SUPPLEMENTARY PROSPECTUS DATED 5 NOVEMBER 2009

B.A.T. INTERNATIONAL FINANCE p.l.c.

(incorporated with limited liability in England and Wales)

B.A.T CAPITAL CORPORATION

(incorporated with limited liability in the State of Delaware, United States of America)

BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

(incorporated with limited liability in The Netherlands)

U.S.$16,000,000,000 Euro Medium Term Note Programme
unconditionally and irrevocably guaranteed by

BRITISH AMERICAN TOBACCO p.l.c.

(incorporated with limited liability in England and Wales)

and each of the Issuers (except where it is the relevant Issuer)

This Supplement (the "**Supplement**") to the Base Prospectus (the "**Base Prospectus**") dated 1 December 2008 (as supplemented by supplementary prospectuses dated 2 March 2009, 27 April 2009, 18 June 2009 and 7 August 2009) which comprises a base prospectus, constitutes a supplementary base prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 and is prepared in connection with the U.S.$16,000,000,000 Euro Medium Term Note Programme (the "**Programme**") established by B.A.T. International Finance p.l.c. ("**BATIF**"), B.A.T Capital Corporation ("**BATCAP**") and British American Tobacco Holdings (The Netherlands) B.V. ("**BATHTN**") (each, in their capacities as issuers under the Programme, an "**Issuer**" and together referred to as the "**Issuers**") and unconditionally and irrevocably guaranteed by British American Tobacco p.l.c. ("**BAT**") and each of BATIF, BATCAP and BATHTN except where it is the relevant Issuer. Terms defined in the Base Prospectus have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus and any other supplements to the Base Prospectus issued by the Issuers.

Each of BAT, BATIF, BATCAP and BATHTN accepts responsibility for the information contained in this Supplement. To the best of the knowledge and belief of BAT, BATIF, BATCAP and BATHTN, each of the foregoing declares (each having taken all reasonable care to ensure that such is the case) that the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Interim Management Statement

BAT has published its interim management statement for the nine months ended 30 September 2009. A copy of the statement has been filed with the Financial Services Authority and, by virtue of this Supplement, is incorporated in, and forms part of, the Base Prospectus.

Management Changes

Mr Jan du Plessis retired as Chairman of BAT on 31 October 2009 and was succeeded as Chairman, on 1 November 2009, by Mr Richard Burrows who had been appointed a Non-Executive Director of BAT on 1 September 2009. Mr Burrows is also a non-executive director of Rentokil Initial plc and Carlsberg A/S and a member of the Trilateral Commission.

Mr Jean-Marc Lévy, formerly Director, Western Europe, was appointed Deputy Group Marketing Director of BAT on 1 October 2009, when he was succeeded by Mr Jack Bowles, formerly the Managing Director of British American Tobacco Malaysia. Mr Lévy will be appointed Group Marketing Director with effect from 1 January 2010, on the retirement of Mr Jimmi Rembiszewski.

The business address of the Directors of BAT is Globe House, 4 Temple Place, London WC2R 2PG.

The duties owed by the Directors of BAT do not give rise to any potential conflicts of interests with such directors' private interests and other duties.

Product Liability Litigation

The section entitled "Product liability litigation" on pages 27 – 38 of the Base Prospectus shall be replaced with the text set out in the Annex to this Supplement.

Copies of all documents incorporated by reference in the Base Prospectus can be viewed on the website of the Regulatory News Service operated by the London Stock Exchange at *http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html* and can be obtained from the principal office in England of the Principal Paying Agent and BAT, as described on pages 1 and 106, respectively, of the Base Prospectus.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and (b) any other statement in or incorporated by reference in the Base Prospectus, the statements in (a) above will prevail.

If documents which are incorporated by reference into this Supplement themselves incorporate any information or other documents therein, either expressly or implicitly, such information or other documents will not form part of this Supplement for the purposes of the Prospectus Directive (Directive 2003/71/EC) except where such information or other documents are specifically incorporated by reference into the Supplement.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus has arisen or been noted, as the case may be, since the publication of the Base Prospectus.

An investor should be aware of its rights arising pursuant to Section 87Q(4) of the FSMA.

Annex

Product liability litigation

Group companies, notably Brown & Williamson Holdings, Inc. (formerly Brown & Williamson Tobacco Corporation) ("**B&W**") as well as other leading cigarette manufacturers, are defendants, principally in the United States, in a number of product liability cases. In a number of these cases, the amounts of compensatory and punitive damages sought are significant.

Indemnity

In 2004, B&W completed the combination of the assets, liabilities and operations of its US tobacco business with R.J. Reynolds Tobacco Company ("**RJRT**"), a wholly-owned subsidiary of R.J. Reynolds Tobacco Holdings, Inc., pursuant to which Reynolds American Inc. was formed (the "**Business Combination**"). As part of the Business Combination, B&W contributed to RJRT all of the assets and liabilities of its US cigarette and tobacco business, subject to specified exceptions, in exchange for a 42 per cent equity ownership interest in Reynolds American. As a result of the Business Combination:

- B&W discontinued the active conduct of any tobacco business in the United States;

- B&W contributed to RJRT all of its assets other than the capital stock of certain subsidiaries engaged in non-US businesses and other limited categories of assets;

- RJRT assumed all liabilities of B&W (except liabilities to the extent relating to businesses and assets not contributed by B&W to RJRT and other limited categories of liabilities) and contributed subsidiaries or otherwise to the extent related to B&W's tobacco business as conducted in the United States on or prior to 30 July 2004; and

- RJRT agreed to indemnify B&W and each of its associates (other than Reynolds American and its subsidiaries) against, among other matters, all losses, liabilities, damages, expenses, judgments, attorneys' fees, etc., to the extent relating to or arising from such assumed liabilities or the assets contributed by B&W to RJRT (the "**RJRT Indemnification**").

The scope of the RJRT Indemnification includes all expenses and contingent liabilities in connection with litigation to the extent relating to or arising from B&W's US tobacco business as conducted on or prior to 30 July 2004, including smoking and health tobacco litigation, whether the litigation is commenced before or after 30 July 2004 (the "**Tobacco Litigation**").

Pursuant to the terms of the RJRT Indemnification, RJRT is liable for any possible judgments, the posting of appeal bonds or security, and all other expenses of and responsibility for managing the

defense of the Tobacco Litigation. RJRT has assumed control of the defense of the Tobacco Litigation involving B&W, to which RJRT is also a party in most (but not all) of the same cases. Accordingly, RJRT uses or plans to use the same law firm or firms to represent both B&W and RJRT in any single or similar case (except in certain limited circumstances) as RJRT's interests are typically aligned with B&W's interests, as RJRT has substantial experience in managing recognised external legal counsel in defending the Tobacco Litigation, and external counsel have independent professional responsibilities to represent the interests of B&W. In addition, in accordance with the terms of the RJRT Indemnification, associates of B&W have retained control of the defense in certain Tobacco Litigation cases with respect to which such associates are entitled to indemnification.

