

JT's food business is principally operated in Japan. There are number of laws and regulations governing food in Japan including the Food Safety Basic Law, the Food Sanitation Law and the Law Concerning Standardisation and Proper Labelling of Agricultural and Forestry Products.

SUBSCRIPTION AND SALE

In connection with the original issue of the Bonds on 2 October 2006, the Original Issuer entered into a subscription agreement with certain banks, pursuant to which the parties had agreed, *inter alia*, the issue price of 99.642 per cent. of the principal amount of the Bonds.

There is however no offer, subscription or purchase of the Bonds in connection with this Listing Memorandum.

USE OF PROCEEDS

At the time of the original issue of the Bonds on 2 October 2006, the net proceeds of the issue (after deduction of expenses payable by the Original Issuer) were approximately €494,780,000, which were then used for general corporate purposes and on-lending to the subsidiaries.

As there is no offer, subscription or purchase of the Bonds this time, there will be no proceeds to be raised in connection with this Listing Memorandum.

TAXATION

The comments below are of a general nature based on current law and practice in Japan, the United Kingdom and Luxembourg. They relate only to the position of persons who are the holders of the Bonds and may not apply to certain classes of persons such as dealers. Any holder of the Bonds who are in doubt as to their personal tax position should consult their professional advisers.

JAPAN

The following summary of general Japanese tax consequences is provided to holders of the Bonds solely for information purposes. It is based on the laws in force in Japan as at the date of this Listing Memorandum and is subject to any change in the applicable Japanese laws occurring thereafter. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder of the Bonds, and it is not intended to be, nor should it be construed as, legal or tax advice. Holders of the Bonds should therefore consult with their own professional advisers as to the effects of any local or foreign laws, including Japanese tax law, to which they may be subject.

1. Japanese Resident Holders of the Bonds

(1) Japanese resident individuals

If interest on the Bonds is paid through a paying agent located in Japan (e.g. a financial institution in Japan) to an individual resident in Japan, the interest will be subject to Japanese withholding tax at a rate of 20%, which will be the final tax due.

If a paying agent located in Japan is not used, there is no withholding tax in Japan on the interest, but the resident will have to add the interest income to his/her other general taxable income and file a final tax return. The total taxable income, generally, will be subject to Japanese income tax at progressive rates, up to 50%. If foreign income tax is withheld from the interest, the resident can credit it against his/her Japanese income tax according to the foreign tax credit system provided by the tax law.

For an individual resident, capital gains derived from a transfer of the Bonds will in general be exempted from Japanese income tax.

(2) Japanese corporations

In principle, if interest on the Bonds is paid through a paying agent located in Japan (e.g. a financial institution in Japan) to a Japanese corporation, the interest will be subject to Japanese withholding tax at a rate of 20%. In a tax return such interest income will be added to other general taxable income of that corporation, which will be subject to Japanese corporate tax at a rate of approximately 41% (which is the general effective corporate tax rate). In general, the withheld tax will be fully creditable against the corporate tax.

If a paying agent located in Japan is not used, there is no withholding tax on such interest in Japan. The corporation will have to add the interest to its other general taxable income and file a final tax return. The total taxable income, generally, will be subject to Japanese corporate tax at a rate of approximately 41%. If foreign income tax is withheld from the interest, the Japanese corporation can credit it against its Japanese corporate tax according to the foreign tax credit system provided by the tax law.

Capital gains derived from a transfer of the Bonds will be added to a corporation's other general taxable income, which will be subject to Japanese corporate tax at a rate of 41%.

2. Non-Japanese Resident Holders of the Bonds

(1) Non-Japanese resident individuals/Non-Japanese corporations with PE (see below)

If a non-Japanese resident individual or non-Japanese corporation (non-resident) has a permanent establishment (“PE”) in Japan and the income derived from the Bonds is attributable to the PE, the non-resident will be subject to income tax or corporate tax in a similar manner referred to in paragraph 1 above. A foreign tax credit is not allowed for such a non-resident.

(2) Non-Japanese resident individuals/Non-Japanese corporations without PE

If a non-resident does not have a PE in Japan, the non-resident will be subject to tax on Japanese source income only. Generally, because income derived from holding or disposing of the Bonds (including interests or capital gains) is assumed to be derived from outside of Japan, a non-resident will not be subject to Japanese income tax or corporation tax.

UNITED KINGDOM

The following is a summary of the Issuer’s understanding of the current United Kingdom law and HM Revenue & Customs (HMRC) practice relating to the taxation treatment of the Bonds as at the date of this Listing Memorandum and may be subject to change, possibly with retroactive effect. It relates only to the position of persons who are the absolute beneficial owners of the Bonds and Coupons and may not apply to certain classes of holders, such as dealers in securities and persons connected with the Issuer. The following summary does not address the United Kingdom taxation consequences for Holders of the substitution of the Issuer or the Guarantor. Holders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

A. Interest on the Bonds

1. So long as the Bonds continue to be listed on a recognised stock exchange within the meaning of section 1005 of the Income Act 2007 (the **Act**), the Bonds will constitute quoted Eurobonds within the terms of section 987 of the Act and payments of interest on the Bonds may be made without withholding or deduction for or on account of United Kingdom income tax. The Luxembourg Stock Exchange is designated as a recognised stock exchange for these purposes. Following the announcement of changes to section 1005 of the Act which would introduce a new statutory meaning of references to securities which are “listed” on a recognised stock exchange (and which have since been implemented), HMRC had confirmed that securities that have been admitted by the *Société de la Bourse de Luxembourg* to the official list of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF Market will meet the requirements that the securities are “listed” on a recognised stock exchange.

2. Interest on the Bonds may also be paid without deduction or withholding for or on account of United Kingdom tax where interest on the Bonds is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Bonds is paid reasonably believes) that: (a) the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, or (b) the payment is made to one of the other classes of exempt bodies or persons set out in section 936 of the Act, provided in either case that HMRC has not given a direction that the interest should be paid under deduction of tax in circumstances where it has reasonable grounds to believe that the payment will not be an excepted payment as that term is used in sections 933 to 937 of the Act.

3. If interest were paid under deduction of United Kingdom income tax (if, for example, the Bonds cease to be listed on a recognised stock exchange), interest on the Bonds will generally be paid under deduction of United Kingdom income tax at the savings rate (currently 20 per cent.), subject to any direction to the contrary from HMRC in respect of such relief as may be available to holders who are not resident in the United Kingdom pursuant to the provisions of any applicable double taxation treaty.

4. The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment even where paid without withholding. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands

of holders of the Bonds (except certain trustees) who are not resident for tax purposes in the United Kingdom, except where the holder in question carries on a trade, profession or vocation in the United Kingdom through a branch or agency (or in the case of a corporate holder, through a permanent establishment in the United Kingdom) in connection with which the interest is received or to which the Bonds are attributable, in which case (subject to exemptions for interest received by certain categories of agent, such as some brokers and investment managers) tax may be levied on the United Kingdom branch or agency or permanent establishment.

5. Holders should note that the provisions relating to additional amounts referred to in Condition 9 of the Terms and Conditions of the Bonds would not apply if HMRC sought to assess directly the person entitled to the relevant interest to United Kingdom tax on income. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

6. Persons in the United Kingdom paying or crediting interest to or receiving interest on behalf of another person may be required, in certain circumstances, to provide certain information to HMRC regarding the identity (including the name and address of the beneficial owner of the interest) of the payee or person entitled to the interest or the amount of interest paid or received and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

B. United Kingdom Corporation Tax Payers

7. In general, holders within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Bonds (whether attributable to currency fluctuations or otherwise). The charge to United Kingdom corporation tax will depend on, amongst other things, the accounting treatment of a Note in the Noteholder's hands. The accounting treatment will also affect the tax treatment of a disposal of the Bonds. Noteholders within the charge to corporation tax should therefore consult their own accounting and tax advisers concerning their tax liabilities that may arise as a result of holding the Bonds, or as a result of the disposal of the Bonds.

C. Other United Kingdom Tax Payers

8. Taxation of Chargeable Gains

On a disposal of the Bonds, a Noteholder who is not within the charge to United Kingdom corporation tax and who is a United Kingdom taxpayer may realise a chargeable gain or an allowable loss for United Kingdom capital gains purposes.

9. Accrued Income Profits

On a disposal of Bonds by a Noteholder who is not within the charge to United Kingdom corporation tax, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules relating to accrued income profits and losses as set out in Chapter 2 of Part 12 of the Act, if that holder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable.

D. Stamp Duty and Stamp Duty Reserve Tax (SDRT)

No United Kingdom stamp duty or SDRT is payable on issue or transfer by delivery of the Bonds.

EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or for, an individual or certain other persons resident in that other Member State. However, during the current transitional period Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate

a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (in the case of Switzerland, a withholding system has been adopted).

The Issuer intends to maintain a Paying Agent in at least one Member State that will not be obliged to withhold or deduct tax pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to, the Directive.

GENERAL INFORMATION

1. The Issuer and the Guarantor

The legal name of the Issuer is JTI (UK) Finance PLC. Its place of incorporation is England. It was incorporated on 14 September 2007 with registered number 6371681. Its registered office is Members Hill, Brooklands Road, Weybridge, Surrey KT13 0QU. The Issuer's telephone number is +44 01932 372000.

The legal name of the Guarantor is Japan Tobacco Inc. It is a Japanese joint stock corporation (*kabushiki kaisha*) incorporated on 1 April 1985 under the Commercial Code of Japan and pursuant to the JT Law (as defined above). Its registered office is 2-1, Toranomom 2-chome, Minato-ku, Tokyo 105-8422 Japan. The Guarantor's telephone number is +81 3 3581 3111.

2. Listing information

Application has been made to the Luxembourg Stock Exchange for the Bonds to be listed on the official list of the Luxembourg Stock Exchange and to be traded on the Euro MTF Market of the Luxembourg Stock Exchange.

3. Major shareholders

The Issuer is a wholly owned indirect subsidiary of the Guarantor.

Major shareholders of the Guarantor as of 31 March 2007 are listed on page 120 of the Guarantor's Annual Report 2007.

4. No significant change

Save as disclosed herein, there has been no significant change in the financial position of the Issuer since its incorporation, or that of the Guarantor and the JT Group (as defined above) since 30 September 2007. There has been no material adverse change in the prospects of the Issuer and the Guarantor since the date of the last audited consolidated financial statements of the Guarantor (31 March 2007).

5. Documents and agreements on display

For the life of the Bonds, copies of (i) the memorandum and articles of association of the Issuer; (ii) the articles of incorporation of the Guarantor; (iii) the audited consolidated financial statements of the Guarantor for the financial year ended 31 March 2007 together with the management's discussion and analysis for the same period (as contained in the Guarantor's Annual Report 2007); and (iv) the half-yearly unaudited financial statements of the Guarantor for the six months ended 30 September 2007, will be available free of charge from, and copies of the Supplemental Trust Deed as amended and supplemented (incorporating the forms of the Global Bond and definitive Bonds), the Third Supplemental Trust Deed dated 2 October 2006, the amended and restated Agency Agreement dated 26 September 2006 and the Supplemental Agency Agreement will be available for inspection at, the registered office of the Issuer and the principal office of the Listing Agent in Luxembourg.

The Issuer does not publish any interim or quarterly financial statements, nor does it publish consolidated financial statements. The Guarantor does not publish non-consolidated financial statements in a language other than Japanese. For the life of the Bonds, copies of all future annual unconsolidated financial statements of the Issuer, as well as the annual and half yearly consolidated financial statements of the Guarantor, will also be available free of charge from the principal office of the Listing Agent in Luxembourg.

6. Auditors

The auditors of the Issuer are Deloitte & Touche LLP. The auditors will audit the Issuer's accounts in accordance with International Standards on Auditing (UK and Ireland). The financial statements will be presented in accordance with International Financial Reporting Standards.

The auditors of the Guarantor are Deloitte Touche Tohmatsu. The auditors have audited the Guarantor's consolidated financial statements in accordance with auditing standards generally accepted in Japan. The consolidated financial statements of the Guarantor are presented in conformity with accounting principles generally accepted in Japan.

7. Authorisation

The Issuer and the Guarantor have each obtained all necessary consents, approvals and authorisations in connection with the listing of the Bonds. The board of directors of the Issuer passed a resolution on 12 October 2007 to approve the obligations the Issuer would take on in connection with the listing of the Bonds. The guarantee of the Bonds given by the Guarantor was authorised pursuant to a resolution of the board of directors of the Guarantor passed on 3 September 2007.

8. Legal and arbitration proceedings

The Guarantor is party to legal proceedings, including regulatory investigations, in the ordinary course of their business. While there exists an inherent difficulty in predicting the outcome of such matters, based on current knowledge and consultation with legal counsel, the Guarantor does not expect that the outcome of any of these matters, individually or in aggregate, would have a material adverse effect on its consolidated financial position. However, the outcome of any such matters, individually or in aggregate, may be material to the Guarantor's operating results for a particular year.

There are no, nor have there been any governmental, legal or arbitration proceedings involving the Issuer, the Guarantor or any of its subsidiaries (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) which is expected to have, or have had during the 12 months prior to the date of this Listing Memorandum, individually or in the aggregate, a significant effect on the financial position of the Issuer, the Guarantor or the JT Group (as the case may be).

9. Euroclear and Clearstream, Luxembourg

The Bonds have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The ISIN code for this issue is XS0269190533; the Common Code is 026919053.

10. U.S. tax

The Bonds and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

ANNEX 1

MEDIUM TERM NOTE PROGRAMME

A copy of the Original Issuer's Medium Term Note Programme dated 26 September 2006

GALLAHER GROUP Plc

(Incorporated in England and Wales under the Companies Act 1985 Registered number 3299793)

£2,000,000,000

Medium Term Note Programme

unconditionally and irrevocably guaranteed by

GALLAHER LIMITED

(Incorporated in England and Wales under the Companies Act 1985 Registered number 1501573)

On 8th February, 2001, Gallaher Group Plc (the “**Issuer**”) entered into a £1,000,000,000 Medium Term Note Programme (the “**Programme**”). On 7th September, 2001, the maximum aggregate nominal amount of Notes which may be outstanding under the Programme was increased from £1,000,000,000 to £2,000,000,000. This Prospectus supersedes any previous Prospectus or supplement thereto. Any Notes (the “**Notes**”) issued under the Programme on or after the date of this Prospectus are issued subject to the provisions hereof. This Prospectus does not affect any Notes issued prior to the date hereof.

Under the Programme, the Issuer may from time to time issue Notes denominated in any currency agreed between the Issuer, the Guarantor and the relevant Dealer (each as defined below). Payments and other obligations in respect of the Notes will be unconditionally and irrevocably guaranteed by Gallaher Limited (the “**Guarantor**”).

Notes may be issued in bearer or registered form (respectively “**Bearer Notes**” and “**Registered Notes**”). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will be £2,000,000,000 (or its equivalent in any other currency or currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “*Summary of the Programme*” and any additional Dealer appointed under the Programme from time to time by the Issuer (each a “**Dealer**” and together the “**Dealers**”), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the “**relevant Dealer**” shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks which should be considered carefully. For a discussion of these risks, see “Risk Factors”.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) for Notes issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s Gilt Edged and Fixed Interest Market. References in this Prospectus to Notes being “**listed**”(and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange’s Gilt Edged and Fixed Interest Market and have been admitted to the Official List. The London Stock Exchange’s Gilt Edged and Fixed Interest Market is a regulated market for the purposes of Directive 93/22/EEC (the “**Investment Services Directive**”). Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “*Terms and Conditions of the Notes*”) of Notes will be set out in a final terms supplement (the “**Final Terms**”) which, with respect to Notes to be listed on the London Stock Exchange will be delivered to the UK Listing Authority and the London Stock Exchange.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or market(s) as may be agreed between the Issuer, the Guarantor and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Issuer and the Guarantor may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Arranger

Barclays Capital

Dealers

ABN AMRO
BayernLB
CALYON Corporate and Investment Bank
Dresdner Kleinwort
HSBC
ING Wholesale Banking
Lloyds TSB

Barclays Capital
BNP PARIBAS
Credit Suisse
Goldman Sachs International
HVB Corporates & Markets
JPMorgan Cazenove
The Royal Bank of Scotland

WestLB AG

The date of this Prospectus is 26th September, 2006

This Prospectus comprises a base Prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**").

The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Copies of the Final Terms will be available from the registered office of the Issuer and the specified office set out below of each of the Paying Agents (as defined below).

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference" below). This Prospectus shall be read and construed on the basis that such documents are incorporated in and form part of this Prospectus.

No person is or has been authorised by the Issuer or the Guarantor or the Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor, HSBC Trustee (C.I.) Limited (the "**Trustee**") or any of the Dealers.

The Trustee and the Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Trustee or the Dealers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer or the Guarantor in connection with the Programme. Neither the Trustee nor any Dealer accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer or the Guarantor in connection with the Programme.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Guarantor, the Trustee or any of the Dealers that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, the Guarantor, the Trustee or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer and the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Trustee and the Dealers expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Notes.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Guarantor, the Trustee and the Dealers do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on

the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom, France and The Netherlands) and Japan (see "Subscription and Sale").

*The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are subject to U.S. tax law requirements, and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons.*

*All references herein to "**sterling**", "**pounds**", "**£**", "**pence**" and "**p**" are to the lawful currency of the United Kingdom, all references herein to "**euro**" and "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended, and all references herein to "**U.S. dollars**" and "**U.S.\$**" are to United States dollars.*

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In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes (provided that, in the case of any Tranche of Notes to be admitted to trading on a regulated market in the European Economic Area, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche) or effect transactions with a view to supporting the market price of the Notes. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

RISK FACTORS

The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor are in a position to express a view on the likelihood of any such contingency occurring.

Factors which (although not exhaustive) the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the Issuer and the Guarantor may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and neither the Issuer or the Guarantor represents that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents deemed to be incorporated by reference herein) and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's and the Guarantor's ability to fulfil its obligations under Notes issued under the Programme

The Group operates in countries and regions that have a diverse range of political, legal, economic, trade and regulatory structures

The Issuer and its subsidiaries including the Guarantor (the "Group") are subject to the same risks as any other multinational fast moving consumer goods organisation doing business.

The Group has market sales in some 80 countries globally. The Group's turnover, profit and financial condition are influenced by the economic, regulatory and political situations in the countries and regions in which it has operations, which can be unpredictable and outside the control of the Group. Some countries in which the Group operates face the threat of increasing civil unrest and can be subject to regular changes in regime. In others, unforeseen natural disasters, terrorism, conflict and the threat of war may have a significant impact on the business environment. Some countries maintain trade barriers or adopt policies that favour domestic producers, preventing or restricting sales by the Group. There can be no assurance that political, social, legal, economic, trade or other developments will not have an adverse impact on the Group's investments and businesses or on the Group's turnover, profits and financial condition.

The brand names under which the Group's products are sold are key assets of the business. Investments over a period of time have led to many of the Group's principal brands carrying significant brand equity and a global appeal to consumers, essential to delivering sustainable profit growth into the future. The protection and maintenance of the reputation of these brands is important to the success of the Group. In a number of countries around the world where the Group operates, the risk of intellectual property rights infringement remains high as a result of limitations in judicial protection and/or inadequate enforceability. Any substantial erosion in the value of the brands could have an adverse effect on the Group's businesses and its turnover, profit and financial condition. There can be no assurance that the Group's strategy or its execution will maintain value in any product brand.

The Group operates in very competitive businesses and geographical markets

The Group operates in very competitive businesses and geographical markets. It must compete with other tobacco companies whose business plans and objectives may be similar to its own. The Group's principal competitors are Philip Morris International, British American Tobacco, Japan Tobacco International, Imperial Tobacco Group and Altadis Group. Some of these companies have greater resources than the Group, including the scale of their research and development facilities. The speed to market of the Group's principal competitors or any other manufacturers in branding changes, new product launches (including potentially lower risk products), or changes in product mix, could have an adverse effect on the Group's turnover, profit and financial condition.

In tough competitive environments, the Group is vulnerable to the effects of price wars

The Group's marketing strategy is to generate profit growth by achieving market development of segmented and differentiated brand portfolios. In tough competitive environments, where the price burden

on consumers is high because of taxation or limited purchasing power, the Group is vulnerable to competitors aggressively taking market share through price repositioning, which generally has the impact of reducing the overall profit pool of the market and therefore the Group's turnover, profit and financial condition.

