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15 December 2006

RECOMMENDED CASH OFFER FOR GALLAHER GROUP Plc

Summary

- The boards of Japan Tobacco Inc. (“JT”) and Gallaher Group Plc (“Gallaher”) are pleased to announce that they have reached agreement on the terms of a recommended cash offer to be made by JTI (UK) Management Ltd (“JTI (UK)”) (a wholly-owned subsidiary of JT) for the entire issued and to be issued share capital of Gallaher, including the Gallaher Shares underlying the Gallaher ADSs. It is intended that the Offer will be implemented by way of a court approved scheme of arrangement under section 425 of the Companies Act.
- Under the terms of the Offer, Gallaher Shareholders will receive 1,140 pence in cash for each Gallaher Share, which results in 4,560 pence in cash for each Gallaher ADS (each Gallaher ADS represents 4 Gallaher Shares).
- The Offer values the existing ordinary issued share capital of Gallaher at approximately £7.5 billion (\$14.7 billion).
- The Offer represents a premium of:
 - approximately 27.1 per cent. to the average closing middle market price of 897 pence per Gallaher Share for the three months prior to 6 December 2006, being the business day on which Gallaher made an announcement after the close of trading that it was in discussions regarding a potential offer for the company; and
 - approximately 16.4 per cent. to the closing middle market price of 979 pence per Gallaher Share on the same date.
- The directors of Gallaher, who have been so advised by Dresdner Kleinwort and Greenhill, consider the terms of the Offer to be fair and reasonable. In providing their advice, Dresdner Kleinwort and Greenhill have taken into account the commercial assessments of the directors of Gallaher. Accordingly, the directors of Gallaher intend unanimously to recommend Gallaher Shareholders to vote in favour of the Scheme and the resolutions at the Court Meeting and the EGM.
- JTI (UK) has received irrevocable undertakings to vote in favour of the Scheme and the resolutions at the Court Meeting and the EGM from the directors of Gallaher in respect of 686,011 Gallaher Shares representing, in aggregate, 0.1 per cent. of Gallaher’s issued share capital. These undertakings remain binding in the event of a competing offer being made for Gallaher.
- JT is the world’s third largest global tobacco company, selling internationally recognised cigarette brands in more than 120 countries. JT is the leading tobacco company in Japan, selling eight out of the top ten cigarette brands in the country. JT also operates a pharmaceuticals 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 in Japan.
- The tobacco division of JT operates internationally principally through its subsidiary, JT International, which was created following the acquisition of the non-US tobacco operations of RJR Nabisco, Inc. in 1999. JT International manages a portfolio of

leading international cigarette brands including Mild Seven, Winston, Camel and Salem (JT's "Global Flagship Brands").

- Gallaher is the world's fifth largest global tobacco company. The Group holds leading positions in Austria, Kazakhstan, the Republic of Ireland, Russia, Sweden and the United Kingdom. Gallaher's strategic brand portfolio comprises Benson & Hedges, LD, Mayfair, Memphis, Ronson, Silk Cut, Sobranie, Sovereign, Hamlet and Old Holborn. Gallaher is also involved in the distribution of tobacco and other products in certain markets in Europe.
- JT believes that the acquisition of Gallaher will satisfy a number of JT's strategic objectives:
 - strengthen JT's position as the world's third largest global cigarette manufacturer, allowing JT to become a more balanced global tobacco group, with a combined annual volume of approximately 600 billion sticks and provide JT with the benefits associated with a stronger position in various national markets in Europe and the CIS region;
 - complement JT's current international presence and combine Gallaher's portfolio of strategically important cigarette brands, Benson & Hedges, LD, Mayfair, Memphis, Ronson, Silk Cut, Sobranie and Sovereign, with JT's complementary Global Flagship Brands;
 - provide JT with greater Virginia blend capabilities and other tobacco products, including Gallaher's strategic brands, Hamlet (cigar) and Old Holborn (handrolling tobacco), as well as Gallaher's snus brands, including Gustavus, LD and Level;
 - enhance JT's profit margins through greater exposure to high-margin markets and economies of scale;
 - generate significant synergies through top line growth and operational efficiencies derived from the combination of the two businesses;
 - improve the efficiency of JT's capital structure through greater leverage; and
 - achieve a return on capital employed in excess of JT's weighted average cost of capital by the fourth full year following acquisition and enhance JT's earnings per share (before amortisation of goodwill) in the first full year following acquisition.¹

Commenting on the Offer, Mr. Hiroshi Kimura, President and Chief Executive Officer of JT, said:

"We are delighted that the Gallaher Board will unanimously recommend our offer to its shareholders. JT and Gallaher complement each other perfectly. Combining the world class brands and expertise of JT and Gallaher will create a leading global tobacco company with strong positions in both Europe and the CIS region.

"The integration of our business operations and our portfolios will position our international tobacco business for continued growth and will enhance customer satisfaction worldwide. We look forward to welcoming Gallaher's management and employees into the enlarged JT group."

¹ This statement regarding earnings enhancement is not a profit forecast and should not be interpreted to mean that JT's future earnings per share will necessarily exceed or match those of any prior year.

Commenting on the Offer, John Gildersleeve, Chairman of Gallaher, said:

“Our successful growth strategy has enabled Gallaher to achieve a significant position in the global tobacco market. With the hard work and commitment of all our employees, we have been particularly successful in a number of key countries and have delivered substantial returns for Gallaher’s shareholders.

“The Offer from JT reflects Gallaher’s achievements and provides shareholders with the ability to realise their investment for cash at an attractive value, and creates an opportunity for the business as a whole. The importance of scale, a broad geographic coverage and a leading and diversified brand portfolio are becoming increasingly apparent.”

Merrill Lynch is acting as financial adviser and corporate broker to JT and JTI (UK). Dresdner Kleinwort and Greenhill are acting as lead financial advisers to Gallaher. Goldman Sachs is also acting as financial adviser to Gallaher. Dresdner Kleinwort is acting as corporate broker to Gallaher.

This summary should be read in conjunction with the attached announcement. Appendix V to this announcement contains the definitions of certain terms used in this summary.

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There will be a press conference at 8.00 a.m. (London time) today in Tokyo for the Japanese press and a teleconference at noon (London time) for the international press. Participants will be contacted directly with further details.

This announcement does not constitute or form any part of an offer or invitation to sell or purchase any securities or solicitation of an offer to buy any securities pursuant to the Offer or otherwise. The Offer will be made solely by means of the Scheme Document and the acceptance forms accompanying the Scheme Documentation, which will contain the full terms and conditions of the Offer. Gallaher Shareholders and Gallaher ADS Holders are advised to read the formal documentation in relation to the Offer carefully, once it has been dispatched.

Merrill Lynch is acting exclusively for JT and JTI (UK) in connection with the Offer and no-one else and will not be responsible to anyone other than JT and JTI (UK) for providing the protections afforded to clients of Merrill Lynch or for providing advice in relation to the Offer or any other matters referred to in this announcement.

Dresdner Kleinwort and Greenhill are acting exclusively for Gallaher and for no-one else in connection with the Offer and will not be responsible to anyone other than Gallaher for providing the protections afforded to clients of Dresdner Kleinwort and Greenhill or for providing advice in relation to the Offer or any other matters referred to in this announcement.

Goldman Sachs International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as financial adviser to Gallaher in connection with the Offer and is not acting for any other person in relation to the Offer and will not be responsible to anyone other than Gallaher for providing the protections afforded to clients of Goldman Sachs International, nor for providing advice in relation to the Offer or any matters referred to herein.

The distribution of this announcement in jurisdictions other than the UK may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the UK should inform themselves about, and observe, any applicable requirements. This announcement has been prepared for the purpose of complying with English law and the City Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of jurisdictions outside the UK.

Notice to US investors in Gallaher

The Offer relates to the shares of a UK company, is subject to UK disclosure requirements (which are different from those of the US) and is proposed to be made by means of a scheme of arrangement provided for under English company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules under the US Exchange Act. Accordingly, the Offer is subject to the disclosure requirements and practices applicable in the UK to schemes of arrangement which differ from the disclosure requirements of the US tender offer rules. Financial information included in this announcement has been prepared, unless specifically stated otherwise, in accordance with accounting standards applicable in the UK and Japan and thus may not be comparable to the financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the US. If JTI (UK) exercises its right to implement the Offer by way of a takeover offer, the Offer will be made in compliance with applicable US laws and regulations.

