BASE PROSPECTUS

# B.A.T. INTERNATIONAL FINANCE p.l.c.

*(incorporated with limited liability in England and Wales)*

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

*(incorporated with limited liability in The Netherlands)*

# B.A.T CAPITAL CORPORATION

*(incorporated with limited liability in the State of Delaware, United States of America)*

**£25,000,000,000 Euro Medium Term Note Programme**
**unconditionally and irrevocably guaranteed by**

# BRITISH AMERICAN TOBACCO p.l.c.

*(incorporated with limited liability in England and Wales)*

**and each of the Issuers (except where it is the relevant Issuer)**

On 6 July 1998, each of B.A.T. International Finance p.l.c. ("BATIF"), B.A.T Capital Corporation ("BATCAP") and B.A.T Finance B.V. ("BATFIN") entered into a Euro Medium Term Note Programme (the "Programme") for the issue of Euro Medium Term Notes (the "Notes"). On 16 April 2003, British American Tobacco Holdings (The Netherlands) B.V. ("BATHTN") acceded to the Programme as an issuer and, where relevant, a guarantor and BATFIN was removed as an issuer and a guarantor under the Programme. On 9 December 2011, BATCAP was removed as an issuer and a guarantor under the Programme. On 16 May 2014, B.A.T. Netherlands Finance B.V. ("BATNF") acceded to the Programme as an issuer and, where relevant, a guarantor. On 31 May 2017, BATCAP acceded to the Programme as an issuer and, where relevant, a guarantor. On 1 May 2019, BATHTN was removed as an issuer and a guarantor under the Programme. BATIF, BATNF and BATCAP are each, in their capacities as issuers under the Programme, an "Issuer" and together referred to as the "Issuers". This Base Prospectus supersedes any previous base prospectus, offering memorandum, programme memorandum, information memorandum or any amendments or supplements thereto. Any Notes issued under the Programme on or after the date of this Base Prospectus are issued subject to the provisions herein. This Base Prospectus does not affect any Notes already issued.

**Prospective investors should be aware that any investment in Notes involves risks. See "Risk Factors" beginning on page 16.**

Under the Programme, each of BATIF, BATNF and BATCAP may from time to time issue Notes in bearer form denominated in any currency agreed between the relevant Issuer and the relevant Dealer (as defined below). If the applicable Final Terms state that Global Notes (each as defined herein) are to be issued in new global note ("NGN") form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche (as defined herein) to a common safekeeper (the "Common Safekeeper") for Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg"). Global notes which are not issued in NGN form ("Classic Global Notes" or "CGNs") will be deposited on the issue date of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the "Common Depositary").

The payments of all amounts payable in respect of the Notes will be unconditionally and irrevocably guaranteed by British American Tobacco p.l.c. ("BAT") and each of BATIF, BATNF and BATCAP except where it is the relevant Issuer (the "Guarantors" and each a "Guarantor" and together with the Issuers, the "Obligors"). In certain circumstances, certain other companies may also become guarantors of Notes issued under the Programme.

Application has been made to the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (as amended, the "FSMA") (the "FCA") for Notes issued under the Programme described in this Base Prospectus during the period of twelve months after the date hereof to be admitted to the official list of the FCA (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "Market"). References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Directive 2014/65/EU of the European Parliament and the Council on Markets in financial instruments (as amended, "MiFID II").

The Programme has been rated Baa2 by Moody's Investors Service Ltd ("Moody's") and BBB+ by S&P Global Ratings Europe Limited ("S&P"). Long term debt issued or guaranteed by BAT is rated Baa2 by Moody's and BBB+ by S&P. Short term debt issued or guaranteed by BAT is rated P-2 by Moody's and A-2 by S&P. Each of Moody's and S&P is established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) (the "CRA Regulation"). Tranches of Notes to be issued under the Programme will either be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms.

**Arranger**
**Deutsche Bank**
**Dealers**

**Barclays**
**Citigroup**
**Deutsche Bank**
**J.P. Morgan**
**NatWest Markets**
**SMBC Nikko**

**BofA Merrill Lynch**
**Commerzbank**
**HSBC**
**Lloyds Bank Corporate Markets**
**Santander Corporate& Investment Banking**
**Société Générale Corporate & Investment Banking**

The date of this Base Prospectus is 1 May 2019

Each of BAT, BATIF, BATNF and BATCAP accepts responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme and Reynolds American Inc. ("RAI" or the "Additional Guarantor") accepts responsibility for the information relating to RAI and the RAI Guarantee (as defined below) contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge and belief of BAT, BATIF, BATNF, BATCAP and RAI, each of the foregoing declares (each having taken all reasonable care to ensure that such is the case) that the information (or in the case of RAI, as such information relates to it and/or the RAI Guarantee) contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus is to be read in conjunction with all documents which are incorporated herein by reference as described in "Documents Incorporated by Reference" below. This Base Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this Base Prospectus.

The Obligors have confirmed to the dealers (the "Dealers") named under "Subscription and Sale" below that this Base Prospectus is true and accurate in all material respects and not misleading in any material respect; that the opinions and intentions expressed therein are honestly held; that there are no other facts in relation to the information contained or incorporated by reference in this Base Prospectus the omission of which would, in the context of the issue of the Notes, make any statement therein or opinions or intentions expressed therein misleading in any material respect; and the Obligors have confirmed to the Dealers that all reasonable enquiries have been made to verify the foregoing provided, however, that the confirmation expressed in this sentence does not extend to the information set out under "Subscription and Sale" below.

Notice of the aggregate nominal amount of the Notes, interest (if any) payable in respect of the Notes, the issue price of the Notes and any other terms and conditions not contained in this Base Prospectus which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in a final terms document (the "Final Terms") which will be delivered to the FCA and the London Stock Exchange and will be available on the website of the Regulatory News Service operated by the London Stock Exchange.

This Base Prospectus, together with supplements to this Base Prospectus from time to time (each a "Supplement" and together, the "Supplements"), comprises a base prospectus for the purpose of Article 5(4) of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, as amended (including by Directive 2010/73/EU) or superseded, and includes any relevant implementing measure in the relevant Member State of the European Economic Area (the "EEA") (the "Prospectus Directive") for the purpose of giving information with regards to the Issuers, the Guarantors and the Additional Guarantor which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuers, the Guarantors and the Additional Guarantor and of the rights attaching to the Notes. In relation to each separate issue of Notes, the final offer price and the amount of such Notes will be determined by the relevant Issuer and Guarantors and the relevant Dealer(s) in accordance with prevailing market conditions at the time of the issue of the Notes and will be set out in the relevant Final Terms.

**PRIIPs Regulation/Prohibition of Sales to EEA Retail Investors**: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, "IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs

Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**MiFID II product governance / target market** – The Final Terms in respect of any Notes will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each Tranche of Notes about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "MiFID Product Governance Rules"), any Dealer in respect of the relevant Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

No person has been authorised by the Obligors, the Additional Guarantor, any Dealer or The Law Debenture Trust Corporation p.l.c. (the "Trustee") to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any information supplied by the Obligors or the Additional Guarantor or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Obligors, the Additional Guarantor, the Trustee or any Dealer.

No representation or warranty is made or implied by the Dealers or the Trustee or any of their respective affiliates, and neither the Dealers, the Trustee nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Save as required by the rules of the FCA, neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Notes shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial situation of the Issuers, the Guarantors or the Additional Guarantor since the date hereof or, as the case may be, the date upon which this Base Prospectus has been most recently amended or supplemented or the balance sheet date of the most recent financial statements which are incorporated into this Base Prospectus by reference or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Amounts payable on the Notes may be calculated by reference to one of LIBOR or EURIBOR (as defined herein) as specified in the relevant Final Terms. As at the date of this Base Prospectus, the administrator of LIBOR appears on the European Securities and Markets Authority's register of administrators under Article 36 of Regulation (EU) No. 2016/1011 (the "Benchmarks Regulation"). The administrator of EURIBOR does not appear on such register. As far as each Obligor is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such that the administrator of EURIBOR is not currently required to obtain authorisation/registration.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Obligors, the Additional Guarantor and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Base Prospectus or any

Final Terms and other offering material relating to the Notes, see "Subscription and Sale" below. In particular, no action has been taken by the Obligors, the Additional Guarantor, the Dealers or the Trustee which would permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. In addition, the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States or to, or for the account or benefit of, US persons (as defined in Regulation S under the Securities Act ("Regulation S")) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

**Singapore Securities and Futures Act Product Classification** – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "SFA"), the Obligors have determined, and hereby notify all relevant persons (as defined in Regulation 3(b) of the Securities and Futures (Capital Markets Products) Regulations 2018 (the "SF (CMP) Regulations")) that the Notes are "prescribed capital markets products" (as defined in the SF (CMP) Regulations) and "Excluded Investment Products" (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

**Neither this Base Prospectus nor any Final Terms may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.**

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Obligors, the Additional Guarantor, the Dealers, the Trustee or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Obligors and the Additional Guarantor.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed £25,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into Sterling at a rate to be determined either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, calculated in accordance with the provisions of the Programme Agreement). The maximum aggregate principal amount of Notes in respect of each Issuer which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Programme Agreement as defined under "Subscription and Sale" below.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities and each potential investor should consult its legal advisers or the appropriate regulators.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, ONE OR MORE RELEVANT DEALERS (THE "STABILISATION MANAGER(S)") (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES OF THE SERIES OF WHICH SUCH TRANCHE FORMS PART AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION ACTION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

In this Base Prospectus, unless otherwise specified, references to: a "Member State" are references to a Member State of the European Economic Area; "EUR", "€" or "euro" refer to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time; "Japanese Yen", "Yen" or "¥" refer to the lawful currency of Japan; "Sterling" or "£" refer to the lawful currency of the United Kingdom; "U.S.$" or "US dollars" are to be lawful currency of the United States of America; "CAD$" refer to the lawful currency of Canada; and "BRL" refer to the lawful currency of Brazil.

## FORWARD-LOOKING STATEMENTS

This Base Prospectus may contain forward-looking statements. BAT and its subsidiaries (together, the "Group") may also make written or oral forward-looking statements in their audited annual financial statements, in their interim financial statements, in their offering circulars, in press releases and other written materials and in oral statements made by their officers, directors or employees to third parties. Statements that are not historical facts, including statements about BAT's and/or the Group's beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections and such statements reflect BAT and/or the Group's judgement at the date of this document and are not intended to give any assurances as to future results. Forward-looking statements speak only as of the date they are made, and, save as required by the rules of the FCA, BAT and the Group undertake no obligation to update publicly any of them in light of new information or future events.

The Issuers, the Guarantor and the Additional Guarantor will comply with their obligations to publish updated information as required by law or by any regulatory authority but assume no further obligation to publish additional information.

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## DOCUMENTS INCORPORATED BY REFERENCE

This Base Prospectus should be read and construed in conjunction with:

(1) the published consolidated audited annual financial information as at and for the year ended 31 December 2017, together with the audit report thereon, for BATIF contained on pages 6 to 33 of the BATIF 2017 Annual Report;

(2) the published consolidated audited annual financial information as at and for the year ended 31 December 2018, together with the audit report thereon, for BATIF contained on pages 6 to 36 of the BATIF 2018 Annual Report;

(3) the published non-consolidated audited annual financial information as at and for the year ended 31 December 2017, together with the audit report thereon, for BATNF contained on pages 3 to 14 of the BATNF Financial Report for the Year Ended 31 December 2017;

(4) the published non-consolidated audited annual financial information as at and for the year ended 31 December 2018, together with the audit report thereon, for BATNF contained on pages 3 to 14 of the BATNF Financial Report for the Year Ended 31 December 2018;

(5) the published consolidated audited annual financial information as at and for the year ended 31 December 2017, together with the audit report thereon, for BAT contained on pages 100 to 198 of the BAT Annual Report 2017 and Form 20-F 2017 (with the exception of the final two sentences of page 165);

(6) the published consolidated audited annual financial information as at and for the year ended 31 December 2018, together with the audit report thereon, for BAT contained on pages 115 to 235 of the BAT Annual Report 2018 and Form 20-F 2018;

(7) the published non-consolidated audited annual financial information as at and for the year ended 31 December 2017, together with the audit report thereon, for BATCAP contained on pages 1 to 15 of the BATCAP Financial Statements for the year ended 31 December 2017;

(8) the published non-consolidated audited annual financial information as at and for the year ended 31 December 2018, together with the audit report thereon, for BATCAP contained on pages 1 to 17 of the BATCAP Financial Statements for the year ended 31 December 2018;

(9) the published RAI consolidated audited annual financial information as at and for the years ended 31 December 2017 and 31 December 2018, each together with the audit report thereon, for RAI contained on pages 1 to 75 of the RAI Consolidated Financial Statements 2017 and 2018;

(10) the paragraphs and table under the heading “Adjusted profit from operations and adjusted operating margin” on page 261 of the BAT Annual Report 2018 and Form 20-F 2018;

(11) the section entitled “Terms and Conditions” on pages 52 to 79 of the Prospectus dated 9 December 2011 relating to the Programme;

(12) the section entitled “Terms and Conditions” on pages 48 to 72 of the Prospectus dated 11 December 2012 relating to the Programme;

(13) the section entitled “Terms and Conditions” on pages 49 to 73 of the Prospectus dated 12 December 2013 relating to the Programme;

(14) the section entitled “Terms and Conditions” on pages 50 to 74 of the Prospectus dated 16 May 2014 relating to the Programme;

(15) the section entitled "Terms and Conditions" on pages 58 to 84 of the Prospectus dated 18 May 2015 relating to the Programme;

(16) the section entitled "Terms and Conditions" on pages 51 to 71 of the Prospectus dated 20 May 2016 relating to the Programme;

(17) the section entitled "Terms and Conditions" on pages 55 to 77 of the Prospectus dated 31 May 2017 relating to the Programme; and

(18) the section entitled "Terms and Conditions" on pages 83 to 117 of the Prospectus dated 25 May 2018 relating to the Programme,

each of which have been previously published or are published simultaneously with this Base Prospectus and which have been approved by the Financial Conduct Authority or filed with it. Such information shall be incorporated in, and form part of, this Base Prospectus save that any statement contained in this Base Prospectus or in any information incorporated by reference in, and forming part of, this Base Prospectus shall be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any information subsequently incorporated by reference herein by way of a supplement prepared in accordance with Article 16 of the Prospectus Directive modifies or supersedes such statement (whether expressly, by implication or otherwise). For the avoidance of doubt, information, documents or statements to be incorporated by reference into, or expressed to form part of, the information referred to in (1) to (10) above do not form part of this Base Prospectus.

Any non-incorporated parts of a document referred to above do not form part of this Base Prospectus as they are either not relevant for investors or are covered elsewhere in this Base Prospectus.

Each Obligor will provide, without charge, to each person to whom a copy of this Base Prospectus has been delivered, upon the request of such person, a copy of any or all of the documents containing the information deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the relevant Issuer and Guarantor at its office set out at the end of this Base Prospectus. In addition, such documents will be available from the principal office in England of the Principal Paying Agent at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and BAT at Globe House, 4 Temple Place, London WC2R 2PG and on the Regulatory News Service of the London Stock Exchange at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html for Notes (including Final Terms) admitted to the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange.

In relation to any issue of Notes, the applicable Final Terms should be read in conjunction with this Base Prospectus.

## GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, each Issuer may from time to time issue Notes denominated in any currency and having a minimum maturity of one month, subject as set out in this Base Prospectus. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the relevant Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as completed by the applicable Final Terms attached to, or endorsed on, such Notes, as more fully described under "Form of the Notes" below. This Base Prospectus and any supplement will only be valid for admitting Notes to the Official List during the period of 12 months from the date hereof in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed £25,000,000,000 or its equivalent in other currencies. For the purpose of calculating the Sterling equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

(1) the Sterling equivalent of Notes denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the relevant Notes, described under "Form of the Notes" below) shall be determined, at the discretion of the relevant Issuer, either as of the date on which agreement is reached for the issue of Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the Sterling against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the relevant Issuer on the relevant day of calculation; and

(2) the Sterling equivalent of Zero Coupon Notes (as specified in the applicable Final Terms in relation to the relevant Notes, described under "Form of the Notes" below) and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the relevant Issuer for the relevant issue.

As used herein "Specified Currency" means, in relation to an issue of Notes, the currency stated as such in the applicable Final Terms.

## DESCRIPTION OF THE PROGRAMME

*The following description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this document and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this description.*

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| **Issuers** | B.A.T. International Finance p.l.c. ("BATIF") |
| | B.A.T. Netherlands Finance B.V. ("BATNF") |
| | B.A.T Capital Corporation ("BATCAP") |
| **Guarantors** | British American Tobacco p.l.c. ("BAT") |
| | BATIF (except where it is the Issuer) |
| | BATNF (except where it is the Issuer) |
| | BATCAP (except where it is the Issuer) |
| | In certain circumstances (as described on page 83), certain other companies may also become guarantors of Notes issued under the Programme. |
| **Description** | Euro Medium Term Note Programme |
| **Arranger** | Deutsche Bank AG, London Branch |
| **Dealers** | Banco Santander, S.A. |
| | Barclays Bank PLC |
| | BofA Securities Europe SA |
| | Citigroup Global Markets Europe AG |
| | Citigroup Global Markets Limited |
| | Commerzbank Aktiengesellschaft |
| | Deutsche Bank AG, London Branch |
| | HSBC Bank plc |
| | J.P. Morgan Securities plc |
| | Lloyds Bank Corporate Markets plc |
| | Merrill Lynch International |
| | NatWest Markets Plc |
| | SMBC Nikko Capital Markets Europe GmbH |
| | SMBC Nikko Capital Markets Limited |
| | Société Générale |
| | and any other Dealers appointed in accordance with the Programme Agreement. |
| **Certain Restrictions** | Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "Subscription and Sale"). |

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| **Issuing and Principal Paying Agent** | Citibank, N.A., London Branch |
| **Paying Agent** | Banque Internationale à Luxembourg, *société anonyme* |
| **Trustee** | The Law Debenture Trust Corporation p.l.c. |
| **Programme Size** | Up to £25,000,000,000 (or its equivalent in other currencies calculated as described under *"*General Description of the Programme*"*) outstanding at any time. The Obligors may increase the amount of the Programme in accordance with the terms of the Programme Agreement. |
| **Distribution** | Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. |
| **Currencies** | Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer and the relevant Dealer(s). |
| **Maturities** | Such maturities as may be agreed between the relevant Issuer and the relevant Dealer(s), subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer, the relevant Guarantors or the relevant Specified Currency. |
| **Issue Price** | Notes may be issued at an issue price which is at par or at a discount to, or premium over, par as specified in the relevant Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer, the Guarantors and the relevant Dealer(s) at the time of issue in accordance with the prevailing market conditions. |
| **Form of Notes** | The Notes will be in bearer form (but will be issued so as to be in registered form for United States federal income tax purposes) and will on issue be represented by a permanent Global Note. Each permanent Global Note will be exchangeable for definitive Notes only upon the occurrence of an Exchange Event, as described under "Form of the Notes". |
| **Fixed Rate Notes** | Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer(s) and on redemption, and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer(s). |
| **Floating Rate Notes** | Floating Rate Notes will bear interest at a rate determined:<br>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, in each case as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series; or |

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| | (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service.<br><br>The margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer(s) for each Series of Floating Rate Notes. Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.<br><br>Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the relevant Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the relevant Issuer and the relevant Dealer(s). |
| **Zero Coupon Notes** | Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest. |
| **Benchmark discontinuation** | On the occurrence of a Benchmark Event the Issuer may (subject to certain conditions and following consultation with an Independent Adviser) determine a Successor Rate, failing which an Alternative Rate and, in either case, an Adjustment Spread and any Benchmark Amendments in accordance with Condition 4(b)(ii)(C). |
| **Redemption** | The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving not more than 30 nor less than 10 days' notice (or such other notice period as specified in the applicable Final Terms) to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the relevant Issuer and the relevant Dealer(s).<br><br>Notes issued on terms that they must be redeemed before their first anniversary may be subject to restrictions on their denomination and distribution. See "Certain Restrictions" above and "Denominations of Notes" below. |
| **Denomination of Notes** | In the case of any Notes which are to be admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or the equivalent of such amounts in another currency as at the date of issue of the Notes).<br><br>In addition, unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are received by the Issuer in the United Kingdom and which have a |

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| | maturity of less than one year will (A) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to (1) persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or (2) persons who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or (B) be issued in other circumstances which do not constitute a contravention of Section 19 of the FSMA by the Issuer. |
| **Taxation** | All payments of principal and interest in respect of the Notes issued by BATIF will be made without withholding or deduction for or on account of taxes of the United Kingdom, unless such withholding is required by law. In the event that any such withholding or deduction is made, BATIF or, as the case may be, the relevant Guarantor will, save in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so withheld or deducted.<br><br>All payments of principal and interest in respect of the Notes issued by BATNF will be made without withholding or deduction for or on account of taxes of The Netherlands, unless such withholding or deduction is required by law. In the event that such withholding or deduction is made, BATNF or, as the case may be, the relevant Guarantor, will, save in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so withheld or deducted.<br><br>All payments of principal and interest in respect of the Notes issued by BATCAP will be made without withholding or deduction for or on account of taxes of the United States of America, unless such withholding is required by law. In the event that any such withholding or deduction is made, BATCAP or, as the case may be, the relevant Guarantor will, subject to the exceptions and limitations provided in Condition 7, be required to pay additional amounts to cover the amounts so withheld or deducted. |
| **Negative Pledge** | The terms of the Notes will contain a negative pledge provision as further described in Condition 3. |
| **Cross Default** | The terms of the Notes will contain a cross default provision as further described in Condition 9. |
| **Status of the Notes** | The Notes will constitute direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will rank *pari passu* and without any preference among themselves and (subject as aforesaid and save to the extent that laws affecting creditors' rights generally in a bankruptcy or winding up may give preference to any of such other obligations) equally with all other |

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| | present and future unsecured and unsubordinated obligations of the relevant Issuer from time to time outstanding. |
| **Guarantee** | The Notes will be unconditionally and irrevocably and jointly and severally guaranteed by the Guarantors (the "Guarantees" and each a "Guarantee"). The obligations of each Guarantor under such guarantee will be direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of such Guarantor and (subject as aforesaid and save to the extent that laws affecting creditors' rights generally in a bankruptcy or winding up may give preference to any of such other obligations) will rank equally with all other unsecured and unsubordinated obligations of such Guarantor from time to time outstanding. The Notes will also, until the Termination Date (as defined below), be irrevocably and unconditionally guaranteed by RAI pursuant and subject to the Deed of Guarantee (as defined below) on a joint and several basis with the Guarantors. For further information, see "RAI – Deed of Guarantee" below. |
| **Rating** | The Programme has been rated Baa2 by Moody's and BBB+ by S&P. Each of Moody's and S&P is established in the European Union and registered under the CRA Regulation. Tranches of Notes to be issued under the Programme will either be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. |
| **Listing** | Application has been made for Notes issued under the Programme to be admitted to the Official List of the FCA and for such Notes to be admitted to trading on the Market.<br><br>The applicable Final Terms will state on which stock exchange(s) the relevant Notes are to be listed. |
| **Governing Law** | The Notes, and any non-contractual matters arising out of or in connection with them, will be governed by, and construed in accordance with, English law. |
| **Selling Restrictions** | There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom, France and The Netherlands), Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes – see *"*Subscription and Sale*"* below. |
| **United States Selling Restrictions** | Regulation S, Category 2. |

# RISK FACTORS

*The following factors may affect the ability of the Issuers and the Guarantors to fulfil their obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and neither the Issuers nor the Guarantors are in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which could be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*The Obligors believe that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme and any prospective purchasers of the Notes should note that, should any of the circumstances discussed in this risk factors section arise, they may lose the value of their entire investment. Prospective purchasers of the Notes offered under the Programme should note that the inability of the Issuers and Guarantors to pay interest, principal or other amounts on or in connection with any Notes may occur for reasons other than those stated below and neither the Issuers nor the Guarantors represent that such statements below regarding the risks of holding any Notes are exhaustive. Prospective purchasers of Notes should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decisions.*

## Factors that may affect the Issuers' ability to fulfil its obligations under Notes issued under the Programme and the Guarantors' ability to fulfil their obligations under the Guarantees

### Business execution and supply chain risks

***Competition from illicit trade.***

Illicit trade and tobacco trafficking in the form of counterfeit products, smuggled genuine products and locally manufactured products on which applicable taxes are evaded represent a significant and growing threat to the legitimate tobacco industry. Factors such as increasing levels of taxation, price increases, economic downturn, lack of law enforcement, appropriate penalties and weak border control are encouraging more adult tobacco consumers to switch to illegal cheaper tobacco products and providing greater rewards for counterfeiters and smugglers. Regulatory restrictions such as plain packaging or graphic health warnings, display bans, taste or ingredient restrictions and increased compliance costs further disadvantage legitimate industry participants by providing competitive advantages to illicit manufacturers and distributors of illicit tobacco products.

Illicit trade can have an adverse effect on the Group's overall sales volume and may restrict the ability to increase selling prices. Illicit trade can also damage brand equity and reputation, which could undermine the Group's investment in trade marketing and distribution. These factors in turn could reduce profits and have an adverse effect on the Group's results of operations and financial conditions.

***Geopolitical tensions that have the potential to disrupt the Group's business in multiple markets.***

The Group's operations and financial condition are influenced by the economic and political situations in the markets and regions in which it has operations, which are often unpredictable and outside of its control. Some markets in which the Group operates face the threat of civil unrest and can be subject to frequent changes in regime. In others, there is a risk of terrorism, conflict, war, organised crime or other criminal activity. The Group is also exposed to economic policy changes in jurisdictions in which it operates. In addition, some markets maintain trade barriers or adopt policies that favour domestic producers, preventing or restricting the Group's sales.

Deterioration of socio-economic or political conditions could potentially lead to loss of life or loss of assets that limit or eliminate the Group's access to particular markets or may disrupt the Group's operations, such as its supply chain, or manufacturing or distribution capabilities. Such disruption may result in increased costs due to the need for more complex supply chain arrangements, to build new facilities or to maintain inefficient facilities, or in a reduction of the Group's sales volume.

