

B.A.T CAPITAL CORPORATION

Financial Statements

December 31, 2023 and 2022

(With Independent Auditors' Report Thereon)

B.A.T CAPITAL CORPORATION

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KPMG LLP
Suite 1000
620 S. Tryon Street
Charlotte, North Carolina 28202-1842

Independent Auditors' Report

The Board of Directors

B. A. T Capital Corporation:

Opinion

We have audited the financial statements of B. A. T Capital Corporation (the Company), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of operations, shareholder's equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.



- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Charlotte, North Carolina
February 29, 2024

B.A.T CAPITAL CORPORATION

BALANCE SHEETS

(Dollars in thousands)

	As of December 31,	
Assets	2023	2022
Current assets:		
Cash and cash equivalents	\$ 221,000	\$ —
Due from affiliates	3,386,696	4,691,685
Guarantee fee receivable from affiliates	44,773	42,410
Accrued interest receivable from affiliates	588,528	2,801
Loan receivable from affiliates	2,865,000	880,755
Other amounts due from affiliates	24,000	13,855
Derivative financial instruments	7,029	17,015
Income taxes receivable	32,347	—
Total current assets	<u>7,169,373</u>	<u>5,648,521</u>
Long-term assets:		
Loan receivable from affiliates	23,313,372	24,249,377
Derivative financial instruments	—	42
Deferred income tax assets, net	128,798	161,715
Total assets	<u>\$ 30,611,543</u>	<u>\$ 30,059,655</u>
Liabilities and shareholder's equity (deficit)		
Current liabilities:		
Due to affiliates	\$ 4,117,879	\$ 4,505,825
Guarantee fee payable to affiliate	44,299	42,297
Accounts payable and accrued liabilities	993	2,344
Accrued interest payable	389,804	305,695
Derivative financial instruments	2,022	85,283
Current portion of long-term debt	2,863,527	802,451
Income taxes payable	—	22,473
Total current liabilities	<u>7,418,524</u>	<u>5,766,368</u>
Long-term liabilities:		
Derivative financial instruments	210,900	461,207
Long-term debt	23,081,357	23,781,327
Total liabilities	<u>30,710,781</u>	<u>30,008,902</u>
Shareholder's equity (deficit):		
Common shares, \$1 par value (2,000 shares authorized, issued and outstanding)	2	2
Additional paid-in capital	29,499	29,499
Accumulated other comprehensive loss	(295,037)	(353,832)
Retained earnings	166,298	375,084
Total shareholder's equity (deficit)	<u>(99,328)</u>	<u>50,753</u>
Total liabilities and shareholder's equity (deficit)	<u>\$ 30,611,543</u>	<u>\$ 30,059,655</u>

See accompanying notes to financial statements

B.A.T CAPITAL CORPORATION
STATEMENTS OF OPERATIONS
(Dollars in thousands)

	For the Years Ended December 31,	
	2023	2022
Interest income	\$ 2,304	\$ —
Interest income from affiliates	1,224,227	1,023,722
Guarantee fee reimbursement from affiliates	250,135	252,206
Other reimbursement income from affiliates	6,217	5,498
Gain on early extinguishment of debt	105,248	—
Total income	1,588,131	1,281,426
Interest expense	1,131,687	999,253
Interest expense to affiliates	297,846	94,701
Guarantee fee to affiliates	250,135	252,206
Net loss on derivatives	86,128	102,324
Foreign exchange losses (gains)	44,085	(112,555)
General and administrative and other expenses	2,096	1,435
Total expenses	1,811,977	1,337,364
Loss before income taxes	(223,846)	(55,938)
Income tax (benefit) expense	(15,060)	18,383
Net loss	\$ (208,786)	\$ (74,321)
Other comprehensive income (loss):		
Income on interest rate swaps, net of tax (2023 – \$15,629 expense; 2022 - \$14,548 expense)	58,795	54,729
Comprehensive loss	\$ (149,991)	\$ (19,592)

See accompanying notes to financial statements

B.A.T CAPITAL CORPORATION
STATEMENTS OF SHAREHOLDER'S EQUITY (DEFICIT)
(Dollars in thousands)

	<u>Common shares</u>		<u>Paid-in capital</u>	<u>Accumulated other comprehensive loss</u>	<u>Retained earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2021	2,000	\$ 2	\$ 29,499	\$ (408,561)	\$ 449,405	\$ 70,345
Net loss	—	—	—	—	(74,321)	(74,321)
Derivative, net of \$14,548 tax expense	—	—	—	54,729	—	54,729
Balance at December 31, 2022	2,000	2	29,499	(353,832)	375,084	50,753
Net loss	—	—	—	—	(208,786)	(208,786)
Derivative, net of \$15,629 tax expense	—	—	—	58,795	—	58,795
Balance at December 31, 2023	<u>2,000</u>	<u>\$ 2</u>	<u>\$ 29,499</u>	<u>\$ (295,037)</u>	<u>\$ 166,298</u>	<u>\$ (99,238)</u>

See accompanying notes to financial statements

B.A.T CAPITAL CORPORATION
STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Years Ended December 31,	
	2023	2022
Cash flows (used in) provided by operating activities:		
Net loss	\$ (208,786)	\$ (74,321)
Adjustments to reconcile to net cash flows (used in) provided by operating activities:		
Amortization of loan fees received from affiliate	(6,282)	(5,432)
Amortization of debt issuance costs and discounts and termination of derivatives and long-term debt	(18,066)	79,113
Foreign exchanges losses (gains)	44,085	(112,530)
Derivative losses, net	86,128	102,324
Deferred income tax expenses	17,287	1,288
Other changes that provided (used) cash:		
Accrued interest receivable from affiliate	(585,727)	(354)
Other amounts due from affiliate	(10,506)	(13,088)
Accounts payable and accrued liabilities	(1,351)	2,227
Accrued interest payable	84,109	23,742
Income taxes payable	(54,820)	6,829
Interest payable on derivative financial instruments	6,256	18,705
Other, net	(7,040)	(2,925)
Net cash flows (used in) provided by operating activities	(654,713)	25,578
Cash flows used in investing activities:		
Net proceeds from (to) cash agreements with affiliates	185,860	(38,133)
Loans issuance to affiliates	(4,000,000)	(2,100,000)
Loans receipts from affiliates	2,934,042	1,350,909
Loan fees received from affiliates	24,000	37,066
Net cash flows used in investing activities	(856,098)	(750,158)
Cash flows provided by financing activities:		
Net proceeds from cash agreements with affiliates	731,183	—
Proceeds from issuance of notes, net of discount	4,000,000	2,073,434
Repayments of long-term debt	(2,758,475)	(1,350,909)
Payment on termination of derivative contracts	(216,897)	741
Payment of debt issuance costs	(24,000)	(10,500)
Net cash flows provided by financing activities	1,731,811	712,766
Net increase (decrease) in cash and cash equivalents	221,000	(11,814)
Cash and cash equivalents - beginning of year	—	11,814
Cash and cash equivalents - end of year	\$ 221,000	\$ —
Supplemental cash flow information:		
Interest paid	\$ 956,801	\$ 896,398
Interest paid to affiliates	\$ 297,846	\$ 94,701
Income taxes paid	\$ 22,473	\$ 10,182

