SUPPLEMENTARY PROSPECTUS DATED 8 AUGUST 2017

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)

B.A.T. NETHERLANDS FINANCE B.V.

(incorporated with limited liability in The Netherlands)

£25,000,000,000 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 31 May 2017 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 £25,000,000,000 Euro Medium Term Note Programme (the "**Programme**") established by B.A.T. International Finance p.l.c. ("**BATIF**"), B.A.T Capital Corporation ("**BATCAP**"), British American Tobacco Holdings (The Netherlands) B.V. ("**BATHTN**") and B.A.T. Netherlands Finance B.V. ("**BATNF**") (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, BATHTN and BATNF except where it is the relevant Issuer (together, the "**Guarantors**"). Other than as expressly set out herein, 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, BATHTN and BATNF accepts responsibility for the information contained in this Supplement and Reynolds American Inc. ("**RAI**" or the "**Additional Guarantor**") accepts responsibility for the information relating to RAI and the RAI Guarantee (as defined below) contained in this Supplement. To the best of the knowledge and belief of BAT, BATIF, BATCAP, BATHTN, BATNF and RAI, each of the foregoing declares (each having taken all reasonable care to ensure that such is the case) that the information (or in the case of RAI, as such information relates to it and/or the RAI Guarantee) contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Purpose of this Supplement

The purpose of this Supplement is to:

(i) incorporate by reference in the Base Prospectus (a) certain financial information, namely: (aa) BAT's condensed consolidated unaudited half-yearly financial results as at and for the six months ended 30 June 2017 (the "**BAT Half-Yearly Results**") which can be found in BAT's half-yearly report for the six months ended 30 June 2017 (the "**BAT Half-Yearly Report**"); (bb) the RAI unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2017 (the "**RAI 30 June 2017 10-Q Results**") which can be found in RAI's quarterly report on Form 10-Q for the period ended 30 June 2017 as filed with the U.S. Securities Exchange Commission (the "**SEC**") on 1 August 2017 (the "**RAI 30 June 2017 10-Q Report**"); and (cc) the RAI consolidated audited annual financial statements as at and for the years ended 31 December 2016 and 31 December 2015, together with the audit report thereon (the "**RAI 2016 and 2015 Results**") contained in the prospectus published by BAT on 14 June 2017 relating to the new ordinary shares issued in connection with the acquisition of RAI (the "**June 2017 Equity Prospectus**"), and (b) certain other sections of the June 2017 Equity Prospectus;

(ii) update the Base Prospectus to include the unaudited pro forma condensed combined financial information of BAT as at and for the year ended 31 December 2016 and as at and for the six months ended 30 June 2017, including the accountant's report thereon (the "**Unaudited Pro Forma Financial Information**");

(iii) update certain other sections of the Base Prospectus, each as set out below; and

(iv) update the Base Prospectus for the purpose of giving information with regards to the Additional Guarantor and the Deed of Guarantee (as defined below).

A. Incorporation by Reference

(i) BAT's Half-Yearly Results

BAT has published its unaudited half-yearly financial statements as at and for the financial period ended 30 June 2017. A copy of the BAT Half-Yearly Report has been filed with the Financial Conduct Authority and, by virtue of this Supplement, the BAT Half-Yearly Results set out on pages 8 to 39 of the BAT Half-Yearly Report are incorporated by reference in, and form part of, the Base Prospectus.

(ii) RAI's 30 June 2017 10-Q Results and RAI 2016 and 2015 Results

RAI has published its (x) unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2017, which have been filed with the SEC on Form 10-Q on 1 August 2017 and are available on the SEC's website. A copy of the RAI 30 June 2017 10-Q Report has been filed with the Financial Conduct Authority and, by virtue of this Supplement, the RAI 30 June 2017 10-Q Results set out on pages 3 to 84 of the RAI 30 June 2017 10-Q Report are incorporated by reference in, and form part of, the Base Prospectus; and (y) consolidated audited annual financial statements as at and for each of the years ended 31 December 2016 and 31 December 2015, together with audit report thereon. A copy of the RAI 2016 and 2015 Results has been filed with the Financial Conduct Authority and, by virtue of this Supplement, the RAI 2016 and 2015 Results set out on pages 414 to 523 of the June 2017 Equity Prospectus are incorporated by reference in, and form part of, the Base Prospectus.

(iii) June 2017 Equity Prospectus

A copy of the June 2017 Equity Prospectus has been filed with the Financial Conduct Authority and, by virtue of this Supplement, the sections below of the June 2017 Equity Prospectus are also incorporated by reference in, and form part of, the Base Prospectus (the "**Applicable Sections Equity Prospectus**"):

June 2017 Equity Prospectus	
Applicable Sections Equity Prospectus	**Page Reference**
Part III – Important Information - Non-IFRS (EU) financial measures used by the BAT Group – 4.1.4 - Net Debt	51
Part XI – Operating and Financial Review of the BAT Group – Liquidity and capital resources – 10.1 – Table 3 of page 116	116

Any information included in the BAT Half-Yearly Report, RAI 30 June 2017 10-Q Report or the June 2017 Equity Prospectus but not forming part of the BAT Half-Yearly Results, RAI 30 June 2017 10-Q Results, RAI 2016 and 2015 Results or Applicable Sections Equity Prospectus, as applicable, does not form part of the Base Prospectus as it is either not relevant for prospective investors in the Notes or is covered elsewhere in the Base Prospectus.

B. BAT Unaudited Pro Forma Condensed Combined Financial Information

The Unaudited Pro Forma Financial Information has been prepared on the basis of the notes set out below to illustrate the effect of the merger between British American Tobacco p.l.c. and its subsidiary undertakings (collectively, the "**Group**") and Reynolds American Inc. (the "**merger**") and the related financing as if it had occurred on 1 January 2016 in respect of the unaudited pro forma condensed combined income statements for the year ended 31 December 2016 and for the six months ended 30 June 2017 (referred to in this section of this Supplement and the Base Prospectus as the "**Unaudited Pro Forma Income Statements**"), and as if it had occurred on 30 June 2017 in respect of the unaudited pro forma condensed combined balance sheet (referred to in this section of this Supplement and the Base Prospectus as the Unaudited Pro Forma Balance Sheet).

The Unaudited Pro Forma Financial Information has been prepared in accordance with Annex II of the Prospectus Directive Regulation and in a manner consistent with the accounting policies adopted by the Group in preparing the audited consolidated financial statements for the year ended 31 December 2016 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2017.

This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and therefore does not represent the Group's or the RAI Group's (as defined below) actual financial position or results. It does not purport to represent what the combined group's financial position actually would have been if the merger and the related financing had been completed on the dates indicated, nor is it indicative of the results that may or may not be expected to be achieved in the future.

The Unaudited Pro Forma Financial Information does not constitute a statutory account within the meaning of section 434 of the UK Companies Act 2006. Prospective investors should read the whole of this Supplement and the Base Prospectus and not rely solely on the summarised financial information contained in this Unaudited Pro Forma Financial Information. The Unaudited Pro Forma Financial Information has been prepared in accordance with Annex II of the Prospectus Directive Regulation and not in accordance with the requirements of Regulation S-X under the Securities Act.

British American Tobacco p.l.c.

Unaudited Pro Forma Condensed Combined Income Statement giving effect to the merger for the year ended 31 December 2016

	Historical BAT (IFRS)	RAI (IFRS)[3]	Pro forma adjustments: Financing	Pro forma adjustments: Merger		Total pro forma combined
			(in millions)			
Revenue..........................	£14,751	£9,233	£—	£(188)	5(c)	£23,796
Raw materials and consumables used...........	(3,777)	(3,407)	—	(352)	5(c)	(7,536)
Changes in inventories of finished goods and work in progress..........................	44	(11)	—	—		33
Employee benefit costs.....	(2,274)	(694)	—	(14)	5(b)(iv)	(2,982)
Depreciation, amortization and impairment costs	(607)	(91)	—	(52)	5(b)(vii)	(750)
Other operating income	176	3,587	—	(9)	5(c)	3,754
Other operating expenses	(3,658)	(916)	—	(151)	5(a)	(4,725)
Profit from operations....	**4,655**	**7,701**[7]	**—**	**(766)**		**11,590**
Net finance (costs)/income.	(637)	(648)	(384)	55	4(b), 5(b)(v)	(1,614)
Gain on step acquisition	—	—	—	22,635	5(b)(xi)	22,635
Share of post-tax results of associates and joint ventures	2,227	—	—	(1,880)	5(b)(xi)	347
Profit before taxation......	**6,245**	**7,053**	**(384)**	**20,044**		**32,958**
Taxation on ordinary activities	(1,406)	(2,631)	108	(7,704)		(11,633)
Profit for the year...........	**4,839**	**4,422**	**(276)**	**12,340**		**21,325**
Attributable to:						
Owners of the parent........	4,648	4,422	(276)	12,340		21,134
Non-controlling interests...	191	—	—	—		191
Earnings per share.........						
Basic (pence)	250.2					922.1[6]
Diluted (pence)................	249.2					918.1
Weighted average shares outstanding, in millions of shares...........						
Basic	1,858			434		2,292[6]
Diluted.............................	1,865			437		2,302[6]

The accompanying notes are an integral part of this unaudited pro forma condensed combined financial information.

British American Tobacco p.l.c.

Unaudited Pro Forma Condensed Combined Income Statement giving effect to the merger for the six months ended 30 June 2017

	Historical BAT (IFRS)	RAI (IFRS)[3]	Pro forma adjustments Financing	Merger		Total pro forma combined
			(in millions)			
Revenue	£7,717	£5,008	£—	£(87)	5(c)	£12,638
Raw materials and consumables used	(1,881)	(1,919)	—	87	5(c)	(3,713)
Changes in inventories of finished goods and work in progress	(59)	2	—	—		(57)
Employee benefit costs	(1,144)	(393)	—	(14)	5(b)(iv)	(1,551)
Depreciation, amortization and impairment costs	(346)	(50)	—	(26)	5(b)(vii)	(422)
Other operating income	55	—	—	(19)	5(c)	36
Other operating expenses	(1,768)	(435)	—	53	5(a)	(2,150)
Profit from operations	**2,574**	**2,213[7]**	**—**	**(6)**		**4,781**
Net finance (costs)/income	(325)	(245)	(224)	82	4(b), 5(b)(v)	(712)
Share of post-tax results of associates and joint ventures	778	—	—	(543)	5(b)(xi)	235
Profit before taxation	**3,027**	**1,968**	**(224)**	**(467)**		**4,304**
Taxation on ordinary activities	(680)	(664)	63	(47)		(1,328)
Profit for the period	**2,347**	**1,304**	**(161)**	**(514)**		**2,976**
Attributable to:						
Owners of the parent	2,261	1,304	(161)	(514)		2,890
Non-controlling interests	86	—	—	—		86
Earnings per share						
Basic (pence)	121.8					126.1[6]
Diluted (pence)	121.4					125.7
Weighted average shares outstanding, in millions of shares						
Basic	1,858			434		2,292[6]
Diluted	1,863			437		2,300[6]

The accompanying notes are an integral part of this unaudited pro forma condensed combined financial information.

British American Tobacco p.l.c.

Unaudited Pro Forma Condensed Combined Balance Sheet giving effect to the merger as of 30 June 2017

	Historical BAT (IFRS)	RAI (IFRS)[3]	Pro forma adjustments			Total pro forma combined
			Financing	Merger		
			(in millions)			
Assets						
Non-current assets						
Intangible assets...............	£12,177	£34,791	£—	£73,946	5(b)(vii), 5(b)(x)	£120,914
Property, plant and equipment	3,636	989	—	—		4,625
Investments in associates and joint ventures	9,438	—	—	(7,674)	5(b)(xi)	1,764
Retirement benefit assets .	615	—	—	—		615
Deferred tax assets	468	—	—	—		468
Trade and other receivables	758	50	—	—		808
Available-for-sale investments	44	—	—	—		44
Derivative financial instruments.......................	576	—	—	—		576
Total non-current assets	**27,712**	**35,830**	**—**	**66,272**		**129,814**
Current assets						
Inventories........................	5,177	1,167	—	540	5(b)(vi)	6,884
Income tax receivable.......	71	—	—	—		71
Trade and other receivables	3,833	329	—	(1)	5(c)	4,161
Available-for-sale investments	26	—	—	—		26
Derivative financial instruments.......................	312	—	—	—		312
Cash and cash equivalents	2,019	1,345	19,075	(18,704)	5(a), 5(b)	3,735
	11,438	2,841	19,075	(18,165)		15,189
Assets classified as held-for-sale	36	—	—	—		36
Total current assets	**11,474**	**2,841**	**19,075**	**(18,165)**		**15,225**
Total assets.....................	**39,186**	**38,671**	**19,075**	**48,107**		**145,039**
Equity						
Capital and reserves						
Share capital	507	—	—	108	5(d)	615