US litigation

The total number of US product liability cases pending at 9 October 2009, involving B&W and/or other Group companies was approximately 5,588 (compared to approximately 4,830 at 31 July 2008). At 9 October 2009, UK-based Group companies have been served as co-defendants in six of those cases (compared to six at 31 July 2008). In 2008, there were no US product liability cases tried against B&W or any UK-based Group companies. Only one case (*Lincoln Smith*, *see* below) was tried against B&W in 2009. No product liability case in which a UK-based Group company is a defendant has been tried in 2009, and no case in which a UK-based Group company is a defendant is currently scheduled for trial in 2009. Since many of these pending cases seek unspecified damages, it is not possible to quantify the total amounts being claimed, but the aggregate amounts involved in such litigation are significant, possibly totalling in the billions of dollars. The cases fall into four broad categories:

(a) Medical reimbursement cases

These civil actions seek to recover amounts spent by government entities and other third party providers on healthcare and welfare costs claimed to result from illnesses associated with smoking. Although B&W continues to be a defendant in healthcare cost recovery cases involving plaintiffs such as hospitals and Native American tribes (see below), the vast majority of such cases have been dismissed on legal grounds.

Further, on 23 November 1998, the major US cigarette manufacturers (including B&W and RJRT) and the attorneys general of 46 US states and five US territories executed the Master Settlement Agreement ("**MSA**"), which settled recoupment lawsuits that had been brought by these states and territories. Under the terms of the MSA, the settling cigarette manufacturers agreed, among other things, to pay approximately US$246 billion to the settling states and territories (and to four states that reached separate settlements of their recoupment actions) over 25 years, and agreed to various restrictions on US tobacco advertising and marketing. The MSA includes a credit for any

amounts paid by participating manufacturers in subsequent suits brought by the states' political subdivisions.

At 9 October 2009, three US medical reimbursement suits were pending against B&W. One of these suits was brought by an Indian tribe in Indian tribal court in South Dakota. Another reimbursement suit (*City of St. Louis*) is pending against B&W, British American Tobacco (Investments) Limited ("Investments") and several other defendants in state court in Missouri. In *City of St. Louis*, the plaintiffs, more than 50 public and non-profit hospitals in Missouri, are seeking reimbursement of past and future alleged smoking related healthcare costs. In October 2007, the plaintiffs filed a motion requesting the court to give collateral estoppel effect to the factual findings in the US Department of Justice case (referenced below). In June 2009, certain defendants, including B&W and Investments, served a sur-reply memorandum in opposition to the plaintiffs' estoppel motion. The court's decision on plaintiffs' estoppel motion is pending. On 14 October 2008, defendants' motion for summary judgment based on plaintiffs' failure to link alleged wrongful conduct to alleged damages was argued and submitted, subject to plaintiffs' motion to supplement the record. On 30 June 2009, the court denied defendants' summary judgment motion. On 20 July 2009, certain defendants (including Investments) filed a motion for reconsideration of the 30 June 2009 wrongful conduct order, which remains pending. On 11 August 2009, the court ordered plaintiffs to serve, by 30 September 2009, supplemental disclosures to attempt to link defendants' allegedly wrongful conduct with their claimed damages. A trial date for this case is currently scheduled for 7 June 2010. *Nat'l Committee to Preserve Social Security & Medicare* is currently on appeal before the US Court of Appeals for the Second Circuit following the dismissal of plaintiffs' claims by the US District Court for the Eastern District of New York. The plaintiffs in *Nat'l Committee*, two taxpayer advocacy groups and a Medicare recipient diagnosed with lung cancer, allege that the defendants (including B&W) are liable for the payment of Medicare beneficiaries' medical costs for diseases attributable to smoking, pursuant to the Medicare as Secondary Payer Statute 42 U.S.C. Section 1395y(b) ("**MSP**"). On 5 March 2009, the district court issued an order granting defendants' motion to dismiss plaintiffs' complaint in its entirety, and denying plaintiffs' cross motion for summary judgment. The district court ruled that MSP plaintiffs can only recover Medicare funds where an alleged tortfeasor's liability has been established prior to the plaintiffs' seeking relief under the MSP, and that the plaintiffs in Nat'l Committee had failed to establish such liability. Plaintiffs filed a notice of appeal to the Second Circuit on 20 May 2009, and filed their opening brief on 17 August 2009. On 1 September 2009, defendants filed a motion for summary affirmance, or in the alternative, to dismiss the appeal for lack of subject matter jurisdiction and for a stay of the briefing schedule of plaintiffs' appeal. On 3 September 2009, the Second Circuit entered an order granting the stay of the briefing schedule pending determination of defendants' motion for summary affirmance. On 15 September 2009, plaintiffs served their opposition to the defendants' motion for summary affirmance, and on 25 September 2009, defendants served a reply brief in further support of their motion for summary

affirmance, or alternatively, to dismiss the appeal. Plaintiffs' appeal and defendants' motion for summary affirmance remain pending.

(b) Class actions

At 9 October 2009, B&W was named as a defendant in some nine (compared to 10 as at 31 July 2008) separate actions attempting to assert claims on behalf of classes of persons allegedly injured or financially impacted through smoking or where classes of tobacco claimants have been certified. If the classes are or remain certified and the possibility of class-based liability is eventually established, it is likely that individual trials will be necessary to resolve any claims by individual plaintiffs. Class-action suits have been filed in a number of states against individual cigarette manufacturers and their parent corporations, alleging that the use of the terms 'lights' and 'ultralights' constitutes unfair and deceptive trade practices. A class-action complaint (*Schwab*) was filed in the US District Court for the Eastern District of New York on 11 May 2004 against several defendants, including B&W and certain UK-based Group companies. The complaint challenges the defendants' practices with respect to the marketing, advertising, promotion and sale of 'light' cigarettes. The court granted plaintiffs' motion for class certification on 25 September 2006. By an order dated 17 November 2006, the US Court of Appeals for the Second Circuit granted defendants' motion to stay the district court proceedings in this case, and further granted defendants' petition for leave to appeal the district court's class certification order. Briefing on the appeal was completed on 31 January 2007, and oral argument was heard on 10 July 2007. On 3 April 2008, in a unanimous ruling, the *Schwab* class was decertified by the appellate court and the district court's certification order was overturned. The appellate court found that the individual issues of reliance, injury and causation, with respect to plaintiffs' civil claims brought under the Racketeer Influenced and Corrupt Organisations Act ("**RICO**"), predominated over any common issue, rendering the case unsuitable for class treatment. The US Court of Appeals for the Second Circuit issued the mandate officially returning the case to the District Court on 29 May 2008. A motion was brought before the U.S. Judicial Panel on Multidistrict Litigation (the "**Multi-District Panel**") by certain plaintiffs seeking to have this case coordinated and consolidated for discovery purposes with a number of other putative 'lights' class actions (including the case of *Cleary*, in which B&W and Investments, among others, are defendants) as 'multi-district litigation'. Following oral submissions at a Panel hearing on 30 July 2009, the Multi-District Panel issued an order on 10 September 2009 excluding *Schwab* from the consolidation as the case was at an advanced stage compared to the other 'lights' litigation, involved different claims, had multiple other defendants and was no longer classified as a class action. In its 10 September 2009 order, the Multi-District Panel also excluded *Cleary* from the multi-district litigation consolidation.

A class action complaint (*Cleary*) was filed in state court in Chicago, Illinois on 3 June 1998 against several defendants, including B&W, B.A.T. Industries p.l.c. ("**Industries**") and British American Tobacco (Investments) Limited ("**Investments**"). Industries was dismissed on jurisdictional grounds by an intermediate appellate court on 17 March 2000. The Third Amended

Complaint, filed on 3 March 2009, alleges that all defendants fraudulently concealed facts regarding the addictive nature of nicotine, that certain US defendants (but not Investments) marketed tobacco products to underage consumers, and that defendant Philip Morris fraudulently marketed Marlboro Lights cigarettes. Plaintiffs seek disgorgement of profits. The case was removed to federal court on 13 March 2009, and the federal court denied plaintiffs' motion to remand the case back to state court via order dated 1 July 2009. Class certification discovery closed on 30 September 2009. On 21 October 2009, the parties jointly filed an agreed motion for an extension of time to submit plaintiffs' supplemental memorandum in support of class certification and the motions for summary judgment, requesting that the court amend the briefing schedules as follows: 30 October 2009, plaintiffs' supplemental memorandum in support of class certification and opening brief in support of a motion for summary judgment; 2 December 2009, opposition briefs to class certification and summary judgment; and 23 December 2009, reply briefs in further support of class certification and summary judgment. It is expected that the court will grant the parties' motion.