Forward looking statements

This announcement includes “forward-looking statements” under United States securities laws. These statements are based on the current expectations of the management of

Gallaher and JT and are naturally subject to uncertainty and changes in circumstances. The forward-looking statements contained herein include statements about the expected effects on JT of the Offer, the expected timing and scope of the Offer, anticipated earnings enhancements, estimated cost savings and other synergies, costs to be incurred in achieving synergies, potential disposals and other strategic options and all other statements in this announcement other than historical facts. Forward-looking statements include, without limitation, statements typically containing words such as “intends”, “expects”, “anticipates”, “targets”, “estimates” and words of similar import. Although Gallaher and JT believe that the expectations reflected in such forward-looking statements are reasonable, Gallaher and JT can give no assurance that such expectations will prove to have been correct. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, the satisfaction of the conditions to the Offer, and JT’s ability to successfully integrate the operations and employees of Gallaher, as well as additional factors, such as: health concerns relating to the use of tobacco products; local and global political and economic conditions; foreign exchange rate fluctuations and interest rate fluctuations (including those from any potential credit rating decline); legal or regulatory developments and changes, including, without limitation, tax increases and restrictions on the sale, marketing and usage of tobacco products, governmental investigations and privately imposed smoking restrictions; the uncertainties of litigation; JT’s ability to further diversify its business beyond the tobacco industry; JT’s ability successfully to expand internationally and manage growth; the impact of any acquisitions or similar transactions; competitive product and pricing pressures and declining demand for tobacco products; production or distribution disruptions and changes in the supply and cost of tobacco; increasing dependence on sales in emerging markets; and non-payment of receivables by distributors. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Neither Gallaher nor JT undertake any obligation to update publicly or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

Dealing disclosure requirements

Under the provisions of Rule 8.3 of the City Code, if any person is, or becomes, “interested” (directly or indirectly) in 1 per cent. or more of any class of “relevant securities” of Gallaher, all “dealings” in any “relevant securities” of Gallaher (including by means of an option in respect of, or a derivative referenced to, any such “relevant securities”) must be publicly disclosed by no later than 3.30 p.m. (London time) on the London business day following the date of the relevant transaction. This requirement will continue until the date on which the Offer and/or Scheme becomes effective, lapses or is otherwise withdrawn or on which the “offer period” otherwise ends. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire an “interest” in “relevant securities” of Gallaher, they will be deemed to be a single person for the purpose of Rule 8.3.

Under the provisions of Rule 8.1 of the City Code, all “dealings” in “relevant securities” of Gallaher by JT or Gallaher, or by any of their respective “associates”, must be disclosed by no later than 12.00 noon (London time) on the London business day following the date of the relevant transaction.

A disclosure table, giving details of the companies in whose “relevant securities” “dealings” should be disclosed, and the number of such securities in issue, can be found on the Panel’s website at www.thetakeoverpanel.org.uk.

“Interests in securities” arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person will be treated as having an “interest” by virtue of the ownership or control of securities, or by virtue of any option in respect of, or derivative referenced to, securities.

Terms in quotation marks are defined in the City Code, which can also be found on the Panel’s website. If you are in any doubt as to whether or not you are required to disclose a “dealing” under Rule 8, you should consult the Panel.

strong portfolio of brands, including Mild Seven, Winston, Camel and Salem (JT's "Global Flagship Brands").

Through this strategy, JT has successfully developed an attractive portfolio of brands, deployed its brand portfolio across core international markets and significantly improved its operational cost base. However, JT's management has concluded that increased scale and market penetration will accelerate the implementation of JT's strategy and enhance its position further as a leading global tobacco company.

Gallaher will strengthen JT's position as the world's third largest global cigarette manufacturer, allowing JT to become a more balanced global tobacco group, with a combined annual volume of approximately 600 billion sticks, and provide JT with the benefits associated with a stronger position in various national markets in Europe and the CIS region.

JT and Gallaher have complementary geographic profiles. Gallaher's cigarette division holds either a number one or number two market position in the United Kingdom, Austria, Kazakhstan, the Republic of Ireland and Sweden and attractive market positions in Russia and Ukraine. Given JT's strong market positions in Japan, Taiwan, Malaysia, the CIS region, Spain, France, Italy, the Netherlands and Iran, the acquisition of Gallaher will create a geographically balanced international group with enhanced growth opportunities.

The combination of Gallaher's portfolio of strategically important cigarette brands, Benson & Hedges, LD, Mayfair, Memphis, Ronson, Silk Cut, Sobranie and Sovereign, with JT's Global Flagship Brands, will give JT a competitive and balanced portfolio across a number of markets and price segments.

Gallaher will provide JT with greater Virginia blend capabilities and other tobacco products, including Gallaher's strategic brands, Hamlet (cigar) and Old Holborn (handrolling tobacco), as well as Gallaher's snus brands, including Gustavus, LD and Level.

JT believes that the combination of Gallaher and JT's businesses will enhance JT's profit margins through greater exposure to high-margin markets and economies of scale and generate significant synergies through top line growth and operational efficiencies.

JT intends to fund the acquisition of Gallaher using a combination of JT's existing cash resources and debt, resulting in a more efficient pro forma capital structure. JT believes that the acquisition of Gallaher will achieve a return on capital employed in excess of JT's weighted average cost of capital by the fourth full year following acquisition and will enhance JT's earnings per share (before amortisation of goodwill) in the first full year following acquisition.²

4. Recommendation

The directors of Gallaher, who have been so advised by Dresdner Kleinwort and Greenhill, consider the terms of the Offer to be fair and reasonable. In providing their advice, Dresdner Kleinwort and Greenhill have taken into account the commercial assessments of the directors of Gallaher. Accordingly, the directors of Gallaher intend unanimously to recommend Gallaher Shareholders to vote in favour of the Scheme and the resolutions at the Court Meeting and the EGM, as they have irrevocably undertaken to do in respect of their own beneficial shareholdings.

5. Background to and reasons for the recommendation

Gallaher has built an important position in the global tobacco market, with particular strengths in a number of countries. Gallaher has invested its profits from four core markets – Austria,

² This statement regarding earnings enhancement is not a profit forecast and should not be interpreted to mean that JT's future earnings per share will necessarily exceed or match those of any prior year.

Sweden, Republic of Ireland and the UK – to fund expansion across Europe, the CIS, Africa and Asia Pacific. When Gallaher listed as a publicly quoted company in 1997, the significant majority of the company's profits originated from the UK and Republic of Ireland. Since then, the implementation of its growth strategy has enabled Gallaher successfully to expand its operations, demonstrated by the fact that it sold products in some 80 countries during the first half of 2006.

This growth strategy delivered a Total Shareholder Return of 507 per cent. from the date of Gallaher's demerger from American Brands (30 May 1997) to 6 December 2006 (being the business day on which Gallaher made an announcement after the close of trading that it was in discussions regarding a potential offer for the company). The Board of Gallaher believes that Gallaher's business will be better able to compete in the highly competitive global tobacco market as part of a significantly larger entity with increased scale, an enhanced portfolio of brands and efficiency benefits.

In considering the terms of the Offer, and in addition to the points above, the Board has taken into account a number of factors, including:

- the Offer represents an opportunity for shareholders to realise their investment in Gallaher for cash at an attractive value;
- the terms of the acquisition represent a premium of approximately 27.1 per cent. to the average closing middle market price of 897 pence per Gallaher Share for the three months prior to 6 December 2006, being the business day on which Gallaher made an announcement after the close of trading that it was in discussions regarding a potential offer for the company;
- the enterprise value of Gallaher which is implied by the Offer represents a multiple of approximately 13.0x EBITDA (excluding exceptional items) for the year ended 31 December 2005; and
- the consideration payable under the Offer represents a multiple of approximately 18.1x Gallaher's earnings per share before exceptional items and amortisation for the year ended 31 December 2005.

6. Irrevocable undertakings

JTI (UK) has received irrevocable undertakings to vote in favour of the Scheme and the resolutions at the Court Meeting and EGM from the directors of Gallaher in respect of their entire holdings of 686,011 Gallaher Shares representing, in aggregate, 0.1 per cent. of Gallaher's issued share capital. These undertakings remain binding even in the event of a competing offer being made for Gallaher. Further details of these irrevocable undertakings are set out in Appendix III to this announcement.

7. Information on JT

JT is the world's third largest global tobacco company, selling internationally recognised cigarette brands in more than 120 countries. JT is the leading tobacco company in Japan, selling eight out of the ten top cigarette brands in the country. JT also operates a pharmaceuticals 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 in the domestic market.

The tobacco division of JT operates internationally through its subsidiary, JT International, which was created following the acquisition of the non-US tobacco operations of RJR Nabisco, Inc. in 1999. JT International manages a portfolio of leading international cigarette brands, including JT's Global Flagship Brands.

For the year ended 31 March 2006, JT reported a consolidated profit on ordinary activities before taxation and minority expenses of ¥301 billion (£1.3 billion) on turnover of ¥4,638

billion (£20.1 billion) and had total assets as at that date of ¥3,037 billion (£13.1 billion). In its unaudited results for the first half ended 30 September 2006, JT reported a consolidated profit on ordinary activities before taxation and minority expenses of ¥201 billion (£0.9 billion) on turnover of ¥2,378 billion (£10.3 billion) and had total assets as at that date of ¥3,263 billion (£14.1 billion). JT is listed on the Tokyo Stock Exchange. As at 14 December 2006, JT had a market capitalisation of approximately ¥5,547 billion (£24.0 billion).

8. Information on JTI (UK)

JTI (UK) is a UK incorporated private limited company and a wholly owned subsidiary of JT. JTI (UK) was formed at the direction of JT specifically for the purpose of acquiring Gallaher. JTI (UK) has not traded since its incorporation nor has it entered into any obligation other than in connection with the Offer. Further details of JTI (UK) will be contained in the Scheme Document.