***Disruption to the Group's data and information technology systems, including by cyber-attack or the malicious manipulation or disclosure of confidential information.***

The Group increasingly relies on data and information technology systems for its internal communications, controls, reporting and relations with customers and suppliers. Some of these systems are managed by third-party service providers. A significant disruption of the Group's systems, including those managed by third-party service providers, due to computer viruses, cyber threats, malicious intrusions or unintended or malicious behaviour by employees, contractors or services providers could affect the Group's communications and operations. In addition, such disruption may compromise the integrity of information and result in the inappropriate disclosure of confidential information, or may lead to false or misleading statements being made about the Group.

Any disruption to technology systems related to the Group's operations could adversely affect its business, results of operation, financial condition and reputation.

Security breaches and the loss of data or operational capacity may disrupt relationships throughout the supply chain, expose the Group to liability and lead to increased costs.

The disclosure of trade secrets or other commercially sensitive information may provide competitors with a competitive advantage resulting in competitive or operational damage to the Group. The disclosure of confidential information about the Group's employees, customers, suppliers or other third parties could also expose the Group to liability.

Failure to effectively prevent or respond to a major breach or cyber-attack may also subject the Group to significant reputational damage.

***Failure to meet current or future PRRPs demand due to supply chain failures.***

The potentially reduced-risk product ("PRRP") supply chain is a multi-tiered and complex environment with reliance on multiple factors, such as third-party suppliers' ability to upscale production in order to meet demand while maintaining product quality, dependency on single suppliers at various points in the chain and the Group's ability to build adequate consumables production capacity in line with product demand. Given the developing nature of the PRRPs portfolio, there is also an enhanced risk that some products may not meet product quality standards or may be subject to regulatory changes, leading to product recalls which the Group has experienced in the past. In addition, the PRRPs supply chain may be vulnerable to changes in local legislation related to liquid nicotine that could increase import duties. Furthermore, the PRRPs supply chain includes the development of sensitive trade secrets jointly with external design partners, which carries the risk of exposure of innovations to competitors.

Vulnerabilities in the PRRPs supply chain may impact the Group's ability to maintain supply and meet the current and future demand requirements across the PRRPs portfolio, potentially resulting in significant reputational harm and financial impact that may negatively affect the Group's results of operations and financial condition. The design of PRRPs devices may also prevent the scaling of commercial manufacturing, which will either restrict supply or increase the costs of production.

In addition, changes in local legislation related to liquid nicotine import duties may increase PRRPs production costs, which may increase end market pricing. Furthermore, the exposure of sensitive trade secrets can lead to competitive disadvantages and further negatively impact the Group's results of operations and financial condition.

***Financial counterparty risks.***

The Group relies on transactions with a variety of financial counterparties to manage the Group's business and financial risks. In the event that any of these counterparties fails, payments due from such counterparty, such as under hedging or insurance contracts, may not be recovered. In addition, failure of a transactional banking party may lead to the loss of cash balances and disruption to payment systems involving such counterparty.

The inability to recover payments due from one or more failed financial counterparties or the loss of cash balances may cause significant financial loss and have an adverse effect on the Group's results of operations, financial condition, and financial risk profile. In addition, the loss of cash balances or a disruption to payment systems may cause disruption to the Group's ongoing operations and ability to pay its creditors and suppliers.

***Exposure to unavailability of and price volatility in raw materials and increased costs of employment.***

The availability and price of various commodities required in the manufacture of the Group's products fluctuate. Raw materials and other inputs used in the Group's business, such as wood pulp and energy, are commodities that are subject to price volatility caused by numerous factors, including political influence, market fluctuations and natural disasters. Similarly, the Group is exposed to the risk of an increase above inflation in employment costs, including due to governmental action to introduce or increase minimum wages. Employment and health care law changes may also increase the cost of provided health care and other employment benefits expenses.

Restricted availability and price volatility of commodities may result in supply shortages and unexpected increases in costs for raw materials and packaging for the Group's products, which may affect the Group's results of operations and financial condition.

Similarly, the Group's profitability may be affected by increases in overall employment costs.

The Group may not be able to increase prices to offset increased costs without suffering reduced sales volume and revenue. In the absence of compensating for increased costs through pricing, significant increases in raw material, packaging and employment costs above inflation will impact product margins, leading to lower profits and negatively affecting the Group's results of operations and financial condition.

***Failure to retain key personnel or to attract and retain skilled talent.***

The Group relies on a number of highly experienced employees with detailed knowledge of the tobacco industry and the Group's business. Similarly, the Group is dependent on its ability to identify, attract, develop and retain such qualified personnel in the future.

Furthermore, broader economic trends may impact the Group's ability to retain key employees and may increase competition for highly talented employees, potentially resulting in the loss of experienced employees.

If the Group is unable to retain its existing key employees or to attract and retain skilled talent in the future, critical positions may be left vacant, which could adversely impact the delivery of strategic objectives, which could ultimately impact the Group's results of operations and financial condition.

High voluntary employee turnover may also reduce organisational performance and productivity, which may have a further adverse impact on the Group's results of operations and financial condition.

***Disruption to the supply chain and distribution channels.***

The Group has an increasingly global approach to managing its supply chain and distribution channels and is exposed to the risk of disruption to any aspect of the Group's supply chain, to suppliers' operations or to distribution channels, and the deterioration in the financial condition of a trading partner.

Such disruption may be caused by a major fire, violent weather conditions or other natural disasters that affect manufacturing or other facilities of the Group's operating subsidiaries or those of their suppliers and distributors. Although the Group seeks to maintain insurance coverage against damage resulting from natural disasters, in certain of the geographic areas where the Group operates such coverage may not be obtainable on commercially reasonable terms, if at all. Coverage may be subject to limitations or the Group may be unable to recover damages from its insurers.

Disruption may also be caused by a deterioration in labour or union relations, disputes or work stoppages or other labour-related developments within the Group or its suppliers and distributors.

In addition, the Group's operating subsidiaries may not be able to establish or maintain relationships on favourable commercial terms with their suppliers and distributors. In some markets, distribution of the Group's products is through third-party monopoly channels, often licensed by governments. The Group may be unable to renew these third-party supplier and distribution agreements on satisfactory terms for numerous reasons, including government regulations.

Furthermore, there are some product categories for which the Group does not have spare production capacity or where substitution between different production plants is very difficult. Consolidation of global suppliers and certain distributors that control large geographies may reduce the Group's availability of alternatives and negatively impact the Group's negotiating power with key suppliers and distributors.

These risks are particularly relevant in jurisdictions where the Group's manufacturing facilities are more concentrated or for certain product categories where production is more centralised.

Any disruption to the Group's supply chain and distribution channels could have an adverse effect on the results of operations and financial conditions of the Group through failures to meet shipment demand, contract disputes, increased costs and loss of market share.

***Exposure to product contamination.***

The Group may experience product contamination, whether by accident or deliberate malicious intent, during supply chain or manufacturing processes, or may otherwise fail to comply with the Group's quality standards.

Product contamination may expose the Group to significant costs associated with recalling products from the market or temporarily ceasing production. In addition, adult tobacco consumers may lose confidence in the specific brand affected by the contamination, resulting in reputational damage and a loss of sales volume and market share. In addition, the Group could be subject to liability and costs associated with civil and criminal actions as well as regulatory sanctions brought in connection with a contamination of the Group's products. Each of these results may in turn have an adverse effect on the Group's results of operations and financial condition.

***Inability to obtain adequate supplies of tobacco leaf.***

The Group purchases significant volumes of packed leaf each year. Tobacco leaf supplies are impacted by a variety of factors, including weather conditions, drought, flood and other natural disasters, growing conditions, diseases causing crop failure, climate change and local planting decisions. Tobacco production in certain countries is also subject to a variety of controls, including regulation affecting farming and production control programmes, and to competition for land use from other agriculture products. Such controls and competition can further constrain the production of tobacco leaf, raising prices and reducing supply.

Restricted availability of tobacco leaf may impact the quality of the Group's products to a level that may be perceptible by consumers and impact the Group's ability to deliver on consumer needs. Accordingly, the reduction of tobacco leaf supply may impact supply and demand of the Group's products and have a

negative impact on results of operations. Higher tobacco leaf prices may also increase the Group's costs for raw materials, which may have an adverse effect on its results of operations and financial condition.

***Failure to successfully design, implement and sustain an integrated operating model.***

The Group aims to improve profitability and productivity through supply chain improvements and the implementation of an integrated operating model and organisational structure, including standardisation of processes and centralised back-office services.

Failure by the Group to successfully design, implement and sustain the integrated operating model and organisational structure could lead to the failure to realise anticipated benefits, increased costs, disruption to operations, decreased trading performance and reduced market share. These results could in turn reduce profitability and funds available for investment by the Group in long-term growth opportunities.

**Legal, regulatory and compliance risks**

***Exposure to increasing tobacco control and regulation affecting the Group's products, prices, sales and marketing.***

The advertising, sale and consumption of tobacco products have been, and continue to be, subject to increasingly stringent restrictions, introduced by both regulation, including tax increases, and voluntary agreements.

Most regulations or potential regulatory initiatives can be categorised as follows:

- *Place*: including regulations restricting smoking in private, public and work places (e.g., public place smoking and vaping bans);
- *Product*: including regulations on the use of, or costly testing and measuring requirements for, ingredients, product design and attributes (e.g., ceilings regarding tar, nicotine and carbon monoxide yields, as well as restrictions on flavours, including menthol); product safety regulations, electrical safety regulations and reduced cigarette ignition propensity;
- *Packaging and labelling*: including regulations on health warnings and other government-mandated messages (e.g., in respect of content, positioning, size and rotation); restrictions on the use of certain descriptors and brand names; product disclosure requirements (e.g., in relation to ingredients and emissions); requirements on pack shape, size, weight and colour and mandatory plain packaging;
- Sponsorship, promotion and advertising: including partial or total bans on advertising, marketing, promotions and sponsorship and restrictions on brand sharing and using tobacco branding on non-tobacco products (so called "stretching");
- *Purchase*: including regulations on the manner in which products are sold, such as type of outlet (e.g., supermarkets and vending machines) and how they are sold (e.g., above the counter versus beneath the counter); and
- *Price*: including regulations which have implications on the prices that manufacturers can charge for their tobacco products (e.g., excise taxes and minimum prices).

The Group believes that further tobacco-control regulation is inevitable over the medium term in many of the Group's markets, and is driven by tobacco control activities undertaken by national governments and non-governmental organisations, as well as guidelines and protocols derived from the World Health Organization's Framework Convention on Tobacco Control ("FCTC"). The FCTC has led to increased efforts by tobacco control advocates and public health organisations to reduce the supply of, and

demand for, tobacco products, particularly those containing menthol and other flavours, and to encourage governments to further regulate the tobacco industry.

Many of the measures outlined in the FCTC have been or are being implemented by means of national legislation in many markets in which the Group operates. For example, the EU has adopted the revised Tobacco and Related Products Directive ("TPD2"), which, among other things, bans the use of menthol in cigarettes from 2020, in line with numerous other jurisdictions banning or restricting the use of menthol in tobacco products. In March 2018, the U.S. Food & Drug Administration ("FDA") published its Advanced Notice of Proposed Rulemaking ("ANPRM") entitled "Regulation of Flavors in Tobacco Products" to seek public comment on the role that flavours (including menthol) in tobacco products play in attracting youth. In November 2018, the FDA announced the acceleration of proposed rulemaking to seek a ban on menthol in combustible tobacco products, including cigarettes. Bans or restrictions on the use of flavoured tobacco products and menthol have also been introduced, and may be introduced in the future, at a municipal or state level in the US without undergoing federal rulemaking procedures.

Furthermore, various national or international regulatory regimes may seek to require the reduction of nicotine levels in tobacco products. In March 2018, the FDA published its ANPRM titled "Tobacco Product Standard for Nicotine Level of Combusted Cigarettes" and invited interested parties to submit comments on, among other issues, maximum nicotine limits and whether any maximum nicotine level should apply to combustible tobacco products.

Several countries, including France, Belgium and Pakistan, have sought or are seeking to prohibit certain brands and brand variants or prohibit messaging on cigarette packaging that promotes a brand or usage.

With respect to PRRPs, although a common framework for regulation and taxation has yet to emerge, the manufacture, sale, packaging and advertising of such products are being increasingly regulated. In fact, some regulators have applied or are considering applying combustible tobacco products' restrictive regulatory framework to PRRPs, such as public place vaping bans or plain packaging. Some jurisdictions have banned or are considering banning PRRPs altogether.

Existing and future tobacco control and regulation could adversely affect volume and profits as a result of restrictions on the Group's ability to sell its existing products or brands, including due to the loss of provisional sales approvals for newer existing products, such as PRRPs. Impediments to maintaining or building brand equity, could also adversely impact volume and profits. In addition, new regulation could lead to greater complexity and higher production and compliance costs. New product specifications may have a negative impact on sales volumes as consumers seek alternatives in illicit trade. All these effects may have an adverse effect on the Group's results of operations and financial conditions. The Group's share price has also experienced, and could in the future experience, shocks on the announcement or enactment of restrictive regulation.

In particular, through the acquisition of RAI, the Group acquired the Newport brand, the leading menthol cigarette brand in the US, the Group's largest single market. The sales of Newport, together with the other menthol brands of the Group's operating subsidiaries, represent a significant portion of the Group's total net sales. Any action by the FDA or any other governmental authority banning or materially restricting the use of menthol in tobacco products could have a significant negative impact on sales volumes of the Newport brand and the Group's other menthol products, which would in turn have an adverse effect on the results of operations and financial position of the Group. Similarly, regulations on nicotine levels in cigarettes and in other products that are being considered in a number of jurisdictions in which the Group operates could have a negative impact on sales volumes of the Group's products in the relevant jurisdictions.

In addition, taking into account the significant number of regulations that may apply to the Group's businesses across the world, the Group is and may in the future be subject to claims for breach of such

regulations. Even when proven untrue, there are often financial costs and reputational impacts in defending against such claims.

***Significant and/or unexpected increases or structural changes in tobacco-related taxes.***

Tobacco products are subject to high levels of taxation, including excise taxes, sales taxes, import duties and levies in most markets in which the Group operates. In many of these markets, taxes are generally increasing, but the rate of increase varies between markets and between different types of tobacco products. Increases in, or the introduction of new, tobacco-related taxes may be caused by a number of factors, including fiscal pressures, health policy objectives, and increased lobbying pressure from anti-tobacco advocates.

Significant or unexpected increases in, or the introduction of new, tobacco-related taxes or minimum retail selling prices, changes in relative tax rates for different tobacco products or adjustments to excise may result in the need for the Group to absorb such tax increases due to limits in its ability to increase prices, an alteration in the sales mix in favour of value-for-money brands or products, or growth in illicit trade, each of which could impact pricing, sales volume and profit for the Group's products.

***Failure to comply with health and safety and environmental laws.***

The Group is subject to a variety of laws, regulations and operational standards relating to health and safety and the environment. The Group may fail to assess certain risks and implement the right level of control measures or to maintain adequate standards of health and safety or environmental compliance, which could cause injury, ill health, disability or loss of life to employees, contractors or members of the public, or harm to the natural environment and local communities in which the Group operates. Insufficient information, instruction and training in the relevant areas and a lack of knowledge of the existence and/or requirements of relevant regulations, or a failure to monitor, assess and implement the requirements of new or modified legislation, may increase these risks.

Any failure by the Group to comply with applicable health and safety or environmental laws, or the exposure to the consequences of a perceived failure, could result in business disruption, reputational damage, difficulties in recruiting and retaining staff, increased insurance costs, consequential losses, the obligation to install or upgrade costly pollution control equipment, loss of value of the Group's assets, remedial costs and damages, fines and penalties as well as civil or criminal liability. Each of these results could in turn adversely impact the Group's results of operations and financial condition.

***Exposure to unfavourable tax rulings.***

The Group is subject to tax laws in a variety of jurisdictions. The Group's interpretation and application of the tax laws could differ from those of the relevant tax authority, which may subject the Group to claims for breach of such laws, including for late or incorrect filings or for misinterpretation of rules. Tax authorities in a variety of jurisdictions have assessed, and may in the future assess, the Group for historical tax claims, including interest and penalties, arising from disputed areas of tax law. The Group is currently party to tax disputes in a number of jurisdictions, some of which involve claims for amounts in the hundreds of millions of Sterling.

Please refer to the Litigation section on pages 43 to 75 for details of contingent liabilities applicable to the Group.

The Group's failure to comply with the relevant tax authority's interpretation and application of the tax laws could result in significant financial and legal penalties, including the payment of additional taxes, fines and interest in the event of an unfavourable ruling by a tax authority in a disputed area, as well as the payment of dispute costs. Disruption to the business could occur as a result of management's time being diverted away from business matters. Each of these results could negatively affect the Group's results of operations and financial condition.

***Adverse implications of proposed EU legislation on single-use plastics that will result in on-pack environmental warnings and financial implications relating to Extended Producer Responsibility ("EPR").***

The EU is in the final stages of adopting a Directive on single-use plastics which, amongst other products, will affect tobacco products with filters containing plastic (as well as filters containing plastic marketed for use with tobacco products).

Under the Directive, the Group will become subject to:

- EPR schemes for tobacco filters containing plastic; and
- On-pack marking requirements for tobacco products with filters containing plastic.

The EPR schemes will require producers to cover a number of costs associated with waste of such products. These include litter clean-up costs and costs to collect such products when discarded in public collection systems (likely litter bins and similar waste receptacles in public places). Producers must also cover transport and treatment costs. Producers are also to finance consumer awareness campaigns.

The Directive will have an impact on the Group's cigarettes, filters for other tobacco products and consumables for tobacco-heating products.

It is expected that the final text of the Directive will be published by May 2019. Prior to the anticipated implementation deadline for EPR schemes on 5 January 2023, the European Commission will issue guidelines on the criteria for the costs to clean up litter. In addition, it will adopt an Implementing Act harmonising specifications for required product markings in the first half of 2020. When transposing the Directive into national law, Member States could decide to expand its scope under their respective laws, which may subject the Group to additional regulation and financial obligations.

The financial implications of the proposed EPR schemes may have an adverse effect on the Group's results of operations and financial condition. Although unlikely, if significant space is appropriated on the packaging of some of the Group's products, this may also be an impediment to maintaining or building brand equity of the Group's products, which may in turn have a negative impact on the Group's sales volume.

***Exposure to tobacco-related and other litigation.***

The Group is involved in litigation related to its tobacco products, including legal and regulatory actions, proceedings and claims, brought against it in a number of jurisdictions. Claims brought against the Group may be based on personal injury (both individual claims and class actions), economic loss arising from the treatment of smoking and health-related diseases (such as medical recoupment claims brought by local governments), negligence, strict liability in tort, design defect, failure to warn, fraud, misrepresentation, deceptive and unfair trade practices, conspiracy, medical monitoring, and violations of antitrust and racketeering laws. Certain actions, such as certain of those in the US and Canada, involve claims in the tens or hundreds of billions of Sterling.

The Group is also involved in proceedings that are not directly related to its tobacco products, including proceedings based on environmental pollution claims.

Additional legal and regulatory actions, proceedings and claims may be brought against the Group in the future.

The Group's consolidated results of operations and financial position could be materially affected by any unfavourable outcome of certain pending or future litigation. The Group could be exposed to substantial liability, which may take the form of ongoing payments. Whether successful or not, the costs of the Group's involvement in litigation could materially increase due to costs associated with bringing proceedings and defending claims, which may also cause operational and strategic disruption by

diverting management time away from business matters. Liabilities and costs in connection with litigation could result in bankruptcy of one or more Group entities, which, in turn, could cause a material reduction in the Group's sales volume and profits. Any negative publicity resulting from these claims may also adversely affect the Group's reputation.

Please refer to the Litigation section on pages 43 to 75 for details of contingent liabilities applicable to the Group.

***Unexpected legislative changes to corporate income tax laws.***

The Group is subject to corporate income tax laws in the jurisdictions in which it operates. These laws frequently change on a prospective or retroactive basis.

Legislative changes to corporate income tax laws and regulations may have an adverse impact on the Group's corporate income tax liabilities and may lead to a material increase of the Group's overall tax rate. This could in turn negatively affect the Group's results of operations and financial condition.

***Exposure to potential liability under competition or antitrust laws.***

According to the Group's internal estimates, the Group is a market leader by volume in a number of countries in which it operates and is one of a small number of tobacco companies in certain other markets in which it operates. As a result, the Group may fail to comply with competition or antitrust laws and may be subject to investigation for alleged abuse of its position in markets in which it has significant market share or for alleged collusion with other market participants.

Failure by the Group to comply with competition or antitrust laws and investigations for violation of such laws may result in significant legal liability, fines, penalties and/or damages actions, criminal sanctions against the Group, its officers and employees, increased costs, prohibitions on conduct of the Group's business, forced divestment of brands and businesses (or parts of businesses) to competitors, director disqualifications and commercial agreements being held void. The Group may face increased public scrutiny, and the investigation or imposition of sanctions by antitrust regulation agencies for violations of competition regimes, which may subject the Group to reputational damage and loss of goodwill.

***Failure to establish and maintain adequate controls and procedures to comply with applicable securities, corporate governance and compliance regulations.***

The Group's operations are subject to a range of rules and regulations around the world. These include US securities, corporate governance and compliance laws and regulations such as the Sarbanes-Oxley Act of 2002 and the US Foreign Corrupt Practices Act of 1977, which applies to the Group's worldwide activities. While the Group continuously seeks to improve its systems of internal controls and to remedy any weaknesses identified, there can be no assurance that the policies and procedures will be followed at all times or effectively detect and prevent violations of applicable laws. In addition, the Group is subject to increasingly stringent reporting obligations under the UK regulations and the UK's Financial Reporting Council's new reporting regime.

The increased scope and complexity of applicable regulations to which the Group is subject may lead to higher costs for compliance. Failure to comply with laws and regulations may result in significant legal liability, fines, penalties, and/or damages actions, criminal sanctions against the Group, its officers and employees, and damage to the Group's reputation. Non-compliance with such regulations could also lead to a loss of the Group's listing on one or more stock exchanges.

***Loss of confidential information, including through manipulation of data by employees, and failure to comply with the European General Data Protection Regulation and other privacy laws.***

Unintended or malicious behaviour by employees, contractors, service providers and others using or managing the Group's confidential information may affect the Group's communications and operations

and result in the disclosure of such information. The lack of infrastructure or application resilience, slow or insufficient disaster recovery service levels or the installation of new systems may increase the possibility that data, including confidential, personal or other sensitive information, stored or communicated by IT systems may be corrupted, lost or disclosed.

Various privacy laws, particularly the European General Data Protection Regulation ("GDPR"), forbid the disclosure of confidential information and, among other things, impose on the Group an obligation to notify the supervisory authority of a breach of confidential information. Fraudulent abuse of data and the inappropriate disclosure of confidential information may cause the Group to fail to meet statutory or regulatory requirements regarding data protection, such as the GDPR. The enforcement of regulations like the GDPR may also encourage compliance regimes and authorities in other jurisdictions in which the Group operates to enact similar regulations which would further increase these risks.

The loss of confidential information may result in civil or criminal legal liability and prosecution by enforcement bodies, which may subject the Group to the imposition of material fines and/or penalties and the costs associated with defending these claims. In addition, failure to comply with the GDPR or other privacy laws may result in the relevant regulator ordering the Group to cease processing activities, which would result in a significant operational disruption.

Inappropriate disclosure of confidential information or violation of the GDPR or other privacy laws may also result in significant reputational harm and public scrutiny, a loss of investor confidence and reduced third-party reliance on the Group's information technology systems. In addition, restoration and remediation of disclosed confidential information may be costly, difficult or even impossible. These consequences may adversely impact the Group's results of operations and financial condition.

***Failure to comply with product regulations due to uncertainty surrounding the proper interpretation and application of those regulations.***

The interpretation and application of regulations concerning the Group's products, such as TPD2, may be subject to debate and uncertainty. This includes uncertainty over product classifications and restrictions on advertising. In particular with respect to the developing category of PRRPs, which has grown in size and complexity in a relatively short period of time, a consensus framework for the interpretation and application of existing regulation, such as the rules concerning nicotine-containing liquids used in vapour products, has yet to emerge.

The continuously changing and evolving landscape of regulation concerning the Group's products contributes to the uncertainty surrounding interpretation and application and creates a risk that the Group may misinterpret or fail to comply with developing regulations in the various jurisdictions in which it operates, or becomes subject to enforcement actions from regulators. With the continuous changing of product cycle plans, expansion to new markets and innovations, there is a risk that such changes and launches fail to comply with the relevant regulations, including pre-approval and/or pre-registration requirements. For example, some governments have intentionally banned or are seeking to ban novel tobacco products and products containing nicotine, while others would need to amend their existing legislation to permit their sale. Even in countries where the sale of such products is currently permitted, some governments have adopted, or are seeking to adopt, bans on PRRPs or restrictions on certain flavours.

The significant number of emerging regulations and the uncertainty surrounding their interpretation and application may subject the Group to claims for breach of such regulations. Financial costs of such enforcement actions include financial penalties, product recalls and litigation costs, and entail a significant risk of adverse publicity and damage to the Group's reputation and goodwill.

***Failure to uphold high standards of corporate behaviour, including under anti-bribery and anti-corruption laws.***

The Group expects its employees to uphold a high standard of corporate behaviour and is subject to various anti-corruption laws and regulations ("Anti-Corruption Laws") that generally prohibit its employees, suppliers, distributors and agents from engaging in certain activities to obtain or retain business or to influence a person working in an official capacity. The Group's employees may fail to meet this standard or may violate applicable Anti-Corruption Laws.

For example, the Group is investigating, through external legal advisers, allegations of misconduct and is liaising with the UK Serious Fraud Office ("SFO") and other relevant authorities. It was announced in August 2017 that the SFO had opened an investigation in relation to BAT, its subsidiaries and associated persons. The Group continues to cooperate with the SFO's investigation and a sub-Committee of the Board has oversight of these matters. The outcomes will be decided by the relevant authorities or, if necessary, the courts. It is too early to predict the outcomes, but these could include the prosecution of individuals and/or of a Group company or companies. Accordingly, the potential for fines, penalties or other consequences cannot currently be assessed. As the investigation is ongoing, it is not yet possible to identify the timescale in which these matters might be resolved.