	Historical BAT (IFRS)	RAI (IFRS)[3]	Pro forma adjustments Financing	 Merger		Total pro forma combined
			(in millions)			
Share premium, capital redemption and merger reserves	3,933	13,924	—	9,106	5(d)	26,963
Other reserves	(111)	(17)	—	17	5(d)	(111)
Retained earnings	3,388	3,058	—	19,497	5(d)	25,943
Owners of the parent	**7,717**	**16,965**	**—**	**28,728**		**53,410**
Non-controlling interests	192	—	—	—		192
Total equity	**7,909**	**16,965**	**—**	**28,728**		**53,602**
Liabilities						
Non-current liabilities						
Borrowings	15,085	8,715	7,627	1,191	4(a), 5(b)(v)	32,618
Retirement benefit liabilities	827	1,103	—	—		1,930
Deferred tax liabilities	659	7,498	—	18,229	5(b)(viii)	26,386
Other provisions for liabilities and charges	395	15	—	(15)	5(c)	395
Trade and other payables	1,036	67	—	—		1,103
Derivative financial instruments	79	—	—	—		79
Total non-current liabilities	**18,081**	**17,398**	**7,627**	**19,405**		**62,511**
Current liabilities						
Borrowings	5,822	1,338	11,448	5	4(a), 5(b)(v)	18,613
Income tax payable	622	—	—	—		622
Other provisions for liabilities and charges	330	1,522	—	(30)	5(c)	1,822
Trade and other payables	5,948	1,448	—	(1)	5(c)	7,395
Derivative financial instruments	474	—	—	—		474
Total current liabilities	**13,196**	**4,308**	**11,448**	**(26)**		**28,926**
Total equity and liabilities	39,186	38,671	19,075	48,107		145,039

The accompanying notes are an integral part of this unaudited pro forma condensed combined financial information.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

Note 1. Basis of presentation

The Unaudited Pro Forma Financial Information set forth herein is based upon the Group's consolidated financial statements and unaudited condensed consolidated financial statements and the RAI Group's consolidated financial statements and unaudited condensed consolidated financial statements and has

been prepared to illustrate the effects of the merger, including the financing structure established to fund the merger, as if it had occurred on 1 January 2016 in respect of the Unaudited Pro Forma Income Statements, and as if it had occurred on 30 June 2017 in respect of the Unaudited Pro Forma Balance Sheet. The Unaudited Pro Forma Financial Information is presented for informational purposes only and is not necessarily indicative of the combined group's financial position or results of operations that would have been realised had the merger occurred as of the dates indicated, nor is it meant to be indicative of any anticipated combined financial position or future results of operations that the combined group will experience after the completion of the merger.

The merger will be accounted for as a business combination using the acquisition method of accounting in accordance with IFRS under IFRS 3, which requires that one of the two companies in the merger be designated as the acquirer for accounting purposes based on the evidence available. BAT will be treated as the accounting acquirer, and accordingly, the RAI assets acquired and liabilities assumed have been adjusted based on preliminary estimates of fair value. Any excess of the purchase price over the fair value of identified assets acquired and liabilities assumed will be recognised as goodwill. The detailed valuation studies necessary to arrive at required estimates of fair values of the assets acquired and liabilities assumed from RAI in the merger have not been completed. Significant assets and liabilities that are subject to preparation and completion of valuation studies to determine appropriate fair value adjustments include property, plant and equipment, identifiable intangible assets and debt obligations. Changes to the fair values of these assets and liabilities will also result in changes to goodwill and deferred income taxes. The actual fair values will be determined at a subsequent date and may vary materially from these preliminary estimates.

Pro forma adjustments reflected in the Unaudited Pro Forma Financial Information are based on items that are factually supportable and directly attributable to the merger. The Unaudited Pro Forma Financial Information does not reflect the cost of any integration activities or benefits from the merger, including potential synergies that may be generated in future periods.

The estimated income tax impacts of the pre-tax adjustments that are reflected in the Unaudited Pro Forma Financial Information are calculated using an estimated blended statutory rate, which is based on preliminary assumptions related to the jurisdictions in which the income (expense) adjustments will be recorded. The estimated blended statutory rate and the effective tax rate of the combined group could be significantly different depending on the post-transaction activities and geographical mix of profit before taxes.

RAI's presentation currency is U.S. dollars ("**$**"), while BAT's presentation currency is the pound sterling. BAT has used exchange rates of £0.73801/$1, and £0.79385/$1 being the mid-market weighted average rates for the year ended 31 December 2016 and six months ended 30 June 2017, respectively, and the spot rate of £0.76985/$1 and £0.76517/$1 at 30 June 2017 and 25 July 2017, respectively, to translate the RAI Group's consolidated financial statements and all associated financing and merger adjustments. These exchange rates may differ from future exchange rates, which would have an impact on the Unaudited Pro Forma Financial Information.

Note 2. BAT's financial information

BAT's financial information for the year ended 31 December 2016 and as at and for the six months ended 30 June 2017 has been extracted without material adjustment from BAT's published financial information.

Note 3. Supplementary Information: Illustrative adjustments to the RAI Group's primary U.S. GAAP consolidated financial statements

The financial statements below illustrate the impact of adjustments made to the RAI Group's consolidated financial statements in order to present them on a basis consistent with BAT's accounting policies under IFRS. These adjustments reflect BAT's best estimates based upon the information currently available to BAT, and could be subject to change once more detailed information is obtained.

Unaudited Adjusted RAI Income Statement for the Year ended 31 December 2016

	Historical RAI, USD (U.S. GAAP)	Reclassifications and U.S. GAAP to IFRS adjustments				RAI, USD (IFRS)	RAI, GBP (IFRS)
		Reclassifi cations (3a)	LIFO inventorie s (3b)	Pensions (3c, 3d, 3e)	Revenue recognitio n (3f)		
Net sales[(1)].................	$12,277	$(12,277)	$—	$—	$—	$—	£—
Net sales, related party	226	(226)	—	—	—	—	—
Revenue....................	—	12,503	—	—	8	12,511	9,233
Raw materials and consumables used......	—	(4,594)	(15)	—	(8)	(4,617)	(3,407)
Changes in inventories of finished goods and work in progress	—	(15)	—	—	—	(15)	(11)
Cost of products sold[(1)]	(4,841)	4,841	—	—	—	—	
Employee benefit costs	—	(821)	—	(119)	—	(940)	(694)
Selling, general and administrative expenses...................	(1,931)	1,931	—	—	—	—	—
Gain on divestiture......	4,861	(4,861)	—	—	—	—	—
Depreciation, amortization and impairment costs	—	(123)	—	—	—	(123)	(91)
Amortization expense .	(23)	23	—	—	—	—	
Other operating income	—	4,861	—	—	—	4,861	3,587
Other operating expenses...................	—	(1,242)	—	—	—	(1,242)	(916)
Profit from operations	**10,569**	**—**	**(15)**	**(119)**	**—**	**10,435**	**7,701**
Interest and debt expense.....................	(626)	626	—	—	—	—	—
Interest income..........	8	(8)	—	—	—	—	—
Other income/expenses, net.	(260)	260	—	—	—	—	—
Net finance (costs)/income...........	—	(878)	—	—	—	(878)	(648)
Share of post-tax results of associates and joint ventures.......	—	—	—	—	—	—	—
Profit before taxation ..	**9,691**	**—**	**(15)**	**(119)**	**—**	**9,557**	**7,053**
Provision for income taxes	(3,618)	3,618	—	—	—	—	—
Taxation on ordinary activities	—	(3,618)	6	47	—	(3,565)	(2,631)
Profit for the year......	**6,073**	**—**	**(9)**	**(72)**	**—**	**5,992**	**4,422**
Attributable to:							

	Historical RAI, USD (U.S. GAAP)	Reclassifications and U.S. GAAP to IFRS adjustments: Reclassifi cations (3a)	LIFO inventorie s (3b)	Pensions (3c, 3d, 3e)	Revenue recognitio n (3f)	RAI, USD (IFRS)	RAI, GBP (IFRS)
Owners of the parent ..	6,073	—	(9)	(72)	—	5,992	4,422
Non-controlling interests.....................	—	—	—	—	—	—	—

Note:

(1) Excludes duty, excise and other taxes of $4,343 million (£3,205 million).

Unaudited Adjusted RAI Income Statement for the Six Months ended 30 June 2017

	Historical RAI, USD (U.S. GAAP)	Reclassifications and U.S. GAAP to IFRS adjustments: Reclassifi cations (3a)	LIFO inventorie s (3b)	Pensions (3c, 3d, 3e)	Revenue recognition (3f)	RAI, USD (IFRS)	RAI, GBP (IFRS)
Net sales[1].................	$6,201	$(6,201)	$—	$—	$—	$—	£—
Net sales, related party	66	(66)	—	—	—	—	—
Revenue....................	—	6,267	—	—	41	6,308	5,008
Raw materials and consumables used......	—	(2,380)	4	—	(41)	(2,417)	(1,919)
Changes in inventories of finished goods and work in progress	—	2	—	—	—	2	2
Cost of products sold[1]	(2,477)	2,477	—	—	—	—	—
Employee benefit costs	—	(396)	—	(99)	—	(495)	(393)
Selling, general and administrative expenses...................	(896)	896	—	—	—	—	—
Gain on divestiture......	—	—	—	—	—	—	—
Depreciation, amortization and impairment costs	—	(63)	—	—	—	(63)	(50)
Amortization expense .	(12)	12	—	—	—	—	—
Other operating income	—	—	—	—	—	—	—
Other operating expenses...................	—	(548)	—	—	—	(548)	(435)
Profit from operations	**2,882**	**—**	**4**	**(99)**	**—**	**2,787**	**2,213**
Interest and debt expense.....................	(299)	299	—	—	—	—	—

	Historical RAI, USD (U.S. GAAP)	Reclassifications and U.S. GAAP to IFRS adjustments: Reclassifi cations (3a)	LIFO inventorie s (3b)	Pensions (3c, 3d, 3e)	Revenue recognition (3f)	RAI, USD (IFRS)	RAI, GBP (IFRS)
Interest income..........	5	(5)	—	—	—	—	—
Other income/expenses, net.	(15)	15	—	—	—	—	—
Net finance (costs)/income...........	—	(309)	—	—	—	(309)	(245)
Share of post-tax results of associates and joint ventures.......	—	—	—	—	—	—	—
Profit before taxation ..	**2,573**	**—**	**4**	**(99)**	**—**	**2,478**	**1,968**
Provision for income taxes	(874)	874	—	—	—	—	—
Taxation on ordinary activities	—	(874)	(2)	40	—	(836)	(664)
Profit for the period ..	**1,699**	**—**	**2**	**(59)**	**—**	**1,642**	**1,304**
Attributable to:							
Owners of the parent ..	1,699	—	2	(59)	—	1,642	1,304
Non-controlling interests.....................	—	—	—	—	—	—	—

Note:

(1) Excludes excise taxes of $2,065 million (£1,639 million).

Unaudited Adjusted RAI Balance Sheet as of 30 June 2017

	Historical RAI, USD (U.S. GAAP)	Reclassifications and U.S. GAAP to IFRS adjustments: Reclassifi cations (3a)	LIFO inventorie s (3b)	Pensions (3c, 3d, 3e)	Revenue recognitio n (3f)	RAI, USD (IFRS)	RAI, GBP (IFRS)
				(in millions)			
Assets							
Non-current assets							
Goodwill	$15,992	$(15,992)	$—	$ —	$—	$—	£—
Trademarks and other intangible assets, net of accumulated amortization...............	29,432	(29,432)	—	—	—	—	—
Intangible assets.........	—	45,469	—	—	—	45,469	34,791
Property, plant and equipment, net...........	1,338	(1,338)	—	—	—	—	—

	Historical RAI, USD (U.S. GAAP)	Reclassifications and U.S. GAAP to IFRS adjustments				RAI, USD (IFRS)	RAI, GBP (IFRS)
		Reclassifications (3a)	LIFO inventories (3b)	Pensions (3c, 3d, 3e)	Revenue recognition (3f)		
				(in millions)			
Property, plant and equipment.................	—	1,293	—	—	—	1,293	989
Investments in associates and joint ventures	—	—	—	—	—	—	—
Retirement benefit assets........................	—	—	—	—	—	—	—
Deferred tax assets	—	—	—	—	—	—	—
Other assets and deferred charges	65	(65)	—	—	—	—	—
Trade and other receivables	—	65	—	—	—	65	50
Available-for-sale investments	—	—	—	—	—	—	—
Derivative financial instruments................	—	—	—	—	—	—	—
Total non-current assets.......................	46,827	—	—	—	—	46,827	35,830
Current assets							
Inventories.................	1,448	—	143	—	(66)	1,525	1,167
Income tax receivable.	—	—	—	—	—	—	—
Accounts receivable ...	123	(123)	—	—	—	—	—
Accounts receivable, related party..........................	1	(1)	—	—	—	—	—
Other receivables	11	(11)	—	—	—	—	—
Other current assets ...	295	(295)	—	—	—	—	—
Trade and other receivables	—	430	—	—	—	430	329
Available-for-sale investments	—	—	—	—	—	—	—
Derivative financial instruments................	—	—	—	—	—	—	—
Deferred income taxes, net	—	—	—	—	—	—	—
Cash and cash equivalents	1,758	—	—	—	—	1,758	1,345
Assets classified as held-for-sale	—	—	—	—	—	—	—
Total current assets .	**3,636**	**—**	**143**	**—**	**(66)**	**3,713**	**2,841**
Total assets..............	**50,463**	**—**	**143**	**—**	**(66)**	**50,540**	**38,671**