Other types of class-action suits assert claims on behalf of classes of individuals who claim to be addicted, injured, or at greater risk of injury by the use of tobacco or exposure to environmental tobacco smoke, or the legal survivors of such persons.

In *Engle* (a case in Florida), a jury awarded a total of $12.7 million to three class representatives, and in a later stage of the three-phase trial procedure adopted in this case, a jury assessed $17.6 billion in punitive damages against B&W. In November 2000, B&W posted a surety bond in the amount of $100 million (the amount required by Florida law) to stay execution of this punitive damages award. On 21 May 2003, the intermediate appellate court reversed the trial court's judgment and remanded the case to the trial court with instructions to decertify the class. On 16 July 2003, plaintiffs filed a motion for rehearing which was denied on 22 September 2003. On 12 May 2004, the Florida Supreme Court agreed to review this case and, on 6 July 2006, it upheld the intermediate appellate court's decision to decertify the class and vacated the jury's punitive damages verdict. By an order dated 17 April 2007, the surety bond for the punitive damages was released and the $100 million collateral securing that bond was returned to B&W. Further, the Florida Supreme Court permitted the judgments entered for two of the three *Engle* class representatives to stand, but dismissed the judgment entered in favour of the third *Engle* class representative. Finally, the Florida Supreme Court has permitted putative *Engle* class members to file individual lawsuits against the *Engle* defendants within one year of the Court's decision (subsequently extended to 11 January 2008). The Court's order precludes defendants from litigating certain issues of liability against the putative *Engle* class members in these individual actions. On 7 August 2006, defendants filed a motion for rehearing before the Florida Supreme Court, which was granted in part and denied in part, on 21 December 2006. The Florida Supreme Court's 21 December 2006 ruling did not amend any of the earlier decisions' major holdings, which included decertifying the class, vacating the punitive damages judgment, and permitting individual

members of the former class to file separate suits. Instead, the ruling addressed the claims on which the *Engle* jury's phase one verdict will be applicable to the individual lawsuits that were permitted to stand. On 1 October 2007, the United States Supreme Court denied defendants' request for certiorari review of the Florida Supreme Court's decision.

As of 9 October 2009, RJRT and/or B&W have been served in approximately 3,326 *Engle* progeny cases in both state and federal courts in Florida. These cases include approximately 8,738 plaintiffs. Plaintiffs' counsel is attempting to include multiple plaintiffs in most of the cases filed. The number of cases will increase if Florida courts order cases originally filed as multi-plaintiff actions to be severed.

In the first 'phase three' trial of an individual *Engle* class member (*Lukacs*), the jury awarded the plaintiff $37.5 million in compensatory damages (B&W's share: $8.4 million) on 11 June 2002. On 1 April 2003, the jury award was reduced to $25.1 million (B&W's share: $5.6 million) but no final judgment was entered into because the trial court postponed the entry of final judgment until the *Engle* appeal was fully resolved. On 2 January 2007, defendants moved to set aside the jury's verdict for the plaintiffs. On 3 January 2007, plaintiff filed a motion for entry of judgment, which the trial court deferred until the completion of appellate review of *Engle*. On 12 October 2007, the plaintiff filed notice of completion of all appellate review to the trial court. Following a hearing on 24 July 2008, the trial court, on 14 August 2008, issued an order entering judgment for the plaintiff that awarded $24.8 million to plaintiff (plus interest), for which the defendants would be jointly and severally liable. On 17 October 2008, the plaintiff withdrew her request for punitive damages. On 12 November 2008, the trial court entered final judgment. On 1 December 2008, the defendants filed a notice of appeal. Defendants Philip Morris and B&W served their moving briefs on 5 June 2009. Oral argument has not yet been scheduled. Pursuant to its agreement to indemnify B&W, RJRT posted a supersedeas bond in the amount of approximately $15.2 million on 19 March 2009.

In a Louisiana medical monitoring case brought on behalf of Louisiana smokers (*Scott*), on 28 July 2003, the jury returned a verdict in favour of the defendants on the plaintiffs' claim for medical monitoring and found that cigarettes were not defectively designed. However, the jury also made certain findings against the defendants on claims relating to fraud, conspiracy, marketing to minors and smoking cessation. Notwithstanding these findings, this portion of the trial did not determine liability as to any individual class member or class representative. On 21 May 2004, the jury returned a verdict in the amount of $591 million, requiring defendants to fund a cessation programme to help eligible class members stop smoking. On 29 September 2004, the defendants posted a $50 million bond, pursuant to legislation that limits the amount of the bond to $50 million collectively for MSA signatories, and noticed their appeal. RJRT posted $25 million (the portions for RJRT and B&W) towards the bond. On 7 February 2007, the Louisiana Court of Appeals upheld the class certification and found the defendants responsible for funding smoking cessation for eligible class members. The appellate court also ruled, however, that no class member who began smoking after 1 September 1988 could receive any relief, and that only those smokers

whose claims accrued on or before 1 September 1988 would be eligible for the smoking cessation programme. In addition, the appellate court rejected the award of prejudgment interest, and struck eight of the twelve components of the smoking cessation programme. On 2 March 2007, the defendants' application for rehearing and clarification was denied. The defendants' application to the Louisiana Supreme Court for a writ of certiorari was denied on 7 January 2008. The defendants' petition to the US Supreme Court for a writ of certiorari was denied on 10 June 2008. On 21 July 2008, the trial court entered an amended judgment in the case. The court found that the defendants are jointly and severally liable for funding the cost of a court-supervised smoking cessation program and ordered the defendants to deposit approximately $263 million together with interest from 30 June 2004, into a trust for the funding of the programme. On 15 December 2008, the trial court entered an order granting the defendants permission to appeal from the amended judgment. Oral argument in the Louisiana Court of Appeals occurred on 1 September 2009. A decision remains pending.

(c) Individual cases

Approximately 5,574 cases were pending against B&W at 9 October 2009 (compared to 5,505 at 31 July 2008) filed by or on behalf of individuals in which it is contended that diseases or deaths have been caused by cigarette smoking or by exposure to environmental tobacco smoke ("**ETS**"). Of these cases, approximately: (a) 2,595 are ETS cases brought by flight attendants who were members of a class action (*Broin*) that was settled on terms that allow compensatory but not punitive damages claims by class members; (b) 463 of the individual cases against B&W are cases brought in consolidated proceedings in West Virginia; (c) 2,433 are *Engle* progeny cases that have been filed either directly against B&W or against RJRT, as successor to B&W, and (d) 83 are cases filed by other individuals.