See accompanying notes to financial statements

B.A.T CAPITAL CORPORATION

Notes to Financial Statements

December 31, 2023 and 2022

(1) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The accompanying financial statements present the financial position, results of operations and cash flows of B.A.T Capital Corporation, referred to as the Company or BATCAP, an indirect wholly owned subsidiary of British American Tobacco p.l.c., referred to as BAT, a company incorporated under the laws of England and Wales. Until December 7, 2016, the Company was a direct subsidiary of BAT. On December 7, 2016, following a sale of the Company by BAT to Louisville Securities Limited, referred to as LSL, the Company was purchased by BATUS Holdings Inc., referred to as BHI, from LSL pursuant to a stock purchase agreement and BHI became the sole stockholder and parent of the Company. Both LSL and BHI are indirect wholly owned subsidiaries of BAT. The sale and purchase were at carrying value as the entities were under common control. The Company, incorporated in Delaware, has 2,000 common shares authorized, issued and outstanding with a par value of one dollar per share. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Certain reclassifications were made to conform the prior year's financial statements to the current presentation.

(b) *Nature of Business*

The Company is a U.S. finance company that has historically been an issuer and a guarantor under the BAT Euro Medium Term Note Programme, referred to as the EMTN Program, (see note 2 and note 7) and has provided financing and cash management services to BAT companies in the U.S. Other than its role as a guarantor, the Company had been inactive for several years prior to 2017. On July 24, 2017, the Company borrowed \$20 billion from a syndicate of third party banks under a bridge facility agreement and loaned the proceeds to BHI to fund a portion of the acquisition price paid to purchase the remaining 58% of Reynolds American Inc., referred to as RAI, not already owned by the BAT group, referred to as the RAI merger. On August 15 and August 16, 2017, the Company repaid the borrowings under the bridge facility agreement and issued approximately \$20 billion of notes denominated in US dollars (USD), British pounds sterling (GBP) and euros (EUR) with tenors ranging from 3 years to 30 years.

Subsequent to the merger, the Company has been active in the capital markets with several new debt issuances. In addition to the financing provided to BHI, the Company is also providing financing and cash management services to RAI and its subsidiaries and guarantees certain debt of B.A.T. International Finance p.l.c., referred to as BATIF, an affiliated subsidiary of BAT. BATIF serves as the primary financing and cash management company for the BAT group.

(c) *Cash and Cash Equivalents*

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

The Company's cash is swept into an In-House Cash, or IHC, pooling structure managed by BATIF. The Company has an account which represents its interest in the IHC pooling structure and amounts in the Company's IHC account are due on demand and earn interest. As further discussed below in note 4, the IHC agreement provides the Company with a \$1.9 billion overdraft facility.

(d) *Fair Value Measurement*

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

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Notes to Financial Statements

December 31, 2023 and 2022

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

The levels of the fair value hierarchy are:

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

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

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

The fair value of long-term debt and derivatives are discussed in notes 2 and 4, respectively.

(e) Derivative Financial Instruments

The Company uses derivative instruments to manage certain interest rate and foreign currency risks. All derivative contracts entered into by the Company are with BATIF as the counterparty.

Derivatives are recognized on the Company's Balance Sheets at fair value and are classified according to their asset or liability position and the expected timing of settlement. Changes in the fair values of derivatives are recorded in net income (loss) or other comprehensive income (loss) based on whether the instrument is designated and effective as a hedge transaction and, if so, the type of hedge transaction. The Company classifies cash flows from terminating its interest rate swaps in financing activities in the Company's Statement of Cash Flows.

(f) Income Recognition

Substantially all of the Company's income is from transactions with BHI and RAI and consist of interest income and reimbursements of guarantee fees and other related financing expenses incurred by the Company. Loan and reimbursement agreements provide the terms and conditions for these transactions. Interest income is recognized as earned in accordance with the interest provisions in the underlying loan agreements. Guarantee fees and other reimbursement income is recognized when qualified expenses under the reimbursement agreements are incurred by the Company.

(g) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and other tax attribute carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Interest and penalties related to uncertain tax positions are accounted for as tax expense.

For federal income tax purposes, the Company's results are included in the consolidated United States federal income tax return of BHI. For state and local income tax purposes, the Company's results are included in 29 combined state and local income tax returns that include members of the consolidated United States federal income tax return of BHI. For financial reporting purposes, the Company's current and deferred income taxes are calculated using the modified separate return method (with benefits for losses). All current and deferred tax expense and current and deferred tax liabilities are calculated as if the Company files separate federal and state income tax returns that exclude the income, deductions and tax attributes of BHI. In addition, under the benefits for losses method the consolidated group's ability to utilize net operating and capital losses generated by the Company is considered when assessing the realizability of its deferred tax assets.

The Company accounts for uncertain tax positions which require that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (a likelihood of more than 50%) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured

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Notes to Financial Statements

December 31, 2023 and 2022

at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company did not have any uncertain tax positions for 2023 or 2022. The federal statute of limitations remains open for tax years 2020 through 2023.

(h) 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.

Significant items subject to such estimates and assumptions include the valuation of derivatives.

(i) Contingencies

In accordance with ASC 450, *Contingencies*, the Company records any loss related to a contingency at the time that likelihood of a loss becomes probable and the amount of the loss can be reasonably estimated. When the reasonable estimate is a range, the best estimate within that range will be recorded. When no amount within the range is more likely, the lowest amount within the range will be recorded. No such amounts were recorded for the years ended December 31, 2023 and 2022.

(j) Subsequent Events

Subsequent events have been evaluated through February 29, 2024, the date the financial statements were issued. Aside from the matters disclosed in notes 2 and 8, the Company has determined that there are no other items to disclose.

(k) Recently Adopted Accounting Pronouncements

Effective January 1, 2022, BATCAP adopted the following new accounting standard:

- In March 2020, the Financial Accounting Standards Board, referred to as FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and in January 2021 issued ASU No. 2021-01, *Reference Rate Reform (Topic 848): Scope*. This guidance provides temporary optional expedients and exceptions to existing guidance on contract modifications and hedge accounting to facilitate the market transition from existing reference rates, such as the London Interbank Offered Rate, referred to as LIBOR, which was phased out beginning at the end of 2021, to alternate reference rates, such as a secured overnight reference rate. These standards were effective upon issuance and allowed application to contract changes as early as January 1, 2020. Beginning December 1, 2021, the IHC agreements and certain outstanding debt used the Secured Overnight Financing Rate, referred to as SOFR, as the reference rate. The amended guidance did not have a material impact on the Company's results of operations, cash flows and financial position.