The Group is exposed to reduced trading performance in key markets

Approximately 70% of the Group's total profit from operations before amortisation of intangible assets and exceptional items derives from four countries, with the UK providing approximately 46% of the Group's total profits from operations before amortisation of intangible assets and exceptional items in 2005. The Group's reported profits may be adversely affected by a significant downturn in one or more of its larger markets.

Declining demand for tobacco products

Developed markets for tobacco products, including cigarettes, have been generally declining since the 1970s. This adverse trend has been encouraged by consistent and substantial increases in the excise duty on tobacco products, increasing governmental regulation, government-funded anti-smoking campaigns and heightened public awareness of smoking-related health concerns. For example, in the U.K., sales of duty-paid cigarettes declined by an average of approximately 3.9% per annum between 1998 and 2005 and, in the Republic of Ireland, total duty-paid sales have declined at an estimated compound rate of 5.1% per annum since 2001. In Austria, total duty-paid sales declined by an estimated 4.8% in 2004 and an estimated 12.8% in 2005, mainly due to differences in retail prices of cigarettes between the Austrian market and European Union ("EU") accession member states which border Austria, particularly the Czech Republic, Slovakia, Hungary and Slovenia.

Any future substantial decline in sales could have a materially adverse effect on the Group's turnover, profit and financial condition.

Increasing dependence on sales in the Commonwealth of Independent States and other developing and emerging markets

The Group continues to increase its sales in the Commonwealth of Independent States ("CIS") and other developing and emerging markets. The economic conditions in these countries have in the past suffered from substantially depressed economies, devaluation of currencies and an unstable political and commercial environment. Any change or deterioration in the current political and economic conditions may affect the profitability of the Group's operations in these countries.

The Group's expansion into both developing and emerging markets may present more challenging operating environments where margins in general may be lower and in which commercial practices may be of a lower standard than those in which it has historically operated.

In addition, some of the countries in which the Group operates, such as Iran, could be subject to certain international sanctions. The Group's current operations in these jurisdictions are not material to its turnover, profit and financial condition. The Group seeks to comply fully with international sanctions to the extent they are applicable to it. However, in doing so, the Group may be restricted in the sources of products that it supplies to these jurisdictions or by the nationality of the personnel that it involves in these activities.

Future changes in international sanctions may prevent the Group from doing business in certain jurisdictions entirely. Further, the Group may suffer from adverse public reaction or reputational harm as a result of doing business in countries that have been identified as state sponsors of terrorism by the US State Department or that are subject to international sanctions, notwithstanding that these sanctions do not apply to the Group as a UK-based corporation and regardless of the materiality of its operations in such countries to its operations or financial condition. Any such reaction could have a material adverse effect on the Group's turnover, profit and financial condition.

Loss of production capacity or key supplier, distribution interruption and commodity risk

There are some product categories in respect of which the Group does not have over-capacity or where substitution between different production plants is not possible. The Group may lose market share and profit in the event of loss of production capacity needed to supply its products.

The Group has an increasingly global approach to managing its supply chain, covering leaf supply, direct and indirect procurement, tobacco products manufacturing and distribution, with the aim of reducing

complexity and rationalising suppliers (where appropriate) to leverage economies of scale while maintaining quality standards. Severe disruption to suppliers' operations could have an adverse impact on the Group's ability to produce and deliver to customer demands. In certain markets, distribution of Group products is through channels managed by third parties, and is often licensed by governments. In these instances, loss of distribution, and therefore a reduction in sales volumes and revenues, is a possibility.

Tobacco is the most important raw material in the manufacture of tobacco products. The Group is not directly involved in the cultivation of tobacco leaf. As with other agricultural commodities, the price of tobacco leaf tends to be cyclical, with imbalances in supply and demand influencing future production levels. Different regions also experience variations in weather patterns, which may affect crop quality. Political unrest in any of the countries where tobacco leaf is cultivated (such as in Zimbabwe) or the imposition of international sanctions against those countries could also significantly increase the price of these materials elsewhere. Presently, the world tobacco market conditions are not materially affecting the Group's average tobacco cost and in general terms, the effect of price fluctuations on the Group's operating performance may be mitigated by the geographic spread of its tobacco leaf sources and by its practice of holding approximately between three months' and one year's average inventory of tobacco leaf across its locations. However, any significant change in tobacco leaf prices could affect the Group's cost base and total profit from operations. In addition, the Group has to be able to source non-tobacco material for use in its products, for example, filter tow and papers. Any adverse fluctuations in prices or consolidation in the non-tobacco materials' supply market could have adverse effects on the Group's pricing and ability to source these materials efficiently and cost effectively.

Failure to meet targeted costs savings

The Group has a strategy of improving profitability through productivity and efficiency improvements. These improvements aim to be delivered by reducing costs throughout the supply chain including factory rationalisation and logistical savings. Unexpected increases in direct or indirect costs could arise, especially given the increasingly competitive costs of communicating with consumers via a limited number of available means. In addition, objections and limitations could be imposed over the scope of savings programmes by relevant stakeholders, which could jeopardise future savings programmes.

Difficulty in developing and managing growth

Part of the Group's business strategy is to pursue growth and start-up operations in new and existing markets. The Group's ability to achieve its planned growth depends on a number of factors, including:

1. the Group's ability to compete in existing markets and identify new markets in which it can successfully operate;
2. the access to additional financial resources;
3. the Group's ability to hire, train and retain appropriately skilled management and other employees; and
4. the increased cost to the business of pension funding and regulations relating to employees.

The Group will also need to adapt its operating systems to accommodate the expanded operations. Such planned expansion may not be achieved or the Group may not be able successfully to manage the expanded operations. Failure to manage such growth effectively could adversely affect the Group's turnover, profit and financial condition and its prospects.

Integration of acquisitions and joint ventures

Acquisitions and joint ventures continue to be a component of the Group's business strategy and it intends to achieve the anticipated benefits of such transactions when they arise. However, failure adequately to manage the integration processes and coordinate the strategies of such entities with the Group's own could adversely affect turnover, profit and financial condition.

Likelihood of identifying further acquisition opportunities

Historically, the Group has engaged in acquisitions, which have been complementary to the organic growth of the Group. The continuation of this expansion strategy is dependent on, among other things, identifying suitable acquisition or investment opportunities and successfully consummating those transactions. Anti-trust or similar laws may make it difficult for the Group to make additional acquisitions if regulators in

countries where the Group and potential acquisition targets operate believe that a proposed transaction will have an adverse effect on competition in the relevant market or economic region. Even if the Group is able to identify candidates for acquisition, it may be difficult to complete transactions. The Group has historically faced competition for acquisitions, and in the future this could limit its ability to grow by this method or could raise the price of acquisitions and make them less attractive to it. In addition, if the Group is unable to secure necessary financing, it may not be able to grow its business through acquisition.

Difficulty in identifying liabilities of business acquired

Typically, when the Group acquires a business it acquires all of its liabilities as well as its assets. Although the Group seeks to investigate each business thoroughly prior to acquisition and to obtain appropriate representations and warranties as to its assets and liabilities, there can be no assurance that it will be able to identify all actual or potential liabilities of a company prior to its acquisition or thereafter pursue enforceable claims against vendors within the limitation periods within which such claims can be made against vendors.

Increased regulation of the tobacco sector

Tobacco markets are subject to significant regulatory influence from governments. These include:

- (a) the levying of substantial and increasing tax or substantial changes to duty structures and duty charges;
- (b) the introduction of minimum tax and minimum price legislation for cigarettes;
- (c) restrictions such as the prohibition of smoking in many public and work places;
- (d) restrictions on the age at which people can purchase tobacco products;
- (e) restrictions on the advertising, display and marketing of products;
- (f) the display of larger health warnings, graphic pictorial warnings and statements of tar, nicotine and carbon monoxide smoke yields on product packaging;
- (g) the prohibition of certain descriptors such as 'light' and 'mild';
- (h) restrictions on the minimum number of cigarettes in packs; on the display of cigarettes at the point of sale; and on access to vending machines;
- (i) regulations on the maximum tar, nicotine and carbon monoxide smoke yields of cigarettes;
- (j) domestic and international regulations relating to the manufacturing, presentation and sale of tobacco products;
- (k) the provision of tobacco ingredients information to regulators;
- (l) requirements regarding the potentially costly analysis of ingredients and the potential for publication of proprietary brand formula information; and
- (m) changes in duty paid allowances.

Partly because of these measures, unit sales of tobacco products in certain principal markets have declined in recent years and the Group expects this trend to continue. Any significant decrease in demand for its products could significantly affect the Group's total profit from operations, together with its cost of complying with increased regulatory requirements described above or more generally.

Regulations on tobacco marketing could significantly reduce the Group's ability to compete and therefore have an adverse effect on its sales and total profit from operations

Advertising, promotion and brand building continue to play a key role in the Group's business, with significant expenditure on programmes to support key brands and to develop its performance in markets for new brands and brand extensions. However, the regulation of advertising, display and marketing of tobacco products is significant and increasingly restrictive. Present and proposed regulations restrict the manner in which the Group's products may be marketed, including restrictions on advertising, sponsorship, promotion, point of sale display and sampling of tobacco products. Additional regulations

restricting these and other aspects of tobacco marketing may be proposed and come into force in the future.

The Group will use the range of advertising, promotion and sponsorship opportunities allowed to it for as long as these are available and will continue to explore other methods through which it can continue to build its brands within the permitted legal framework within which it operates. It is possible that the present and proposed regulations, as well as future regulations, may have a material adverse effect on the Group's ability to advertise, promote and build its brands, to promote and introduce new brands and products and to maintain the proprietary nature of its owned and licensed brands and thus materially adversely affect the Group's sales and total profit from operations.

For additional information, see under "**Regulatory and Litigation Environment**" section on page 66 of this Prospectus.

Regulations and voluntary agreements on smoking in public places and the workplace could have an adverse effect on the Group's sales and total profit from operations

At a global level, the World Health Organisation's Framework Convention on Tobacco Control ("**WHO FCTC**") came into force in February 2005. Countries that have ratified the convention will be legally bound by the provisions of the treaty which include measures relating to environmental tobacco smoke. In addition, a number of countries have recently established, or are considering, further legislation and/or voluntary agreements that restrict or prohibit smoking in public places and the workplace, which may also include bars and restaurants. These countries include Austria, Belgium, Denmark, Estonia, Finland, France, Germany, Italy, Latvia, Lithuania, Luxembourg, Malta, Norway, Poland, Portugal, Republic of Ireland, Spain, Sweden and the UK.

These and other current and potential restrictions on smoking in public places and the workplace may reduce the opportunities available for smoking and may reduce the demand for tobacco products. This potential reduction in demand for tobacco products may materially adversely affect the Group's sales and total profit from operations.

For additional information, see under "**Regulatory and Litigation Environment**" section on page 66 of this Prospectus.

Taxation

The Group does business in some 80 countries around the world and pays tax in accordance with the tax legislation of those countries. Tax laws and tax rates around the world are constantly changing and these changes could have a significant impact on the taxes paid by the Group and hence could impact the net profits and dividend capability of the Group companies.

The Group may be adversely affected by challenges to the retail pricing or tax treatment of tobacco products

As at 31st August, 2006, five EU member states (Austria, Belgium, France, Italy and the Republic of Ireland) had minimum retail price legislation in place. The European Commission (the "**Commission**") has announced that it is taking action against such legislation. If the legislation has to be repealed, this may affect the sales mix of the Group's brands and could lead to price wars in certain markets, which may have a material adverse effect on the Group's turnover, profit and financial condition.

The Group is also a leading manufacturer by volume of tobacco products other than cigarettes and, as such, any significantly unfavourable tax treatment of other tobacco products, if widely adopted, may have a material adverse effect on its turnover, profit and financial condition.

Excise tax increases/changes and minimum price legislation reduce sales volumes

Governments in markets where the Group operates have imposed considerable excise taxes on tobacco products, and some have indicated that these will continue to increase. The continuing impact of price increases in these markets, principally due to substantial duty increases in recent years, has resulted in:

- (a) pressure on manufacturing and vending margins;
- (b) reduced annual industry volumes;

- (c) greater price competition;
- (d) accelerated trading down by consumers to lower price cigarette brands or to handrolling tobacco;
- (e) increased legitimate cross border purchasing by consumers;
- (f) an illegal trade in tobacco products; and
- (g) a growth in smuggled counterfeit tobacco products.

These changes have affected the Group and are expected to continue to affect it. For instance the Group has, in particular, been impacted by the UK Government's policy of maintaining duty levels in excess of the duty levels of Europe. This has led to the cross border purchasing of cigarettes by travellers returning to the UK and illegal smuggling of cigarettes into the UK. Partly because of the illicit market, the Group's UK sales have been reduced. The entry of 'Accession Countries' into the European Union has exacerbated the issue of price differentials provoked by different duty structures in adjacent markets and the trends seen in recent years in the UK have been seen by other EU countries, such as Austria. Furthermore, any shortfall in control arrangements at the borders of the Accession Countries and Eastern Europe may impact on the legitimate EU market for tobacco products. Any of these could adversely affect the Group's total profit from operations.

Possible regulatory enquiries related to excise

There is a risk that tobacco companies and their directors, executive officers and other employees will be subject to investigations by customs or other such authorities. Civil and criminal actions and claims associated with transfer pricing, wrongful cross-border trading or illicit money transactions may be made against tobacco companies or their directors, executive officers or employees. The Group is totally opposed to the smuggling of tobacco products and in liaison with government and customs authorities, has adopted a number of measures, including inter alia implementing pre-supply and post-supply checks on international sales and distribution and strengthening information exchanges with customs authorities, to combat illicit cross-border trading, the risk of money laundering and counterfeiting. However, because these activities are illegal, the people conducting them generally try to conceal them and accordingly their detection can be difficult.

Cost of compliance with regulatory requirements

The Group is subject to increasing costs associated with regulatory requirements, for example the US Sarbanes-Oxley of 2002, pension funding obligations and compliance with enhanced corporate governance and specific regulations impacting upon the tobacco sector within Europe and elsewhere. The contributions to the Group's defined benefit schemes and their valuations are determined in accordance with the advice of independent, professionally qualified actuaries. Changes in asset returns, salary increases, inflation, long term interest rates and other actuarial assumptions could have an adverse impact on the financial condition or operations of the Group.

Adverse litigation and regulatory results could have an impact on profits

There are a number of instances where litigation or regulatory proceedings, hearings or claims are actual, pending or prospective or otherwise threatened against the Group. Historically, such claims have focussed upon smoking and health related matters. More recently, regulatory, anti-trust and tax related claims have become more prevalent.

To date, there has been no recovery of damages against any of the Group's companies in any action alleging that their tobacco products have resulted in human illnesses. It is not possible to predict the outcome of the pending litigation. The Group believes that there are meritorious defences or suitable indemnities from prior ownership risks to the actions and claims it currently faces and based upon what is known to it actual, pending or prospective actions will not have a material adverse effect upon the results of the Group's operations, its cash flow or its financial condition. There can be no assurance, however, that:

- (a) favourable decisions will be achieved in the proceedings pending against the Group;
- (b) additional proceedings will not be commenced in the UK or elsewhere globally against the Group;
- (c) the Group will not incur damages; or

- (d) if the Group incurs damages, such damages will not have a material impact on its operating performance or financial condition.

Regardless of the outcome of the pending litigation, the costs of defending actions and claims could be substantial and will not be fully recoverable from the plaintiffs, irrespective of whether or not the Group is successful; nor can the Group provide assurance that legal aid or other governmental funding will continue to be denied to plaintiffs in smoking-related health litigation in any jurisdiction in the future, that favourable decisions will be achieved in the proceedings pending against it, that additional proceedings by private, corporate or public sector plaintiffs will not be commenced against it or that it will not incur damages which, if incurred, may be material.

A subsidiary of the Issuer (following its acquisition in 2006) is a party, in respect of historic sales, to the 1998 Master Settlement Agreement that certain US market participants have entered into with, among others, the attorneys general of 46 US states, to settle healthcare reimbursement claims and other issues. The Issuer has transferred all the acquired trademarks in North, South and Central America to Reynolds American, Inc., in return for full indemnities relating to any potential smoking and health claims regarding the subsidiary's sales in the US between 1995 and 2004.

For additional information about litigation in the Group's main markets, including a counter-claim by a former distributor, see under the "**Regulatory and Litigation Environment**" section on page 66 of this Prospectus.

The Group may be adversely affected by its significant market position in certain markets

The Group has significant market shares in certain markets in which it operates, including the United Kingdom. As a result, the Group may be subject to investigation for alleged abuse of its position in these markets, which could result in adverse regulatory action by the authorities, including monetary fines and negative publicity.

In particular, in August 2003, the UK Office of Fair Trading ("**OFT**") notified the Group of an enquiry into vertical agreements between manufacturers and retailers in the UK cigarette, tobacco and tobacco-related markets. The Group is co-operating with the enquiry that remains at an information gathering stage. At this stage, it is not possible to assess whether or not the OFT will reach an adverse decision. Similarly, it is not possible, in the event that an adverse decision is reached, to assess the extent (if any) of any fines. However, in the event that the OFT considers a company has infringed UK competition law, it has the authority to levy a fine against the infringing company. Until 30th April, 2004, the maximum fine could not exceed 10% of that company's UK turnover during the relevant period. As from 1st May, 2004, that limit is set by reference to worldwide turnover although it is unclear whether this new limit applies retrospectively. The Group has been advised that any fine would be net of duty payments. In the three years ended 31st December, 2003, the Group's aggregate UK net turnover was £1,776m (and its worldwide turnover was £8,701m). In the event of an adverse decision by the OFT, however, the Group would have rights of appeal. As at the date of this Prospectus, no notice has been filed by the OFT indicating its intention to reach an adverse decision in relation to this matter. The Group will defend its own position in relation to this enquiry.

Environmental Liabilities

The environmental laws of various jurisdictions in which the Group operates impose potentially onerous liabilities on the Group in the event of a breach of such laws. Failure to manage properly the environmental risks to which the Group's business is subject could result in additional and potentially significant remedial costs and have a negative impact on the Group's reputation. In addition, there can be no guarantee that changes to local regulations or of the legal environment in which the Group operates will not result in additional costs to the Group which could adversely affect its operations.

Contamination of the Group's products could adversely impact the Group's volumes, market share and profitability

The Group's market position may be affected through the contamination of its products, either by accident during the manufacturing process or deliberately with malicious intent. In these instances, significant costs may be incurred in recalling products from the market. In addition, consumers may lose confidence in the specific brand affected by the contamination, resulting in a loss of sales which may take a long time to

recover. During this time the Group's competitors may increase substantially their market share which would subsequently be difficult and costly to regain.

Reliance on information technology

The Group is increasingly reliant on information technology systems for its internal communications, controls and reporting and for communication with customers and suppliers. A significant disruption, due either to computer viruses or malicious intrusions, to these systems for a significant period of time could affect the Group's communications and operations.

Potential credit risk with the Group's distributors

In some of the Group's markets it makes the majority of its sales to small numbers of independent distributors. This can mean that the Group has large credit exposures with a relatively limited number of customers. Whilst the Group has robust credit control procedures in place throughout its business, the failure of one of these customers to pay receivables due to the Group could have a material effect on the Group's total profit from operations and on the cash flow of the Group's business. In addition, the Group's business relationships with distributors internationally are governed by the Group's "business conduct – sales and distribution policy", which regulates selling practices and has been developed in co-operation with HM Revenue and Customs in the UK. While the Group closely monitors adherence to this policy, a material breach by any distributor could require the Group to discontinue trade or incur financial penalties, which could have a material effect on the Group's total profit from operations, cashflow and financial condition.

The Group is exposed to funding and liquidity, foreign exchange rate, interest rate, and counterparty risks

Funding and liquidity risks expose the Group to shortages of cash and cash equivalents needed in the Group's operations and for refinancing of existing debt. The Group cannot assure that it will at all times have access to the bank and capital markets and that the failure to achieve such access will not have an adverse effect on the Group's funding and liquidity position and on its credit ratings.