Of the individual cases that were decided or remained on appeal during 2008, three resulted in verdicts against B&W:

In December 2003, a New York jury (*Frankson*) awarded $350,000 in compensatory damages against B&W and two industry organisations. In January 2004, the same jury awarded $20 million in punitive damages. On 22 June 2004, the trial judge granted a new trial unless the parties agreed to an increase in compensatory damages to $500,000 and a decrease in punitive damages to $5 million, of which $4 million would be awarded against B&W. Plaintiffs agreed to a decrease in punitive damages, but B&W has not agreed to an increase in compensatory damages. On 25 January 2005, B&W appealed to an intermediate New York State appellate court. Oral argument was heard on 8 May 2006. The appellate court affirmed the judgment on 5 July 2006, except insofar as it dismissed the plaintiff's design defect claims. B&W filed a motion for leave to reargue, or in the alternative, for leave to appeal to the New York Court of Appeals, on 3 August 2006. The intermediate appellate court denied this motion on 5 October 2006. On 8 December 2006, the trial judge granted plaintiff's application for entry of judgment in the amounts of $5 million in punitive

damages and $175,000 in compensatory damages. The trial court also granted the plaintiff's motion to vacate that part of the 2004 order granting a new trial unless the parties agreed to an increase in compensatory damages to $500,000. RJRT posted a bond in the approximate amount of $8.018 million on 3 July 2007. B&W appealed from final judgment on 3 July 2007 to an intermediate New York State appellate court. Oral argument was heard on 28 January 2009. On 29 September 2009, the appellate court issued a decision modifying the final judgment by deleting the award of punitive damages, and remanding the case to the trial court for a new trial on the issue of punitive damages.

On 1 February 2005, a Missouri jury (*Smith*) awarded $500,000 in compensatory damages against B&W and then, on 2 February 2005, awarded $20 million in punitive damages, also against B&W. On 1 June 2005, B&W filed its notice of appeal. Oral argument was heard on 31 August 2006. On 31 July 2007, an intermediate Missouri appellate court affirmed the compensatory damages award, but it reversed the punitive damages award, reasoning that plaintiff failed to produce sufficient evidence to justify the verdict. The majority of the court would have remanded the case for a second trial, limited to punitive damages, but a dissenting judge transferred the case to the Missouri Supreme Court, as permitted by Missouri law. Oral argument was heard by the Missouri Supreme Court on 13 February 2008. On 31 July 2008, the Missouri Supreme Court transferred the case back to the intermediate appellate court for further proceedings. In a decision entered on 16 December 2008, the intermediate appellate court again upheld the award of compensatory damages and reversed the jury's award of $20 million in punitive damages, sending the case back to the trial court for a new trial on punitive damages. Following a new trial, on 20 August 2009, a Missouri jury returned a verdict awarding $1.5 million in punitive damages against B&W. On 24 September 2009, B&W filed a motion for a new trial and a motion for judgment notwithstanding the verdict, both of which remain pending. On the same date, the plaintiff filed a motion for additur, asking the court to increase the amount of punitive damages from $1.5 million to $20 million, and a motion to vacate, modify or set aside judgment, or in the alternative, for a new trial. Both of these motions remain pending.

On 18 March 2005, a New York jury (*Rose*) awarded $1.7 million in compensatory damages against B&W. On 18 August 2005, B&W filed its notice of appeal. RJRT posted a bond in the approximate amount of $2.058 million on 7 February 2006. Oral argument on this appeal was heard on 12 December 2006 by an intermediate New York appellate court. On 10 April 2008, the appellate court reversed the judgment in the plaintiff's favour and ordered that the case be dismissed. On 8 May 2008, the plaintiff filed a notice of appeal to New York's Court of Appeals. On 16 December 2008, the New York Court of Appeals affirmed the decision of the appellate court dismissing the plaintiff's complaint. On 14 January 2009, the plaintiff filed a motion seeking leave to reargue the 16 December 2008 decision and order of the New York Court of Appeals, which was denied by order dated 26 March 2009. Plaintiff filed a petition for a writ of certiorari in the U.S. Supreme Court in June 2009, which was denied on 5 October 2009.

Other claims

The Flintkote Company ("Flintkote"), a US asbestos production and sales company, was included in the acquisition of Genstar Corporation by Imasco in 1986 and became a Group subsidiary following the restructuring of Imasco Limited (now Imperial Tobacco Canada Limited, "**Imperial**") in 2000. Soon after this acquisition, and as part of the acquisition plan, Genstar began to sell most of its assets, including the non-asbestos related operations and subsidiaries of Flintkote. The liquidation of Flintkote assets produced cash proceeds and, having obtained advice from the law firm of Sullivan & Cromwell LLP and other advice that sufficient assets would remain to satisfy liabilities, Flintkote and Imasco authorised the payment of a dividend of $170.2 million in 1986 and a further dividend of $355 million in 1987. In 2003, Imperial divested Flintkote and then, in 2004, Flintkote filed for bankruptcy in the United States Bankruptcy Court for the District of Delaware. In 2006, Flintkote, representatives of both the present and future asbestos claimants, and individual asbestos claimants were permitted by the bankruptcy court to file a complaint against Imperial and numerous other defendants including Sullivan & Cromwell LLP, for the recovery of the dividends and other compensation under various legal and equitable theories. Sullivan & Cromwell LLP and Imperial have since filed cross complaints against each other. The parties are presently engaged in case management discussions to establish the scope and manner of discovery in this case. It is estimated that this case will proceed to a jury trial in 2010.

Although the Flintkote litigation is at a preliminary stage the judge has stated an intention to determine two discrete issues for resolution either through evidentiary hearings or trial in an effort to simplify or clarify the determinative issues in the litigation. The first issue the judge is considering in separate proceedings is whether Flintkote's claim for malpractice against Sullivan & Cromwell LLP is time barred. This will include consideration as to whether Sullivan & Cromwell LLP's representation of Flintkote was continuous and the scope of this inquiry may require findings of fact impacting upon Imperial's involvement in this first issue. The second issue involves an enquiry into the two dividends and whether they were fraudulently transferred. A hearing on these issues is expected on 26 February 2010.

In Wisconsin, the authorities have identified potentially responsible parties ("**PRPs**") to fund the clean up of the Fox River, Wisconsin. The pollution was caused by the alleged discharges of toxic material from paper mills operating close to the river. The cost of the clean up work has been estimated to be in the order of $600 million. Among the potentially responsible parties are NCR Corporation ("**NCR**") and Appleton Papers Inc. ("**Appleton**") who may be liable for a proportion of the clean up costs. In 1978, Industries purchased what was then NCR's Appleton Papers Division from NCR. In 1978, Industries also incorporated a US entity by the name of BATUS, Inc. ("**BATUS**"), which in 1980 became the holding company for all of Industries' US subsidiaries, including Appleton. As the holding company, BATUS obtained insurance policies for itself and its subsidiaries that included coverage for certain environmental liabilities. Industries/BATUS spun off the Appleton business in 1990 to Wiggins Teape Appleton p.l.c. and Wiggins Teape Appleton

(Holdings) p.l.c., now known as Arjo Wiggins Appleton Ltd. and Arjo Wiggins US Holdings Ltd. (collectively, the "**AWA Entities**"), obtaining full indemnities from AWA Entities for past and future environmental claims. Disputes between NCR, Appleton, the AWA Entities, and Industries as to the indemnities given and received under the purchase agreement in 1978 have been the subject of arbitrations in 1998 and 2006. Under the terms of the arbitration awards, Industries and Appleton/the AWA Entities have an obligation to share the costs of environmental claims with NCR, but Industries has never been required to pay any sums in this regard because Appleton and the AWA Entities have paid any sums demanded to date, and the authorities have not identified Industries or BATUS as PRPs. It is believed that all future environmental liabilities will continue to be met directly by Appleton and the AWA Entities by self-funding or insurance cover and no demand will be made upon Industries. However, the risk for Industries in respect of the Fox River clean up is that Appleton and the AWA Entities will exhaust insurance policies beyond what Industries believes Appleton and the AWA Entities are entitled to under the demerger agreement, potentially leaving Industries with no insurance to call on should it be called on to contribute. There is currently a tolling agreement in place with regard to the differing interpretations of the provisions of the demerger agreement in this regard. Given the likelihood that the case will not be resolved for some time, Appleton, the AWA Entities, Industries and BATUS have agreed to extend the tolling agreement until 31 December 2009. If circumstances change, the agreement is terminable on notice. On 7 July 2009, the Wisconsin District Court granted the application of another party in the litigation, Georgia-Pacific, for issuance of a letter of request under the Hague Convention for the English courts' assistance in producing documents in control of BAT and its subsidiaries. The English High Court issued an order on 16 July 2009 for BAT and its subsidiaries to produce these documents relating to NCR, Wiggins Teape and their respective involvement in the production of carbonless copy paper in the 1960s. An application to set aside the order was served on 27 July 2009, although no hearing date has been set.