Effective January 1, 2023, BATCAP adopted the following new accounting standard:

- In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*, which replaces the current incurred loss impairment methodology for recognizing credit losses for financial instruments with a methodology that reflects expected credit losses and requires consideration for a broader range of reasonable and supportable information for estimating credit losses. The amended guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The amended guidance did not have a material impact on the Company's results of operations, cash flows and financial position.

B.A.T CAPITAL CORPORATION

Notes to Financial Statements

December 31, 2023 and 2022

(1) *Recently Issued Accounting Pronouncements*

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This guidance enhances the transparency around income tax disclosures by requiring additional information in the rate reconciliation and requiring information on income tax payments to international, federal, state and local jurisdictions. This ASU is effective for annual periods beginning after December 15, 2024, for public entities. The guidance is not expected to have a material impact on the Company's results of operations, cash flows and financial position.

(2) **Long-Term Debt**

Revolving Credit Facility

On March 12, 2020, the Company, along with other subsidiaries of BAT, entered into a two-tranche £6.0 billion revolving credit facility, consisting of a £3.0 billion 364-day revolving credit facility (with two one-year extension options and a term-out option) and a £3.0 billion revolving credit facility (with two one-year extension options), maturing in 2025. In addition, the revolving credit facility was amended to change the reference rate from LIBOR as the benchmark interest rate for GBP and USD to, respectively, the Sterling Overnight Index Average and the Secured Overnight Financing Rate, referred to as SOFR, effective June 1, 2021.

In January 2021, BAT exercised the first one-year extension options for both tranches which extended £2.85 billion of the 364-day tranche from March 2021 to March 2022 and £2.85 billion of the five-year tranche from March 2025 to March 2026.

In February 2022, BAT exercised the second one-year extension option for each respective tranche. Effective in March 2022, £2.7 billion of the £2.85 billion 364-day tranche was extended to March 2023. For the five-year tranche, £2.5 billion will be available from March 2026 to March 2027. Of this second tranche, £2.85 billion remains available until March 2025 and £2.7 billion is available from March 2025 to March 2026.

On March 6, 2023, the Company, along with other subsidiaries of BAT, entered into a new £2.5 billion 364-day revolving credit facility to replace the 364-day credit facility that expired in March 2023. The new 364-day revolving credit facility has two one-year extension options and a term-out option. On February 15, 2024, the first one-year extension option was exercised by BAT extending the maturity date for an additional 365 days. Of this new 364-day facility, £2.5 billion remains available.

Long-term Notes

On August 15, 2017 and August 16, 2017, the Company issued approximately \$20 billion in notes consisting of \$17.25 billion in USD denominated notes, referred to as the 2017 USD Notes, \$2.2 billion equivalent in EUR denominated notes, and \$0.6 billion equivalent in GBP denominated notes, in the aggregate referred to as the 2017 BATCAP Notes. The USD notes were issued in a private offering exempt from, or not subject to, the registration requirements of the federal securities laws and were subject to a registration rights agreement. The maturities of the 2017 USD Notes extended to 2047. The notes denominated in GBP and EUR were sold to investors under the existing EMTN Program. One EUR denominated note matured in 2021 and the remaining EUR denominated note matured in 2023, and the maturity date for the GBP denominated notes is 2025. Under the terms of the EMTN Program, the notes were guaranteed by BAT, BATIF and certain other BAT affiliates. The 2017 BATCAP Notes were issued net of discounts of \$4.2 million and the Company paid \$79.8 million in fees and expenses. The discounts and debt issuance costs are being amortized, using the effective interest rate method, as interest expense over the life of the respective notes.

In July 2019, BAT filed a registration statement on Form F-3 with the U.S. Securities and Exchange Commission, referred to as the SEC, to allow the Company and BATIF to offer and sell, from time to time, debt securities over the next three years, referred to as the Shelf Registration. In March 2020, the Shelf Registration was amended to include the indenture under which the 2017 USD Notes had been issued. In July 2022, BAT filed a new registration statement on Form F-3 with the SEC to allow the Company and BATIF to continue the Shelf Registration over the following three years. Debt securities issued under this facility are guaranteed by BAT, BATIF and certain other BAT affiliates.

In September 2019, the Company issued \$3.5 billion of USD denominated notes under the Shelf Registration, referred to as the 2019 USD Notes, with maturities ranging from 2024 to 2049. Upon issuance of these notes, the Company paid

B.A.T CAPITAL CORPORATION

Notes to Financial Statements

December 31, 2023 and 2022

\$16.0 million in fees that are being amortized, using the effective interest rate method, as interest expense over the life of the respective notes. With a portion of the proceeds from the 2019 USD Notes, the Company prepaid a \$2.25 billion USD note bearing fixed interest at 2.297% that was due August 14, 2020.

In March 2020 and September 2020, the Company issued \$2.4 billion and \$4.75 billion, respectively, of USD denominated notes under the Shelf Registration, referred to collectively as the 2020 USD Notes, with maturities ranging from 2027 to 2050. Upon issuance of these notes, the Company paid \$36.0 million in fees that are being amortized, using the effective interest rate method, as interest expense over the life of the respective notes.

The proceeds from the 2020 USD Notes were used to (i) repay \$1.0 billion in variable rate notes that matured in August 2020, (ii) repay \$1.6 billion of 2.764% notes due August 2022 tendered for in October 2020 and (iii) increase the amount lent under installment term loans to BHI, RAI and R.J. Reynolds Tobacco Company, an indirect subsidiary of RAI, referred to as RJRT, by \$3.3 billion (see note 4).

In March 2022 and October 2022, the Company issued \$1.5 billion and \$0.6 billion, respectively, of USD denominated notes under the Shelf Registration, referred to collectively as the 2022 USD Notes, with maturities ranging from 2032 to 2052. Upon issuance of these notes, the Company paid \$37.1 million in fees and discounts that are being amortized, using the effective interest rate method, as interest expense over the life of the respective notes.

The proceeds from the 2022 USD Notes were used to (i) repay \$0.8 billion in variable rate notes that matured in August 2022, (ii) repay \$0.6 billion of 2.764% notes due August 2022 and (iii) provide new term loans to BHI, RAI and RJRT, totaling \$0.6 billion (see note 4).

In August 2023, the Company issued \$4.0 billion of USD denominated notes under the Shelf Registration, referred to collectively as the 2023 USD Notes, with maturities ranging from 2030 to 2053. Upon issuance of these notes, the Company paid \$24 million in fees that are being amortized, using the effective interest rate method, as interest expense over the life of the respective notes.

