



£250,000,000

5.75 per cent. Step Up/Step Down Guaranteed Bonds due 2013

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 £250,000,000 aggregate principal amount 5.75 per cent. Step Up/Step Down Guaranteed Bonds due 2013 (the **Bonds**) were originally issued by Gallaher Group Plc (the **Original Issuer**) on 6 February 2003 (the **Issue Date**) and unconditionally and irrevocably guaranteed by Gallaher Limited (the **Original Guarantor**).

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 (as amended from time to time) dated 6 February 2003 (the **Trust Deed**).

Interest on the Bonds is payable annually in arrear on 6 February in each year. 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 under "Terms and Conditions of the Bonds – Interest".

The Bonds may not be redeemed prior to 6 February 2013 (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".

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 £1,000, £10,000 and £100,000 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 2003. 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 £1,000, £10,000 and £100,000 each (each a **Definitive Bond**). See “Summary of provisions relating to the Bonds whilst in global form”.

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 39 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.

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 13.

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.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the Terms and Conditions of the Bonds which (subject to modification) will be endorsed on each Bond in definitive form, if issued:

The £250,000,000 5.75 per cent. Step Up/Step Down Guaranteed Bonds due 2013 (the "Bonds", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 17 and forming a single series with the Bonds) of JTI (UK) Finance PLC (the "Issuer") are constituted by a Trust Deed dated 6th February, 2003 as supplemented by the Gallaher Bonds Supplemental Trust Deed dated 3 December 2007 (the "Trust Deed") 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 its successor(s)) as trustee for the holders of the Bonds (the "Bondholders") and the holders of the interest coupons appertaining to the Bonds (the "Couponholders" and the "Coupons", respectively). The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of, and definitions in, the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 6th February, 2003 (the "Agency Agreement") made between the Issuer, the Guarantor, HSBC Bank plc (the "Principal Paying Agent") and the other agents named therein (together with the Principal Paying Agent, unless the context otherwise requires, the "Paying Agents") and the Trustee are available for inspection upon reasonable notice during normal business hours by the Bondholders and the Couponholders at the principal office for the time being of the Trustee, being at the date of issue of the Bonds at 1 Grenville Street, St Helier, Jersey JE4 9PF, Channel Islands and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. Form, Denominations and Title

- (a) The Bonds are in bearer form, serially numbered, in the denominations of £1,000, £10,000 and £100,000 each with Coupons attached on issue. Bonds of one denomination may not be exchanged for Bonds of another denomination.
- (b) Title to the Bonds and to the Coupons will pass by delivery.
- (c) The Issuer, the Guarantor, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Bonds and the bearer of any Coupon as the absolute owner for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

2. Status

The Bonds and the 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.

3. Guarantee

The due performance of all payment and other obligations of the Issuer under the Bonds, the Coupons, these Terms and 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 Bondholders 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.

4. Negative Pledge

(a) So long as any of the Bonds remains outstanding (as defined in the Trust Deed), 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 Bonds, the 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 Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

(b) So long as any of the Bonds 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 Bondholders or as shall be approved by an Extraordinary Resolution of the Bondholders.

(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. Customs & Excise or other similar governmental agency whether in Japan, the UK 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 Bondholders; 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 assets other than the property acquired; or

(viii) any Security Interest to secure Financial Indebtedness (as defined in Condition 10(b)) 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 subparagraphs (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) Rate of Interest before Step Up Rating Change (if any)

Each Bond bears interest on its outstanding principal amount from and including 6th February, 2003 (the "Interest Commencement Date") to but excluding the first Interest Payment Date (as defined below) following the date on which a Step Up Rating Change (if any) occurs at the rate of 5.75 per cent. per annum (the "Initial Rate of Interest") and thereafter at the applicable rate of interest determined in accordance with Condition 5(b). The first payment of interest for the period from and including the Interest Commencement Date to but excluding 6th February, 2004 and amounting to £57.50 per £1,000 principal amount of each Bond shall be made on 6th February, 2004.

The statement above was the original text at the time of the issue of the Bonds in 2004. The first payment of interest for the period from and including the Interest Commencement Date to but excluding 6th February, 2004 and amounting to £57.50 per £1,000 principal amount of each Bond was in fact made on 6th February, 2004.