The Group is exposed to changes in currency rates on the translation of the net assets of overseas subsidiaries into the Group's reporting currency, sterling. The Group is also exposed to currency changes from the translation of profits earned in overseas subsidiaries; these exposures are not normally hedged. Exposures also arise from the foreign currency denominated trading transactions undertaken by subsidiaries and dividend flows. The Group maintains both floating and fixed rate debt. Where appropriate the Group also uses derivatives, primarily interest rate swaps, to vary the fixed to floating mix. Changes in currency values and interest rates could have an adverse impact on the financial condition or operations of the Group.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties. The failure of any counterparty to meet its obligations to the Group could have an adverse affect on the financial condition or operations of the Group.

The Issuer is a holding company dependent on its subsidiaries and associates for dividends and other payments to service the Notes

The Issuer does not directly conduct business operations. Consequently, the Issuer is dependent on dividend and other payments from Group members to make payments on the Notes. Holders of the Notes will not have any direct claim on the cash flow or assets of any of the Group's operating subsidiaries (other than the Guarantor) or the Group's associated companies. The operating subsidiaries in the Group (other than the Guarantor) and associated companies will have no obligation, contingent or otherwise, to pay amounts due under the Notes, or make funds available to the Issuer or the Guarantor for those payments.

The ability of subsidiaries or associates to make dividends or other payments will depend on their cash flows and earnings which, in turn, will be affected by all of the factors discussed in "**Risk Factors**" described herein. In addition, under the corporate law of many jurisdictions, including the UK, the ability of some subsidiaries and associates to pay dividends is limited to the amount of distributable reserves of such companies.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;

- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, you should consult your own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of their particular circumstances.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Events of Default

The conditions of the Notes provide that the Trustee may, and if so requested in writing by the holders of at least one quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall, declare an Event of Default. Pursuant to these provisions, an individual Noteholder may not declare the Notes due and payable on an Event of Default unless the Trustee fails to act in accordance with a written request or Extraordinary Resolution of the Noteholders.

Modification, waivers and substitution

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee, the Issuer and the Guarantor may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 16 of the conditions of the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments to individuals (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland).

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. However, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to, the Directive.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Trading in the clearing systems

In relation to any issue of Notes which have a minimum denomination and are tradeable in the clearing systems in amounts above such minimum denomination which are smaller than it, should definitive Notes be required to be issued, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices

that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes and the Guarantor will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

DOCUMENTS INCORPORATED BY REFERENCE

The auditors' report and audited consolidated and non-consolidated annual financial statements for the financial years ended 31st December, 2004 and 2005 of the Issuer and the Guarantor respectively which have previously been published or are published simultaneously with this Prospectus and have been filed with the Financial Services Authority shall be incorporated in, and form part of, this Prospectus.

Following the publication of this Prospectus a supplement may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Any information which is incorporated by reference in documents which are deemed to be incorporated in, and to form part of this Prospectus, shall not form part of this Prospectus for the purposes of the Prospectus Directive.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Principal Paying Agent for the time being in London.

The Issuer and the Guarantor will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of listed Notes only, if appropriate, a supplemental Prospectus will be published.

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions defined in "Summary of provisions relating to the Notes in global form" and "Terms and Conditions of the Notes" shall have the same meanings in this overview.

Issuer:	Gallaher Group Plc
Guarantor:	Gallaher Limited
Description:	Medium Term Note Programme
Arranger:	Barclays Bank PLC
Dealers:	ABN AMRO Bank N.V. Barclays Bank PLC Bayerische Hypo- und Vereinsbank AG Bayerische Landesbank BNP Paribas CALYON Credit Suisse Securities (Europe) Limited Dresdner Bank AG London Branch Goldman Sachs International HSBC Bank plc ING Bank N.V. Lloyds TSB Bank plc J.P. Morgan Securities Ltd. The Royal Bank of Scotland plc WestLB AG and any other Dealers appointed in accordance with the Programme Agreement. The Issuer may from time to time terminate the appointment of any Dealer under the Programme in accordance with the terms of the Programme Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale</i> ") including the following restrictions applicable at the date of this Prospectus.

Notes having a maturity of less than one year

Notes having a maturity of less than one year will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the FSMA unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent (see "*Subscription and Sale*").

Risk Factors:	There are certain factors which may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under " <i>Risk Factors</i> " above and include risks concerning operational risk, general economic risk and risks relating to Notes.
Trustee:	HSBC Trustee (C.I.) Limited
Issuing and Principal Paying Agent:	HSBC Bank plc
Registrar:	HSBC Bank plc
Programme Size:	Up to £2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer and the Guarantor may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer, the Guarantor and the relevant Dealer.
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro.
Consolidation:	Notes of one Series may, if so specified in the applicable Final Terms, be consolidated with Notes of another Series having substantially the same terms and conditions, and provisions in respect of such consolidation will be contained in the applicable Final Terms.
Maturities:	Such maturities as may be agreed between the Issuer, the Guarantor and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant monetary authority (or equivalent body) or any laws or regulations applicable to the Issuer, the Guarantor or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form as described in the applicable Final Terms. Notes may be issued in bearer form only (" Bearer Notes "), in bearer form exchangeable for Registered Notes (" Exchangeable Bearer Notes ") or in registered form only (" Registered Notes "). Each Tranche of Bearer Notes and Exchangeable Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in " <i>Summary of the Programme — Selling Restrictions</i> "), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series.

Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as “**Global Certificates**”.

Initial Delivery of Notes: On or before the issue date for each Tranche, the Global Note representing Bearer Notes or Exchangeable Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depository or, in the case of a Global Note issued in NGN form, a common safekeeper for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”). Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Guarantor, the Trustee, the Principal Paying Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Fixed Rate Notes: Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.

Floating Rate Notes: Floating Rate Notes will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes: Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.

Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes: Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Dual Currency Notes: Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	<p>The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.</p> <p>The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.</p> <p>Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution (see "<i>Certain Restrictions — Notes having a maturity of less than one year</i>" above and must have a minimum redemption amount £100,000 or its equivalent in any other currency).</p>
Denomination of Notes:	Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant monetary authority (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency (see " <i>Certain Restrictions — Notes having a maturity of less than one year</i> " above) and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €50,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by the United Kingdom, subject as provided in Condition 8. In the event that any such deduction is made, the Issuer or, as the case may be, the Guarantor will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Notes will contain a negative pledge provision as further described in Condition 4.
Cross Default:	The terms of the Notes will contain a cross default provision as further described in Condition 10.
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as aforesaid) will rank <i>pari passu</i> , without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.
Guarantee:	The Notes will be unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under such guarantee will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (subject as aforesaid) will rank <i>pari passu</i> with all other outstanding unsecured and

unsubordinated obligations of the Guarantor, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

Listing:

Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

The applicable Final Terms will state whether or not the relevant Notes are to be listed and for admitted to trading and, if so, on which stock exchange(s) and /or markets.

Governing Law:

The Notes will be governed by, and construed in accordance with, English law.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (in respect of Notes having a denomination of less than €50,000) (including the United Kingdom, France and The Netherlands) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see "*Subscription and Sale*").

The Issuer is Category 2 for the purposes of Regulation S under the Securities Act.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "**D Rules**") unless (i) the applicable Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. 1.163-5(c)(2)(i)(C) (the "**C Rules**") or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration-required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the applicable Final Terms as a transaction to which TEFRA is not applicable.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

GALLAHER GROUP PLC
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
Guaranteed by Gallaher Limited
under the £2,000,000,000
Medium Term Note Programme

PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions (the "**Conditions**") set forth in the Prospectus dated 26th September, 2006 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus is available for viewing at the registered office of the Issuer and Guarantor at Members Hill, Brooklands Road, Weybridge, Surrey KT13 0QU and on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/en-gb/pricesnews/marketnews>.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the conditions (the "**Conditions**") set forth in the Offering Circular dated [original date]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Prospectus dated 26th September, 2006 which constitutes a base prospectus for the purposes of the Prospectus Directive save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus dated 26th September, 2006 and the Offering Circular dated [original date]. Copies of such Prospectus and Offering Circulars are available for viewing at the registered office of the Issuer and Guarantor at Members Hill, Brooklands Road, Weybridge, Surrey KT13 0QU and, in the case of the Prospectus dated 26th September, 2006 on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/en-gb/pricesnews/marketnews>.

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination must be £100,000 or its equivalent in any other currency.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

1. (i) Issuer: Gallaher Group Plc
(ii) Guarantor: Gallaher Limited
2. (i) Series Number: []
(ii) Tranche Number: []
(if fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
(i) Series: []
(ii) Tranche: []
5. Issue Price of Tranche: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from *[insert date]* if applicable]
6. Specified Denominations: []
[]
(in the case of Registered Notes, this means the minimum integral amount in which transfers can be made)
(N.B. If an issue of Notes is (i) NOT admitted to trading on a European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €50,000 minimum denomination is not required.)
7. (i) Issue Date: []
(ii) Interest Commencement Date: []
8. Maturity Date: *[Fixed rate — specify date/Floating rate — Interest Payment Date falling in or nearest to [specify month and year]]*
9. Interest Basis: [[] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Dual Currency Interest]
[specify other]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency Redemption]
[Partly Paid]
[Instalment]
[specify other]
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)
11. Change of Interest Basis or Redemption/Payment Basis: *[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]*
12. Put/Call Options:
(i) Investor Put applies: [Yes/No]
(ii) Issuer Call applies: [Yes/No]
[(further particulars specified below)]

13. (i) Status of the Notes and Guarantee: Senior
(ii) Date Board approval for issuance of [] and [] respectively
Notes and Guarantee obtained:
(N.B. Only relevant where Board (or similar authorisation is required for the particular tranche of Notes or related Guarantee)
[Syndicated/Non-syndicated]
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
(If payable other than annually, consider amending Condition 5)
- (ii) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]/ [specify other]
(NB: This will need to be amended in the case of long or short coupons)
- (iii) Fixed Coupon Amount(s): [] per [] in nominal amount
(iv) Broken Amount(s): [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount(s)]
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or specify other]
(NB: Actual/Actual (ICMA) is normally appropriate for Fixed Rate Notes denominated in all currencies other than United States dollars)
- (vi) Determination Date(s): [] in each year
[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]
(NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration)
(NB: Only relevant where Day Count Fraction is Actual/Actual (ICMA))
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
16. **Floating Rate Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Specified Period(s)/Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ specify other]
- (iii) Additional Business Centre(s): []
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/ specify other]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent): []

- (vi) Screen Rate Determination:
- Reference Rate: []
(Either LIBOR, EURIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement and Reference Banks)
 - Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
 - Relevant Screen Page: []
(In the case of EURIBOR, if not Telerate Page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (vii) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (viii) Margin(s): [+/-] [] per cent. per annum
- (ix) Minimum Rate of Interest: [] per cent. per annum
- (x) Maximum Rate of Interest: [] per cent. per annum
- (xi) Day Count Fraction: [Actual/365 or Actual/Actual Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 Other]
(See Condition 5 for alternatives)
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
17. **Zero Coupon Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Accrual Yield: [] per cent. per annum
 - (ii) Reference Price: []
 - (iii) Any other formula/basis of determining amount payable: []
(Consider applicable day count fraction if euro denominated)
 - (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 7(e)(iii) and 7(f) apply/specify other]
(Consider applicable day count fraction if not U.S. dollar denominated)

18.	Index Linked Interest Note Provisions	<p>[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i> <i>[give or annex details]</i> []</p> <p>(i) Index/Formula: (ii) Calculation Agent responsible for calculating the interest due: (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: (iv) Specified Period(s)/Specified Interest Payment Dates: (v) Business Day Convention: (vi) Additional Business Centre(s): (vii) Minimum Rate of Interest: (viii) Maximum Rate of Interest: (ix) Day Count Fraction:</p>	<p>[]</p> <p><i>[need to include a description of market disruption or settlement disruption events and adjustment provisions]</i></p> <p>[]</p> <p>[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/<i>specify other</i>] [] [] per cent. per annum [] per cent. per annum []</p>
19.	Dual Currency Interest Note Provisions	<p>(i) Rate of Exchange/method of calculating Rate of Exchange: (ii) Calculation Agent, if any, responsible for calculating the interest payable: (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: (iv) Person at whose option Specified Currency(ies) is/are payable:</p>	<p>[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i> <i>[give or annex details]</i> []</p> <p><i>[need to include a description of market disruption or settlement disruption events and adjustment provisions]</i></p> <p>[]</p>
PROVISIONS RELATING TO REDEMPTION			
20.	Issuer Call	<p>(i) Optional Redemption Date(s): (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): (iii) If redeemable in part: (a) Minimum Redemption Amount: (b) Maximum Redemption Amount: (iv) Notice period (if other than as set out in the Conditions):</p>	<p>[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i> []</p> <p>[Formula in Condition 7(c) applies (sterling fixed rate issues only) <i>(Specify Reference Stock)/specify other</i>] [] []</p> <p>[]</p> <p><i>(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent or Trustee)</i></p>
21.	Investor Put	<p>[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i></p>	<p>[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i></p>

- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [] per Note of [] Specified Denomination
- (iii) Notice period (if other than as set out in the Conditions): []

(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee)

22. Final Redemption Amount: [[] per Note of [] Specified Denomination/specify other/see Appendix]
(N.B. In relation to any issue of Notes which are expressed at paragraph 6 above to have a minimum denomination and tradeable amounts above such minimum denomination which are smaller than it the following wording should be added: "For the avoidance of doubt, in the case of a holding of Notes in an integral multiple of [] in excess of [] as envisaged in paragraph 6 above, such holding will be redeemed at its nominal amount.")
(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)
23. Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): []

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Bearer Notes:
- (i) Form : Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event].
- [Temporary Bearer Global Note exchangeable for Definitive Notes on and after the Exchange Date.]
- [Permanent Bearer Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]

(Temporary Bearer Global Note must be used if TEFRA rules apply)

[Exchangeable Bearer Notes: *(specify details)*]

[Registered Notes:

Global Certificate exchangeable for definitive Registered Notes at the request of the holder/ definitive Registered Notes.]

(Ensure that this is consistent with the wording in the "Summary of the provisions relating to the Bonds while in global form" section in the Prospectus and the Notes themselves.

N.B. Need to amend exchange events to disapply any Noteholder/Issuer optional exchange where Notes are expressed to have a minimum denomination of €50,000 and are tradeable in integral multiples of €1,000 thereafter in order for Notes to be accepted by the clearing systems.)

- (ii) New Global Note: [Yes] [No]
25. Additional Financial Centre(s) or other special provisions relating to Payment Days: [Not Applicable/*give details*]
- (Note that this item relates to the place of payment and not Interest Period end dates to which items 16(iii) and 18(vi) relate)*
26. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/*give details. NB: new forms of Global Notes may be required for Partly Paid issues.*]
28. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/*give details*]
- (ii) Instalment Date(s): [Not Applicable/*give details*]
29. (i) Redenomination applicable: Redenomination [not] applicable
- [(If Redenomination is applicable, specify the terms of Redenomination in an Annex to the Final Terms)]*
- (ii) Consolidation applicable: Consolidation [not] applicable
- [(If Consolidation is applicable, specify the terms of Consolidation in an Annex to the Final Terms)]*

30. Other final terms: [Not Applicable/give details]
(When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)

DISTRIBUTION

31. (i) If syndicated, names [and addresses]* of Managers: [Not Applicable/give names [and addresses]*]
(ii) Date of Subscription Agreement*: []
(iii) Stabilising Manager (if any): [Not Applicable/give name]
*(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers)**

32. If non-syndicated, name [and address]* of relevant Dealer: []

33. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]

34. Additional selling restrictions: [Not Applicable/give details]

[LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the £2,000,000,000 Medium Term Note Programme of Gallaher Group Plc.]

RESPONSIBILITY

The Issuer and the Guarantor each accepts responsibility for the information contained in these Final Terms. [[] has been extracted from []. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of the Issuer: Signed on behalf of the Guarantor:

By: _____ By: _____
Duly authorised Duly authorised

PART B – OTHER INFORMATION

1. LISTING

- (i) Listing: [London/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [] with effect from [].] [Not Applicable]
- (iii) Estimate of total expenses related to admission to trading: []

2. RATINGS

Ratings: The Notes to be issued have been rated:

[S & P: []]

[Moody's: []]

[[Other]: []]

(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

3. NOTIFICATION

The [*name of competent authority in home Member State*] [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*names of competent authorities of host Member States*] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – Amend as appropriate if there are other interests]

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i) Reasons for the offer: []]

[[ii)] Estimated net proceeds: []]

[[iii)] Estimated total expenses: []]

(N.B.: If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks regardless of the minimum denomination of the securities and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)

6. YIELD (*Fixed Rate Notes only*)

Indication of yield: []]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

7. **PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING** (*Index-Linked Notes only*)

[Need to include details of where past and future performance and volatility of the index/ formula can be obtained.]

[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the rules are most evident.]

[Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

8. **PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT** (*Dual Currency Notes only*)

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

[Need to include a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the rules are most evident.]

9. **OPERATIONAL INFORMATION**

- | | | |
|-------|--|---|
| (i) | ISIN Code: | [] |
| (ii) | Common Code: | [] |
| (iii) | Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): | [Not Applicable/give name(s) and number(s)] |
| (iv) | Delivery: | Delivery [against/free of] payment |
| (v) | Names and addresses of additional Paying Agent(s) (if any): | [] |
| (vi) | Intended to be held in a manner which would allow Eurosystem eligibility: | [Yes] [No] |

[Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of Euroclear and Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.] *[include this text if "yes" selected in which case the Notes must be issued in NGN form]*

* **Delete if the Notes are not derivative securities to which Annex XII of the Prospectus Directive Regulation applies.**

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto the following Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purposes of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Applicable Final Terms" for a description of the content of the Final Terms which will specify which of such terms and conditions are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes constituted by a Trust Deed (such Trust Deed, as modified and/or supplemented and/or restated from time to time, the "**Trust Deed**") dated 8th February, 2001 and made between Gallaher Group Plc (the "**Issuer**" and, together with its Subsidiaries, including the Guarantor, (each as defined below), the "**Group**"), Gallaher Limited (the "**Guarantor**") and HSBC Trustee (C.I.) Limited (the "**Trustee**", which expression shall include any additional or successor trustee) as trustee for the time being for the Noteholders (as defined below). These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below.

References herein to the "**Notes**" shall be references to the Notes of this Series.

Payments in respect of the Notes will be made under an Agency Agreement (such Agency Agreement, as modified and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 8th February, 2001 and made between the Issuer, the Guarantor, the Trustee, HSBC Bank plc as issuing and principal paying agent and agent bank (the "**Principal Paying Agent**", which expression shall include any successor issuing and principal paying agent and agent bank) and the other paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents), HSBC Bank plc as registrar (the "**Registrar**", which expression shall include any successor registrar) and the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression shall include any additional or successor transfer agents).

Interest bearing Bearer Notes have interest coupons ("**Coupons**") and, if indicated in the applicable Final Terms (as defined below), talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Bearer Notes repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Certificates do not have Receipts, Coupons or Talons attached on issue.

The Final Terms for this Note (or the relevant provisions thereof) are set out in part A of the Final Terms attached to or endorsed on this Note which supplement these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the "**applicable Final Terms**" are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to "**Noteholders**" or "**holders**" in relation to any Notes shall mean (in the case of Bearer Notes) the bearers of the Notes and (in the case of Registered Notes) the persons in whose names the Notes are registered. Any reference herein to "**Receiptholders**" shall mean the bearers of the Receipts and any reference herein to "**Couponholders**" shall mean the bearers of the Coupons and shall, unless the context otherwise requires, include the bearers of the Talons.

As used herein, "**Tranche**" means Notes which are identical in all respects (including, if applicable, as to listing and admission to trading by any listing authority or stock exchange) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including, if applicable, as to

listing and admission to trading by any listing authority or stock exchange) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of each of the Principal Paying Agent, the Registrar, the other Paying Agents and the Transfer Agents (such Agents and the Registrar being together referred to as the “**Agents**”). Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer and of the Principal Paying Agent and copies may be obtained from those offices save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them.

Words and expressions defined in the Trust Deed or used in the applicable Final Terms shall have the same meanings when used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

1. Form, Denomination and Title

The Notes are in bearer form, exchangeable bearer form or registered form as specified in the applicable Final Terms and serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

All Registered Notes shall have the same Specified Denomination. Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Specified Denomination as the lowest Specified Denomination of the Exchangeable Bearer Notes.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Trust Deed and the Agency Agreement. The Issuer, the Guarantor, the Trustee and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing on it (or on the Certificate representing it) or notice of any previous loss or theft of it) for all purposes.