9. Information on Gallaher

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

Gallaher's operations are classified into four regions: the UK, Europe, the CIS and the Rest of the World.

Gallaher is the number two in the UK cigarette market, with Benson & Hedges, Silk Cut and Mayfair underpinning its strong position. Through Hamlet, Gallaher leads the UK cigar market and, through Old Holborn and Amber Leaf, Gallaher holds the number two position in the UK handrolling tobacco market.

In Europe, Gallaher holds the number one cigarette market position in Austria (underpinned by Memphis) and in the Republic of Ireland (with Benson & Hedges and Silk Cut). Gallaher has expanded its presence across the region, especially in central and eastern Europe where it has developed new positions, mainly with Ronson and LD. In addition, Gallaher owns an Austrian tobacco distribution operation, a majority shareholding in a German vending machine company and a minority shareholding in a pan-European distribution company (Lekkerland).

Gallaher's CIS division has strong cigarette market positions in Russia (where LD is a leading brand), Kazakhstan (where Sovereign is the number one brand) and Ukraine.

The Rest of World division primarily includes Scandinavia (with the leading cigarette market position in Sweden), the Baltic Region, Poland, Asia Pacific, Africa and the Middle East.

JT has confirmed to Gallaher its present intention to maintain the Gallaher corporate brand name and the corporate brand names "Austria Tabak" and "Liggett-Ducat".

For the year ended 31 December 2005, Gallaher reported a consolidated profit before taxation, amortisation and exceptional items of £570 million on sales of £8,214 million and had total assets as at that date of £3,874 million. In its unaudited results for the six months ended 30 June 2006, Gallaher reported a consolidated profit before taxation, amortisation and exceptional items of £275 million on sales of £4,028 million and had total assets as at that date of £3,941 million.

Gallaher has today released a trading statement in respect of the first 10 months of 2006. The statement concludes: "The strength of the Group's performance during the period has been underpinned by the spread of its markets. Overall current trading is in line with management expectations as the Group's strong performance in the CIS is compensating for weaker trading conditions and increased investment in the Rest of the World division, while

Gallaher's UK and European divisions are performing in line with management expectations." The full text of the trading statement is set out in Appendix IV.

Gallaher Shares are traded on the London Stock Exchange and Gallaher ADSs are traded on the New York Stock Exchange.

10. Structure of the Offer

It is intended that the Offer will be implemented by means of a scheme of arrangement between Gallaher and the Scheme Shareholders under section 425 of the Companies Act. The procedure involves an application by Gallaher to the Court to sanction the Scheme and to confirm the cancellation of the Scheme Shares, in consideration for which Scheme Shareholders, including holders of Gallaher ADSs, will receive cash (as described in paragraph 2 above).

To become effective, the Scheme requires, amongst other things, the approval of a majority in number of the Scheme Shareholders present and voting in person or by proxy at the Court Meeting, representing not less than 75 per cent. in value of the Scheme Shares held by such Scheme Shareholders, together with the sanction of the Court and the passing of the resolutions necessary to implement the Scheme at the EGM. The Scheme will only become effective upon delivery to the Registrar of Companies of a copy of the Court Order and the registration of the Court Order. Upon the Scheme becoming effective, it will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the EGM. The Scheme is expected to become effective by the end of April 2007.

Under the Scheme, each Scheme Share will be cancelled and new Gallaher Shares will be issued fully paid to JTI (UK). In consideration for the cancellation of their Scheme Shares, holders of Scheme Shares will receive consideration under the terms of the Offer as outlined above.

The Offer will be made on the terms and subject to the conditions set out in this announcement and to be set out in the Scheme Documentation, including the obtaining of relevant regulatory approvals, approvals by Gallaher Shareholders and the sanction of the Scheme by the Court. The Scheme Document will include full details of the Scheme, together with notices of the Court Meeting and the EGM and the expected timetable. The Scheme Documentation will be despatched to Gallaher Shareholders and, for information only, to holders of options granted under the Gallaher Share Schemes, in due course.

Holders of Gallaher ADSs will be given the opportunity to instruct the depository of the Gallaher ADS programme how to vote the Gallaher Shares underlying their Gallaher ADSs. Gallaher ADS holders will receive their consideration in US dollars from the depository through the Gallaher ADS programme in accordance with the terms of the Gallaher ADS deposit agreement upon surrender of their ADSs. Following the Effective Date of the Scheme, it is expected that the Gallaher ADS programme will be terminated.

11. Management and employees

JT attaches great importance to the skills and experience of the existing management and employees of Gallaher. JT's and Gallaher's businesses are complementary on a geographic basis and JT expects that Gallaher employees will play an important role in the enlarged group. The existing employment rights of all employees of Gallaher will be fully safeguarded and accrued rights to pension benefits protected in accordance with statutory requirements.

It is expected that, following the Effective Date, certain members of the Senior Management Team will be offered employment with the enlarged JT group on terms to be agreed between JT and the individuals concerned. Certain other members of the Senior Management Team may be asked specifically to assist in the integration of the businesses and it has been agreed between JT and Gallaher that these individuals will receive a guaranteed bonus (subject to pro-rating for the period of employment from 1 January 2007) of the same amount as the

bonus paid (as determined by Gallaher's Remuneration Committee on the basis of the actual results for 2006) to that individual under Gallaher's Senior Executive Annual Bonus Plan for 2006. It has not yet been decided which members of the Senior Management Team will be offered employment in the enlarged JT group or asked specifically to assist with integration of the businesses. Dresdner Kleinwort and Greenhill, financial advisers to Gallaher, consider the terms of these arrangements to be fair and reasonable as far as shareholders who are not members of the Senior Management Team are concerned.

It is JT's intention that, following the Effective Date, each Gallaher group member will continue to support the pension schemes sponsored by that member. JT acknowledges that each relevant member of the Gallaher group will comply with its pension obligations in accordance with statutory requirements and, in relation to the two UK defined benefit plans, the existing agreements between Gallaher and the trustees as disclosed to JT.

12. Gallaher Share Schemes

Appropriate proposals will be made to participants in the Gallaher Share Schemes in due course. Details of these proposals will be set out in the Scheme Document and in separate letters to be sent to participants in the Gallaher Share Schemes.

The outstanding awards under Gallaher's Performance Share Plan will vest in accordance with the performance targets on a time pro-rated basis upon the Effective Date. However, in recognition of the fact that, following the Effective Date, Gallaher will not be able to continue the plan, JTI (UK) will provide cash compensation to the extent of any pro-rating for the outstanding awards under the plan. The amount of the cash compensation payable by JTI (UK) will not exceed what would otherwise have been the additional cost to JTI (UK) of acquiring the Gallaher shares had the awards not been pro-rated and will be paid to all participants irrespective of whether or not they have a continuing role in the Gallaher group. The extent to which the awards vest will be determined in accordance with the performance targets applicable to them; there will be no compensation for awards that do not vest as a result of the non-achievement of the performance targets. Dresdner Kleinwort and Greenhill, financial advisers to Gallaher, consider the terms of these arrangements to be fair and reasonable as far as shareholders who are not participants in the Gallaher Performance Share Plan are concerned.

13. Financing

The cash consideration payable by JTI (UK) under the terms of the Offer will be funded using a combination of JT's existing resources and loan facilities arranged by Merrill Lynch for the purposes of the Offer.

Merrill Lynch, financial adviser to JT and JTI (UK), is satisfied that sufficient resources are available to satisfy the full cash consideration payable to Gallaher Shareholders under the terms of the Offer.

14. Implementation Agreement and Inducement Fee

JT and Gallaher have entered into an Implementation Agreement which sets out, amongst other things, various matters in relation to the implementation of the Offer, the conduct of Gallaher's business prior to the Effective Date or lapse of the Offer, an inducement fee and a non-solicitation undertaking.

Under the Implementation Agreement, Gallaher will be required to pay JTI (UK) an amount of £52.6 million in circumstances where (i) an independent competing offer is announced for Gallaher before the Offer lapses or is withdrawn or is not made and that independent competing offer (or any other independent competing offer for Gallaher which is announced before the Offer or, if later, that independent competing offer lapses, is withdrawn or not made) subsequently becomes or is declared unconditional in all respects or otherwise completes or (ii) the Gallaher board does not unanimously recommend the Offer or withdraws

or adversely modifies for whatever reason its recommendation or agrees to recommend an independent competing offer.

Gallaher has agreed that it will not, directly or indirectly, solicit, initiate or otherwise seek to procure any independent competing offer.

JT has given certain undertakings in relation to antitrust clearances.

The Implementation Agreement will terminate in certain circumstances (without prejudice to certain obligations including the payment of the inducement fee), including if any of the Conditions is (or become) incapable of satisfaction, if a person not acting in concert with JT unconditionally acquires more than fifty per cent. of Gallaher's Shares or if the Effective Date has not occurred by 8 June 2007.

