B.A.T CAPITAL CORPORATION

Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

B.A.T CAPITAL CORPORATION

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KPMG LLP
Suite 400
300 North Greene Street
Greensboro, NC 27401

Independent Auditors' Report

The Board of Directors
B.A.T Capital Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of B.A.T Capital Corporation, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of B.A.T Capital Corporation as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Greensboro, North Carolina
May 16, 2018

B.A.T CAPITAL CORPORATION

Balance Sheets

December 31, 2017 and 2016

(Dollars in thousands)

Assets	**2017**	**2016**
Current assets:		
Cash and cash equivalents	$ 165,089	$ —
Due from affiliates	79,301	10,050
Guarantee fee receivable from affiliate	72,338	—
Accrued interest receivable from affiliate	234,624	—
Other amounts due from affiliates	305,501	—
Total current assets	856,853	10,050
Long-term assets:		
Loan receivable from affiliate	19,923,641	—
Derivative financial instruments	83,391	—
Deferred income tax assets, net	62,792	—
Total assets	$ 20,926,677	$ 10,050
Liabilities and Shareholder's Equity		
Current liabilities:		
Due to affiliate	$ 225,747	$ —
Guarantee fee payable to affiliate	72,338	—
Accounts payable and accrued liabilities	147	1
Accrued interest payable	216,191	—
Derivative financial instruments	119	—
Income taxes payable	109,798	3
Total current liabilities	624,340	4
Long-term liabilities:		
Long-term debt	19,999,599	—
Total liabilities	20,623,939	4
Shareholder's equity:		
Common shares, $1 par value (2,000 shares authorized, issued and outstanding)	2	2
Additional paid-in capital	334,999	9,999
Accumulated earnings	(32,263)	45
Total shareholder's equity	302,738	10,046
Total liabilities and shareholder's equity	$ 20,926,677	$ 10,050

See accompanying notes to financial statements.

B.A.T CAPITAL CORPORATION

Statements of Operations

Years ended December 31, 2017 and 2016

(Dollars in thousands)

	2017	2016
Interest income	$ 287	$ 21
Interest income from affiliates	287,025	—
Guarantee fee reimbursement from affiliate	72,338	—
Other reimbursement income from affiliates	383,052	—
Total income	742,702	21
Interest expense	252,759	—
Interest expense to affiliates	29,612	—
Guarantee fees to affiliate	72,338	—
Net loss on derivatives	235,865	—
Foreign exchange loss	75,758	—
Fees and expenses incurred for acquisition credit facility	61,083	—
General and administrative expenses	589	12
Total expenses	728,004	12
Income before income taxes	14,698	9
Income tax expense	47,006	3
Net (loss) income	$ (32,308)	$ 6
Comprehensive (loss) income	$ (32,308)	$ 6

es to financial statements.

B.A.T CAPITAL CORPORATION

Statements of Shareholder's Equity

Years ended December 31, 2017 and 2016

(Dollars in thousands)

	Common shares				Additional		Accumulated		
	Shares		**Amount**		**paid-in-capital**		**earnings**		**Total**
Balance at December 31, 2015	2,000	$	2	$	9,999	$	6,189	$	16,190
Net Income	—		—		—		6		6
Dividends	—		—		—		(6,150)		(6,150)
Balance at December 31, 2016	2,000		2		9,999		45		10,046
Net Loss	—		—		—		(32,308)		(32,308)
Capital Contribution from Parent	—		—		325,000		—		325,000
Balance at December 31, 2017	2,000	$	2	$	334,999	$	(32,263)	$	302,738

See accompanying notes to financial statements.