References to “**Euroclear**” and/or “**Clearstream, Luxembourg**” shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2. Exchange of Exchangeable Bearer Notes and Transfers of Registered Notes

(a) *Exchange of Exchangeable Bearer Notes*

Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same aggregate principal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Receipts, Coupons and Talons relating to it, at the specified office of any Transfer Agent, provided that Exchangeable Bearer Notes surrendered for exchange during the period from and including the Record Date in respect of any Interest Payment Date up to and including such Interest Payment Date will not be required to be surrendered with the Coupon relating to the interest payable on such Interest Payment Date. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

(b) *Transfer of Registered Notes*

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed and such other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by a Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor.

(c) *Exercise of Options or Partial Redemption in Respect of Registered Notes*

In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a Certificate, a new Certificate, if required, shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, new separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding to the Registrar or any Transfer Agent.

(d) *Delivery of New Certificates*

Each new Certificate to be issued pursuant to Condition 2(a), (b) or (c) shall be available for delivery five business days after receipt of the request for exchange, form of transfer or Put Notice (as defined in Condition 7(d)) or surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Put Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Put Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) *Exchange Free of Charge*

Exchange and transfer of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax, duty or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may reasonably require).

(f) *Closed Periods*

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) subject as provided below, after any such Note has been called for redemption, (iii) during the period of seven days immediately preceding any Record Date and ending on (and including) the next Interest Payment Date or date for payment of an Instalment Amount or (iv) in respect of which a Noteholder's redemption option pursuant to Condition 7(d) has been exercised. An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

(g) *Regulations*

All transfers of Registered Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available free of charge by the Registrar to any holder of a Registered Note upon request.

3. **Guarantee and Status of the Notes**

- (a) The due performance of all payment and other obligations of the Issuer under the Notes, Receipts and Coupons, these Conditions and the Trust Deed has been unconditionally and irrevocably guaranteed (the "**Guarantee**") by the Guarantor in the Trust Deed. The obligations of the Guarantor under the Guarantee constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (subject as aforesaid) rank and will rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.
- (b) The Notes, any relative Receipts and Coupons constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as aforesaid) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

4. **Negative Pledge**

- (a) So long as any of the Notes remains outstanding, the Issuer will not create or permit to subsist any mortgage, charge, lien (other than a lien arising by operation of law) or other encumbrance (each a "**Security Interest**") upon the whole or any part of its undertaking or assets, present or future, to secure payment of any present or future indebtedness of the Issuer or any other person or to secure any guarantee or indemnity in respect of any indebtedness of the Issuer or any other person, without at the same time according to the Notes, any relative Receipts and Coupons and all amounts payable under the Trust Deed, to the satisfaction of the Trustee, either the same security as is created or subsisting to secure any such indebtedness, guarantee or indemnity, or such other security or other arrangement as the Trustee shall in its absolute discretion deem not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.
- (b) So long as any of the Notes remains outstanding, the Guarantor will not create or permit to subsist any Security Interest upon the whole or any part of its undertaking or assets, present or future, to secure payment of any present or future indebtedness of the Guarantor or any other person or to secure any guarantee or indemnity in respect of any indebtedness of the Guarantor or any other person, without, at the same time according to its obligations under the Guarantee, to the satisfaction of the Trustee, either the same security as is created or subsisting to secure any such indebtedness, guarantee or indemnity, or such other security or other arrangement as the Trustee shall in its absolute discretion deem not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution of the Noteholders.

- (c) Paragraphs (a) and (b) do not apply to the following Security Interests:
- (i) any Security Interest already created or agreed to be created, at the date of acquisition, by any company acquired by any member of the Group (otherwise than in contemplation of the acquisition), or any renewal or extension of any such Security Interest on terms no more onerous to that member of the Group than those of the Security Interest renewed or extended; or
 - (ii) any Security Interest created in favour of H.M. Revenue & Customs or other similar governmental agency whether in the U.K. or elsewhere solely to secure the tobacco taxation liabilities of any member of the Group; or
 - (iii) any Security Interest created or arising with the approval of the Trustee or an Extraordinary Resolution of the Noteholders; or
 - (iv) any Security Interest created or arising out of retention of title provisions in respect of goods acquired by a member of the Group in the ordinary course of trading; or
 - (v) any lien or other Security Interest arising in the normal course of trading and set-off rights and arrangements between cash balances and bank borrowings with the same bank; or
 - (vi) any Security Interest on inventories and accounts receivable existing from time to time; or
 - (vii) any Security Interest on property existing at the time of acquisition thereof by the Issuer or the Guarantor, provided that such Security Interest was in existence prior to the contemplation of such acquisition and does not extend to any property other than that acquired; or
 - (viii) any Security Interest to secure Financial Indebtedness (as defined in Condition 10) incurred for the purpose of financing all or any part of the purchase price or the cost of construction or improvement (or additions to improvements) of the property subject to such Security Interest; or
 - (ix) any Security Interest to secure any extension, renewal, refinancing or refunding (or successive extensions, renewals, refinancings or refundings), in whole or in part, of any Financial Indebtedness secured by Security Interests referred to in the foregoing sub-paragraphs (i) to (viii), provided that such Security Interest does not extend to any additional property and the principal amount of the extending, renewing, refinancing or refunding Financial Indebtedness is not greater than the principal amount of the Financial Indebtedness being extended, renewed, refinanced or refunded; or
 - (x) any one or more other Security Interests not falling within (i) to (ix) above and securing indebtedness the principal, capital or nominal amount of which does not exceed (when aggregated with the indebtedness secured by all other Security Interests permitted under this sub-paragraph (x)) £30,000,000 or its equivalent in other currencies at any one time.

5. Interest

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from and including the Interest Commencement Date specified in the applicable Final Terms at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) specified in the applicable Final Terms in each year up to (and including) the Maturity Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"Day Count Fraction" means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if **"Actual/Actual (ICMA)"** is specified in the applicable Final Terms:
 - (a) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **"Accrual Period"**) is equal to or less than the number of days in the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (b) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if **"30/360"** is specified in the applicable Final Terms, the number of days in the period from and including the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

"Determination Period" means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"sub-unit" means with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) *Interest on Floating Rate Notes and Index Linked Interest Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) (each an **"Interest Payment Date"**) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an **"Interest Payment Date"**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the

preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such Interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the relevant preceding Interest Payment Date; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, "**Business Day**" means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the "**TARGET System**") is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if

the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "**ISDA Definitions**") and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate ("**LIBOR**") or on the Euro-zone inter-bank offered rate ("**EURIBOR**"), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(B) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) (the "**Specified Time**") on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (1) above, no offered quotation appears or, in the case of (2) above, fewer than three offered quotations appear, in each case as at the Specified Time on the Interest Determination Date in question, the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic

mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iii) *Minimum and/or maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an Interest Amount for any Interest Period in accordance with this Condition 5(b):

- (i) if “**Actual/365**” or “**Actual/Actual**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
 - (ii) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
 - (iii) if “**Actual/365 (Sterling)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
 - (iv) if “**Actual/360**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
 - (v) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
 - (vi) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).
- (v) *Notification of Rate of Interest and Interest Amounts*
- The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any competent authority or stock exchange by or on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each relevant competent authority or stock exchange by or on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.
- (vi) *Determination or Calculation by Trustee*
- If for any reason the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with sub-paragraph (ii) or (iv), as the case may be, above, the Trustee shall determine the Rate of Interest at such rate plus or minus (as appropriate) the relevant Margin (if any) as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 5 but subject always to sub-paragraph 5(b)(iii) above), it shall deem fair and reasonable in all the circumstances and/or, as the case may be, the Trustee shall calculate the Interest Amount in the manner referred to in sub-paragraph (iv) above and

such determination and/or calculation shall be deemed to have been made by the Principal Paying Agent or, as the case may be, the Calculation Agent.

(vii) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Trustee, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor, the Trustee, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or (if applicable) the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

(d) *Interest on Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent, the Trustee or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 15.

6. Payments

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

(b) *Presentation of Bearer Notes, Receipts and Coupons*

Payments of principal in respect of Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of

part payment of any sum due, endorsement) of Bearer Notes, and payments of interest (if any) in respect of Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Bearer Note to which it appertains. Receipts presented without the Bearer Note to which they appertain do not constitute valid obligations of the Issuer or the Guarantor. Upon the date on which any Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons, falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate amount of interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Bearer Note.

(c) *Payments in respect of Registered Notes*

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relative Certificate at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "**Register**") at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not

have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "**Record Date**") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest or an instalment of principal (other than the final instalment) in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

(d) *General provisions applicable to payments*

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

(e) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation;
 - (B) London;
 - (C) each Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

(f) *Interpretation of principal and interest*

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7(e)); and
- (vii) any premium and any other amounts (other than Interest) which may be payable by the Issuer and/or the Guarantor under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or under any obligation or undertaking given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

7. Redemption and Purchase

(a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for tax reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and the Trustee and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if immediately before giving such notice:

- (i) the Issuer satisfies the Trustee that, on the occasion of the next payment due under the Notes, the Issuer would be obliged to pay additional amounts as provided or referred to in Condition 8 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional

amounts, in each case as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

- (ii) such requirement cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be required to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer or, as the case may be, the Guarantor shall deliver to the Trustee a certificate signed by two executive directors of the Issuer or, as the case may be, the Guarantor stating that the requirement referred to in (i) above will apply on the occasion of the next payment due in respect of the Notes and cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it and an opinion of legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled to accept the certificate and the opinion of the legal advisers referred to above as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event each of them shall be conclusive and binding on the Noteholders, Couponholders and Receiptholders.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Trustee, the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of an aggregate nominal amount equal to the Minimum Redemption Amount or not higher than the Maximum Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). A list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption.

Unless otherwise specified in the applicable Final Terms, the Optional Redemption Amount shall be the higher of the following:

- (i) the principal amount of the Notes to be redeemed; and
- (ii) that price per Note (the "**Redemption Price**"), expressed as a percentage (rounded to three decimal places, 0.0005 being rounded down), at which the Gross Redemption Yield on the Notes, if they were to be purchased at such price on the third dealing day prior to the date of publication of the notice of redemption, would be equal to the Gross Redemption Yield on such dealing day of the Reference Stock (or, if such stock is no longer in issue, of such other United Kingdom government stock as the Trustee, with the advice of three leading brokers

operating in the gilt-edged market and/or gift-edged market makers or such other three persons operating in the gilt-edged market as the Trustee may approve, shall determine to be appropriate (the "**Alternative Reference Stock**") on the basis of the middle market price of the Reference Stock or the Alternative Reference Stock, as the case may be, prevailing at 11.00 a.m. on such dealing day as determined by Barclays Bank PLC (or such other person as the Trustee may approve).

References in the Trust Deed and in these Conditions to principal shall, unless the context otherwise requires, be deemed to include a reference to the Redemption Price.

The "**Gross Redemption Yield**" on the Notes and on the Reference Stock or the Alternative Reference Stock, as the case may be, will be expressed as a percentage and will be calculated on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for calculating Gilt Prices from Yields" page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published 8th June, 1998) (as supplemented, amended or replaced from time to time) or on such other basis as the Trustee may approve.

(d) *Redemption at the option of the Noteholders (Investor Put)*

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 15 not less than 15 nor more than 30 days' notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not, in the case of a Bearer Note, in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 7(d) in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent or, as the case may be, the Registrar (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Certificate in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2(b).

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph.

It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

(e) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 10, the Early Redemption Amount of each Note will be calculated as follows:

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the

applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

- (iii) in the case of a Zero Coupon Note, at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

"RP" means the Reference Price; and

"AY" means the Accrual Yield expressed as a decimal; and

"y" is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Notes becomes due and repayable and the denominator of which is 360,

or on such other calculation or day count fraction basis as may be specified in the applicable Final Terms.

(f) *Instalments*

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) *Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(h) *Purchases*

The Issuer, the Guarantor or any other Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) in any manner and at any price. If purchases are made by tender, tenders must be available to all Noteholders alike.

(i) *Cancellation*

All Notes which are (i) redeemed or (ii) purchased by or on behalf of the Issuer, the Guarantor or any other Subsidiary of the Issuer will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption or purchase). All Notes so cancelled shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

(j) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent, the Trustee or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 15.

8. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer or, as the case may be, the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders, Receiptholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes, Receipts or, as the case may be, Coupons in the absence of the withholding or deduction; except that no such additional amounts will be payable in respect of Notes, Receipts or Coupons presented for payment:

- (i) by or on behalf of a holder who is liable for such Taxes by reason of his having some connection with the United Kingdom other than the mere holding of the Note, Receipt or Coupon; or
- (ii) more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to payment of such additional amounts if he had presented his Note, Receipt or Coupon for payment on the thirtieth day after the Relevant Date, assuming, whether or not such is in fact the case, such last day to be a Payment Day (as defined in Condition 6); or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

"**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent, the Trustee or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys (together with interest accrued thereon) having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

In these Conditions references to principal or interest shall be deemed also to refer to any additional amounts which may be payable as described above or under any obligation undertaken in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. Prescription

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of Interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

10. Events of Default

The Trustee, at its discretion, may, and if so requested in writing by the holders of at least one quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified to its satisfaction) give notice to the Issuer and the Guarantor that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their Early Redemption Amount plus accrued interest as provided in the Trust Deed, if any of the following events ("**Events of Default**") shall have occurred:

- (i) if default is made for more than seven days in the payment on the due date of interest or principal in respect of the Notes or any of them; or
- (ii) if the Issuer or the Guarantor fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be

incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer or, as the case may be, the Guarantor or notice requiring the same to be remedied; or

- (iii) if any Financial Indebtedness (as defined below) of the Issuer, the Guarantor or any other Subsidiary of the Issuer becomes due and repayable prematurely by reason of an event of default (however described) or the Issuer, the Guarantor or any other Subsidiary of the Issuer fails to make any payment in respect of any Financial Indebtedness on the due date for payment as extended by any applicable grace period or any security given by the Issuer, the Guarantor or any other Subsidiary of the Issuer for any Financial Indebtedness becomes enforceable and steps are taken to enforce the same provided that no such event shall constitute an Event of Default unless the relative Financial Indebtedness when aggregated with other Financial Indebtedness relative to all (if any) other such events which shall have occurred and remain outstanding exceeds £20,000,000 (or its equivalent in any other currency or currencies); or
- (iv) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, the Guarantor or any Principal Subsidiary (as defined below), except (A) on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders or (B) in the case of the voluntary solvent winding-up of a Principal Subsidiary, where all or the major part of the business, undertaking and assets of such Principal Subsidiary are transferred to the Issuer, the Guarantor or another wholly-owned Subsidiary of the Issuer; or
- (v) if the Issuer, the Guarantor or any Principal Subsidiary ceases or threatens to cease to carry on the whole or a substantial part of its business, save on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders, or the Issuer, the Guarantor or any Principal Subsidiary stops or threatens to stop payment of, or is unable to pay, or admits in writing its inability to pay its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (vi) if an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of the Issuer, the Guarantor or any Principal Subsidiary or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and is not discharged within 30 days; or
- (vii) if (A) proceedings are initiated against the Issuer, the Guarantor or any Principal Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, the Guarantor or any Principal Subsidiary or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within 30 days; or
- (viii) if the Issuer, the Guarantor or any Principal Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, save on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders; or
- (ix) if the Issuer, the Guarantor or any Principal Subsidiary makes a general assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors); or
- (x) if there occurs, in relation to the Issuer, the Guarantor or any Principal Subsidiary, in any country or territory in which it carries on business or to the jurisdiction of whose courts it or any of its property is subject to any event which corresponds in that country or territory with any of those mentioned in paragraphs (iv) to (ix) inclusive above; or
- (xi) if the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect,

provided that no such event, other than those described in paragraphs (i), (iv) (in the case of a winding up or dissolution of the Issuer or the Guarantor) or (x) (in relation to any event having a corresponding effect to the

winding up or dissolution of the Issuer or the Guarantor), shall constitute an Event of Default unless and until the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders.

In this Condition 10:

- (i) **"Financial Indebtedness"** means (without double-counting) any indebtedness in respect of:
- (a) moneys borrowed and debit balances at banks and other financial institutions;
 - (b) any debenture, bond, note, loan stock or other security;
 - (c) any acceptance credit;
 - (d) receivables sold or discounted with recourse;
 - (e) the acquisition cost of any asset to the extent payable before or after the time of acquisition or possession by the party liable where the advance or deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset (excluding trade credit in the ordinary course of business);
 - (f) finance leases (as defined in SSAP21) whether in respect of land, machinery, equipment or otherwise;
 - (g) the net amount owing under any currency or interest swap, cap or collar arrangements or any other derivative or hedging instrument;
 - (h) amounts raised under any other transaction having the commercial effect of a borrowing or raising of money; or
 - (i) any guarantee, indemnity or similar assurance against financial loss in respect of any of the items falling within paragraphs (a) to (h) (inclusive) above;
- (ii) **"Principal Subsidiary"** means at any time:
- (a) any Subsidiary of the Issuer whose total assets or pre-tax profit equals or exceeds 10 per cent. of the total assets or pre-tax profit of the Group at the relevant time, and for the purpose of the above:
 - (1) the total assets or pre-tax profit of the Group shall be ascertained by reference to the latest audited published consolidated accounts of the Group; and
 - (2) the total assets or pre-tax profit of the Subsidiary shall be ascertained by reference to the accounts (or, if none are available, the accounting returns of that Subsidiary) (consolidated if the Subsidiary has Subsidiaries) used in connection with the preparation of the latest audited published consolidated accounts of the Group; and
 - (b) any Subsidiary of the Issuer to which has been transferred (whether by one transaction or a series of transactions, related or not) the whole or substantially the whole of the assets of a Subsidiary which immediately prior to that transaction or those transactions is a Principal Subsidiary,

all as more particularly defined in the Trust Deed.

In the case of paragraph (b) above the transferor Subsidiary will not be a Principal Subsidiary unless it remains or subsequently becomes a Principal Subsidiary by the operation of paragraph (a) or (b) above.

A certificate signed by two Directors of the Issuer as to whether a company is or is not or was or was not at any particular time or during a specified period a Principal Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties; and

- (iii) “**Subsidiary**” means a subsidiary as defined in section 736 of the Companies Act 1985, as amended from time to time.

11. Enforcement

- (a) The Trustee may, at its discretion and without further notice, take such proceedings as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Note, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding, and (ii) it shall have been indemnified to its satisfaction.
- (b) No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

12. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. Agents

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled (with the prior written approval of the Trustee) to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent, a Paying Agent, a Transfer Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent in a jurisdiction within continental Europe, other than the jurisdictions in which the Issuer and the Guarantor are incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given by the Issuer to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the Guarantor and in certain limited circumstances specified in the Agency Agreement and the Trust Deed, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

14. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

15. Notices

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily national newspaper of general circulation in the United Kingdom or, if this is not possible, in another leading English language newspaper previously approved by the Trustee or as otherwise required by any stock exchange or any other competent authority by or on which the Bearer Notes are for the time being listed or admitted to trading, as the case may be. It is expected that such publication will be made in the *Financial Times* in London. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed or admitted to trading, as the case may be by or on a competent authority or stock exchange and the rules of that competent authority or stock exchange so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that competent authority or stock exchange.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes).

16. Meetings of Noteholders, Modification, Waiver and Substitution

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons, the Trust Deed, these Conditions or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer, the Guarantor, the Trustee or Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts, the Coupons, these Conditions and certain provisions of the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trustee, the Issuer and the Guarantor may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification of the Notes, the Receipts, the Coupons, these Conditions or the Trust Deed or any waiver or authorisation of any breach or proposed breach of any of these Conditions or any provision of the Trust Deed or any determination that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders; or

- (b) any modification of the Notes, the Receipts, the Coupons, these Conditions or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error.

Any such modification, waiver, authorisation or determination shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall, unless the Trustee agrees otherwise, be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

The Trustee may, without the consent of the Noteholders, Receiptholders or Couponholders, agree with the Issuer and the Guarantor to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed of another company, being either (i) a successor company (as defined in the Trust Deed) of the Issuer (or such previous substitute) or (ii) any Subsidiary of the Issuer, subject to (a) except where the new principal debtor is the Guarantor, the Notes being unconditionally and irrevocably guaranteed by the Guarantor, (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, and (c) certain other conditions set out in the Trust Deed being complied with.