15. Disclosure of interests in Gallaher

Save for the irrevocable undertakings referred to paragraph 6 above, neither JT, JTI (UK) nor any of the directors of JT or JTI (UK) nor, so far as JT or JTI (UK) are aware, any party acting in concert with JT or JTI (UK), has any interest in, or right to subscribe for, any Gallaher Shares or any Gallaher ADSs, nor does any such person have any short position or any arrangement in relation to Gallaher Shares or any Gallaher ADSs. For these purposes "arrangement" includes any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery and borrowing and lending of Gallaher Shares or any Gallaher ADSs. An "arrangement" also includes any indemnity or option arrangement, any agreement or any understanding, formal or informal, of whatever nature, relating to Gallaher Shares or any Gallaher ADSs which may be an inducement to deal or refrain from dealing in such securities.

It has not been possible, by the date of this announcement, to ascertain the interests in Gallaher Shares (if any) or Gallaher ADSs (if any) of all of JTI (UK) and JT's concert parties. Further enquiries will be completed prior to publication of the Scheme Document. If such enquiries reveal any such interests, they will be included in the Scheme Document or announced earlier if so requested by the Panel.

"Interests in securities" is further explained in paragraph 16 below.

16. Dealing disclosure requirements

Under the provisions of Rule 8.3 of the City Code, if any person is, or becomes, "interested" (directly or indirectly) in 1 per cent. or more of any class of "relevant securities" of Gallaher, all "dealings" in any "relevant securities" of Gallaher (including by means of an option in respect of, or a derivative referenced to, any such "relevant securities") must be publicly disclosed by no later than 3.30 p.m. (London time) on the London business day following the date of the relevant transaction. This requirement will continue until the date on which the Scheme becomes effective, lapses or is otherwise withdrawn or on which the "offer period" otherwise ends. If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire an "interest" in "relevant securities" of Gallaher, they will be deemed to be a single person for the purpose of Rule 8.3.

Under the provisions of Rule 8.1 of the City Code, all "dealings" in "relevant securities" of Gallaher by JT or Gallaher, or by any of their respective "associates", must be disclosed by no later than 12.00 noon (London time) on the London business day following the date of the relevant transaction.

A disclosure table, giving details of the companies in whose "relevant securities" "dealings" should be disclosed, and the number of such securities in issue, can be found on the Panel's website at www.thetakeoverpanel.org.uk.

"Interests in securities" arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person

will be treated as having an “interest” by virtue of the ownership or control of securities, or by virtue of any option in respect of, or derivative referenced to, securities.

Terms in quotation marks are defined in the City Code, which can also be found on the Panel’s website. If you are in any doubt as to whether or not you are required to disclose a “dealing” under Rule 8, you should consult the Panel.

17. General

JTI (UK) reserves the right, with the consent of the Panel, to elect to implement the Offer by making a takeover offer for the entire issued and to be issued share capital of Gallaher.

If JTI (UK) elects to implement the Offer by a takeover offer, that offer will be implemented on the same terms (subject to appropriate amendments), so far as applicable, as those which would apply to the Scheme. Furthermore, if sufficient acceptances of such offer are received and/or sufficient Gallaher Shares are otherwise acquired, it is the intention of JTI (UK) to apply the provisions of Schedule 2 to the Takeovers Directive (Interim Implementation) Regulations 2006 to acquire compulsorily any outstanding Gallaher Shares to which such offer relates.

It is intended that, following the Offer becoming effective and subject to applicable requirements of the London Stock Exchange and the UK Listing Authority, JTI (UK) will procure that Gallaher will apply to the London Stock Exchange and the UK Listing Authority for cancellations, respectively, of the admission to trading of the Gallaher Shares on the London Stock Exchange’s market for listed securities and of the listing of the Gallaher Shares on the Official List. In addition, it is expected that, following the Offer becoming effective, the Gallaher ADSs will be delisted from the New York Stock Exchange and the Gallaher ADSs and the underlying Gallaher Shares will be de-registered with the US Securities and Exchange Commission.

The Offer will be subject to the conditions set out in Appendix I. Appendix II contains the bases and sources of certain information contained in this announcement. The definitions of certain terms used in this announcement are set out in Appendix V.

This announcement does not constitute or form any part of an offer or invitation to sell or purchase any securities or solicitation of an offer to buy any securities pursuant to the Offer or otherwise. The Offer will be made solely by means of the Scheme Document and the acceptance forms accompanying the Scheme Documentation, which will contain the full terms and conditions of the Offer.

Merrill Lynch is acting exclusively for JT and JTI (UK) in connection with the Offer and no-one else and will not be responsible to anyone other than JTI (UK) and JT for providing the protections afforded to clients of Merrill Lynch or for providing advice in relation to the Offer or any other matters referred to in this announcement.

Dresdner Kleinwort and Greenhill are acting exclusively for Gallaher and for no-one else in connection with the Offer and will not be responsible to anyone other than Gallaher for providing the protections afforded to clients of Dresdner Kleinwort and Greenhill, or for providing advice in relation to the Offer or any other matters referred to in this announcement.

Goldman Sachs International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as financial adviser to Gallaher in connection with the Offer and is not acting for any other person in relation to the Offer and will not be responsible to anyone other than Gallaher for providing the protections afforded to clients of Goldman Sachs International, nor for providing advice in relation to the Offer or any matters referred to herein.

The distribution of this announcement in jurisdictions other than the UK may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the

UK should inform themselves about, and observe, any applicable requirements. This announcement has been prepared for the purpose of complying with English law and the City Code and the information disclosed may not be the same as that which would have been disclosed if this announcement had been prepared in accordance with the laws of jurisdictions outside the UK.

Notice to US investors in Gallaher:

The Offer relates to the shares of a UK company, is subject to the UK disclosure requirements (which are different from those of the US) and is proposed to be made by means of a scheme of arrangement provided for under English company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules under the US Exchange Act. Accordingly, the Offer is subject to the disclosure requirements and practices applicable in the UK to schemes of arrangement which differ from the disclosure requirements of the US tender offer rules. Financial information included in this announcement has been prepared, unless specifically stated otherwise, in accordance with accounting standards applicable in the UK and Japan and thus may not be comparable to the financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the US. If JTI (UK) exercises its right to implement the Offer by way of a takeover offer, the Offer will be made in compliance with applicable US laws and regulations.

Forward looking statements

This announcement includes “forward-looking statements” under United States securities laws. These statements are based on the current expectations of the management of Gallaher and JT and are naturally subject to uncertainty and changes in circumstances. The forward-looking statements contained herein include statements about the expected effects on JT of the Offer, the expected timing and scope of the Offer, anticipated earnings enhancements, estimated cost savings and other synergies, costs to be incurred in achieving synergies, potential disposals and other strategic options and all other statements in this announcement other than historical facts. Forward-looking statements include, without limitation, statements typically containing words such as “intends”, “expects”, “anticipates”, “targets”, “estimates” and words of similar import. Although Gallaher and JT believe that the expectations reflected in such forward-looking statements are reasonable, Gallaher and JT can give no assurance that such expectations will prove to have been correct. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, the satisfaction of the conditions to the Offer, and JT’s ability to successfully integrate the operations and employees of Gallaher, as well as additional factors, such as: health concerns relating to the use of tobacco products; local and global political and economic conditions; foreign exchange rate fluctuations and interest rate fluctuations (including those from any potential credit rating decline); legal or regulatory developments and changes, including, without limitation, tax increases and restrictions on the sale, marketing and usage of tobacco products, governmental investigations and privately imposed smoking restrictions; the uncertainties of litigation; JT’s ability to further diversify its business beyond the tobacco industry; JT’s ability successfully to expand internationally and manage growth; the impact of any acquisitions or similar transactions; competitive product and pricing pressures and declining demand for tobacco products; production or distribution disruptions and changes in the supply and cost of tobacco; increasing dependence on sales in emerging markets; and non-payment of receivables by distributors. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Neither Gallaher nor JT undertake any obligation to update publicly or revise forward-looking

statements, whether as a result of new information, future events or otherwise, except to the extent legally required.