The proceeds from the 2023 USD Notes were used to (i) repay \$0.9 billion in variable rate notes that matured in November 2023, (ii) repay \$0.6 billion of 3.222% notes due August 2024, (iii) repay \$0.2 billion of 2.125% notes due August 2025, (iv) repay \$1.2 billion of 3.557% notes due August 2027, and (v) provide new term loans to BHI, RAI and RJRT.

The Company recognized interest expense of \$1.132 billion and \$999.3 million, including \$74.4 million and \$69.3 million of amortization related to terminated derivatives, in 2023 and 2022, respectively. As of December 31, 2023 and 2022, the Company had accrued \$389.8 million and \$305.7 million in accrued interest payable related to the 2017 BATCAP Notes, the 2019 USD Notes, the 2020 USD Notes, the 2022 USD Notes and the 2023 USD notes, collectively referred to as the BATCAP Notes.

B.A.T CAPITAL CORPORATION

Notes to Financial Statements

December 31, 2023 and 2022

Details of the BATCAP Notes remaining outstanding at carrying value, including a schedule of maturities, included in the Company's long-term debt is as follows (in thousands):

	For the years ended December 31,	
	2023	2022
USD notes:		
3.222% notes due 08/15/2024	1,865,000	2,500,000
2.789% notes due 09/6/2024	1,000,000	1,000,000
3.215% notes due 09/6/2026	1,000,000	1,000,000
4.700% notes due 04/2/2027	900,000	900,000
3.557% notes due 08/15/2027	2,273,000	3,500,000
2.259% notes due 03/25/2028	1,750,000	1,750,000
3.462% notes due 09/6/2029	500,000	500,000
4.906% notes due 04/2/2030	1,000,000	1,000,000
6.343% notes due 08/02/2030	1,000,000	—
2.726% notes due 03/25/2031	1,250,000	1,250,000
4.742% notes due 03/16/2032	900,000	900,000
7.750% notes due 10/19/2032	600,000	600,000
6.421% notes due 08/02/2033	1,250,000	—
4.390% notes due 08/15/2037	2,500,000	2,500,000
3.734% notes due 09/25/2040	750,000	750,000
7.079% notes due 08/02/2043	750,000	—
4.540% notes due 08/15/2047	2,500,000	2,500,000
4.758% notes due 09/6/2049	1,000,000	1,000,000
5.282% notes due 04/2/2050	500,000	500,000
3.984% notes due 09/25/2050	1,000,000	1,000,000
5.650% notes due 03/16/2052	600,000	600,000
7.081% notes due 08/02/2053	1,000,000	—
EUR notes:		
1.125% notes due 11/16/2023, face value €750,000,000	—	802,875
GBP notes:		
2.125% notes due 08/15/2025, face value £300,000,000 and £450,000,000 as of December 31, 2023 and 2022, respectively	381,930	543,735
Total principal	26,269,930	25,096,610
Unamortized discount	(26,377)	(27,425)
Unamortized debt issuance costs	(104,707)	(92,418)
Fair value adjustment	(193,962)	(392,989)
Total long-term debt at carrying value	25,944,884	24,583,778
Less current maturities of long-term debt at carrying value	2,863,527	802,451
Total long-term debt (less current maturities) at carrying value	\$ 23,081,357	\$ 23,781,327

The EUR denominated debt and GBP denominated debt is valued using the foreign denominated face value and the related spot rate for the respective currency at the respective measurement date. Accordingly, in 2023, the Company recognized a loss of \$21.0 million from the revaluation of the carrying value of the EUR denominated debt and GBP denominated debt to the December 31, 2023 spot rate. In 2022, the Company recognized a gain of \$115.5 million from

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the revaluation of the carrying value of the EUR denominated debt and GBP denominated debt to the December 31, 2022 spot rate.

As of December 31, 2023, the maturities of the outstanding BATCAP Notes, excluding unamortized discount, debt issuance costs and fair value adjustments, for the next five years and thereafter are as follows (in thousands):

<u>Year</u>	<u>Total</u>
2024	\$ 2,865,000
2025	381,930
2026	1,000,000
2027	3,173,000
2028	1,750,000
2029 and thereafter	17,100,000
	<u>\$ 26,269,930</u>

Commercial Paper

The Company has the ability to issue commercial paper under a USD commercial paper program and a Euro-commercial paper program. No commercial paper was issued under this program in 2023 or 2022. No commercial paper was outstanding at December 31, 2023 or December 31, 2022.

Fair Value of Debt

The estimated fair value of the BATCAP Notes, in the aggregate, was \$24.1 billion as of December 31, 2023 and \$21.4 billion as of December 31, 2022. The fair value is derived from a third-party pricing source and is classified in Level 2 of the fair value hierarchy.

Registration of USD Notes and Subsequent Exchange Offer

In October 2018, the Company, as issuer of the USD notes, filed a Form F-4 with the SEC, to register notes, referred to as Registered Notes, under the Securities Act of 1933, referred to as the 1933 Act. The Registered Notes contained terms and conditions substantially identical to the \$17.25 billion in privately placed USD notes, referred to as the Exchange Notes, issued in August 2017. On October 22, 2018, upon the Form F-4 being declared effective by the SEC, the Company launched an exchange offer to exchange any and all (to the extent held by eligible holders) Exchange Notes for its Registered Notes. On November 20, 2018, the Company completed the exchange offer, and of the total \$17.25 billion in Exchange Notes outstanding, approximately \$17.2 billion, or 99.7%, were exchanged for Registered Notes. Each series of Registered Notes is substantially identical to the Exchange Notes of the corresponding series, except that the Registered Notes are registered under the 1933 Act and do not bear any legends restricting transfer, and except that the registration rights pertaining to the Exchange Notes do not apply to the Registered Notes.

The Company remains the principal obligor of the remaining outstanding Exchange Notes that were not tendered in the exchange offer. Both the Registered Notes and the Exchange Notes have been guaranteed by BAT and RAI.

(3) Income Taxes

The Company has been included in the consolidated United States federal income tax return of BHI since December 7, 2016 when BHI became its sole shareholder in the transaction discussed in note 1. For state and local income tax purposes, the Company's results are included in 29 combined state and local income tax returns that include members of the consolidated United States federal income tax return of BHI. For financial reporting purposes, the company's current and deferred income taxes are calculated using the modified separate return method (with benefits for losses) under ASC 740-10-30-27. All current and deferred tax expense and current and deferred tax liabilities are calculated as if the Company files separate federal and state income tax returns that exclude the income, deductions and tax attributes of BHI. In addition, under the benefits for losses method the consolidated group's ability to utilize net operating losses, capital losses and other attributes generated by the Company is considered when assessing the realizability of its deferred tax assets.

