

B.A.T Capital Corporation

(A Wholly Owned Subsidiary of
British American Tobacco p.l.c.)

Financial Statements as of and for the
Years Ended December 31, 2009 and 2008,
and Independent Auditors' Report

Report of Independent Auditors

To the Board of Directors and Shareholders of
B.A.T Capital Corporation

In our opinion, the accompanying balance sheet and the related statements of income and accumulated earnings and of cash flows present fairly, in all material respects, the financial position of B.A.T Capital Corporation (a wholly owned subsidiary of British American Tobacco p.l.c.) at December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2008 and for the year then ended were audited by other auditors whose report dated March 16, 2009 expressed an unqualified opinion on those statements.

PricewaterhouseCoopers LLP

March 17, 2010

B.A.T CAPITAL CORPORATION
(A Wholly Owned Subsidiary of British American Tobacco p.l.c.)

BALANCE SHEETS
DECEMBER 31, 2009 AND 2008
(In thousands of dollars)

	2009	2008
ASSETS		
CURRENT ASSETS:		
Notes receivable	\$ 212,868	\$ 232,927
Revolving credit facility receivable	7,500	-
Interest receivable	122	225
Other receivables	<u>135</u>	<u>239</u>
TOTAL	<u>\$ 220,625</u>	<u>\$ 233,391</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ 166,048	\$ 144,582
Revolving credit facilities payable	-	34,528
Interest payable	59	181
Accounts payable and accrued liabilities	<u>51</u>	<u>29</u>
Total current liabilities	166,158	179,320
LONG-TERM DEBT — Medium-term note	<u>40,000</u>	<u>40,000</u>
Total liabilities	<u>206,158</u>	<u>219,320</u>
SHAREHOLDER'S EQUITY:		
Common shares, \$1 par value (2,000 shares authorized, issued and outstanding)	2	2
Paid-in capital	9,999	9,999
Accumulated earnings	<u>4,466</u>	<u>4,070</u>
Total shareholder's equity	<u>14,467</u>	<u>14,071</u>
TOTAL	<u>\$ 220,625</u>	<u>\$ 233,391</u>

See notes to financial statements.

B.A.T CAPITAL CORPORATION
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STATEMENTS OF INCOME AND ACCUMULATED EARNINGS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of dollars)

	2009	2008
INTEREST INCOME	\$ <u>1,913</u>	\$ <u>16,158</u>
INTEREST AND GUARANTEE FEE EXPENSES	1,152	13,958
GENERAL AND ADMINISTRATIVE EXPENSES	<u>152</u>	<u>116</u>
Total expenses	<u>1,304</u>	<u>14,074</u>
INCOME BEFORE INCOME TAXES	609	2,084
INCOME TAX EXPENSE	<u>213</u>	<u>729</u>
NET INCOME	396	1,355
ACCUMULATED EARNINGS — Beginning of year	<u>4,070</u>	<u>2,715</u>
ACCUMULATED EARNINGS — End of year	<u>\$ 4,466</u>	<u>\$ 4,070</u>

See notes to financial statements.

B.A.T CAPITAL CORPORATION
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STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of dollars)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 396	\$ 1,355
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease in interest receivable	103	1,993
Decrease (Increase) in other receivables	104	(184)
Decrease in interest payable	(122)	(126)
Increase in accounts payable and accrued liabilities	<u>22</u>	<u>5</u>
Net cash provided by operating activities	<u>503</u>	<u>3,043</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net proceeds from repayment of notes receivable	20,059	328,775
Net investments from revolving credit facility	<u>(7,500)</u>	<u>-</u>
Net cash provided by investing activities	<u>12,559</u>	<u>328,775</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (repayment) proceeds from borrowings of notes payable	21,466	(284,705)
Net repayment of revolving credit facilities payable	<u>(34,528)</u>	<u>(47,113)</u>
Net cash used in financing activities	<u>(13,062)</u>	<u>(331,818)</u>
NET INCREASE (DECREASE) IN CASH	-	-
CASH — Beginning of year	<u>-</u>	<u>-</u>
CASH — End of year	<u>\$ -</u>	<u>\$ -</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	<u>\$ 1,274</u>	<u>\$ 14,033</u>
Income taxes paid	<u>\$ 109</u>	<u>\$ 913</u>

See notes to financial statements.

B.A.T CAPITAL CORPORATION
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying financial statements present the financial position, results of operations and cash flows of B.A.T Capital Corporation (the “Company”), a wholly-owned subsidiary of British American Tobacco p.l.c. (“B.A.T”), a company incorporated under the laws of England and Wales. The Company, incorporated in Delaware, has 2,000 common shares authorized, issued and outstanding with a par value of one dollar per share. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Nature of Business — The Company issues debt and the proceeds are loaned to B.A.T affiliates at approximately the same interest rates as the Company’s related borrowings. During 2009 and 2008, funds were loaned to B.A.T International Finance p.l.c. (“BATIF”) and to BATUS Leasing, Inc. These borrowers were each wholly-owned subsidiaries of B.A.T.