APPENDIX I

CONDITIONS TO THE IMPLEMENTATION OF THE OFFER

1. The Offer will be conditional upon the Scheme becoming unconditional and becoming effective, subject to the City Code, by no later than 8 June 2007, or such later date (if any) as JTI (UK), Gallaher and the Court may agree.
2. The Scheme will be conditional upon:
 - (a) approval of the Scheme by a majority in number representing 75 per cent. or more in value of the Scheme Shareholders (or the relevant class or classes thereof) present and voting, either in person or by proxy, at the Court Meeting or at any adjournment of that meeting;
 - (b) all resolutions necessary to approve and implement the Scheme as set out in the notice of the EGM in the Scheme Document (including, without limitation) the EGM Resolutions being duly passed by the requisite majority at the EGM or at any adjournment of that meeting; and
 - (c) the sanction (without modification or with modification as agreed by Gallaher and JTI (UK)) of the Scheme and the confirmation of the Capital Reduction involved therein by the Court and:
 - (i) the delivery of an office copy of the Court Order and the minute of such reduction attached thereto to the Registrar of Companies; and
 - (ii) the registration, in relation to the Capital Reduction, of the Court Order by the Registrar of Companies.
3. In addition, JTI (UK) and Gallaher have agreed that, subject to paragraph 4 below, the Offer will be conditional upon the following Conditions and, accordingly, the delivery of an office copy of the Court Order and the minute of such reduction attached thereto will not be delivered to the Registrar of Companies and, in relation to the Capital Reduction, the Court Order will not be registered by the Registrar of Companies, unless such Conditions (as amended if appropriate) have been satisfied (and continue to be satisfied pending the commencement of the Scheme Hearing) or waived:
 - (a) the European Commission adopting a decision, unless the terms of such decision are material in the context of the Offer and are not satisfactory to JTI (UK), that it does not intend to initiate proceedings under Article 6(1)(c) of Council Regulation (EC) No.139/2004 (the *EC Merger Regulation*) in relation to the proposed acquisition of control of Gallaher by JTI (UK) or JT (*Acquisition*) (or that part of the Acquisition that is not referred to a competent member state authority), or the European Commission being deemed to have decided so in accordance with Article 10(6) of the EC Merger Regulation;
 - (b) in the event that the European Commission makes a referral to one or more competent member state authorities under Article 9 of the EC Merger Regulation in connection with the Acquisition, such competent authorities each having issued any decision, finding or declaration, unless the terms thereof are material in the context of the Offer and are not satisfactory to JTI (UK), approving the Acquisition (or the part referred to them) and permitting its closing without any breach of applicable laws;

- (c) all Authorisations, which are necessary or are reasonably considered necessary or appropriate by JTI (UK) in any relevant jurisdiction for or in respect of the Offer or the Acquisition or proposed acquisition of any shares or other securities in, or control or management of any member of the Wider Gallaher Group by JTI (UK) or JT or the carrying on by any member of the Wider Gallaher Group of its business, having been obtained, in terms and in a form reasonably satisfactory to JTI (UK), from all appropriate Third Parties or from any persons or bodies with whom any member of the Wider Gallaher Group has entered into contractual arrangements in any case (other than an antitrust or merger control authority) to an extent which would be material in the context of the Wider Gallaher Group taken as a whole and such Authorisations remaining in full force and effect and there being no notice or intimation of any intention to revoke, suspend, restrict, modify or not to renew any of the same in connection with the Offer or any other matter arising from the Acquisition;
- (d) all notifications and filings which are necessary or are reasonably considered appropriate by JTI (UK) having been made, all appropriate waiting and other time periods (including any extensions of such waiting and other time periods) under any applicable laws or regulations of any relevant jurisdiction having expired, lapsed or been terminated (as appropriate), all statutory or regulatory obligations in any relevant jurisdictions having been complied with and all statutory and regulatory clearances in any relevant jurisdiction having been obtained in terms and in a form satisfactory to JTI (UK), in each case in connection with the Offer or any matter arising from the Acquisition, unless otherwise waived by JTI (UK), and no temporary restraining order, preliminary or permanent injunction or other order threatened or issued and being in effect by a court or other Third Party of competent jurisdiction which has the effect of making the Offer illegal or otherwise prohibiting the consummation of the Offer or any matter arising from the Acquisition;
- (e) no Third Party having intervened (as defined below) and there not continuing to be outstanding any statute, regulation or order of any Third Party in each case which is material in the context of the Offer and which, in each case to an extent which is material in the context of the Wider JT Group or Wider Gallaher Group taken as a whole, would reasonably be expected to:
 - (i) make the Offer or its implementation or the Acquisition or proposed acquisition by JTI (UK) or JT of any shares or other securities in, or control or management of, Gallaher or any member of the Wider Gallaher Group void, illegal or unenforceable in any jurisdiction, or otherwise directly or indirectly materially restrain, prevent, prohibit, restrict or delay the same or impose material additional conditions or obligations with respect to the Offer or such acquisition, or otherwise materially impede, challenge or interfere with the Offer or such acquisition, or require material amendment to the terms of the Offer or the Acquisition or proposed acquisition of any Gallaher Shares or any Gallaher ADSs or the acquisition of control of management of Gallaher or the Wider Gallaher Group by JTI (UK);
 - (ii) limit or delay, or impose any limitations on, the ability of JTI (UK) or any member of the Wider JT Group or any member of the Wider Gallaher Group to acquire or to hold or to exercise effectively, directly or indirectly, all or any rights of ownership in respect of shares or other securities in, or to exercise voting or management control over, any member of the Wider Gallaher Group;
 - (iii) prevent or delay or alter the terms envisaged for any proposed divestiture or require any additional divestiture by JTI (UK) or any member of the Wider JT Group of any shares or other securities in Gallaher;

- (iv) prevent or delay or alter the terms envisaged for any proposed divestiture or require any additional divestiture by JTI (UK) or any member of the Wider JT Group or by any member of the Wider Gallaher Group of all or any portion of their respective businesses, assets or properties or limit the ability of any of them to conduct any of their respective businesses or to own or control any of their respective businesses, assets or properties or any part thereof;
- (v) except pursuant to Schedule 2 of the Takeovers Directive (Interim Implementation) Regulations 2006, require JTI (UK) or any member of the Wider JT Group or any member of the Wider Gallaher Group to acquire, or to offer to acquire, any shares or other securities (or the equivalent) in any member of either group owned by any third party;
- (vi) limit the ability of JTI (UK) or any member of the Wider JT Group or any member of the Wider Gallaher Group to conduct or integrate or co-ordinate its business, or any part of it, with the businesses or any part of the businesses of any other member of the Wider Gallaher Group;
- (vii) result in any member of the Wider Gallaher Group ceasing to be able to carry on business under any name under which it presently does so; or
- (viii) otherwise adversely affect any or all of the business, assets, profits, financial or trading position or prospects of any member of the Wider Gallaher Group,

and all applicable waiting and other time periods (including any extensions of such waiting and other time periods) during which any Third Party could intervene under any applicable legislation or regulation of any relevant jurisdiction having expired, lapsed or been terminated (as appropriate);

- (f) since 31 December 2005 and except as disclosed in Gallaher's annual report and accounts for the year then ended or as publicly announced by Gallaher prior to the date of this announcement (by the delivery of an announcement to a Regulatory Information Service) or as fairly disclosed prior to the date of this announcement in writing to JTI (UK) or its advisers by or on behalf of Gallaher, there being no provision of any material arrangement, agreement, licence, permit, franchise or other instrument to which any member of the Wider Gallaher Group is a party, or by or to which any such member or any of its assets is or are or may be bound, entitled or subject or any material circumstance, which, in each case as a consequence of the Offer or the Acquisition or proposed acquisition of any shares or other securities in, or control or management of, Gallaher or any other member of the Wider Gallaher Group by JTI (UK) or JT or otherwise, could or might result in (in any case to an extent which is or would be material in the context of the Wider Gallaher Group taken as a whole):
 - (i) any monies borrowed by or any other indebtedness or liabilities (actual or contingent) of, or any grant available to, any member of the Wider Gallaher Group being or becoming repayable or capable of being declared repayable immediately or prior to its stated repayment date or the ability of any member of the Wider Gallaher Group to borrow monies or incur any indebtedness being withdrawn or inhibited or becoming capable of being withdrawn;
 - (ii) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property, assets or interests of any member of the Wider Gallaher Group or any such mortgage, charge or other security interest (wherever created, arising or having arisen) becoming enforceable;

- (iii) any such arrangement, agreement, licence, permit, franchise or other instrument, or the rights, liabilities, obligations or interests of any member of the Wider Gallaher Group thereunder, being, or becoming capable of being, terminated or adversely modified or affected or any adverse action being taken or any obligation or liability arising thereunder;
- (iv) any material asset or interest of any member of the Wider Gallaher Group being or falling to be disposed of or ceasing to be available to any member of the Wider Gallaher Group or any right arising under which any such asset or interest could be required to be disposed of or could cease to be available to any member of the Wider Gallaher Group otherwise than in the ordinary course of business;
- (v) any member of the Wider Gallaher Group ceasing to be able to carry on business under any name under which it presently does so;
- (vi) the creation of material liabilities (actual or contingent) by any member of the Wider Gallaher Group other than in the ordinary course of business;
- (vii) the rights, liabilities, obligations or interests of any member of the Wider Gallaher Group under any such arrangement, agreement, licence, permit, franchise or other instrument or the interests or business of any such member in or with any other person, firm, company or body (or any arrangement or arrangements relating to any such interests or business) being terminated or adversely modified or affected or any adverse action taken; or
- (viii) the financial or trading position or the prospects or the value of any member of the Wider Gallaher Group being prejudiced or adversely affected,

and, except as aforesaid, no event having occurred which, under any provision of any such arrangement, agreement, licence, permit, franchise or other instrument, could result in or would be reasonably likely to result in any of the events or circumstances which are referred to in paragraphs (i) to (viii) of this Condition 3(f) in any case to an extent which is or would be material in the context of the Wider Gallaher Group taken as a whole;