B.A.T CAPITAL CORPORATION

Statements of Cash Flows

Years ended December 31, 2017 and 2016

(Dollars in thousands)

	2017	2016
Cash flows from operating activities:		
Net (loss) income	$ (32,308)	$ 6
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Amortization of loan fees received from affiliate	(3,062)	—
Amortization of debt issuance costs	3,235	—
Foreign exchange losses	75,758	—
Derivative losses, net	235,865	—
Deferred income tax expense	(62,792)	—
Other changes that provided (used) cash:		
Increase in accrued interest receivable from affiliate	(234,624)	—
Increase in other amounts due from affiliates	(305,501)	—
Decrease in other receivables	—	18
Increase in accounts payable and accrued liabilities	146	4
Increase in accrued interest payable	216,191	—
Increase in income taxes payable	109,795	—
Increase in interest payable derivative financial instruments	8,134	—
Net cash flows from operating activities	10,837	28
Cash flows (used in) from investing activities:		
Net proceeds from investments with affiliates	156,496	6,122
Proceeds received from repayment of loans made to affiliate	20,000,000	—
Loans to affiliate	(40,004,459)	—
Loan fees received from affiliate	83,880	—
Net cash flows (used in) from investing activities	(19,764,083)	6,122
Cash flows from (used in) financing activities:		
Dividends paid	—	(6,150)
Capital contribution from parent	325,000	—
Repayment of acquisition credit facility	(20,000,000)	—
Borrowings under acquisition credit facility	20,000,000	—
Proceeds from issuance of notes, net of discount	20,000,383	—
Payment of debt issuance costs and financing fees	(79,777)	—
Payment on termination of derivative contracts	(327,271)	—
Net cash flows from (used in) financing activities	19,918,335	(6,150)
Net increase in cash	165,089	—
Cash and cash equivalents – beginning of year	—	—
Cash and cash equivalents – end of year	$ 165,089	$ —
Supplemental cash flow information:		
Interest paid	$ 33,333	$ —
Income taxes refunded	$ —	$ 18

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements present the financial position, results of operations and cash flows of B.A.T Capital Corporation, referred to as the Company, an indirect wholly owned subsidiary of British American Tobacco p.l.c., referred to as BAT, a company incorporated under the laws of England and Wales. Until December 7, 2016, the Company was a direct subsidiary of BAT. On December 7, 2016, following a sale of the Company by BAT to Louisville Securities Limited, referred to as LSL, the Company was purchased by BATUS Holdings Inc., referred to as BHI, from LSL pursuant to a stock purchase agreement and BHI became the sole stockholder and parent of the Company. The sale and purchase were at carrying value as the entities were under common control. The Company, incorporated in Delaware, has 2,000 common shares authorized, issued and outstanding with a par value of one dollar per share. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

(b) Nature of Business

The Company is a U.S. finance company that has historically been an issuer and a guarantor under the BAT Euro Medium Term Note Programme, referred to as the EMTN Program, (see note 3 and note 8) and has provided financing and cash management services to BAT companies in the U.S. Other than its role as a guarantor, the Company had been inactive for several years prior to 2017. On July 24, 2017, the Company borrowed $20 billion from a syndicate of third party banks under a bridge facility agreement and loaned the proceeds to BHI to fund a portion of the acquisition price paid to purchase the remaining 58% of Reynolds American Inc., referred to as RAI, not already owned by the BAT group, referred to as the RAI merger. On August 15 and August 16, 2017, the Company repaid the borrowings under the bridge facility agreement and issued approximately $20 billion of notes denominated in US dollars (USD), British pounds sterling (GBP) and euros (EUR) with tenors ranging from 3 years to 30 years.

Subsequent to the merger, in addition to the financing provided to BHI, the Company is providing financing and cash management services to RAI. In addition, the Company guarantees certain debt of B.A.T. International Finance p.l.c., referred to as BATIF, an affiliated subsidiary of BAT.

(c) Cash and Cash Equivalents

Cash and cash equivalents may include money market funds, commercial paper and time deposits in major institutions to minimize investment risk. As short-term, highly liquid investments readily convertible to known amounts of cash, with remaining maturities of three months or less at the time of purchase, cash equivalents have carrying values that approximate fair values.

The Company’s cash is swept into a cash pooling structure managed by BATIF. The Company has an In-House Cash, or IHC, account which represents its interest in the cash pooling structure and amounts in the Company’s IHC account are due on demand and earn interest. As further discussed below in note 5, the IHC agreement provides the Company with a $900.0 million overdraft facility.