In connection with the exercise of its powers, trusts, authorities and discretions (including but not limited to those in relation to any proposed modification, waiver, authorisation or substitution as aforesaid), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof, and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Trustee, the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

17. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction. The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or the Guarantor and/or any of the Issuer's other Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor and/or any of the Issuer's other Subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

18. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes or bonds (whether in bearer or registered form) having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of bearer or registered notes or bonds of other Series in certain circumstances where the Trustee so decides.

19. Governing Law

The Trust Deed (including the Guarantee), the Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

20. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy which exists or is available apart from that act.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes, which include making a profit, and on lending to its subsidiaries. If, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation No 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

Upon the initial deposit of a Global Note with a common depositary (the “**Common Depositary**”) or in the case of a Global Note which is issued in new global note (“**NGN**”) form, as stated in the applicable Final Terms, with a common safekeeper (the “**Common Safekeeper**”), for Euroclear and Clearstream, Luxembourg, or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary or Common Safekeeper, as the case may be, may (if indicated in the applicable Final Terms) also be credited to the accounts of subscribers with (if indicated in the applicable Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

So long as the Notes are represented by a temporary Global Note, permanent Global Note or Global Certificate and the relevant clearing systems permit, the Notes shall be tradeable in minimum nominal amounts of the Specified Denomination and in tradeable amounts above such Specified Denomination which are smaller than it, as specified in the applicable Final Terms.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such other clearing system (as the case may be) for his share of each payment made by the Issuer or, as the case may be, the Guarantor to the bearer of such Global Note or the registered holder of the Global Certificate, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer or, as the case may be, the Guarantor in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer or, as the case may be, the Guarantor will be discharged by payment to the bearer of such Global Note or the registered holder of the Global Certificate, as the case may be, in respect of each amount so paid.

Exchange

1. *Temporary Global Notes*

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (a) if the applicable Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (see “*Summary of the Programme — Selling Restrictions*”), in whole, but not in part, for Bearer Notes or, if the temporary Global Note is also an Exchangeable Bearer Note, Registered Notes; and
- (b) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership, for interests in a permanent Global Note or, if so provided in the applicable Final Terms, for Bearer Notes or, if the temporary Global Note is also an Exchangeable Bearer Note, Registered Notes.

2. *Permanent Global Notes*

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under “*Partial Exchange of Permanent Global Notes*”, in part for Bearer Notes or, in the case of 2(c) below, Registered Notes:

- (a) by the Issuer giving notice to the Noteholders, the Principal Paying Agent and the Trustee that the Issuer or, as the case may be, the Guarantor would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear or Clearstream, Luxembourg which would not be suffered were the Notes in definitive form and a

certificate to such effect signed by two executive directors of the Issuer or, as the case may be, the Guarantor is given to the Trustee; or

- (b) if the applicable Final Terms provides that such Global Note is exchangeable at the request of the holder, by the holder giving notice to the Principal Paying Agent of its election for such exchange; or
- (c) if the permanent Global Note is an Exchangeable Bearer Note, by the holder giving notice to the Principal Paying Agent of its election to exchange the whole or a part of such Global Note for Registered Notes; or
- (d) otherwise, (1) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or (2) upon the happening of any of the events defined in the Trust Deed as “**Events of Default**”, by the holder giving notice to the Principal Paying Agent of its election for such exchange.

3. *Global Certificates*

If the Final Terms states that the Notes are to be represented by a Global Certificate on issue, transfers of the holding of Registered Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

- (a) if the Registered Notes represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or
- (b) upon the happening of any of the events defined in the Trust Deed as “**Events of Default**”; or
- (c) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to 3(a) or 3(b) above, the holder of the Global Certificate has given the Registrar not less than 30 days’ notice at its specified office of the intention of the holder of the Global Certificate to effect such transfer.

4. *Partial Exchange of Permanent Global Notes*

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system so permit, such permanent Global Note will be exchangeable at the cost of the Issuer (failing which, the Guarantor) in part on one or more occasions (i) if such permanent Global Note is an Exchangeable Bearer Note and the part thereof submitted for exchange is to be exchanged for Registered Notes or (ii) for Bearer Notes if so provided in, and in accordance with, the Conditions (which will be set out in the applicable Final Terms) relating to Partly Paid Notes.

5. *Delivery of Notes*

If the Global Note is in CGN form on or after the relevant Exchange Date, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Principal Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate principal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note or Global Certificate exchangeable for Bearer Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Bearer Notes and/or Certificates, as the case may be. In this section, “Bearer Notes” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Bearer Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Bearer Notes and/or Registered Notes.

On exchange of a Global Note or Global Certificate for Bearer Notes and/or Certificates, a Noteholder who holds Notes in the relevant clearing system in amounts that are not integral multiples of the Specified Denomination may need to purchase or sell, on or before the Exchange Date, a principal amount of Notes such that their holding is an integral multiple of the Specified Denomination.

6. *Exchange Date*

“**Exchange Date**” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days, or in the case of failure to pay principal or interest in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The temporary Global Notes, the permanent Global Notes and the Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the Conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

1. *Payments*

No payment falling due after the Exchange Date will be made on any temporary Global Note unless exchange for an interest in a permanent Global Note or for Bearer Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made to the extent that certification as to non-U.S. beneficial ownership has been received by Euroclear and/or Clearstream, Luxembourg. All payments in respect of Notes represented by a Global Note if the Global Note is not intended to be issued in NGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. On the occasion of each payment, (i) in the case of any Global Note which is not issued in NGN form, a record of such payment made on such Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose, and such record shall be prima facie evidence that the payment in question has been made and (ii) in the case of any Global Note which is a NGN, the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

2. *Prescription*

Claims against the Issuer or the Guarantor in respect of Notes that are represented by a Global Note or a Global Certificate will become void unless it is presented for payment within a period of ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

3. *Meetings*

At any meeting of Noteholders, the holder of a Global Note or Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes represented by such Global Note or Global Certificate, as the case may be.

4. *Cancellation*

Cancellation of any Note represented by a Global Note or a Global Certificate that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Global Note or Global Certificate, as the case may be.

5. *Purchase*

Notes represented by a Global Note or a Global Certificate may only be purchased by the Issuer, the Guarantor or any of the Issuer's other Subsidiaries (as defined in the Trust Deed) if they are purchased

together with the rights to receive all future payments of interest and Instalment Amounts (if any) set out in the Final Terms.

6. *NGN principal amount*

Where the Global Note is an NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, shall be entered in the records of the relevant clearing systems and upon any such entry being made, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

7. *Issuer's Option*

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a Global Note or Global Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the certificate numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or the relevant clearing system (as the case may be).

8. *Noteholders' Option*

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Global Note or Global Certificate may be exercised by the holder of the Global Note or Global Certificate giving notice to the Principal Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised, and shall state the principal amount of Notes in respect of which the option is exercised.

9. *Trustee's Powers*

In considering the interests of Noteholders while any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Global Certificate and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

10. *Notices*

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held in its entirety on behalf of a clearing system, notices to the holders of those Notes may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders or by delivery of the relevant notice to the holder of the Global Note or Global Certificate in substitution for publication and/or posting as required by the Conditions, provided that, so long as the Notes represented by such Global Note or Global Certificate are listed by or on a competent authority or stock exchange, such competent authority or stock exchange so agrees. Any such notice shall be deemed to have been given on the second day after the date on which it is delivered to the clearing system or to the holder of the relevant Global Note or Global Certificate.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Prospectus but will be contained in the applicable Final Terms and thereby in the Global Notes and/or Global Certificates. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note or Global Certificate representing such Notes may be exchanged for an interest in a permanent Global Note, for Bearer Notes or (as the case may be) Certificates. If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

GALLAHER GROUP Plc

General

The Issuer was incorporated in England under the Companies Act 1985 as a private company limited by shares on 2nd January, 1997 with the name Gallaher Group Limited and registered number 3299793. On 12th May, 1997 the Issuer was re-registered as a public limited company under its present name. Its registered office is at Members Hill, Brooklands Road, Weybridge, Surrey KT13 0QU England (telephone number: +44 (0)1932 372000).

The Issuer is the holding company of the Group which holds directly or indirectly shares in the companies of the Group.

History and Development

Until 30th May, 1997, the Issuer was owned by American Brands, Inc. ("**American Brands**"), now named Fortune Brands, Inc. On 30th May, 1997, the business of the issuer was demerged from that of American Brands and American Brands distributed to its shareholders all the shares which it owned in the Issuer (the "**Demerger**"). In connection with the Demerger, a reorganisation took place under which the Issuer paid £945 million to American Brands. On the same date as the Demerger, the shares of the Issuer were listed on the London Stock Exchange and American Depositary Shares, evidenced by American Depositary Receipts, were listed on the New York Stock Exchange.

The Group's strategy has been to maintain its strong market position in its core markets (Austria, Republic of Ireland, Sweden and the UK) and develop interests in established and emerging international markets with growth prospects, while continuing to pursue productivity improvements. This has enabled continual international expansion and development of a portfolio of brands across mature and emerging markets.

In 2000, the Issuer acquired the Liggett-Ducat group of companies to develop its operations in the Commonwealth of Independent States and acquired the *Benson & Hedges* and *Silk Cut* trademarks in certain European Union accession countries including Hungary, Poland, Slovakia, Slovenia, Latvia and the Czech Republic.

In 2001, the Issuer acquired Austria Tabak AG and acquired a factory in Cherkassy, Ukraine from Reemtsma Cigarettenfabriken GmbH.

In 2002, the Issuer formed a joint venture with the R.J. Reynolds Tobacco Company (now part of the Reynolds American Group) in Europe and acquired Gustavus AB, a Swedish company engaged in the manufacture of both loose and portion snuff.

In July 2003, the Issuer acquired Kompania Tytoniowa Merkury Sp.z.o.o. (subsequently renamed Gallaher Polska Sp.z.o.o.), a Polish company engaged in the manufacture of cigarettes.

Also, in 2003, the Issuer signed reciprocal trademark agreements with Shanghai Tobacco (Group) Corp. ("**STG**") to manufacture, distribute and sell certain of one another's brands in China and Russia.

In January 2004, the Issuer's associate, Lekkerland GmbH & Co. KG ("**L-T**"), acquired Lekkerland Europa Holding GmbH ("**LEH**"), a German company engaged in the wholesale distribution of tobacco and other products which operates principally in EU and EU accession countries.

In April 2005, the Issuer acquired the *Benson & Hedges* and *Silk Cut* trademarks in Malta and Cyprus, and *Silk Cut* in Lithuania, from British American Tobacco.

In January 2006, the Issuer acquired Cita Tabacos de Canarias SL and its group companies, a Spanish company engaged in the manufacture of tobacco products in the Canary Islands.

Trading Activities

The Issuer, through the Group, is one of the largest international manufacturers of tobacco products in the world based on its cigarette volume sales. It manufactures and markets a wide range of cigarettes, cigars and hand rolling and pipe tobacco products and snuff. The Group operates primarily in the UK, other European countries and the Commonwealth of Independent States. It is also involved in the distribution of tobacco and other products in certain markets in Europe.

In the UK the Group (through the Guarantor and its subsidiaries) manufactures and markets a wide range of cigarettes (including the brands *Benson & Hedges*, *Mayfair* and *Silk Cut*), cigars (including the brand *Hamlet*) and hand rolling (including the brands *Amber Leaf* and *Old Holborn*) and pipe tobacco products. The Group has a strong market position in each of these product categories in the UK and, in relation to certain types of products, it is the market leader by volume sales.

The Group's main target markets in Europe outside the UK include Austria, Germany, the Republic of Ireland, Sweden, France, Italy, Spain, Greece, Central Europe and the Balkans. It mainly sells cigarettes in these markets (including the brands *Benson & Hedges*, *Memphis* and *Ronson*), although it also sells other tobacco products in certain European markets. In addition, the Group operates a distribution business in certain European markets, including sales of tobacco and non-tobacco products (such as food and pre-paid phone cards and sales through cigarette vending machines).

The Group's operations in the Commonwealth of Independent States includes the countries comprising the former Soviet Union. Russia, Kazakhstan and Ukraine are the most significant markets for the Group in this region, where it mainly sells cigarettes (including the brands *LD*, *Ronson*, *Sobranie* and *Sovereign*).

GALLAHER LIMITED

The Guarantor was incorporated in England under the Companies Acts 1948 to 1976 as a private company limited by shares on 12th June, 1980 under the name Watling Fifty-One Limited and changed its name to Gallaher Limited on 2nd January, 1981. The registered number of the Guarantor is 1501573 and its registered office is at Members Hill, Brooklands Road, Weybridge, Surrey KT13 0QU England (telephone number: +44 (0)1932 372000).

The Guarantor is a wholly-owned direct subsidiary of the Issuer and is an intermediate holding company which holds the shares of certain other companies in the Group. It is also the principal operating company within the Group and its main activities are the manufacture and sale of tobacco products, principally cigarettes, in the UK.

The Guarantor and its subsidiaries manufacture and market a wide range of cigarettes (including the brands *Benson & Hedges, LD, Mayfair, Memphis, Ronson, Silk Cut, Sobranie* and *Sovereign*), cigars (including the brand *Hamlet*) and hand rolling (including the brands *Amber Leaf* and *Old Holborn*) and pipe tobacco products. The Guarantor has a strong market position in each of these product categories in the UK and, in relation to certain types of products, it is the market leader by volume sales.

The following table sets forth certain information on the Issuer's principal direct and indirect subsidiaries as at the date of this Prospectus.

<i>Name</i>	<i>Country of Incorporation</i>	<i>Shareholding</i>	<i>Principal Business</i>
Gallaher Limited	England	100%	Manufacture, marketing and distribution of tobacco products in the UK and export of tobacco products outside the UK
Benson & Hedges Limited	England	100%	Ownership of trade-marks of tobacco products
Gallaher Asia Limited	Hong Kong	100%	Marketing of tobacco products in Asia Pacific markets
Gallaher Belgium SA	Belgium	100%	Marketing and importation of tobacco products in Benelux markets
Gallaher Canarias SA	Spain	100%	Marketing and importation of tobacco products in the Canary Islands
Gallaher (Dublin) Limited	Republic of Ireland	100%	Marketing and distribution of tobacco products in the Republic of Ireland
Gallaher France EURL	France	100%	Marketing of tobacco products in France
Gallaher Hellas SA	Greece	100%	Marketing and importation of tobacco products in Greece
Gallaher International Limited	England	100%	Marketing of tobacco products outside the UK
Gallaher Italia SRL	Italy	100%	Marketing and importation of tobacco products in Italy
Gallaher Kazakhstan LLC	Kazakhstan	100%	Manufacture, marketing and distribution of tobacco products in Kazakhstan
Gallaher Netherlands B.V.	Netherlands	100%	Marketing and importation of tobacco products in the Netherlands
Gallaher Polska Sp z.o.o.	Poland	100%	Manufacture, marketing and distribution of tobacco products in Poland
Gallaher Spain SA	Spain	100%	Marketing of tobacco products in Spain
Gallaher Switzerland SA	Switzerland	100%	Marketing and distribution of tobacco products in developing markets (Africa, Middle East and South America)
Liggett-Ducat CJSC	Russia	100%	Manufacture of tobacco products in Russia
000 Gallaher Liggett-Ducat	Russia	100%	Marketing and distribution of tobacco products in Russia
Gallaher Ukraine CJSC	Ukraine	100%	Manufacture, marketing and distribution of tobacco products in Ukraine
Austria Tabak GmbH & Co. KG	Austria	100%	Manufacture of tobacco products in Austria
Austria Tabak GmbH	Germany	100%	Marketing and distribution of tobacco products in Germany
Gallaher Austria Tabak Europe GmbH & Co. KG	Austria	100%	Marketing and distribution of tobacco products in Europe
Gallaher Sweden AB	Sweden	100%	Marketing of tobacco products in Scandinavia
Gallaher Snus AB	Sweden	100%	Manufacture, marketing and distribution of snuff tobacco in Sweden
Tobaccoland Handels GmbH & Co. KG	Austria	100%	Distribution of tobacco and non-tobacco products in Austria
Tobaccoland Automatengesellschaft mbH & Co. KG	Germany	63.9%	Tobacco vending operations in Germany

REGULATORY AND LITIGATION ENVIRONMENT

Regulation

The Group has a long history of managing its business successfully within a regulatory climate and has reduced its susceptibility to regulatory changes in any single country by expanding its international operations. However, it is possible that regulations could have an adverse effect on the Group's turnover, profit and financial condition.

At a global level, in February 2006, the conference of the parties to the WHO FCTC adopted a decision to develop protocols (legally binding instruments) for cross-border advertising and illicit trade, and guidelines (non-binding instruments) for smoke-free places and effective ways of regulating tobacco products.

Within the EU, the Commission is preparing a harmonized reporting format for the submission of tobacco products ingredient information. The Commission has also requested the scientific committee on emerging and newly-identified health risks to prepare an opinion on the 'health effects of smokeless tobacco products' by November 2006. Separately, the commission is considering possible initiatives regarding 'lower ignition propensity' cigarettes.

In 2003, the Commission adopted a decision that establishes the rules for the use of colour photographs or other illustrations to depict and explain the health consequences of smoking. It is for member states to decide whether or not to introduce such pictorial health warnings and on which product groups. Belgium requires pictorial health warnings to be printed on all cigarette packs manufactured after 30th November, 2006. In the UK, the department of health ("**DoH**") has issued a consultation paper proposing the introduction of pictorial warnings from October 2007.

The EU is currently considering a proposal for a regulation concerning the registration, evaluation, authorisation and restriction of chemicals which may include some or all of the ingredients used in the manufacture of tobacco products.

In June 2006, following an opinion by an advocate general of the European Court of Justice ("**ECJ**"), the German government has commenced the implementation of the EU directive relating to the advertising and sponsorship of tobacco products. The commission is also investigating situations in countries where transposition of the directive has not been made correctly.

A number of European countries have recently established, or are considering, further legislation and/or voluntary agreements that restrict or prohibit smoking in public places and the workplace, which may also include bars and restaurants. These countries include Austria, Belgium, Denmark, Estonia, Finland, France, Germany, Italy, Latvia, Lithuania, Luxembourg, Malta, Norway, Poland, Portugal, Republic of Ireland, Spain, Sweden and the UK.

In Austria, amongst other matters already implemented, amendments to the Tobacco Act in 2004 will prohibit billboard and cinema advertising, and national sponsorships from January 2007. Also, by 2007, cigarettes may only be sold in vending machines which have youth protection technology installed.

In Germany, from 2007, vending machines – in which cigarettes are sold – must have youth protection technology installed.

In the Netherlands, a court ruled in December 2005 that Dutch legislation on the reporting of ingredients information is consistent with the underlying articles of the EU directive concerning the manufacture, presentation and sale of tobacco products. The Issuer (and other tobacco manufacturers) had commenced legal challenges against the legislation, believing that it did not adequately protect brand recipes. At the same time, the court accepted that ingredient information in individual brands can constitute a 'trade secret'. As the Group considers that issues surrounding tobacco ingredient reporting in the Netherlands remain unresolved it (together with other manufacturers) has served a notice of appeal to December's judgement.

In Poland, tobacco products manufactured for export must meet the EU smoke yield ceiling requirements from 1st January, 2007.

In the Republic of Ireland, the Public Health (Tobacco) (Amendment) Act 2004 was signed into law in March 2004, purporting to give effect to two EU directives and an EU recommendation relating to tobacco. The Act includes provision for a comprehensive ban on tobacco advertising and sponsorship, and measures

relating to the manufacture, presentation and sale of tobacco products. A subsidiary of the Issuer, along with seven other plaintiffs, has pursued legal proceedings which challenge certain parts of both the repealed Public Health (Tobacco) Act 2002 and the Public Health (Tobacco) (Amendment) Act 2004. The case is likely to be heard in late 2006 or early 2007.

In Spain, legislation came into effect from January 2006 which prohibits: tobacco advertising, sponsorship and promotion, except at point-of-sale and in the trade press; and, sampling and free distribution of tobacco products. The sale of cigarette and cigarillo packs of less than 20 sticks is prohibited from April 2006. In addition, with the exception of vending and travel retail, sales of tobacco products are restricted to estancos (licensed retail outlets) only.

