

GALLAHER FINANCE

Annual Report and Financial Statements for the year ended 16 April 2009



Gallaher Finance

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Gallaher Finance

Directors and Advisers

Directors

James Boxford	<i>(appointed 20 March 2008)</i>
Andrew Chamberlain	<i>(appointed 6 June 2008)</i>
Brian Murphy	<i>(appointed 27 March 2008)</i>
Lorenzo Pillinini	
Eddy Pirard	

Secretary

Andrew Bingham

Registered office

Members Hill, Brooklands Road, Weybridge, Surrey KT13 0QU

Statutory auditors

Deloitte LLP

Solicitors

Slaughter & May

Gallaher Finance

Directors' Report

The directors present their report and the audited financial statements for the year ended 16 April 2009, which were approved by the Board on 29 June 2009.

Principal activities and review of business

Gallaher Finance ("the Company") acts as a finance company within the Japan Tobacco Inc. Group. The Company is unlimited. Both the level of business activity and the year-end financial position were satisfactory. The Company's principal source of income is interest receivable on loans to other Group companies. During the year, interest income amounted to £5,814,000 (2008 - £7,575,000).

Post balance sheet events

After the year-end, the Company has been involved in a corporate re-organisation designed to simplify the entity structure within the wider Japan Tobacco group. On 29 April 2009, the ordinary shares of the Company were redenominated from €1 each to €0.50 each, thereby reducing the Company's issued share capital and increasing distributable reserves by an equivalent amount. The Company then paid a dividend and returned substantially all of its capital to the shareholder. The overall effect of these actions, which will continue after the date of this report, is to take the Company's balance sheet down to almost a nil position, until no distributable reserves and only nominal share capital remains. These actions are not expected to result in a material loss. It is the intention of the directors that the Company will be sold outside of the Japan Tobacco group to a third party in the near future.

Going concern

Due to the post year end events mentioned above, the directors believe that the company no longer actively trades and this situation is expected to continue for the immediate future. The directors therefore consider it not appropriate to continue to prepare the financial statements on a going concern basis. Refer to note 1 for further information in this regard.

Results and dividends

The Company's profit and loss account set out on page 7 shows a profit on ordinary activities after taxation of £4,186,000 (2008 - £5,309,000). No ordinary dividends were declared or paid during the year (2008 - nil).

Key performance indicators

Given the nature of the business, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance, or position of the business.

Principal risks and uncertainties

The Company acts as an intermediate finance company and given the nature of the Company, it is not exposed to any external financial risks and the primary source of income is intergroup related. The intergroup financing arrangements are determined at the group level. The principal risks and uncertainties that affect the Company are managed at a group level, rather than at an individual business unit level.

Directors

A list of the directors is given on page 2. No director had any interest during the year in the shares of the Company. No director had any interest during the year in any material contract with the Company.

Gallaher Finance

Directors' Report

Continued

Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.



By order of the Board
Lorenzo Pillinini, Director
29 June 2009

Gallaher Finance

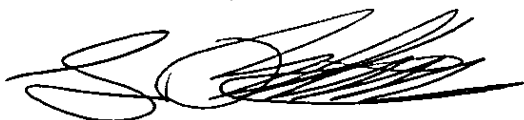
Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



By order of the Board
Lorenzo Pillinini, Director
29 June 2009

Independent Auditors' Report to the Members of Gallaher Finance

We have audited the financial statements of Gallaher Finance for the year ended 16 April 2009 which comprise Profit and Loss Account, the Balance Sheet, and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 16 April 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Financial statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Anthony Morris, (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

30 June 2009

Gallaher Finance

Profit and Loss Account

YEAR ENDED 16 APRIL 2009

	Notes	2009 £000	2008 £000
Interest receivable - on loans to Group undertakings		5,814	7,575
Interest payable and similar charges		(1)	-
Profit on ordinary activities before taxation		5,813	7,575
Taxation	4	(1,627)	(2,266)
Profit for the year	7	4,186	5,309

The Company has no recognised gains and losses other than the gains and losses above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the period stated above and their historical cost equivalents.

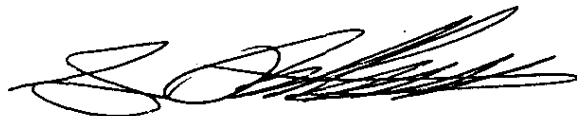
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Balance Sheet

AT 16 APRIL 2009

	Notes	2009 £000	2008 £000
Current assets			
Debtors: amounts falling due within one year			
Amounts owed by Group undertakings		129,643	123,830
Creditors: amounts falling due within one year			
Group relief payable		(2,287)	(660)
Net current assets and net assets		<u>127,356</u>	<u>123,170</u>
Capital and reserves			
Called up share capital	5	113,149	113,149
Profit and loss account	6	14,207	10,021
Shareholders' funds		<u>127,356</u>	<u>123,170</u>

The financial statements on pages 7 to 11 were approved by the Board of Directors on 29 June 2009 and signed on its behalf by



Lorenzo Pillinini
Director

Gallaher Finance

Notes to the Financial Statements

1. Accounting policies

Basis of accounting

The financial statements are prepared in accordance with the historical cost basis of accounting and accounting standards currently applicable in the United Kingdom.