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

	<u>2023</u>	<u>2022</u>
Current:		
Federal	\$ (32,348)	\$ 17,095
State and other	<u>—</u>	<u>—</u>
	<u>(32,348)</u>	<u>17,095</u>
Deferred:		
Federal	17,288	1,288
State and other	<u>—</u>	<u>—</u>
	<u>17,288</u>	<u>1,288</u>
Provision for (benefit from) income taxes	<u>\$ (15,060)</u>	<u>\$ 18,383</u>

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

	<u>2023</u>	<u>2022</u>
Deferred tax assets (liabilities):		
Losses on derivatives	\$ 129,699	\$ 177,311
Unrealized foreign exchange (gains)/ losses	(1,653)	(24,028)
Deferred revenue	—	7,635
Other	752	797
Net deferred tax asset	<u>\$ 128,798</u>	<u>\$ 161,715</u>

The Company generated a federal net operating loss and a federal net business interest expense limitation in 2023 on a modified separate return method basis. These tax attributes generated by the Company in 2023 were utilized by other members of the consolidated federal income tax return group of BHI. The federal net operating loss will be settled for cash in the following year.

Based upon all of the available positive and negative evidence to estimate whether sufficient future taxable income will be available over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. As of December 31, 2023 and 2022, the Company had no valuation allowance recorded against deferred tax assets.

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act, referred to as the Tax Reform Act. The Tax Reform Act includes significant changes to the U.S. corporate income tax system including the creation of a new minimum tax on certain payments to foreign related parties called the base erosion anti-abuse tax, referred to as BEAT, all of which are effective as of January 1, 2018. In 2023, the Company calculated a BEAT minimum tax on the modified separate return method (with benefits for losses) basis. In 2023, no BEAT minimum tax was calculated by the consolidated federal tax return group of BHI.

The Inflation Reduction Act created a new corporate alternative minimum tax, referred to as CAMT, for tax years beginning on or after December 31, 2022. CAMT is a 15 percent minimum tax generally levied on large corporations with three-year average adjusted financial statement income of \$1 billion or more. This amount is reduced to \$100 million for corporations that are members of a foreign-parented multinational group. Although the Company does not expect to owe CAMT for the foreseeable future, management has made a policy election to treat CAMT, if applicable, as a current period tax expense and continue to measure deferred taxes at regular rates.

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

	<u>2023</u>	<u>2022</u>
Income taxes computed at the statutory U.S. federal income tax rate	\$ (47,008)	\$ (11,747)
BEAT	31,948	30,130
Provision for (benefit from) income taxes	<u>\$ (15,060)</u>	<u>\$ 18,383</u>
Effective tax rate	6.73%	(32.86)%

In 2023 tax benefit was decreased by the tax liability under BEAT. Excluding the impacts of BEAT, the effective tax rate for 2023 was 21.0 percent.

The Company recognized a net deferred tax expense of \$15.6 million and \$14.5 million in accumulated other comprehensive loss at December 31, 2023 and 2022. In 2023 and 2022, the accumulated deferred income tax benefit is related to the loss from the change in the fair value of (i) the forward starting pay-fix interest rate swaps entered into in October 2018, (ii) the forward starting floating-to-fixed interest rate swaps entered into in February 2019 and (iii) the treasury locks entered into in March 2020, less the amortization of the forward starting pay-fix interest rate swaps that settled during September 2019 and March 2020.

All of the derivative transactions, as discussed in note 4, with exception of the Foreign Currency Forward Contracts have been properly identified as hedging transactions for U.S. federal income tax purposes and are therefore being accounted for as hedging transactions for U.S. federal income tax purposes under the relevant sections of the Internal Revenue Code and underlying regulations.

The federal statute of limitations remains open for the year 2020 and forward.

(4) Related Party Transactions

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

Installment Notes Receivable from BHI

On August 15, 2017 and August 16, 2017, the Company issued the 2017 BATCAP Notes (see note 2). The proceeds from the 2017 BATCAP Notes were loaned to BHI in a series of eleven separate term loans denominated in U.S. dollars with amounts and maturity dates that matched the corresponding 2017 BATCAP Notes issued by the Company. BHI paid the Company \$83.9 million in upfront fees related to the loans and the Company is amortizing those fees over the life of the respective notes using the effective interest method.

On December 20, 2019, the Company entered into a \$20.0 billion installment term loan with BHI, referred to as the BHI Installment Note, that was effective on January 2, 2020 and effectively refinanced, in total, the eleven separate term loans made to BHI in August 2017. The BHI Installment Note had an interest rate of 3.582% and a maturity date of September 2049. Installment payment dates under the BHI Installment Note matched the payment dates of the outstanding 2017 BATCAP Notes and the 2019 USD Notes.

In May 2020, the BHI Installment Note was amended to extend the maturity date to April 2050 and adjust the interest rate to 3.663%. In addition, the installment payment dates were amended to match the maturity dates of the BATCAP Notes outstanding as of that date.

In September 2020, BATCAP lent an additional \$1.14 billion to BHI under the BHI Installment Note and further amended the note to extend the maturity date to September 2050 and adjust the interest rate to 3.6% payable semi-annually. In addition, the installment payment dates were amended to match the maturity dates of the outstanding BATCAP Notes. In October 2022, the installment term loans were amended to revise the interest rates to match the

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expected rate increases as each installment was paid. The rates were revised to a range of 3.78% to 4.65%. In September 2023, the installment term loans were amended to revise the interest rates to match the expected rate increases as each installment was paid. These rates were revised to a range of 3.85% to 4.65%.

Related to the BHI loans receivable, the Company recognized \$842 million and \$797.3 million in interest income in 2023 and 2022, respectively, and had \$451.2 million and \$2.2 million accrued as interest receivable at December 31, 2023 and December 31, 2022, respectively.

Installment Notes Receivable from RAI and RJRT

On December 20, 2019, the Company entered into a \$1.25 billion installment term loan with RAI, referred to as the RAI Installment Note, that was effective on January 2, 2020.

Also in May 2020, the Company advanced an additional \$1.4 billion to RAI under the RAI Installment Note, increasing the outstanding balance to \$2.65 billion. The maturity date on the RAI Installment Note was extended to April 2050 and the interest rate was adjusted to 3.663%. In addition, the installment payment dates were amended to match the maturity dates of the BATCAP Notes outstanding as of that date.

Additionally, in September 2020, the Company advanced an additional \$1.72 billion under the RAI Installment Note to RAI. The Company also entered into an installment term loan with RJRT, referred to as the RJRT Installment Note, and advanced \$242.8 million to RJRT. The RAI Installment Note and the RJRT Installment Note each have a maturity date of September 2050 and bear interest at 3.6% payable semi-annually. The installment payment dates match the maturity dates of the outstanding BATCAP Notes.