Settlement of State Health Care Reimbursement Cases

During 2003, agreement was reached on certain disputed MSA payments relating to MSA calculations based on 1999 and 2000 sales. This agreement resulted in a benefit of £27 million which is excluded from the 2003 costs shown in the consolidated audited annual accounts of BAT for the financial year ended 31 December 2004. In other developments, after an Independent Auditor found that the terms of the MSA were a 'significant factor' in market share losses experienced by signatories to the MSA in 2003, several US tobacco companies, including B&W, asserted their rights under the NPM (or Non-Participating Manufacturer) Adjustment provision of the MSA to recover a payment credit or offset - against their April 2006 payment obligations - for MSA payments made in April 2004 in respect of cigarettes shipped or sold in the US in 2003. The amount at stake exceeds $1 billion. The settling states oppose these MSA payment reduction claims and, in late April 2006, began filing motions in courts across the country seeking enforcement of certain MSA provisions and a declaration of the parties' rights under the NPM

Adjustment provision of the MSA. Defendants have opposed these motions, arguing that their NPM Adjustment claims must proceed instead to arbitration. To date, the overwhelming majority of MSA courts to decide these motions have ruled in defendants' favour. Subsequent proceedings have been initiated with respect to subsequent NPM Adjustments, and remain pending.

UK-Based Group Companies

At 9 October 2009, Industries was a defendant in the US in one class action, the Schwab case mentioned previously. In that case, Industries was substituted for BAT as a defendant. Investments had been served in one reimbursement case (*City of St. Louis*), the US Department of Justice case (see below), one anti-trust case (*Smith*, see below), two class actions (*Cleary* and *Schwab*) and two individual actions (*Eiser* and *Perry*).

Conduct-Based Claims

On 22 September 1999, the US Department of Justice brought an action in the US District Court for the District of Columbia against various industry members, including RJRT, B&W, Industries and Investments. Industries was dismissed for lack of personal jurisdiction on 28 September 2000. The Government sought to recover federal funds expended in providing healthcare to smokers who have developed diseases and injuries alleged to be smoking-related, and, in addition, sought, pursuant to RICO, disgorgement of profits the Government contends were earned as a consequence of a RICO 'enterprise'. On 28 September 2000, the district court dismissed the portion of the claim which sought recovery of federal funds expended in providing healthcare to smokers who have developed diseases and injuries alleged to be smoking-related. The non-jury trial of the RICO portion of the claim began on 21 September 2004, and ended on 9 June 2005. On 17 November 2004, the US Court of Appeals for the D.C. Circuit heard an appeal by the defendants against an earlier district court decision that disgorgement of profits is an appropriate remedy for the RICO violations alleged by the Government. On 4 February 2005, the Court of Appeals allowed the appeal, ruling that the government could not claim disgorgement of profits. On 17 October 2005, the US Supreme Court declined to hear the appeal by the US Government in respect of the claim for disgorgement of $280 billion of past profits from the defendants.

On 17 August 2006, the district court issued its final judgment, consisting of some 1,600 pages of factual findings and legal conclusions. The court found in favour of the government, and against certain defendants, including B&W and Investments. The court also ordered a wide array of injunctive relief, including a ban on the use of 'lights' and other similar descriptors beginning 1 January 2007. Compliance with the court-ordered remedies may cost RJRT and Investments millions of dollars. In addition, the Government is seeking the recovery of roughly $1.9 million in litigation costs. Defendants filed a motion to stay enforcement of the judgment shortly after the judgment was issued. The court denied defendants' stay motion on 28 September 2006. Defendants, including B&W and Investments, filed their notices of appeal to the Washington DC

Circuit Court of Appeals on 11 September 2006, and filed an emergency motion to stay the judgment before the same court on 29 September 2006. On 31 October 2006, the Court of Appeals granted defendants' motion to stay enforcement of the judgment pending the outcome of the appeal.

On 10 August 2007, defendants filed their initial appellate briefs to the Court of Appeals. All defendants filed a joint appellate brief, and Investments also filed its own brief which raised the issue of whether Congress intended for RICO to apply to extraterritorial conduct by a foreign defendant. On 19 November 2007, the Government filed its opposition and cross-appeal brief. Appellate briefing was completed in May 2008, and oral argument took place on 14 October 2008. On 22 May 2009, a three-judge appellate panel unanimously affirmed the district court's RICO liability judgment against Investments, Altria, Philip Morris, RJRT and Lorillard, ordered the dismissal of CTR and TI (two defunct U.S. trade associations that were not covered by the district court's injunctive remedies), and remanded for further factual findings and clarification as to whether liability should be imposed against B&W. The panel also remanded on four discrete issues relating to the remedies, including for the district court "to reformulate" the injunction on the use of low-tar descriptors "to exempt foreign activities that have no substantial, direct, and foreseeable domestic effects." The Government's cross-appeal seeking disgorgement of past profits and the funding of smoking education and cessation programmes was denied. Investments' petition for panel rehearing and rehearing en banc were filed on 31 July 2009 and was denied on 22 September 2009 by the Court of Appeals. On 28 September 2009, the defendants filed a motion to stay the issuance of a mandate returning the case to the district court (which will also act to stay remedial enforcement) pending review by the US Supreme Court. On 21 October 2009, the Court of Appeals granted the defendants a stay until 28 December 2009. The parties have until 21 December 2009 to file petitions for certiorari with the US Supreme Court.

In the *Daric Smith* case, purchasers of cigarettes in the State of Kansas brought a class action in the Kansas State Court against B&W, Investments and certain other tobacco companies seeking injunctive relief, treble damages, interest and costs. The allegations are that the defendants participated in a conspiracy to fix or maintain the price of cigarettes sold in the US, including the State of Kansas, in violation of the Kansas Restraint of Trade Act. Following a hearing on 8 December 2008, Investments identified relevant documents for discovery and Judge Smith (now retired) issued an order compelling disclosure of all of Investments' documents without an in camera review. On 15 October 2009, Investments filed a motion for reconsideration of Judge Smith's order. A decision on this is awaited.

Product Liability outside the United States

At 9 October 2009, active claims against the Group's companies existed in 21 markets outside the US but the only markets with more than five active claims were Argentina, Brazil, Canada, Chile,

Italy, Nigeria, and the Republic of Ireland. Recoupment actions are being brought in Canada, Argentina, Brazil, Colombia, Israel, Nigeria, Saudi Arabia and Spain.