- (g) since 31 December 2005 and except as disclosed in Gallaher's annual report and accounts for the year then ended or as otherwise publicly announced by Gallaher prior to the date of this announcement (by the delivery of an announcement to a Regulatory Information Service) or as otherwise fairly disclosed prior to the date of this announcement in writing to JTI (UK) or its advisers by or on behalf of Gallaher, no member of the Wider Gallaher Group having (in each case, save for paragraph (ii) below, to an extent which is material in the context of the Wider Gallaher Group taken as a whole):
 - (i) issued or agreed to issue, or authorised the issue of, additional shares of any class, or securities convertible into or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares or convertible securities or transferred or sold any shares out of treasury, other than:
 - (A) to other members of the Gallaher Group or to third parties, provided that such issue, transfer or sale preserves the Gallaher Group's existing interest in such member of the Wider Gallaher Group as at the date of this announcement; or

- (B) shares issued pursuant to the exercise of options or the vesting of awards in each case granted under the Gallaher Share Schemes or under an employee's terms of employment;
- (ii) purchased or redeemed or repaid any of its own shares or other securities or reduced or, save in respect of the matters mentioned in paragraph (i) above, made any other change to any part of its share capital to an extent which (other than in the case of Gallaher) is material in the context of the Wider Gallaher Group taken as a whole;
- (iii) recommended, declared, paid or made any dividend or other distribution whether payable in cash or otherwise or made any bonus issue (other than to a member of the Gallaher Group or a third party, provided that such dividend or other distribution is pro rata to that party's existing interest in such member of the Wider Gallaher Group as at the date of this announcement);
- (iv) except as between members of the Gallaher Group, made or authorised any change in its loan capital;
- (v) merged with, demerged or acquired any body corporate, partnership or business or acquired or disposed of or transferred, mortgaged, charged or created any security interest over any assets of a material value or any right, title or interest in any assets of a material value (including shares in any undertaking and trade investments) or authorised the same (in each case other than in the ordinary course of business), other than a transaction between:
 - (A) members of the Gallaher Group; or
 - (B) a member of the Gallaher Group and a third party, provided that such transaction preserves the Gallaher Group's existing interest in such member of the Wider Gallaher Group as at the date of this announcement;
- (vi) issued, agreed to issue or authorised the issue of, or made any change in or to, any debentures or incurred or increased any indebtedness or liability (actual or contingent), in each case other than as between:
 - (A) members of the Gallaher Group; or
 - (B) a member of the Gallaher Group and a third party, provided that such issue, change, incurrence, or increase preserves the Gallaher Group's interest in such member of the Wider Gallaher Group as at the date of this announcement;
- (vii) entered into, varied, or authorised any contract, agreement, transaction, arrangement or commitment other than in the ordinary course of business (whether in respect of capital expenditure or otherwise) which:
 - (A) is of a long term, onerous or unusual nature or magnitude or which could reasonably be expected to involve an obligation of such nature or magnitude; or
 - (B) could restrict the business of any member of the Wider Gallaher Group;

- (viii) entered into, implemented, effected or authorised any reconstruction, amalgamation or scheme in respect of itself or another member of the Wider Gallaher Group, other than as between:
 - (A) members of the Gallaher Group; or
 - (B) a member of the Gallaher Group and a third party, provided that such transaction preserves the Gallaher Group's existing interest in such member of the Wider Gallaher Group as at the date of this announcement;
- (ix) entered into or varied the terms of, any contract, agreement, commitment, transaction or arrangement with any director of Gallaher;
- (x) other than by way of a solvent winding-up in respect of a member which is dormant at the relevant time, taken any corporate action or had any legal proceedings instituted or threatened against it or petition presented or order made for its winding-up (voluntarily or otherwise), dissolution or reorganisation or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of all or any material part of its assets and revenues or any analogous proceedings in any jurisdiction or appointed any analogous person in any jurisdiction;
- (xi) been unable, or admitted in writing that it is unable, to pay its debts or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business in any case with a material adverse effect on the Wider Gallaher Group taken as a whole;
- (xii) waived or compromised any claim;
- (xiii) made any alteration to its memorandum or articles of association;
- (xiv) made or agreed or consented to:
 - (A) any material change to:
 - (I) the terms of the trust deeds constituting the pension scheme(s) established by any member of the Gallaher Group for its directors, employees or their dependants; or
 - (II) the benefits which accrue or to the pensions which are payable thereunder; or
 - (III) the basis on which qualification for, or accrual or entitlement to such benefits or pensions are calculated or determined; or
 - (IV) the basis upon which the liabilities (including pensions) or such pension schemes are funded or made; or
 - (B) any change to the trustees including the appointment of a trust corporation;
- (xv) proposed, agreed to provide or modified the terms of any share option scheme, incentive scheme or other benefit relating to the employment or termination of employment of any person employed by the Wider Gallaher Group in a

manner which is material in the context of the Gallaher Group taken as a whole; or

- (xvi) entered into any contract, agreement, commitment, transaction or arrangement or passed any resolution or made any offer (which remains open for acceptance) or proposed or announced any intention with respect to any of the transactions, matters or events referred to in this Condition 3(g);
- (h) since 31 December 2005 and except as disclosed in Gallaher's annual report and accounts for the year then ended or as otherwise publicly announced by Gallaher prior to the date of this announcement (by the delivery of an announcement to a Regulatory Information Service) or as otherwise fairly disclosed prior to the date of this announcement in writing to JTI (UK) or its advisers by or on behalf of Gallaher:
- (i) there having been no adverse change or deterioration in the business, assets, financial or trading position or profit or prospects of any member of the Wider Gallaher Group, which in any case is material in the context of the Wider Gallaher Group taken as a whole;
 - (ii) no contingent or other liability of any member of the Wider Gallaher Group having arisen or become apparent or increased, which in any case is material in the context of the Wider Gallaher Group taken as a whole;
 - (iii) no litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Wider Gallaher Group is or may become a party (whether as plaintiff, defendant or otherwise) having been threatened, announced, implemented or instituted by or against or remaining outstanding against or in respect of any member of the Wider Gallaher Group, which in any case is material in the context of the Wider Gallaher Group taken as a whole; and
 - (iv) (other than as a result of the Offer) no enquiry or investigation by, or complaint or reference to, any Third Party having been threatened, announced, implemented, instituted by or against or remaining outstanding against or in respect of any member of the Wider Gallaher Group, which in any case is material in the context of the Wider Gallaher Group taken as a whole;
- (i) since 31 December 2005 and except as disclosed in Gallaher's annual report and accounts for the year then ended or as otherwise publicly announced by Gallaher prior to the date of this announcement (by the delivery of an announcement to a Regulatory Information Service) or as otherwise fairly disclosed prior to the date of this announcement in writing to JTI (UK) or its advisers by or on behalf of Gallaher, JTI (UK) not having discovered:
- (i) that any financial or business or other information concerning the Wider Gallaher Group disclosed at any time by or on behalf of any member of the Wider Gallaher Group is misleading or contains any misrepresentation of fact or omits to state a fact necessary to make any information contained therein not misleading and which was not subsequently corrected before the date of this announcement by disclosure either publicly or otherwise to JTI (UK) to an extent which in any case is material in the context of the Wider Gallaher Group taken as a whole;
 - (ii) that any member of the Wider Gallaher Group is subject to any liability (actual or contingent) which is not disclosed in Gallaher's annual report and accounts for the financial year ended 31 December 2005 and which in any

case is material in the context of the Wider Gallaher Group taken as a whole;
or

- (iii) any information which affects the import of any information disclosed at any time by or on behalf of any member of the Wider Gallaher Group to an extent which is material in the context of the Gallaher Group taken as a whole; and
- (j) since 31 December 2005 and except as disclosed in Gallaher's annual report and accounts for the year then ended or as otherwise publicly announced by Gallaher prior to the date of this announcement (by the delivery of an announcement to a Regulatory Information Service) or as otherwise fairly disclosed prior to the date of this announcement in writing to JTI (UK) or its advisers by or on behalf of Gallaher, JTI (UK) not having discovered:
- (i) that any past or present member of the Wider Gallaher Group has not complied with any applicable legislation or regulations of any jurisdiction with regard to the use, treatment, handling, storage, transport, release, disposal, discharge, spillage, leak or emission of any waste or hazardous substance or any substance likely to impair the environment or harm human health, or otherwise relating to environmental matters or the health and safety of any person, or that there has otherwise been any such use, treatment, handling, storage, transport, release, disposal, discharge, spillage, leak or emission (whether or not this constituted a non-compliance by any person with any legislation or regulations and wherever the same may have taken place) which, in any case, would be likely to give rise to any liability (whether actual or contingent) or cost on the part of any member of the Wider Gallaher Group, which in any case is material in the context of the Wider Gallaher Group taken as a whole;
 - (ii) that there is, or is likely to be, any liability, whether actual or contingent, to make good, repair, reinstate or clean up any property now or previously owned, occupied or made use of by any past or present member of the Wider Gallaher Group or any other property or any controlled waters under any environmental legislation, regulation, notice, circular, order or other lawful requirement of any relevant authority or Third Party or otherwise, which in any case is material in the context of the Wider Gallaher Group taken as a whole; or
 - (iii) that circumstances exist whereby a person or class of persons would be likely to have a claim in respect of any product or process of manufacture or materials used therein now or previously manufactured, sold or carried out by any past or present member of the Wider Gallaher Group, which is or would be material in the context of the Wider Gallaher Group taken as a whole.
4. Subject to the requirements of the Panel, JTI (UK) reserves the right to waive all or any of Conditions 3(b) to 3(j) inclusive, in whole or in part. JTI (UK) shall be under no obligation to waive or treat as fulfilled any of Conditions 3(b) to 3(j) inclusive by a date earlier than the date specified in Condition 1 for the fulfilment thereof, notwithstanding that other of Conditions 3(b) to 3(j) inclusive may at such earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any of such Conditions may not be capable of fulfilment.
5. If JTI (UK) is required by the Panel to make an offer for any Gallaher Shares under Rule 9 of the City Code, JTI (UK) may make such alterations to the above Conditions as are necessary to comply with that Rule.