In Sweden, amendments to the Tobacco Act in 2005 prohibited advertising and sponsorship from July 2005, and existing outdoor advertising and the sale of packs of less than 19 cigarettes from January 2006.

In the UK, the Health Act 2006 prohibits smoking in all enclosed public places and workplaces in England, with certain limited exceptions. The legislation also contains provisions for the Welsh assembly to establish legislation for smoking in public places in Wales. These restrictions are expected to come into force in the summer of 2007. The UK DoH has launched two consultations, one on the proposed public smoking regulations and one on changing the legal age of sale from 16 to 18 years and strengthening sanctions against retailers for under-age sale of tobacco. Separately, in Scotland, smoking in all public places and workplaces was prohibited, with certain limited exceptions, from March 2006.

In Russia, further restrictions of tobacco advertising came into force from 1st July, 2006, with an outdoor advertising ban from 1st January, 2007. Also, several bills are being considered which would, if enacted, restrict smoking in public places, introduce lower tar and nicotine levels, and increase the size of health warnings. Separately, a technical regulation document is being developed which will combine all existing tobacco product and packaging regulations.

In Ukraine, legislation has been adopted which includes: the prohibition of smoking in workplaces and public places with certain exceptions from July 2006; new packaging and labelling from January 2007; and, new tar and nicotine smoke yield ceilings for cigarettes from January 2009. A draft law is also being considered which further restricts tobacco advertising and promotion.

In South Africa, the government plans to consider a Bill that would, if enacted: prohibit certain marketing practices and product descriptors; introduce pictorial health warnings; prohibit the sale of loose cigarettes; restrict the display of tobacco products at point-of-sale; prohibit smoking in certain public places; raise the minimum age for purchasing tobacco products to 18 years; and, require companies to disclose product and ingredient information.

Tobacco taxation

Within the EU, the Commission is currently reviewing the directives governing the structure and rates of excise applied to all tobacco products in the EU. The Commission is planning to report to the council and parliament with its recommendations during 2006.

In certain European markets, excise duty increases continue to have an impact on prices, sales and margins. Many new EU countries are required to implement significant duty increases in order to comply with the current minimum cigarette excise tax requirements and have been allowed transitional periods in which to comply.

As at 31st August, 2006, five EU member states (Austria, Belgium, France, Italy and the Republic of Ireland) had minimum retail price legislation in place. The European Commission has announced that it is taking action against such legislation. If the legislation has to be repealed, this may affect the sales mix of the Group's brands and could lead to price wars in certain markets, which may have a material adverse effect on the Group's turnover, profit and financial condition.

The wide price differentials between high and low taxed countries have led to an increase in legitimate cross-border trade and an illicit market for genuine and counterfeit cigarettes, which is having a significant negative impact on sales in a number of countries. The Group is totally opposed to the smuggling of tobacco products.

In the UK, legislation has been adopted relating to the tobacco supply chain, which will apply to all cigarettes and handrolling tobacco manufactured in the UK from autumn 2006. The government is also working with UK tobacco manufacturers to identify possible options for anti-counterfeiting technology.

In November 2005, the ECJ ruled that in Germany 'singles' (pre-made cylinders of tobacco sold with a paper shell and a stick to compact the tobacco) should be taxed as cigarettes. Singles continued to be taxed as fine cut tobacco until March 2006, and as cigarettes thereafter.

Outside of the EU, in Russia the mixed tobacco excise system based on maximum retail prices printed on pack has been confirmed and from January 2007, cigarette excise will rise by approximately 30% for filter cigarettes. In Kazakhstan, cigarette excise was increased by approximately 30% for filter and oval cigarettes from 1st January, 2006.

Litigation

The only jurisdiction in which certain companies in the Group are currently defendants to actions where plaintiffs are seeking damages for ailments claimed to have resulted from tobacco use or exposure to tobacco smoke is the Republic of Ireland. As at the date of this Prospectus, 163 claims have been dismissed or abandoned since 1997. Currently, there are eight individual claims against subsidiaries of the Issuer. Statements of claim have been delivered claiming unspecified damages and making wide-ranging allegations against subsidiaries of the Issuer and other tobacco companies, and against the Republic of Ireland, the attorney general and the minister for health and children, who are also named as defendants in some of those cases. The majority of these claims are subject to a procedural challenge by the Issuer and, to date, no defence has been delivered in any of the eight cases. Given the nature of the claims and their early procedural stage, it is not possible to quantify the potential exposure of the Group companies, if any. In any event, the Group companies believe that they have meritorious defences to these claims, which will be vigorously resisted.

The Group is not a party to smoking and health litigation anywhere else in the world and there has been no recovery of damages against any of the Group's companies in any action alleging that their tobacco products have resulted in human illness.

On 4th March, 2005, a subsidiary of the Issuer terminated the distribution contract of a Middle Eastern distributor and commenced proceedings on the same date in the English high court, seeking a declaration that the contract had been validly terminated for numerous material breaches. On this basis there was no compensation payable in respect of the termination. By its defence and counterclaim served on 1st July, 2005, the distributor asserted that the termination was unlawful and claimed significant, but wholly un-particularised losses. In an amended claim received on 24th February, 2006, the distributor set out some details of its alleged losses, of around \$500m, which primarily relate to hypothetical future profits. In July 2006, the court ordered that the distributor must provide security of at least £550,000 for the Issuer's costs in defending the counterclaim. This figure is likely to be increased as the court process continues in order to reflect the on-going costs. The court's order is procedural and does not reflect its views about the merits of the parties' cases. The Issuer believes the counterclaim to be without substance, and will continue to contest it vigorously through the court process.

Liggett-Ducat (and an associated company) is subject to various challenged tax assessments and claims (including penalties and fines) by the Russian tax authorities. To date, Liggett-Ducat has successfully defended all assessments that have reached final determination. As at the date of this Prospectus, Liggett-Ducat is challenging claims and assessments the aggregate value of which is estimated to be in the region of US\$38 million. Under Russian law, when such assessments and claims are believed to be wrong, the taxpayer has to pursue challenges through the Russian court process. To date, Liggett-Ducat has successfully challenged assessments having a value of around US\$30 million at either the first or second tiers within the court system and is awaiting the outcome of the appeals stages. The remaining balances are also subject to legal process, but those claims are at an earlier stage within the court system. While the eventual outcome of these various challenges cannot be predicted with certainty, management believes, based upon the facts and matters currently known, that its actions are meritorious and it will continue to pursue them vigorously through the court process.

DIRECTORS OF GALLAHER GROUP Plc

The Directors of the Issuer, their functions within the Group and their principal activities outside the Group are as follows:

<i>Name</i>	<i>Function</i>	<i>Principal activities outside the Group</i>
Executive Directors		
Nigel Northridge	Chief Executive	Non-Executive Director of Aggreko plc and Paddy Power Plc
Nigel Dunlop	Group Operations Director	None
Neil England	Group Commercial Director	Non-Executive Director of The Eastern European Trust PLC
Stewart Hainsworth	Group Commercial Director	None
Mark Rolfe	Finance Director	None
Non-Executive Directors		
John Gildersleeve	Chairman	Non-Executive Chairman of The Carphone Warehouse Group PLC Non-Executive Deputy Chairman of EMI Group plc
Sir Graham Hearne, CBE	Deputy Chairman	Non-Executive Chairman of Braemar Seascope Group PLC and Catlin Group Limited Non-Executive Director of N. M. Rothschild & Sons Limited and Rowan Companies, Inc
Ronnie Bell		Non-Executive Director of Northern Foods Plc, The Edrington Group Limited and Ansell Limited
Alison Carnwath		Non-Executive Director of Land Securities Group PLC, Man Group Plc, Friends Provident Plc and Dwr Cymru Cyfyngedig
Richard Delbridge		Non-Executive Director of JP Morgan Cazenove Holdings, Tate & Lyle PLC and Fortis Group
James Hogan		President and Chief Executive of Gulf Air

The business address of each Director is Members Hill, Brooklands Road, Weybridge, Surrey KT13 0QU (the registered and head office of the Issuer).

There are no potential conflicts of interest between any duties to the Issuer of the above Directors and their private interests or other duties.

DIRECTORS OF GALLAHER LIMITED

The Directors of the Guarantor, their functions within the Group and their principal activities outside the Group are as follows:

<i>Name</i>	<i>Function</i>	<i>Principal activities outside the Group</i>
Nigel Northridge	Chief Executive	Non-Executive Director of Aggreko plc and Paddy Power Plc
Nigel Dunlop	Group Operations Director	None
Neil England	Group Commercial Director	Non-Executive Director of The Eastern European Trust PLC
Thomas Keevil	Company Secretary and General Counsel to the Issuer	None
Mark Rolfe	Finance Director	None

The business address of each Director is Members Hill, Brooklands Road, Weybridge, Surrey KT13 0QU (the registered and head office of the Guarantor).

There are no potential conflicts of interest between any duties to the Guarantor of the above Directors and their private interests or other duties.

TAXATION

The comments below which are of a general nature are a summary of the Issuer's understanding of current United Kingdom law and practice relating only to the taxation of the Notes and describe only the United Kingdom withholding tax treatment of payments of principal and interest in respect of the Notes. They do not deal with any other United Kingdom tax implications of acquiring, holding or disposing of Notes, and relate only to the position of persons who are absolute beneficial owners of the Notes and may not apply to certain classes of Noteholder such as dealers. Any prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who are in doubt as to their tax position should consult their own professional advisers.

1. *Payment of interest on the Notes*

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes continue to be listed on a "recognised stock exchange", as defined in section 841 of the Income and Corporation Taxes Act 1988 (the "Act"). The London Stock Exchange is a recognised stock exchange. Under an HM Revenue and Customs interpretation, securities will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the United Kingdom Listing Authority and admitted to trading by the London Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid to a person who belongs in the United Kingdom for United Kingdom tax purposes and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HM Revenue and Customs has not given a direction that the interest should be paid under deduction of tax in circumstances where it has reasonable grounds to believe that it is likely that the beneficial owner is not within the charge to United Kingdom corporation tax in respect of such payment of interest at the time the payment is made.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom income tax where the maturity of the Notes is less than 365 days.

In other cases, an amount may have to be withheld from payments of interest on the Notes on account of United Kingdom income tax at the lower rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, or where a Noteholder is associated with the Issuer, resident in a Member State of the EU and entitled in practice to the benefit of the European Council Directive 2003/49/EC, the Noteholder can apply for HM Revenue and Customs to issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Noteholders may wish to note that in certain circumstances HM Revenue and Customs has power to obtain information (including the name and address of the beneficial owner of the interest and the amount of interest paid or received) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. HM Revenue and Customs also has power, in certain circumstances, to obtain information from any person in the United Kingdom who pays amounts payable on the redemption of Notes which are deeply discounted securities for the purpose of the Income Tax (Trading and Other Income) Act 2005 to, or receives such amounts for the benefit of, another person, although HM Revenue and Customs published practice indicates that HM Revenue and Customs will not exercise its power to require this information where such amounts are paid on or before 5th April, 2007. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information obtained by HM Revenue and Customs under the powers referred to in this paragraph may, in certain circumstances, be exchanged by HM Revenue and Customs with the tax authorities of another jurisdiction in which the Noteholder is resident for tax purposes.

Notes may be issued at an issue price of less than 100 per cent. of their principal amount. Any payments in respect of the discount element on any such Notes will not be subject to any United Kingdom withholding pursuant to the provisions mentioned above.

Where Notes are issued with a redemption premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax as outlined above.

The references to "interest" above means "interest" as understood in United Kingdom tax law. The statements in this section do not take account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be contained in the terms and conditions of the Notes or any related documentation.

2. *Payments of principal in respect of the Notes*

No withholding tax will be imposed on payments of principal in respect of the Notes.

3. *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement dated 8th February, 2001 (such programme agreement as supplemented, amended and/or restated from time to time, the "**Programme Agreement**") agreed with the Issuer and the Guarantor a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Summary of provisions relating to the Notes while in the global form*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer (failing which the Guarantor) has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S ("**Regulation S Notes**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of U.S. persons.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and

notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (i) in relation to any Notes which have a maturity of less than one year (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “**Securities and Exchange Law**”) and each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan.

France

Each of the Dealers and the Issuer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Prospectus, the applicable Final Terms or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for

the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*), all as defined in, and in accordance with, articles L.411-1, L.411-2 and D.411-1 of the French *Code monétaire et financier*.

The Netherlands

Each Dealer has represented and agreed that any Notes with a maturity of less than 12 months and a denomination of less than €50,000 will only be offered in The Netherlands in circumstances where another exemption or a dispensation from the requirement to make a prospectus publicly available has been granted under Article 4 of the Securities Transaction Supervision Act 1995 ("*Wet toezicht effectenverkeer 1995*").

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Guarantor nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Guarantor and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the applicable Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to the Prospectus.

GENERAL INFORMATION

Incorporation

The Issuer was incorporated with limited liability in England and Wales on 2nd January, 1997 (registered number 03294793). The Issuer has its registered office at Members Hill, Brooklands Road, Weybridge, Surrey, KT13 0QU with telephone number +44 (0) 1932 372000.

The Guarantor was incorporated with limited liability in England and Wales on 12th June, 1980 (registered number 01501573). The Guarantor has its registered office at Members Hill, Brooklands Road, Weybridge, Surrey, KT13 0QU with telephone number +44 (0) 1932 372000.

Authorisation

The establishment and update of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of the Issuer passed on 26th October, 2000, 30th August, 2001, 12th May, 2004 and 31st August, 2006 and by a resolution of the Treasury Committee of the Issuer passed on 22nd January, 2001 and by a resolution of a committee of the Board of Directors of the Issuer dated 25th September, 2006 and the giving of the Guarantee has been duly authorised by resolutions of the Board of Directors of the Guarantor passed on 22nd January, 2001, 6th September, 2001, 20th May, 2004 and 25th September, 2006 and resolutions of the shareholders of the Guarantor passed on 22nd January, 2001, 6th September, 2001, 20th May, 2004 and 25th September, 2006.

Listing of Notes

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market. The listing of the Programme in respect of Notes is expected to be granted on or around 28th September, 2006.

Documents Available

For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (i) the Memorandum and Articles of Association of the Issuer and the Guarantor;
- (ii) the consolidated annual report and accounts of the Issuer and its subsidiaries and the audited accounts of the Guarantor, in each case for the two financial years ended 31st December, 2004 and 31st December, 2005;
- (iii) the most recently published audited annual financial statements of the Issuer and the Guarantor and the most recently published unaudited interim financial statements (if any) of the Issuer in each case together with any audit or review reports prepared in connection therewith;
- (iv) the Programme Agreement, the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (v) a copy of this Prospectus;
- (vi) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Prospectus and any other documents incorporated herein or therein by reference; and

- (vii) in the case of each issue of Notes admitted to trading on the Gilt Edged and Fixed Interest Market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes in bearer form have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The relevant ISIN and common code will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer and its subsidiaries since 30th June, 2006 and there has been no material adverse change in the financial position or prospects of the Issuer since 31st December, 2005.

There has been no significant change in the financial or trading position of the Guarantor and its subsidiaries since 31st December, 2005 and there has been no material adverse change in the financial position or prospects of the Guarantor since 31st December, 2005.

Litigation

Save as disclosed on page 68 of this Prospectus, neither the Issuer, the Guarantor nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Guarantor is aware) in the 12 months preceding the date of this Prospectus, which may have or have in such period had a significant effect on the financial position or profitability of the Issuer, the Guarantor or the Group.

Auditors

PricewaterhouseCoopers LLP, London, Chartered Accountants and Registered Auditors, of 1 Embankment Place, London WC2N 6NN (the "**Auditors**") have audited and given reports on the accounts of the Issuer and the Guarantor for each of the two financial years ended 31st December, 2004 and 31st December, 2005. No audited financial statements have been prepared for any period subsequent to 31st December, 2005.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

Dealers transacting with the Issuer and the Guarantor

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, the Guarantor and their affiliates in the ordinary course of business.

REGISTERED OFFICE OF THE ISSUER AND THE GUARANTOR

Members Hill
Brooklands Road
Weybridge
Surrey KT13 0QU

TRUSTEE

HSBC Trustee (C.I.) Limited

1 Grenville Street
St Helier
Jersey JE4 9PF
Channel Islands

LEGAL ADVISERS

To the Issuer and the Guarantor

Slaughter and May
One Bunhill Row
London EC1Y 8YY

To the Dealers and the Trustee

Allen & Overy LLP
One New Change
London EC4M 9QQ

AUDITORS TO THE ISSUER AND THE GUARANTOR

PricewaterhouseCoopers LLP

Chartered Accountants
1 Embankment Place
London WC2N 6NN

PRINCIPAL PAYING AGENT

HSBC Bank plc
8 Canada Square
London E14 5HQ

REGISTRAR

HSBC Bank plc
8 Canada Square
London E14 5HQ

PAYING AND TRANSFER AGENT

Dexia Banque Internationale à Luxembourg, société anonyme
69 route d'Esch
L-2953 Luxembourg

DEALERS

ABN AMRO Bank N.V.

250 Bishopsgate
London EC2M 4AA

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E14 4BB

Bayerische Hypo- und Vereinsbank AG

Arabellastrasse 12
D-81925 Munich

Bayerische Landesbank

Brienner Strasse 18
80333 Munich

BNP Paribas

10 Harewood Avenue
London NW1 6AA

CALYON

9, quai du President Paul Doumer
92920 Paris La Défense Cedex

Credit Suisse Securities (Europe) Limited

One Cabot Square
London E14 4QJ

Dresdner Bank AG London Branch

30 Gresham Street
London EC2P 2XY

Goldman Sachs International

Peterborough Court
133 Fleet Street
London EC4A 2BB

HSBC Bank plc

8 Canada Square
London E14 5HQ

ING Bank N.V.

Foppingadreef 7
1102 BD Amsterdam
The Netherlands

J.P. Morgan Securities Ltd.

125 London Wall
London EC2Y 5AJ

Lloyds TSB Bank plc

25 Gresham Street
London EC2V 7HN

The Royal Bank of Scotland plc

135 Bishopsgate
London EC2M 3UR

WestLB AG

Herzogstrasse 15
D-40217 Düsseldorf

ANNEX 2

FINAL TERMS

A copy of the Original Issuer's Final Terms dated 29 September 2006

FINAL TERMS

29 September 2006

Gallaher Group Plc

Issue of €500,000,000 4.50 per cent. Step Up Notes due 2 April 2014

Guaranteed by Gallaher Limited

under the £2,000,000,000

Medium Term Note Programme

PART A - CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions (the **Conditions**) set forth in the Prospectus dated 26 September 2006 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus is available for viewing at the registered office of the Issuer and Guarantor at Members Hill, Brooklands Road, Weybridge, Surrey KT13 0QU and on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/en-gb/pricesnews/marketnews>.