(d) Fair Value Measurement

The Company determines the fair value of assets and liabilities using a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity, and the reporting entity’s own assumptions about market participant assumptions based on the best information available in the circumstances.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price.

The levels of the fair value hierarchy are:

Level 1: inputs are quoted prices, unadjusted, in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. A Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: inputs are unobservable and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

(e) ***Derivative Financial Instruments***

The Company uses derivative instruments to manage certain interest rate and foreign currency risks. All derivative contracts for the Company are with BATIF, accordingly all counterparty exposure is with BATIF.

Derivatives are recognized on the Company's balance sheets at fair value and are classified according to their asset or liability position and the expected timing of settlement. Changes in the fair values of derivatives are recorded in net income (loss) or other comprehensive income (loss) based on whether the instrument is designated and effective as a hedge transaction and, if so, the type of hedge transaction.

(f) ***Income Taxes***

The Company accounts for income taxes in accordance with the provision of Accounting Standards Codification 740, *Income Taxes*, referred to as ASC 740. ASC 740 applies an asset and liability approach that requires the recognition of deferred tax assets and liabilities with respect to the expected future tax consequences of events that have been recognized in the financial statements and tax returns. The effect of a change in tax rates on deferred tax assets and liabilities are recognized in income from continuing operations in the period that includes the enactment date.

The Company currently includes all of the tax effects in other comprehensive income until the underlying asset or liability that creates the other comprehensive income is disposed of or settled, at which time such tax effects would be released into income from continuing operations. The Company has not yet adopted ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*.

Uncertain income tax benefits are recognized only if they are "more likely than not" to be sustained based solely on their technical merits as of the reporting date. The more likely than not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more likely than not to be sustained based solely on its technical merits, no benefits of the tax position are to be recognized. The more likely than not threshold must continue to be met in each reporting period to support recognition of a benefit.

The Company did not have any uncertain tax positions for 2017 or 2016. The federal statute of limitations remains open for tax years 2014 through 2017.

(g) ***Accounting Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

(h) ***Contingencies***

In accordance with ASC 450, *Contingencies*, the Company records any loss related to a contingency at the time that likelihood of a loss becomes probable and the amount of the loss can be reasonably estimated. When the reasonable estimate is a range, the best estimate within that range will be recorded. When no amount within the range is more likely, the lowest amount within the range will be recorded. No such amounts were recorded for the years ended December 31, 2017 and 2016.

(i) ***Subsequent Events***

Subsequent events have been evaluated through May 16, 2018, the date the financial statements were issued.

(2) Acquisition Credit Facility

In January 2017, BAT and RAI entered into the RAI merger agreement to acquire the remaining 58% of RAI's outstanding common stock not already owned by BAT. In connection with the signing of the merger agreement, the Company and BATIF entered into a $25 billion multi-currency facility, referred to as the acquisition facility, that was utilized to fund the cash portion of the merger consideration. The acquisition facility provided for advances under four different tranches, with Facilities A and B being drawn down by the Company, and Facilities C and D being drawn down by BATIF. Facility A had a term of twelve months and Facility B had a term of 24 months, each with two six-month extensions available at the option of BAT. The rate of interest for advances under Facility A was USD London Inter-Bank Offered Rate, referred to as LIBOR, plus an applicable margin of 0.5125% with such margin subject to increases with the passage of time. The rate of interest for advances under Facility B was USD LIBOR plus an applicable margin of 0.5625% with such margin subject to increases with the passage of time. The acquisition facility also provided for payment of a syndication fee and certain up-front, duration, extension and commitment fees that varied for each tranche and were due upon achievement of certain milestones. The acquisition facility was guaranteed by BAT.

On July 24, 2017, the Company borrowed $15 billion under Facility A and $5 billion under Facility B of the acquisition facility, the maximum amount available to be borrowed under each facility, and immediately loaned the $20 billion in proceeds to BHI under two separate loan agreements with similar terms to the acquisition facility (discussed further below). On July 25, 2017, in a cash and stock transaction valued at approximately $54.5 billion, BHI acquired the remaining outstanding common stock of RAI.