The principal accounting policies, which have been applied consistently, are set out below.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position and subsequent events are set out in the Directors' Report on pages 3 and 4. Based on these factors, the financial statements have been prepared on a basis other than that of a going concern which includes, where appropriate, writing down the company's assets to net realisable value. Provision has also been made for any onerous contractual commitments at the balance sheet date. The financial statements do not include any provision for the future costs of terminating the business of the company except to the extent that such were committed at the balance sheet date.

Cash flow

The Company has adopted the provisions of Financial Reporting Standard No. 1 (Revised). Accordingly a cash flow statement has not been included in these financial statements as the Company is a wholly owned subsidiary undertaking of Japan Tobacco Inc., which prepares a consolidated cash flow statement which incorporates the cash flows of the Company in its consolidated financial statements.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into pounds sterling at rates of exchange ruling at the balance sheet date. Exchange gains and losses arising on the repayment of share capital are taken to reserves through the statement of total recognised gains and losses. Other exchange gains and losses are dealt with in the profit and loss account at the exchange rate ruling on the date of the transactions.

Current taxation

Current taxation, including the UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

The Company provides for deferred tax assets and liabilities arising from reversing timing differences between the recognition of gains and losses in the financial statements and their recognition for tax purposes. Deferred tax assets are only recognised where it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

2. Directors and employees

The remuneration of the directors of the Company who served during the year was borne by other companies within the Group and no specific allocation is made in respect of their services to the Company. Accordingly their emoluments have not been disclosed in these financial statements.

The Company has no employees, other than the directors.

3. Auditors' remuneration

The auditors' remuneration of £5,000 in respect of the statutory audit of the financial statements of the Company is incurred by Gallaher Limited, a fellow subsidiary company (2008 - £5000). The auditors have received no other remuneration during the year (2008 - nil).

Gallagher Finance

Notes to the Financial Statements

Continued

4. Tax on profit on ordinary activities

a) Analysis of the charge for the year

	2009 £000	2008 £000
Current tax	-	-
Deferred tax	-	-
Group relief	1,627	2,266
Tax on profit on ordinary activities	<u>1,627</u>	<u>2,266</u>

b) Factors affecting the tax charge

	2009 £000	2008 £000
Profit on ordinary activities before tax	<u>5,813</u>	<u>7,575</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 - 28%)	1,627	2,121
Effects of:		
Change in UK corporation tax rate	-	145
Losses surrendered by group companies	<u>(1,627)</u>	<u>(2,266)</u>
Current tax charge for the year	<u>-</u>	<u>-</u>

The UK corporation tax rate changed from 30% to 28% on 1 April 2008. The reconciliation has been performed using the rate applicable at the Company's year end.

No provision for deferred tax is made as there are no material timing differences.

5. Called up share capital

The authorised share capital of the Company is €400,000,000, comprising 400,000,000 ordinary shares of €1 each.

	2009 £000	2008 £000
Allotted and fully paid:		
39,616,001 ordinary shares of €1 each (<i>fixed sterling equivalent - £0.652</i>)	25,830	25,830
126,550,000 ordinary shares of €1 each (<i>fixed sterling equivalent - £0.690</i>)	<u>87,319</u>	<u>87,319</u>
Total: 166,166,001 ordinary shares of €1 each	<u>113,149</u>	<u>113,149</u>

6. Reserves

	Profit and loss account £000
Movements in the year:	
At 17 April 2008	10,021
Profit for the year	<u>4,186</u>
At 16 April 2009	<u>14,207</u>

7. Reconciliation of movements in shareholders' funds

	2009 £000	2008 £000
Profit for the year	<u>4,186</u>	<u>5,309</u>
Increase in shareholders' funds	4,186	5,309
Opening shareholders' funds	<u>123,170</u>	<u>117,861</u>
Closing shareholders' funds	<u>127,356</u>	<u>123,170</u>

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Notes to the Financial Statements

Continued

8. Related party transactions

In accordance with the exemptions offered by Financial Reporting Standard No. 8, there is no disclosure in the financial statements of transactions with entities that are part of Japan Tobacco Inc. and its subsidiaries.

9. Ultimate holding company and consolidation

The Company is wholly owned by Gallaher Investment Finance, a company incorporated in Jersey.

The smallest group in which the results of the Company are consolidated is JT Europe Holding B.V., registered in the Netherlands. Copies of the consolidated financial statements of JT Europe Holding B.V. may be obtained from Vreelandseweg 46, Hilversum, Noord-Holland, Netherlands 1216.

Japan Tobacco Inc., which is registered in Japan, is regarded as the ultimate holding company and the largest group in which the results of the Company are consolidated. Copies of the consolidated financial statements of Japan Tobacco Inc. may be obtained from 2-2-1 Toranomom, Minato-ku, Tokyo, 105-8422, Japan.

10. Post balance sheet events

As set out in the Directors' report on pages 3 and 4, after the year end as part of a JT group wide re-organisation, the Company has been involved in a restructuring that will eventually take the Company balance sheet to a nil position with the exception of nominal share capital. No material loss is expected to arise from this restructuring.