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|----|------|-----------------------------------|---|
| 1. | (i) | Issuer: | Gallaher Group Plc |
| | (ii) | Guarantor: | Gallaher Limited |
| 2. | (i) | Series Number: | 11 |
| | (ii) | Tranche Number: | 1 |
| 3. | | Specified Currency or Currencies: | Euro (€) |
| 4. | | Aggregate Nominal Amount: | |
| | (i) | Series: | €500,000,000 |
| | (ii) | Tranche: | €500,000,000 |
| 5. | | Issue Price of Tranche: | 99.642 per cent. of the Aggregate Nominal Amount |
| 6. | | Specified Denominations: | The Specified Denominations of the Notes shall be €50,000 provided that, for so long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable in minimum nominal amounts of €50,000 and integral multiples of €1,000 thereafter. |
| 7. | (i) | Issue Date: | 2 October 2006 |
| | (ii) | Interest Commencement Date: | 2 October 2006 |

8.	Maturity Date:	2 April 2014
9.	Interest Basis:	Fixed Rate (further particulars specified in paragraph 15(i) below)
10.	Redemption/Payment Basis:	Redemption at par
11.	Change of Interest Basis or Redemption/Payment Basis:	See paragraph 15(i) below
12.	Put/Call Options:	
	(i) Investor Put applies:	No
	(ii) Issuer Call applies:	No
13.	Status of the Notes and Guarantee:	Senior
14.	Method of distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions:	Applicable
	(i) Rate(s) of Interest:	From and including the Issue Date to but excluding the first Interest Payment Date following the date on which a Step Up Rating Change (as defined in the Annex attached hereto) (if any) occurs, at the rate of 4.50 per cent. per annum (the Initial Rate of Interest) payable annually in arrear, and thereafter at the applicable rate of interest determined as per the Annex attached hereto
	(ii) Interest Payment Date(s):	2 April in each year from and including 2 April 2008 up to and including the Maturity Date. There will be a long first coupon from and including the Issue Date to but excluding 2 April 2008
	(iii) Fixed Coupon Amount(s):	Not Applicable, see Annex
	(iv) Broken Amount(s):	In respect of the Interest Payment Date falling on 2 April 2008, the following Broken Amount shall be payable on the Notes: €3,371.92 per €50,000 in Nominal Amount
	(v) Day Count Fraction:	Actual/Actual (ICMA)
	(vi) Determination Date(s):	2 April in each year
	(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes:	None

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|-----|---|----------------|
| 16. | Floating Rate Note Provisions: | Not Applicable |
| 17. | Zero Coupon Note Provisions: | Not Applicable |
| 18. | Index Linked Interest Note Provisions: | Not Applicable |
| 19. | Dual Currency Interest Note Provisions: | Not Applicable |

PROVISIONS RELATING TO REDEMPTION

- | | | |
|-----|---|--|
| 20. | Issuer Call: | Not Applicable |
| 21. | Investor Put: | Not Applicable |
| 22. | Final Redemption Amount: | <p>€50,000 per Note of €50,000 Specified Denomination</p> <p>For the avoidance of doubt, in the case of a holding of Notes in an integral multiple of €1,000 in excess of €50,000 as envisaged in paragraph 6 above, such holding will be redeemed at its nominal amount</p> |
| 23. | Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 7(e)): | Condition 7(e) applies |

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- | | | |
|-----|--|--|
| 24. | Form of Notes: | Bearer Notes |
| | (i) Form: | Temporary Bearer Global Note exchangeable for a Permanent Bearer Global Note which is exchangeable for Definitive Notes only upon an Exchange Event. |
| | (ii) New Global Note: | No |
| 25. | Additional Financial Centre(s) or other special provisions relating to Payment Days: | Not Applicable |
| 26. | Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature): | No |
| 27. | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | Not Applicable |

28. Details relating to Instalment Notes:
- (i) Instalment Amount(s): Not Applicable
- (ii) Instalment Date(s): Not Applicable
29. (i) Redenomination applicable: Redenomination not applicable
- (ii) Consolidation applicable: Consolidation not applicable
30. Other final terms: Not Applicable

DISTRIBUTION

31. (i) If syndicated, names of Managers: ABN AMRO Bank N.V.
BNP Paribas
HSBC Bank plc

Bayerische Hypo- und Vereinsbank AG
Dresdner Bank AG London Branch
ING Bank N.V.
The Royal Bank of Scotland plc
- (ii) Stabilising Manager (if any): ABN AMRO Bank N.V.
32. If non-syndicated, name of relevant Dealer: Not Applicable
33. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: TEFRA D
34. Additional selling restrictions: Not Applicable

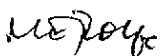
LISTING AND ADMISSION TO TRADING APPLICATION

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the £2,000,000,000 Medium Term Note Programme of Gallaher Group Plc.

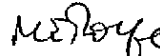
RESPONSIBILITY

The Issuer and the Guarantor each accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By: 
Duly authorised

Signed on behalf of the Guarantor:

By: 
Duly authorised

PART B – OTHER INFORMATION

1. LISTING

- (i) Listing: London
- (ii) Admission to trading: Application has been made for the Notes to be admitted to trading on the London Stock Exchange plc's Gilt Edged and Fixed Interest Market with effect from 2 October 2006
- (iii) Estimate of total expenses related to admission to trading: £100

2. RATINGS

- Ratings: The following ratings reflect the ratings allocated to Notes of this type being issued under the Programme generally:
- S&P: BBB
- Moody's: Baa3

3. NOTIFICATION

Not Applicable

4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

Save for any fees payable to the Managers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

Not Applicable

6. YIELD (*Fixed Rate Notes only*)

Indication of Yield: 4.546 per cent.

The yield is calculated at the Issue Date on the basis of the Issue Price and a Rate of Interest of 4.50 per cent. per annum. It is not an indication of future yield.

7. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*Index-Linked Notes only*)

Not Applicable

8. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT (Dual Currency Notes only)

Not Applicable

9. OPERATIONAL INFORMATION

- | | | |
|-------|--|--------------------------|
| (i) | ISIN Code: | XS0269190533 |
| (ii) | Common Code: | 026919053 |
| (iii) | Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): | Not Applicable |
| (iv) | Delivery: | Delivery against payment |
| (v) | Names and addresses of additional Paying Agent(s) (if any): | Not Applicable |
| (vi) | Intended to be held in a manner which would allow Eurosystem eligibility: | Not Applicable |

ANNEX

This Annex forms part of the Final Terms to which it is attached.

The Reset Rate of Interest after a Step Up Rating Change (if any) or a Step Down Rating Change (if any)

1. The Rate of Interest payable on the Notes will be subject to adjustment from time to time in the event of a Step Up Rating Change or a Step Down Rating Change, as the case may be.
2. From and including the first Interest Payment Date following the date of a Step Up Rating Change, if any, the rate of interest payable on the Notes shall be increased by 1.25 per cent. per annum.
3. Furthermore, in the event that a Step Down Rating Change occurs after the date of a Step Up Rating Change or on the same date but subsequent thereto, with effect from and including the first Interest Payment Date following the date of such Step Down Rating Change, the rate of interest payable on the Notes shall be decreased by 1.25 per cent. per annum, so that it equals the Initial Rate of Interest.
4. In the event that either Rating Agency fails to or ceases to assign a rating to the Issuer's senior unsecured debt, the Issuer shall use its best efforts to obtain a rating of its senior unsecured debt from a substitute rating agency that shall be a Statistical Rating Agency, and references in these Final Terms to Moody's or S&P, as the case may be, or the ratings thereof, shall be to such substitute rating agency or, as the case may be, the equivalent ratings thereof. In the event that such a rating is not obtained from such a substitute rating agency, then, for the purposes of the foregoing interest rate adjustments, the ratings assigned by the remaining Rating Agency shall be deemed also to be the ratings assigned by the other Rating Agency.
5. For the avoidance of doubt, the Step Up Rating Change may only occur once during the term of Notes.

Notification of Rating Change (if any) and Reset Rate of Interest (if any)

The Issuer shall cause each Rating Change (if any) to be notified to the Principal Paying Agent and the Trustee as soon as practicable after such Rating Change and shall procure that the Principal Paying Agent notifies each other Paying Agent and any relevant listing authority of such Rating Change and the Reset Rate of Interest (if any) as soon as practicable and shall procure that the Principal Paying Agent shall give notice thereof to the Noteholders in accordance with Condition 15 as soon as practicable after such Rating Change.

Definitions

For the purposes of these Final Terms:

Moody's means Moody's Investors Service, Inc., or any successor;

Rating Agency means either Moody's or S&P and **Rating Agencies** means both of them;

Rating Change means a Step Up Rating Change and/or a Step Down Rating Change;

Reset Date means, in respect of a Rating Change, the Interest Payment Date immediately following the date on which such Rating Change occurs;

Reset Rate of Interest means the new rate of interest applicable to the Notes from and including the relevant Reset Date;

S&P means Standard and Poor's Ratings Services, a division of McGraw-Hill Companies, Inc., or any successor;

Statistical Rating Agency means Fitch Ratings Ltd or any successor;

Step Down Rating Change means the public announcement after a Step Up Rating Change by both Rating Agencies of an increase in, or confirmation of, the rating of the Issuer's senior unsecured debt to at least Baa3 in the case of Moody's, and to at least BBB- in the case of S&P; and

Step Up Rating Change means the first public announcement by either or both Rating Agencies of a decrease in the rating of the Issuer's senior unsecured debt to below Baa3 in the case of Moody's, or below BBB- in the case of S&P

ANNEX 3

TERMS AND CONDITIONS OF THE BONDS

A copy of the terms and conditions of the Bonds modified pursuant to the an Extraordinary Resolution passed by the holders of the Bonds on 15 November 2007

The following text consolidates the information in the Final Terms and the terms and conditions in the Programme, as modified by the Extraordinary Resolution referred to above, which was shown in the Supplemental Trust Deed (as defined above).

The following are the Terms and Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form (if issued).

The €500,000,000 4.5 per cent. Step Up Notes due 2014 (the "Notes") of JTI (UK) Finance PLC (the "Issuer") are constituted by a Trust Deed (such Trust Deed, as modified and/or supplemented and/or restated from time to time, the "Trust Deed") dated 8th February, 2001 and made between the Issuer, Japan Tobacco Inc. (the "Guarantor" and, together with its Subsidiaries (as defined below), the "Group") and HSBC Trustee (C.I.) Limited (the "Trustee", which expression shall include any additional or successor trustee) as trustee for the time being for the Noteholders (as defined below). These terms and conditions (the "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below.

These Conditions represent the terms and conditions originally included in the Trust Deed, as modified by the final terms document dated 29 September 2006 and by an extraordinary resolution of holders passed on 15 November 2007. As a result, these Conditions shall apply as if Conditions 2, 5(b), 5(c), 5(d), 6(c), 6(d), 6(f)(iii), 6(f)(iv), 6(f)(v), 6(f)(vi), 7(c), 7(d), 7(f), 7(g), 7(j) and 14, and all references to a Registered Note, Exchangeable Bearer Note, Long Maturity Note, Partly Paid Note, Floating Rate Note, Zero Coupon Note, Index Linked Interest Note, Dual Currency Interest Note, instalment, Certificate, Talon, Receipt, Receiptholder, Final Terms, Specified Currency, Tranche, Series, Transfer Agent or Registrar, have been deleted and are of no effect. References herein to the "Bearer Notes" and "Fixed Rate Notes" shall be references to the Notes.

Payments in respect of the Notes will be made under an Agency Agreement (such Agency Agreement, as modified and/or supplemented and/or restated from time to time, the "Agency Agreement") dated 8th February, 2001 and made between the Issuer, the Guarantor, the Trustee, HSBC Bank plc as issuing and principal paying agent and agent bank (the "Principal Paying Agent", which expression shall include any successor issuing and principal paying agent and agent bank) and the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression shall include any additional or successor paying agents), HSBC Bank plc as registrar (the "Registrar", which expression shall include any successor registrar) and the transfer agents named therein (together with the Registrar, the "Transfer Agents", which expression shall include any additional or successor transfer agents).

The interest bearing Bearer Notes have interest coupons ("Coupons") and, if indicated in the applicable Final Terms (as defined below), talons for further Coupons ("Talons") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Bearer Notes repayable in instalments have receipts ("Receipts") for the payment of the instalments of principal (other than the final instalment) attached on issue. Certificates do not have Receipts, Coupons or Talons attached on issue.

The Final Terms for this Note (or the relevant provisions thereof) are set out in part A of the Final Terms attached to or endorsed on this Note which supplement these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the "applicable Final Terms" are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to "Noteholders" or "holders" in relation to any Notes shall mean (in the case of Bearer Notes) the bearers of the Notes and (in the case of Registered Notes) the persons in whose names the Notes are registered. Any reference herein to "Receiptholders" shall mean the bearers of the Receipts and any reference herein to

"Couponholders" shall mean the bearers of the Coupons and shall, unless the context otherwise requires, include the bearers of the Talons.

As used herein, "Tranche" means Notes which are identical in all respects (including, if applicable, as to listing and admission to trading by any listing authority or stock exchange) and "Series" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including, if applicable, as to listing and admission to trading by any listing authority or stock exchange) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office of each of the Principal Paying Agent, the Registrar, the other Paying Agents and the Transfer Agents (such Agents and the Registrar being together referred to as the "Agents"). Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer and of the Principal Paying Agent and copies may be obtained from those offices save that, if this Note is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them.

Words and expressions defined in the Trust Deed or used in the applicable Final Terms shall have the same meanings when used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

1. Form, Denomination and Title

The Notes are in bearer form and serially numbered, in denominations of €50,000 provided that, for so long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable in minimum nominal amounts of €50,000 and integral multiples of €1,000 thereafter. Notes of one denomination may not be exchanged for Notes of another denomination.

All Registered Notes shall have the same Specified Denomination. Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Specified Denomination as the lowest Specified Denomination of the Exchangeable Bearer Notes.

Registered Notes are represented by registered certificates ("Certificates") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Trust Deed and the Agency Agreement. The Issuer, the Guarantor, the Trustee and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing on it (or on the Certificate representing it) or notice of any previous loss or theft of it) for all purposes.

References to "Euroclear" and/or "Clearstream, Luxembourg" shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2. Exchange of Exchangeable Bearer Notes and Transfers of Registered Notes

(a) Exchange of Exchangeable Bearer Notes

Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same aggregate principal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Receipts, Coupons and Talons relating to it, at the specified office of any Transfer Agent, provided that Exchangeable Bearer Notes surrendered for exchange during the period from and including the Record Date in respect of any Interest Payment Date up to and including such Interest Payment Date will not be required to be surrendered with the Coupon relating to the

interest payable on such Interest Payment Date. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes that are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

(b) Transfer of Registered Notes

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed and such other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by a Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor.

(c) Exercise of Options or Partial Redemption in Respect of Registered Notes

In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a Certificate, a new Certificate, if required, shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, new separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding to the Registrar or any Transfer Agent.

(d) Delivery of New Certificates

Each new Certificate to be issued pursuant to Condition 2(a), (b) or (c) shall be available for delivery five business days after receipt of the request for exchange, form of transfer or Put Notice (as defined in Condition 7(d)) or surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Put Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Put Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) Exchange Free of Charge

Exchange and transfer of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax, duty or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may reasonably require).

(f) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) subject as provided below, after any such Note has been called for redemption, (iii) during the period of seven days immediately preceding any Record Date and ending on (and including) the next Interest Payment Date or date for payment of an Instalment Amount or (iv) in respect of which a Noteholder's redemption option pursuant to Condition 7(d) has been exercised. An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

(g) Regulations

All transfers of Registered Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available free of charge by the Registrar to any holder of a Registered Note upon request.

3. Guarantee and Status of the Notes

(a) The due performance of all payment and other obligations of the Issuer under the Notes, Receipts and Coupons, these Conditions and the Trust Deed has been unconditionally and irrevocably guaranteed (the "Guarantee") by the Guarantor in the Trust Deed. The obligations of the Guarantor under the Guarantee constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (subject as aforesaid) rank and will rank *pari passu* with all other outstanding unsecured and unsubordinated

obligations of the Guarantor, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

This means, inter alia, that the rights of the Noteholders under the Guarantee are subject, on any insolvency of the Guarantor, to the statutory preference given to the holders of bonds or notes issued by the Guarantor under the Japan Tobacco Inc. Law (Law Number 69 of 1984) of Japan.

(b) The Notes, any relative Receipts and Coupons constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as aforesaid) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

4. Negative Pledge

(a) So long as any of the Notes remains outstanding, the Issuer will not create or permit to subsist any mortgage, charge, lien (other than a lien arising by operation of law) or other encumbrance (each a "Security Interest") upon the whole or any part of its undertaking or assets, present or future, to secure payment of any present or future indebtedness of the Issuer or any other person or to secure any guarantee or indemnity in respect of any indebtedness of the Issuer or any other person, without at the same time according to the Notes, any relative Receipts and Coupons and all amounts payable under the Trust Deed, to the satisfaction of the Trustee, either the same security as is created or subsisting to secure any such indebtedness, guarantee or indemnity, or such other security or other arrangement as the Trustee shall in its absolute discretion deem not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

(b) So long as any of the Notes remains outstanding, the Guarantor will not create or permit to subsist any Security Interest upon the whole or any part of its undertaking or assets, present or future, to secure payment of any present or future indebtedness of the Guarantor or any other person or to secure any guarantee or indemnity in respect of any indebtedness of the Guarantor or any other person, without, at the same time according to its obligations under the Guarantee, to the satisfaction of the Trustee, either the same security as is created or subsisting to secure any such indebtedness, guarantee or indemnity, or such other security or other arrangement as the Trustee shall in its absolute discretion deem not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution of the Noteholders.

(c) Paragraphs (a) and (b) do not apply to the following Security Interests:

- (i) any Security Interest already created or agreed to be created, at the date of acquisition, by any company acquired by any member of the Group (otherwise than in contemplation of the acquisition), or any renewal or extension of any such Security Interest on terms no more onerous to that member of the Group than those of the Security Interest renewed or extended; or
- (ii) any Security Interest created in favour of H.M. Revenue & Customs or other similar governmental agency whether in Japan, the U.K. or elsewhere solely to secure the tobacco taxation liabilities of any member of the Group; or
- (iii) any Security Interest created or arising with the approval of the Trustee or an Extraordinary Resolution of the Noteholders; or
- (iv) any Security Interest created or arising out of retention of title provisions in respect of goods acquired by a member of the Group in the ordinary course of trading; or
- (v) any lien or other Security Interest arising in the normal course of trading and set-off rights and arrangements between cash balances and bank borrowings with the same bank; or
- (vi) any Security Interest on inventories and accounts receivable existing from time to time; or
- (vii) any Security Interest on property existing at the time of acquisition thereof by the Issuer or the Guarantor, provided that such Security Interest was in existence prior to the contemplation of such acquisition and does not extend to any property other than that acquired; or
- (viii) any Security Interest to secure Financial Indebtedness (as defined in Condition 10) incurred for the purpose of financing all or any part of the purchase price or the cost of construction or improvement (or additions to improvements) of the property subject to such Security Interest; or
- (ix) any Security Interest to secure any extension, renewal, refinancing or refunding (or successive extensions, renewals, refinancings or refundings), in whole or in part, of any Financial Indebtedness secured by Security Interests referred to in the foregoing sub-paragraphs (i) to (viii), provided that such Security Interest does not extend to any additional property and the principal amount of the extending, renewing, refinancing or refunding Financial Indebtedness is not greater than the principal amount of the Financial Indebtedness being extended, renewed, refinanced or refunded; or

(x) any one or more other Security Interests not falling within (i) to (ix) above and securing indebtedness the principal, capital or nominal amount of which does not exceed (when aggregated with the indebtedness secured by all other Security Interests permitted under this sub-paragraph (x)) £30,000,000 or its equivalent in other currencies at any one time.

5. Interest

(a) Interest on Fixed Rate Notes

(A) Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from and including 2 October 2006 (the "Interest Commencement Date") to but excluding the first Interest Payment Date following the date on which a Step Up Rating Change (if any) occurs, at the rate of 4.50 per cent. per annum (the "Initial Rate of Interest") and thereafter at the applicable rate of interest calculated in accordance with Condition 5(a)(B). Interest will be payable in arrear on 2 April in each year from (and including) 2 April 2008 up to (and including) 2 April 2014 (the "Maturity Date").

In respect of the payment of interest on the Interest Payment Date falling on 2 April 2008, a Broken Amount of €3,371.92 per €50,000 in nominal amount will be paid.

As used in these Conditions, "Fixed Interest Period" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period of less than a full year, such interest shall be calculated by applying the Rate of Interest to the nominal amount of each Note, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant nominal amount, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"Day Count Fraction" means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a)(A):

(a) if the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or less than the number of days in the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates that would occur in one calendar year; or

(b) where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year.

In these Conditions:

"Determination Date" means an Interest Payment Date;

"Determination Period" means each period from (and including) a Determination Date to but excluding the next Determination Date (including, where either the Interest Commencement Date or the final interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"sub-unit" means with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(B) (i) The rate of interest payable on the Notes will be subject to adjustment from time to time in the event of a Step Up Rating Change or a Step Down Rating Change, as the case may be.

(ii) From and including the first Interest Payment Date following the date of a Step Up Rating Change, if any, the rate of interest payable on the Notes shall be increased by 1.25 per cent. per annum.

(iii) Furthermore, in the event that a Step Down Rating Change occurs after the date of a Step Up Rating Change or on the same date but subsequent thereto, with effect from and including the first Interest Payment Date following the date of such Step Down Rating Change, the rate of interest payable on the Notes shall be decreased by 1.25 per cent. per annum, so that it equals the Initial Rate of Interest.