Failure of the Group to comply with Anti-Corruption Laws or to deploy and maintain robust internal processes and policies could result in significant fines and penalties, criminal sanctions against the Group and its officers and employees, increased costs, prohibitions or other limitations on the conduct of the Group's business and reputational harm and may subject the Group to claims for breach of such regulations.

Even when proven untrue, there are often financial costs, time demands and reputational impacts associated with investigating and defending against such claims, in particular accusations disseminated broadly through social media.

***Imposition of sanctions under sanctions regimes or similar international, regional or national measures.***

National and international sanctions regimes or similar international, regional or national measures may affect jurisdictions in which the Group operates or third parties with which it may have commercial relationships.

In particular, the Group has operations in a number of countries that are subject to various sanctions, including Iran, Sudan and Syria. Operations in these countries expose the Group to the risk of significant financial costs and disruption in operations that may be difficult or impossible to predict or avoid or the activities could become commercially and/or operationally unviable.

National and international sanctions regimes may also affect third parties with which the Group has commercial relationships and could lead to supply and payment chain disruptions.

As a result of the limitations imposed by sanctions, it may become commercially and/or operationally unviable for the Group to operate in certain jurisdictions and the Group may be required to exit existing operations in such jurisdictions. The Group may also experience difficulty in sourcing materials or importing products and be exposed to increased costs. In addition, the costs of complying with sanctions may increase as a result of changes to existing sanctions regimes.

Any failure to comply with sanctions regimes or similar international, regional or national measures may result in significant legal liability, fines and/or penalties, criminal sanctions against the Group, its officers and employees, damage to commercial relationships and reputational harm. Reputational harm may result regardless of whether the Group complies with imposed sanctions.

## Economic and financial risks

### *Foreign exchange rate exposures.*

The Group's reporting currency is the Sterling. The Group is exposed to the risk of fluctuations in exchange rates affecting the translation of net assets and earned profits of overseas subsidiaries into the Group's reporting currency. These translational exposures are not normally hedged.

Exposures also arise from the foreign currency denominated trading transactions undertaken by subsidiaries and dividend flows. Where not offset by opposing flows, these exposures are generally hedged according to internal policies, but hedging of exposure to certain currencies might not be possible due to exchange controls, limited currency availability or prohibitive costs, and errors in hedging may occur. Fiscal policy divergence in relation to interest rates between key markets may also increase these risks.

During periods of exchange rate volatility, the impact of exchange rates on the Group's results of operations and financial condition can be significant. Fluctuations in exchange rates of key currencies against the Sterling may result in volatility in the Group's reported earnings per share, cash flow and balance sheet. Furthermore, the dividend paid by the Group may be impacted if the payout ratio is not adjusted. Differences in translation between earnings and net debt may also affect key ratios used by credit rating agencies, which may have an adverse effect on the Group's credit ratings.

In addition, volatility and/or increased costs in the Group's business due to transactional foreign exchange rate exposures may adversely affect operating margins and profitability and attempts to increase prices to offset such increases could adversely impact sales volumes.

### *Inability to obtain price increases and exposure to risks from excessive price increases and value chain erosion.*

Annual manufacturers' price increases are among the key drivers in increasing market profitability. However, the Group has in the past been, and may in the future be, unable to obtain such price increases as a result of increased regulation; increased competition from illicit trade; stretched consumer affordability arising from deteriorating political and economic conditions and rising prices; sharp increases or changes in excise structures; and competitors' pricing.

As the PRRP market continues to develop, the Group may face erosion in the value chain for PRRPs through lower market prices, excise taxes, high retail trade margins or high production costs that make PRRPs less competitive versus combustible tobacco products.

In addition, the Group faces the risk that price increases it has conducted in the past, and may conduct in the future, may be excessive and not find adequate adult tobacco consumer acceptance.

If the Group is unable to obtain price increases or adversely affected by impacts of excessive price increases, it may be unable to achieve its strategic growth metrics, have fewer funds to invest in growth opportunities, and, in the case of excessive price increases, be faced with quicker reductions in sales volumes than anticipated due to accelerated market decline, down-trading (switching to a cheaper brand) and increased illicit trade. These in turn impact the Group's market share, results of operations and financial condition.

In addition, erosion in the value chain for PRRPs could have a negative impact on the Group's sales volume or pricing for these products. High excise could dampen demand for PRRPs or result in lower profit margins. Lower market prices, high retail trade margins or increases in production costs could also negatively impact profit margins or lead to uncompetitive pricing.

***Effects of declining consumption of legitimate tobacco products and a tough competitive environment.***

Evidence of market contraction and the growth of illicit trade of tobacco products is apparent in several key global markets in which the Group operates. This decline is due to multiple factors, including increases in excise taxes leading to continued above-inflation price rises, changes in the regulatory environment, the continuing difficult economic environment in many countries impacting consumers' disposable incomes, the increase in the trade of illicit tobacco products, health concerns, a decline in the social acceptability of smoking and an increase in PRRP uptake.

The Group competes on the basis of product quality, brand recognition, brand loyalty, taste, innovation, packaging, service, marketing, advertising and price. The Group is subject to highly competitive conditions in all aspects of its business. The competitive environment and the Group's competitive position can be significantly influenced by the prevailing economic climate, consumers' disposable income, regulation, competitors' introduction of lower-price or innovative products, higher tobacco product taxes, higher absolute prices, governmental action to increase minimum wages, employment costs, interest rates and increase in raw material costs.

Furthermore, the Group is subject to substantial payment obligations under the State Settlement Agreements, which adversely affect the ability of the Group to compete in the US with manufacturers of deep-discount cigarettes that are not subject to such substantial obligations.

Any future decline in the demand for legitimate tobacco products could have an adverse effect on the Group's results of operations and financial conditions.

In a tough competitive environment, factors such as market size reduction, customer down-trading illicit trade and competitors aggressively taking market share through price re-positioning or price wars generally reduce the overall profit pool of the market and may impact the Group's profits. These risks may also lead to a decline in sales volume of the Group, loss of market share, erosion of its portfolio mix and reduction of funds available to it for investment in growth opportunities.

***Funding, liquidity and interest rate risks.***

The Group cannot be certain that it will have access to bank financing or to the debt and equity capital markets at all times and is therefore subject to funding and liquidity risks. In addition, the Group's access to funding may be affected by restrictive covenants to which it is subject under some of its credit facilities.

The Group is also exposed to increases in interest rates in connection with both existing floating rate debt and future debt refinancings. The current economic environment, with historically low interest rates, increases the likelihood of higher interest rates in the future.

Furthermore, the Group operates in several markets closely regulated by governmental bodies that intervene in foreign exchange markets by imposing limitations on the ability to transfer local currency into foreign currency and introducing other currency controls that expose cash balances to devaluation risks or that increase costs to obtain hard currency. As a result, the Group's operational entities in these markets may be restricted from using end market cash resources to pay for imported goods, dividend remittances, interest payments and royalties. The inability to access end market cash resources in certain markets contributes to the Group's funding and liquidity risks.

Adverse developments in the Group's funding, liquidity and interest rate environment may lead to shortages of cash and cash equivalents needed to operate the Group's business and to refinance its existing debt. Inability to fund the business under the Group's current capital structure, failure to access funding and foreign exchange or increases in interest rates may also have an adverse effect on the Group's credit rating, which would in turn result in further increased funding costs and may require the Group to issue equity or seek new sources of capital. Non-compliance with the Group's covenants under certain credit facilities could lead to an acceleration of its debt. All these factors may have material

adverse effects on the Group's results of operations and financial conditions. These conditions could also lead to underperforming bond prices and increased yields.

In the case of funding or liquidity constraints, the Group may also suffer reputational damage due to its perceived failure to manage the financial risk profile of its business, which may result in an erosion of shareholder value reflected in an underperforming share price, and/or underperforming bond prices and higher yields. In addition, the Group's ability to finance strategic opportunities or respond to threats may be impacted by limited access to funds.

***Failure to achieve growth through mergers, acquisitions and joint ventures.***

The Group's growth strategy includes a combination of organic growth as well as mergers, acquisitions and joint ventures. The Group may be unable to acquire attractive businesses on favourable terms and may inappropriately value or otherwise fail to identify or capitalise on growth opportunities. The Group may not be able to deliver strategic objectives and revenue improvements from business combinations, successfully integrate businesses it acquires or establishes, or obtain appropriate regulatory approvals for business combinations. Risks from integration of businesses also include the risk that the integration may divert the Group's focus and resources from its other strategic goals.

Additionally, the Group could be exposed to financial, legal or reputational risks if it fails to appropriately consider any compliance or antitrust aspects of a transaction. Further, the Group has certain uncapped indemnification obligations in connection with divestitures and could incur similar obligations in the future.

Any of the foregoing risks could result in increased costs, decreased revenues or a loss of opportunities and have an adverse effect on the Group's results of operations and financial condition, and in the case of a breach of compliance or antitrust regulation, could lead to reputational damage, fines and potentially criminal sanctions.

The Group may become liable for claims arising in respect of conduct prior to any merger or acquisition of businesses if deemed to be a successor to the liabilities of the acquired company or indemnification claims relating to divestitures, and any resulting adverse judgment against the Group may adversely affect its results of operations and financial condition.

Please refer to the Litigation section on pages 43 to 75 for details of contingent liabilities applicable to the Group.

***Unforeseen underperformance in key global markets.***

A substantial majority of the Group's profit from operations is based on its operations in certain key markets, including the US. A number of these markets, are declining for a variety of factors, including price increases, restrictions on advertising and promotions, smoking prevention campaigns, increased pressure from anti-tobacco groups, migration to smokeless products and private businesses adopting policies that prohibit or restrict, or are intended to discourage, smoking and tobacco use.

Economic and political factors affecting the Group's key markets include the prevailing economic climate, governmental austerity measures, levels of employment, inflation, governmental action to increase minimum wages, employment costs, interest rates, raw material costs, consumer confidence and consumer pricing.

Any change to the economic and political factors in any of the key markets in which the Group operates could affect consumer behaviour and have an impact on the Group's results of operations and financial condition.

***Increases in net liabilities under the Group's retirement benefit schemes.***

The Group currently maintains and contributes to defined benefit pension plans and other post-retirement benefit plans that cover various categories of employees and retirees worldwide. The Group's obligations

to make contributions under these arrangements may increase in the case of increases in pension liabilities, decreases in asset returns, salary increases, inflation, decreases in long-term interest rates, increases in life expectancies, changes in population trends and other actuarial assumptions.

Higher contributions to the Group's retirement benefit schemes could have an adverse impact on the Group's results of operations, financial condition and ability to raise funds.

***Adverse consequences of the UK's potential exit from the EU.***

The consequences of the UK's potential exit from the EU are uncertain, but could include reductions in the size of the UK market, downtrading as a result of affordability pressure/weakening economy in the UK, an increased cost of doing business in the UK, higher cost of capital in the UK and both transactional and translational foreign exchange impacts, disruption to supply of materials due to changed customs procedures or duties, increased complexity and scrutiny on tax-related activities, or other changes to UK law. In addition, the UK's exit from the EU may impose restrictions on employment and cross-border movements.

Any of the consequences of the UK's exit from the EU may have a negative effect on the Group's results of operations and financial conditions. In addition, any restrictions on employment and cross border movements may result in additional employment and hiring costs and reduce the Group's ability to attract and retain highly talented individuals from the EU in the UK.

**Product pipeline, commercialisation and IP risks**

***Inability to predict consumers' changing behaviours and launch innovative products that offer adult tobacco consumers meaningful value-added differentiation.***

The Group focuses its research and development activities on both creating new products, including PRRPs, and maintaining and improving the quality of its existing products. In a competitive market, the Group believes that innovation is key to growth. The Group considers that one of its key challenges in the medium- and long-term is to provide adult tobacco consumers with high-quality products that take into account their changing preferences and expectations, while complying with evolving regulation.

The Group is in the early stages of development and roll-out of its PRRP portfolio, which requires significant initial investment. The Group may be unsuccessful in developing and launching innovative products or maintaining and improving the quality of existing products across both combustibles and PRRPs that offer consumers meaningful value-added differentiation. The Group may fail to keep pace with innovation in its sector or changes in consumer expectations. Competitors may be more successful in predicting changing consumer and developing and rolling-out consumer relevant products than the Group and may be able to do so more quickly and at lower costs than the Group.

In addition, the Group devotes considerable resources to the research and development of innovative products, in particular certain PRRPs that may have the potential to reduce the risks of smoking-related diseases. The complex nature of research and development programmes necessary to satisfy emerging regulatory and scientific requirements creates a substantial risk that these programmes will fail to demonstrate health-related claims regarding PRRPs or to achieve adult tobacco consumer, regulatory and scientific acceptance.

Furthermore, the regulatory environment impacting non-combustible tobacco products, vapour products and other non-tobacco nicotine products, including classification of products for regulatory and excise purposes, is still developing and it cannot be predicted whether regulations will permit the marketing of such PRRPs in any given market in the future. Categorisation as medicines, for example, and restrictions on advertising could stifle innovation, increase complexity and costs and significantly undermine the commercial viability of these products. Alternatively, categorisation of any PRRPs as tobacco products for instance, could result in the application of onerous regulation, which could further stifle uptake.

The inability to timely develop and roll-out innovations or products in line with consumer demand, including any failure to predict changes in adult tobacco consumer and societal behaviour and expectations and to fill gaps in the product portfolio, as well as the risk of poor product quality, could lead to missed opportunities, under- or over-supply, loss of competitive advantage, unrecoverable costs and/or the erosion of the Group's consumer base or brand equity.

Restrictions on packaging and labelling or on promotion and advertising could impact the Group's ability to communicate its innovations and product differences to adult tobacco consumers, leading to unsuccessful product launches. An inability to provide robust scientific results sufficient to substantiate health-related product claims poses a significant threat to the ability to launch innovative products and comply with emerging regulatory and legal regimes.

The occurrence of any of the above effects could in turn have an adverse effect on the Group's results of operations and financial condition and cause the Group to fail to deliver on its strategic growth plans.

***Exposure to risks associated with intellectual property rights, including the failure to identify, protect and prevent infringement of the Group's intellectual property rights and potential infringement of, or the failure to retain licences to use, third-party intellectual property rights.***

The Group relies on trademarks, patents, registered designs, copyrights and trade secrets. The brand names under which the Group's products are sold are key assets of its business. The protection and maintenance of the reputation of these brands is important to the Group's success. Protection of intellectual property rights is also important in connection with the Group's innovative products, including PRRPs.

The Group is exposed to the risk of infringements of its intellectual property rights by third parties due to limitations in judicial protection, failure to identify, protect and register its innovations and/or inadequate enforceability of these rights in some markets in which the Group operates.

Some brands and trademarks under which the Group's products are sold are licensed for a fixed period of time in certain markets. If any of these licences is terminated or not renewed after the end of the applicable term, the Group would no longer have the right to use, and to sell products under, those brand(s) and trademark(s).

In addition, as third-party rights are not always identifiable, the Group may be subject to claims for infringement of third-party intellectual property rights.

Any erosion in the value of the Group's brands, or failure to obtain or maintain adequate protection of intellectual property rights for any reason, or the loss of brands or trademarks under licence to Group companies, may have a material adverse effect on the Group's market share, results of operations and financial condition. Any inability to appropriately protect the Group's products and key innovations will also limit its growth and affect competitiveness and return on innovation investment.

Any infringement of third-party intellectual property rights could result in interim injunctions, product recalls, legal liability and the payment of damages, any of which may disrupt operations, negatively impact the Group's reputation and have an adverse effect on its results of operations and financial condition.

## Factors which are material for the purpose of assessing the market risks associated with the Notes issued under the Programme

### BAT is a holding company

BAT is a holding company dependent on its subsidiaries and associates for dividends and other payments to service the guarantee and the Notes respectively, and the other Obligors are special finance

subsidiaries without operating company subsidiaries and are dependent on payments from other Group members to service their obligations.

BAT and the other Obligors do not directly conduct business operations. Consequently, the Obligors are dependent on dividend and other payments from Group members to make payments on the Notes or the Guarantees. Holders of the Notes will not have any direct claim on the cash flow or assets of any operating subsidiaries or BAT's associated companies. The operating subsidiaries in the Group and associated companies will have no obligation, contingent or otherwise, to pay amounts due under the Notes or the Guarantees, or make funds available to BAT or the other Obligors for those payments.

The ability of subsidiaries or associates to make dividends or other payments will depend on their cash flows and earnings which, in turn, will be affected by all of the factors discussed herein. In addition, under the corporate law of many jurisdictions, including the United Kingdom, the ability of some subsidiaries and associates to pay dividends is limited to the amount of distributable reserves of such companies.

**The Notes are unsecured obligations of each Issuer and rank behind secured obligations on insolvency**

Holders of secured obligations of each Issuer will have claims that are prior to the claims of holders of the Notes to the extent of the value of the assets securing those other obligations. The Notes are effectively subordinated to secured indebtedness to the extent of the value of the assets securing those other obligations. In the event of any distribution of assets or payment in any foreclosure, dissolution, winding-up, liquidation, reorganisation, or other bankruptcy proceeding, the assets securing the claims of secured creditors will be available to satisfy the claims of those creditors, if any, before they are available to unsecured creditors, including the holders of the Notes. In any of the foregoing events, there is no assurance to holders of the Notes that there will be sufficient assets to pay amounts due on the Notes. As a result, holders of Notes may receive less, rateably, than holders of any secured obligations.

**The trading market for debt securities may be volatile and may be adversely impacted by many events**

The market for debt securities is influenced by the economic and market conditions, interest rates, currency exchange rates and inflation rates in Europe and other industrialised countries and areas. There can be no assurance that events in Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of Notes or that economic and market conditions will not have any other adverse effect.

**An active trading market for the Notes may not develop**

There can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained or remain liquid. If an active trading market for the Notes does not develop or is not maintained, the market or trading price and liquidity of the Notes may be adversely affected. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies, or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes. If additional and competing products are introduced in the markets, this may adversely affect the value of the Notes.

**The Notes may be redeemed prior to maturity**

In the event that an Issuer would be required to pay additional amounts in respect of any Notes due to any withholding as provided in Condition 7 of the Terms and Conditions of the Notes, such Issuer may redeem all of the Notes then outstanding in accordance with the Terms and Conditions of the Notes.

The Final Terms for a particular issue of Notes may provide for early redemption at the option of the relevant Issuer. Such right of termination is often provided for Notes issued in periods of high interest rates. If the market interest rates decrease, the risk to holders that the relevant Issuer will exercise its right of termination increases. As a consequence, the yields received upon redemption may be lower than expected, and the redeemed face amount of the Notes may be lower than the purchase price for the Notes paid by the holder. As a result, the holder may not receive the total amount of the capital invested. In addition, investors that choose to reinvest monies they receive through an early redemption may be able to do so only in securities with a lower yield than the redeemed Notes.

**A holder's actual yield on the Notes may be reduced from the stated yield by transaction costs**

When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the Notes. For instance, credit institutions as a rule charge their clients for their own commissions which are either fixed minimum commissions or pro-rata commissions depending on the order value. To the extent that additional - domestic or foreign - parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, holders must take into account that they may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of securities (direct costs), holders must also take into account any follow-up costs (such as custody fees). Investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

**A holder's effective yield on the Notes may be diminished by the tax impact on that holder of its investment in the Notes**

Payments of interest on the Notes, or profits realised by the holder upon the sale or repayment of the Notes, may be subject to taxation in the holder's home jurisdiction or in other jurisdictions in which it is required to pay taxes. Certain general tax considerations which may be relevant to holders are summarised under the section entitled "Taxation" below. However, this summary does not constitute tax advice and is not intended to be exhaustive. Furthermore, the tax impact on an individual holder may differ from the situation described for holders generally.

**Dutch tax risk related to approach of the Dutch government on tax avoidance**

On 10 October 2017, the Dutch government released its policy statement (*Regeerakkoord 2017-2021 "Vertrouwen in de toekomst"*) which does not include concrete legislative proposals, but sets out a large number of policy intentions of the Dutch government. In the policy statement it was announced that The Netherlands will introduce a new conditional withholding tax on interest payments paid to low-tax jurisdictions.

In a letter to the Dutch parliament dated 23 February 2018, the Dutch Under-Minister of Finance published more details about the proposed introduction of a withholding tax on interest payments. The letter states that the interest withholding tax would apply to interest paid by a Dutch entity within a group to entities that are resident (i) in a jurisdiction with a low statutory rate or (ii) in a jurisdiction included in the EU list of non-cooperative jurisdictions.

In addition, the letter states that measures will be taken to counteract 'abusive situations' (*misbruiksituaties*). According to the letter, abusive situations include a situation where a payment of interest is not made directly to a low-tax or non-cooperative jurisdiction, but where such interest indirectly reaches such jurisdiction by means of an artificial construction.

In his letter, the Dutch Under-Minister of Finance announced that it is intended for the withholding tax on interest payments to be effective from 2021 and that a legislative proposal will be submitted to the Dutch parliament in 2019. This was reiterated by the Dutch Under-minister of Finance in one of the legislative proposals published on budget day 2018 (*Prinsjesdag 2018*).

The exact scope of the proposed legislation is not yet certain. Therefore, it cannot be excluded that the envisaged interest withholding tax could have a wider application and, as such, it could potentially be applicable to payments under the Notes. If such payments become subject to Dutch withholding tax under the envisaged legislation, the relevant Issuer or Guarantor, as the case may be, may be required to pay Additional Amounts (as set out in Condition 7 of "Terms and Conditions of the Notes") which may give rise to an event whereby such Issuer may be entitled to redeem the Notes (pursuant to its option under Condition 6 of "Terms and Conditions of the Notes").

**Exchange rate risks and exchange controls**

The relevant Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

**Change in value of Fixed Rate Notes**

Investors in Fixed Rate Notes are exposed to the risk that subsequent changes in interest rates may adversely affect the value of the Notes.

**Investors will not be able to calculate in advance their rate of return on Floating Rate Notes**

A key difference between Floating Rate Notes and Fixed Rate Notes is that interest income on Floating Rate Notes cannot be anticipated. Due to varying interest income, investors are not able to determine a definite yield of Floating Rate Notes at the time they purchase them, so that their return on investment cannot be compared with that of investments having longer fixed interest periods. If the terms and conditions of the Notes provide for frequent interest payment dates, investors are exposed to the reinvestment risk if market interest rates decline. That is, investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing. In addition, an Issuer's ability to issue Fixed Rate Notes may affect the market value and secondary market (if any) of the Floating Rate Notes (and vice versa).

**Zero coupon notes are subject to higher price fluctuations than non-discounted notes**

Changes in market interest rates generally have a substantially stronger impact on the prices of zero coupon notes than on the prices of ordinary notes because the discounted issue prices are substantially below par. If market interest rates increase, zero coupon notes can suffer higher price losses than other notes having the same maturity and credit rating.

**Foreign currency notes expose investors to foreign exchange risk as well as to issuer risk**

As purchasers of foreign currency notes, investors are exposed to the risk of changing foreign exchange rates. This risk is in addition to any performance risk that relates to the Issuer or the type of Note being issued.

**Notes issued at a substantial discount or premium**

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

**The Group may incur substantially more debt in the future**

The Group may incur substantial additional indebtedness in the future, including in connection with future acquisitions, some of which may be secured by some or all of its assets. The terms of the Notes will not limit the amount of indebtedness the Group may incur. Any such incurrence of additional indebtedness could exacerbate the related risks that the Group faces.

**Trading in the Clearing Systems**

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination of €100,000 plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of such minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations. If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

**Credit ratings may not reflect all risks**

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

**Risks related to the structure of a particular issue of Floating Rate Notes**

Reference Rates and indices, including interest rate benchmarks, such as LIBOR and EURIBOR (each as defined in Condition 4(b)(ii)), which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("Benchmarks"), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. The continuation of LIBOR in its current form (or at all) after 2021 cannot be guaranteed.

Any changes to the administration of, or the methodology used to obtain, LIBOR or EURIBOR or the emergence of alternatives to LIBOR or EURIBOR as a result of these reforms, may cause LIBOR or EURIBOR to perform differently than in the past or to be discontinued, or there could be other consequences which cannot be predicted. The potential discontinuation of LIBOR or EURIBOR or changes to its administration could require changes to the way in which the Rate of Interest is calculated in respect of any Notes referencing or linked to LIBOR or EURIBOR. The development of alternatives to LIBOR or EURIBOR may result in Notes linked to or referencing LIBOR or EURIBOR performing differently than would otherwise have been the case if such alternatives to LIBOR or EURIBOR had not

developed. Any such consequence could have a material adverse effect on the value of, and return on, any Notes referencing or linked to LIBOR or EURIBOR.

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR or EURIBOR, (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, including the possibility that the Rate of Interest could be set by reference to offered quotations from banks communicated to the Agent, a successor rate or an alternative reference rate and that such successor rate or alternative reference rate will be adjusted (all as determined by the Issuer following consultation with an Independent Adviser). In certain circumstances, the ultimate fallback of interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may in result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser, the relevant fallback provisions may not operate as intended at the relevant time. Further, if a successor rate or an alternative reference rate is determined by the Issuer, the Terms and Conditions provide that the Issuer may vary the Terms and Conditions and/or the Trust Deed as necessary to ensure the proper operation of such rate, without the consent or approval of the Noteholders.

## BATIF

### Incorporation and business

BATIF was incorporated as a private limited company under the laws of England and Wales on 10 July 1972 with registration number 1060930 and was re-registered as a public limited company on 8 September 1981. BATIF is domiciled in the United Kingdom. BATIF has an issued share capital of £231,000,000 represented by shares of £1 each.

### Organisational structure

BATIF is a wholly-owned subsidiary of BAT and its principal function is to operate as a financing company for the Group.

B.A.T Finance B.V. and BATIF Dollar Limited are subsidiaries of BATIF. On 28 February 2019, BATIF acquired BATNF from a fellow Group company.