	Historical RAI, USD (U.S. GAAP)	Reclassifications and U.S. GAAP to IFRS adjustments				RAI, USD (IFRS)	RAI, GBP (IFRS)
		Reclassifications (3a)	LIFO inventories (3b)	Pensions (3c, 3d, 3e)	Revenue recognition (3f)		
				(in millions)			
Equity							
Capital and reserves							
Share capital	$—	$—	$—	$—	$—	$—	£—
Paid-in capital............	18,197	(18,197)	—	—	—	—	—
Share premium, capital redemption and merger reserves	—	18,197	—	—	—	18,197	13,924
Accumulated other comprehensive loss....	(291)	291	—	—	—	—	—
Other reserves...........	—	(291)	—	268	—	(23)	(17)
Retained earnings	3,980	—	87	(71)	—	3,996	3,058
Owners of the parent	**21,886**	**—**	**87**	**197**	**—**	**22,170**	**16,965**
Non-controlling interests.....................	—	—	—	—	—	—	—
Total equity	**21,886**	**—**	**87**	**197**	**—**	**22,170**	**16,965**
Liabilities							
Non-current liabilities							
Long-term debt (less current maturities).......	11,390	(11,390)	—	—	—	—	—
Borrowings	—	11,390	—	—	—	11,390	8,715
Long-term retirement benefits (less current portion)......................	1,768	(1,768)	—	—	—	—	—
Retirement benefit liabilities.....................	—	1,768	—	(326)	—	1,442	1,103
Long-term deferred income taxes, net	9,614	(9,614)	—	—	—	—	—
Deferred tax liabilities .	—	9,614	56	129	—	9,799	7,498
Long-term deferred revenue, related party.	19	(19)	—	—	—	—	—
Other noncurrent liabilities.....................	244	(244)	—	—	—	—	—
Other provisions for liabilities and charges .	—	19	—	—	—	19	15
Trade and other payables....................	—	88	—	—	—	88	67
Derivative financial instruments................	—	—	—	—	—	—	—
Total non-current liabilities...................	**23,035**	**(156)**	**56**	**(197)**	**—**	**22,738**	**17,398**
Current liabilities							

	Historical RAI, USD (U.S. GAAP)	Reclassifications and U.S. GAAP to IFRS adjustments Reclassifications (3a)	LIFO inventories (3b)	Pensions (3c, 3d, 3e)	Revenue recognition (3f)	RAI, USD (IFRS)	RAI, GBP (IFRS)
				(in millions)			
Current maturities of long-term debt	1,748	(1,748)	—	—	—	—	—
Borrowings	—	1,748	—	—	—	1,748	1,338
Income tax payable	—	—	—	—	—	—	—
Tobacco settlement accruals	1,833	(1,833)	—	—	—	—	—
Other current liabilities	935	(935)	—	—	—	—	—
Other provisions for liabilities and charges	—	1,989	—	—	—	1,989	1,522
Accounts payable	193	(193)	—	—	—	—	—
Due to related party	—	—	—	—	—	—	—
Deferred revenue, related party	106	(106)	—	—	—	—	—
Dividends payable on common stock	727	(727)	—	—	—	—	—
Trade and other payables	—	1,961	—	—	(66)	1,895	1,448
Derivative financial instruments	—	—	—	—	—	—	—
Total current liabilities	**5,542**	**156**	**—**	**—**	**(66)**	**5,632**	**4,308**
Total equity and liabilities	**50,463**	**—**	**143**	**—**	**(66)**	**50,540**	**38,671**

(a) The classification of certain items presented by RAI under U.S. GAAP has been modified in order to align with the presentation used by BAT under IFRS.

Modification to RAI's historical income statement presentation include:

- Presentation of net sales and net sales, related party together within revenue;
- Separate presentation of components of cost of products sold into raw materials and consumables used, changes in inventories of finished goods and work in progress, employee benefit costs and depreciation, amortization and impairment costs;
- Separate presentation of components of selling, general and administrative expenses into employee benefit costs, depreciation, amortization and impairment costs and other operating expenses;
- Presentation of gain on divestiture in other operating income;
- Presentation of amortization expense and asset impairment charges within depreciation, amortization and impairment costs; and

- Presentation of interest and debt expense, interest income and other income/expenses (net) within net finance (costs)/income.

Modification to RAI's historical balance sheet presentation include:

- Presentation of goodwill within intangible assets;
- Presentation of trademarks and other intangible assets, net of accumulated amortization, within intangible assets;
- Presentation of other assets and deferred charges, other receivables, accounts receivable, accounts receivable (related party) and other current assets together within trade and other receivables (current and non-current as applicable);
- Presentation of tobacco settlement accruals and liabilities for uncertain tax benefits (non-current) together within other provisions for liabilities and charges (current); and
- Presentation of accounts payable, other current liabilities, deferred revenue related party and dividends payable on common stock together within trade and other payables.

(b) Under U.S. GAAP, RAI has historically accounted for the cost of tobacco inventories principally under the last-in, first-out, or LIFO method. The LIFO method of accounting for inventory is not allowable under IFRS, and BAT accounts for these inventories based on the weighted average cost method. Consequently, RAI's LIFO reserve of $143 million as of 30 June 2017 and the related impact to deferred tax liabilities of $56 million have been reversed in the Unaudited Pro Forma Balance Sheet. The associated benefit/(charge) to raw materials and consumables used of $15 million and $(4) million for the year ended 31 December 2016 and six months ended 30 June 2017, respectively, have been reversed in the Unaudited Pro Forma Income Statements with a related impact to provision for income taxes of $6 million and $(2) million, respectively. The net impact to retained earnings at 30 June 2017 is $87 million.

(c) Under U.S. GAAP, the expected return on pension plan assets is used to calculate the return component of net periodic benefit costs, with the difference between the actual and expected rate of return recognised as a component of actuarial gains and losses within accumulated other comprehensive income with subsequent recognition in the income statement to the extent the net gains or losses are in excess of the corridor. Under IFRS as applied by BAT, net interest cost on defined benefit plans, a component of defined benefit costs, is calculated by applying the discount rate assumption to the net defined benefit liability. The difference between actual return on plan assets and the component of net interest derived from plan assets is recognised in accumulated other comprehensive income as a component of remeasurement gains and losses. IFRS does not permit recognition of remeasurement gains and losses in profit in current or future periods. As a result, employee benefit costs for the year ended 31 December 2016 and six months ended 30 June 2017 reflect an increase of $80 million and $82 million, respectively. For 2016, this adjustment comprises a combination of a debit to net periodic benefit cost of $125 million and the reversal of RAI's "mark to market" adjustment to record actuarial gains in excess of the corridor amounting to $45 million in 2016 with an impact to taxation on ordinary activities of $32 million. For the six months ended 30 June 2017, the adjustment consists of a debit to net periodic benefit cost of $82 million with an impact to taxation on ordinary activities of $33 million.

(d) Under U.S. GAAP, prior service costs are recognised in accumulated other comprehensive income at the date of the adoption of the plan amendment and then amortised into income as employee benefit costs. Under IFRS, prior service costs cannot be spread over a future service period but rather are recognised immediately. Accordingly, employee benefit costs for the year ended 31 December 2016 and six months ended 30 June 2017 reflect an increase of $39 million and $17 million, respectively, to reverse prior service cost gains, which were amortised to income in the

period as employee benefit costs. The related impact to taxation on ordinary activities is $15 million and $7 million. Additionally, accumulated prior service cost gains of $71 million (net of tax) recorded in accumulated other comprehensive income relating to periods prior to and including the six months ended 30 June 2017 have been reclassified to retained earnings.

(e) In accordance with U.S. GAAP, RAI measures its retirement benefit plan assets and obligations as of its fiscal year-end balance sheet date. Under IFRS, BAT remeasures its retirement benefit obligations and plan assets at each interim period. Remeasurement of RAI's retirement benefit plan assets and obligations as at 30 June 2017 results in a decrease of RAI's total retirement benefit liability of $326 million with a corresponding increase in deferred tax liability of $129 million. The net impact to equity is $197 million, and there is no impact to the Unaudited Pro Forma Income Statement for the six months ended 30 June 2017.

(f) RAI has deferred certain related party sales transactions for which the U.S. GAAP revenue recognition criteria have not been met. This is primarily because shipment of the related inventory has not occurred. Under IFRS as applied by BAT, these transactions are determined to meet the revenue recognition criteria requiring the transfer of risks and rewards to the customer prior to period end and have been recognised accordingly.

Note 4. Pro forma adjustments related to financing

(a) Sources of funding

A $25.0 billion acquisition facility was entered into by members of the Group with a syndicate of banks to provide financing for the merger (the "**acquisition facility**"). The acquisition facility consists of four credit facilities:

(1) a $15.0 billion bridge facility, referred to as Facility A, which, subject to two six-month extension options exercisable at BAT's option, matures on 17 July 2018;

(2) a $5.0 billion bridge facility, referred to as Facility B, which, subject to two six-month extension options exercisable at BAT's option, matures on 17 July 2019;

(3) a $2.5 billion term loan, referred to as Facility C, which matures on 17 July 2020; and

(4) a $2.5 billion term loan, referred to as Facility D, which matures on 16 January 2022.

The acquisition facility bears interest at a rate per annum equal to LIBOR (or in the case of euro-denominated borrowings, EURIBOR) plus the applicable margin, which, based on BAT's current ratings as assessed by Standard & Poor's Ratings Services and Moody's Investors Service, are as follows: (1) Facility A: between 0.5125 per cent. and 1.5625 per cent. per annum based on the applicable borrowing period; (2) Facility B: between 0.5625 per cent. and 2.2125 per cent. per annum based on the applicable borrowing period; (3) Facility C: 0.70 per cent. per annum; and (4) Facility D: 0.80 per cent. per annum. These rates are subject to adjustments in accordance with the terms of the acquisition facility based on the applicable credit rating assigned to the Group. If the LIBOR or EURIBOR rate is below zero, such rate shall be deemed to be zero.

BAT separately entered into a £5.68 billion revolving credit facility which has two revolving facilities to be used for the general corporate purposes of the Group: (1) a £2.84 billion 364-day facility, which is a new facility, referred to as Revolving Facility A; and (2) a £2.84 billion facility maturing on 29 May 2021, which effectively replaced BAT's £3 billion revolving credit facility entered into on 29 May 2014.

This new revolving credit facility was not drawn on with respect to the merger and accordingly this facility has been excluded from the debt financing adjustments below.

The financing adjustments to cash and debt reflected in the Unaudited Pro Forma Balance Sheet are as follows:

	Financing adjustments
	(in £millions)
Proceeds from Facility A	11,478
Proceeds from Facility B	3,826
Proceeds from Facility C	1,913
Proceeds from Facility D	1,913
Total sources of funding	**19,130**
Debt issuance costs	(55)(1)
Total sources of funding, net	**19,075**
Presented as:	
Current portion of debt adjustment	11,448
Non-current portion of debt adjustment	7,627

Note:

(1) In relation to Facility A, Facility B, Facility C and Facility D, debt issuance costs are assumed to be £29 million, £12 million, £6 million and £8 million, respectively.

(b) Financing charges

As detailed below, net financing costs consist of interest expense and facility fees.

Interest expense in the Unaudited Pro Forma Income Statements has been adjusted as follows based on the expected sources of funding described above:

For the year ended 31 December 2016

	Assumed principal	Interest rate	Interest expense
		(in £millions)	
Facility A	11,478	1.79%	198
Facility B	3,826	1.84%	68
Facility C	1,913	2.02%	37
Facility D	1,913	2.12%	39
Total	**19,130**		**342**
Debt issuance cost amortization:			
Facility A			28
Facility B			6
Facility C			2
Facility D			1
Total interest expense adjustment			**379**

For the six months ended 30 June 2017

	Assumed principal	Interest rate	Interest expense
		(in £millions)	
Facility A	11,478	2.20%	131
Facility B	3,826	2.25%	45
Facility C	1,913	2.02%	20
Facility D	1,913	2.12%	21
Total	**19,130**		**217**
Debt issuance cost amortization:			
Facility A			—
Facility B			3
Facility C			1
Facility D			1
Total interest expense adjustment			**222**

As of 25 July 2017, the Group's credit rating was BBB+ and Baa2 with Standard & Poor's Ratings Services and Moody's Investors Service, respectively. For the purposes of the interest expense calculation, BAT has assumed an interest rate based on the opening margin within the applicable margin matrix for each facility for an average credit rating of BBB+/Baa2 with increases at each period specified in the acquisition facility agreement. BAT has also considered the variability of the applicable margin based on the Group's credit rating in accordance with each applicable margin matrix, which each include a maximum rating of "A-/A3" to a minimum rating of "BBB-/Baa3 or below". A change in the credit rating to BBB-/Baa3 or lower (or no rating) from BBB+/Baa2 would increase the interest expense for the Unaudited Pro Forma Income Statements by approximately £33 million for the year ended 31 December 2016, and by approximately £17 million for the six months ended 30 June 2017. A change in the credit rating of the Group to A-/A3 from BBB+/Baa2 would decrease the interest expense for the Unaudited Pro Forma Income Statements by approximately £11 million for the year ended 31 December 2016, and by approximately £6 million for the six months ended 30 June 2017.

For the purposes of calculating the above interest expense, a three-month U.S. dollar LIBOR rate of 1.32 per cent. as of 25 July 2017 has been assumed, which may differ from the rates in place when actually utilizing the facilities. A hypothetical change in interest rates of 0.125 per cent. would increase or decrease total interest expense for the Unaudited Pro Forma Income Statements by approximately £23 million for the year ended 31 December 2016, and by approximately £12 million for the six months ended 30 June 2017.