There are also four class actions being brought in Brazil. In May 2008 a "lights" class action was brought in Israel against a number of parties including British American Tobacco's distributor and a preliminary hearing has been set for January 2010 to discuss preliminary motions and the schedule for a class certification hearing. In Israel, a healthcare recoupment claim was brought against Industries, B&W, Investments and B.A.T. (U.K. and Export) Limited ("**BATUKE**"), amongst others, by Clalit Health Services. The plaintiff claims damages of NIS 7.6 billion and seeks injunctive relief. On 29 March 2005, B&W, Investments and BATUKE argued for leave to appeal the denial of their application to dismiss the action on the grounds of remoteness and a decision from the Supreme Court on this issue is still awaited.

In March 2008, a claim was filed in the Sofia City Court of Bulgaria against 21 defendants, including the following BAT-affiliated companies: BAT Poland, BAT Investment Romania, House of Prince A/S, and Scandanavian Tobacco S.A.. The plaintiff purports to bring a collective claim for damages and regulatory relief on behalf of all affected smokers in Bulgaria under the new civil procedure laws enacted on 1 March 2008. On 24 September 2008, the claim was dismissed on procedural grounds, and the plaintiff appealed this ruling. On 11 November 2008 the Court of Appeal granted plaintiff's appeal against the decision of the Sofia City Court to dismiss the case before service. On 2 December 2008, the Sofia City Court discussed the plaintiff's youth advertising claim and ordered the plaintiff to meet various evidentiary and procedural conditions before proceeding further with this claim. The Sofia Court of Appeal upheld this decision. The plaintiff appealed the decision to the Supreme Court of Cassation, but appears to have failed to submit required materials to support his appeal in time. The matter has been returned to the Sofia Court of Appeal for a determination on whether an extension of time is warranted.

On 8 September 2008, a "lights" action was filed in the Savelovsky District Court of Moscow by the Ministry of Health and Social Development in Russia against OJSC British American Tobacco - Yava ("**BAT Yava**") and its retail distributor, CJSC 'International Tobacco Marketing Services'. The claim seeks a declaration from the court that the use of the words "light, superlight, and 1mg light" on cigarette packets of BAT Yava's low tar cigarettes are misleading and unlawful and further seeks the removal of these descriptors. The Ministry also has requested the court to order advertising by BAT Yava of the court's decision. BAT Yava filed a motion requesting the court to terminate the proceedings in the civil court based on the lack of subject matter jurisdiction. A preliminary hearing in the case re-scheduled for 13 November 2008 was concluded on 14 November 2008 with a successful challenge to the jurisdiction of the court. The plaintiff appealed from this decision and on 13 January 2009 the Moscow City Court reversed the ruling on jurisdiction and remanded the case to the District Court. On 5 March 2009, leave to appeal to the Presidium of the Moscow City Court was refused. Following a hearing on the merits which took place on 20 March 2009, the District Court dismissed the claim in full and judgment for the

defendants was handed down on 25 March 2009. The judgment was upheld by the Moscow City Court on 16 June 2009 following an appeal by the plaintiff. The plaintiff has until 16 December 2009 to apply for leave to appeal this decision.

In Canada, the government of the Province of British Columbia brought a claim pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2000 (the "**Recovery Act**") against domestic and foreign 'manufacturers' seeking to recover the plaintiff's costs of health care benefits. Investments, Industries and other former Rothmans Group companies are named as defendants. The constitutionality of the Recovery Act was challenged by certain defendants and, on 5 June 2003, the British Columbia Supreme Court found the Recovery Act to be beyond the competence of the British Columbia legislature and, accordingly, dismissed the government's claim. The government appealed the decision to the British Columbia Court of Appeal which, on 20 May 2004, overturned the lower court's decision and declared the Recovery Act to be constitutionally valid. Defendants appealed to the Supreme Court of Canada in June and that court gave its judgment in September 2005 dismissing the appeals and declaring the Act to be constitutionally valid. The action is now set down for trial in September 2011. The federal Government was enjoined by a Third Party Notice, and presented a Motion to Strike the claim. The hearing took place during the week of 3 March 2008 and the Court found in favour of the federal Government. The defendants appealed that decision and the hearing was held during the week of 1 June 2009 and is now under advisement. This appeal has previously been consolidated with the Knight appeal (discussed below).

Non-Canadian defendants challenged the personal jurisdiction of the British Columbia Court and those motions were heard in the Supreme Court of British Columbia. On 23 June 2006, the court dismissed all defendants' motions, finding that there is a 'real and substantial connection' between British Columbia and the foreign defendants. Subsequently, defendants were granted leave to appeal that ruling to the Court of Appeal of British Columbia. The appeal was dismissed on 15 September 2006. Defendants filed leave to appeal to the Supreme Court on 10 November 2006, and that application was denied on 5 April 2007.

In another Canadian recoupment case, the government of the Province of New Brunswick has brought a health care recoupment claim against domestic and foreign tobacco "manufacturers", pursuant to the provisions of the Recovery Act passed in that Province in June 2006. BAT, Investments, Industries and Carreras Rothmans Limited have all been named as defendants. The government filed a statement of claim on 13 March 2008. The Group Defendants were served with the Notice of Action and Statement of Claim on 2 June 2008. A case management conference was held on 8 January 2009 so that other defendants could challenge the use of a contingent fee arrangement for the plaintiff's lawyer. This challenge was refused at first instance, however Imperial has been partly granted leave to appeal the refusal of their challenge to the contingency fee arrangement. The UK defendants' participation in the case has so far been limited to scheduling their challenge against the court's jurisdiction over them. BAT, Investments, Industries

and Carreras Rothmans Limited (the "**UK Companies**") are now required to file jurisdiction motions before the end of 2009.

The government of the Province of Ontario have also filed a $50 billion Canadian dollar health care recoupment claim against domestic and foreign tobacco "manufacturers", pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2009. The UK Companies have all been named as defendants. Imperial was served on 30 September 2009 and the UK companies were served on 8 October 2009.

Similar legislation has been enacted in some other Canadian provinces (although not all of these provinces have brought the legislation into force), and similar legislation is also being considered by other Canadian provinces.

Overall, there are eight class actions and four individual cases in Canada. In the Knight class action, the Supreme Court of British Columbia certified a class of all consumers of cigarettes bearing 'light' or 'mild' descriptors since 1974 manufactured in British Columbia by Imperial, the Group's operating company in Canada. Imperial filed an appeal against the certification which was heard in February 2006. The Appeal Court confirmed the certification of the class but has limited any financial liability, if proved, to the period from 1997. This is a 'lights' class action in which plaintiff alleges that the marketing of light and mild cigarettes is deceptive because it conveys a false and misleading message that those cigarettes are less harmful than regular cigarettes. Although the claim arises from health concerns, it does not seek compensation for personal injury. Instead it seeks compensation for amounts spent on 'light and mild' products and a disgorgement of profits from Imperial. The motion of the Federal Government to strike out the third party notice issued against them by Imperial was heard in February 2006 and was granted but was appealed by Imperial and the appeal was heard in the week of 8 June 2009 in conjunction with the British Columbia health care recoupment claim. The outcome of that appeal is now under advisement.

A similar 'lights' and 'mild' class action claim has been filed in Newfoundland. Imperial has filed a third party notice against the Federal Government. The certification hearing took place in September 2007 and on 29 December 2008 the court denied certification and ruled in favour of Imperial. The plaintiffs filed leave to appeal and their application should be heard in November 2009.