Installment Term Loans

In October 2022, the RAI Installment Note and the RJRT Installment Note were amended to revise the interest rates to match the expected rate increases as each installment was paid. The rates were revised to a range of 3.78% to 4.65%. In September 2023, the RAI Installment Note and RJRT Installment Note were amended to revise the interest rates to match the expected rate increases as each installment was paid. These rates were revised to a range of 3.85% to 4.65%.

For the RAI Installment Note and the RJRT Installment Note, the Company recognized in aggregate \$247.9 million and \$187.2 million in interest income in 2023 and 2022, respectively, and had \$137.4 million and \$0.6 million accrued as interest receivable at December 31, 2023 and December 31, 2022, respectively.

On July 19, 2019, the Company entered into a \$5.5 million three-year amortizing term loan agreement, due July 2022, with VapeWild Holdings, LLC, an indirect subsidiary of RAI. This term loan was drawable in one or more tranches and bore interest at the three-month U.S. dollar LIBOR plus a margin of 2.12%, per annum. At December 31, 2023 and 2022, the Company had reserved the entire outstanding balance of \$3.6 million under this note as VapeWild Holdings, LLC filed for bankruptcy in December 2020. The bankruptcy case remained open at December 31, 2023.

Details of the installment term notes at carrying value at December 31, 2023 and December 31, 2022 are as follows (in thousands):

	2023	2022
BHI	\$ 16,500,954	\$ 18,899,915
RAI	3,480,251	3,986,221
RJRT	200,241	229,353
Total principal	20,181,446	23,115,489
BHI Facility commitment fees	(44,375)	(49,001)
Total loan receivable from affiliates	\$ 20,137,071	\$ 23,066,488
Less current maturities	(2,865,000)	(880,755)
	\$ 17,272,071	\$ 22,185,733

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Installments under the BHI Installment Note, the RAI Installment Note and the RJRT Installment Note are due and payable per the terms of an installment schedule in each respective agreement. Not less than ten business days prior to the installment due date, BHI, RAI and RJRT have the ability to request the payable date of a term loan installment be extended. The Company, in its sole discretion, may accept or decline the extension request. The interest rate for each respective term loan may be adjusted from time to time to reflect changes to the Company's weighted average cost of borrowing as defined in the agreements.

As of December 31, 2023, the maturities of these installment term loans receivable from affiliates, excluding facility commitment fees, were as follows (in thousands):

Year	Total
2024	\$ 2,865,000
2025	393,446
2026	1,000,000
2027	3,173,000
2028	1,750,000
2029 and thereafter	11,000,000
	\$ 20,181,446

Term Loans Receivable from BHI, RAI and RJRT

In 2022 the Company entered into three new loan agreements with BHI, RAI and RJRT with interest at fixed rates payable semi-annually (in thousands). BHI, RAI and RJRT paid the Company \$37.1 million in upfront fees related to the loans and the Company is amortizing those fees over the life of the respective notes using the effective interest method. In 2023 the Company entered into four new loan agreements with BHI, RAI and RJRT with interest at fixed rates payable semi-annually. BHI, RAI and RJRT paid the Company \$24.0 million in upfront fees related to the loans and the Company is amortizing those fees over the life of the respective notes using the effective interest method.

Date Entered	Maturity Date	Interest Rate	BHI	RAI	RJRT	Total
March 16, 2022	March 16, 2032	4.842%	\$ 735,867	\$ 155,203	\$ 8,930	\$ 900,000
March 16, 2022	March 16, 2052	5.750%	490,578	103,469	5,953	600,000
October 19, 2022	October 19, 2032	7.850%	1,614	579,554	18,832	600,000
August 2, 2023	August 2, 2030	6.443%	721,894	269,341	8,765	1,000,000
August 2, 2023	August 2, 2033	6.521%	902,367	336,677	10,956	1,250,000
August 2, 2023	August 2, 2043	7.179%	541,420	202,006	6,574	750,000
August 2, 2023	August 2, 2053	7.181%	721,894	269,341	8,765	1,000,000
Total			\$ 4,115,634	\$ 1,915,591	\$ 68,775	\$ 6,100,000

As of December 31, 2023, the Company had \$103 million of unamortized debt issuance fees associated with the above discussed notes. These amounts are included in the chart below.

Combined loans receivable from affiliates at December 31, 2023, were as follows (in thousands):

	BHI	RAI	RJRT	Total
Current	\$ 2,342,509	\$ 494,064	\$ 28,427	\$ 2,865,000
Long Term	18,183,963	4,889,373	240,036	23,313,372
Total	\$ 20,526,472	\$ 5,383,437	\$ 268,463	\$ 26,178,372

Due from (to) affiliates

The Company's cash is swept into a IHC pooling structure managed by BATIF. The Company's interest in the cash pooling structure is represented by its balances in its IHC account.

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IHC cash balances earn interest and IHC account overdrafts incur interest expense based on an index rate plus a margin, referred to as the all in rate. Beginning December 1, 2021, the index rate used was SOFR.

Excess cash advances on deposit at BATIF are payable to the Company on demand and bear interest at a rate of 0.275% under the applicable index rate, capped at 0% if the all-in rate is negative. If necessary, the Company has the ability to overdraft its IHC account at BATIF by up to approximately \$1.9 billion. Overdraft positions bear interest at 0.75% over the applicable index rate. At December 31, 2023 and 2022, the Company had advanced \$3.4 billion and \$4.7 billion, respectively, through its IHC account to BATIF. These amounts are classified as Due from affiliates in the Company's accompanying Balance Sheets.

The Company provides cash management services through separate IHC agreements with RAI and certain of its subsidiaries. Under the terms of these IHC agreements, excess daily cash balances in RAI and its subsidiaries bank accounts are advanced to the Company. Excess cash balances on deposit with the Company are payable to each respective entity on demand and bear interest at a rate of 0.275% under the applicable index rate, capped at 0% if rate is negative.

Certain IHC agreements with RAI and certain of its subsidiaries provide a separate overdraft facility that provides for advances from the Company that may not exceed the overdraft limits set forth in each respective agreement. Among these are a \$900 million overdraft facility provided to RAI and a \$700 million overdraft facility provided to RJRT. Overdraft advances bear interest at a rate of 0.75% over the applicable rate. The IHC agreements will remain in effect until cancelled and have no maturity date specified.

The net amount on deposit in the IHC accounts for the benefit of RAI and its subsidiaries was \$4.1 billion at December 31, 2023 and \$4.5 billion at December 31, 2022 and was classified as Due to affiliates in the Company's accompanying Balance Sheets. In 2023, for IHC accounts, the Company recognized \$134.4 million in interest income, and \$149.6 million in interest expense. In 2022, the Company recognized \$39.2 million in interest income and \$40.2 million in interest expense related to IHC accounts.