The Company repaid Facility A in full on August 15, 2017. The Company repaid Facility B in full with payments of $2.25 billion and $2.75 billion on August 15, 2017 and August 16, 2017, respectively. The Company incurred interest expense of approximately $21.2 million for the borrowings under the acquisition facility while they were outstanding.

The Company expensed $61.1 million in fees and expenses incurred for the acquisition facility when the acquisition facility was terminated.

(3) Long-Term Debt

Revolving Credit Facillity

In connection with the RAI acquisition, the Company, along with other subsidiaries of BAT and with BAT as Guarantor, entered into a two-tranche £6.0 billion forward starting revolving credit facility, which consists of a £3.0 billion 364-day revolving credit facility (with a one-year extension option and a one-year term-out option), and a £3.0 billion revolving credit facility, maturing in 2021. The Company had no amounts outstanding under either revolving credit facility as of December 31, 2017.

Long-term Notes

On August 15, 2017 and August 16, 2017, the Company refinanced the acquisition facility with proceeds from the issuance of approximately $20 billion in notes consisting of $17.25 billion in USD denominated notes, $2.2 billion equivalent in EUR denominated notes, and $0.6 billion equivalent in GBP denominated notes, in the aggregate referred to as the BATCAP Notes.

The notes denominated in GBP and EUR were sold to investors under the existing EMTN program. The maturity date for the USD denominated bonds vary between 3 and 30 years. The maturity date for the EUR denominated bonds is between 4 and 6.25 years, and the maturity date for the GBP denominated bonds is 8 years. Under the terms of the program, the bonds were guaranteed by BAT, BATIF and certain other BAT affiliates.

The Company had no long-term debt outstanding at December 31, 2016.

The BATCAP Notes were issued net of discounts of $4.2 million and the Company paid $79.8 million in fees and expenses. The discounts and debt issuance costs are being amortized to interest expense over the life of the respective notes.

The EUR denominated debt and GBP denominated debt is valued using the foreign denominated face value and the related spot rate for the respective currency at the respective measurement date. Accordingly, for 2017, the Company recognized a loss of $75.5 million for the revaluation of the carrying value of the EUR denominated debt and GBP denominated debt to the December 31, 2017 spot rate. Details of the BATCAP Notes at carrying value, including a schedule of maturities, included in the Company's long-term debt is as follows (in thousands):

	For the years ended December 31,	
	2017	**2016**
USD notes:		
2.297% notes due 08/14/2020	$ 2,250,000	$ —
3 month LIBOR plus 0.59% notes due 08/14/2020	1,000,000	—
3 month LIBOR plus 0.88% notes due 08/15/2022	750,000	—
2.764% notes due 08/15/2022	2,250,000	—
3.222% notes due 08/15/2024	2,500,000	—
3.557% notes due 08/15/2027	3,500,000	—
4.390% notes due 08/15/2037	2,500,000	—
4.540% notes due 08/15/2047	2,500,000	—
EUR notes:		
3 month EURIBOR plus 0.5% notes due 08/16/2021, face value €1,100,000,000	1,320,879	—
1.125% notes due 11/16/2023, face value €750,000,000	900,600	—
GBP notes:		
2.125% notes due 08/15/2025, face value £450,000,000	608,737	—
Total principal	20,080,216	—
Unamortized discount	(3,888)	—
Unamortized debt issuance costs	(76,729)	—
Total long-term debt at carrying value	$ 19,999,599	$ —

As of December 31, 2017, the maturities of the Company's notes, excluding unamortized debt issuance costs, were as follows:

Year	**Total**
2018	$ —
2019	—
2020	3,250,000
2021	1,320,879
2022	3,000,000
2023 and thereafter	12,509,337
	$ 20,080,216

As of December 31, 2017, the Company has accrued $216.2 million in accrued interest payable related to these notes.

Fair Value of Debt

The estimated fair value of the Company’s outstanding debt, in the aggregate, was $20.3 billion as of December 31, 2017. The fair value is derived from a third party pricing source and is classified in Level 2 of the fair value hierarchy.