6. The Offer will lapse (unless otherwise agreed by the Panel) if, following the posting of the Scheme Document, the European Commission either initiates proceedings under Article 6(1)(c) of the EC Merger Regulation or makes a referral to a competent authority of the United Kingdom under Article 9 of the EC Merger Regulation and there is then a reference to the Competition Commission before the date of the Court Meeting.
7. JTI (UK) reserves the absolute right to elect to implement the Offer by way of a takeover offer as it may determine in its absolute discretion. In such event, such offer will be implemented on the same terms (subject to appropriate amendments, including (without limitation) an acceptance condition set at 90 per cent. (or such lesser percentage (being more than 50 per cent.) as JTI (UK) may decide) of the Gallaher Shares to which such offer relates), so far as applicable, as those which would apply to the Scheme.
8. Save to the extent cancelled pursuant to the Scheme, the Gallaher Shares will be acquired by JTI (UK) fully paid and free from all liens, equitable interests, charges, encumbrances and other third party rights of any nature whatsoever and together with all rights now or hereafter attaching thereto including the right to receive and retain all dividends and other distributions (if any) announced, declared or paid on or after the date of this announcement.
9. The Offer will be on the terms and will be subject, amongst other things, to those terms which will be set out in the Scheme Document and such further terms as may be required to comply with the Listing Rules and the provisions of the City Code.
10. The availability of the Offer to persons not resident in the United Kingdom may be affected by the laws of the relevant jurisdictions. Persons who are not resident in the United Kingdom should inform themselves about and observe any applicable requirements.
11. This announcement and any rights or liabilities arising hereunder, the Offer, the Scheme and any proxies will be governed by English law and be subject to the jurisdiction of the English courts. The City Code, so far as appropriate, applies to the Offer.
12. For the purpose of these conditions, a Third Party shall be regarded as having “intervened” if it has decided to take, institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference or made, proposed or enacted any statute, regulation, decision or order or taken any measures or other steps or required any action to be taken or information to be provided or otherwise having done anything, and “intervene” shall be construed accordingly.

APPENDIX II

SOURCES OF INFORMATION AND BASES OF CALCULATION

- (a) The value attributed to the existing issued share capital of Gallaher is based upon 656,790,490 Gallaher Shares in issue as at the close of business on 14 December 2006, being the last business day prior to this announcement.
- (b) The Total Shareholder Return of Gallaher has been calculated as the growth in value over a set period for a shareholder who invested £1 on the first day of the period and reinvested gross dividends received at the closing price applicable at the ex-dividend date throughout the period.
- (c) The closing middle market prices per Gallaher Share referred to in this announcement are taken from the Official List.
- (d) Unless otherwise stated, the financial information on JT is extracted from JT's Annual Report and Accounts for the year ended 31 March 2006 and from the announcement of JT's interim results for the half year ended 30 September 2006.
- (e) Unless otherwise stated, the financial information on Gallaher is extracted or derived without any adjustment from Gallaher's Annual Report and Financial Statements for the year ended 31 December 2005 and from the announcement of Gallaher's interim results for the six months ended 30 June 2006.
- (f) Unless otherwise stated in this document, an exchange rate of £1 = ¥231.12 has been used, being the exchange rate at 11.00 a.m. in London on 14 December 2006 and an exchange rate of £1 = US\$1.9676 has been used, being the exchange rate at the same time.
- (g) The "enterprise value" of Gallaher is calculated by adding the Offer value of the existing ordinary issued share capital of Gallaher to the net indebtedness and minority interests of Gallaher as at 30 June 2006.

APPENDIX III

DETAILS OF IRREVOCABLE UNDERTAKINGS

The following holders of Gallaher Shares have given irrevocable undertakings to vote in favour of the Scheme and the resolutions at the Court Meeting and the EGM:

Name	Number of Gallaher Shares	% of Issued Share Capital
John Gildersleeve	1,352	0.0002%
Nigel Northridge	222,831	0.0339%
Ronnie Bell	5,000	0.0008%
Alison Carnwath	4,155	0.0006%
Richard Delbridge	10,000	0.0015%
Nigel Dunlop	3,135	0.0005%
Neil England	63,855	0.0097%
Stewart Hainsworth	301,356	0.0459%
Graham Hearne	6,248	0.0010%
James Hogan	4,000	0.0006%
Mark Rolfe	64,079	0.0098%
Total	686,011	0.1044%

Brian Larcombe has also given an irrevocable undertaking to vote in favour of the Scheme and the resolutions at the Court Meeting and the EGM. However, he does not hold any Gallaher Shares as of the date at this announcement.

APPENDIX IV

GALLAHER TRADING UPDATE

“Gallaher Group Plc confirms that overall current trading is in line with management expectations, as the Group’s stronger performances from the CIS markets are offsetting weaker trading conditions and increased investment behind some markets in the Group’s Rest of World (“RoW”) division.

The following statement is issued ahead of the close period leading up to the publication in March 2007 of the Group’s preliminary results for the year ended 31 December 2006.

United Kingdom

Gallaher’s estimate is that the UK duty-paid cigarette market declined by about 3-4% in the first 10 months of 2006. Downtrading into value cigarettes continued in line with expectations.

Excluding distributed brands, Gallaher’s UK market share in the 10-month period was 38.7%. Gallaher’s value brands Mayfair, Sterling and Benson & Hedges Silver all increased their market share against the same period last year.

Full year performance for the UK remains in line with previous management expectations.

Europe

Europe has experienced some challenging trading conditions in the first 10 months. Volume sales from the CITA acquisition, however, have more than offset the volume declines caused by those market conditions.

Gallaher estimates that the underlying duty-paid Austrian cigarette market in the period was broadly stable. Based on estimated total sales through all distribution channels, Gallaher’s leading share of the total Austrian cigarette market was 37.2% in the period. Memphis has performed well since May, showing a stable market share in spite of a price increase on 1 August.

In the Republic of Ireland, Gallaher estimates that the underlying cigarette market was broadly flat. Gallaher maintained its lead of the market with a share of 49.1% in the 10-month period.

Gallaher’s total cigarette market share (including CITA) in Spain was 5.2% in the period. The Coronas house continues to perform well and increased its market share. CITA is now reporting a trading profit for the 10-month period following the small loss that was reported at the half year.

In Germany, the total cigarette market was down 5.3% in the first 10 months. Gallaher’s total factory-made cigarette market share, including private label, declined to 7.3%, due to the growth in singles products earlier in the year and heightened cross-border activity. The removal of the tax advantage for singles products has resulted in the trade fully de-stocking and singles no longer being available. At the same time, however, German customs estimate that non-duty paid sales grew to 22.0% of cigarette consumption by the end of the third quarter.

Gallaher continued to make good progress throughout central and eastern Europe.

Full year performances for both the European tobacco business and the distribution operations remain in line with previous management expectations.

Commonwealth of Independent States

Gallaher's strong progress in the CIS has continued during the first 10 months of 2006. Improving product mix, together with an ongoing focus on low cost production, is delivering strong profitable growth across the region.

Gallaher continued to improve its sales mix in Russia driven by good performances in the higher-price segment from Sobranie Red and Sobranie Blue as well as the more recently launched Glamour. The Group's market share was 17.0% in the first 10 months.

The Group's leading brand Sovereign further grew its share of the Kazakhstan market to 18.0%, assisting Gallaher to increase its Kazakhstan cigarette market share to 37.5% in the period.

In Ukraine, Gallaher grew its market share to 16.8% in the first 10 months. The market share growth was underpinned by good performances from Sovereign and Ronson.

The continuing strength of trading performances across the Group's CIS markets now allows management to target this division's 2006 full year performance to be slightly ahead of its previous expectations.

Rest of World

In Sweden, cigarette volume sales were down sharply in the first 10 months mainly due to the impact of the phasing of trade sales. Gallaher's market share (excluding distributed brands) was 36.7% in the nine months to September.

Investment in Silk Cut (American) across the northern Europe division continued through the second half. Initial results have been encouraging.

In Poland, there has been a resumption of the challenging competitive conditions experienced earlier in the year following a period of some improvement during the summer months. Some competitors have made significant price movements in the value sector. Currently, Gallaher has again chosen not to reduce prices, and as a result has not repaired the market share lost in the first half. The Group's market share for the 10 months was 5.8%.

During the second half of the year, Gallaher began exporting into a number of Middle Eastern countries, investing behind brand launches and sales activities. Additional investment has been made in the South Africa factory since June in order to meet growing export and contract manufacturing demand.