### Administrative, management and supervisory bodies of BATIF

#### Directors

The following is a list of the Directors of BATIF:

| Name | Function |
|---|---|
| A.J. Barrett | Director |
| S.G. Dale | Director |
| P. McCrory | Director |
| J.B. Stevens | Director |
| N.A. Wadey | Director |

None of the Directors listed above performs activities outside the Group which are significant with respect to the Group.

The business address of the Directors of BATIF is Globe House, 4 Temple Place, London WC2R 2PG.

**Administrative, management and supervisory bodies' conflicts of interest**

There are no potential conflicts of interest between any duties to BATIF of the Directors listed above and/or their private interests and other duties.

## BATNF

### Incorporation and business

BATNF was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of The Netherlands on 23 April 2014. It has its statutory seat (*statutaire zetel*) in Amstelveen and its registered office at Handelsweg 53A, 1181 ZA Amstelveen, The Netherlands. BATNF is registered with the Trade Register (*Handelsregister*) of the Chamber of Commerce under number 60533536. BATNF is domiciled in The Netherlands. BATNF has an issued share capital of €18,000 represented by shares of €450 each.

### Organisational structure

BATNF is a wholly-owned subsidiary of BATIF and its principal function is to operate as a financing company for the Group.

BATNF does not have any subsidiary entities.

### Administrative, management and supervisory bodies of BATNF

#### Directors

The following is a list of Directors of BATNF:

| Name | Function |
|---|---|
| J.E.P. Bollen | Director |
| D.P.I. Booth | Director |
| H.M.J. Lina | Director |
| J.C. Nooij | Director |
| N.A. Wadey | Director |
| M. Wiechers | Director |

None of the Directors listed above performs activities outside the Group which are significant with respect to the Group.

Save for D.P.I. Booth and N.A. Wadey, each of whose business address is Globe House, 4 Temple Place, London WC2R 2PG, the business address of the Directors of BATNF is Handelsweg 53A, 1181 ZA Amstelveen, The Netherlands.

#### Administrative, management and supervisory bodies' conflicts of interest

There are no potential conflicts of interest between any duties to BATNF of the Directors listed above and/or their private interests and other duties.

## BATCAP

### Incorporation and business

BATCAP was incorporated with limited liability under the laws of the State of Delaware, United States of America on 6 April 1981. BATCAP is domiciled in the State of Delaware. BATCAP has an authorised and issued share capital of U.S.$2,000 represented by two thousand shares of U.S.$1 each.

### Organisational structure

BATCAP is a wholly-owned indirect subsidiary of BAT and its principal function is to operate as a financing company for the Group.

BATCAP does not have any subsidiary entities.

### Administrative, management and supervisory bodies of BATCAP

#### Directors

The following is a list of Directors of BATCAP:

| Name | Function |
|---|---|
| B.T. Harrison | Director |
| T.J. Hazlett | Director |
| P. McCrory | Director |
| N.A. Wadey | Director |
| J.R. Whitener | Director |

None of the Directors listed above performs activities outside the Group which are significant with respect to the Group.

Save for P. McCrory and N.A. Wadey, whose business address is Globe House, 4 Temple Place, London WC2R 2PG, the business address of the Directors of BATCAP is 103 Foulk Road, Suite 120, Wilmington, Delaware 19803, United States of America.

#### Administrative, management and supervisory bodies' conflicts of interest

There are no potential conflicts of interest between any duties to BATCAP of the Directors listed above and/or their private interests and other duties.

## BAT AND THE GROUP

### History and development

BAT was incorporated on 23 July 1997 under the laws of England and Wales with registration number 03407696 as a public limited company. BAT was registered as an external company in the Republic of South Africa on 13 October 2008 with the registration number 2008/023963/10 and its representative office in South Africa is located at 34 Alexander Street, Stellenbosch 7600, South Africa (P.O. Box 631, Cape Town 8000, South Africa). BAT is domiciled in the United Kingdom. BAT is the parent holding company for the Group.

The financial information set out in the section below headed “British American Tobacco” has been extracted without material adjustment from the annual report and consolidated financial statements of BAT for the financial year ended 31 December 2018 prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), IFRS as adopted by the European Union (“EU”) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. IFRS as adopted by the EU differs in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group’s consolidated financial statements for the periods presented.

### British American Tobacco

BAT is the parent holding company of the Group, a leading, multi-category consumer goods company that provides tobacco and nicotine products to millions of consumers around the world. According to the Group’s internal estimates, the Group is a market leader by volume in more than 50 countries, producing the cigarette chosen by one in eight of the world's one billion smokers. Effective 1 January 2018, the Group, excluding the Group’s associated undertakings, was organised into four regions, being the United States (US – RAI), Asia-Pacific and the Middle East (APME), Americas and Sub-Saharan Africa (AmSSA) and Europe and North Africa (ENA). The Group has a devolved structure, with each local company having responsibility for its operations.

The Group’s range of combustible products covers all segments, from value-for-money to premium with a portfolio of international, regional and local tobacco brands to meet a broad array of adult tobacco consumer preferences wherever the Group operates. The Group is investing in building a portfolio of potentially less harmful tobacco and nicotine products alongside its traditional tobacco business – including vapour and tobacco heating products (“THPs”) in the Next Generation Products (“NGP”) category, and, in the oral tobacco and nicotine products category, products such as snus, tobacco-free nicotine pouches and moist snuff. Collectively, the Group refers to these products as its potentially reduced-risk products (“PRRPs”). The Group’s strategic portfolio of brands comprises the Group’s strategic combustible brands being Kent, Dunhill, Lucky Strike, Pall Mall, Rothmans, Camel, Newport and Natural American Spirit. The strategic portfolio also includes PRRPs, including modern and traditional oral tobacco brands, such as Epok, Lyft, Granit, Mocca, Grizzly, Camel Snus and Kodiak; vapour brands, such as Vype, Vuse, CHIC, VIP and Ten Motives; and THP brands, such as glo and neo. The cigarette portfolio also includes other international and local cigarette brands, such as Vogue, Viceroy, State Express 555, Benson & Hedges, Peter Stuyvesant, Shuang Xi, Kool, and Craven A. The Group manages a globally integrated supply chain and its products are distributed to retail outlets worldwide.

Adjusted profit from operations for 2018 increased to £10,347 million, compared with £7,929 million in 2017. The Group profit for the year 2018 was £6,210 million, compared with £37,656 million in 2017.

Strategic cigarette and THP volumes increased by 17.9 per cent. in 2018 to 451 billion (382 billion in 2017).

## Significant Changes in the Group

On 25 July 2017, the Group announced the completion of the acquisition of the remaining 57.8 per cent. of RAI not already owned by the Group for a consideration of £41.8 billion. RAI ceased to be reported as an associate and has been consolidated as a wholly-owned subsidiary from the acquisition date. RAI shareholders received, for each share of RAI common stock, U.S.$29.44 in cash, without interest, and 0.5260 BAT ordinary shares represented by BAT ADSs listed on the New York Stock Exchange. The fair value of consideration paid to RAI shareholders was £41,770 million. Included in the fair value of consideration paid to RAI shareholders is £22,828 million of non-cash consideration of which £22,773 million arises from the issue of BAT ordinary shares. In accordance with IFRS 3, the step-acquisition of RAI has been accounted for as if the Group has contributed its previously held equity interest in RAI at fair value as part of the consideration for acquiring 100 per cent. of the net assets of RAI. The value attributable to BAT's shareholding was £30,145 million, making the total acquisition price £71,915 million. The difference between the fair value and the carrying value of the previously held equity interest has been recognised as a gain in the income statement.

The goodwill of £34,280 million and brands and similar intangibles of £75,482 million were recognised in the transaction. Goodwill on the acquisition of the business represents a strategic premium to enter the United States market as well as synergies and cost savings that are anticipated to be realised post-acquisition. Included in the fair value of consideration paid to RAI shareholders is £22,828 million of non-cash consideration of which £22,773 million arises from the issue of BAT ordinary shares. Acquisition related costs of £130 million (2016: £11 million) have been expensed as part of other operating expenses within restructuring and integration costs. In addition, the Group incurred £153 million of financing costs related to the acquisition, and the Group's share of costs net of tax incurred by RAI as an associate was £33 million. In the period from 25 July 2017 to 31 December 2017, the acquired business contributed revenue of £4,211 million and a profit from operations of £1,448 million.

On 5 May 2017, the Group acquired certain tobacco assets, including a distribution company, Express Logistic and Distribution EOOD, from Bulgartabac Holding AD in Bulgaria. The assets acquired for a total consideration of £110 million, of which £28 million is contingent upon future performance in the market. £14 million of this was paid during 2018.

**Restructuring and integration costs**

Restructuring costs reflect the costs incurred as a result of initiatives to improve the effectiveness and the efficiency of the Group as a globally integrated enterprise, including the relevant operating costs of implementing the new operating model. These costs represent additional expenses incurred, which are not related to the normal business and day-to-day activities.

The new operating model is underpinned by a global single instance of SAP with full deployment occurring during 2016 with benefits already realised within the business and future savings expected in the years to come. The initiatives also include a review of the Group's trade marketing and manufacturing operations, supply chain, overheads and indirect costs, organisational structure and systems and software used. The costs of the Group's initiatives together with the costs of integrating acquired businesses into existing operations, including acquisition costs, are included in profit from operations.

Restructuring and integration costs in 2018 include integration costs associated with the acquisition of RAI and ongoing costs of implementing the revisions to the Group's operating model. This includes the cost of packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover downsizing activities in Russia, Germany and APME,

partially offset by the income from sale of certain assets that have become available as part of the downsizing activities.

Restructuring and integration costs in 2017 include advisor fees and costs incurred related to the acquisition of the remaining shares in RAI not already owned by the Group, that completed on 25 July 2017. It also includes the implementation of a new operating model and the cost of redundancy packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover integration costs incurred as a result of the RAI acquisition, factory closure and downsizing activities in Germany and Malaysia, certain exit costs and asset write-offs related to the withdrawal from the Philippines.

In 2018, other operating income includes gains from the sale of land and buildings in The Netherlands and in 2017, this included gains from the sale of land and buildings in Brazil.

### Amortisation and impairment of trademarks and similar intangibles

Acquisitions including RAI, TDR d.o.o. and Skandinavisk Tobakskompagni A/S in previous years, have resulted in the capitalisation of trademarks and similar intangibles which are amortised over their expected useful lives, which do not exceed 20 years. The amortisation and impairment charge of £377 million (2017: £383 million) is included in depreciation, amortisation and impairment costs in profit from operations for the year to 31 December 2018.

### Fox River

A Group subsidiary has certain liabilities in respect of indemnities given on the purchase and disposal of former businesses in the United States and in 2011, the subsidiary provided £274 million in respect of claims in relation to environmental clean-up costs of the Fox River.

On 30 September 2014, a Group subsidiary, NCR, Appvion and Windward (each as defined below) entered into a funding agreement with regard to the costs for the clean-up of Fox River (the “Funding Agreement”).

In January 2017, NCR and Appvion entered into a consent decree with the US Government to resolve how the remaining clean-up will be funded and to resolve further outstanding claims between them. The Consent Decree was approved by a US District Judge in August 2017 but is currently subject to appeal in the US Seventh Circuit Court of Appeals.

In July 2016, the High Court ruled in a Group subsidiary’s favour that a dividend of €135 million paid by Windward Prospects Ltd (“Windward”) to Sequana SA (“Sequana”) in May 2009 was a transaction made with the intention of putting assets beyond the reach of the Group subsidiary and of negatively impacting its interests. On 10 February 2017, further to a hearing in January 2017 to determine the relief due, the Court found in the Group subsidiary’s favour, ordering that Sequana must pay an amount up to the full value of the dividend plus interest which equates to around U.S.$185 million, related to past and future clean-up costs. The Court granted all parties leave to appeal and Sequana a stay in respect of the above payments. In June 2018, the Court of Appeal heard arguments in the Sequana Claims Appeal (as defined below). On 6 February 2019, the Court of Appeal gave judgment upholding the High Court’s findings, with one immaterial change to the method of calculating the damages awarded. Sequana therefore remains liable to pay the above mentioned judgment. Due to the uncertain outcome of the case no asset has been recognised in relation to this ruling. In February 2017, Sequana entered into a process in France seeking court protection (the “Sauvegarde”), exiting the Sauvegarde in June 2017. However, following the Court of Appeal judgment in February, Sequana entered into receivership in France, thus staying the execution of the U.S.$185 million judgment in favour of BAT. No payments have been received.

The provision is £108 million at 31 December 2018 (2017: £138 million). Based on the funding agreement, £30 million has been paid in 2018, which includes legal costs of £5 million (2017: £25 million, including legal costs of £7 million).

### Other adjusting items

In 2018, the Group incurred £294 million of other adjusting items, including £178 million related to Engle progeny litigation offset by credits related to the non-participating manufacturers settlement, which have been adjusted within 'other operating expenses'.

In 2018, the European Securities and Markets Authority (ESMA) recognised the specific issues related to Venezuela and proposed that companies with exposure to Venezuela use an "estimated" exchange rate rather than the official exchange rate, as otherwise required under IAS 21. Accordingly, the Group has used an exchange rate calculated with reference to the estimated inflation since the latest dividend payment in 2010. In addition, the net assets of the Group's Venezuelan operations are subject to accounting adjustments IAS 29 Financial Reporting in Hyperinflationary Economies, as they are revalued, for accounting purposes, from their acquisition date to the balance sheet date. However, management believes that such a revaluation is not reflective of the recoverable value of those assets and have incurred an impairment charge of £110 million. This charge has been treated as an adjusting item as it does not reflect the underlying performance of the Group. The Group has also recognised a gain of £45 million within net finance costs, being the partial counter-party to the above non-monetary asset movement, generating a monetary gain due to hyperinflation accounting under IAS 29.

In 2017, the release of the fair value acquisition accounting adjustments to finished goods inventories of £465 million on the RAI acquisition has been adjusted within "Changes in inventories of finished goods and work in progress". Also included in 2017 is the impairment of certain assets of £69 million related to a third-party distributor (Agrokor) in Croatia, that has been adjusted within 'other operating expenses'.

## Litigation

The Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards. Failure to comply could result in restrictions in operations, damages, fines, increased tax, increased cost of compliance, interest charges, reputational damage or other sanctions. These matters are inherently difficult to quantify. In cases where the Group has an obligation as a result of a past event existing at the balance sheet date, if it is probable that an outflow of economic resources will be required to settle the obligation and if the amount of the obligation can be reliably estimated, a provision will be recognised based on best estimates and management judgment. There are, however, contingent liabilities in respect of litigation, taxes in some countries and guarantees for which no provisions have been made.

### General Litigation Overview

There are a number of legal and regulatory actions, proceedings and claims against Group companies related to tobacco products that are pending in a number of jurisdictions. These proceedings include, among other things, claims for personal injury (both individual claims and class actions) and claims for economic loss arising from the treatment of smoking and health-related diseases (such as medical recoupment claims brought by local governments).

The plaintiffs in these cases seek recovery on a variety of legal theories, including negligence, strict liability in tort, design defect, failure to warn, fraud, misrepresentation, violations of unfair and deceptive trade practices statutes, conspiracy, medical monitoring and violations of competition and antitrust laws. The plaintiffs seek various forms of relief, including compensatory and, where available, punitive damages, treble or multiple damages and statutory damages and penalties, creation of medical

monitoring and smoking cessation funds, disgorgement of profits, attorneys' fees, and injunctive and other equitable relief.

Although alleged damages often are not determinable from a complaint, and the law governing the pleading and calculation of damages varies from jurisdiction to jurisdiction, compensatory and punitive damages have been specifically pleaded in a number of cases, sometimes in amounts ranging into the hundreds of millions and even hundreds of billions of pounds.

With the exception of the Engle progeny cases described below, the Group continues to win the majority of tobacco-related litigation claims that reach trial, and a very high percentage of the tobacco-related litigation claims brought against them, including Engle progeny cases, continue to be dismissed at or before trial. Based on their experience in tobacco-related litigation and the strength of the defences available to them in such litigation, the Group's companies believe that their successful defence of tobacco-related litigation in the past will continue in the future.

Group companies generally do not settle claims. However, Group companies may enter into settlement discussions in some cases, if they believe it is in their best interests to do so. Exceptions to this general approach include, but are not limited to, actions taken pursuant to "offer of judgment" statutes and Filter Cases, as defined below. An "offer of judgment", if rejected by the plaintiff, preserves the Group's right to recover attorneys' fees under certain statutes in the event of a verdict favourable to the Group. Such offers are sometimes made through court-ordered mediations. Other settlements by Group companies include the State Settlement Agreements, the funding by various tobacco companies of a U.S.$5.2 billion (approximately £4.1 billion) trust fund contemplated by the MSA (as defined below) to benefit tobacco growers, the original Broin flight attendant case, and most of the Engle progeny cases pending in US federal court, after the initial docket of over 4,000 such cases was reduced to approximately 400 cases. The Group believes that the circumstances surrounding these claims are readily distinguishable from the current categories of tobacco-related litigation claims involving Group companies.

Although the Group intends to defend all pending cases vigorously, and believes that the Group's companies have valid bases for appeals of adverse verdicts and valid defences to all actions, and that an outflow of resources related to any individual case is not considered probable, litigation is subject to many uncertainties, and, generally, it is not possible to predict the outcome of any particular litigation pending against Group companies, or to reasonably estimate the amount or range of any possible loss. Furthermore, a number of political, legislative, regulatory and other developments relating to the tobacco industry and cigarette smoking have received wide media attention. These developments may negatively affect the outcomes of tobacco-related legal actions and encourage the commencement of additional similar litigation. Therefore, the Group does not provide estimates of the financial effect of the contingent liabilities represented by such litigation, as such estimates are not practicable.

The following table lists the categories of the tobacco-related actions pending against Group companies as of 31 December 2018 and the increase or decrease from the number of cases pending against Group companies as of 31 December 2017. Details of the quantum of past judgments awarded against Group companies, the majority of which are under appeal, are also identified, along with any settlements reached during the relevant period. Given the volume and more active nature of the Engle progeny cases and the Filter Cases in the US described below, and the fluctuation in the number of such cases and amounts awarded from year to year, the Group presents judgment or settlement figures for these cases on a three-year basis. Where no quantum is identified, either no judgment has been awarded against a Group company, or where a verdict has been reached no quantification of damages has been given, or no settlement has been entered into. Further details on the judgments, damages quantification and settlements are included within the case narratives below.

| Case Type | Case Numbers as at 31 December 2018 | Case Numbers as at 31 December 2017 (note 1) | Change in Number Increase/(Decrease) |
|---|---|---|---|
| US tobacco-related actions | | | |
| Medical reimbursement cases (note 2) | 2 | 2 | No change |
| Class actions (note 3) | 20 | 24 | (4) |
| Individual smoking and health cases (note 4) | 111 | 99 | 12 |
| West Virginia IPIC (note 5) | 1 | 1 | No change |
| Engle Progeny Cases (note 6) | 2,268 | 2,569 | (301) |
| Broin II Cases (note 7) | 1,406 | 2,321 | (915) |
| Filter Cases (note 8) | 58 | 71 | (13) |
| State Settlement Agreements – Enforcement and Validity (note 9) | 3 | 2 | 1 |
| Non-US tobacco-related actions | | | |
| Medical reimbursement cases | 19 | 19 | No change |
| Class actions (note 10) | 13 | 14 | (1) |
| Individual smoking and health cases (note 11) | 107 | 120 | (13) |

(Note 1) This includes cases to which the RAI group companies were a party at such date.

(Note 2) This category of cases includes the Department of Justice action (see below).

(Note 3) See below.

(Note 4) This category of cases includes smoking and health cases alleging personal injuries caused by tobacco use or exposure brought by or on behalf of individual plaintiffs based on theories of negligence, strict liability, breach of express or implied warranty and violations of state deceptive trade practices or consumer protection statutes. The plaintiffs seek to recover compensatory damages, attorneys' fees and costs and punitive damages. Out of the 111 active individual smoking and health cases, five judgments have been returned in the plaintiffs' favour, awarding damages totalling U.S.$209.4 million (approximately £164.4 million), all of which are on appeal. For a further description of these cases, see below.

(Note 5) The West Virginia IPIC cases are a series of roughly 1,200 cases, filed in West Virginia beginning in 1999, asserting claims against PM USA (as defined below), Lorillard Tobacco Company ("Lorillard Tobacco"), R.J. Reynolds Tobacco Company ("RJRT"), Brown & Williamson Holdings, Inc. ("B&W") and The American Tobacco Company. These cases were brought in consolidated proceedings in West Virginia alleging personal injuries. The one claim upon which plaintiffs prevailed was a limited failure to instruct claim covering a narrow window of time. Only 30 plaintiffs qualified to pursue that narrow claim. In 2017, the court dismissed all claims of those 30 plaintiffs with prejudice pursuant to an agreement providing that each plaintiff who submits a release within one year will receive U.S.$7,000 (approximately £5,496). In addition to the foregoing claims, various plaintiffs in 1999 and 2000 asserted claims against retailers and distributors (which have not been pursued in light of the result in the Phase I trial in defendants' favour), as well as smokeless claims against various defendants including RJRT,

Lorillard, American Snuff Company, LLC ("American Snuff Co.") and B&W. 41 plaintiffs sought to pursue their smokeless claims in 2017. In April 2017, the court dismissed the claims of those 41 smokeless plaintiffs with prejudice. For a further discussion of the related plaintiffs' claims, see below.

(Note 6) In July 1998, trial began in Engle v R.J. Reynolds Tobacco Co., a then-certified class action filed in Circuit Court, Miami-Dade County, Florida, against US cigarette manufacturers, including RJRT, Lorillard Tobacco and B&W. In July 2000, the jury in Phase II awarded the class a total of approximately U.S.$145 billion (approximately £114 billion) in punitive damages, apportioned U.S.$36.3 billion (approximately £28.5 billion) to RJRT, U.S.$17.6 billion (approximately £13.8 billion) to B&W, and U.S.$16.3 billion (approximately £12.8 billion) to Lorillard Tobacco. This decision was appealed and ultimately resulted in the Florida Supreme Court in December 2006 decertifying the class and allowing judgments entered for only two of the three Engle class representatives to stand and setting aside the punitive damages award. Putative Engle class members were permitted to file individual lawsuits, deemed "Engle progeny cases", against the Engle defendants, within one year of the Supreme Court's decision (subsequently extended to 11 January 2008). Between the period 1 January 2016 and 31 December 2018, 46 judgments have been returned in the plaintiffs' favour, awarding damages totalling approximately U.S.$341.7 million (approximately £268.3 million). Certain of these judgments have been appealed by RJRT and in certain other cases, RJRT still had time to appeal, as of 31 December 2018. For a further description of the Engle progeny cases, see below.

(Note 7) Broin v Philip Morris, Inc. was a class action filed in Circuit Court in Miami-Dade County, Florida in 1991 and brought on behalf of flight attendants alleged to have suffered from diseases or ailments caused by exposure to Environmental Tobacco Smoke (ETS) in airplane cabins. Group companies and other cigarette manufacturer defendants settled Broin, agreeing to pay a total of U.S.$300 million (approximately £236 million) to fund research on the detection and cure of tobacco- related diseases and U.S.$49 million (approximately £38.5 million) in plaintiffs' counsel's fees and expenses. Group companies' share of these payments totalled U.S.$223 million (approximately £175 million). Broin II cases refer to individual cases by class members. There have been no Broin II trials since 2007. For a further description of the Broin II cases, see below.

(Note 8) Includes claims brought against Lorillard Tobacco and Lorillard by individuals who seek damages resulting from their alleged exposure to asbestos fibres that were incorporated into filter material used in one brand of cigarettes manufactured by a predecessor to Lorillard Tobacco for a limited period of time ending more than 50 years ago. Since 1 January 2016, Lorillard Tobacco and RJRT have paid, or have reached agreement to pay, a total of approximately U.S.$30.2 million (approximately £23.7 million) in settlements to resolve 137 Filter Cases (see below).

(Note 9) Group companies' expenses and payments under the State Settlement Agreements for 2018 amounted to U.S.$2,741 million (approximately £2,152 million) in respect of settlement expenses and U.S.$917 million (approximately £720 million) in respect of settlement cash payments (see below). The pending cases referred to above relate to the enforcement, validity or interpretation of the State Settlement Agreements in which RJR Tobacco, B&W or Lorillard Tobacco is a party (see below).

(Note 10) Outside the United States, there are 13 class actions being brought against Group companies (excluding one class action in Brazil that is included in the medical reimbursement category) as of 31 December 2018. These include class actions in the following jurisdictions: Brazil (1), Canada (11) and Venezuela (1). For a description of the Group companies' class actions, see below. Pursuant to the judgment in 2015 in the two Quebec class actions, the plaintiffs were awarded damages and interest in the amount of CAD$15.6 billion (approximately £8.9 billion or U.S.$11.4 billion), of which the Group companies' share is CAD$10.4 billion (approximately £5.9 billion or U.S.$7.6 billion). The class actions are currently under appeal. For a further description of the Quebec class actions, see below.

(Note 11) As at 31 December 2018, the jurisdictions with the most active individual cases against Group companies were, in descending order: Brazil (56), Italy (25), Chile (10), Canada (5), Argentina (5) and Ireland (2). There were a further four jurisdictions with one active case only. Out of these 107 cases, in 2018, 2 judgments have been returned in the plaintiffs' favour as of 31 December 2018, one case in Brazil awarding damages totalling R$ 637,500 (approximately £129,149 or U.S.$164,484) and one case in Italy awarding damages totalling €789,970, (approximately £709,054 or U.S.$903,051), both of which are currently on appeal.

Certain terms and phrases used in this section may require some explanation.

(a) "Judgment" or "final judgment" refers to the final decision of the court resolving the dispute and determining the rights and obligations of the parties. At the trial court level, for example, a final judgment generally is entered by the court after a jury verdict and after post-verdict motions have been decided. In most cases, the losing party can appeal a verdict only after a final judgment has been entered by the trial court.