In addition to incremental interest charges, BAT has also recorded a pro forma adjustment for debt issuance cost amortization for each facility, which will be deferred and amortised over the duration of the borrowings in accordance with IAS 39, Financial Instruments: Recognition and Measurement. This adjustment will have a continuing impact on the combined group for the remaining life of the borrowings.

For the purposes of the Unaudited Pro Forma Financial Information, BAT has assumed that the new borrowings under the facilities will remain unchanged during the fiscal year ended 31 December 2016 and the six months ended 30 June 2017.

BAT may continue to seek alternatives to refinance the facilities in order to achieve its long term capital structure target. For the purposes of this Unaudited Pro Forma Financial Information, BAT has assumed that no such financings, refinancings or repayments have occurred.

For the year ended 31 December 2016, the adjustment to net finance (costs)/income in the Unaudited Pro Forma Income Statement of £(384) million comprises net finance costs of £379 million relating to the Acquisition Facility described in Note 4(a) above, and £5 million relating to facility fees to be incurred with respect to Revolving Facility A. For the six months ended 30 June 2017, the adjustment to net finance (costs)/income in the Unaudited Pro Forma Income Statement of £(224) million comprises net finance costs of £222 million relating to the Acquisition Facility described in Note 4(a) above, and £2 million relating to facility fees to be incurred with respect to Revolving Facility A. These facility fees will not have a continuing impact on the combined group.

The tax benefit on the total financing charges was £108 million for the year ended 31 December 2016 and £63 million for the six months ended 30 June 2017.

Note 5. Pro forma adjustments related to the merger

(a) Transaction and related costs

It has been estimated that total transaction and related costs of £239 million (£188 million after tax) will be incurred collectively by BAT and RAI in connection with the merger, which include advisory, legal, audit, valuation and other professional fees. BAT and RAI each incurred £11 million and £4 million of transaction and related costs, respectively (£9 million and £3 million after tax, respectively) in the year ended 31 December 2016, and £35 million and £18 million (£28 million and £14 million after tax, respectively) in the six months ended 30 June 2017. As a result, an adjustment of £224 million has been presented in the Unaudited Pro Forma Income Statement for the year ended 31 December 2016 as an other operating expense along with an associated tax impact of £48 million. These one-off costs will not have a continuing impact on the results of the combined group.

An adjustment of £125 million has been presented in the Unaudited Pro Forma Balance Sheet as a reduction in cash and cash equivalents, which comprises the following:

- Total transaction costs estimated to be incurred by BAT in conjunction with the merger are £139 million (£112 million net of tax). An adjustment of £62 million has been presented in the Unaudited Pro Forma Balance Sheet as a reduction to cash and a corresponding reduction to retained earnings to represent the estimated total after tax transaction and related costs, net of those that have already been incurred by BAT.

- Total transaction costs estimated by RAI in conjunction with the merger are £100 million (£79 million net of tax). An adjustment of £63 million has been presented in the Unaudited Pro Forma Balance Sheet as a reduction to cash and a corresponding reduction to retained earnings to represent the estimated total after tax transaction and related costs, net of those that have already been incurred by RAI.

(b) Preliminary purchase consideration and allocation

The merger will be accounted for as a business combination using the acquisition method of accounting in accordance with IFRS. Under this method, the RAI assets acquired and liabilities assumed have been recorded based on preliminary estimates of fair value. In accordance with IFRS, BAT measures fair value as 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. The final fair values below are preliminary and may vary materially from the final purchase price allocation fair values.

Preliminary Purchase Price

The estimated purchase consideration is calculated as follows:

	(in £millions, except per share data and share price)
RAI shares outstanding as of 25 July 2017, other than those held by BAT	824,757,460[(1)]
Exchange ratio	0.5260
Total BAT ordinary shares issued to RAI shareholders, other than BAT	433,822,424
BAT ADS price as at transaction close	£52.99
Total equity consideration	22,988[(2)]
Cash consideration	18,579[(3)]
Additional consideration for stock compensation	150[(4)]
Total purchase consideration	**41,717**
Add: Fair market value of total debt assumed	11,249[(5)]
Less: **Total cash acquired**	**(1,345)**
Purchase consideration including debt assumed and net of cash acquired	51,621
Fair value of 42.2% BAT equity interest already held	30,309[(11)]
Total purchase consideration and fair value of BAT equity interest already held	**72,026**

Notes:

(1) Excluding the total number of shares of RAI common stock as at 25 July 2017 issuable under outstanding RAI equity awards settled for BAT ADSs in connection with the merger.

(2) The total equity consideration for each share of RAI common stock was estimated using the price of BAT ADSs on the NYSE MKT as at transaction close after giving effect to the BAT ADS ratio change converted to pounds sterling using the exchange rate as at transaction close of £0.76517/$1, and the number of shares outstanding not held by the Group as at transaction close.

No fractional BAT ADSs were issued in the merger, and RAI shareholders will receive cash in lieu of fractional BAT ADSs. The amount of cash disbursed for the fractional BAT ADSs from the sale of such BAT ADSs is not material.

(3) The total cash consideration was calculated using the shares of RAI common stock outstanding as at transaction close, other than those held by the Group, and the $29.44 due to RAI shareholders for each share of RAI common stock other than those held by the Group, converted to pounds sterling using the exchange rate as at transaction close of £0.76517/$1.

(4) At completion of the merger, each cash-out RSU was cancelled and converted into the right to receive merger consideration and cash for any accrued dividend equivalent right in respect of such cash-out RSU, in each case less any required withholding taxes.

Rollover RSUs were converted into a restricted stock unit of BAT with respect to a target number of BAT ADS equal to the product of (1) the target number of shares of RAI common stock subject to the rollover RSUs immediately prior to the completion of the merger and (2) the RSU exchange ratio subject to adjustment as provided in the merger agreement to prevent dilution. The portion of the award that has been included as part of the consideration has been determined by multiplying the fair value of the award as at transaction close by the portion of the requisite service period that elapsed prior to the merger divided by the total service period.

The estimated portion of the award attributable to post-combination services resulted in additional compensation expense of £14 million in employee benefit costs for the year ended 31 December 2016 and £9 million for the six months ended 30 June 2017. This adjustment has been tax affected using a statutory tax rate of 39.5% resulting in a net adjustment of £9 million for the year ended 31 December 2016 and £5 million for the six months ended 30 June 2017.

Prior to the merger, RAI had an equity incentive award plan for directors of RAI which provided grants of RAI DSUs. These units were settled in either cash or shares of RAI common stock on the later of 2 January of a specified year or 2 January following a director's last year of service on the board. As these units could be cash settled they were accrued and recorded in other current and other non-current liabilities on the historical RAI balance sheet. Upon completion of the merger, these RAI DSUs were converted into the right to receive merger consideration, or another form of payment (i.e., cash or BAT ADSs) that was equal in value to the merger consideration, less any required withholding taxes, for each share of RAI common stock subject to such RAI DSU.

(5) The fair value of RAI's debt as at transaction close was £11.2 billion, or a net increase of £1,196 million compared to the carrying value of £10.1 billion. An adjustment of £5 million and £1,191 million to the current and non-current portion of long-term debt, respectively, is recorded to adjust the carrying value to reflect the fair value of debt assumed, with a net increase in deferred tax asset of £472 million.

As a result of the step-up in fair value of existing RAI debt, interest expense is reduced by £49 million in the year ended 31 December 2016, with an associated £22 million increase in income tax expense. Interest expense is further reduced to reflect the elimination of amortization related to RAI's previously deferred debt issuance costs of £6 million for the year ended 31 December 2016 (£2 million net of tax). The total adjustment to interest expense is therefore £55 million (£24 million net of tax) for the year ended 31 December 2017.

As a result of the step-up in fair value of existing RAI debt, interest expense is reduced by £79 million in the six months ended 30 June 2017, with an associated £32 million increase in income tax expense. Interest expense is further reduced to reflect the elimination of amortization related to RAI's previously deferred debt issuance costs of £3 million for the six months ended 30 June 2017 (£1 million net of tax). The total adjustment to interest expense is therefore £82 million (£50 million net of tax) for the six months ended 30 June 2017.

These adjustments will have a continuing impact on the combined group for the remaining life of the RAI Group's debt.

Preliminary Allocation of Purchase Price

The preliminary allocation of purchase consideration to estimated fair value of acquired assets and liabilities is as follows:

	(in £millions)
Estimated fair values of assets acquired and liabilities assumed	
Inventory	1,707(6)
Identifiable intangible assets	68,078(7)
Borrowings	(11,249)(5)
Deferred taxes, net	(25,727)(8)
Other net liabilities assumed	(1,442)(9)
Goodwill	40,659(10)
Total allocation	**72,026**

Notes:

(6) BAT's pro forma fair value adjustment to inventory of £540 million is based on RAI's inventory as of 30 June 2017 with a carrying value of £1.2 billion. As BAT sells the acquired inventory, its cost of sales will reflect the increased valuation of RAI's inventory, which will temporarily reduce BAT's gross margins until such inventory is sold. Based on the assumption that those inventories will be sold within the first twelve months following the merger, an adjustment of £540 million (£327 million net of tax) has been presented in 'raw materials and consumables used' within the Unaudited Pro Forma Income Statement for the year ended 31 December 2016. This is considered a non-recurring adjustment.

(7) The estimated fair value of RAI's intangible assets is estimated to be £68.1 billion, or a net increase of £45.5 billion compared to a carrying value of £22.6 billion at 30 June 2017. The primary intangible assets include brands and trademarks, for which the fair value estimates of identifiable intangible assets have been determined based on publicly available benchmark data using the income approach. The assumptions used by BAT to arrive at the estimated fair value of the identifiable intangible assets have been derived primarily from publicly available information, including market transactions of varying degrees of comparability. However, a detailed analysis has not been completed and actual results may differ materially from these estimates.

The RAI Group holds a number of internally developed patents and technologies, particularly in relation to its next generation products business. BAT does not have sufficient information at this time nor has it identified any appropriately comparable market transactions to perform any valuation analysis. These factors could result in differences between fair value and net book value. Accordingly, for the purposes of this Unaudited Pro Forma Financial Information, BAT believes, to the best of its knowledge that the current RAI carrying values represent the best estimate of fair value. This estimate is preliminary and subject to change.

The fair value and weighted average estimated useful life of identifiable trademarks and similar intangible assets are estimated as follows:

For the year ended 31 December 2016

	Fair value	**Weighted-average estimated useful life**	**Amortization**
	(in £millions)	*(in years)*	*(in £millions)*
Trademarks and similar intangibles	67,379	Indefinite	—
Trademarks and similar intangibles	529	20	26
Trademarks and similar intangibles	135	5-15	26
Total acquired trademarks and similar intangible assets	68,043		52

For the six months ended 30 June 2017

	Fair value	**Weighted-average estimated useful life**	**Amortization**
	(in £millions)	*(in years)*	*(in £millions)*
Trademarks and similar intangibles	67,379	Indefinite	—
Trademarks and similar intangibles	529	20	13
Trademarks and similar intangibles	135	5-15	13

	Fair value	Weighted-average estimated useful life	Amortization
	(in £millions)	*(in years)*	*(in £millions)*
Total acquired trademarks and similar intangible assets	68,043		26
Less: RAI's historical net book value of trademarks and similar intangible assets	(22,520)		
Adjustment to intangible assets, net	45,523		

Based on the estimated respective fair values of identified trademarks and similar intangible assets and the weighted average estimated useful lives, an increase to amortization expense of £52 million for the year ended 31 December 2016, and £26 million for the six months ended 30 June 2017 have been included in the Unaudited Pro Forma Income Statements. The related estimated net decrease to income tax expense in the Unaudited Pro Forma Income Statements is £21 million and £11 million, respectively. This adjustment will recur for the life of the underlying assets.

Notes:

(8) A net adjustment of £18.2 billion to non-current deferred tax liabilities has been recorded on the net fair value step-up on RAI's assets acquired and liabilities assumed. This adjustment includes the recognition of a deferred tax liability of £26.9 billion relating to the estimated gross fair value of RAI's identified intangible assets, a deferred tax asset of £472 million resulting from the fair value step-up of existing RAI debt as discussed in Note 5(b)(v) and a deferred tax liability of £213 million resulting from the fair value step-up of RAI inventory as discussed in Note 5(b)(vi), offset by the reversal of RAI's historical deferred tax balance of £8.4 billion on its historical value of identified intangible assets. Additionally, £891 billion of historical deferred tax assets were acquired.

(9) Total net liabilities assumed excluding inventory, identifiable intangible assets, borrowings, net deferred taxes and goodwill was £1.4 billion. Fair value approximated carrying value; therefore, no adjustments were required for these balances. Property, plant and equipment is required to be measured at fair value unless those assets are classified as held-for-sale on the acquisition date. The acquired assets can include assets that are not intended to be used or sold, or that are intended to be used or sold, or that are intended to be used in a manner other than their highest and best use. BAT does not have sufficient information at this time as to the specific nature, age, condition or location of the land and land improvements, buildings and leasehold improvements, machinery and equipment and construction-in-process, and BAT does not know the appropriate valuation premise, in use or in exchange, as the valuation premise requires a certain level of knowledge about the assets being evaluated, as well as a profile of the associated market participants. All of these factors could result in differences between fair value and net book value. Accordingly, for the purposes of this Unaudited Pro Forma Financial Information, BAT believes, to the best of its knowledge that the current RAI carrying values represent the best estimate of fair value. This estimate is preliminary and subject to change and could vary materially from the actual adjustment included in the final purchase price allocation.