(b) The Reset Rate of Interest after a Step Up Rating Change (if any) or a Step Down Rating Change (if any)

(i) The rate of interest payable on the Bonds 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, as provided below.

(ii) From and including the first Interest Payment Date following the date of a Step Up Rating Change the rate of interest payable on the Bonds shall be increased by 1.25 per cent. per annum to 7.00 per cent. per annum.

(iii) If 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 Bonds shall be decreased by 1.25 per cent. per annum back to the Initial Rate of Interest.

(iv) 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 endeavours 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) The rate of interest payable on the Bonds will only be subject to adjustment as provided in (ii) above upon the first occurrence on or after the Interest Commencement Date of a Step Up Rating Change and an adjustment to the rate of interest payable on the Bonds as provided in (iii) above following the occurrence of a Step Down Rating Change may only occur once and in any event only after the occurrence of the Step Up Rating Change.

(c) Interest Payment Dates

Interest is payable annually in arrear on 6th February (each an "Interest Payment Date").

(d) 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 Bondholders in accordance with Condition 14 as soon as practicable after such Rating Change.

(e) Accrual of Interest

Each Bond will cease to bear interest 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 as provided in the Trust Deed.

(f) Broken Amounts

When interest is required to be calculated in respect of a period of less than a full year it shall be calculated on the basis of a day count fraction calculated as follows:

(a) if the Accrual Period is equal to or shorter than 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.

(g) Definitions

In these Terms and Conditions:

"Accrual Period" means 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;

"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 relevant 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).

"Fitch" means Fitch Ratings Ltd, or any successor;

"Moody's" means Moody's Investors Service Limited, 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 which results in an adjustment to the rate of interest payable in respect of the Bonds as provided above;

"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 Bonds from and including the relevant Reset Date;

"S&P" means Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or any successor;

"Statistical Rating Agency" means Fitch;

"Step Down Rating Change" means either (i) the public announcement by both Rating Agencies of an increase in 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 or (ii) the public announcement by either Rating Agency of an increase in the rating of the Guarantor's senior unsecured debt to at least Baa3 in the case of Moody's or to at least BBB- in the case of S&P and a confirmation by the other Rating Agency that the rating of the Guarantor's senior unsecured debt is at least Baa3 in the case of Moody's or 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.

Accordingly the next Interest Payment Date will be 6th February 2008. The first payment of interest was made on 6th February 2004. 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) Payments of principal and interest in respect of each Bond will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Bond, except that payments of interest due on an Interest Payment Date will be made only against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office of any of the Paying Agents.

(b) Payments will be made, at the option of the holder, by transfer to an account denominated in pounds sterling maintained by the payee with a bank in London, subject to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

(c) Each Bond should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) 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 the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 9) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

(d) A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 5, be entitled to any further interest or other payment if a Presentation Date is after the due date.

"Presentation Date" means (subject to Condition 9) a day (other than a Saturday or Sunday) which is or falls after the relevant due date (or, if the due date is not or was not a Business Day in London, is or falls after the next following such Business Day) and is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment.

"Business Day" means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in that place.

(e) The names of the initial Paying Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that (i) there will at all times be a Principal Paying Agent, (ii) there will at all times be a Paying Agent having a specified office in a city in continental Europe approved by the Trustee (iii) if the conclusions of the ECOFIN Council Meeting of 26th-27th November, 2000 are implemented by any European Union Directive or any law implementing or complying with, or introduced in order to conform to, such Directive, the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union other than the United Kingdom that will not be obliged to withhold or deduct tax pursuant to that Directive and (iv) so long as the Bonds are admitted to official listing on the London Stock Exchange, there will at all times be a Paying Agent having a specified office in London or such other place as the UK Listing Authority may approve. Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 14.

The statement above was the original text at the time of the issue of the Bonds in 2004. In connection with this Listing Memorandum, any reference to the "London Stock Exchange" should be read to refer to the Luxembourg Stock Exchange; any reference to "London" should be read to refer to Luxembourg; and any reference to the "UK Listing Authority" should be read to refer to the Luxembourg Stock Exchange.

7. Redemption and Purchase

(a) Except in so far as previously redeemed or purchased and in each case cancelled by the Issuer, the Bonds will be redeemed at their principal amount on 6th February, 2013.