The Company utilized a medium-term note from a third party, deposit agreements (notes payable) and revolving credit facilities from B.A.T affiliates as debt-funding sources during 2009 and 2008 (see Note 4: Notes and revolving credit facilities payable). The medium-term note is unconditionally guaranteed by B.A.T.

Accounting Standards Codification — In June 2009, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162*. This standard establishes the FASB Accounting Standards Codification (“Codification”) as the single source of authoritative U.S. GAAP, superseding all previously issued authoritative guidance. All references to pre-Codification GAAP in our financials statements are replaced.

Income Taxes — The Company accounts for income taxes in accordance with the provision of ASC 740, *Income Taxes (ASC 740)*. ASC 740 applies an asset and liability approach that requires the recognition of deferred tax assets and liabilities with respect to the expected future tax consequences of events that have been recognized in the financial statements and tax returns. Income tax expense recorded in 2009 and 2008 was computed by applying the U.S. federal income tax rate of 35% to pretax income. The Company paid no state income taxes in 2009 or 2008.

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

The company did not have any uncertain tax positions for 2009 and therefore did not record a tax benefit or expense for ASC 740. The federal statute of limitations remains open for tax years 2006 through 2009. State jurisdictions generally have statutes of limitations ranging from three to five years. The state income tax impact of federal income tax changes remains subject to examination by various states for a period up to one year after formal notification to the states.

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Interest Income and Expense — Interest income was \$1,913 and \$16,158 for the years ended December 31, 2009 and 2008, respectively. All interest income was from related parties. Interest expense was \$1,102 and \$13,908 for the years ended December 31, 2009 and 2008, respectively. Related party interest expense included in these amounts was \$407 (37% of total interest expense) and \$12,372, (89% of total interest expense) for 2009 and 2008, respectively. Guarantee fees expense was \$50 for both 2009 and 2008.

Other Comprehensive Income — The Company has no other components of comprehensive income (loss) other than its net income (loss) for all periods presented.

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

Contingencies — In accordance with ASC 450, *Contingencies*, the Company records any loss related to a contingency at the time that likelihood of a loss becomes probable and the amount of the loss can be reasonably estimated. When the reasonable estimate is a range, the best estimate within that range will be recorded. When no amount within the range is more likely, the lowest amount within the range will be recorded. No such amounts were recorded for years 2009 and 2008. See also Note 9: Contingent liabilities, for further information on contingencies.

Fair Value Measurement — Under ASC 820, *Fair Value Measurement and Disclosures (ASC 820)*, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition under ASC 820 focuses on an exit price, which is the price that would be received by the Company to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability. Although ASC 820 does not require additional fair value measurements, it applies to other accounting pronouncements that require or permit fair value measurements.

The Company determines the fair value of financial assets and liabilities based on the following fair value hierarchy, as prescribed by ASC 820, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- *Level 1* — Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- *Level 2* — Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- *Level 3* — Unobservable inputs which require the reporting entity to develop its own assumptions.

The Company does not currently recognize any assets or liabilities at fair value but discloses the fair value of financial instruments in Note 7.

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of dollars)

2. RELATED PARTY ASSETS AND LIABILITIES

The Company has contractual arrangements and enters into transactions with other B.A.T affiliates. Amounts due from and to the affiliated companies consist of the following at December 31, 2009 and 2008.

	2009	2008
Assets:		
Notes receivable (see Note 3)	\$212,868	\$232,927
Revolving credit facility receivable (see Note 3)	7,500	-
Interest receivable	<u>122</u>	<u>225</u>
Total	<u>\$220,490</u>	<u>\$233,152</u>
Liabilities:		
Notes payable (see Note 4)	\$166,048	\$144,582
Revolving credit facilities payable (see Note 4)	<u>-</u>	<u>34,528</u>
Total	<u>\$166,048</u>	<u>\$179,110</u>

Interest receivable relates primarily to interest due from notes receivable from BATIF (as described in Note 3: Notes and revolving credit facility receivable) for the years ended December 31, 2009 and 2008.

3. NOTES AND REVOLVING CREDIT FACILITY RECEIVABLE

On October 1, 2007 the Company entered into a five-year deposit agreement with BATIF that replaced the revolving credit facility that expired on September 30, 2007. These unsecured deposits (notes receivable) cannot exceed one billion dollars in the aggregate at any one time. These deposits are generally made for terms less than ninety days and bear an interest rate at LIBOR (for the relevant deposit period) less 12.5 basis points. Interest is payable at maturity or such other date as the parties may agree. The note receivable balance at year end December 31, 2009 and 2008 was \$212,000 and \$225,218, respectively. The year-end interest rates were approximately .1% at December 31, 2009 and ranged from 0.3% to 2.0% for notes receivable outstanding as of December 31, 2008. Interest income was \$1,580 and \$15,962 for 2009 and 2008, respectively.