(b) "Damages" refers to the amount of money sought by a plaintiff in a complaint, or awarded to a party by a jury or, in some cases, by a judge. "Compensatory damages" are awarded to compensate the prevailing party for actual losses suffered, if liability is proved. In cases in which there is a finding that a defendant has acted wilfully, maliciously or fraudulently, generally based on a higher burden of proof than is required for a finding of liability for compensatory damages, a plaintiff also may be awarded "punitive damages". Although damages may be awarded at the trial court stage, a losing party may be protected from paying any damages until all appellate avenues have been exhausted by posting a supersedeas bond. The amount of such a bond is governed by the law of the relevant jurisdiction and generally is set at the amount of damages plus some measure of statutory interest, modified at the discretion of the appropriate court or subject to limits set by a court or statute.

(c) "Settlement" refers to certain types of cases in which cigarette manufacturers, including RJRT, B&W and Lorillard Tobacco, have agreed to resolve disputes with certain plaintiffs without resolving the cases through trial.

(d) All sums set out in this section have been converted to GBP and U.S.$ using the following end closing rates as at December 2018: GBP 1 to U.S.$ 1.273600, GBP 1 to CAD$1.739480, GBP 1 to EURO 1.1141192, GBP 1 to BRL 4.93616, GBP 1 to AOA 393.04188, GBP 1 to NGN 462.9536, GBP 1 to KRW 1421.08 and GBP 1 to HRK 8.25382, and GBP 1 to JPY 139.73302.

**US Litigation**

Group companies, notably RJRT (individually and as successor by merger to Lorillard Tobacco) and B&W as well as other leading cigarette manufacturers, are defendants in a number of product liability cases. In a number of these cases, the amounts of compensatory and punitive damages sought are significant.

The total number of US tobacco product liability cases pending at 31 December 2018 involving RJRT, Lorillard Tobacco and/or B&W was approximately 3,900. As at 31 December 2018, British American Tobacco (Investments) Limited ("Investments") has been served as a co-defendant in one of those cases (2017:1). No other UK-based Group company has been served as a co-defendant in any US tobacco product liability case pending as at 31 December 2018.

Since many of these pending cases seek unspecified damages, it is not possible to quantify the total amounts being claimed, but the aggregate amounts involved in such litigation are significant, possibly totalling billions of US dollars. The cases fall into four broad categories: medical reimbursement cases; class actions; individual cases and other claims.

RJRT (individually and as successor by merger to Lorillard Tobacco), American Snuff Co., Sante Fe Natural Tobacco Company, Inc ("SFNTC"), R.J. Reynolds Vapor Company ("RJR Vapor"), RAI, Lorillard, Inc. ("Lorillard"), other RAI affiliates and indemnitees, including but not limited to B&W (collectively, the "Reynolds Defendants"), believe that they have valid defences to the tobacco-related litigation claims against them, as well as valid bases for appeal of adverse verdicts against them. The Reynolds Defendants have, through their counsel, filed pleadings and memoranda in pending tobacco-related litigation that set forth and discuss a number of grounds and defences that they and their counsel believe have a valid basis in law and fact.

*Scheduled trials.* Trial schedules are subject to change, and many cases are dismissed before trial. In the US, there are 34 cases, exclusive of Engle progeny cases, scheduled for trial as of 31 December 2018 through 31 December 2019, for the Reynolds Defendants: 12 individual smoking and health cases, 20 Filter Cases and one other non-smoking and health case. There are also approximately 135 Engle progeny cases against RJRT (individually and as successor to Lorillard Tobacco) and B&W for trial through 31 December 2019. It is not known how many of these cases will actually be tried.

*Trial results.* From 1 January 2016 through 31 December 2018, 117 individual smoking and health, Engle progeny, Filter and health-care cost recovery cases in which the Reynolds Defendants were defendants were tried, including 13 trials for cases where mistrials were declared in the original proceedings. Verdicts in favour of the Reynolds Defendants and, in some cases, other defendants, were returned in 29 cases, tried in Florida (27), California (1) and New Jersey (1). There were also 26 mistrials in Florida. Verdicts in favour of the plaintiffs were returned in 50 cases, tried in Florida (47), the U.S. Virgin Islands (2), and Massachusetts (1). Five cases in Florida were dismissed during trial. Two cases were continued during trial. Four cases were punitive damages retrials and one case was resolved during trial.

*(a) Medical Reimbursement Cases*

These civil actions seek to recover amounts spent by government entities and other third party providers on healthcare and welfare costs claimed to result from illnesses associated with smoking.

At 31 December 2018, one US medical reimbursement suit (Crow Creek Sioux Tribe v American Tobacco Co.) was pending against RJRT, Lorillard Tobacco and B&W in a Native American tribal court in South Dakota. The plaintiffs seek to recover actual and punitive damages, restitution, funding of a clinical cessation programme, funding of a corrective public education programme, and disgorgement of unjust profits from sales to minors. No other medical reimbursement suits are pending against these companies by county or other political subdivisions of the states.

**US Department of Justice Action**

On 22 September 1999, the US Department of Justice brought an action in the US District Court for the District of Columbia against various industry members, including RJRT, Lorillard Tobacco, B&W, B.A.T Industries p.l.c. ("Industries") and Investments (United States v Philip Morris USA Inc.). The US Department of Justice initially sought (1) recovery of federal funds expended in providing health care to smokers who developed alleged smoking-related diseases pursuant to the Medical Care Recovery Act and Medicare Secondary Payer provisions of the Social Security Act and (2) equitable relief under the civil provisions of the Racketeer Influenced and Corrupt Organizations Act ("RICO"), including disgorgement of roughly U.S.$280 billion (approximately £220 billion) in profits the government contended were earned as a consequence of a purported racketeering "enterprise" along with certain "corrective communications". In September 2000, the district court dismissed the government's Medical Care Recovery Act and Medicare Secondary Payer claims. In February 2005, the US Court of Appeals for the DC Circuit (the "DC Circuit") ruled that disgorgement was not an available remedy.

Industries was dismissed for lack of personal jurisdiction on 28 September 2000. In addition, Investments was a defendant at the trial, but intervening changes in controlling law post-trial led to a 28 March 2011 court ruling that the court's Final Judgment and Remedial Order no longer applied to Investments

prospectively, and for this reason, Investments would not have to comply with any of the remaining injunctive remedies being sought by the government. As the government did not appeal the 28 March 2011 ruling, this means that Investments is no longer in the case and is not subject to any injunctive relief that the court is expected to order against the remaining defendants. As the case continued as against RJRT and Lorillard Tobacco with respect to injunctive relief and related matters, the following is noted.

The non-jury trial of the RICO portion of the claim began on 21 September 2004, and ended on 9 June 2005. On 17 August 2006, the federal district court issued its Final Judgment and Remedial Order, which found certain defendants, including RJRT, B&W, Lorillard Tobacco and Investments, had violated RICO, but did not impose any direct financial penalties. The district court instead enjoined the defendants from committing future racketeering acts, participating in certain trade organisations, making misrepresentations concerning smoking and health and youth marketing, and using certain brand descriptors such as “low tar”, “light”, “ultra light”, “mild” and “natural”. The district court also ordered the defendants to issue “corrective communications” on five subjects, including smoking and health and addiction, and to comply with further undertakings, including maintaining websites of historical corporate documents and disseminating certain marketing information on a confidential basis to the government. In addition, the district court placed restrictions on the defendants’ ability to dispose of certain assets for use in the United States, unless the transferee agrees to abide by the terms of the district court’s order, and ordered certain defendants to reimburse the US Department of Justice its taxable costs incurred in connection with the case.

Defendants, including RJRT, Lorillard Tobacco, B&W and Investments, appealed, and the US government cross-appealed to the DC Circuit. On 22 May 2009, the DC Circuit affirmed the federal district court’s RICO liability judgment, but vacated the order and remanded for further factual findings and clarification as to whether liability should be imposed against B&W, based on changes in the nature of B&W’s business operations (including the extent of B&W’s control over tobacco operations). The court also remanded on three other discrete issues relating to the injunctive remedies, including for the district court “to reformulate” the injunction on the use of low-tar descriptors “to exempt foreign activities that have no substantial, direct, and foreseeable domestic effects,” and for the district court to evaluate whether corrective communications could be required at point-of-sale displays (which requirement the DC Circuit vacated). On 28 June 2010, the US Supreme Court denied the parties’ petitions for further review.

On 22 December 2010, the district court dismissed B&W from the litigation. In November 2012, the trial court entered an order setting forth the text of the corrective statements and directed the parties to engage in discussions with the Special Master to implement them. After various proceedings and appeals, the federal district court in October 2017 ordered RJRT and the other US tobacco company defendants to fund the publishing of compelled public statements in various US media outlets, including in newspapers, and on television, the companies’ websites and cigarette packaging. The compelled public statements began appearing in US newspapers on 24 November 2017 and ran serially over four months; they began appearing on national US broadcast television networks on 27 November 2017 and ran several times per week for one year. The statements also began appearing on RJRT websites on 18 June 2018 and first appeared on package onserts beginning in November 2018 (the onserts will be distributed periodically through mid-2020). The district court is considering mandating the display of the compelled public statements at retail point of sale; briefing on that issue concluded on 14 September 2018.

*(b) Class Actions*

At 31 December 2018, RJRT, Lorillard Tobacco and B&W were named as a defendant in two separate actions attempting to assert claims on behalf of classes of persons allegedly injured or financially impacted by their smoking, and SFNTC was named in 18 separate cases relating to the use of the words “natural,” “additive-free,” or “organic” in Natural American Spirit advertising and promotional materials. If

the classes are or remain certified, separate trials may be needed to assess individual plaintiffs' damages. Among the pending class actions, 19 specified the amount of the claim in the complaint, including 18 that alleged that the plaintiffs were seeking in excess of U.S.$5,000,000 (approximately £3,900,000) and one that alleged that the plaintiffs were seeking less than U.S.$75,000 (approximately £59,000) per class member plus unspecified punitive damages.

**No Additive/Natural/Organic Claim Cases**

A total of 17 putative class actions have been filed in nine US federal district courts against SFNTC, a subsidiary of RAI, which cases generally allege, in various combinations, violations of state deceptive and unfair trade practice statutes, and claim state common law fraud, negligent misrepresentation, and unjust enrichment based on the use of descriptors such as "natural," "organic" and "100% additive-free" in the marketing, labelling, advertising, and promotion of SFNTC's Natural American Spirit brand cigarettes. In these actions, the plaintiffs allege that the use of these terms suggests that Natural American Spirit brand cigarettes are less harmful than other cigarettes and, for that reason, violated state consumer protection statutes or amounted to fraud or a negligent or intentional misrepresentation. The actions seek various categories of recovery, including economic damages, injunctive relief (including medical monitoring and cessation programmes), interest, restitution, disgorgement, treble and punitive damages, and attorneys' fees and costs. In April 2016, in response to a motion by the various plaintiffs, the US Judicial Panel on Multidistrict Litigation consolidated these cases for pre-trial purposes before a federal court in New Mexico. That court heard argument on defendants' motion to dismiss the current consolidated complaint on 9 June 2017. On 21 December 2017, the district court granted the motion in part, dismissing a number of claims with prejudice, and denied it in part. Previously established deadlines for class certification briefing and a class certification hearing have been suspended pending resolution of disputes concerning discovery.

On 7 November 2016, a public health advocacy organisation filed a putative class action (Breathe DC v Santa Fe Natural Tobacco Co., Inc.) in Superior Court for the District of Columbia (Washington DC) against SFNTC, RAI and RJRT based on allegations relating to the labelling, advertising and promotional materials for SFNTC's Natural American Spirit brand cigarettes, which allegations are similar to the allegations in the actions consolidated for pre-trial purposes in the transferee court described immediately above. The complaint sought injunctive and other non-monetary relief, but did not seek monetary damages. On 14 December 2018, the case was settled, and it was dismissed by stipulation in January 2019.

**Other Putative Class Actions**

Jones v American Tobacco Co., Inc. is a putative class action filed in December 1998 in the Circuit Court, Jackson County, Missouri. The action was brought by a plaintiff on behalf of a putative class of Missouri tobacco product users and purchasers against various defendants, including RJRT, Lorillard Tobacco and B&W, alleging that the plaintiffs' use of the defendants' tobacco products has caused them to become addicted to nicotine, and seeking an unspecified amount of compensatory and punitive damages. There is currently no activity in this case.

Young v American Tobacco Co., Inc. is a case filed in November 1997 in the Circuit Court, Orleans Parish, Louisiana against various US cigarette manufacturers, including RJRT and B&W, and parent companies of such manufacturers. This putative ETS class action was brought on behalf of a putative class of Louisiana residents who, though not themselves cigarette smokers, have been exposed to second-hand smoke from cigarettes manufactured by the defendants, and who allegedly suffered injury as a result of that exposure, and seeks an unspecified amount of compensatory and punitive damages. In March 2016, the court entered an order staying the case, including all discovery, pending the completion of an ongoing smoking cessation programme ordered by the court in a now-concluded Louisiana state court certified class action, Scott v American Tobacco Co.

**Engle Class Action and Engle Progeny Cases (Florida)**

In July 1998, trial began in Engle v R. J. Reynolds Tobacco Co., a then-certified class action filed in Circuit Court, Miami-Dade County, Florida, against US cigarette manufacturers, including RJRT, Lorillard Tobacco and B&W. The then-certified class consisted of Florida citizens and residents, and their survivors, who suffered from smoking-related diseases that first manifested between 5 May 1990, and 21 November 1996, and were caused by an addiction to cigarettes. In July 1999, the jury in this Phase I found against RJRT, Lorillard Tobacco, B&W and the other defendants on common issues relating to the defendants' conduct, general causation, the addictiveness of cigarettes, and entitlement to punitive damages.

In July 2000, the jury in Phase II awarded the class a total of approximately U.S.$145 billion (approximately £114 billion) in punitive damages, apportioned U.S.$36.3 billion (approximately £28.5 billion) to RJRT, U.S.$17.6 billion (approximately £13.8 billion) to B&W, and U.S.$16.3 billion (approximately £12.8 billion) to Lorillard Tobacco. The three class representatives in the Engle class action were awarded U.S.$12.7 million (approximately £10 million) in compensatory damages.

This decision was appealed and ultimately resulted in the Florida Supreme Court in December 2006 decertifying the class and allowing judgments entered for only two of the three Engle class representatives to stand and setting aside the punitive damages award. The court preserved certain of the jury's Phase I findings, including that cigarettes can cause certain diseases, nicotine is addictive, and defendants placed defective cigarettes on the market, breached duties of care, concealed health-related information and conspired. Putative Engle class members were permitted to file individual lawsuits, deemed "Engle progeny cases," against the Engle defendants, within one year of the Supreme Court's decision (subsequently extended to 11 January 2008).

During 2015, RJRT and Lorillard Tobacco, together with Philip Morris USA Inc. ("PM USA"), settled virtually all of the Engle progeny cases then pending against them in federal district court. The total amount of the settlement was U.S.$100 million (approximately £78.5 million) divided as follows: RJRT – U.S.$42.5 million (approximately £33.3 million); PM USA – U.S.$42.5 million (approximately £33.3 million); and Lorillard Tobacco – U.S.$15 million (approximately £11.8 million). The settlement covered more than 400 federal Engle progeny cases but did not cover 12 federal progeny cases previously tried to verdict and then pending on post-trial motions or appeal; and two federal progeny cases filed by different lawyers from the ones who negotiated the settlement for the plaintiffs.

As at 31 December 2018, there were approximately 2,268 Engle progeny cases pending in which RJRT, Lorillard Tobacco and/or B&W have been named as defendants and served (compared with 2,569 on 31 December 2017). These cases include claims by or on behalf of 2,841 plaintiffs. (In addition, as of 31 December 2018, RJRT was aware of nine additional Engle progeny cases that have been filed but not served.) The number of pending cases fluctuates for a variety of reasons, including voluntary and involuntary dismissals. Voluntary dismissals include cases in which a plaintiff accepts an "offer of judgment", from RJRT, Lorillard Tobacco and/or RJRT's affiliates and indemnitees. An offer of judgment, if rejected by the plaintiff, preserves RJRT's and Lorillard Tobacco's right to recover attorneys' fees under Florida law in the event of a verdict favourable to RJRT or Lorillard Tobacco, or affiliates of such entities. Such offers are sometimes made through court-ordered mediations.

The number of Engle progeny cases will fluctuate as cases are dismissed or if any of the dismissed cases are appealed.

109 Engle progeny cases have been tried in Florida state and federal courts against RJRT, Lorillard Tobacco and/or B&W since the beginning of 2016 through 31 December 2018, and additional state court trials are scheduled for 2019. Of these 109 trials, 46 resulted in plaintiffs' verdicts. As at 31 December 2018, total damages awarded against RJRT were approximately U.S.$341,698,989 (approximately £270 million). This number comprises approximately U.S.$159,145,914 (approximately £125 million) in

compensatory damages and approximately U.S.$182,553,075 (approximately £143 million) in punitive damages. As at 31 December 2018, RJRT had appealed 38 of these 46 adverse judgments and still had time to appeal three other adverse judgments (in addition to a fourth in which the case proceeded to a new punitive-only trial while the compensatory judgment, which RJRT still has time to appeal, was stayed). No appeal was brought in relation to five of the adverse judgments against RJRT out of the 38 appeals: 20 remain undecided in the District Courts of Appeal; two additional cases were affirmed; one case was reversed for reinstatement of full compensatory amount; and one case was reversed to reduce the compensatory damages amount by the comparative fault found by the jury. However, the time for filing a post-opinion motion is pending in the latter four instances so the decisions are not final. In addition, 14 of the 38 appeals were decided and/or closed. Of these 14, 12 were affirmed in favour of the plaintiff (further review of the U.S. Supreme Court remains pending in three, one is pending review of the U.S. Supreme Court, one is pending review of the Florida Supreme Court); one was reversed for new trial, however the judgments were paid, one in which there was an appeal of the judgment which was subsequently dismissed. The total damages award may vary depending on the outcome of the pending appeals. RJRT appealed 45 adverse judgments between 1 January 2016 and 31 December 2018, including six judgments rendered prior to 1 January 2016. Of these 45 appeals, 20 remain undecided in the District Courts of Appeal. Two additional cases were affirmed, one was reversed for reinstatement of full compensatory amount, and one was reversed to reduce the compensatory damages amount by the comparative fault found by the jury, but in all these additional cases the time for filing a post-opinion motion is pending so the decisions are not final. Of the 45 appeals, 21 were decided and/or closed in the District Courts of Appeal, of which 15 were affirmed in favour of the plaintiff (review of Florida Supreme Court sought in one case, review of the US Supreme Court has been sought in one case, and further review of the US Supreme Court remains pending in three cases); One had the liability findings affirmed but was reversed for reinstatement of full compensatory damages amount, however the judgment was paid, one was affirmed as to compensatory damages, but reversed for Plaintiff to seek punitive damages on negligence and strict liability claims, one was reversed for new trial, however the judgments were paid, two in which there was an appeal of the judgment which was subsequently dismissed and the judgment paid, and one was affirmed on compensatory damages but reversed on punitive damages and on retrial, a directed verdict was entered in favour of RJRT on punitive damages. RJRT has paid damages to plaintiffs in five cases that were not appealed that are now closed. The total damages award may vary depending on the outcome of the pending appeals.

By statute, Florida applies a U.S.$200 million (approximately £157 million) bond cap to all Engle progeny cases in the aggregate. Individual bond caps for any given Engle progeny case vary depending on the number of judgments in effect at a given time. Judicial attempts by several plaintiffs in the Engle progeny cases to challenge the bond cap as violating the Florida Constitution have failed. In addition, bills have been introduced in sessions of the Florida legislature that would eliminate the Engle progeny bond cap, but those bills have not been enacted as of 31 December 2018.

In 2018, RJRT or Lorillard Tobacco has paid judgments in 33 Engle progeny cases. Those payments totalled U.S.$333 million (approximately £261 million) in compensatory or punitive damages. Additional costs were paid in respect of attorneys' fees and statutory interest.

In addition, accruals for damages and attorneys' fees and statutory interest for 8 cases (Starr-Blundell v R. J. Reynolds Tobacco Co., Odom v. R. J. Reynolds Tobacco Co., Nally v. R. J. Reynolds Tobacco Co., Johnston v. R. J. Reynolds Tobacco Co., Searcy v. R. J. Reynolds Tobacco Co., Fox v. R. J. Reynolds Tobacco Co., Lima v. R. J. Reynolds Tobacco Co and Pardue v. R. J. Reynolds Tobacco Co.) were recorded in RAI's consolidated balance sheet as of 31 December 2018 to the value of U.S.$104,902,981.61 (approximately £82,367,291).

*(c) Individual Cases*

As of 31 December 2018, 111 individual cases were pending in the United States against RJRT, Lorillard Tobacco and/or B&W. This category of cases includes smoking and health cases alleging personal injuries caused by tobacco use or exposure brought by or on behalf of individual plaintiffs based on theories of negligence, strict liability, breach of express or implied warranty, and violations of state deceptive trade practices or consumer protection statutes. The plaintiffs seek to recover compensatory damages, attorneys' fees and costs, and punitive damages. The category does not include the West Virginia personal injury cases ("West Virginia IPIC") cases, Engle progeny cases, Broin II cases, and Filter Cases, discussed above and below. One of the individual cases is brought by or on behalf of an individual or his/her survivors alleging personal injury as a result of exposure to ETS.

Out of the 111 individual smoking and health cases pending at 31 December 2018, five have received adverse verdicts in the court of first instance or on appeal, and the total amount of those verdicts is U.S.$209.4 million (approximately £164.4 million). As at 31 December 2018, there was one pending West Virginia IPIC case (unchanged from 31 December 2017). The West Virginia IPIC cases are a series of roughly 1,200 cases, filed in West Virginia beginning in 1999, asserting claims against PM USA, Lorillard Tobacco, RJRT, B&W and The American Tobacco Company. These cases were brought in consolidated proceedings in West Virginia alleging personal injuries, where the first phase of the trial began on 15 April 2013 and on 15 May 2013 the jury returned a verdict for defendants on all but one of plaintiffs' claims (the verdict was affirmed on appeal). The one claim upon which plaintiffs prevailed was a limited failure to instruct claim covering a narrow window of time. Only 30 plaintiffs qualified to pursue that narrow claim. In 2017, those 30 plaintiffs agreed to resolve their claims for U.S.$7,000 (approximately £5,496) per case. All of those failure to instruct claims have been dismissed with prejudice, with the agreement that each plaintiff who submits a release within one year will receive the agreed payment of U.S.$7,000 (approximately £5,496) from either PM USA or RJRT, as appropriate. Three of the 30 plaintiffs have submitted releases to date. In addition to the foregoing failure to instruct claims, various plaintiffs in 1999 and 2000 asserted claims against retailers and distributors (which have not been pursued in light of the result in the Phase I trial in defendants' favour), as well as smokeless claims against various defendants including RJRT, Lorillard, American Snuff Co. and B&W. In 2017, 41 plaintiffs were permitted to pursue their smokeless claims over defendants' objections. On 27 April 2018, the court dismissed the claims of those 41 plaintiffs with prejudice. In the final weeks of the case in the trial court, one plaintiff sought to pursue a roll-your-own claim that had long been dormant. The trial court denied that request and that one plaintiff appealed to the West Virginia Supreme Court on 8 May 2018. That appeal has been fully briefed and is awaiting decision.

As at 31 December 2018, there were 1,406 Broin II cases pending against RJRT, Lorillard Tobacco and/or B&W (compared to 2,321 on 31 December 2017). Broin v Philip Morris, Inc. was a class action filed in Circuit Court in Miami-Dade County, Florida in 1991 and brought on behalf of flight attendants alleged to have suffered from diseases or ailments caused by exposure to ETS in airplane cabins. In October 1997, RJRT, Lorillard Tobacco, B&W and other cigarette manufacturer defendants settled Broin, agreeing to pay a total of U.S.$300 million (approximately £236 million) in three annual U.S.$100 million (approximately £79 million) instalments, allocated among the companies by market share, to fund research on the early detection and cure of diseases associated with tobacco smoke. It also required those companies to pay a total of U.S.$49 million (approximately £38.5 million) for the plaintiffs' counsel's fees and expenses. RJRT's portion of these payments was approximately U.S.$86 million (approximately £68 million); Lorillard Tobacco's was approximately U.S.$57 million (approximately £45 million); and B&W's was approximately U.S.$31 million (approximately £24.3 million). The settlement agreement, among other things, limits the types of claims class members may bring and eliminates claims for punitive damages. The settlement agreement also provides that, in individual cases by class members that are referred to as Broin II lawsuits, the defendants will bear the burden of proof with respect to whether ETS can cause certain specifically enumerated diseases, referred to as "general causation."

With respect to all other liability issues, including whether an individual plaintiff's disease was caused by his or her exposure to ETS in airplane cabins, referred to as "specific causation," individual plaintiffs will bear the burden of proof. On 7 September 1999, the Florida Supreme Court approved the settlement. There have been no Broin II trials since 2007. There have been periodic efforts to activate cases and the Group expects this to continue over time.

As at 31 December 2018, there were 58 pending Filter Cases (compared to 71 on 31 December 2017) brought against Lorillard Tobacco and Lorillard by individuals who seek damages resulting from their alleged exposure to asbestos fibres that were incorporated into filter material used in one brand of cigarettes manufactured by a predecessor to Lorillard Tobacco for a limited period of time ending more than 50 years ago. Pursuant to the terms of a 1952 agreement between P. Lorillard Company and H&V Specialties Co., Inc. (the manufacturer of the filter material), Lorillard Tobacco is required to indemnify Hollingsworth & Vose for legal fees, expenses, judgments and resolutions in cases and claims alleging injury from finished products sold by P. Lorillard Company that contained the filter material. As of 31 December 2018, Lorillard Tobacco and/or Lorillard was a defendant in 58 Filter Cases. Since 1 January 2016, Lorillard Tobacco and RJRT have paid, or have reached agreement to pay, a total of approximately U.S.$30.2 million (approximately £24 million) in settlements to resolve 137 Filter Cases.