(b) If the Issuer or, as the case may be, the Guarantor satisfies the Trustee immediately before the giving of the notice referred to below that:

(i) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or Japan or any political sub-division 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 after 4th February, 2003, on the occasion of the next payment due in respect of the Bonds either the Issuer would be required 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; and

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

the Issuer may, at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all (but not some only) of the Bonds at any time at their principal amount, together with interest accrued to but excluding the date of redemption, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer or, as the case may be, the Guarantor would be required to pay the additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph (b), the Issuer or, as the case may be, the Guarantor shall deliver to the Trustee a certificate signed by two executive directors (one of whom shall be the Finance Director) 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 Bonds 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 Bondholders and the Couponholders.

(c) The Issuer, the Guarantor or any Subsidiary of the Issuer may at any time purchase Bonds (provided that all unmatured Coupons appertaining to the Bonds are purchased with the Bonds and are attached thereto or surrendered therewith) in any manner and at any price. If purchases are made by tender, tenders must be made available to all Bondholders alike.

(d) All Bonds which are (i) redeemed or (ii) purchased by or on behalf of the Issuer, the Guarantor or any Subsidiary of the Issuer will forthwith be cancelled, together with all relative unmatured Coupons attached to the Bonds or surrendered with the Bonds, and accordingly may not be reissued or resold.

(e) Upon the expiry of any notice as is referred to in paragraph (b) above, the Issuer shall be bound to redeem the Bonds at their principal amount together with interest accrued to but excluding such date.

8. Taxation

(a) All payments in respect of the Bonds by or on behalf of 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 or levied by or on behalf of the United Kingdom or Japan, or any political sub-division of, or any authority in, or of, the United Kingdom or Japan having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

(i) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Bond or Coupon 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

Bond or Coupon or the mere receipt of any principal or interest in respect of the Bond or Coupon; or

(ii) presented for payment in the United Kingdom (in respect of a payment to be made by the Issuer) or Japan (in respect of a payment to be made by the Guarantor); or

(iii) presented for payment by or on behalf of a holder in respect of whom such withholding or deduction would not have been required had such holder made a declaration of nonresidence or other similar claim for exemption to the relevant tax authority or taken any other relevant procedural steps required in sufficient time prior to the Relevant Date to enable an exemption from withholding or deduction to be available in respect of the relevant payment; or

(iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(v) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union; or

(vi) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to payment of such additional amounts if he had presented his Bond 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 Presentation Date.

(b) In these Terms and Conditions, "Relevant Date" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money (together with interest accrued thereon) having been so received, notice to that effect has been duly given to the Bondholders by the Issuer in accordance with Condition 14.

(c) Any reference in these Terms and Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

9. Prescription

Bonds and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Bonds or, as the case may be, the Coupons, subject to the provisions of Condition 6.

10. Events of Default

(a) 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 Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified to its satisfaction), give notice to the Issuer and the Guarantor that the Bonds are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with 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 any interest in respect of the Bonds or any of them; or

(ii) if the Issuer or the Guarantor fails to perform or observe any of its other obligations under these Terms and 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 of 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 Bondholders 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 Bondholders, 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 Bondholders; 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 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 Bondholders.

(b) For the purposes of these Terms and Conditions:

(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 purposes 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) a 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 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 Subsidiary 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) Subject as provided in the Trust Deed, 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 Bonds 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 Bonds or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least onequarter in principal amount of the Bonds then outstanding, and (ii) it shall have been indemnified to its satisfaction.

(b) No Bondholder 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. Substitution

The Trustee may, without the consent of the Bondholders 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 Bonds, 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 (ii) any Subsidiary of the Issuer, subject to (a) except where the new principal debtor is the Guarantor, the Bonds being unconditionally and irrevocably guaranteed by the Guarantor, (b) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (c) certain other conditions set out in the Trust Deed being complied with.

13. Replacement of Bonds and Coupons

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed, it may, subject to all applicable laws and stock exchange requirements, be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. Notices

So long as the Bonds are listed on the official list of the Luxembourg Stock Exchange and traded on the Euro MTF Market and the rules thereof so require, all notices to the holders of the Bonds shall 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 notice shall be deemed to have been given on the date of first publication. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition 14.

15. Meetings of Bondholders, Modification, Waiver and Authorisation

(a) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Terms and Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Bonds held or represented by him or them, except that, at any meeting the business of which includes the modification of certain of the provisions of these Terms and Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.