Guarantee Fees

The Company entered into an agreement with BAT whereby BAT provides an unconditional guarantee of the outstanding BATCAP Notes in exchange for a guarantee fee based on a fee rate and the nominal amount of the notes issued and outstanding. At December 31, 2023 and December 31, 2022, the Company recognized a payable to BAT for \$44.3 million and \$42.3 million, respectively. In 2023 and 2022, the Company recognized guarantee fee expense of \$250.1 million and \$252.2 million, respectively.

The Company has reimbursement agreements with BHI, RAI and RJRT wherein, among other things, the Company is reimbursed for the guarantee fees it incurs on its issued and outstanding notes. BHI, RAI and RJRT reimburse the Company based on the proportionate share of the BATCAP notes directly benefitting the respective entity. Accordingly, at December 31, 2023 and 2022, the Company recognized a reimbursement receivable for \$44.7 million and \$42.4 million, respectively, for guarantee fees. In addition, in 2023 and 2022, the Company recognized reimbursement income of \$250.1 million and \$252.2 million, respectively, related to reimbursements of guarantee fees under the reimbursement agreements.

Derivatives

(a) Cross-Currency Interest Rate Swaps

In order to manage currency fluctuation risk on the EUR and GBP denominated notes, the Company entered into cross currency interest rate swaps pursuant to which it swapped the EUR and GBP denominated principal amounts bearing fixed or floating interest rates, as applicable, for a USD denominated principal amount bearing a corresponding fixed or floating interest rate, as applicable. The objective of these cross-currency swaps is to reduce volatility of cash flows associated with the underlying debt from changes in foreign currency exchange rates. Under the terms of these contracts, the Company will make interest payments in U.S dollars and receive interest in British pounds sterling or euros, as applicable. Upon the maturity of these contracts, the Company will pay the principal amount of the loans in U.S dollars and receive British pounds sterling or euros, as applicable. BATIF is the counterparty in these contracts. The key terms for the cross-currency swaps as of December 31, 2023 were as follows (USD/GBP amounts in thousands):

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<u>Cross currency swaps</u>	<u>Inception Date</u>	<u>Maturity Date</u>	<u>Pay Notional Amount</u>	<u>Interest Rate (Pay USD)</u>	<u>Receive Notional Amount</u>	<u>Interest Rate (Receive EUR/GBP)</u>
GBP- USD	8/16/2017	8/15/2025	389,835	3.370%	£300,000	2.125%

On August 16, 2023, a notional value of \$194.9 million of the GBP-USD cross currency swap was settled with a net payment made by the Company of \$10.4 million. On November 16, 2023, the EUR-USD cross-currency swap with a notional value of \$880.8 million matured with a net settlement payment made by the Company of \$65.8 million. At December 31, 2023, the Company recognized a net liability of \$14.4 million plus associated accrued interest payable of \$2.0 million and at December 31, 2022, the Company recognized a net liability of \$139.6 million plus associated accrued interest payable of \$5.7 million. The change in fair value of the cross-currency interest rate swaps excluding cash paid was a gain of \$49.0 million and loss of \$97.7 million, respectively, in 2023 and 2022 and is reported in Net loss on derivatives in the accompanying Statements of Operations. In addition, the Company recognized net interest expense of \$23.7 million and \$29.0 million, respectively, in 2023 and 2022 related to the cross-currency swaps.

(b) Foreign Currency Forward Contracts

From time to time, the Company will enter into foreign currency exchange contracts with BATIF to minimize the financial impact from exposure to changes in the exchange rates for GBP and EUR on certain liabilities denominated in those currencies. At December 31, 2023 and December 31, 2022, the Company had no liability for the fair value of forward exchange contracts. In 2023 and 2022, the Company recognized expense of \$0.3 million and income of \$0.9 million, respectively, related to foreign currency forward contracts recorded in Net loss on derivatives. Changes in the fair value are recognized as either income or expense, as applicable, as derivative (gains) losses, net in the accompanying Statements of Operations.

(c) Forward Starting Interest Rate Swaps and Treasury Locks

In October 2018, in anticipation of highly probable future note issuances to be used to refinance certain note maturities, the Company entered into forward starting pay-fix interest rate swaps, referred to as forward swaps, for a notional amount of \$3.4 billion to lock in the five and ten year forward swap rates. The forward swaps anticipated note issuances in 2019 and 2020. The counterparty exposure under these forward swaps was with BATIF where in turn BATIF entered into identical swaps with external banks. The Company utilized cash flow hedge accounting for these forward swaps.

In 2019, the Company settled forward swaps with a notional amount of \$1.35 billion associated with an issuance of notes in September 2019 and incurred a loss of \$158.6 million, before tax. This loss was recognized in accumulated other comprehensive loss and, accordingly, is being amortized to interest expense over the life of the related notes using the effective interest method.

The remaining forward swaps with a notional amount of \$2.05 billion were associated with an anticipated debt issuance in 2020. In March 2020, the Company terminated these remaining forward swaps with the anticipated issuance of the notes in April 2020 and incurred a loss of \$427.7 million, before tax, which the Company settled with a cash payment. Concurrent with the termination of the forward swaps, the Company entered into treasury locks with a notional amount of \$2.05 billion that the Company subsequently terminated on the date of the note issuance at a loss of \$25.7 million, before tax, and which the Company settled with a cash payment. These losses were recognized in accumulated other comprehensive loss and, accordingly, are being amortized to interest expense over the life of the related notes using the effective interest method.

In 2023 and 2022, the Company amortized \$74.4 million and \$69.3 million, respectively, to interest expense related to the losses from termination of the forward starting interest rate swaps and treasury locks included in accumulated other comprehensive loss. The Company had no similar derivatives outstanding at December 31,

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2023 or December 31, 2022. The estimated amount expected to be amortized to interest expense in 2024 is \$76.2 million. The life of the related notes extend through 2030.

(d) Fixed to Floating Interest Rate Swaps

In March 2021, the Company entered into nine fixed to floating interest rate swaps for an aggregate notional amount of \$3.5 billion with BATIF as the counterparty. With these derivatives, the Company has effectively swapped the 3.557% fixed interest rate on the \$3.5 billion in notes maturing in 2027 for a floating interest rate based on SOFR plus a margin of approximately 250 basis points. The interest rate swaps expire in May 2027. The Company elected to use fair value hedge accounting for these interest rate swaps and accordingly changes in the fair value of these derivatives adjust the carrying amount of the hedged debt with an offsetting adjustment to Net loss on derivatives. During 2023, three of the nine fixed to floating interest rate swaps with a total notional value of \$1.150 billion were terminated and one of the nine fixed to floating interest rate swaps was partially terminated (\$77 million notional value) when the related hedged debt was prepaid, resulting in a net settlement payment of \$140.5 million related to the swaps and a loss of \$134.9 million, before tax, reported in Net loss on derivatives in the accompanying Statements of Operations. At December 31, 2023 and December 31, 2022, as the result of the change in the fair value of the fixed to floating interest rate swaps, the carrying value of the hedged debt was offset by approximately \$194.0 million and \$393.0 million respectively. At December 31, 2023 and December 31, 2022, the Company had a liability recorded of approximately \$196.5 million and \$401.1 million, respectively, and accrued interest receivable of approximately \$7.0 million and \$17.0 million for the fair value of the fixed to floating interest rate swaps. In addition, the Company recognized net interest expense of \$124.6 million and \$25.5 million respectively, in 2023 and 2022 related to the fixed to floating interest rate swaps.