There are currently two class actions in Quebec. On 21 February 2005, the Quebec Superior Court granted certification in two class actions, which have a combined value of $20 billion Canadian dollars. The court certified two classes, which include residents of Quebec who suffered from lung, throat and laryngeal cancer or emphysema, and residents who were addicted to nicotine at the time the proceedings were filed and who have since remained addicted. In Quebec, there is no right of appeal for a defendant upon certification. Plaintiffs have served a Statement of

Claim. This litigation is expected to take several years to proceed to trial and it is not expected to be heard prior to 2012.

In June 2009, four new smoking and health class actions were filed in Nova Scotia, Manitoba, Saskatchewan and Alberta, against Canadian manufacturers and foreign companies, including the UK Companies and Imperial. There are service issues in relation to the UK Companies for Alberta and Manitoba. In Saskatchewan, the UK Companies have served Notices of Motion challenging jurisdiction although these will be adjourned until a designated case management judge is appointed. Proceedings in these four smoking and health class actions have also been served on Imperial.

As at 9 October, Group companies had purportedly been served in health care recoupment actions brought by eight Nigerian states (Lagos, Kano, Gombe, Oyo, Akwa Ibom, Ogun, Ondo, Ekiti) and the federal government of Nigeria, each seeking the equivalent of billions of US Dollars for costs allegedly incurred by the state and federal governments in treating smoking-related illnesses. British American Tobacco (Nigeria) Limited ("**BAT Nigeria**") has been named as a defendant in each of the cases; BAT and Investments have been named as defendants in seven of the cases. At 9 October 2009, the actions that had been filed by the Attorneys-General of Ondo State and of Ekiti State were voluntarily discontinued by the plaintiffs without prejudice to refile by notices dated 5 October 2009 and 18 June 2009, respectively.

On 21 February 2008, the Lagos action was voluntarily discontinued by the plaintiffs. On 13 March 2008, the Lagos Attorney General filed a substantially similar action which was marked as "qualified" under Lagos State's "Fast-Track" system. The "Fast-Track" system provides for resolution of the dispute within an eight-month time-period after filing. BAT Nigeria, BAT and Investments have all been served in the new action, and have filed preliminary objections. At a hearing on 16 September 2008, because service was yet to be completed on all defendants, the Court directed that the case no longer qualified to be heard on the "Fast Track". On 18 September 2009, the court issued a ruling denying the preliminary objections filed by BAT and Investments on the basis that the court was competent to hear the case as it related to those defendants, that BAT and Investments are necessary parties to the action and that the suit therefore was not liable to be struck out as against those defendants. On 2 October 2009, BAT and Investments filed notices of appeal from the entirety of the court's ruling as it related to their respective objections. On 15 October and 19 October 2009, respectively, BAT and Investments filed motions to stay all proceedings pending the resolution of their appeals. The motions remain pending before the High Court of Lagos State.

On 8 July 2008, the High Court of Gombe State issued a ruling on the preliminary objections filed by BAT, Investments and other defendants in the case, setting aside the service on all defendants and striking out the Gombe suit. In its decision, the court held that the writs served on the defendants were invalid, the plaintiff had failed to pay the requisite filing fees, and that based on

these filing defects, the court was not competent to assume jurisdiction. In its decision, the court stated, however, that the plaintiff, through its statement of claim and affidavit evidence filed in support of its ex parte motion for leave to serve outside the jurisdiction, had satisfied the requirements for service outside the jurisdiction. Although the plaintiff has not appealed from the court's decision, the plaintiff has filed a renewed action in the High Court of Gombe State. BAT Nigeria, BAT and Investments have filed notices of preliminary objection in the renewed action. At 9 October 2009, not all of the named defendants in the action had yet been served.

In the Oyo and Kano State cases, the courts have adjourned hearing of the matters, respectively, until 14 and 21 January 2010 for ruling on the preliminary objections previously filed by BAT and Investments. The preliminary objections filed by BAT Nigeria remain pending before these courts.

In Ogun, the preliminary objections filed by BAT Nigeria, BAT and Investments are scheduled for hearing on 14 December 2009.

BAT Nigeria was never served in the Akwa Ibom case and, at a hearing on 21 July 2009, the court dismissed BAT Nigeria from the action. BAT and Investments have filed preliminary objections that remained pending before the court at 9 October 2009. Subsequently, at a hearing on 19 October 2009, the court dismissed the action in its entirety without prejudice based on the plaintiff's failure to diligently prosecute the case.

Each of the BAT defendants have filed preliminary objections to the action brought by the federal government of Nigeria. At 9 October 2009, the court had yet to hear any of the objections filed by these companies as not all of the named defendants in the suit had been served.

In Saudi Arabia, there are reports that the Ministry of Health is pursuing a health-care recoupment action in the Riyadh General Court against a number of distributors and agents. As at 9 October 2009, no Group company has been served with process. The Ministry of Health is reportedly seeking damages of at least 127 billion Saudi Riyals. The case has reportedly been adjourned to 31 October 2009.

In addition, a separate recoupment action has reportedly been filed by the King Faisal Specialist Hospital in the Riyadh General Court, naming 'BAT Company Limited' as a defendant. As at 9 October 2009, no Group company had been served with process in the action.

In early 2006, the Junta de Andalucia, in Spain, filed a recoupment action against the State and tobacco companies (including BAT Espana SA) before the contentious-administrative courts. The State filed preliminary objections to the Junta’s claim, with tobacco companies filing supporting briefs. The court upheld these preliminary objections and dismissed the claim in November 2007. The Junta appealed this decision before the Supreme Court and BAT Espana SA filed its opposition to the appeal in May 2009. The appeal was scheduled for decision in September 2009 and a judgment is expected in the coming months. In May 2009, the Junta also filed a new

contentious-administrative claim following inactivity on the previous claim. These proceedings are still progressing.

British American Tobacco (South America) Limited was served on 18 July 2008 in a public interest action that has a recoupment component. The case was brought by two Colombian citizens alleging that the defendant violated numerous "collective" interests and rights of the Colombian population. In addition to equitable and injunctive relief being sought, plaintiffs are seeking 25 per cent. of smoking-related health-care costs since the time that British American Tobacco has been operating in Colombia. BAT Colombia initially filed preliminary objections to the action, with a view to joining the claim with another class action, the Sandra Florez action, (which made substantially similar allegations and sought similar relief). However, as the Florez case was decided in BAT Colombia favour in September 2009, BAT Colombia will submit a full defence in due course.

In 1995, the ADESF class action was filed against BAT Souza Cruz and Philip Morris Brazil in the São Paulo Lower Civil Court alleging that the defendants are liable to a class of smokers and former smokers for failing to warn of cigarette addiction. The case was stayed in 2004 pending the defendants' appeal from a decision issued by the lower civil court on 7 April 2004. That lower court decision held that the defendants had not met their burden of proving that cigarette smoking was not addictive or harmful to health, notwithstanding an earlier interlocutory order that the São Paulo Court of Appeals had issued, which directed the trial court to allow more evidence to be taken before rendering its decision. On 12 November 2008, the São Paulo Court of Appeals overturned the lower court's unfavourable decision of 2004, finding that the lower court had failed to provide defendants with an opportunity to produce evidence. The case now returns to the lower court for production of evidence and a new judgment. On 19 March 2009, the Lower Civil Court ordered the previous court-appointed medical expert to be replaced and a new advertising expert appointed. The parties have submitted questions to the court appointed medical expert who is expected to file his responses in November 2009.

In August 2007, the São Paulo Public Prosecutors office filed a recoupment claim against Souza Cruz. A similar claim was lodged against Philip Morris. Souza Cruz's motion to consolidate the two claims was rejected and instead this case was removed to a lower court. Souza Cruz has now filed a motion to reconsider the refusal for consolidation and an interlocutory appeal against assignment to the lower court.