(4) Income Taxes

The components of the provision for income taxes for the years ended December 31 were as follows:

	2017	2016
Current:		
Federal	$ 109,798	$ 3
State and other	—	—
	109,798	3
Deferred:		
Federal	(62,792)	—
State and other	—	—
	(62,792)	—
Provision for income taxes	$ 47,006	$ 3

Significant components of deferred tax assets and liabilities for the years ended December 31 included the following:

	2017	2016
Deferred tax assets:		
Losses on derivatives	$ 47,680	$ —
Unrealized foreign exchange losses	15,112	—
Net deferred tax asset	$ 62,792	$ —

As of December 31, 2017 and 2016 the company has no valuation allowance recorded against deferred assets.

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act, referred to as the Tax Reform Act. The Tax Reform Act includes significant changes to the U.S. corporate income tax system including a federal corporate rate reduction from 35% to 21% and a limitation on the deductibility of interest expense both occurring as of January 1, 2018.

The differences between the provision for income taxes and income taxes computed at statutory U.S. federal income tax rates for the years ended December 31 were as follows:

	2017	2016
Income taxes computed at the statutory U.S. federal income tax rate	$ 5,144	$ 3
Tax impact of U.S. federal tax reform	41,862	—
Provision for (benefit from) income taxes	$ 47,006	$ 3
Effective tax rate	319.8%	35.0%

The effective tax rate for 2017 was impacted by the enactment of the Tax Reform Act. The Tax Reform Act resulted in net tax expense attributable to the remeasurement of the Company’s deferred tax assets. Excluding the impact of the Tax Reform Act, the 2017 effective tax rate was approximately 35.0 percent.

No amounts were recognized in accumulated other comprehensive loss for the years ended December 31, 2017 and 2016.

The forward starting interest rate swaps and US Treasury locks and the cross currency interest rate swaps discussed in note 5 have been properly identified as hedging transactions for U.S. federal income tax purposes and are therefore being accounted for as hedging transactions for U.S. federal income tax purposes under the relevant sections of the Internal Revenue Code and underlying regulations.

The Company is included in the consolidated U.S. federal income tax return of BHI since December 7, 2016 when BHI became its sole shareholder in the transaction discussed in note 1. The Company calculates the provision for income taxes by using a "separate return" method. Under this method, the Company is assumed to file a separate return, thereby reporting its taxable income or loss and paying the applicable tax to or receiving the appropriate refund from the tax authority. The Company's current provision is the amount of tax payable or refundable on the basis of a current-year separate return. The Company provides deferred taxes on temporary differences and on any carryforwards that it could claim on its separate return and assesses the need for a valuation allowance on the basis of the Company's separate return results.

(5) Related Party Transactions

As a U.S. finance company, the Company enters into transactions with multiple BAT affiliates, including its direct parent, BHI. The following is a summary of balances and transactions with BAT and its affiliates.

Due from (to) affiliates

The Company's excess cash balances are swept into a cash pooling arrangement managed by BATIF. The Company's interest in the cash pooling structure is represented by its balances in its IHC account. Excess cash advances on deposit at BATIF are payable to the Company on demand and bear interest at a rate of 0.275% under LIBOR. If necessary, the Company has the ability to overdraft its IHC account at BATIF up to $900.0 million in the aggregate. Overdraft positions bear interest at 0.75% over LIBOR. At December 31, 2017, the Company had an overdraft of $230.8 million on its IHC account and at December 31, 2016, the Company had $10.1 million on deposit with BATIF. The overdraft at December 31, 2017 is classified as Due to affiliates in current liabilities and the amount on deposit at December 31, 2016 is classified as Due from affiliates in the Company's balance sheets. In 2017 and 2016, the Company recognized approximately $7.7 million and $21,000, respectively, in interest income, net, from balances on deposit in the IHC system.

