B.A.T CAPITAL CORPORATION

Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

B.A.T CAPITAL CORPORATION

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KPMG LLP
Suite 2600
400 West Market Street
Louisville, KY 40202

Independent Auditors' Report

The Board of Directors
B.A.T Capital Corporation:

We have audited the accompanying financial statements of B.A.T Capital Corporation (the Company), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Louisville, Kentucky
April 19, 2017

B.A.T CAPITAL CORPORATION

Balance Sheets

December 31, 2016 and 2015

(Dollars in thousands, except per share amounts)

Assets		**2016**	**2015**
Current assets:			
Due from affiliates	$	10,050	16,172
Other receivables		—	18
Total current assets		10,050	16,190
Total assets	$	10,050	16,190
Liabilities and Shareholder’s Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$	4	—
Total current liabilities		4	—
Total liabilities		4	—
Shareholder’s equity:			
Common shares, $1 par value (2,000 shares authorized, issued and outstanding)		2	2
Additional paid-in capital		9,999	9,999
Accumulated earnings		45	6,189
Total shareholder’s equity		10,046	16,190
Total liabilities and shareholder's equity	$	10,050	16,190

See accompanying notes to financial statements.

B.A.T CAPITAL CORPORATION

Statements of Operations

Years ended December 31, 2016 and 2015

(In thousands)

		2016	2015
Interest income	$	21	—
Total income		21	—
General and administrative expenses		12	28
Total expenses		12	28
Income (loss) before income taxes		9	(28)
Income tax expense (benefit)		3	(10)
Net income (loss)	$	6	(18)

See accompanying notes to financial statements.

B.A.T CAPITAL CORPORATION

Statements of Shareholder's Equity

Years ended December 31, 2016 and 2015

(Dollars in thousands)

	Common shares			Additional	Accumulated	
	Shares		Amount	paid-in-capital	earnings	Total
Balance at December 31, 2014	2,000	$	2	9,999	6,207	16,208
Net Loss	—		—	—	(18)	(18)
Balance at December 31, 2015	2,000		2	9,999	6,189	16,190
Net Income	—		—	—	6	6
Dividends	—		—	—	(6,150)	(6,150)
Balance at December 31, 2016	2,000	$	2	9,999	45	10,046

See accompanying notes to financial statements.

B.A.T CAPITAL CORPORATION

Statements of Cash Flows

Years ended December 31, 2016 and 2015

(In thousands)

		2016	2015
Cash flows from operating activities:			
Net income (loss)	$	6	(18)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Decrease (increase) in other receivables		18	(10)
Increase in accounts payable and accrued liabilities		4	—
Net cash provided by (used in) operating activities		28	(28)
Cash flows from investing activities:			
Net proceeds from investments with affiliates		6,122	28
Net cash provided by investing activities		6,122	28
Cash flows from financing activities:			
Dividends paid		(6,150)	—
Net cash used in financing activities		(6,150)	—
Net increase (decrease) in cash		—	—
Cash – beginning of year		—	—
Cash – end of year	$	—	—
Supplemental cash flow information:			
Income taxes refunded	$	18	—

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements present the financial position, results of operations and cash flows of B.A.T Capital Corporation (the Company), an indirect wholly owned subsidiary of British American Tobacco p.l.c. (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 (LSL), the Company was purchased by BATUS Holdings Inc. (BHI) from LSL pursuant to a stock purchase agreement and BHI became the sole stockholder and parent of the Company. The sale and purchase were at carrying value. The Company, incorporated in Delaware, has 2,000 common shares authorized, issued and outstanding with a par value of one dollar per share. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

(b) Nature of Business

The Company is a U.S. finance company that has historically been a guarantor of the BAT Euro Medium Term Debt Programme (see note 5) and has provided financing and cash management services to BAT companies in the US. Other than its role as a guarantor, the Company has been inactive in recent years.

(c) Income Taxes

The Company accounts for income taxes in accordance with the provision of Accounting Standards Codification (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 2016 and the income tax benefit recorded in 2015 were computed by applying the U.S. federal income tax rate of 35% to pretax income or loss. There are no temporary or permanent differences in 2016 and 2015. The Company paid no state income taxes in 2016 or 2015.

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

The Company did not have any uncertain tax positions for 2016 or 2015. The federal statute of limitations remains open for tax years 2013 through 2015. 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.

(d) Interest Income

Interest income was $21 thousand and $0 for the years ended December 31, 2016 and 2015, respectively. All interest income was from related parties.