*(d) State Settlement Agreements*

In November 1998, the major US cigarette manufacturers, including RJRT, B&W and Lorillard Tobacco, entered into the Master Settlement Agreement (the "MSA") with attorneys general representing 46 US states, the District of Columbia and certain US territories and possessions. These cigarette manufacturers previously settled four other cases, brought on behalf of Mississippi, Florida, Texas and Minnesota, by separate agreements with each state (collectively and with the MSA, the "State Settlement Agreements").

These State Settlement Agreements settled all health-care cost recovery actions brought by, or on behalf of, the settling jurisdictions; released the defending major US cigarette manufacturers from various additional present and potential future claims; imposed future payment obligations in perpetuity on RJRT, B&W, Lorillard Tobacco and other major US cigarette manufacturers; and placed significant restrictions on their ability to market and sell cigarettes and smokeless tobacco products. In accordance with the MSA, various tobacco companies agreed to fund a U.S.$5.2 billion (approximately £5 billion) trust fund to be used to address the possible adverse economic impact of the MSA on tobacco growers.

RJRT and SFNTC are subject to the substantial payment obligations under the State Settlement Agreements. Payments under the State Settlement Agreements are subject to various adjustments for, among other things, the volume of cigarettes sold, relative market share, operating profit and inflation. RAI's operating subsidiaries' expenses under the State Settlement Agreements were U.S.$2,727 million in 2016, U.S.$2,856 million in 2017 and $2,741 million in 2018, with projected expenses of at least U.S.$2,800 million for 2019 onwards. The operating subsidiaries' cash payments under the State Settlement Agreements totalled U.S.$3,042 million in 2016, U.S.$4,612 million in 2017 and U.S.$917 million in 2018. The projected settlement cash payments for 2019 onwards total at least U.S.$2,800 million.

The State Settlement Agreements have materially adversely affected RJRT's shipment volumes. RAI believes that these settlement obligations may materially adversely affect the results of operations, cash flows or financial position of RAI and RJRT in future periods. The degree of the adverse impact will depend, among other things, on the rate of decline in US cigarette sales in the premium and value categories, RJRT's share of the domestic premium and value cigarette categories, and the effect of any resulting cost advantage of manufacturers not subject to the State Settlement Agreements.

In addition, the MSA includes an adjustment that potentially reduces the annual payment obligations of RJRT, Lorillard Tobacco and the other signatories to the MSA, known as "Participating Manufacturers"

("PMs"). Certain requirements, collectively referred to as the "Adjustment Requirements," must be satisfied before the Non-Participating Manufacturers ("NPM") Adjustment for a given year is available: (i) an Independent Auditor must determine that the PMs have experienced a market share loss, beyond a triggering threshold, to those manufacturers that do not participate in the MSA (such non-participating manufacturers being referred to as "NPMs"); and (ii) in a binding arbitration proceeding, a firm of independent economic consultants must find that the disadvantages of the MSA were a significant factor contributing to the loss of market share. This finding is known as a significant factor determination.

When the Adjustment Requirements are satisfied, the MSA provides that the NPM Adjustment applies to reduce the annual payment obligation of the PMs. However, an individual settling state may avoid its share of the NPM Adjustment if it had in place and diligently enforced during the entirety of the relevant year a "Qualifying Statute" that imposes escrow obligations on NPMs that are comparable to what the NPMs would have owed if they had joined the MSA. In such event, the state's share of the NPM Adjustment is reallocated to other settling states, if any, that did not have in place and diligently enforce a Qualifying Statute.

RJRT and Lorillard Tobacco are or were involved in NPM Adjustment proceedings concerning the years 2003 to 2017. In 2012, RJRT, Lorillard Tobacco, and SFNTC entered into an agreement (the "Term Sheet") with certain settling states that resolved accrued and potential NPM adjustments for the years 2003 through 2012 and, as a result, RJRT and SFNTC collectively received, or are to receive, more than U.S.$1.1 billion (approximately £863 million) in credits that, in substantial part, were applied to MSA payments in 2014 through 2017. After an arbitration panel ruled in September 2013 that six states had not diligently enforced their qualifying statutes in the year 2003, additional states joined the Term Sheet. RJRT executed the NPM Adjustment Settlement Agreement on 25 September 2017 (which incorporated the Term Sheet). Since the NPM Adjustment Settlement Agreement was executed, an additional 10 states have joined. NPM proceedings are ongoing and could result in further reductions of the companies' MSA-related payments.

On 18 January 2017, the State of Florida filed a motion to join ITG Brands LLC ("ITG") as a defendant and to enforce the Florida State Settlement Agreement, which motion seeks payment under the Florida State Settlement Agreement of approximately U.S.$45 million (approximately £35.3 million) with respect to the four brands (Winston, Salem, Kool and Maverick) that were sold to ITG in the divestiture of certain assets, on 12 June 2015, by subsidiaries or affiliates of RAI and Lorillard, together with the transfer of certain employees and certain liabilities, to a wholly owned subsidiary of Imperial Brands plc (the "Divestiture"), referred to as the Acquired Brands. The motion also claims future annual losses of approximately U.S.$30 million (approximately £23.6 million) absent the court's enforcement of the Florida State Settlement Agreement. The State's motion sought, among other things, an order declaring that RJRT and ITG are in breach of the Florida Settlement Agreement and are required, jointly and severally, to make annual payments to the State under the Florida State Settlement Agreement with respect to the Acquired Brands. In addition, on 18 January 2017, PM USA filed a motion to enforce the Florida State Settlement Agreement, asserting among other things that RJRT and ITG breached that agreement by failing to make settlement payments as to the Acquired Brands, which PM USA asserts has improperly shifted settlement payment obligations to PM USA. On 27 January 2017, RJRT sought leave to file a supplemental pleading for breach by ITG of its obligations regarding joinder into the Florida State Settlement Agreement. The Florida court, on 30 March 2017, ruled that ITG should be joined into the enforcement action.

After a bench trial, the court entered an order holding that RJRT (not ITG) is liable for annual settlement payments for the Acquired Brands, finding that ITG did not assume liability for annual settlement payments under the terms of the asset purchase agreement relating to the Divestiture and RJRT remained liable for payments under the Florida State Settlement Agreement as to the Acquired Brands. On 23 January 2018, RJRT filed a notice of appeal, and on 25 January 2018, RJRT filed an amended

notice of appeal, and PM USA filed a notice of appeal as to the court's ruling as to ITG. On 26 January 2018, the State moved for recovery of its attorneys' fees and costs from RJRT. The State and PM USA filed a joint motion for the entry of final judgment on 1 February 2018. The Court declined to enter a final judgment until after resolution of the dispute between RJRT and PM USA regarding PM USA's assertion that settlement payment obligations have been improperly shifted to PM USA. On 15 August 2018, the Court entered a Final Judgment in the action. As a result of the Court's Final Judgment, PM USA's challenge to RJRT's accounting assumptions related to the Acquired Brands was rendered moot, subject to reinstatement if ITG joins the Florida State Settlement Agreement or if judgment is reversed. On 29 August 2018, RJRT filed a notice of appeal on the Final Judgment. On 7 September 2018, PM USA filed a notice of appeal with respect to the court's ruling as to ITG. On 12 September 2018, RJRT filed a motion to consolidate RJRT's appeal with the appeal filed by PM USA, which was granted on 1 October 2018, RJRT's initial brief was due on 11 February 2019. Following an agreed extension, RJRT filed its initial appellate brief on 12 April 2019. RJRT will seek indemnification from ITG, if necessary. In January 2018, the auditor of the Florida State Settlement Agreement adjusted the final 2017 invoice for the annual payment and amended the 2015 and 2016 invoices for the respective annual payment and the net operating profit penalty for each of those years under the Florida Settlement Agreement, based on the auditor's interpretation of the court's order. The adjusted invoices reflected amounts due to both the State of Florida and PM USA. In total, the estimated additional amounts due were U.S.$99.4 million (approximately £78 million) with U.S.$83.5 million (approximately £65.6 million) to the State of Florida and U.S.$15.9 million (approximately £12.5 million) to PM USA. RJRT has advised the auditor that it disputes these amounts, and therefore no further amounts were due or would be paid for those years pending the final resolution of RJRT's appeal of the court's order. Those amounts were not paid.

On 17 February 2017, ITG filed an action in the Court of Chancery of the State of Delaware seeking declaratory relief and a motion for a temporary restraining order against RAI and RJRT. In its complaint, ITG asked the court to declare various matters related to its rights and obligations under the asset purchase agreement (and related documents) relating to the Divestiture. ITG sought an injunction barring RAI and/or RJRT from alleging in the Florida enforcement litigation that ITG had breached the asset purchase agreement and requiring these companies to litigate issues under the asset purchase agreement in Delaware. Following a hearing on ITG's complaint and motion on 1 March 2017, the Delaware court entered a temporary restraining order that enjoined RAI and RJRT from "taking offensive action to assert claims against ITG Brands" in the Florida enforcement action, but the order does not prevent RJRT from making arguments in response to claims asserted by the State of Florida, PM USA or ITG in the Florida enforcement litigation. On 24 March 2017, RAI and RJRT answered the ITG complaint and filed a motion to stay proceedings in Delaware pending the outcome of the Florida enforcement litigation, which motion was denied 18 May 2017. Cross motions for partial judgment on the pleadings were filed focusing on whether ITG's obligation to use "reasonable best efforts" to join the Florida State Settlement Agreement continued after the 12 June 2015 closing. On 30 November 2017, following argument, the Delaware court ruled in favour of RJRT, holding that ITG's obligation to use its reasonable best efforts to join the Florida Settlement Agreement did not terminate due to the closing of the asset purchase agreement relating to the Divestiture. On 4 January 2019, RJRT filed a motion for partial judgment on the pleadings seeking to resolve two contract interpretation questions under the asset purchase agreement: first, to the extent RJRT is held liable for any settlement payments based on post-closing sales of the Acquired Brands, ITG assumed this liability, and second, that the asset purchase agreement does not entitle ITG to a unique protection from an equity-fee law that does not yet exist in a Previously Settled State.

On 26 March 2018, the State of Minnesota filed a motion against RJRT to enforce the Minnesota State Settlement Agreement, which motion seeks payments under the Minnesota State Settlement Agreement of approximately U.S.$40 million (approximately £31.4 million) with respect to the Acquired Brands. The motion also claims future annual losses of approximately U.S.$15 million (approximately £11.8 million) absent the court's enforcement of the Minnesota State Settlement Agreement. The State of Minnesota

also filed a separate complaint against ITG, which complaint seeks the same payments. The State's motion against RJRT and complaint against ITG seek, among other things, an order declaring that RJRT and ITG are in breach of the Minnesota State Settlement Agreement and are jointly and severally liable to make annual payments to the State of Minnesota under the Minnesota State Settlement Agreement with respect to the Acquired Brands. In addition, on 28 March 2018, PM USA filed a motion to enforce the Minnesota State Settlement Agreement, asserting, among other things, that RJRT and ITG breached the Minnesota State Settlement Agreement by failing to make settlement payments as to the Acquired Brands, which PM USA asserts has improperly shifted settlement payment obligations to PM USA. On 27 March 2018, the Minnesota court consolidated the motions to enforce and complaint against ITG into one proceeding captioned in *re Petition of the State of Minnesota for an Order Compelling Payments of Settlement Proceeds Related to ITG Brands LLC*, Court File No. 62-CV-18-1912. On 11 June 2018, the court held a scheduling conference in the case and by order dated 21 June 2018, set a discovery schedule for the case. Discovery was scheduled to be completed by 31 March 2019. No trial date has yet been set.

On 28 January 2019, the State of Texas filed motions to join ITG as a defendant and to enforce the Texas State Settlement Agreement against RJRT and ITG, seeking payment under the Texas State Settlement Agreement of approximately U.S.$125 million (approximately £98 million) with respect to the Acquired Brands that were sold to ITG in the Divestiture. The motion also claims future annual losses of an unspecified amount absent the court's enforcement of the Texas State Settlement Agreement. The State's motion seeks, among other things, an order declaring that RJRT, or in the alternative, ITG, is in breach of the Texas Settlement Agreement and is required to make annual payments to the State under the Texas State Settlement Agreement with respect to the Acquired Brands. In addition, on 29 January 2019, PM USA filed a motion to enforce the Texas State Settlement Agreement, asserting among other things that RJRT and ITG breached that agreement by failing to make settlement payments as to the Acquired Brands, which PM USA asserts has improperly shifted settlement payment obligations to PM USA.

*(e) UK-Based Group Companies*

As at 31 December 2018, Investments has been served in one dormant individual action in the US (Perry) in which there has been no activity since 1998 following the plaintiff's death in 1997.

**Product Liability Outside the United States**

As at 31 December 2018:

(i) medical reimbursement actions are being brought in Angola, Argentina, Brazil, Canada, Nigeria and South Korea;

(ii) class actions are being brought in Brazil, Canada and Venezuela;

(iii) active tobacco product liability claims against the Group's companies existed in 14 markets outside the US. The only markets with five or more claims were Argentina, Brazil, Canada, Chile, Nigeria and Italy.

*(a) Medical reimbursement cases*

**Angola**

In or about November 2016, BAT Angola affiliate Sociedade Unificada de Tabacos de Angola ("SUT") was served with a collective action filed in the Provincial Court of Luanda, 2nd Civil Section, by the consumer association Associação Angolana dos Direitos do Consumidor ("AADIC"). The lawsuit seeks damages of AOA 800,000,000 (approximately £2 million) allegedly incurred by the Angolan Instituto Nacional do Controlo do Cancro ("INCC") for the cost of treating tobacco-related disease, non-material damages allegedly suffered by certain individual smokers on the rolls of INCC, and the mandating of

certain cigarette package warnings. SUT filed its answer to the claim on or about 5 December 2016. The case remains pending.

**Argentina**

In 2007, the non-governmental organisation the Argentina Tort Law Association ("ATLA") and Emma Mendoza Voguet brought a reimbursement action against Nobleza Piccardo S.A.I.C.y.F. ("Nobleza") and Massalín Particulares. The case is being heard in the Contentious Administrative Court and is currently at the evidentiary stage.

**Brazil**

In August 2007, the São Paulo Public Prosecutor's Office filed a medical reimbursement claim against Souza Cruz S.A. ("Souza Cruz"). A similar claim was lodged against Philip Morris Brasil Indústria e Comércio Ltda. On 4 October 2011, the Court dismissed the action against Souza Cruz, with a judgment on the merits. The plaintiffs' appeal to the Court of Appeal failed by unanimous vote (3 to 0). The Public Prosecutor's Office filed a Special Appeal to the Superior Court of Justice, which was denied on 12 November 2018 by a decision that is subject to further appeal.

**Canada**

On 1 March 2019, the Quebec Court of Appeal handed down a judgment which largely upheld and endorsed the lower court's previous decision in the Quebec Class Actions, as further described below. The share of the judgment for Imperial Tobacco Canada Limited ("Imperial"), the Group's operating company, is a maximum of approximately CAD$9.2 billion. On 12 March 2019, Imperial filed for creditor protection under the Companies' Creditors Arrangement Act (the "CCAA") as a result of this judgment and the ensuing consequences including the immediate attempts by the Quebec plaintiffs to obtain payment out of the CAD$758 million on deposit with the court, the fact that JTI-MacDonald Corp (a co-defendant in the cases) filed for creditor protection under the CCAA on 8 March 2019 and obtained a court ordered stay of all tobacco litigation in Canada as against all defendants (including RJRT and its affiliate R.J. Reynolds Tobacco International Inc. ("RJRTI") (collectively, the "RJR Companies")) until 4 April 2019, and the need for a process to resolve all of the outstanding litigation across the country. In its application Imperial asked the Ontario Superior Court to stay all pending or contemplated litigation in Canada against Imperial, certain of its subsidiaries and various other Group companies, including the UK Companies, which was granted until 11 April 2019. On 22 March 2019, Rothmans, Benson & Hedges Inc. (a Philip Morris subsidiary and the other defendant in the Quebec Class Actions) also filed for protection and obtained a stay of proceedings. The comeback hearings in all 3 applications were scheduled for 4 and 5 April 2019.

At the comeback hearing the initial stays (collectively, the "Stays") were extended to 28 June 2019. Warren Winkler was designated as a Court Appointed Mediator in all three proceedings and many of the objections filed were either resolved or adjourned until further hearing on 25 and 26 April 2019. It is anticipated that Mr. Winkler will become involved in facilitating the resolution of some of the objections. A motion by the Quebec plaintiffs to carve out from the Stays the current tolling period for leave to appeal to the Supreme Court of Canada was argued and, on 17 April 2019, the Court dismissed the motion. Instead, the Court reaffirmed that the Stays prohibited the commencement of any further proceedings by or against any of the CCAA applicants, except with leave of the Court, including any applications for leave to the Supreme Court of Canada. Further, the Court ruled that, to the extent any prescription, time or limitation period relating to any proceeding by or against the CCAA applicants that is stayed pursuant to the Court's order may expire, the term of such prescription, time or limitation period shall be deemed to be extended by a period equal to the stay period. The plaintiffs could seek leave to appeal this decision. The next comeback hearing has been set for 26 June 2019.

The below represents the state of the referenced litigation as at the advent of the Stays.

Following the implementation of legislation enabling provincial governments to recover healthcare costs directly from tobacco manufacturers, ten actions for recovery of healthcare costs arising from the treatment of smoking and health-related diseases have been brought. These proceedings name various Group companies as defendants, including BAT, Investments, Industries, Carreras Rothmans Limited (collectively the "UK Companies") and Imperial Tobacco Canada Limited ("Imperial"), the Group's operating company in Canada, as well as RJRT and RJRTI. Pursuant to the terms of the 1999 sale of RJRT's international tobacco business to Japan Tobacco Incorporated ("JTI"), JTI has agreed to indemnify RJRT for all liabilities and obligations (including litigation costs) arising in respect of the Canadian recoupment actions. Subject to a reservation of rights, JTI has assumed the defence of the RJR Companies in these actions.

The ten cases were proceeding in British Columbia, New Brunswick, Newfoundland and Labrador, Ontario, Quebec, Manitoba, Alberta, Saskatchewan, Nova Scotia and Prince Edward Island. The enabling legislation is in force in all ten provinces. In addition, legislation has received Royal Assent in two of the three territories in Canada, but has yet to be proclaimed into force.

In 2001, the government of British Columbia brought a claim pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2000 against domestic and foreign 'manufacturers' seeking to recover the plaintiff's costs of smoking-related healthcare benefits. Imperial, Investments, Industries, Carreras Rothmans Limited, the RJR Companies and certain former Rothmans Group companies are named as defendants. The defences of Imperial, Investments, Industries, Carreras Rothmans Limited and the RJR Companies have been filed, and document production and discoveries were ongoing. On 13 February 2017 the province delivered an expert report dated October 2016, quantifying its damages in the amount of CAD$118 billion (approximately £68 billion). No trial date has been set. The federal government is seeking CAD$5 million (approximately £2.9 million) jointly from all the defendants in respect of costs pertaining to the third-party claim, now dismissed.

The government of New Brunswick brought a healthcare reimbursement claim in May 2008, against domestic and foreign tobacco 'manufacturers', pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2006 enacted in that Province. Imperial, the UK Companies and the RJR Companies have all been named as defendants. The defences of Imperial, the UK Companies and the RJR Companies have been filed and document production and discoveries are substantially complete. The most recent expert report filed by the Province estimated a range of damages between CAD$11.1 billion (approximately £6.4 billion) – CAD$23.2 billion (approximately £13.4 billion), including expected future costs. Following a motion to set a trial date, the court ordered that the trial commence on 4 November 2019. On 7 March 2019, the New Brunswick Court of Queen's Bench released a decision which requires the Province to produce a substantial amount of additional documentation and data to the defendants. As a result, the original trial date of 4 November 2019 would have been delayed. No new trial date has been set.

The government of the Province of Ontario filed a healthcare reimbursement claim against domestic and foreign tobacco 'manufacturers', pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2009 enacted in that Province. Imperial, the UK Companies and the RJR Companies have all been named as defendants. The defences of Imperial, the UK Companies and the RJR Companies have been filed. The parties completed significant document production in summer of 2017 and discoveries commenced in the fall of 2018. On 15 June 2018, the province delivered an expert report quantifying its damages in the range of CAD$280 billion (approximately £161 billion) – CAD$630 billion (approximately £362 billion) in 2016/2017 dollars for the period 1954 – 2060, and the Province amended the damages sought in its Statement of Claim to CAD$330 billion (approximately £190 billion). On 31 January 2019, the Province delivered a further expert report claiming an additional CAD$9.4 billion (approximately £5.4 billion) – CAD$10.9 billion in damages (approximately £6.3 billion) in respect of environmental tobacco smoke. No trial date has been set.

The government of the Province of Newfoundland and Labrador filed a healthcare reimbursement claim in February 2011 against domestic and foreign tobacco 'manufacturers', pursuant to the provisions of the Tobacco Health Care Costs Recovery Act 2001 enacted in that Province. Imperial, the UK Companies and the RJR Companies have all been named as defendants. The case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the province began its document production in March 2018. Damages have not been quantified by the province. No trial date has been set.

The government of the Province of Saskatchewan filed a healthcare reimbursement claim in June 2012 against domestic and foreign tobacco 'manufacturers', pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2007 enacted in that Province. Imperial, the UK Companies and the RJR Companies have all been named as defendants. This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the province has delivered a test shipment of documents. Damages have not been quantified by the province. No trial date has been set.

The government of the Province of Manitoba filed a healthcare reimbursement claim in May 2012 against domestic and foreign tobacco 'manufacturers', pursuant to the provisions of the Tobacco Damages Health Care Costs Recovery Act 2006 enacted in that Province. Imperial, the UK Companies and the RJR Companies have all been named as defendants. This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and document production is underway. Damages have not been quantified by the province. No trial date has been set.

The government of the Province of Alberta filed a healthcare reimbursement claim in June 2012 against domestic and foreign tobacco 'manufacturers', pursuant to the provisions of the Crown's Right of Recovery Act 2009 enacted in that Province. Imperial, the UK Companies and the RJR Companies have all been named as defendants. This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and document production is underway. The province has stated its claim to be worth CAD$10 billion (approximately £5.7 billion). No trial date has been set.

The government of the Province of Quebec filed a healthcare reimbursement claim in June 2012 against domestic and foreign tobacco 'manufacturers,' pursuant to the provisions of the Tobacco Related Damages and Health Care Costs Recovery Act 2009 enacted in that Province. Imperial, Investments, Industries, the RJR Companies and Carreras Rothmans Limited have been named as defendants. The case is at an early case management stage. The defences of Imperial, Investments, Industries, Carreras Rothmans Limited and the RJR Companies have been filed. Motions over admissibility of documents and damages discovery have been filed but not heard. The province is seeking CAD$60 billion (approximately £34.4 billion). No trial date has been set.

The government of the Province of Prince Edward Island filed a healthcare reimbursement claim in September 2012 against domestic and foreign tobacco 'manufacturers', pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2009 enacted in that Province. Imperial, the UK Companies and the RJR Companies have all been named as defendants. This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the next step was expected to be document production, which the parties have deferred for the time being. Damages have not been quantified by the province. No trial date has been set.

The government of the Province of Nova Scotia filed a healthcare reimbursement claim in January 2015 against tobacco industry defendants pursuant to the provisions of the Tobacco Health Care Costs Recovery Act 2005 enacted in that Province. Imperial, the UK Companies and the RJR Companies have all been named as defendants. This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed. The province provided a test

document production in March 2018. Damages have not been quantified by the province. No trial date has been set.

**Nigeria**

British American Tobacco (Nigeria) Limited ("BAT Nigeria"), BAT and Investments have been named as defendants in a medical reimbursement action by the federal government of Nigeria, filed on 6 November 2007 in the Federal High Court, and in similar actions filed by the Nigerian states of Kano (9 May 2007), Oyo (30 May 2007), Lagos (13 March 2008), Ogun (26 February 2008), and Gombe (17 October 2008) commenced in their respective High Courts. In the five cases that remain active, the plaintiffs seek a total of approximately 10.6 trillion Nigerian naira (approximately £22.9 billion) in damages, including special, anticipatory and punitive damages, restitution and disgorgement of profits, as well as declaratory and injunctive relief.

The suits claim that the state and federal government plaintiffs incurred costs related to the treatment of smoking-related illnesses resulting from allegedly tortious conduct by the defendants in the manufacture, marketing, and sale of tobacco products in Nigeria, and assert that the plaintiffs are entitled to reimbursement for such costs. The plaintiffs assert causes of action for negligence, negligent design, fraud and deceit, fraudulent concealment, breach of express and implied warranty, public nuisance, conspiracy, strict liability, indemnity, restitution, unjust enrichment, voluntary assumption of a special undertaking, and performance of another's duty to the public

BAT and Investments have made a number of challenges to the jurisdiction of the Nigerian courts. Such challenges are still pending (on appeal) against the federal government and the states of Lagos, Kano, Gombe and Ogun. The underlying cases are stayed or adjourned pending the final outcome of these jurisdictional challenges. In the state of Oyo, on 13 November 2015, and 24 February 2017 respectively, BAT's and Investments' jurisdictional challenges were successful in the Court of Appeal and the issuance of the writ of summons was set aside.

**South Korea**

In April 2014, Korea's National Health Insurance Service ("NHIS") filed a healthcare recoupment action against KT&G (a Korean tobacco company), PM Korea and BAT Korea (including BAT Korea Manufacturing). The NHIS is seeking damages of roughly 54 billion Korean Won (approximately £38 million) in respect of health care costs allegedly incurred by the NHIS treating patients with lung (small cell and squamous cell) and laryngeal (squamous cell) cancer between 2003 and 2012. Court hearings in the case, which constitute the trial, commenced in September 2014 and remain ongoing.

*(b) Class Actions*

**Brazil**

There are currently two class actions being brought in Brazil. One is also a medical reimbursement claim (São Paulo Public Prosecutor's Office), and is therefore discussed above.

In 1995, the Associação de Defesa da Saúde do Fumante ("ADESF") class action was filed against Souza Cruz and Philip Morris in the São Paulo Lower Civil Court alleging that the defendants are liable to a class of smokers and former smokers for failing to warn of cigarette addiction. The case was stayed in 2004 pending the defendants' appeal from a decision issued by the Lower Civil Court that held that the defendants had not met their burden of proving that cigarette smoking was not addictive or harmful to health.