On December 21, 2007, the Company entered into an unsecured note receivable from BATUS Leasing, Inc. (B.A.T affiliate) that was to mature on December 31, 2009. However, on April 1, 2009, the Company and BATUS Leasing, Inc. agreed to a revolving credit facility arrangement not to exceed \$7,500 that expires one year from the loan date. The facility is subject to prepayment, in whole or in part, at the option of the borrower as long as the minimum prepayment is at least \$100.

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Interest on the current revolving credit facility is based on three month USD LIBOR plus 400 basis points. Interest on the former note receivable, since inception, was based on average monthly LIBOR less 12.5 basis points, and was payable at maturity (March 31, 2009). The revolving credit facility receivable balance at year end December 31, 2009 was \$7,500 and the notes receivable balance at December 31, 2008 was \$7,709. The year-end interest rate was 4.29% and 0.96% and interest income was \$271 and \$196 for 2009 and 2008, respectively.

On April 1, 2009, the Company entered into an unsecured installment note receivable from BATUS Leasing, Inc. that matures on October 1, 2015. Principal and interest payments are made quarterly. Prepayment, in whole or in part, at the option of the borrower is allowed and no minimum prepayment amount is required. The interest rate is fixed at an annual rate of 9.23%. The note receivable balance at December 31, 2009 was \$868. Interest income for 2009 was \$62.

The BATUS Leasing, Inc. revolving credit facility and installment note receivable are both listed as current assets because both are expected to be repaid in the second quarter of 2010.

4. NOTES AND REVOLVING CREDIT FACILITIES PAYABLE

On October 1, 2007, the Company terminated its uncommitted revolving credit borrowing facility with Brown & Williamson Holdings, Inc. (B.A.T affiliate) and replaced it with a deposit agreement that expires on September 30, 2012. On October 31, 2009, the Company terminated its uncommitted revolving credit borrowing facilities with the four remaining B.A.T affiliates and replaced them with deposit agreements that expire on December 31, 2014. Deposits received by the Company (notes payable) are unsecured demand loans in agreed upon amounts up to a maximum amount available for each affiliate. They bear interest at the average monthly LIBOR rate less 13.5 basis points. Interest is calculated on the outstanding daily balance and added to the balance owed at month end. Like deposits, the interest earned is payable on demand. The note payable balance at year end December 31, 2009 and 2008 was \$166,048 and \$144,582, respectively. The year-end interest rate for 2009 and 2008 was approximately .1% and 1.0%, respectively. Interest expense was \$291 and \$10,511 for 2009 and 2008, respectively.

In December 2004, the Company obtained uncommitted revolving credit borrowing facilities from B.A.T affiliates that expired on October 31, 2009 (replaced by deposit agreements noted above). Through these facilities, B.A.T affiliates, at their discretion, made revolving credit demand loans to the Company in agreed amounts up to the amounts available. Interest rates on these loans were based on the average monthly LIBOR rate less 13.5 basis points. The revolving credit demand loan balance at December 31, 2008 was \$34,528 and the year-end interest rate was 1.0% at December 31, 2008. Interest expense was \$117 and \$1,861 for 2009 (10 months) and 2008, respectively.

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Amounts payable under the agreements with each respective affiliate consist of the following at December 31, 2009 and 2008.

	Amount Available	Amount Payable 2009	Amount Payable 2008
Notes payable:			
Brown & Williamson Holdings, Inc.	\$ 750,000	\$122,194	\$144,582
British American Tobacco (Brands), Inc.	100,000	13,156	-
BATUS Holdings Inc.	100,000	13,729	-
BATUS Tobacco Services, Inc.	50,000	9,958	-
BATUS Retail Services, Inc.	25,000	7,011	-
Total	<u>\$1,025,000</u>	<u>\$166,048</u>	<u>\$144,582</u>
Revolving credit facilities payable:			
British American Tobacco (Brands), Inc.	\$ -	\$ -	\$ 5,245
BATUS Holdings Inc.	-	-	12,818
BATUS Tobacco Services, Inc.	-	-	8,469
BATUS Retail Services, Inc.	-	-	7,996
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$34,528</u>

5. LONG-TERM DEBT — MEDIUM-TERM NOTE

In May 1999, the Company entered into a subscription agreement with GE Life and Annuity Assurance Company ("GE") and ABN AMRO Bank, whereby the Company issued and GE purchased a \$40 million irrevocable and unconditional Floating Rate Bridge Medium-Term note, fully guaranteed by B.A.T, due May 2029. The note was issued under the Company's \$2 billion Medium-Term Note Program ("MTN Program"). Citibank is the issuing and paying agent for the MTN Program. Interest is paid quarterly on the 10th day of the month preceding each quarter end. Interest is based on three month LIBOR plus 75 basis points. The year-end rate was 1.0% and 3.1% at December 31, 2009 and 2008, respectively. Interest expense was \$694 and \$1,536 for 2009 and 2008, respectively.