(10) The goodwill balance arising from the merger is estimated to be £40.7 billion, which represents an adjustment of £28.4 billion. The goodwill has been calculated as the excess of the sum of the purchase consideration of £41.7 billion and the £30.3 billion fair value of the equity interest already held by BAT at the time of the merger over the fair value of the net assets acquired of £31.3 billion. Goodwill represents a strategic premium for access to the U.S. market in which BAT previously did not operate and a premium paid for cost synergies expected to be achieved in the combined operations of BAT and RAI. Goodwill also arises due to the recognition of deferred tax liabilities in relation to the preliminary fair value adjustments on acquired intangible assets for which the amortization does not qualify as a tax deductible expense.

(11) As part of the merger, BAT's previous equity method investment in RAI was eliminated as part of the step acquisition. A step acquisition occurs when a controlling ownership interest is gained over a period of time. The accounting guidance requires that the previously held equity interest be remeasured at fair value and any difference between the fair value and the carrying value of the previously held equity interest be recognised as a gain or loss in the income statement. The implied value of BAT's 42.2% of equity interest in RAI was determined using the value of the merger consideration of 0.5260 of a BAT ordinary share and $29.44 in cash, without interest, for each share of RAI common stock based on the closing share price of BAT ADSs on the NYSE MKT, and the exchange rate of £0.76517/$1, each as at transaction close. The carrying value of BAT's equity interest of £7.7 billion as of 30 June 2017 and profit after tax representing BAT's share of RAI's earnings of £1.9 billion for the year ended 31 December 2016 and £543 million for the six months ended 30 June 2017 have been eliminated in the Unaudited Pro Forma Financial Information. The resulting gain of £22.6 billion (£14.7 billion net of tax) from the step acquisition is included from the Unaudited Pro Forma Income Statement for the year ended 31 December 2016 and is nonrecurring in nature.

(c) Intercompany eliminations

Sales between, and balance due to and due from BAT and RAI have been eliminated in the Unaudited Pro Forma Financial Information. Sales from BAT to RAI amounted to £15 million for the year ended 31 December 2016 and £2 million for the six months ended 30 June 2017, and sales from RAI to BAT amounted to £167 million for the year ended 31 December 2016 and £52 million for the six months ended 30 June 2017. The associated payable and receivable positions as of 30 June 2017 of £1 million have been eliminated in the Unaudited Pro Forma Balance Sheet.

During the year ended 31 December 2016, BAT and RAI agreed to an early termination of a contract manufacturing agreement and as a result BAT agreed to make a compensation payment of $90 million to RAI, which BAT recognised in expense immediately and RAI recognised in deferred revenue. RAI is recognizing the deferred revenue into income pro-rata through 31 December 2018. Adjustments to eliminate this transaction from the Unaudited Pro Forma Income Statements reverse the £73 million charge recorded by BAT in 2016, the £9 million of other income recognised by RAI in 2016 and the £19 million of other loss recognised by RAI in the six months ended 30 June 2017.

(d) Impact to shareholders' equity

The estimated impact to total shareholders' equity is summarised as follows:

		Merger					
	Transaction and related costs[(1)]	**Eliminate RAI historical equity**[(2)]	**Issuance of BAT common stock**[(3)]	**Eliminate investment of associate**	**Fair value of investment of associate**[(4)]	**Contract manufacturing agreement**[(5)]	**Total merger adjustments to equity**
				(in £millions)			
Share capital	£—	£—	£108	£ —	£—	£—	£108
Share premium...........	—	(13,924)	23,030	—	—	—	9,106
Other reserves............	—	17	—	—	—	—	17
Retained earnings	(125)	(3,058)	—	(7,674)	30,309	45	19,497
Owners of the parent..	(125)	(16,965)	23,138	(7,674)	30,309	45	28,728
Non-controlling interest	—	—	—	—	—	—	—
Total shareholders' equity........................	**(125)**	**(16,965)**	**23,138**	**(7,674)**	**30,309**	**45**	**28,728**

Notes:

(1) Refer to Note 5(a).

(2) Refer to Unaudited Pro Forma Balance Sheet.

(3) Refer to Note 5(b)(2) and 5(b)(4).

(4) Refer to Note 5(b)(11).

(5) Refer to Note 5(c).

Note 6. Pro forma earnings per share

The weighted average number of BAT ordinary shares used in computing basic earnings per share has been calculated using the weighted average number of BAT ordinary shares issued and outstanding during the period and the number of shares of RAI common stock issued and outstanding as at the period end, giving effect to the exchange ratio established in the merger agreement. For the year ended 31 December 2016, the BAT pro forma basic earnings per share was calculated using 2,292 million weighted average shares, which reflects the 1,858 million weighted average of BAT ordinary shares issued and outstanding for the period and the 825 million shares of RAI common stock outstanding other than those held by BAT at 31 December 2016, converted to 434 million shares per the merger agreement. For the six months ended 30 June 2017, the BAT pro forma basic earnings per share was calculated using 2,292 million weighted average shares, which reflects the 1,858 million weighted average of BAT ordinary shares issued and outstanding for the period and the 825 million shares of RAI common stock outstanding other than those held by BAT at 31 December 2016, converted to 434 million shares per the merger agreement.

The 2,302 million weighted average number of BAT ordinary shares used in computing diluted earnings per share for the year ended 31 December 2016 has been calculated using the 2,292 million basic average number of BAT ordinary shares as per the paragraph above, adjusted for the dilutive impact of 7 million relevant to BAT, and 3 million relevant to RAI RSUs converted to 3 million shares per the exchange ratio set out in the merger agreement. The 2,300 million weighted average number of BAT ordinary shares used in computing diluted earnings per share for the six months ended 30 June 2017 has been calculated using the 2,292 million basic average number of BAT ordinary shares as per the paragraph above, adjusted for the dilutive impact of 5 million relevant to BAT, and 3 million relevant to RAI RSUs converted to 3 million shares per the exchange ratio set out in the merger agreement.

Note 7. Adjusting items

Adjusting items are defined in note 1 to the Group's consolidated financial statements included in the Base Prospectus.

As disclosed in note 3 to the Group's 2016 consolidated financial statements included in the Base Prospectus, adjusting items in the Group's 2016 operating profit include:

- Restructuring and integration costs, totalling £603 million;
- Amortization and impairment of trademarks and similar intangibles charges totalling £149 million;
- Charges related to Fox River totalling £20 million; and
- South Korea sales tax charges totalling £53 million.

As disclosed in note 5 to the Group's 2016 consolidated financial statements included in the Base Prospectus, adjusting items in RAI's 2016 operating profit include:

- Gain in relation to the sale of the international rights to Natural American Spirit to JT International Holding BV, a subsidiary of Japan Tobacco Inc., of $4,861 million (£3,587 million);
- Implementation costs of $36 million (£27 million);

- Costs in respect of a number of *Engle* progeny lawsuits and other tobacco litigation charges that amounted to $86 million (£63 million);
- Income of $6 million (£5 million) related to the Non-Participating Manufacturer (NPM) Adjustment claims of the states no longer challenging the findings of non-diligence entered against them by an Arbitration Panel;
- Transaction costs of $5 million (£4 million), connected with the merger; and
- Income relating to the early termination of the manufacturing agreement between BATUS Japan Inc. and RJR Tobacco Company of $90 million (£66 million).

As disclosed in note 3(b) to the Group's unaudited condensed consolidated financial statements as of and for the six months ended 30 June 2017 included in this Supplement, adjusting items in the Group's operating profit for the six months ended 30 June 2017 include:

- Restructuring and integration costs, totalling £133 million; and
- Amortization and impairment of trademarks and similar intangibles charges totalling £134 million.

As disclosed in note 3(d) to the Group's unaudited condensed consolidated financial statements as of and for the six months ended 30 June 2017 included in this Supplement, adjusting items in the RAI Group's operating profit for the six months ended 30 June 2017 include:

- Restructuring costs of $33 million (£26 million); and
- Costs in respect of a number of *Engle* progeny lawsuits and other tobacco litigation charges that amounted to $16 million (£13 million).

These adjusting items are not directly related to the merger, and have not been adjusted for in the Unaudited Pro Forma Financial Information, with the exception of the income related to the early termination of the manufacturing agreement, which is discussed above in Note 5(c).

Of the pro forma adjustments, adjusting items in the combined group operating profit would include transaction costs of £224 million (£176 million net of tax) for the year ended 31 December 2016, connected with the merger.

Accountant's report on Unaudited pro forma financial information

The Directors
British American Tobacco p.l.c.
Globe House
4 Temple Place
London
WC2R 2PG

8 August 2017

Ladies and Gentlemen

British American Tobacco p.l.c.

We report on the pro forma financial information (the "**Pro forma financial information**") set out in the section entitled "*BAT Unaudited Pro Forma Condensed Combined Financial Information*" of the Supplement dated 8 August 2017 (the "**Supplement**") to the Base Prospectus dated 31 May 2017 (the "**Base Prospectus**"), which has been prepared on the basis described in note 1, for illustrative purposes only, to provide information about how the merger between British American Tobacco p.l.c. and its subsidiary undertakings (collectively the "**Group**") and Reynolds American Inc. and its subsidiary undertakings might have affected the financial information presented on the basis of the accounting policies adopted by the Group in preparing the consolidated financial statements for the period ended 31 December 2016 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2017. This report is required by paragraph 7 of Annex II of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

It is the responsibility of the directors of British American Tobacco p.l.c. to prepare the Pro forma financial information in accordance with Annex II of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Rule 5.5.4R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 13.1 of Annex IX of the Prospectus Directive Regulation, consenting to its inclusion in the Supplement.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the

evidence supporting the adjustments and discussing the Pro forma financial information with the directors of British American Tobacco p.l.c.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of British American Tobacco p.l.c.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of British American Tobacco p.l.c.

Declaration

For the purposes of Prospectus Rule 5.5.4R(2)(f) we are responsible for this report as part of the Supplement and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Supplement in compliance with paragraph 1.2 of Annex IX of the Prospectus Directive Regulation.

Yours faithfully

/s/ KPMG LLP

C. Updates to the Base Prospectus

(a) Risk Factors

The section of the Base Prospectus headed "*Risk Factors*" shall be updated as follows:

(i) On page 17 of the Base Prospectus, the risk factor headed "The Group faces significant tobacco-related and other litigation that could substantially reduce profitability and could severely impair liquidity" shall be entirely deleted and replaced by the language set out below:

"The Group faces significant tobacco-related and other litigation that could substantially reduce profitability and could severely impair liquidity

There are a number of legal and regulatory actions, proceedings and claims against the Group related to tobacco products pending in a number of jurisdictions, including the United States and Canada. These proceedings comprise claims for personal injury (both individual claims and class actions), economic loss arising from the treatment of smoking and health-related diseases (such as medical recoupment claims brought by local governments), negligence, strict liability in tort, design defect, failure to warn, fraud, misrepresentation, deceptive and unfair trade practices, conspiracy, medical monitoring, and violations of antitrust and racketeering laws. There are also ongoing proceedings that are not directly related to tobacco products, including environmental pollution claims. These various proceedings could give rise to material liability.

Tobacco-related litigation

Tobacco-related litigation falls into three broad categories: medical reimbursement cases; class actions and individual cases.

In the United States, Brown & Williamson Holdings, Inc. (formerly Brown & Williamson Tobacco Corporation) ("**B&W**") is a defendant in a number of product liability cases. The total number of U.S. tobacco product liability cases pending as of 30 June 2017 involving B&W was approximately 4,728 (compared to approximately 4,925 as of 31 December 2016). 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 billions of U.S. dollars.

Although B&W has the benefit of an indemnity from R.J. Reynolds Tobacco Company, a subsidiary of RAI ("**RJR Tobacco Company**" or "**RJRT**"), with respect to all of the 4,728 cases involving B&W, this indemnity is now, after the completion of the merger, between members of the Group and as such the Group does not benefit from an indemnification by an external party.

As of 30 June 2017, active product liability claims against the Group companies existed in 14 markets outside the United States. The only markets with more than five claims were Argentina, Brazil, Canada, Chile, Italy and Nigeria. In Canada, following the implementation of legislation enabling provincial governments to recover healthcare costs directly from tobacco manufacturers, ten actions for recovery of healthcare costs arising from the treatment of smoking and health-related diseases have been brought and are proceeding in ten provinces. Damages sought have not yet been quantified by all ten provinces; however, in respect of five provinces, the damages quantified in each of the provinces range between Cdn$25-118 billion. Legislation in two of the three territories has received the Royal Assent but is not yet in force. As of 30 June 2017, medical reimbursement actions had been brought in Angola, Argentina, Brazil, Canada, Nigeria and South Korea, and class actions had been brought in Brazil, Italy, Venezuela and Canada, with 11 class actions in Canada spread over seven provinces.