The Brazilian Association for the Defense of Consumers' Health (Saudecon) filed a class action against Souza Cruz in the City of Porto Alegre, Brazil on 3 November 2008. Plaintiff purports to represent all Brazilian smokers whom, it alleges, are unable to quit smoking and lack access to cessation treatments. Plaintiff is seeking an order requiring the named defendants to fund, according to their market share, the purchase of cessation treatments for these smokers over a minimum period of two years. Souza Cruz was served with this complaint on 19 November 2008. On 18 May 2009, the case was dismissed with judgment on the merits. The plaintiffs appealed in

August 2009 and Souza Cruz and PM Brazil both responded. The parties are now awaiting judgment from the State Court of Appeal's 10th Civil Chamber.

A class action was filed against Souza Cruz by the Association of Exploited Consumers of the Federal District, requesting a court order to prevent Souza Cruz selling cigarettes in Brazil. In December 2006, the Federal District Court of Appeals confirmed a favourable lower court decision which had found the claim groundless and unlawful. The plaintiff appealed that ruling, but on 12 March 2009 the Superior Court affirmed the ruling and rejected the plaintiff's appeal. The plaintiff appealed again, but on 23 March 2009, in an unanimous decision, the Superior Court rejected the plaintiff's appeal. An appeal is now pending before the Federal Supreme Court.

The Venezuelan Federation of Associations of Users and Consumers filed a class action against the Venezuelan Government seeking regulatory controls on tobacco and recoupment of medical expenses for future expenses of treating smoking-related illnesses in Venezuela. BAT has notified the court of its intention to appear as a third party and the hearing of this motion was adjourned and no new date has yet been scheduled.

Individual personal injury claims and on-going trials

At 9 October 2009, there were fewer than 700 (compared to approximately 1,000 cases in July 2008) individual 'lights' cases in Italy pending against British American Tobacco Italia S.p.A before the justice of the peace courts. In addition, in 2007, 2,230 cases were filed by a single plaintiffs' counsel in one jurisdiction (Pescopagano). The court has now confirmed the withdrawal of the great majority of these claims. Because of the type of court involved, the most that any individual plaintiff can recover in damages is €1,033, plus €1,000 in costs and an additional €3,000 for enforcement proceedings. As of 9 October 2009, approximately 3,500 cases have been suspended or resulted in decisions given in favour of British American Tobacco Italia S.p.A. There are 41 (compared to 35 at 31 July 2008) smoking and health cases pending before Italian Civil Courts, filed by or on behalf of individuals in which it is contended that diseases or deaths have been caused by cigarette smoking. There are two (compared to three at 31 July 2008) labour cases for alleged occupational exposure pending in Italy. There are also six smoking and health cases and one labour case on appeal.

In 2008, three individual smoking and health actions against British American Tobacco Finland Oy, collectively seeking a total of approximately €349,329 plus interest in damages for lung cancer, hypertension, addiction, and chronic obstructive pulmonary disease allegedly due to smoking and environmental tobacco smoke exposure and €1.3 million in legal costs, were jointly tried in Finland. On 10 October 2008, the Helsinki District Court dismissed the plaintiffs' claims in their entirety. Two of the original plaintiffs have pursued appeals from the respective judgments of the District Court dismissing their claims. A joint *de novo* trial of the appeals began on 31 August 2009

before the Helsinki Court of Appeal, and is expected to conclude in December 2009. The judgments are anticipated during the first quarter of 2010.

Aside from the US, Italy and Finland there are approximately 402 individual smoking and health cases pending world-wide as at 9 October against Group companies that are not detailed here. Over three-quarters of these cases are in Brazil.

Other Litigation outside the US

In September 2008, a new action was commenced by a minority shareholder against BAT-Yava and BAT Holdings (Russia) BV in relation to approval of interested party transactions. The value of the claim is 4,362, 537, 236 roubles and the hearing is currently planned for April 2010.

In November 2004, the Royal Canadian Mounted Police (the "RCMP") obtained a warrant to search and seize business records and documents at the head office of Imperial in Montreal. The affidavit filed by the RCMP to obtain the search warrant made allegations in relation to the smuggling of cigarettes in Canada between 1989 and 1994, naming Imperial, BAT, Industries, Philip Morris, and certain former directors and employees of these companies. In July 2008, Imperial entered into a plea of guilty to a violation of a single count of section 240(1)(a) of the Canadian Excise Act and paid a fine of Cdn$200 million. Imperial thereafter obtained full immunity from further prosecution and civil proceedings from the federal and all 10 provincial governments in Canada. Imperial also entered into a 15-year civil agreement with the federal and provincial governments of Canada, under which Imperial, the federal government, the provinces and others will work together on initiatives to fight the growth of illegal tobacco products. The agreement further requires a payment of Cdn$50 million in 2008 and a percentage of Imperial's annual net sales revenue going forward for fifteen years up to a maximum of Cdn$350 million.

Tax Litigation

The BAT Group is the principal test claimant in a widely publicised action in the United Kingdom against HM Revenue and Customs in the Franked Investment Income Group Litigation Order ("FII GLO"). There are over 20 companies in the FII GLO. The case relates to whether the UK corporate tax law relating to the taxation of dividends from overseas and the system of Advance Corporation Tax was in breach of the UK government's European Community obligations. The claim was filed in 2003 and the case was heard in the European Court of Justice in 2005 and a decision of the ECJ received in December 2006. In July 2008, the case reverted to a trial in the UK High Court for the UK Court to determine how the principles of the ECJ decision should be applied in a UK context. A decision of the UK Court was handed down in November 2008 and concluded, amongst other things, that dividends from EU subsidiaries should be, and should have been, exempt from UK taxation. Claims for the repayment of UK tax incurred where the dividends were from the EU can be made back to 1973, however, no monetary claim has yet been filed against HM Revenue and Customs. Given the complex nature of the proceedings, it is too early to reliably

quantify the amount of any possible monetary claim that may be made, however tentative estimates have estimated that receivables from the judgment could be around £1.2 billion for BAT. An appeal has recently been heard in the Court of Appeal although judgment is not expected for some time.

In August 2006, the Australian Tax Office issued an Amended Assessment to British American Tobacco Australia Services Limited ("**BATAS**") as a consequence of the transfer in 1999 of certain trade marks, copyright and know-how from Wills Australia to RPMA. The transfer was undertaken as part of a global merger. A notice of objection to this assessment was filed by BATAS in October 2006 but rejected by the ATO. BATAS filed a notice of appeal in the Federal Court of Australia and a trial was held in October 2009, with judgment reserved.

Conclusion

While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Group believes that the defences of the Group's companies to all these various claims are meritorious on both the law and the facts, and a vigorous defense is being made everywhere. If an adverse judgment is entered against any of the Group's companies in any case, an appeal will be made. Such appeals could require the appellants to post appeal bonds or substitute security in amounts which could in some cases equal or exceed the amount of the judgment. In any event, with regard to US litigation, the Group has the benefit of the RJRT Indemnification. At least in the aggregate, and despite the quality of defences available to the Group, it is not impossible that the Group's results of operations or cash flows in particular quarterly or annual periods could be materially affected by this and by the final outcome of any particular litigation.

Having regard to all these matters, the Group (i) does not consider it appropriate to make any provision in respect of any pending litigation and (ii) does not believe that the ultimate outcome of this litigation will significantly impair the Group's financial condition.