The Company provides cash management services to RAI. On July 25, 2017, upon competion of the RAI merger, the Company entered into a zero balance account credit agreement and revolving note with RAI. Under the zero balance credit agreement, RAI's cash balances are transferred daily to the Company. These excess cash advances are payable to RAI on demand and bear interest at a rate of 0.275% under one-month LIBOR. Under the credit agreement and revolving note, if RAI is not in a position where it has advances outstanding with the Company, RAI is permitted to borrow, on a revolving basis, up to $900 million at any one time from the Company. Borrowings bear interest at a rate of 0.75% over one-month LIBOR. Any outstanding principal and interest is due and payable no later than the maturity date of July 25, 2019. The amount due to the Company from RAI was $79.3 million at December 31, 2017 and is classified as Due from affiliates in the Company's balance sheet. In 2017, the Company recognized approximately $9.8 million in interest expense for advances from RAI.

Guarantee Fees

The Company entered into an agreement with BAT whereby BAT would provide an unconditional guarantee of the Company's notes issued in August 2017 in exchange for a guarantee fee based on a fee rate and the nominal amount of the notes issued. At the same time, upon lending the proceeds from the note issuance to BHI, BHI agreed to reimburse the Company for the guarantee fees at the same rate the Company was paying BAT. Accordingly, for guarantee fees, the Company has a payable to BAT for $72.3 million and a corresponding receivable from BHI for $72.3 million at December 31, 2017. In addition, the Company has recognized guarantee fee income and guarantee fee expense of $72.3 million and $72.3 million, respectively, in 2017.

Revolving Credit Facility with Affiliate

On December 7, 2016, the Company entered into a $50 million Uncommitted Revolving Credit Facility, referred to as the RCF, with Brown & Williamson Holdings, Inc., referred to as BWH, a BHI affiliate, that expires on December 7, 2018. The

RCF agreement contained standard terms and conditions including, at the option of the borrower, the ability to prepay advances and to select a variable interest rate based on a one-month, three-month or six-month USD LIBOR, plus 0.425%.

In January 2017, the Company advanced $21.5 million dollars under the RCF in two draws. The advances were repaid in July 2017 together with approximately $200,000 in interest expense. As of December 31, 2017 and 2016, there were no advances outstanding under this facility.

Derivatives

(a) *Forward Starting Interest Rate Swaps and US Treasury Locks*

In January and February 2017, in anticipation of the highly probable future note issuance necessary to fund the cash portion of the merger consideration for the RAI acquisition, the Company entered into forward starting pay-fix interest rate swaps for a notional amount of $10.2 billion to lock in the three, five, seven, ten and thirty-year forward swap rates. The counterparty exposure under these swaps was with BATIF with BATIF entering into identical swaps with external banks. Of the $10.2 billion notional amount, $6.2 billion notional amount were deal contingent interest rate swaps and $4.0 billion were non-deal contingent interest rate swaps.

In July and August 2017, the Company terminated substantially all of the forward starting interest rate swaps and at approximately the same time entered into corresponding US Treasury locks, with a notional value of $9.45 billion, to lock in the three, five, seven, ten and thirty-year forward US Treasury rates, with BATIF as the counterparty. BATIF had entered identical contracts with external banks.

Prior to issuance of the BATCAP Notes, the remaining forward starting interest rate swaps and all US Treasury locks were terminated. The Company settled these contracts by making a cash payment of $327.3 million which represented the fair value of the derivative instruments at the time of termination. The Company recognized the entire balance of $327.3 million as a loss on derivatives in the accompanying statement of operations.

(b) *Cross Currency Interest Rate Swaps*

In order to manage currency fluctuation risk on the EUR and GBP denominated notes, the Company entered into cross currency interest rate swaps pursuant to which it swapped the EUR and GBP denominated principal amounts bearing fixed or floating interest rates, as applicable, for a USD denominated principal amount bearing a corresponding fixed or floating interest rate, as applicable. The objective of these cross currency swaps is to reduce volatility of cash flows associated with the underlying debt from changes in foreign currency exchange rates. Under the terms of these contracts, the Company will make interest payments in U.S dollars and receive interest in British pounds sterling or euros, as applicable. Upon the maturity of these contracts, the Company will pay the principal amount of the loans in U.S dollars and receive British pounds sterling or euros, as applicable. BATIF is the counterparty in these contracts. The Company held the following cross currency swaps at December 31, 2017 for which it had recognized an asset of $91.9 million less associated accrued interest payable of $8.5 million (USD/EUR/GBP amounts in thousands):