On 30 June 2017, there were 249 cases pending against RJR Tobacco (including as successor by merger to Lorillard Tobacco Company LLC, formerly known as Lorillard Tobacco Company ("**Lorillard Tobacco**")), American Snuff Company ("**American Snuff Co.**"), Santa Fe Natural

Tobacco Company, Inc. ("**SFNTC**"), R.J. Reynolds Vapor Company ("**RJR Vapor**"), RAI, Lorillard, other RAI affiliates and indemnitees (including but not limited to B&W) (collectively, the "**Reynolds Defendants**"): 232 in the United States and 17 in Canada (not including the approximately 564 individual smoker cases pending in West Virginia state court as a consolidated action, 2,694 Engle progeny cases (as defined below), involving approximately 3,492 individual plaintiffs and 2,346 Broin II cases pending in the United States).

The tobacco-related legal actions range from individual lawsuits to class-actions and other aggregate claim lawsuits. For example, in *Engle v. R. J. Reynolds Tobacco Co*, involving RJR Tobacco Company and B&W, the Florida Supreme Court issued a ruling that, while determining that the case could not proceed further as a class action, permitted members of the *Engle* class to file individual claims, including claims for punitive damages, through 11 January 2008. The decision preserved several of the *Engle* jury findings for use in adjudicating these subsequent individual actions, which are now known as "**Engle progeny cases**". As at 30 June 2017, RJR Tobacco Company had been served in 2,694 pending Engle progeny cases filed on behalf of approximately 3,492 individual plaintiffs. Many of these are in active discovery or nearing trial. In all Engle progeny cases tried to date, a central issue has been the proper use of the preserved *Engle* findings. RJR Tobacco Company has argued that the use of the *Engle* findings to establish individual elements of claims (such as defect, negligence and concealment) is a violation of federal due process. In 2013, both the Florida Supreme Court and the U.S. Court of Appeals for the Eleventh Circuit rejected that argument. In *Hess v. Philip Morris USA Inc.* and *Russo v. Philip Morris USA Inc.*, decided on 2 April 2015, the Florida Supreme Court held that, in Engle progeny cases, the defendants cannot raise a statute of repose defence to claims for concealment or conspiracy. On 8 April 2015, in *Graham v. R. J. Reynolds Tobacco Co.*, the Eleventh Circuit held that federal law impliedly pre-empts use of the preserved Engle findings to establish claims for strict liability or negligence. On 21 January 2016, the Eleventh Circuit granted the plaintiff's motion for rehearing *en banc* and vacated the panel decision. On 18 May 2017, the *en banc* Eleventh Circuit rejected RJR Tobacco Company's due process and implied pre-emption arguments. The Engle progeny cases have resulted in increased litigation and trial activity, including an increased number of adverse verdicts and increased expenses. Since the beginning of 2014 to 30 June 2017, RJR Tobacco Company or Lorillard Tobacco has paid judgments in 39 Engle progeny cases and have cumulatively paid $246.3 million in compensatory or punitive damages and $97.8 million for attorneys' fees and statutory interest, for a total of $344.1 million, in these cases. In addition, outstanding jury verdicts in favour of the Engle progeny plaintiffs had been entered against RJR Tobacco Company or Lorillard Tobacco for $202.7 million in compensatory damages (as adjusted) and $224.9 million in punitive damages, a total of $427.6 million, as of 30 June 2017. All of these verdicts are in various stages in the appellate process and have been bonded as required by Florida law under the $200 million bond cap passed by the Florida legislature in 2009. Although RJR Tobacco Company cannot currently predict when or how much it may be required to bond and pay, RJR Tobacco Company will likely be required to bond and pay additional judgments as the litigation proceeds.

Class-action suits have been filed in a number of states against individual cigarette manufacturers, including B&W, RJR Tobacco Company and RAI, alleging that the use of the terms "lights" and "ultra-lights" constitutes unfair and deceptive trade practices. In addition, several class actions have been filed against SFNTC (a wholly-owned subsidiary of RAI) and RAI asserting that use of the terms "natural", "additive-free" and "organic" in the product labelling and advertising for SFNTC's "Natural American Spirit" cigarette brand violates state disclosure, and deceptive and unfair trade practice, statutes.

Furthermore, the Group is subject to substantial payment obligations under the Master Settlement Agreement (the "**MSA**"), dated 23 November 1998. The Master Settlement Agreement is between 46 U.S. states, the District of Columbia and five U.S. territories listed on the signature pages thereto, Philip Morris Incorporated, RJR Tobacco Company, B&W, Lorillard Tobacco and various

subsequent participating manufacturers listed on the National Association of Attorneys General's list of "Participating Manufacturers", as amended, supplemented or replaced and the state settlement agreements with the states of Mississippi, Florida, Texas and Minnesota (the MSA and such settlement agreements, collectively "**State Settlement Agreements**"). RAI's operating subsidiaries' expenses and payments under the State Settlement Agreements for 2016 amounted to $2,727 million in respect of settlement expenses and $3,042 million in respect of settlement cash payments. RAI's operating subsidiaries' projected expenses and payments under the State Settlement Agreements for 2017 and 2018, and thereafter, amount to greater than $3,000 million per year in respect of projected settlement expenses and, in respect of projected settlement cash payments, greater than $2,700 million in respect of 2017 and greater than $3,000 million per year in respect of 2018 and thereafter.

It is likely that legal actions, proceedings and claims arising out of the sale, distribution, manufacture, development, advertising, marketing and claimed health effects of cigarettes and other tobacco products will continue to be filed against the Group and other tobacco companies for the foreseeable future.

Judgments in favour of plaintiffs in highly publicised cases against members of the Group and other tobacco companies regarding the health effects of smoking may stimulate further claims. A material increase in the number of pending claims could significantly increase defence costs. In addition, adverse outcomes in pending cases could have adverse effects on the ability of the Group to prevail in other smoking and health litigation.

Non-tobacco-related litigation

There are also a number of non-tobacco-related legal and regulatory proceedings against the Group. For example, one of BAT's subsidiaries has certain liabilities in respect of indemnities given on the purchase and disposal of former businesses in the United States, which has resulted in the Group subsidiary entering into an arrangement with certain parties to fund a portion of the ongoing costs of the clean-up of environmental contamination in the Fox River. The sums the Group subsidiary has agreed to pay under the Funding Agreement are subject to ongoing adjustment, as clean-up costs can only be estimated in advance of the work being carried out and as certain sums payable are the subject of ongoing U.S. litigation. In 2016, the BAT subsidiary paid £6 million in respect of clean-up costs and is potentially liable for a further £159 million in future clean-up costs. Such BAT subsidiary may also be liable under the indemnities in respect of claims in relation to the environmental clean-up of the Kalamazoo River. The amount of the clean-up costs for the Kalamazoo River is presently unclear, but could run into hundreds of millions of dollars. Non-tobacco-related litigation, including for natural resource damages which costs cannot be estimated at this time, could impose substantial monetary obligations on the Group and could have an adverse effect on the results of operations, cash flows and financial position of the Group.

General litigation conclusion

The Group's consolidated results of operations, cash flows and financial position could be materially affected in a particular fiscal quarter or fiscal year by an unfavourable outcome of certain pending or future litigation, including through exposure to substantial liabilities as a result of such outcomes. This, in turn, could materially increase costs, including costs associated with bringing proceedings and defending such claims, which includes exposure to adverse costs orders. Any negative publicity resulting from these claims may adversely affect the Group's reputation."

(ii) On page 22 of the Base Prospectus, the third paragraph of the risk factor headed "Failure to uphold high standards of corporate behaviour could subject the Group to potential liability under sanctions, anti-corruption and other laws and regulations" shall be entirely deleted and replaced by the language set out below:

"The Group is investigating, through external legal advisers, allegations of misconduct and is liaising with the UK Serious Fraud Office ("**SFO**") and other relevant authorities. The BAT board of directors has also created a sub-committee to specifically monitor matters, having regard to the need to ensure active oversight of, and support for, the investigation between BAT board of directors meetings. The Group has been informed that the SFO has now opened a formal investigation into suspicions of corruption in the conduct of business by BAT, its subsidiaries and associated persons. The Group intends to cooperate with that investigation.

In 2016, the Group began a project, which has continued into 2017, to review and further strengthen all aspects of the Group's global compliance procedures. Any actions taken by government authorities or findings of courts in relation to these matters may result in the adverse consequences identified above for the Group."

(iii) On page 24 of the Base Prospectus, the risk factor headed "The Group may be adversely affected by the performance of its associates" shall be entirely deleted and replaced by the language set out below:

"The Group may be adversely affected by the performance of its associates

Although the Group owns an approximate 30 per cent. interest in ITC, the Group's associate company in India, it does not have control over ITC. The Group's ownership interest in ITC means the Group may be affected by its business and financial performance, as it is subject to tobacco-related industry and business risk factors similar to those the Group faces. Any issue with the business and financial performance of ITC may have an adverse impact on the business, financial condition and results of operations of the Group."

(iv) On page 25 of the Base Prospectus, the risk factor headed "The Group may lose market share and profit due to the loss of production capacity or key suppliers, distribution interruption or commodity risk" shall be entirely deleted and replaced by the language set out below:

"The Group may lose market share and profit due to the loss of production capacity or key suppliers, distribution interruption, commodity risk, problems with labour relations, or a major fire, violent weather conditions or other disasters.

There are some product categories for which the Group does not have spare production capacity or where substitution between different production plants is very difficult. A major fire, violent weather conditions or other disasters that affect manufacturing and other facilities of the Group's operating subsidiaries, or of their suppliers and vendors, could have a material adverse effect on the operations of the Group's operating subsidiaries. For example, RJR Tobacco Company's cigarette manufacturing is conducted primarily at a single facility, and SFNTC's cigarette manufacturing is conducted at a single facility. The Group may lose market share and profit in the event of loss of or insufficient production capacity needed to supply its products or meet increased demand. The Group has an increasingly global approach to managing its supply chain. Severe disruption to any aspect of the Group's supply chain or suppliers' operations or deterioration in the financial condition of a trading partner could have an adverse impact on the Group's ability to produce and deliver products meeting customer demands. For example, RAI and its subsidiaries (the "**RAI Group**") rely on a limited number of suppliers for raw materials. If a supplier fails to meet any of RAI's operating subsidiaries demands for raw materials, any such operating subsidiary may fail to operate effectively and may fail to meet shipment demand, which could have an adverse effect on the results of operations, cash flows and financial conditions of the Group. A continuing industry consolidation among distributors and suppliers could lead to reduced efficiency, higher costs and concentrated risk of supply chain interruptions, contract disputes and systems and logistics failures. In certain markets, distribution of the Group's products is through third party monopoly channels, and is often licensed by governments. The Group may be unable to renew these third party supplier and distribution agreements on satisfactory terms for numerous reasons,

including government regulations. Loss of distribution may adversely affect the Group's sales volume, market share and profits. Furthermore, for the RAI Group, revenues from two distributors, McLane Company, Inc. and Core-Mark International, Inc., constituted approximately 28 per cent. and 14 per cent., respectively, of consolidated revenue for the year ended 31 December 2016. The loss of these customers, or a significant decline in their purchases, could have an adverse effect on the results of operations, cash flows and financial position of the Group.

Additionally, there can be no assurance that any deterioration in labour or union relations, or any disputes or work stoppages or other labour related developments (including problems experienced during any consultation procedures or programs or the introduction of new labour regulations in countries where the Group operates), will not increase the costs and upset the Group's ability to supply products, which would adversely affect the Group's business, financial condition and results of operations. This is particularly relevant in jurisdictions where the Group's manufacturing facilities are more concentrated, such as in the United States upon the completion of the merger.

In addition, the Group may not be able to establish or maintain relationships, on favourable commercial terms, with vendors willing to produce alternative products, or components or raw materials used in such products, resulting in additional expenditures for the Group."

(v) The following risk factors shall be added to the section of the Base Prospectus headed "Risk Factors" on pages 15 – 29:

*"**Completion of the merger resulted in BAT becoming subject to U.S. regulations which are different from the regulations to which BAT was subject before completion of the merger. Current and future U.S. regulations could have an adverse effect on the results of operations, cash flows and financial position of the Group.***

Following completion of the merger, the Group's exposure to the impact of a wide variety of U.S. federal, state and local laws has increased. Any such existing or future additional regulations will pose an increased compliance burden for the Group and, particularly where supplemented by new regulations, this could lead to higher costs and greater complexity, and potential reputational damage, product recall, regulatory sanctions or fines in connection with inadvertent breach. The enactment of unduly onerous and restrictive regulation could have a material adverse effect on the results of operations, cash flows and financial position of the Group.

These regulations include limitations on the advertising, sale and/or use of tobacco products in the United States, which have proliferated in recent years. For example, some local laws prohibit the sale of certain tobacco products, prohibit certain types of marketing practices, such as consumer coupons, or prohibit the consumption of cigarettes and other tobacco products in restaurants and other public places. Private businesses also have adopted policies that prohibit or restrict, or are intended to discourage, smoking and tobacco use. Among other things, these laws, regulations and policies could result in a decline in the overall sales volume of tobacco products in the United States, which could have an adverse effect on the results of operations, cash flows and financial position of BAT and its operating subsidiaries following the merger.