The following is a summary of amounts included in the accompanying balance sheets and statements of operations related to derivatives:

	Balance Sheet Location	Derivative Assets		Derivative Liabilities	
		2023	2022	2023	2022
Derivatives designated as hedging instruments under Subtopic 815-20		Fair Value	Fair Value	Fair Value	Fair Value
Interest rate contracts	Derivative financial instruments (current)	\$ 7,029	\$ 17,015	\$ 32	\$ 7
	Derivative financial instruments (long-term)	—	42	196,546	401,140
Total derivatives designated as hedging instruments under Subtopic 815-20		<u>\$ 7,029</u>	<u>\$ 17,057</u>	<u>\$ 196,578</u>	<u>\$ 401,147</u>
Derivatives not designated as hedging instruments under Subtopic 815-20		Fair Value	Fair Value	Fair Value	Fair Value
Cross-Currency Interest Rate Swaps	Derivative financial instruments (current)	\$ —	\$ —	\$ 1,990	\$ 85,276
	Derivative financial instruments (long-term)	—	—	14,354	60,067
Total derivatives not designated as hedging instruments under Subtopic 815-20		<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,344</u>	<u>\$ 145,343</u>
Total Derivatives		<u>\$ 7,029</u>	<u>\$ 17,057</u>	<u>\$ 212,922</u>	<u>\$ 546,490</u>

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	2023		2022	
	Interest Expense	Net gain (loss) on derivatives	Interest Expense	Net gain (loss) on derivatives
The effects of fair value and cash flow hedging:				
Gain or (loss) on fair value hedging relationships in Subtopic 815-20:				
Interest Contracts:				
Hedged items	\$ —	\$ (199,027)	\$ —	\$ 357,883
Derivatives designated as hedging instruments	—	64,117	—	(363,531)
Gain or (loss) on fair value hedging relationships in Subtopic 815-20:				
Interest Contracts:				
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income	(74,424)	—	(69,276)	—
Gain or (loss) on derivatives not designated as hedging instruments				
Cross-currency	—	48,782	—	(96,676)
Total amounts of income and expense line items presented in the statement of operations				
	\$ (74,424)	\$ (86,128)	\$ (69,276)	\$ (102,324)

Other income – affiliates

The Company entered into separate agreements with each of BHI, RAI and RJRT whereby the Company is reimbursed for certain expenses related to financing transactions that directly benefit these respective entities. Reimbursements are based on the proportionate share of the financing transactions directly benefitting each respective entity. In 2023 and 2022, the Company recognized \$6.2 million and \$5.5 million, respectively, as other income from affiliates for these reimbursements.

General and administrative expenses

The Company had no direct employees in 2023 and 2022. The Company has a services agreement with Louisville Corporate Services Inc., a direct subsidiary of BHI, for the provision of general and administrative services to the Company consisting primarily of administrative, accounting, income tax and other support services. Expenses incurred under the services agreement are included in General and administrative and other expenses on the accompanying Statement of Operations.

(5) Fair Value

The Company records its derivative contracts at their fair value as of the balance sheet date. All derivatives held by the Company at December 31, 2023 and December 31, 2022, are categorized in Level 2 of the fair value hierarchy. Level 2 financial instruments are not traded in an active market but rather the fair values are determined based on market data, primarily yield curves and exchange rates, to calculate the present value of all estimated flows associated with each derivative contract at the balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives.

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(6) Shareholder's Equity (Deficit)

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of \$15.6 million and \$14.5 million in tax expense in 2023 and 2022, respectively, were as follows (in thousands):

	Forward Starting Interest Rate Swaps
Balance at December 31, 2021	\$ (408,561)
Amortization, net of tax expense of \$14,548	54,729
Balance at December 31, 2022	\$ (353,832)
Amortization, net of tax expense of \$15,629	58,795
Balance at December 31, 2023	\$ (295,037)

(7) Contingent Liabilities

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

On May 31, 2017, the EMTN Program was amended and restated to increase the size of the EMTN Program from £15.0 billion to £25.0 billion and to add the Company as an issuer and a guarantor. At December 31, 2023 and December 31, 2022, the Company had outstanding approximately \$0.4 billion and \$1.3 billion, respectively, equivalent of notes under the EMTN Program at the related spot rate for the respective currency at the measurement date.

Effective February 13, 2018, the Company became an additional guarantor of the notes issued pursuant to the EMTN Program that it was not already a guarantor of during the period since it ceased participation. With the additional guarantees in place, as of December 31, 2023 and December 31, 2022, the Company was a guarantor of securities with maturities ranging from 2024 to 2055 in the amount of approximately \$10.8 billion and \$12.1 billion, respectively, plus accrued interest which represents the maximum potential exposure (at applicable year-end exchange rates) had the relevant issuers defaulted.

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

The Company also guarantees any notes issued by BATIF under the Shelf Registration. The obligations of BATIF under any series of notes and the accompanying indenture are fully and unconditionally guaranteed on a joint and several and senior and unsecured basis by the Company in addition to BAT, B.A.T. Netherlands Finance B.V., and, unless its guarantee is released in accordance with the relative indenture, RAI. As of December 31, 2023 and December 31, 2022, the Company was a guarantor of notes issued under the Shelf Registration by BATIF with maturities ranging from 2026 to 2029 in the amount of approximately \$3.5 billion and \$2.5 billion, respectively, plus accrued interest, which represents the maximum potential exposure in the event of a default.

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(8) Subsequent events

In January 2024, the Company entered into three forward-starting fixed to floating interest rate swaps for an aggregate principal amount of \$1.250 billion with BATIF as the counterparty. With these derivatives, the Company has effectively swapped the 6.421% fixed interest rate, beginning February 2025, on the \$1.250 billion in notes maturing in 2033 for a floating interest rate based on SOFR plus a margin of 2.776% to 2.951%. The interest rate swaps expire in 2033.

In February 2024, the Company issued \$1.7 billion of USD denominated notes under the Shelf Registration, referred to as the 2024 USD Notes. \$850 million of the 2024 USD notes bear interest at a fixed rate of 5.834% and mature in 2031, and \$850 million of the 2024 USD notes bear interest at a fixed rate of 6.000% and mature in 2034. The Company intends to use the net proceeds from the issuance of the 2024 USD notes for general corporate purposes, including the repayment of existing indebtedness.