				December 31, 2017				
Cross currency swaps	**Number of Contracts**	**Inception Date**	**Maturity Date**	**Pay Notional Amount**	**Interest Rate (Pay USD)**	**Receive Notional Amount**	**Interest Rate (Receive EUR/GBP)**	**Net Asset**
EUR-USD	5	8/16/2017	8/16/2021	$1,288,969	3M Libor+86.7 bp	€ 1,100,000	3M Euribor+50 bp	$ 29,098
EUR-USD	4	8/16/2017	11/16/2023	880,755	3.220%	€ 750,000	1.125%	29,916
GBP-USD	3	8/16/2017	8/15/2025	584,735	3.370%	£450,000	2.125%	24,377
				$2,754,459				$ 83,391

The Company had no cross currency swaps in place at December 31, 2016.

The change in fair value of the cross currency interest rate swaps was $91.9 million at December 31, 2017 and is reported in Net loss on derivatives and exchange differences in the accompanying statement of operations. In addition, the Company recognized net interest expense of $19.8 million related to the cross currency swaps.

(c) *Foreign Currency Forward Contracts*

The Company will enter into foreign currency exchange contracts to minimize the financial impact from exposure to changes in the exchange rates for GBP and EUR on certain liabilities denominated in those currencies. The Company recognized $302,000 as expense in 2017 related to foreign currency forward contracts. The Company had no foreign currency forward contracts in 2016.

In December 2017, the Company entered into two foreign currency forward contracts and has recognized a liability of $119,000 in the accompanying balance sheets at December 31, 2017 for the fair value of these contracts. Changes in the fair value are recognized as either income or expense, as applicable, as derivative (gains) losses, net in the accompanying statements of operations.

Loan to BHI with Acquisition Facility Proceeds

On July 24, 2017, the Company loaned BHI $20.0 billion under two separate term loans to fund a portion of the acquisition price paid to purchase RAI. The Company used the $20.0 billion in proceeds from the borrowings under the acquisition facility to fund the loans to BHI. The first term loan, with a nominal value of $15.0 billion, had a maturity date of July 23, 2018 and bore interest at USD LIBOR plus an applicable margin of 0.5125% with such margin subject to additional increases with the passage of time. The second term loan, with a nominal value of $5.0 billion, had a maturity date of July 23, 2019 and bore interest at USD LIBOR plus an applicable margin of 0.5625% with such margin subject to additional increases with the passage of time. The two loans required an aggregate payment of $61.1 million to the Company as an upfront fee for extending the loans. The Company recognized the $61.1 million as other reimbursement income from affiliates in 2017.

BHI subsequently repaid the two loans in August 2017 with the proceeds from the new loans made by the Company to BHI using the proceeds of the BATCAP Notes issuance.

Loan receivable from affiliate

On August 15, 2017 and August 16, 2017, the Company issued approximately $20 billion in notes (see note 3). The proceeds from those notes were loaned to BHI in a series of term loans whereby BHI used the proceeds to repay the two loans aggregating $20.0 billion provided by the Company in July 2017 to fund a portion of the acquisition of RAI.

The amount borrowed by BHI consisted of 11 separate term loans that were made in U.S. dollars with amounts and maturity dates that matched the corresponding notes issued by the Company. BHI paid the Company $83.9 million in upfront fees related to the loans and the Company is amortizing those fees over the life of the respective notes using the effective interest method.

Details of the loans receivable at carrying value, including a schedule of maturities, included in the Company's loan receivable from affiliate is provided below:

	For the years ended December 31,	
	2017	**2016**
Fixed rate loans:		
2.417% note due 08/14/2020	$ 2,250,000	$ —
2.937% note due 08/15/2022	2,250,000	—
3.219% note due 11/16/2023	880,755	—
3.385% note due 08/15/2024	2,500,000	—
3.372% note due 08/15/2025	584,735	—
3.840% note due 08/15/2027	3,500,000	—
4.462% note due 08/15/2037	2,500,000	—
4.699% note due 08/15/2047	2,500,000	—
Variable rate loans:		
Three-month LIBOR plus 0.59% note due 08/14/2020	1,000,000	—
Three-month LIBOR plus 0.87% note due 08/16/2021	1,288,969	—
Three-month LIBOR plus 0.88% note due 08/15/2022	750,000	—
Total principal	20,004,459	—
Facility commitment fees	(80,818)	—
Total loan receivable from affiliate	$ 19,923,641	$ —