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6. BORROWINGS SUMMARY

The following is a summary of certain data related to the Company's borrowings:

	2009	2008
Year-end balances:		
Note payable	\$ 166,048	\$ 144,582
Revolving credit facilities payable	-	34,528
Medium-term note	40,000	40,000
Average daily borrowings:		
Note payable	183,959	386,548
Revolving credit facilities payable	63,866	71,057
Medium-term note	40,000	40,000
Maximum borrowing outstanding at any month-end during the year:		
Note payable	254,560	559,565
Revolving credit facilities payable	86,131	108,912
Medium-term note	40,000	40,000
Weighted average interest rate (bond equivalent yield basis) on daily borrowing outstanding during the year:		
Note payable	0.2 %	2.7 %
Revolving credit facilities payable	0.2	2.6
Medium-term note	1.7	3.8

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following is a summary of carrying amounts and estimated fair values of financial instruments at December 31, 2009 and 2008:

	<u>2009</u>		<u>2008</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes receivable	\$ 212,868	\$ 212,868	\$ 232,927	\$ 232,927
Revolving credit facility receivable	7,500	7,500	-	-
Notes payable	166,048	166,048	144,582	144,582
Revolving credit facilities payable	-	-	34,528	34,528
Medium-term note	40,000	40,000	40,000	40,000

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NOTES TO FINANCIAL STATEMENTS
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Financial instruments due from and to B.A.T affiliates have variable interest rates and the carrying value approximates their fair value. The medium-term note is a variable interest rate note and the carrying value of the note approximates its fair value.

8. CREDIT FACILITY AGREEMENTS

In March 2003, the Company, together with certain wholly-owned subsidiaries of B.A.T became a borrower under a multi-currency revolving credit bank facility ("Bank Facility"), which expired in March 2004. In March 2004, the Bank Facility was renegotiated and increased to a two-tranche multi-currency revolving credit bank facility. In March 2005, a new facility was renegotiated and increased to replace both tranches negotiated in 2004. The new multi-currency revolving credit bank facility increased the borrowing value to GBP 1.75 billion that matures in March of 2010 with two, one-year extension options. In March 2006, the first one-year extension option was exercised, and in March 2007 the second one-year extension option was exercised (with final maturity dates between March 2011 and March 2012). Fees to maintain this facility were evenly split between the participants through September 30, 2007. The Company no longer incurs these fees since it does not currently use it as a back stop facility for its commercial paper program which is dormant at this time. This facility is guaranteed by B.A.T and interest rates on borrowings under the Bank Facility are based on LIBOR or EURIBOR plus a margin. Interest rates on swingline advances (a credit line available for same day drawings that act as a bridge until the Bank Facility can be drawn) vary, but are the higher of (1) the prime rate or (2) the Federal Funds Rate plus a margin. During 2009 and 2008, there were no drawings under the Bank Facility by the Company.

9. CONTINGENT LIABILITIES

As of December 31, 2003, the Company was a party, as both an issuer and guarantor, to a \$10 billion Euro Medium Term Note Programme (the "Programme") under which the issuers, that also include BATIF and British American Tobacco Holdings (The Netherlands) B.V., can from time to time issue notes ("Notes") of not less than one month in maturity and in amounts not to exceed a total of \$10 billion or its equivalent in other currencies. In January 2004, the issuance ceiling was increased to \$12.5 billion and to \$16.0 billion on November 30, 2007. The payments of all amounts in respect of any Notes are unconditionally and irrevocably guaranteed by B.A.T and each of the issuers. The Company does not maintain a guarantee liability related to the guarantee issued for the Programme. At December 31, 2009 and 2008, the Company had no Notes outstanding under the Programme, but other issuers had Notes outstanding that the Company was guarantor in the amount of approximately \$15,407,000 and \$12,548,000, respectively, plus accrued interest, which represents the maximum potential exposure had the borrowers defaulted as of December 31, 2009 or 2008.

In October 2007, British American Tobacco Mexico S.A. de C.V. refinanced a maturing \$690 million syndicated bank term credit facility which the Company, B.A.T and BATIF had guaranteed. The refinancing was effected by a new five-year agreement which the Company, B.A.T and BATIF continue to guarantee. All guarantee fees are paid to B.A.T. The facility was fully drawn as of December 31, 2009 and 2008.

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10. SUBSEQUENT EVENTS

The Company has performed an evaluation of subsequent events through March 17, 2010 which is the date financial statements were available to be issued.

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