On 12 November 2008, the São Paulo Court of Appeals overturned the lower court's unfavourable decision of 2004, returning the case to the lower court for production of evidence and a new judgment. Following production of evidence, on 16 May 2011, the lower court granted Souza Cruz's motion to dismiss the action in its entirety on the merits. The plaintiffs' appeal to the Sao Paolo Court of Appeals

was unsuccessful. The plaintiffs then filed a Special Appeal to the Superior Court of Justice, which was rejected under procedural grounds on 20 February 2017. The plaintiffs filed an appeal of the rejection in the Superior Court of Justice on 15 March 2017.

**Canada**

As noted above, on 1 March 2019, the Quebec Court of Appeal handed down a judgment which largely upheld and endorsed the lower court's previous decision in the Quebec Class Actions, as further described below. The share of the judgment for Imperial, the Group's operating company, is a maximum of approximately CAD$9.2 billion. On 12 March 2019, Imperial filed for creditor protection under the CCAA as a result of this judgment and the ensuing consequences including the immediate attempts by the Quebec plaintiffs to obtain payment out of the CAD$758 million on deposit with the court, the fact that JTI-MacDonald Corp (a co-defendant in the cases) filed for creditor protection under the CCAA on 8 March 2019 and obtained a court ordered stay of all tobacco litigation in Canada as against all defendants (including the RJR Companies) until 4 April 2019, and the need for a process to resolve all of the outstanding litigation across the country. In its application Imperial asked the Ontario Superior Court to stay all pending or contemplated litigation in Canada against Imperial, certain of its subsidiaries and various other Group companies, including the UK Companies, which was granted until 11 April 2019. On 22 March 2019, Rothmans, Benson & Hedges Inc. (a Philip Morris subsidiary and the other defendant in the Quebec Class Actions) also filed for protection and obtained a stay of proceedings. The comeback hearings in all 3 applications were scheduled for 4 and 5 April 2019.

At the comeback hearing the Stays were extended to 28 June 2019. Warren Winkler was designated as a Court Appointed Mediator in all three proceedings and many of the objections filed were either resolved or adjourned until further hearing on 25 and 26 April 2019. It is anticipated that Mr. Winkler will become involved in facilitating the resolution of some of the objections. A motion by the Quebec plaintiffs to carve out from the Stays the current tolling period for leave to appeal to the Supreme Court of Canada was argued and, on 17 April 2019, the Court dismissed the motion. Instead, the Court reaffirmed that the Stays prohibited the commencement of any further proceedings by or against any of the CCAA applicants, except with leave of the Court, including any applications for leave to the Supreme Court of Canada. Further, the Court ruled that, to the extent any prescription, time or limitation period relating to any proceeding by or against the CCAA applicants that is stayed pursuant to the Court's order may expire, the term of such prescription, time or limitation period shall be deemed to be extended by a period equal to the stay period. The plaintiffs could seek leave to appeal this decision. The next comeback hearing has been set for 26 June 2019.

The below represents the state of the referenced litigation as at the advent of the Stays.

There are 11 class actions being brought in Canada against Group companies.

*Knight Class Action*: The Supreme Court of British Columbia certified a class of all consumers who purchased Imperial cigarettes in British Columbia bearing 'light' or 'mild' descriptors since 1974. The plaintiff is seeking compensation for amounts spent on 'light and mild' products and a disgorgement of profits from Imperial on the basis that the marketing of light and mild cigarettes was deceptive because it conveyed a false and misleading message that those cigarettes are less harmful than regular cigarettes.

On appeal, the appellate court confirmed the certification of the class, but limited any financial liability, if proven, to 1997 onward. Imperial's third party claim against the federal government was dismissed by the Supreme Court of Canada. The federal government is seeking a cost order of CAD$5 million (approximately £2.9 million) from Imperial relating to its now dismissed third party claim. After being dormant for several years, the plaintiff delivered a Notice of Intention to Proceed, and Imperial delivered an application to dismiss the action for delay. The application was heard on 23 June 2017 and was dismissed on 23 August 2017. Notice to class members of certification was provided on 14 February 2018. As at the date of the Stays, the next steps were expected to include discovery-related ones.

*Growers' Class Action*: In December 2009, Imperial was served with a proposed class action filed by Ontario tobacco farmers and the Ontario Flue-Cured Tobacco Growers' Marketing Board. The plaintiffs allege that Imperial and the Canadian subsidiaries of Philip Morris International and JTI failed to pay the agreed domestic contract price to the growers used in products manufactured for the export market and which were ultimately smuggled back into Canada. JTI has sought indemnification pursuant to the JTI Indemnities (discussed below). The plaintiffs seek damages in the amount of CAD$50 million (approximately £28.7 million). Various preliminary challenges have been heard, the last being a motion for summary judgment on a limitation period. The motion was dismissed and ultimately, leave to appeal to the Ontario Court of Appeal was dismissed in November 2016. In December 2017, the plaintiffs proposed that the action proceed by way of individual actions as opposed to a class action. The defendants did not consent. As at the date of the Stays, the claim was in abeyance pending further action from the plaintiffs.

*Quebec Class Actions*: There are currently two class actions in Quebec. On 21 February 2005, the Quebec Superior Court granted certification in two class actions against Imperial and two other domestic manufacturers. The Court certified two classes, with the class definitions being revised in the judgment rendered 27 May 2015. One class consists of residents of Quebec who (a) smoked before 20 November 1998 at least 12 pack years of cigarettes manufactured by the Defendants; and (b) were diagnosed before 12 March 2012 with: lung cancer, or cancer (squamous cell carcinoma) of the throat, or emphysema. The group also includes the heirs of persons deceased after 20 November 1998 who meet the criteria described above. The second consists of residents of Quebec who, as of 30 September 1998, were addicted to nicotine contained in cigarettes and who in addition meet the following three criteria: (a) they started smoking before 30 September 1994 by smoking cigarettes manufactured by the Defendants; (b) between 1 September and 30 September 1998 they smoked on average at least 15 cigarettes manufactured by the Defendants on a daily basis; and (c) they still smoked an average of at least 15 cigarettes manufactured by the Defendants as of 21 February 2005, or until their death if it occurred before that date. The group also includes the heirs of members who meet the criteria described above. Pursuant to the judgment, the plaintiffs were awarded damages and interest against Imperial and the Canadian subsidiaries of Philip Morris International and JTI in the amount of CAD$15.6 billion (approximately £9 billion), of which Imperial's share is CAD$10.4 billion (approximately £6 billion). An appeal of the judgment was filed on 26 June 2015. The Court also awarded provisional execution pending appeal of CAD$1,131 million (approximately £650 million), of which Imperial's share was approximately CAD$742 million (approximately £427 million). This order was subsequently overturned by the Court of Appeal. Following the cancellation of the order for provisional execution, the plaintiffs filed a motion against Imperial and one other manufacturer seeking security in the amount of CAD$5 billion (approximately £2.9 billion) to guarantee, in whole or in part, the payment of costs of the appeal and the judgment. On 27 October 2015, the Court of Appeal ordered the parties to post security in the amount of CAD$984 million (approximately £566 million), of which Imperial's share was CAD$758 million (approximately £436 million), The security was paid in seven equal quarterly instalments of just over CAD$108 million (approximately £62 million) between 31 December 2015 and 30 June 2017. Imperial filed its Factum on Appeal on 11 December 2015 and the appeal was heard in November 2016. On 1 March 2019 the trial judgment was upheld by a unanimous decision of the five-member panel of the Court of Appeal, with one exception being an amendment to the original interest calculation on the Blais judgment. The interest adjustment has resulted in the reduction of the total maximum award in the two cases to CAD$13.7 billion as of 1 March 2019, with Imperial's share being reduced to a maximum of approximately CAD$9.2 billion. The Court of Appeal also upheld the payment of the initial deposits into the defendants' solicitors' trusts account within 60 days, totalling approximately CAD$1.13 billion. Imperial's initial deposit is CAD$759.2 million. Imperial has already paid CAD$758 million into court as security for the judgment.

*Other Canadian Smoking and Health Class Actions*: Seven putative class actions, described below, have been filed against various Canadian and non-Canadian tobacco-related entities, including the UK

Companies, Imperial and the RJR Companies, in various Canadian Provinces. In these cases, none of which have quantified their asserted damages, the plaintiffs allege claims based on fraud, fraudulent concealment, breach of warranty of merchantability, and of fitness for a particular purpose, failure to warn, design defects, negligence, breach of a "special duty" to children and adolescents, conspiracy, concert of action, unjust enrichment, market share liability, and violations of various trade practices and competition statutes. Pursuant to the terms of the 1999 sale of RJRT's international tobacco business, RJRT has tendered to JTI the defence of these seven actions (Semple, Kunka, Adams, Dorion, Bourassa, McDermid and Jacklin, discussed below). Subject to a reservation of rights, JTI has assumed the defence of the RJR Companies in these actions.

In June 2009, four smoking and health class actions were filed in Nova Scotia (Semple), Manitoba (Kunka), Saskatchewan (Adams) and Alberta (Dorion) against various Canadian and non-Canadian tobacco-related entities, including the UK Companies, Imperial and the RJR Companies. In Saskatchewan, the UK Companies have been released from the action, and the RJR Companies have brought a motion challenging the jurisdiction of the court. No date has been set in these cases with respect to the certification motion hearing. There are service issues in relation to Imperial and the UK Companies in Alberta and in relation to the UK Companies in Manitoba.

In June 2010, two further smoking and health class actions were filed in British Columbia against various Canadian and non-Canadian tobacco-related entities, including Imperial, the UK Companies and the RJR Companies. The Bourassa claim is allegedly on behalf of all individuals who have suffered chronic respiratory disease and the McDermid claim proposes a class based on heart disease. Both claims state that they have been brought on behalf of those who have "smoked a minimum of 25,000 cigarettes." The UK Companies, Imperial, the RJR Companies and other defendants objected to jurisdiction. Subsequently, BAT and Carreras Rothmans Limited were released from Bourassa and McDermid. Imperial, Industries, Investments and the RJR Companies remain as defendants in both actions. No certification motion hearing date has been set. The Plaintiffs were due to deliver certification motion materials by 31 January 2015, but have not yet done so.

In June 2012, a new smoking and health class action was filed in Ontario (Jacklin) against various Canadian and non-Canadian tobacco-related entities, including the UK Companies, Imperial and the RJR Companies. The claim is presently in abeyance.

**Venezuela**

In April 2008, the Venezuelan Federation of Associations of Users and Consumers (FEVACU) and Wolfang Cardozo Espinel and Giorgio Di Muro Di Nunno, acting as individuals, filed a class action against the Venezuelan government. The class action seeks regulatory controls on tobacco and recovery of medical expenses for future expenses of treating smoking-related illnesses in Venezuela. Both C.A Cigarrera Bigott Sucs. ("Cigarrera Bigott"), a Group subsidiary, and ASUELECTRIC, represented by its president Giorgio Di Muro Di Nunno (who had previously filed as an individual), have been admitted as third parties by the Constitutional Chamber of the Supreme Court of Justice. A hearing date for the action is yet to be scheduled. On 25 April 2017 and on 23 January 2018, Cigarrera Bigott requested the Court to declare the lapsing of the class action due to no proceedings taking place in the case in over a year. A ruling on the matter is yet to be issued.

*(c) Individual tobacco related personal injury claims*

As at 31 December 2018, the jurisdictions with the most active individual cases against Group companies were, in descending order: Brazil (56), Italy (25), Chile (10), Canada (5), Argentina (5) and Ireland (2). There were a further four jurisdictions with one active case only. Out of the 107 active individual tobacco related personal injury claims, two have received unfavourable verdicts in either the court of first instance or on appeal. The total value of those unfavourable verdicts is approximately €801,954 (approximately £719,819).

## Non-Tobacco Related Litigation

### Croatian Distributor Dispute

BAT Hrvatska d.o.o u likvidaciji and British American Tobacco Investments (Central and Eastern Europe) Limited are named as defendants in a claim by Mr Perica received on 22 August 2017 and brought before the commercial court of Zagreb, Croatia. Mr Perica seeks damages of HRK 408,401,866.15 (approximately £49 million) relating to a BAT Standard Distribution Agreement dating from 2005. BAT Hrvatska d.o.o and British American Tobacco Investments (Central and Eastern Europe) Limited filed a reply to the statement of claim on 6 October 2017. A hearing had been scheduled to take place on 10 May 2018, but it was postponed due to a change of the judge hearing the case. The Commercial Court in Zagreb declared they do not have jurisdiction and that the competent court to hear this case is the Municipal Court in Zagreb. TDR d.o.o. is also named as the defendant in a claim by Mr Perica received on 30 April 2018 and brought before the commercial court of Zagreb, Croatia. Mr. Perica seeks payment in the amount of HRK 408,401,866.15 (approximately £49 million) claiming that BAT Hrvatska d.o.o. transferred a business unit to TDR d.o.o, thus giving rise to a liability of TDR d.o.o. for the debts incurred by BAT Hrvatska d.o.o, on the basis of the provisions of Croatian civil obligations law. A response to the statement of claim was filed on 30 May 2018. The Commercial Court in Zagreb declared they do not have jurisdiction and that the competent court to hear this case is the Municipal Court in Pula. Mr Perica filed an appeal against this decision which was rejected by the High Commercial Court of The Republic of Croatia confirming therewith that the competent court to hear this case is the Municipal Court in Pula.

### Reynolds American Inc. / Lorillard, Inc. Shareholder Litigation

On 15 July 2014, RAI announced that it had entered into a definitive merger agreement with Lorillard, whereby RAI would acquire Lorillard in exchange for a combination of cash and RAI stock (the “Lorillard Transaction”). As part of this transaction, BAT executed a Share Purchase Agreement to acquire a sufficient number of RAI’s shares to maintain its approximately 42.2 per cent. equity stake in RAI after the merger.

On 8 August 2014, BAT was named as a defendant in an action in state court in North Carolina (Corwin v British American Tobacco PLC) stemming from the announcement of the Lorillard Transaction. The action was brought on behalf of a putative class of RAI’s shareholders alleging that BAT is a controlling shareholder of RAI and breached its fiduciary duty to the other RAI’s shareholders in connection with the Lorillard Transaction. The plaintiff alleges that as part of an equity financing to support the Lorillard Transaction, BAT purchased newly issued RAI stock at an amount alleged to be up to U.S.$920 million (approximately £722 million) below fair value. RAI and the members of the RAI Board of Directors were also named as defendants.

RAI believed that the Corwin action was without merit. However, to eliminate certain burdens, expenses and uncertainties, on 17 January 2015, RAI and the director defendants in Corwin entered into the North Carolina Memorandum of Understanding regarding the settlement of the disclosure claims asserted in that lawsuit. The North Carolina Memorandum of Understanding outlines the terms of the parties’ agreement in principle to settle and release the disclosure claims which were or could have been asserted in Corwin. In consideration of the partial settlement and release, RAI agreed to make certain supplemental disclosures to the Joint Proxy Statement/Prospectus, which it did on 20 January 2015. On 17 February 2016, the trial court approved the partial settlement, including the plaintiff’s unopposed request for U.S.$415,000 (approximately £326,000) in attorneys’ fees and costs. The partial settlement did not affect the consideration paid to Lorillard shareholders in connection with the Lorillard Merger.

On 4 August 2015, the trial court granted the defendants’ motions to dismiss all of the remaining non-disclosure claims. On 28 August 2015, the court dismissed all claims against BAT. Among other things, the court found that the plaintiff had not properly alleged that BAT was a controlling shareholder of RAI and therefore that BAT did not owe a fiduciary duty to RAI’s other shareholders. The plaintiff appealed.

On 20 December 2016, the North Carolina Court of Appeals affirmed the trial court's dismissal of the claims against RAI and RAI's Board of Directors on the grounds that the plaintiff could not state a direct claim against RAI's Board of Directors for breach of fiduciary duties. That court reversed the trial court's judgment with respect to the claims against BAT, finding the allegations that BAT was a controlling shareholder and breached its fiduciary duty to be sufficient to warrant further proceedings for the plaintiff to attempt to prove those allegations with evidence. On 4 January 2017, BAT moved to have the North Carolina Court of Appeals rehear the case en banc, and that motion was denied on 2 February 2017. On 17 February 2017, BAT filed a petition for discretionary review with the North Carolina Supreme Court, which the court allowed on 9 June 2017. On 7 December 2018, after briefing and oral argument, the North Carolina Supreme Court reversed the decision of the Court of Appeals, finding insufficient the plaintiff's allegations that BAT was a controlling shareholder of RAI and effectively reinstating the trial court's dismissal of the claims against BAT. On 11 January 2019, the plaintiff filed a petition for rehearing with the North Carolina Supreme Court, which was denied on 30 January 2019.

**BAT/Reynolds American Inc. Shareholder Litigation**

Following BAT's acquisition of the remaining 57.8 per cent. of RAI in July 2017, pursuant to North Carolina law, under which RAI was incorporated, a number of RAI shareholders dissented and asserted their rights to a judicial appraisal of the value of their RAI stock. On 29 November 2017, RAI filed a Complaint for Judicial Appraisal in state court in North Carolina against 20 dissenting shareholders, comprised of three groups of affiliated entities claiming price per share values of U.S.$81.21, U.S.$88.16 and U.S.$94.33 respectively. The complaint asks the court to determine the fair value of the dissenting shareholders' shares in RAI and any accrued interest. Trial is currently scheduled to be held no earlier than June 2019.

**Glo Litigation**

On 22 June 2018, an affiliate of Philip Morris International ("PMI") commenced proceedings against British American Tobacco Japan, Ltd. in the Japanese courts challenging the manufacture, import and sale of the glo device and of the NeoStik consumable in Japan, alleging that the glo devices directly infringe certain claims of the two Japanese patents that have been issued to the PMI affiliate and that the NeoStiks indirectly infringe certain claims of those patents. On 17 January 2019, the PMI affiliate has introduced new grounds of infringement, alleging that the glo device also infringes some other claims in the two PMI Japanese patents. Damages for the glo device and NeoStik are claimed in the court filing, to the amount of 100 million Yen (approximately £715,650). The PMI affiliate has also filed a request for injunction with respect to the glo device. BAT denies infringement and is challenging the validity of the two PMI Japanese patents.

**Mozambican IP Litigation**

On 19 April 2017, Sociedade Agrícola de Tabacos, Limitada ("SAT") (a Group company in Mozambique) filed a complaint to the National Inspectorate for Economic Activities ("INAE"), the government body under the Ministry of Industry and Trade, regarding alleged infringements of its registered trademark ("GT") by GST. INAE subsequently seized the allegedly infringing products ("GS cigarettes") and fined and ordered GST to discontinue manufacturing products that could infringe SAT's intellectual property rights. Following INAE's decision, in July 2017 and March 2018, SAT sought damages via the Judicial Court of Nampula, from GST in the amount of and equivalent to £572,907 as well as a permanent restraint order in connection with the manufacturing and selling of the allegedly infringing products. The Judicial Court of Nampula (Tribunal Judicial de Nampula) granted the order on an interim basis on 7 August 2017. After hearing the parties, on 5 September 2017, the Court found that no alleged infringement by GST had occurred and removed the interim restraint order, this decision was appealed by SAT and is currently pending a decision. GST filed an application for review against INAE's initial decision directly to the Minister of Trade and Industry, which reversed the decision of INAE. On 31 December 2018, SAT was notified of GST's counterclaim against SAT at the Judicial Court of Nampula

for damages allegedly sustained as a result of SAT's complaint to INAE (and INAE's decision). GST is seeking damages in the amount equivalent to £190 million. On 31 January 2019 SAT filed a formal response to the counterclaim.

**Fox River**

***Background to environmental liabilities arising out of contamination of the Fox River***

In Wisconsin, the authorities have identified potentially responsible parties ("PRPs") to fund the clean-up of river sediments in the lower Fox River. The pollution was caused by discharges of Polychlorinated Biphenyls ("PCBs") from paper mills and other facilities operating close to the river. Among the PRPs is NCR Corporation ("NCR").

In NCR's Form 10-K Annual Report for the year ended 31 December 2014, which is the most recent public source available, the total clean-up costs for the Fox River are estimated at U.S.$825 million (approximately £648 million). This estimate is subject to uncertainties and does not include natural resource damages ("NRDs"). Total NRDs may range from U.S.$0 to U.S.$246 million (approximately £0 - £193 million).

Industries' involvement with the environmental liabilities arises out of indemnity arrangements which it became party to due to a series of transactions that took place from the late-1970s onwards and subsequent litigation brought by NCR against Industries and Appvion Inc. ("Appvion") (a former Group subsidiary) in relation to those arrangements which was ultimately settled. US authorities have never identified Industries as a PRP.

There has been a substantial amount of litigation in the United States involving NCR and Appvion regarding the responsibility for the costs of the clean-up operations. The US Government also brought enforcement proceedings against NCR and Appvion to ensure compliance with regulatory orders made in relation to the Fox River clean-up. This litigation has been settled through agreements with other PRPs and a form of settlement known as a Consent Decree with the US Government.

The principal terms of the Consent Decree, in summary, are as follows:

(i) NCR will perform and fund all of the remaining Fox River remediation work by itself.

(ii) The US Government enforcement proceedings will be settled, with NCR having no liability to meet the US Government's claim for costs it has incurred in relation to the clean-up to date and only a secondary responsibility to meet certain future costs. NCR will have no liability to the US Government for NRDs.

(iii) NCR will cease to pursue its contribution claims against the other PRPs and in return will receive contribution protection which means that the other PRPs will not be able to pursue their contribution claims against NCR. NCR will, however, have the right to reinstate its contribution claims if the other PRPs decide to continue to pursue certain contractual claims against NCR.

(iv) Appvion will also cease to pursue its claims against the other PRPs to recover monies that it has spent on the clean-up and in return will receive contribution protection. Appvion will, however, have the right to reinstate its claims if the other PRPs decide to continue to pursue certain claims against Appvion.

The Consent Decree was approved by the District Court in Wisconsin on 23 August 2017. The US Government enforcement action against NCR was terminated as a result of that order. The PRPs' claims for contribution against NCR were dismissed by order of the District Court in Wisconsin given on 11 October 2017.

On 20 October 2017 P.H. Glatfelter filed an appeal against the approval of the Consent Decree in the U.S. Court of Appeals for the Seventh Circuit.

On 4 January 2019 the US Department of Justice filed a motion for approval of a separate Consent Decree with Georgia-Pacific and P.H. Glatfelter. This Consent Decree settles the allocation of costs of the remaining remediation work on the Fox River and, if approved, will lead to P. H. Glatfelter withdrawing its 20 October 2017 appeal. Approval of this Consent Decree should therefore conclude all current Fox River litigation.

***Industries' involvement with environmental liabilities arising out of the contamination of the Fox River***

NCR has taken the position that, under the terms of a 1998 Settlement Agreement between it, Appvion and Industries and a 2005 arbitration award, Industries and Appvion generally had a joint and several obligation to bear 60 per cent. of the Fox River environmental remediation costs imposed on NCR and of any amounts NCR has to pay in respect of other PRPs' contribution claims. BAT has not acknowledged any such liability to NCR and has defences to such claims. Further, under the terms of the Funding Agreement (described above and below) any dispute between Industries and NCR as to the final amount of any NCR claim against Industries in respect of the Fox River (if any) can only be determined at the later of (i) the completion of Fox River remediation works or (ii) the final resolution and exhaustion of all possible appeals in the proceedings against Sequana, PricewaterhouseCoopers LLP (PwC) and other former advisers.

Until May 2012, Appvion and Windward (another former Group subsidiary) paid 60 per cent. share of the clean-up costs and Industries was never required to contribute. Around that time Appvion refused to continue to pay clean-up costs, leading to NCR demanding that Industries pay a 60 per cent. share.

Industries commenced proceedings against Windward and Appvion in December 2011 seeking indemnification in respect of any liability it might have to NCR (the "English Indemnity Proceedings") pursuant to a 1990 de-merger agreement between those parties.

***Funding Agreement of 30 September 2014***

On 30 September 2014, Industries entered into the Funding Agreement with Windward, Appvion, NCR and BTI 2014 LLC ("BTI") (a wholly owned subsidiary of Industries). Pursuant to the Funding Agreement, the English Indemnity Proceedings and a counterclaim Appvion had brought in those proceedings, as well as an NCR-Appvion arbitration concerning Appvion's indemnity to NCR, were discontinued as part of an overall agreement between the parties providing a framework through which they would together fund the ongoing costs of the Fox River clean-up. Under the agreement, NCR has agreed to accept funding by Industries at the lower level of 50 per cent. of the ongoing clean-up related costs of the Fox River (rather than the 60 per cent. referenced above; this remains subject to an ability to litigate at a later stage the extent of Industries' liability in relation to Fox River clean-up related costs (including in respect of the 50 per cent. of costs that Industries has paid under the Funding Agreement to date). In addition Windward has contributed U.S.$10 million (approximately £7.8 million) of funding and Appvion has contributed U.S.$25 million (approximately £19.6 million) for Fox River and agreed to contribute U.S.$25 million (approximately £19.6 million) for the Kalamazoo River (see further below). Appvion entered Chapter 11 bankruptcy protection on 1 October 2017.

The parties also agreed to cooperate in order to maximise recoveries from certain claims made against third parties, including (i) a claim commenced by Windward in the High Court of England & Wales (the "High Court") against Sequana and the former Windward directors (the "Windward Dividend Claim"). That claim was assigned to BTI under the Funding Agreement, and relates to dividend payments made by Windward to Sequana of around €443 million (approximately £398 million) in 2008 and €135 million (approximately £121 million) in 2009 (the "Dividend Payments") and (ii) a claim commenced by Industries directly against Sequana to recover the value of the Dividend Payments alleging that the dividends were paid for the purpose of putting assets beyond the reach of Windward's creditors (including Industries) (the "BAT section 423 Claim").