As of December 31, 2017, the maturities of the Company's loan receivable from affiliate, excluding facility commitment fees, were as follows:

Year	**Total**
2018	$ —
2019	—
2020	3,250,000
2021	1,288,969
2022	3,000,000
2023 and thereafter	12,465,490
	$ 20,004,459

Related to these loans receivable, the Company recognized $279.3 million in interest income in 2017 and had $234.6 million accrued as interest receivable at December 31, 2017.

Other income – affiliates

Pursuant to an agreement with BHI, certain expenses of the Company have been reimbursed by BHI related to the transactions that occurred in 2017. In 2017, the Company recognized $383.1 million as other income from affiliates for these reimbursements as follows (dollars in thousands):

Losses on forward starting interest rate swaps and treasury locks	$ 318,896
Acquisition facility fees	61,083
Other	3,073
	$ 383,052

General and administrative services

The Company had no direct employees in 2017 and 2016. In 2017, the Company entered into a services agreement with Louisville Corporate Services Inc., a direct subsidiary of BHI, for the provision of general and adminstrative services to the Company consisting primarily of administrative, accounting, and other support services.

(6) Fair Value

The Company records its derivative contracts at their fair value as of the balance sheet date. All derivatives held by the Company at December 31, 2017, are categorized in Level 2 of the fair value hierarchy. Level 2 financial instruments are not traded in an active market but rather the fair values are determined based on market data, primarily yield curves and exchange rates, to calculate the present value of all estimated flows associated with each derivative contract at the balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives.

(7) Shareholder's Equity

Capital Contribution

In December 2017, BHI made a capital contribution of $325.0 million to the Company. No additional shares were issued in exchange for the capital contribution.

(8) Contingent Liabilities

On December 9, 2011, the Company ceased to be a party to the EMTN Program under which the issuers, that also include BATIF, B.A.T. Netherlands Finance B.V. and British American Tobacco Holdings (The Netherlands) B.V., can from time to time issue notes in amounts not to exceed the EMTN Program limits or its equivalent in other currencies. The payments of all amounts in respect of any notes issued under the EMTN Program prior to December 9, 2011 are unconditionally and irrevocably guaranteed by BAT, the Company and each of the other issuers (except where it is the relevant issuer).

On May 31, 2017, the EMTN Program was amended and restated to increase the size of the EMTN Program from £15.0 billion to £25.0 billion and to add the Company as an issuer and a guarantor. At December 31, 2017, the Company had issued $2.7 billion equivalent of notes under the EMTN Program. Other issuers had notes outstanding as of December 31, 2017 and December 31, 2016, of which the Company was a guarantor, in the amount of approximately $6.5 billion and $5.8 billion, respectively, plus accrued interest which represents the maximum potential exposure (at applicable year-end exchange rates) had the relevant issuers defaulted.

Effective February 13, 2018, the Company became an additional guarantor of the notes issued pursuant to the EMTN Program that it was not already a guarantor of during the period since it ceased participation. With the additional guarantees in place, as of February 28, 2018, the Company was a guarantor of notes totaling approximately $18.2 billion, with maturity dates through 2055, under the EMTN Program.

The Company's guarantee of the notes issued under the EMTN is unconditional and irrevocable, joint and several with the other guarantors and is triggered when the issuer of the EMTN securities defaults on its payment obligations. If the Company is required by law to withhold any U.S. taxes (or taxes of any of its political subdivisions) from payments it makes under its guarantee, the Company is required to pay additional amounts so that security holders receive the same payment they would receive absent such withholding, subject to exceptions. The Company does not maintain a guarantee liability related to its guarantees with respect to the EMTN Program.