The Group is now subject to, among others, the following U.S. laws and regulations:

US securities, corporate governance and compliance laws and regulations

As a result of the registration of the BAT ordinary shares with the SEC in connection with the merger and the listing of its American Depositary Shares on the New York Stock Exchange, BAT is now subject to U.S. securities laws and other U.S. laws and regulations, including the U.S. Foreign Corrupt Practices Act of 1977, which now applies to the Group's worldwide activities and the Sarbanes-Oxley Act of 2002 as a foreign private issuer (as defined in Rule 3b-4(c) of the U.S. Securities Exchange Act of 1934 as amended, and Rule 405 of the Securities Act). These regulations are different from the regulations to which BAT was subject to prior to the merger, and

therefore pose an increased compliance burden on BAT. While BAT continuously seeks to improve its systems of internal controls and to remedy any weaknesses identified, there can be no assurance that the policies and procedures will be followed at all times or effectively detect and prevent violations of applicable laws.

FDA regulations

The U.S. Food and Drug Administration (the "**FDA**") has broad authority over the manufacture, sale, marketing and packaging of tobacco products. Regulations issued by the FDA could, among other impacts, result in a decrease in cigarette and smokeless tobacco product sales in the United States, including sales of the Group's brands, has resulted in increased costs for the historical RAI Group and may increase the costs of operations of the Group.

For example, the ability of the Group to introduce new tobacco products in the United States could be adversely affected by FDA rules and regulations. Under the Family Smoking Prevention and Tobacco Control Act of 2009, as amended (the "**FDA Tobacco Act**"), for a manufacturer to launch a new tobacco product or modify an existing tobacco product after 22 March 2011, the manufacturer must obtain an order from the FDA's Center for Tobacco Products (the "**CTP**"), allowing the new or modified product to be marketed. Similarly, a manufacturer that introduced a product between 15 February 2007 and 22 March 2011, was required to file a substantial equivalence report with the CTP demonstrating either (1) that the new or modified product had the same characteristics as a product commercially available as at 15 February 2007, referred to as a predicate product, or (2) if the new or modified product had different characteristics than the predicate product, that it did not raise different questions of public health. A product subject to such report is referred to as a provisional product. A manufacturer may continue to market a provisional product unless and until the CTP issues an order that the provisional product is not substantially equivalent ("**NSE**"), in which case the FDA could then require the manufacturer to remove the provisional product from the market. On 15 September 2015, the CTP issued four NSE orders to RJR Tobacco Company, determining that four cigarette styles were not substantially equivalent to their respective predicate products, and ordering that RJR Tobacco Company immediately stop all distribution, importation, sale, marketing and promotion of these provisional products. RJR Tobacco Company has complied with these NSE orders. Although the sales of the provisional products subject to the foregoing NSE orders are not material to RJR Tobacco Company, substantially all of the RAI Group's products currently on the market are provisional products. If the CTP were to issue NSE orders with respect to other provisional products of the RAI Group such orders, if not withdrawn or invalidated, would have an adverse impact on the sales of the products subject to the orders, and could have an adverse impact on the results of operations, cash flows and financial position of the Group.

On 27 August 2015, the FDA sent a warning letter to the RAI Group operating subsidiary SFNTC, claiming that SFNTC's use of the terms "Natural" and "Additive Free" in the product labelling and advertising for Natural American Spirit cigarettes violates the FDA Tobacco Act. Pursuant to an agreement entered into with the FDA, SFNTC has committed to phasing out use of the terms "Natural" and "Additive Free" from product labelling and advertising for Natural American Spirit cigarettes on an established timeframe. While SFNTC may continue to use the term "Natural" in the Natural American Spirit brand name and trademarks, SFNTC's scheduled deletion of the terms "Natural" and "Additive Free" from the labelling and advertising of its Natural American Spirit cigarettes could have an adverse effect on the sale of such cigarettes and, as a result, on the results of operations, cash flows and financial position of the Group.

Further, the FDA may seek to require the reduction of nicotine levels under the FDA Tobacco Act and also may require the reduction or elimination of other constituents. For instance, the FDA has proposed a rule that, if adopted, would require the reduction, over a three-year period, of the levels of N-nitrosonornicotine ("**NNN**") contained in smokeless tobacco products. The adoption of this proposed rule is currently suspended by virtue of a federal regulatory freeze imposed by the U.S.

President. It is not known whether or when this proposed rule will be adopted, and, if adopted, whether the final rule will be the same as or similar to the proposed rule. In addition, on 28 July 2017, the FDA announced its intention to issue an Advance Notice of Proposed Rulemaking ("**ANPRM**") to seek input on the potential public health benefits and any possible adverse effects of lowering nicotine in combustible cigarettes to 'non-addictive' levels.

If the proposed rule on NNN reduction (either in its current form or in a form substantially similar to its current form) or other rules on nicotine reduction are adopted, compliance or the inability to comply could have an adverse effect on the results of operations, cash flows and financial position of the Group.

FDA regulations in relation to next generation products

The FDA may also issue other regulations that, among other things, make it more difficult for the Group to grow its e-cigarette business in the United States or that limit the level of nicotine in cigarettes made, sold or marketed in the United States. On 10 May 2016, the FDA issued, what was expected to be, a final regulation deeming e-cigarettes and certain other tobacco products to be subject to the FDA's regulatory authority under the FDA Tobacco Act. As a result, such newly 'deemed' tobacco products will be subject to many of the same requirements of the FDA Tobacco Act that currently apply to cigarettes and smokeless tobacco products. Under this 'final' regulation, any newly 'deemed' tobacco products, including e-cigarettes that were not on the market as at 15 February 2007 would have been considered a new tobacco product subject to premarket review by the FDA. Neither RJR Vapor's VUSE e-cigarette, nor virtually any other e-cigarette, was on the market as at such date. As a result, e-cigarette manufacturers, including RJR Vapor and the Group would not have been able to utilise the substantial equivalence pathway for clearing these products, but instead would have had to file premarket tobacco product applications by 8 August 2018 (later extended to 8 November 2018).

However, on 28 July 2017, the FDA announced its intention to extend the deadline for filing these applications until 8 August 2021 for combustible products and until 8 August 2022 for non-combustible products. The FDA also reconfirmed that a manufacturer that files a premarket application for such a product before the relevant deadline may continue to market the product for a certain period of time pending the FDA's review of the application. For products that were not in the market by 8 August 2016, manufacturers must file and await clearance of such premarket applications before placing such products into commerce.

For the FDA to clear a premarket tobacco product application covering an e-cigarette, the applicant must show that the marketing of the e-cigarette would be appropriate for the protection of the public health. Despite the FDA announcement on 28 July 2017 that it plans to issue foundational rules to make the application and product review process more efficient, predictable and transparent for manufacturers, at present, there remains substantial uncertainty over how the FDA will interpret that standard when determining whether to clear an e-cigarette premarket tobacco application. If the Group is unable to obtain FDA clearance, or obtains FDA clearance on a delayed basis, of premarket applications for VUSE and other e-cigarette products, then there could be an adverse effect on the results of operations, cash flows, and financial position of the Group.

Regulations banning or materially restricting the use of menthol in tobacco products

As a result of the merger, BAT, through its subsidiaries, acquired RJR Tobacco Company's Newport brand, and other menthol brands, which represent a substantial portion of RAI's total consolidated net sales. The RAI Group estimates that approximately 50 per cent. of its total consolidated net sales were attributable to menthol cigarettes for the year ended 31 December 2016. The FDA may adopt regulations banning or severely restricting the use of menthol in tobacco products or the sale of menthol cigarettes. As part of its announcement on 28 July 2017, the FDA confirmed that it would issue an ANPRM to seek public comment on the role that flavours (including menthol) in tobacco

products play in attracting youth and may play in helping some smokers switch to potentially less harmful forms of nicotine delivery.

Advertising and marketing of tobacco products

The Group is subject to significant limitations on the advertising and marketing of tobacco products in the United States. Additional such regulation could harm the value of the Group's existing brands and ability to launch new brands. In the United States, television and radio advertisements of cigarettes have been prohibited since 1971, and television and radio advertisements of smokeless tobacco products have been prohibited since 1986. Under the MSA, RJR Tobacco Company and SFNTC, as a subsequent participating manufacturer under the MSA, cannot use billboard advertising, cartoon characters, sponsorship of certain events, non-tobacco merchandise bearing their brand names and various other advertising and marketing techniques. The MSA also prohibits targeting of youth in advertising, promotion or marketing of tobacco products, including the smokeless tobacco products of RJR Tobacco Company. In addition, pursuant to the FDA Tobacco Act, the FDA has reissued regulations addressing advertising and marketing restrictions that were originally promulgated in 1996. Although these restrictions were intended to ensure that tobacco advertising was not aimed at young people, some of the restrictions also may limit the ability of the Group to communicate with adult tobacco consumers in the United States.

Any additional regulations issued by the FDA or any additional U.S. federal, state or local laws could have a material adverse effect on the results of operations, cash flows and financial position of the Group.

Risk Factors Relating to BAT in connection with the merger

The substantial additional indebtedness that BAT incurred in connection with the merger could adversely affect the Group's financial position, including by decreasing the Group's business flexibility and resulting in a further reduction of the Group's credit rating.

Following completion of the merger, the Group has substantially increased debt compared to the Group's historical level of debt. As of 30 June 2017, BAT's consolidated net debt was £18.5 billion. BAT's pro forma net debt as of 30 June 2017, after giving effect to the merger as if it had been completed on 30 June 2017, would have been £47.1 billion, of which £26.8 billion, or 52 per cent., of the estimated pro forma gross interest bearing debt of BAT following the merger would have been at variable rates of interest as of 30 June 2017. BAT incurred approximately $38 billion of additional debt in connection with the merger as a result of financing to complete the merger and debt assumed in the merger. These pro forma figures do not take into account any refinancing of a part, or all of, the acquisition facility in the debt capital markets. This increased level of debt could have the effect, among other things, of reducing the Group's flexibility to respond to changing business and economic conditions and will have the effect of increasing the Group's interest expense thereby tightening restrictive covenants under its revolving credit facility agreement. In addition, the amount of cash required to service the Group's increased debt levels and increased aggregate dividends following completion of the merger and thus the demands on the Group's cash resources will be greater than the amount of cash flows required to service the Group's debt and pay dividends prior to the merger. The increased levels of debt and dividends following completion of the merger could also reduce funds available for the Group's investments in research and development and capital expenditures, share repurchases and other activities and may create competitive disadvantages for the Group relative to other companies with lower debt levels.

The Group's credit rating impacts the cost and availability of future borrowings and, accordingly, BAT's cost of capital. The Group's credit rating reflects each credit rating organisation's opinion of the Group's financial strength, operating performance and ability to meet debt obligations. Following the announcement of the merger, Standard & Poor's downgraded the long-term rating of the Group

from A- to BBB+ and reaffirmed the A-2 short term rating and Moody's downgraded the long term rating of the Group from A3 to Baa2 and reaffirmed the P-2 short term rating. The reduction in the Group's credit rating by Standard & Poor's and Moody's and any further reduction may limit BAT's ability to borrow at interest rates and terms consistent with the interest rates and terms that have been available to BAT prior to the merger. If the Group's credit rating is reduced further, BAT may not be able to sell additional debt securities or borrow money in the amounts, at the times or at interest rates or upon the more favourable terms and conditions that might be available if the Group's current credit rating is maintained. Any impairment of BAT's ability to obtain future financing on favourable terms could have an adverse effect on BAT's ability to refinance existing debt.

In addition, future borrowings under circumstances in which the Group's debt is rated below investment grade may contain further restrictions that impose significant restrictions on the way the Group operates following the merger.

The Pro Forma Financial Information has been produced for information purposes only and the actual results of operations, cash flows and financial position after the merger may differ materially.

The Pro Forma Financial Information is presented for informational purposes only and is not necessarily indicative of the combined financial position or results of operations that would have been realised had the merger occurred as of the dates indicated, nor is it meant to be indicative of any anticipated combined financial position or future results of operations that the Group will experience after the completion of the merger. The unaudited pro forma adjustments are based upon the best available information and certain assumptions that BAT believes to be reasonable. For example, the estimated purchase price allocation included in the Pro Forma Financial Information is preliminary and based on information currently available. The actual fair values used in the purchase price allocation will be determined upon the completion of the merger and may vary materially from these preliminary estimates. In addition, the LIBOR interest rate and the Group's credit rating (each of which impacts BAT's cost of financing), BAT's share price and exchange rates at the time of the closing of the merger would all have a material impact on the total acquisition price, related financing costs and the accuracy of the Pro Forma Financial Information. The Pro Forma Financial Information does not reflect any adjustment for liabilities or related costs of any integration and similar activities, or benefits, including potential synergies that may be derived in future periods, from the merger.

BAT may fail to successfully integrate RAI into its business, and the Group may fail to realise the expected synergies and other benefits of the merger and the combined businesses may not perform as expected.

BAT and RAI and their respective subsidiaries and affiliates have operated independently until the completion of the merger, and there can be no assurances that their businesses can be integrated successfully. The success of the merger will depend, in part, on BAT's ability to successfully integrate RAI into its business and the ability of the Group to realise the expected synergies and other benefits from combining the businesses of the historical Group and the RAI Group. There is also no assurance that the costs to integrate and achieve the synergies will not be higher than anticipated. The Group's ability to successfully combine and integrate the businesses of the historical Group and the RAI Group and the Group's ability to realise these anticipated benefits and cost savings is subject to certain risks, including the following:

- changes or conflicts in corporate culture, controls, procedures and systems;
- retaining existing employees and attracting new employees;
- maintaining relationships with customers, suppliers and other constituencies; and
- inefficiencies associated with the integration and management of the operations of the Group.