(b) The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest or proven error.

(c) In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders 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 subdivision thereof and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim from the Issuer, the Guarantor, the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders 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.

(d) Any modification, waiver, authorisation or determination shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14.

16. Indemnification of the Trustee and its contracting with the Issuer

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action 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 Bondholders 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 6th February 2003.

17. Further Bonds

The Issuer is at liberty from time to time and without the consent of the Bondholders or Couponholders to create and issue further bonds or notes (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for 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 Bonds) constituted by the Trust Deed or any trust deed supplemental thereto or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of issue. Any further bonds or notes which are to form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any trust deed supplemental thereto shall, and any other further bonds or notes may (with the consent of the Trustee), be constituted by a trust deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of the bonds and notes of other series in certain circumstances where the Trustee so decides.

18. Governing Law

(a) The Trust Deed (including the Guarantee), the Bonds and the Coupons are governed by, and will be construed in accordance with, English law and the courts of England shall have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Bonds and/or the Coupons.

(b) The Guarantor irrevocably agrees, for the benefit of the Trustee, the Bondholders 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 Bonds 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 Bondholders 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 Bonds 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.

19. Rights of Third Parties

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Bond, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILST IN GLOBAL FORM

The following is a summary of the provisions contained in the Global Bonds, which apply to, and in some cases modify, the Terms and Conditions of the Bonds whilst the Bonds are represented by the Global Note.

1. Exchange

The Permanent Global Bond will be exchangeable in whole but not in part (free of charge to the holder and the Accountholders, as defined below) for definitive Bonds only (i) upon the happening of any of the events defined in the Trust Deed as “Events of Default”; (ii) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or (iii) if the Issuer 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 and/or Clearstream, Luxembourg which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two executive directors (one of which shall be the Finance Director) of the Issuer is given to the Trustee. Thereupon (in the case of (i) and (ii) above) the holder of the Permanent Global Bond (acting on the instructions of one or more of the Accountholders, as defined below) may give notice to the Trustee and the Issuer or the Trustee may give notice to the Issuer, or (in the case of (iii) above) the Issuer may give notice to the Trustee and the Bondholders of its intention to exchange the Permanent Global Bond for definitive Bonds on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Bond shall surrender the Permanent Global Bond to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Bond the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Bond, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Bonds.

In this section, the “**Exchange Date**” means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and on which banks are open for general business in the city in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (ii) above, in the city in which the relevant clearing system is located.

2. Payments

Payments of principal and interest in respect of the Bonds represented by a Global Bond will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of such Global Bond to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Bond by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Bonds.

3. Notices

For so long as all of the Bonds are represented by the Permanent Global Bond and such Permanent Global Bond is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 14, provided that, so long as the Bonds are listed on the Luxembourg Stock Exchange, the Luxembourg Stock Exchange so agrees. Any such notice shall be deemed to have been given to the

Bondholders on the seventh day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

4. Accountholders

For so long as all of the Bonds are represented by the Permanent Global Bond and such Permanent Global Bond is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear and/or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear and/or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including, but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal and interest on such Bonds, the right to which shall be vested, as against the Issuer, the Guarantor and the Trustee, solely in the bearer of the Permanent Global Bond in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear and/or Clearstream, Luxembourg (as the case may be) for its share of each payment made to the bearer of the Permanent Global Bond.

5. Prescription

Claims against the Issuer and the Guarantor in respect of principal and interest on the Bonds represented by the Permanent Global Bond will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 8).

6. Cancellation

Cancellation of any Bond represented by the Permanent Global Bond and required by the Terms and Conditions of the Bonds to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the Permanent Global Bond on the relevant part of the schedule thereto.

7. Euroclear and/or Clearstream, Luxembourg

References therein to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

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 46.

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 6 February 2003, the Original Issuer entered into a subscription agreement with certain banks, pursuant to which the parties had agreed, *inter alia*, the issue price of 99.121 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 6 February 2003, the net proceeds of the issue (after deduction of expenses payable by the Original Issuer) were approximately £246,677,500, which were then used for general corporate purposes.

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 original Trust Deed dated 6 February 2003, the original Principal Agency Agreement dated 4 February 2003 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 XS0161361828; the Common Code is 016136182.

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".

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