Reflecting the combination of these difficult trading conditions and increased investment, Gallaher now anticipates full year RoW performance to be slightly below its previous management expectations. Factors include the trade phasing in Sweden, heightened competition in Poland, investment across the division, including new export markets, together with establishing an on-shore manufacturing facility in Singapore.

Conclusion

The strength of the Group's performance during the period has been underpinned by the spread of its markets. Overall current trading is in line with management expectations as the Group's strong performance in the CIS is compensating for weaker trading conditions and

increased investment in the RoW division, while Gallaher's UK and European divisions are performing in line with management expectations.

15 December 2006''

APPENDIX V

DEFINITIONS

The following definitions apply throughout this announcement unless the context requires otherwise:

“Australia”	the Commonwealth of Australia, its territories and possessions;
“Authorisations”	authorisations, orders, directions, rules, grants, recognitions, determinations, certificates, confirmations, consents, licences, clearances, provisions and approvals;
“Canada”	Canada, its provinces and territories and all areas under its jurisdiction and political sub-divisions thereof;
“Capital Reduction”	the proposed reduction of the share capital of Gallaher provided for by the Scheme, under section 137 of the Companies Act;
“CIS”	the Commonwealth of Independent States including Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine, and Uzbekistan;
“City Code”	the City Code on Takeovers and Mergers;
“Companies Act”	the Companies Act 1985, as amended;
“Conditions”	the conditions to the Offer (including the Scheme) which are set out in Appendix 1 to this announcement;
“Court”	the High Court of Justice in England and Wales;
“Court Meeting”	the meeting of the holders of the Gallaher Shares to be convened by order of the Court pursuant to section 425 of the Companies Act to consider and, if thought fit, approve the Scheme (with or without amendment) (and any adjournment thereof);
“Court Order”	the order of the Court sanctioning the Scheme under section 425 of the Companies Act and confirming the Capital Reduction under section 137 of the Companies Act;
“Dresdner Kleinwort”	Dresdner Kleinwort Limited;
“EBITDA”	earnings before interest, tax, depreciation and amortisation of goodwill;
“Effective Date”	the date upon which the Scheme becomes

	effective in accordance with its terms;
“EGM”	the extraordinary general meeting of Gallaher Shareholders to be convened to consider and, if thought fit, approve, amongst other things, the EGM Resolution(s), and any adjournment thereof;
“EGM Resolution(s)”	the resolution(s) to be proposed at the EGM in connection with the Scheme to approve certain amendments to the Articles of Association of Gallaher for the purposes of approving and implementing the Scheme and such other matters as may be agreed between Gallaher and JTI (UK) as necessary or desirable for the purposes of implementing the Offer;
“European Commission”	the European Commission (formerly the Commission of the European Communities);
“Financial Services Authority”	the UK Financial Services Authority;
“Forms of Proxy”	the form of proxy in connection with the Court Meeting and the form of proxy in connection with the EGM, or either of them as the context requires, in each case which shall accompany the Scheme Document;
“Gallaher”	Gallaher Group Plc;
“Gallaher ADS”	a Gallaher American Depositary Share evidenced by an American Depositary Receipt representing four Gallaher Shares;
“Gallaher ADS Holders”	the holders of Gallaher ADSs, from time to time;
“Gallaher EBT”	the Gallaher Group Plc Employee Benefit Trust established by a trust deed dated 25 February 1998;
“Gallaher Group”	Gallaher and its subsidiary undertakings;
“Gallaher Shareholders”	the holders of Gallaher Shares, from time to time;
“Gallaher Shares”	ordinary shares of 10 pence each in the capital of Gallaher;
“Gallaher Share Schemes”	the Gallaher Saving Related Share Options Scheme, the Gallaher Deferred Bonus Plan, the Gallaher Performance Share Plan, the Gallaher Share Incentive Plan, the Gallaher Saving-Related Overseas Share Option Scheme, the Gallaher Dublin Employee Share Ownership Plan and the Gallaher France Profit Sharing Plan;
“Global Flagship Brands”	Mild Seven, Winston, Camel and Salem;

“Goldman Sachs”	Goldman Sachs International;
“Greenhill”	Greenhill & Co. International LLP;
“Japan”	Japan, its cities, prefectures, territories and possessions;
“JT”	Japan Tobacco Inc.;
“JT International”	JT International S.A.;
“JTI (UK)”	JTI (UK) Management Ltd, a company incorporated under the laws of England and Wales with registered number 5988283 and whose registered office is at 20-22 Bedford Row, London WC1R 4JS;
“Listing Rules”	the rules and regulations made by the Financial Services Authority in its capacity as the UK Listing Authority under the Financial Services and Markets Act 2000, and contained in the UK Listing Authority’s publication of the same name;
“London Stock Exchange”	London Stock Exchange plc or its successor;
“Meetings”	the Court Meeting and/or the EGM, as the case may be;
“Merrill Lynch”	Merrill Lynch International;
“New York Stock Exchange”	the New York Stock Exchange, Inc;
“Offer”	the proposed offer by JTI (UK) for the entire issued and to be issued ordinary share capital of Gallaher to be implemented by way of the Scheme and the other matters relevant thereto to be considered at the Court Meeting and the EGM or, in JTI (UK)’s absolute discretion, by way of a takeover offer;
“Official List”	the official list of the London Stock Exchange;
“Panel”	the Panel on Takeovers and Mergers;
“Registrar of Companies”	the Registrar of Companies in England and Wales;
“Regulatory Information Service”	any of the services set out in Appendix 3 to the Listing Rules;
“Scheme”	the scheme of arrangement proposed to be made under section 425 of the Companies Act between Gallaher and the Scheme Shareholders, with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by Gallaher and JTI (UK);

“Scheme Document”	the document to be posted to, amongst others, Gallaher Shareholders following the date of this announcement containing and setting out, amongst other things, the terms and conditions of the Scheme, certain information about Gallaher and JTI (UK), the Scheme and the notices convening the Meetings;
“Scheme Documentation”	the Scheme Document and the accompanying Forms of Proxy to be posted to Gallaher Shareholders and others following the date of this announcement;
“Scheme Hearing”	the hearing or hearings by the Court of the petition to sanction the Scheme, to confirm the Capital Reduction and to grant the Court Order;
“Scheme Record Time”	6.00 p.m., 17 April 2007 (London time) on the Business Day immediately prior to the Effective Date;
“Scheme Shareholders”	the holders of Scheme Shares, from time to time;
“Scheme Shares”	Gallaher Shares (including those represented by Gallaher ADSs): <ul style="list-style-type: none"> (a) in issue as at the date of the Scheme Document; (b) (if any) issued after the date of the Scheme Document and prior to the Scheme Voting Record Time; and (c) (if any) issued on or after the Scheme Voting Record Time and at or prior to 6.00 p.m. (London time) on the day before the Scheme Hearing either on terms that the original or any subsequent holders thereof shall be bound by the Scheme or in respect of which the holders thereof shall have agreed in writing to be bound by the Scheme, <p>but excluding any Gallaher Shares held by JTI (UK) or by the Gallaher EBT;</p>
“Scheme Voting Record Time”	the time and date specified in the Scheme Document by reference to which entitlement to vote on the Scheme will be determined;
“Senior Management Team”	comprises the 39 existing participants in the Gallaher Performance Share Plan and the Gallaher Deferred Bonus Plan who are expected to be in employment with Gallaher at the Effective Date;
“Substantial Interest”	a direct or indirect interest in 20 per cent. or more

of the voting equity capital of an undertaking;

“Third Party”	any central bank, ministry, government, government department, governmental, quasi-governmental (including the European Union), supranational, statutory, regulatory or investigative body or authority (including any national or supranational anti-trust or merger control authority), national, state, municipal or local government (including any subdivision, court, administrative agency or commission or other authority thereof), private body exercising any regulatory, taxing, importing or other authority, trade agency, association, institution or professional or environmental body or any other person or body whatsoever in any relevant jurisdiction, including for the avoidance of doubt the Panel;
“Total Shareholder Return”	the total shareholder return generated by Gallaher, calculated as described in paragraph (b) of Appendix II;
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland;
“UK Listing Authority”	the Financial Services Authority in its capacity as the competent authority under the Financial Services and Markets Act 2000;
“United States”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
“US Exchange Act”	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder;
“Wider Gallaher Group”	Gallaher and the subsidiaries and subsidiary undertakings of Gallaher and associated undertakings (including any joint venture, partnership, firm or company in which any member of the Gallaher Group is interested or any undertaking in which Gallaher and such undertakings (aggregating their interests) have a Substantial Interest); and
“Wider JT Group”	JT and the subsidiaries and subsidiary undertakings of JT and associated undertakings (including any joint venture, partnership, firm or company in which any member of the JT Group is interested or any undertaking in which JT and such undertakings (aggregating their interests) have a Substantial Interest).

For the purposes of this announcement, “subsidiary”, “subsidiary undertaking”, “undertaking”, “associated undertaking” have the meanings given by the Companies Act (but

for this purpose ignoring paragraph 20(1)(b) of Schedule 4A of the Companies Act) and, when used in this announcement, “global” rankings of tobacco companies exclude The China National Tobacco Corporation.