In addition, the Group will be required to devote significant management attention and resources to integrating the business practices and operations of the historical Group and the RAI Group, which may result in diversion of the attention of each group's management and employees from ongoing operations, the lack of personnel or other resources to pursue other potential business opportunities and the disruption of, or the loss of momentum in, each group's ongoing businesses.

If the Group is not able to successfully combine the businesses of the historical Group and the RAI Group within the anticipated timeframe, or at all, the expected synergies and other benefits of the merger may not be realised fully or at all or may take longer to realise than expected and the combined businesses may not perform as expected. Accordingly, the contemplated benefits of the merger may not be realised fully, or at all, or may take longer to realise than expected.

The Group has incurred and will continue to incur significant transaction-related costs in connection with the merger.

The Group has incurred and will continue to incur significant costs associated with the merger and combining the operations of the historical Group and the RAI Group. The significant costs associated with the merger include, among others, fees and expenses of financial advisors and other advisors and representatives, certain employment-related costs relating to employees of RAI, fees and expenses related to the acquisition facility and the refinancing of the acquisition facility, costs of defending any potential shareholder litigation related to the merger, costs of public relations firms engaged in connection with the merger, filing fees due in connection with filings required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and filing fees and printing and mailing costs for the proxy statement/prospectus related to the merger and filed with the SEC in the United States and filings related to the merger in the UK. Some of these costs have already been incurred. The Group also has and will continue to incur fees and costs related to formulating and implementing integration plans with respect to the two companies, including systems integration costs. BAT continues to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the merger and the integration of the two companies' businesses. The expected net benefits associated with these costs may not be achieved in the near term, or at all.

The Group may have to make additional contributions to fund RAI's pension and other post-retirement benefit plans in addition to BAT's own plans.

The Group currently maintains and contributes to defined benefit pension plans and other post-retirement benefit plans that cover various categories of employees and retirees. The obligation to make contributions to fund benefit obligations under these pension and other post-retirement benefit plans is based on actuarial valuations, which are based on certain assumptions, including the long-term return on plan assets and discount rate. The Group may have to make additional contributions following the completion of the merger to fund RAI's pension and other post-retirement benefit plans in addition to the historical BAT plans. In addition, changes to pension legislation or changes in pension accounting may adversely affect pension and post-retirement expense. Additional contributions could have an adverse effect on the cash flows of the Group.

As a result of the merger, BAT's exposure to risks related to the U.S. cigarette market has increased, which could have an adverse effect on the results of operations, cash flows and financial position of BAT following completion of the merger.

BAT's subsidiaries' exposure, following the merger, to the U.S. cigarette market, and the commercial risks related thereto, increased (by virtue of BAT's ownership of 100 per cent. of RAI's equity). The RAI Group is dependent on the U.S. cigarette market, which is expected to continue to decline. After completion of the merger, BAT's subsidiaries' U.S. combustible cigarette brands include, among others, Newport, Camel, Pall Mall and Natural American Spirit. For the year ended 31 December 2016, the RAI Group's sales in the United States attributable to combustible cigarettes represented approximately 89 per cent. of its 2016 consolidated net sales. The Group's sales in the United States

attributable to combustible cigarettes would have represented approximately 34 per cent. of the Group's pro forma 2016 net sales, assuming the merger had occurred on 1 January 2016.

The Group's exposure to the decline of U.S. cigarette consumption has increased by virtue of the merger. Such consumption has declined for a variety of factors, including, for example, price increases, restrictions on advertising and promotions, smoking prevention campaigns, increases in regulation and excise taxes, health concerns, a decline in the social acceptability of smoking, increased pressure from anti-tobacco groups, and migration to smokeless products. Management Science Associates, Inc. ("**MSAi**") reported that, on a year-over-year basis, U.S. cigarette shipments declined 2.4 per cent. in 2016, 0.1 per cent. in 2015 and 3.2 per cent. in 2014. U.S. cigarette consumption is expected to continue to decline and any such decline or the transition of adult tobacco consumers away from premium cigarette brands in the U.S. could have an adverse effect on the results of operations, cash flows and financial position of the Group.

In addition, the RAI Group is dependent on premium cigarette brands, such as Newport, with premium brands accounting for approximately 73 per cent. of the cigarette volume of subsidiaries of the RAI Group in 2016. As a result, the Group is susceptible to consumer price sensitivities and adverse financial or economic conditions that could increase the number of consumers switching to a lower-priced brand.

As a result of increased exposure to the U.S. cigarette market, the Group's exposure to risks such as the inability to keep up with competitor actions, and the inability to raise prices to compensate for declines in sales volumes and increases in excise taxes will also increase.

BAT, through its subsidiaries, has acquired RJR Tobacco Company's Newport brand, the leading U.S. menthol cigarette brand, and any action by the FDA or any other governmental authority that could have the effect of banning or materially restricting the use of menthol in tobacco products could have a material adverse effect on sales of the Newport brand and the menthol styles of other brands of RAI's operating subsidiaries, which could have an adverse effect on the results of operations, cash flows and financial position of the Group.

As a result of the merger, BAT, through its subsidiaries, acquired RJR Tobacco Company's Newport brand, the leading U.S. menthol cigarette brand, the sales of which, together with the other menthol brands of RAI's operating subsidiaries, represent a substantial portion of RAI's total net sales. RAI estimates that approximately 50 per cent. of its total consolidated net sales were attributable to menthol cigarettes for the year ended 31 December 2016. In 2013, the FDA issued its preliminary scientific evaluation regarding menthol cigarettes, concluding that menthol cigarettes adversely affect initiation, addiction and cessation compared to non-menthol cigarettes. In 2013, the FDA also issued an ANPRM, seeking comments on various issues relating to the potential regulation of menthol cigarettes. More recently, on 28 July 2017, the FDA confirmed that it would issue an ANPRM to seek public comment on the role that flavours (including menthol) in tobacco products play in attracting youth and may play in helping some smokers switch to potentially less harmful forms of nicotine delivery.

Although it is not possible to predict whether or when the FDA will take actions, if the FDA or any other governmental authority were to adopt regulations banning or severely restricting the use of menthol in tobacco products or the sale of menthol cigarettes, those regulations could have a material adverse effect on sales of the Newport brand and the menthol styles of other brands of RAI's operating subsidiaries, which could have an adverse effect on the results of operations, cash flows and financial position of the Group."

(b) Litigation

The section of the Base Prospectus titled "Litigation" shall be updated as follows:

A paragraph following paragraph 6 on page 37 of the sub-section titled "Indemnity" shall be added as follows:

"Following the merger, RJRT has become an indirect, wholly owned subsidiary of BAT and accordingly the indemnity will be between two indirect, wholly owned subsidiaries of BAT. As such the Group will not benefit from an indemnification by an external party."

D. The Additional Guarantee

With effect on and from 2 August 2017 and up to and including the Termination Date (as defined below), Notes issued under the Programme will be irrevocably and unconditionally guaranteed by the Additional Guarantor pursuant and subject to a deed of guarantee (the "**Deed of Guarantee**") dated on 2 August 2017 (the "**RAI Guarantee**"). The RAI Guarantee will constitute an unconditional and irrevocable obligation of the Additional Guarantor, on a joint and several basis with the Guarantors, for the payment of all sums expressed to be payable from time to time by each Issuer in respect of Notes issued under the Programme on or after the date of the Deed of Guarantee up to and including the Termination Date (as defined below).

Without the consent of the Trustee, the Noteholders or the Guarantors, the Additional Guarantor will be automatically and unconditionally released from all obligations under the Deed of Guarantee, and the Deed of Guarantee shall thereupon terminate and be discharged and shall be of no further force or effect, if at any time the aggregate amount of indebtedness for borrowed money for which the Additional Guarantor is an obligor (as a guarantor or borrower) does not exceed 10 per cent. of the outstanding long term debt of BAT as reflected in the balance sheet included in BAT's most recent publicly released interim or annual consolidated financial statements (such date being the "**Termination Date**"), as evidenced by a certificate to such effect addressed to the Trustee and signed by a director of BAT (upon which certificate the Trustee shall be entitled to rely). The amount of the Additional Guarantor's indebtedness for borrowed money shall not include (A) its guarantee in respect of the Notes, (B) any other debt guaranteed by the Additional Guarantor the terms of which permit the termination of the Additional Guarantor's guarantee of such debt under similar circumstances as set out in the Deed of Guarantee, as long as the Additional Guarantor's obligations in respect of such other debt are terminated at substantially the same time as its guarantee of the Notes, (C) any debt issued or guaranteed by the Additional Guarantor that is being refinanced at substantially the same time as the release of the guarantee of the Notes pursuant to the Deed of Guarantee, provided that any obligations of the Additional Guarantor in respect of any debt that is incurred in any such refinancing shall be included in the calculation of the Additional Guarantor's indebtedness for borrowed money and (D) for the avoidance of doubt, any debt in respect of which the Additional Guarantor is an obligor (as a guarantor or borrower) (i) between or among BAT and any subsidiary or subsidiaries thereof or (ii) between or among any subsidiaries of BAT.

A Noteholder may inspect of a copy of the Deed of Guarantee during normal business hours at the head office of the Trustee.

E. RAI

Incorporation, Business and Development

RAI was incorporated in the State of North Carolina on 2 January 2004. RAI's registered office is located at 401 North Main Street, Winston-Salem, North Carolina 27101 United States and its telephone number is +1 (336) 741 2000.

RAI is a holding company whose wholly owned operating subsidiaries include: (i) RJR Tobacco Company (the second largest tobacco company in the United States) and whose brand portfolio includes the premium

brands Newport and Camel and the traditional value brand Pall Mall; (ii) SFNTC, the manufacturer and marketer of the premium cigarette brand Natural American Spirit; (iii) American Snuff Co., the second largest smokeless tobacco products manufacturer in the United States; and (iv) RJR Vapor, a marketer of digital vapor cigarettes in the United States, Niconovum USA, Inc. and Niconovum AB, which are marketers of nicotine replacement therapy products in the United States and Sweden respectively.

On 25 July 2017, RAI became an indirect, wholly owned subsidiary of BAT.

Administrative, management and supervisory bodies of RAI

Directors

The following is a list of the directors of RAI:

Name	Function
D. A. Crew	Director
M.P. Folan, III	Director
M. L. Holton, III	Director
T. Hayward	Director

None of the directors listed above performs activities outside RAI or the Group which are significant with respect to the Group. The business address of the directors of RAI is 401 South 4 Street, Suite 1010, Louisville, KY 40202.

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

F. General Information

The section of the Base Prospectus titled "General Information" shall be updated as follows:

Paragraph 3 of page 98 of the Base Prospectus is supplemented to include the follow sentence:

"*The accession of RAI as an Additional Guarantor pursuant to the Programme, the execution of the documents relating thereto and the incurring of its obligations thereunder have been duly authorised by resolutions of Meetings of the RAI Board of Directors on 25 July 2017.*"

Paragraph 4 of page 98 of the Base Prospectus is supplemented to include the following sentence:

"*Save as disclosed in Note 7 of the RAI 30 June 2017 10-Q Results on pages 14 to 58, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which RAI and its subsidiaries taken as a whole is aware) during the period covering at least the 12 months prior to the date of this Base Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of RAI and its subsidiaries taken as a whole. Since many of the pending cases seek unspecified damages it is not possible to quantify the total amount being claimed.*"

The following statement updates paragraph 5 on page 98 of the Base Prospectus:

"*Save as disclosed in paragraph 1 on page 31 of the BAT Half-Yearly Results incorporated by reference herein, there has been no significant change in the financial or trading position of BATIF, BATHTN, BATNF or BATCAP and their respective subsidiaries taken as a whole since 31 December 2016 nor BAT or the Additional Guarantor and their respective subsidiaries taken as a whole since 30 June 2017, nor has there been any material adverse change in the prospects of BATIF, BATHTN, BATNF, BAT, BATCAP or the Additional Guarantor and their respective subsidiaries taken as a whole since 31 December 2016.* "

An additional statement following paragraph 12 on page 99 of the Base Prospectus is added to include the following:

"Save with respect to the acquisition as set out and disclosed in the paragraph 1 on page 31 of the BAT Half-Yearly Results incorporated by reference herein, the Additional Guarantor has not entered into any contract outside the ordinary course of its business which could result in it being under an obligation or entitlement that is material to the Additional Guarantor's ability to meet its obligations under the Deed of Guarantee."

An additional statement following paragraph 10 on page 99 of the Base Prospectus is added to include the following:

"*Consent*

KPMG LLP has given, and has not withdrawn, its written consent to the inclusion in this Supplement of its report in the "BAT Unaudited Pro Forma Condensed Combined Financial Information" section of this Supplement, in the form and context in which it appears and has authorised the contents of that report."

Paragraph 14 (e) on page 100 of the Base Prospectus is supplemented to include the following sentence:

"the consent letter of KPMG LLP referred to above; and the report of KPMG LLP on the BAT Unaudited Pro Forma Condensed Combined Financial Information set out in "BAT Unaudited Pro Forma Condensed Combined Financial Information."

G. Other Information

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/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 8 and 99-100, 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, as amended) except where such information or other documents are specifically incorporated by reference into this 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.