(iv) In the event that either Rating Agency fails to or ceases to assign a rating to the Guarantor's senior unsecured debt, the Guarantor shall use its best efforts to obtain a rating of its senior unsecured debt from a substitute rating agency that shall be a Statistical Rating Agency, and references in this Condition to Moody's or S&P, as the case may be, or the ratings thereof, shall be to such substitute rating agency or, as the case may be, the equivalent ratings thereof. In the event that such a rating is not obtained from such a substitute rating agency, then, for the purposes of the foregoing interest rate adjustments, the ratings assigned by the remaining Rating Agency shall be deemed also to be the ratings assigned by the other Rating Agency.

(v) For the avoidance of doubt, the Step Up Rating Change may only occur once during the term of the Notes.

(vi) The Guarantor shall cause each Rating Change (if any) to be notified to the Principal Paying Agent and the Trustee as soon as practicable after such Rating Change and shall procure that the Principal Paying Agent notified each other Paying Agent and any relevant listing authority of such Rating Change and the Reset Rate of Interest (if any) as soon as practicable and shall procure that that Principal Paying Agent shall give notice thereof to the Noteholders in accordance with Condition 15 as soon as practicable after such Rating Change.

In these Conditions:

"Moody's" means Moody's Investors Service, Inc., or its successor;

"Rating Agency" means either Moody's or S&P and "Rating Agencies" means both of them;

"Rating Change" means a Step Up Rating Change and/or a Step Down Rating Change;

"Reset Date" means, in respect of a Rating Change, the Interest Payment Date immediately following the date on which such Rating Change occurs;

"Reset Rate of Interest" means the new rate of interest applicable to the Notes from and including the relevant Reset Date;

"S&P" means Standard and Poor's Rating Services, a division of McGraw-Hill Companies, Inc., or any successor;

"Statistical Rating Agency" means Fitch Ratings Ltd or any successor;

"Step Down Rating Change" means the public announcement after a Step Up Rating Change by both Rating Agencies of an increase in, or confirmation of, the rating of the Guarantor's senior unsecured debt to at least Baa3 in the case of Moody's and to at least BBB- in the case of S&P; and

"Step Up Rating Change" means the first public announcement by either or both Rating Agencies of a decrease in the rating of the Guarantor's senior unsecured debt to below Baa3 in the case of Moody's, or below BBB- in the case of S&P.

(b) *Interest on Floating Rate Notes and Index Linked Interest Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) (each an "Interest Payment Date") in each year specified in the applicable Final Terms; or

(B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each an "Interest Payment Date") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such Interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply mutatis mutandis or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day

unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the relevant preceding Interest Payment Date; or

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, "Business Day" means a day which is both:

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney or Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the "TARGET System") is open.

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), "ISDA Rate" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "ISDA Definitions") and under which:

(1) the Floating Rate Option is as specified in the applicable Final Terms;

(2) the Designated Maturity is a period specified in the applicable Final Terms; and

(3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate ("LIBOR") or on the Euro-zone inter-bank offered rate ("EURIBOR"), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity" and "Reset Date" have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) (the "Specified Time") on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or if, in the case of (1) above, no offered quotation appears or, in the case of (2) above, fewer than three offered quotations appear, in each case as at the Specified Time on the Interest Determination Date in question, the Principal Paying Agent shall request each of the Reference Banks to provide the Principal Paying Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Principal Paying Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Principal Paying Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Principal Paying Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Principal Paying Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Principal Paying Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Principal Paying Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone interbank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(iii) Minimum and/or maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) Determination of Rate of Interest and calculation of Interest Amounts

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the "Interest Amount") payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"Day Count Fraction" means, in respect of the calculation of an Interest Amount for any Interest Period in accordance with this Condition 5(b):

(i) if "Actual/365" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

(v) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any competent authority or stock exchange by or on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each relevant competent authority or stock exchange by or on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression "London Business Day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in London.

(vi) Determination or Calculation by Trustee

If for any reason the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or calculate any Interest Amount in accordance with sub-paragraph (ii) or (iv), as the case may be, above, the Trustee shall determine the Rate of Interest at such rate plus or minus (as appropriate) the relevant Margin (if any) as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition 5 but subject always to sub-paragraph 5(b)(iii) above), it shall deem fair and reasonable in all the circumstances and/or, as the case may be, the Trustee shall calculate the Interest Amount in the manner referred to in sub-paragraph (iv) above and such determination and/or calculation shall be deemed to have been made by the Principal Paying Agent or, as the case may be, the Calculation Agent.

(vii) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5(b), whether by the Principal

Paying Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Trustee, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor, the Trustee, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or (if applicable) the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

(d) *Interest on Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(e) *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (1) the date on which all amounts due in respect of such Note have been paid; and
- (2) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent, the Trustee or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 15.

Accordingly the next Interest Payment Date will be 2 April 2008. No payment of interest has been made in respect of the Bonds as there is a long first coupon from and including the Issue Date to but excluding 2 April 2008. The Issuer will ensure that the Luxembourg Stock Exchange will be informed in the event of any Step Up Rating Change or Step Down Rating Change occurring.

6. Payments

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

(b) *Presentation of Bearer Notes, Receipts and Coupons*

Payments of principal in respect of Bearer Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Bearer Notes, and payments of interest (if any) in respect of Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)). Payments of instalments of principal (if any) in respect of Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Bearer Note to which it appertains. Receipts presented without the Bearer

Note to which they appertain do not constitute valid obligations of the Issuer or the Guarantor. Upon the date on which any Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons, falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate amount of interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note. If the due date for redemption of any Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Bearer Note.

(c) Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relative Certificate at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "Register") at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "Designated Account" means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "Designated Bank" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "Record Date") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest or an instalment of principal (other than the final instalment) in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

(d) General provisions applicable to payments

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

(e) Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation;
 - (B) London;
 - (C) each Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.

(f) Interpretation of principal and interest

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 7(e)); and
- (vii) any premium and any other amounts (other than Interest) which may be payable by the Issuer and/or the Guarantor under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or under any obligation or undertaking given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

7. Redemption and Purchase

(a) Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its nominal amount on the Maturity Date.

(b) Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to

the Principal Paying Agent and the Trustee and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if immediately before giving such notice:

- (i) the Issuer satisfies the Trustee that, on the occasion of the next payment due under the Notes, the Issuer would be obliged to pay additional amounts as provided or referred to in Condition 8 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or Japan or any political subdivision of, or any authority in, or of, the United Kingdom or Japan having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and
- (ii) such requirement cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be required to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer or, as the case may be, the Guarantor shall deliver to the Trustee a certificate signed by two executive directors of the Issuer or, as the case may be, the Guarantor stating that the requirement referred to in (i) above will apply on the occasion of the next payment due in respect of the Notes and cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it and an opinion of legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled to accept the certificate and the opinion of the legal advisers referred to above as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event each of them shall be conclusive and binding on the Noteholders, Couponholders and Receiptholders.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (e) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Trustee, the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of an aggregate nominal amount equal to the Minimum Redemption Amount or not higher than the Maximum Redemption Amount. In the case of a partial redemption of Notes, the Notes to be redeemed ("Redeemed Notes") will be selected individually by lot not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "Selection Date"). A list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption.

Unless otherwise specified in the applicable Final Terms, the Optional Redemption Amount shall be the higher of the following:

- (i) the principal amount of the Notes to be redeemed; and
- (ii) that price per Note (the "Redemption Price"), expressed as a percentage (rounded to three decimal places, 0.0005 being rounded down), at which the Gross Redemption Yield on the Notes, if they were to be purchased at such price on the third dealing day prior to the date of publication of the notice of redemption, would be equal to the Gross Redemption Yield on such dealing day of the Reference Stock (or, if such stock is no longer in issue, of such other United Kingdom government stock as the Trustee, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers or such other three persons operating in the gilt-edged market as the Trustee may approve, shall determine to be appropriate (the "Alternative Reference Stock")) on the basis of the middle market price of the Reference Stock or the Alternative Reference Stock, as the case may be, prevailing at 11.00 a.m. on such dealing day as determined by Barclays Bank PLC (or such other person as the Trustee may approve).

References in the Trust Deed and in these Conditions to principal shall, unless the context otherwise requires, be deemed to include a reference to the Redemption Price.

The "Gross Redemption Yield" on the Notes and on the Reference Stock or the Alternative Reference Stock, as the case may be, will be expressed as a percentage and will be calculated on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for calculating Gilt Prices from Yields" page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published 8th June, 1998) (as supplemented, amended or replaced from time to time) or on such other basis as the Trustee may approve.

(d) Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 15 not less than 15 nor more than 30 days' notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not, in the case of a Bearer Note, in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 7(d) in any multiple of their lowest Specified Denomination.

To exercise the right to require redemption of this Note the holder of this Note must deliver such Note at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent or, as the case may be, the Registrar (a "Put Notice") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Certificate in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2(b).

Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable except where prior to the due date of redemption an Event of Default shall have occurred and be continuing in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this paragraph.

It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

(e) Early Redemption Amounts

For the purpose of paragraph (b) above and Condition 10, the Early Redemption Amount of each Note will be calculated as follows:

(i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

(iii) in the case of a Zero Coupon Note, at an amount (the "Amortised Face Amount") calculated in accordance with the following formula:

where:

"RP" means the Reference Price; and

"AY" means the Accrual Yield expressed as a decimal; and

"y" is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Notes becomes due and repayable and the denominator of which is 360,

or on such other calculation or day count fraction basis as may be specified in the applicable Final Terms.

(f) Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (e) above.

(g) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

(h) Purchases

The Issuer, the Guarantor or any other Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) in any manner and at any price. If purchases are made by tender, tenders must be available to all Noteholders alike.

(i) Cancellation

All Notes which are (i) redeemed or (ii) purchased by or on behalf of the Issuer, the Guarantor or any other Subsidiary of the Issuer will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption or purchase). All Notes so cancelled shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

(j) Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (e)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent, the Trustee or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition 15.

8. Taxation

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer or, as the case may be, the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or Japan or any political subdivision thereof or any authority thereof or therein having power to tax unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders, Receiptholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes, Receipts or, as the case may be, Coupons in the absence of the withholding or deduction; except that no such additional amounts will be payable in respect of Notes, Receipts or Coupons presented for payment:

- (i) by or on behalf of a holder who is liable for such Taxes by reason of his having some connection with the United Kingdom or Japan (including any holder who is for Japanese tax purposes treated as a resident of Japan or a Japanese corporation), as the case may be, other than the mere holding of the Note, Receipt or Coupon; or
- (ii) more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to payment of such additional amounts if he had presented his Note, Receipt or Coupon for payment on the thirtieth day after the Relevant Date, assuming, whether or not such is in fact the case, such last day to be a Payment Day (as defined in Condition 6); or
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

"Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent, the Trustee or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys (together with interest accrued thereon) having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

In these Conditions references to principal or interest shall be deemed also to refer to any additional amounts which may be payable as described above or under any obligation undertaken in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. Prescription

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of Interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

10. Events of Default

The Trustee, at its discretion, may, and if so requested in writing by the holders of at least one quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified to its satisfaction) give notice to the Issuer and the Guarantor that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their Early Redemption Amount plus accrued interest as provided in the Trust Deed, if any of the following events ("Events of Default") shall have occurred:

- (i) if default is made for more than seven days in the payment on the due date of interest or principal in respect of the Notes or any of them; or
- (ii) if the Issuer or the Guarantor fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer or, as the case may be, the Guarantor or notice requiring the same to be remedied; or
- (iii) if any Financial Indebtedness (as defined below) of the Issuer, the Guarantor or any other Subsidiary of the Issuer becomes due and repayable prematurely by reason of an event of default (however described) or the Issuer, the Guarantor or any other Subsidiary of the Issuer fails to make any payment in respect of any Financial Indebtedness on the due date for payment as extended by any applicable grace period or any security given by the Issuer, the Guarantor or any other Subsidiary of the Issuer for any Financial Indebtedness becomes enforceable and steps are taken to enforce the same provided that no such event shall constitute an Event of Default unless the relative Financial Indebtedness when aggregated with other Financial Indebtedness relative to all (if any) other such events which shall have occurred and remain outstanding exceeds £20,000,000 (or its equivalent in any other currency or currencies); or
- (iv) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, the Guarantor or any Principal Subsidiary (as defined below), except (A) on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders or (B) in the case of the voluntary solvent winding-up of a Principal Subsidiary, where all or the major part of the business, undertaking and assets of such Principal Subsidiary are transferred to the Issuer, the Guarantor or another wholly-owned Subsidiary of the Issuer; or
- (v) if the Issuer, the Guarantor or any Principal Subsidiary ceases or threatens to cease to carry on the whole or a substantial part of its business, save on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders, or the Issuer, the Guarantor or any Principal Subsidiary stops or threatens to stop payment of, or is unable to pay, or admits in writing its inability to pay its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (vi) if an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of the Issuer, the Guarantor or any Principal Subsidiary or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and is not discharged within 30 days; or
- (vii) if (A) proceedings are initiated against the Issuer, the Guarantor or any Principal Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, the Guarantor or any Principal Subsidiary or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within 30 days; or
- (viii) if the Issuer, the Guarantor or any Principal Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, save on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders; or

(ix) if the Issuer, the Guarantor or any Principal Subsidiary makes a general assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors); or

(x) if there occurs, in relation to the Issuer, the Guarantor or any Principal Subsidiary, in any country or territory in which it carries on business or to the jurisdiction of whose courts it or any of its property is subject to any event which corresponds in that country or territory with any of those mentioned in paragraphs (iv) to (ix) inclusive above; or

(xi) if the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect,

provided that no such event, other than those described in paragraphs (i), (iv) (in the case of a winding up or dissolution of the Issuer or the Guarantor) or (x) (in relation to any event having a corresponding effect to the winding up or dissolution of the Issuer or the Guarantor), shall constitute an Event of Default unless and until the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders.

In this Condition 10:

(i) "**Financial Indebtedness**" means (without double-counting) any indebtedness in respect of:

(a) moneys borrowed and debit balances at banks and other financial institutions;

(b) any debenture, bond, note, loan stock or other security;

(c) any acceptance credit;

(d) receivables sold or discounted with recourse;

(e) the acquisition cost of any asset to the extent payable before or after the time of acquisition or possession by the party liable where the advance or deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset (excluding trade credit in the ordinary course of business);

(f) finance leases (as defined in SSAP21) whether in respect of land, machinery, equipment or otherwise;

(g) the net amount owing under any currency or interest swap, cap or collar arrangements or any other derivative or hedging instrument;

(h) amounts raised under any other transaction having the commercial effect of a borrowing or raising of money; or

(i) any guarantee, indemnity or similar assurance against financial loss in respect of any of the items falling within paragraphs (a) to (h) (inclusive) above;

(ii) "**Principal Subsidiary**" means at any time:

(a) any Subsidiary of the Guarantor whose total assets or pre-tax profit equals or exceeds 10 per cent. of the total assets or pre-tax profit of the Group at the relevant time, and for the purpose of the above:

(1) the total assets or pre-tax profit of the Group shall be ascertained by reference to the latest audited published consolidated annual accounts of the Group; and

(2) the total assets or pre-tax profit of the Subsidiary shall be ascertained by reference to the accounts (or, if none are available, the accounting returns of that Subsidiary) (consolidated if the Subsidiary has Subsidiaries) used in connection with the preparation of the latest audited published consolidated annual accounts of the Group; and

(b) any Subsidiary of the Guarantor to which has been transferred (whether by one transaction or a series of transactions, related or not) the whole or substantially the whole of the assets of a Subsidiary which immediately prior to that transaction or those transactions is a Principal Subsidiary,

all as more particularly defined in the Trust Deed.

In the case of paragraph (b) above the transferor Subsidiary will not be a Principal Subsidiary unless it remains or subsequently becomes a Principal Subsidiary by the operation of paragraph (a) or (b) above.

A certificate signed by two Directors of the Issuer as to whether a company is or is not or was or was not at any particular time or during a specified period a Principal Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties; and

(iii) "**Subsidiary**" means a subsidiary as defined in section 736 of the Companies Act 1985, as amended from time to time.

11. Enforcement

(a) The Trustee may, at its discretion and without further notice, take such proceedings as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Note, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding, and (ii) it shall have been indemnified to its satisfaction.

(b) No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

12. Replacement of Notes, Receipts, Coupons and Talons

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. Agents

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled (with the prior written approval of the Trustee) to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent, a Paying Agent, a Transfer Agent and a Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) there will at all times be a Paying Agent in a jurisdiction within continental Europe, other than the jurisdictions in which the Issuer and the Guarantor are incorporated.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 6(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given by the Issuer to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the Guarantor and in certain limited circumstances specified in the Agency Agreement and the Trust Deed, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

14. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9.

15. Notices

All notices regarding the Bearer Notes will, so long as the Notes are listed on the official list of the Luxembourg Stock Exchange and traded on the Euro MTF Market and the rules thereof so require, be published in a leading newspaper in Luxembourg (which is expected to be *d'Wort*) or, alternatively, on the website of the Luxembourg

Stock Exchange (www.bourse.lu), where such notices may be posted. Any such notice will be deemed to have been given on the date of the first publication.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed or admitted to trading, as the case may be by or on a competent authority or stock exchange and the rules of that competent authority or stock exchange so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that competent authority or stock exchange.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes).

16. Meetings of Noteholders, Modification, Waiver and Substitution

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons, the Trust Deed, these Conditions or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer, the Guarantor, the Trustee or Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts, the Coupons, these Conditions and certain provisions of the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trustee, the Issuer and the Guarantor may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

- (a) any modification of the Notes, the Receipts, the Coupons, these Conditions or the Trust Deed or any waiver or authorisation of any breach or proposed breach of any of these Conditions or any provision of the Trust Deed or any determination that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Receipts, the Coupons, these Conditions or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest error.

Any such modification, waiver, authorisation or determination shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall, unless the Trustee agrees otherwise, be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

The Trustee may, without the consent of the Noteholders, Receiptholders or Couponholders, agree with the Issuer and the Guarantor to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed of another company, being either (i) a successor company (as defined in the Trust Deed) of the Issuer (or such previous substitute) or (ii) any Subsidiary of the Issuer, subject to (a) except where the new principal debtor is the Guarantor, the Notes being unconditionally and irrevocably guaranteed by the Guarantor, (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, and (c) certain other conditions set out in the Trust Deed being complied with.

In connection with the exercise of its powers, trusts, authorities and discretions (including but not limited to those in relation to any proposed modification, waiver, authorisation or substitution as aforesaid), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof, and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Trustee, the Issuer or the Guarantor any

indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

17. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction. The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (i) to enter into business transactions with the Issuer and/or the Guarantor and/or any of the Issuer's other Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor and/or any of the Issuer's other Subsidiaries, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee may retire at any time by giving not less than three months' prior written notice to the Issuer and the Guarantor. The Bondholders may by Extraordinary Resolution remove any trustee. The Issuer and the Guarantor may appoint a new trustee in respect of the Bonds, provided that no person shall be so appointed who shall not previously have been approved by an Extraordinary Resolution. Full details of the conditions for replacement of the Trustee are set out in the original Trust Deed dated 8 February 2001 (as amended and restated in the Third Supplemental Trust Deed dated 26 September 2006).

18. Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes or bonds (whether in bearer or registered form) having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series with the outstanding bonds or notes of any series (including the Notes) constituted by the Trust Deed or any trust deed supplemental thereto. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of bearer or registered notes or bonds of other series in certain circumstances where the Trustee so decides.

19. Governing Law

(a) The Trust Deed (including the Guarantee), the Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

(b) The Guarantor irrevocably agrees, for the benefit of the Trustee, the Noteholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes and/or the Coupons and accordingly submits to the exclusive jurisdiction of the English courts. The Guarantor waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee, the Noteholders and the Couponholders may take any suit, action or proceedings (together referred to as Proceedings) arising out of or in connection with the Trust Deed, the Notes and the Coupons against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

(c) The Guarantor appoints JTI (UK) Finance PLC at its registered office at Members Hill, Brooklands Road, Weybridge, Surrey KT13 0QU, United Kingdom as its agent for service of process, and undertakes that, in the event of JTI (UK) Finance PLC ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Trustee as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

20. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy which exists or is available apart from that act.

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