(Continued)

(e) Other Comprehensive Income

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

(f) 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.

(g) 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, 2016 and 2015.

(2) Income Taxes

The income tax expense (benefit) consists of the following for the years ended December 31, 2016 and 2015 (in thousands):

		Current	Deferred	Total
Year ended December 31, 2016:				
U.S. federal	$	3	—	3
State and local		—	—	—
	$	3	—	3
Year ended December 31, 2015:				
U.S. federal	$	(10)	—	(10)
State and local		—	—	—
	$	(10)	—	(10)

As of December 31, 2016 and 2015, the Company had no deferred tax assets and liabilities.

There was no unrecognized tax benefits, interest expense or penalties recognized related to uncertain tax positions in 2016 or 2015.

(3) Related Party Assets

The Company has an In-House Cash agreement with B.A.T. International Finance p.l.c. (BATIF). Under this agreement, positive balances are swept from and necessary funds are transferred to the Company’s external bank account. Amounts due from BATIF are $10.1 million and $16.2 million at December 31, 2016 and 2015, respectively.

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(4) Revolving Credit Facility

On December 7, 2016, the Company entered into a $50 million Uncommitted Revolving Credit Facility with Brown & Williamson Holdings, Inc. (BWH), a BHI affiliate, that expires on December 7, 2018. As of December 31, 2016, there have been no drawdowns on this facility. The interest rate is floating based on London Interbank Offered Rate (LIBOR) plus 0.425%.

(5) Contingent Liabilities

On December 9, 2011, the Company ceased to be a party to the £15 billion Euro Medium Term Note Programme (the Programme) 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 a total of £15 billion or its equivalent in other currencies. The payments of all amounts in respect of any notes issued under the Programme prior to December 9, 2011 are unconditionally and irrevocably guaranteed by BAT and each of the issuers (except where it is the relevant issuer). Any notes issued under the Programme on or after December 9, 2011 are not guaranteed by the Company. The Company does not maintain a guarantee liability related to its guarantees with respect to the Programme. At December 31, 2016 and 2015, there were no notes issued by the Company outstanding under the Programme, but other issuers had notes outstanding of which the Company was a guarantor in the amount of approximately $5.8 billion and $6.9 billion respectively, plus accrued interest, which represents the maximum potential exposure (at applicable year-end exchange rates) had the relevant issuers defaulted as of December 31, 2016 or 2015.

(6) Subsequent Events

On January 17, 2017, BAT announced the agreed terms of a recommended offer for the acquisition of the remaining 57.8% of Reynolds American Inc. (RAI) not already owned by BAT. RAI shareholders will receive for each RAI share $29.44 in cash and 0.5260 BAT ordinary shares which shall be represented by BAT American Depositary Receipts (ADRs) listed on the New York Stock Exchange (NYSE).

The parties expect the transaction to close during the third quarter of 2017 subject to: obtaining affirmative votes from BAT and RAI shareholders; obtaining anti-trust approvals in the US and Japan; registration of BAT shares with the SEC; approval of the BAT shares for listing on the London Stock Exchange (LSE) and the BAT ADRs on the NYSE; and other customary conditions. The completion of the merger is not subject to any financing condition.

Following the announcement that BAT agreed to the terms in relation to the proposed acquisition, the Company and BATIF entered into a $25 billion acquisition facility with a syndicate of banks with BAT as Guarantor. The facility is split into four tranches as follows: two bridge facilities of $15 billion and $5 billion maturing in 2018 and 2019, respectively (each with two six-month extensions at BAT's option), $2.5 billion term loan maturing in 2020 and $2.5 billion term loan maturing in 2022. BAT intends to refinance the bridge facilities through debt issuance in the capital markets.

In order to manage the Company's interest rate risk on expected future debt issuance in the capital markets, the Company has entered into a series of interest rate swaps with BATIF in 2017.

(Continued)

Also, in connection with the proposed acquisition, the Company, along with other members of the BAT Group and with BAT as Guarantor, entered into a two-tranche £5.68 billion forward starting revolving credit facility, which consists of a £2.84 billion 364-day revolving credit facility (with a one-year extension option and a one-year term-out option), and a £2.84 billion revolving credit facility, maturing in 2021.

The Company drew down $11.5 million and $10.0 million on its Revolving Credit Facility with BWH on January 23, 2017 and January 31, 2017, respectively.

The Company has performed an evaluation of subsequent events through April 19, 2017, which is the date the financial statements were available to be issued, and determined that there were no other items to disclose.