A trial of the Windward Dividend Claim and the BAT section 423 Claim took place before the English High Court between February and April 2016. Judgment was handed down by the High Court on 11 July 2016. The Court held that the 2009 Dividend Payment of €135 million (approximately £121 million) was a transaction at an undervalue made with the intention of putting assets beyond the reach of Industries or of otherwise prejudicing Industries' interests. It therefore contravened Section 423 of the Insolvency Act. The Court dismissed the Windward Dividend Claim. BTI sought permission to appeal in respect of the Judge's findings in relation to the Windward Dividend Claim. Sequana sought permission to appeal the Judge's findings in relation to the BAT section 423 claim.

On 13 and 16 January 2017 and 3 February 2017 further hearings took place to determine the precise form of relief to be awarded to Industries and to hear the parties' applications for permission to appeal. Judgment was handed down on 10 February 2017. In respect of relief, the Court ordered that Sequana must pay BTI an amount up to the full value of the 2009 Dividend plus interest which equates to around U.S.$185 million (approximately £145 million). This figure is subject to increase as interest is continuing to accrue. Sequana must make an initial payment of around U.S.$138.4 million (approximately £108.7 million) and further payments going forward as and when Industries makes payments in respect of clean-up costs. In respect of appeals, the Court granted BTI and Sequana permission to appeal (the "Sequana Claims Appeal"). The Court also granted Sequana a stay in respect of the above payments. The stay was lifted in May 2017.

In February 2017 Sequana entered into a process in France seeking court protection (the "Sauvegarde"). Sequana exited the Sauvegarde in June 2017. To date, Industries has not received any payments from Sequana.

In June 2018, the Court of Appeal heard arguments in the Sequana Claims Appeal. On 6 February 2019 the Court of Appeal gave judgment upholding the High Court's findings, with one immaterial change to the method of calculating the damages awarded. Sequana therefore remains liable to pay approximately U.S.$185 million (approximately £145 million). However, following the Court of Appeal judgment, Sequana entered into receivership in France, thus staying the execution of the U.S.$185 million judgment in favour of BAT. The Court of Appeal dismissed BTI's appeal in relation to the Windward Dividend Claim. The Court of Appeal also dismissed Sequana's application for permission to appeal the High Court's costs order in favour of Industries. Sequana therefore remains liable to pay around £10 million in costs to Industries. The Court of Appeal made no order as to the costs of the appeal. All parties to the appeal sought permission from the Court of Appeal for a further appeal to the U.K. Supreme Court. The Court of Appeal refused the applications. Industries and BTI are considering requesting permission to appeal directly from the Supreme Court.

BTI has brought claims against certain of Windward's former advisers, including Windward's auditors at the time of the dividend payments, PwC (which claims were also assigned to BTI under the Funding Agreement). The claim was stayed while the Windward Dividends claim and the BAT section 423 Claim were heard. Following the Court of Appeal judgment in the Sequana Claims Appeal, BTI is now pursuing its assigned claim against PwC.

A stay is also being agreed in respect of BTI's separate assigned claim against Freshfields Bruckhaus Deringer.

The sums Industries has agreed to pay under the Funding Agreement are subject to ongoing adjustment, as clean-up costs can only be estimated in advance of the work being carried out and as certain sums payable are the subject of ongoing US litigation. In 2018, Industries paid £25 million in respect of clean-up costs and is potentially liable for further costs associated with the clean-up. Industries has a provision of £108 million which represents the current best estimate of its exposure.

**Kalamazoo**

NCR is also being pursued by Georgia-Pacific, as the owner of a facility on the Kalamazoo River in Michigan which released PCBs into that river. Georgia-Pacific has been designated as a PRP in respect of the river.

Georgia-Pacific contends that NCR is responsible for, or should contribute to, the clean-up costs, because:

(i) a predecessor to NCR's Appleton Papers Division sold "broke" containing PCBs to Georgia-Pacific or others for recycling;

(ii) NCR itself sold paper containing PCBs to Georgia-Pacific or others for recycling; and/or

(iii) NCR is liable for sales to Georgia-Pacific or others of PCB-containing broke by Mead Corporation, which, like the predecessor to NCR's Appleton Papers Division, coated paper with the PCB containing emulsion manufactured by NCR.

A full trial on liability took place in February 2013. On 26 September 2013, the Michigan Court held that NCR was liable as a PRP on the basis that broke sales constituted an arrangement for the disposal of hazardous material for the purposes of CERCLA. The decision was based on NCR's knowledge of the hazards of PCBs from at least 1969.The decision is under appeal.

The second phase of the Kalamazoo trial to determine the apportionment of liability amongst NCR, Georgia-Pacific and the other PRPs (International Paper Company and Weyerhaeuser Company) took place between September and December 2015.

On 29 March 2018, Judge Jonker handed down judgment in respect of around U.S.$55 million (approximately £43 million) of Georgia-Pacific's past remediation costs. Judge Jonker did not determine the question of future remediation costs. Judge Jonker ordered that NCR pay 40 per cent. of Georgia-Pacific's past costs (around U.S.$22 million) (approximately £17.3 million).

It is anticipated that NCR will look to Industries to pay 60 per cent. of any sums it becomes liable to pay to Georgia-Pacific on the basis, it would be asserted, that the river constitutes a "Future Site" for the purposes of the Settlement Agreement. The Funding Agreement described above does not resolve any such claims, but does provide an agreed mechanism pursuant to which any surplus from the valuable recoveries of any third party claims that remains after all Fox River related clean-up costs have been paid and Industries and NCR have been made whole may be applied towards Kalamazoo clean-up costs, in the event that NCR were to be successful in any claim for a portion of them from Industries or Appvion (subject to Appvion's cap, described below). Industries has defences to any claims made by NCR in relation to the Kalamazoo River. No such claims have been made against Industries.

Industries also anticipates that NCR may seek to recover from Appvion (subject to a cap of U.S.$25 million (approximately £19.7 million)) for "Future Sites" under the Funding Agreement). The basis of the recovery would be the same as any demand NCR may make on Industries. Appvion entered Chapter 11 bankruptcy protection on 1 October 2017. The effect of the Chapter 11 proceedings on Appvion's liability for Future Sites payments under the Funding Agreement is currently uncertain.

Further hearings have been held before Judge Jonker to determine the final form of the order reflecting this judgment. The parties commenced appeal proceedings against this judgment in July 2018. NCR has agreed an appeal bond with Georgia-Pacific to prevent enforcement of the judgment while it remains subject to appeal. The appeal bond arrangement has been approved by the Court. The timing of any appeal hearing is currently unknown.

The quantum of the clean-up costs for the Kalamazoo River is presently unclear (and the extent of NCR's liability in respect of such future costs remains unclear pending the outcome of the appeal of Judge Jonker's 29 March 2018 judgment), but could run into the hundreds of millions of dollars. A

witness on behalf of Georgia-Pacific testified in the trial concerning apportionment of liability that the cost of performing future remediation in Operable Unit 5 of the Kalamazoo River was in the order of U.S.$670 million (approximately £526 million). Operable Unit 5 is the Kalamazoo River itself, as distinct from the other Operable Units which are landfills or other facilities adjoining the Kalamazoo River. Remediation of these other Operable Units has largely been completed except for monitoring.

As detailed above, Industries is taking active steps to protect its interests, including seeking to procure the repayment of the Windward dividends, pursuing the other valuable claims that are now within its control, and working with the other parties to the Funding Agreement to maximise recoveries from third parties with a view to ensuring that amounts funded towards clean up related costs are later recouped under the agreed repayment mechanisms under the Funding Agreement.

**Other environmental matters**

RAI and its subsidiaries are subject to federal, state and local environmental laws and regulations concerning the discharge, storage, handling and disposal of hazardous or toxic substances. Such laws and regulations provide for significant fines, penalties and liabilities, sometimes without regard to whether the owner or operator of the property or facility knew of, or was responsible for, the release or presence of hazardous or toxic substances. In addition, third parties may make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous or toxic substances. In the past, RJRT has been named a potentially responsible party with third parties under the Comprehensive Environmental Response, Compensation and Liability Act with respect to several superfund sites. RAI and its subsidiaries are not aware of any current environmental matters that are expected to have a material adverse effect on the business, results of operations or financial position of RAI or its subsidiaries.

**Criminal Investigations**

As previously reported by the Group, it has been investigating, through external legal advisors, allegations of misconduct and has been liaising with the UK's Serious Fraud Office ("SFO") and other relevant authorities. It was announced in August 2017 that the SFO had opened an investigation in relation to the Group, its subsidiaries and associated persons. The Group is cooperating with the SFO's investigation.

The outcomes of these matters will be decided by the relevant authorities or, if necessary, the courts. It is too early to predict the outcomes, but these could include the prosecution of individuals and/or of a Group company or companies. Accordingly, the potential for fines, penalties or other consequences cannot currently be assessed. As the investigation is ongoing, it is not yet possible to identify the timescale in which these matters might be resolved.

**Closed litigation matters**

The following matters on which the Company reported in the contingent liabilities and financial commitments note 28 to BAT's 2017 financial statements have been dismissed, concluded or resolved as noted below:

(i) Fontem, a patent infringement action brought against R.J. Reynolds Vapor Company, was settled on confidential terms;

(ii) The Supreme Court in Italy issued its decision in Codacons, dismissing the class action brought against BAT Italia;

(iii) A patent infringement action brought in Japan against Investments was settled on confidential terms;

(iv) Four Lights class actions brought against RJRT and B&W were dismissed by the US court; and

(v) A smoking and health class action brought against RJRT and B&W in the US was also dismissed by the court.

**General Litigation Conclusion**

While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Group believes that the defences of the Group's companies to all these various claims are meritorious on both the law and the facts, and a vigorous defence is being made everywhere.

As indicated above, on 1 March 2019, the Quebec Court of Appeal released its appeal judgment. The trial judgment was upheld by a unanimous decision of the 5-member panel including the requirement that the defendants deposit the initial deposits in their solicitor's trust accounts within 60 days. This is the only executory aspect of the judgment. In these circumstances BAT is of the view that it is more likely than not that there will be an outlay and it is reasonably estimable at CAD$759.2 million, the amount of the initial deposit. If further adverse judgments are entered against any of the Group's companies in any case, avenues of appeal will be pursued. Such appeals could require the appellants to post appeal bonds or substitute security (as has been necessary in Quebec) in amounts which could in some cases equal or exceed the amount of the judgment. At least in the aggregate, and despite the quality of defences available to the Group, it is not impossible that the Group's results of operations or cash flows in particular quarterly or annual periods could be materially adversely affected by the impact of a significant increase in litigation, difficulties in obtaining the bonding required to stay execution of judgments on appeal, or any final outcome of any particular litigation.

Having regard to all these matters, with the exception of the Quebec Class Actions, Fox River and certain Engle progeny cases identified above, the Group does not consider it appropriate to make any provision in respect of any pending litigation because the likelihood of any resulting material loss, on an individual case basis, is not considered probable and/or the amount of any such loss cannot be reasonably estimated. Notwithstanding the negative decision in the Quebec Class Actions, the Group does not believe that the ultimate outcome of this litigation will significantly impair the Group's financial condition. If the facts and circumstances change that result in further unfavourable outcomes in the pending litigation, then there could be a material impact on the financial statements of the Group.

**Other contingencies**

*JTI Indemnities*. By a purchase agreement dated 9 March 1999, amended and restated as of 11 May 1999, referred to as the 1999 Purchase Agreement, R.J. Reynolds Tobacco Holdings, Inc. ("RJR") and RJRT sold their international tobacco business to JTI. Under the 1999 Purchase Agreement, RJR and RJRT retained certain liabilities relating to the international tobacco business sold to JTI, and agreed to indemnify JTI against: (i) any liabilities, costs and expenses arising out of the imposition or assessment of any tax with respect to the international tobacco business arising prior to the sale, other than as reflected on the closing balance sheet; (ii) any liabilities, costs and expenses that JTI or any of its affiliates, including the acquired entities, may incur after the sale with respect to any of RJR's or RJRT's employee benefit and welfare plans; and (iii) any liabilities, costs and expenses incurred by JTI or any of its affiliates arising out of certain activities of Northern Brands.

RJRT has received claims for indemnification from JTI, and several of these have been resolved. Although RJR and RJRT recognise that, under certain circumstances, they may have other unresolved indemnification obligations to JTI under the 1999 Purchase Agreement, RJR and RJRT disagree what circumstances described in such claims give rise to any indemnification obligations by RJR and RJRT and the nature and extent of any such obligation. RJR and RJRT have conveyed their position to JTI, and the parties have agreed to resolve their differences at a later date.

*ITG Indemnity*. In the Divestiture, RAI agreed to defend and indemnify, subject to certain conditions and limitations, ITG in connection with claims relating to the purchase or use of one or more of the Winston, Kool, Salem or Maverick cigarette brands on or before 12 June 2015, as well as in actions filed before 13

June 2023, relating to the purchase or use of one or more of the Winston, Kool, Salem or Maverick cigarette brands. In the purchase agreement relating to the Divestiture, ITG agreed to defend and indemnify, subject to certain conditions and limitations, RAI and its affiliates in connection with claims relating to the purchase or use of "blu" brand e-cigarettes. ITG also agreed to defend and indemnify, subject to certain conditions and limitations, RAI and its affiliates in actions filed after 12 June 2023, relating to the purchase or use of one or more of the Winston, Kool, Salem or Maverick cigarette brands after 12 June 2015. ITG has tendered a number of actions to RAI under the terms of this indemnity, and RAI has, subject to a reservation of rights, agreed to defend and indemnify ITG pursuant to the terms of the indemnity. These claims are substantially similar in nature and extent to claims asserted directly against RJRT in similar actions.

*Loews Indemnity*. In 2008, Loews Corporation ("Loews"), entered into an agreement with Lorillard, Lorillard Tobacco, and certain of their affiliates, which agreement is referred to as the "Separation Agreement". In the Separation Agreement, Lorillard agreed to indemnify Loews and its officers, directors, employees and agents against all costs and expenses arising out of third party claims (including, without limitation, attorneys' fees, interest, penalties and costs of investigation or preparation of defence), judgments, fines, losses, claims, damages, liabilities, taxes, demands, assessments, and amounts paid in settlement based on, arising out of or resulting from, among other things, Loews' ownership of or the operation of Lorillard and its assets and properties, and its operation or conduct of its businesses at any time prior to or following the separation of Lorillard and Loews (including with respect to any product liability claims). Loews is a defendant in three pending product liability actions, each of which is a putative class action. Pursuant to the Separation Agreement, Lorillard is required to indemnify Loews for the amount of any losses and any legal or other fees with respect to such cases. Following the closing of the Lorillard merger, RJRT assumed Lorillard's obligations under the Separation Agreement as was required under the Separation Agreement.

*SFRTI Indemnity*. In connection with the 13 January 2016 sale by RAI of the international rights to the Natural American Spirit brand name and associated trademarks, along with SFR Tobacco International GmbH ("SFRTI") and other international companies that distributed and marketed the brand outside the United States, to JT International Holding BV ("JTI Holding"), each of SFNTC, R. J. Reynolds Global Products, Inc., and R. J. Reynolds Tobacco B.V. agreed to indemnify JTI Holding against, among other things, any liabilities, costs, and expenses relating to actions (i) commenced on or before (a) 13 January 2019, to the extent relating to alleged personal injuries, and (b) in all other cases, 13 January 2021; (ii) brought by (a) a governmental authority to enforce legislation implementing European Union Directive 2001/37/EC or European Directive 2014/40/EU or (b) consumers or a consumer association; and (iii) arising out of any statement or claim (a) made on or before 13 January 2016, (b) by any company sold to JTI Holding in the transaction, (c) concerning Natural American Spirit brand products consumed or intended to be consumed outside of the United States and (d) that the Natural American Spirit brand product is natural, organic, or additive free. Under the terms of this indemnity, JTI has requested indemnification from Santa Fe Natural Tobacco Company Germany GmbH ("SFNTCG") in connection with an audit of SFNTCG relating to transfer pricing for the tax years 2007 to 2010 and 2012 to 2015. SFNTCG contests the audit results. The amount in dispute is approximately €21 million plus interest (approximately £18.8 million).

*Indemnification of Distributors and Retailers*. RJRT, Lorillard Tobacco, SFNTC, American Snuff Co. and RJR Vapor have entered into agreements to indemnify certain distributors and retailers from liability and related defence costs arising out of the sale or distribution of their products. Additionally, SFNTC has entered into an agreement to indemnify a supplier from liability and related defence costs arising out of the sale or use of SFNTC's products. The cost has been, and is expected to be, insignificant. RJRT, SFNTC, American Snuff Co. and RJR Vapor believe that the indemnified claims are substantially similar in nature and extent to the claims that they are already exposed to by virtue of their having manufactured those products.

Except as otherwise noted above, RAI is not able to estimate the maximum potential of future payments, if any, related to these indemnification obligations.

*Competition Investigations.* There are instances where Group companies are co-operating with relevant national competition authorities, including (amongst others) in the Ukraine and Cyprus, in relation to on-going competition law investigations.

**Tax Disputes**

The Group has exposures in respect of the payment or recovery of a number of taxes. The Group is and has been subject to a number of tax audits covering, amongst others, excise tax, value added taxes, sales taxes, corporate taxes, withholding taxes and payroll taxes.

The estimated costs of known tax obligations have been provided in the Group's accounts in accordance with its accounting policies. In some countries, tax law requires that full or part payment of disputed tax assessments be made pending resolution of the dispute. To the extent that such payments exceed the estimated obligation, they would not be recognised as an expense.

The following matters may proceed to litigation:

**Brazil**

The Brazilian Federal Tax Authority has filed claims against Souza Cruz seeking to reassess the profits of overseas subsidiaries to corporate income tax and social contribution tax. The reassessments are for the years 2004 until and including 2012 for a total amount of R$1,630 million (£330 million) to cover tax, interest and penalties.

Souza Cruz appealed all reassessments. Regarding the first assessments (2004-2006), Souza Cruz's appeal was rejected in 2013 although the written judgment of that tribunal was received in 2016. Souza Cruz has appealed the decision. The appeal against the second assessments (2007 and 2008) was upheld at the second tier tribunal and was closed. In 2015, a further reassessment for the same period (2007 and 2008) was raised after the five-year statute of limitation. This has been appealed to the administrative level special chamber.

Souza Cruz received further reassessments in 2014 for the 2009 calendar year and in 2015, an assessment for the 2010 calendar year. Souza Cruz appealed both the reassessments in full. In December 2016, assessments were received for the calendar years 2011 and 2012, which have also been appealed.

**South Africa**

In 2011, the South African Revenue Service ("SARS") challenged the debt financing of British American Tobacco South Africa ("BATSA") and reassessed the years 2006 to 2008. BATSA has objected to and appealed this reassessment. In 2014, SARS also reassessed the years 2009 and 2010. In 2015, BATSA filed formal Notices of Appeal and detailed objection letters against the 2009 and 2010 assessments and has reserved its right to challenge the constitutionality of the assessments at a later date. In 2016, SARS filed a Statement of Grounds of Assessment and BATSA filed its Statement of Grounds of Appeal in early 2017. During 2018 both parties have filed their notices of discovery. Across the period from 2006 to 2010, the reassessments are for R2.1 billion (£116 million) covering both tax and interest.

**The Netherlands**

The Dutch tax authority has issued a number of assessments on various issues across the years 2003-2016 in relation to various intra-group transactions. The assessments amount to an aggregate net liability across these periods of £902 million covering tax, interest and penalties. The Group has appealed against the assessments in full.

The Group believes that its companies have meritorious defences in law and fact in each of the above matters, and intends to pursue each dispute through the judicial system as necessary. The Group does not consider it appropriate to make provision for these amounts nor for any potential further amounts which may be assessed in relation to these matters in subsequent years.

While the amounts that may be payable or receivable in relation to tax disputes could be material to the results or cash flows of the Group in the period in which they are recognised, the Board does not expect these amounts to have a material effect on the Group's financial condition.

***VAT and Duty Disputes***

*Bangladesh*

On 25 July 2018, the Appellate Division of the Supreme Court of Bangladesh has reversed the decision of the High Court Division against British American Tobacco Bangladesh Company Limited ("BATBC") in respect of the retrospective demands for VAT and Supplementary Duty amounting to approximately £170 million. The Attorney General's Office has 30 days from receipt of the certified Court Order, which remains to be issued, in which to seek a review of this decision.

*Egypt*

British American Tobacco Egypt LLC is subject to two ongoing civil cases concerning the imposition of sales tax on low price category brands brought by the Egyptian tax authority for approximately £102 million.

Management believes that the tax claims are unfounded and has appealed the tax claims. These cases are under review by the Council of State.

## RAI

### Incorporation, Business and Development

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

RAI is a holding company whose wholly-owned operating subsidiaries include: (i) RJRT, whose brand portfolio includes the premium brands Newport and Camel and the traditional value brand Pall Mall; (ii) SFNTC, the manufacturer and marketer of the premium cigarette brand Natural American Spirit in the United States; (iii) American Snuff Co., the second largest smokeless tobacco products manufacturer in the United States; and (iv) RJR Vapor, a marketer of digital vapour cigarettes in the United States.

### Organisational Structure

RAI is an indirect, wholly-owned subsidiary of BAT.

### Administrative, management and supervisory bodies of RAI

#### Directors

The following is a list of the Directors of RAI:

| Name | Function |
|---|---|
| T. Hayward | Director |
| R.C. de A. Oberlander | Director |
| J.J. Raborn | Director |

None of the directors listed above performs activities outside RAI or the Group which are significant with respect to the Group. The business address of the directors of RAI is 401 North Main Street, Winston-Salem, North Carolina 27101, United States.

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

#### Deed of Guarantee

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

Without the consent of the Trustee, the Noteholders or the Guarantors, RAI will be automatically and unconditionally released from all obligations under the Deed of Guarantee, and the Deed of Guarantee shall thereupon terminate and be discharged and shall be of no further force or effect, if at any time the aggregate amount of indebtedness for borrowed money for which RAI is an obligor (as a guarantor or borrower) does not exceed ten per cent. of the outstanding long term debt of BAT as reflected in the balance sheet included in BAT's most recent publicly released interim or annual consolidated financial

statements (such date being the "**Termination Date**"), as evidenced by a certificate to such effect addressed to the Trustee and signed by a director of BAT (upon which certificate the Trustee shall be entitled to rely). The amount of RAI's indebtedness for borrowed money shall not include (A) its guarantee in respect of the Notes, (B) any other debt guaranteed by RAI the terms of which permit the termination of RAI's guarantee of such debt under similar circumstances as set out in the Deed of Guarantee, as long as RAI's obligations in respect of such other debt are terminated at substantially the same time as its guarantee of the Notes, (C) any debt issued or guaranteed by RAI that is being refinanced at substantially the same time as the release of the guarantee of the Notes pursuant to the Deed of Guarantee, provided that any obligations of RAI in respect of any debt that is incurred in any such refinancing shall be included in the calculation of RAI's indebtedness for borrowed money and (D) for the avoidance of doubt, any debt in respect of which RAI is an obligor (as a guarantor or borrower) (i) between or among BAT and any subsidiary or subsidiaries thereof or (ii) between or among any subsidiaries of BAT.

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

## MANAGEMENT

### Administrative, management and supervisory bodies

#### Directors

The Directors of BAT and their functions within the Group and their principal activities outside the Group are as follows:

| Executive Directors | Principal Activities outside the Group |
|---|---|
| Jack Bowles (Chief Executive) | N/A |
| John Benedict Stevens* (Finance Director) | ISS A/S (Non-Executive Director) |

| Chairman | Principal Activities outside the Group |
|---|---|
| Richard Burrows | Rentokil Initial plc (Senior Independent Director)<br>Carlsberg A/S (Supervisory Board Member) |

| Non-Executive Directors | Principal Activities outside the Group |
|---|---|
| Sue Farr | Chime Group (Special Advisor)<br>Dairy Crest Group plc (Non-Executive Director)<br>Accsys Technologies PLC (Non-Executive Director) |
| Dr Marion Helmes | ProSiebenSat.1 Media SE (Vice Chairwoman of the Supervisory Board)<br>Uniper SE (Supervisory Board Member)<br>Siemens Healthineers AG (Supervisory Board Member)<br>Heineken N.V. (Supervisory Board Member) |
| Luc Jobin | N/A |
| Holly Keller Koeppel | Vesuvius plc (Non-Executive Director)<br>AES Corporation (Director) |
| Savio Kwan | A&K Consulting Co Ltd (Chief Executive Officer)<br>Henley Business School (Visiting Professor) |

| Non-Executive Directors | Principal Activities outside the Group |
|---|---|
| | Alibaba Hong Kong Entrepreneur Fund (Non-Executive Director) |
| | London Business School (Member of Governing Body) |
| | Homaer Financial (Non-Executive Director and Member of Advisory Board) |
| | Crossborder Innovative Ventures International Limited (Non-Executive Director) |
| Dimitri Panayotopoulos..... | The Boston Consulting Group (Senior Advisor) |
| | Logitech International S.A. (Non-Executive Director) |
| | JBS USA (Member of Advisory Board) |
| Kieran Poynter (Senior Independent Director)..... | International Consolidated Airlines Group S.A. (Non-Executive Director) |
| | F&C Asset Management plc (Chairman) |

* On 28 February 2019, BAT announced that John Benedict Stevens will step down as Finance Director and retire from the Board on 5 August 2019. He will be succeeded on 5 August 2019 by Tadeu Marroco.

## Management Board

The Executive Directors of BAT together with the following executives:

Jerome Abelman
(Director, Legal & External Affairs and General Counsel)

Marina Bellini
(Director, Digital and Information)

Luciano Comin
(Regional Director, Americas and Sub-Saharan Africa)

Alan Davy
(Director, Operations)

Hae In Kim
(Director, Talent and Culture)

Paul Lageweg
(Director, New Categories)

Tadeu Marroco**
(Director, Group Transformation and Deputy Finance Director)

Guy Meldrum
(Regional Director, Asia-Pacific and Middle East)

Dr David O'Reilly
(Director, Scientific Research)

Ricardo Oberlander***
(President and Chief Executive Officer, RAI)

Johan Vandermuelen
(Regional Director, Europe and North Africa)

Kingsley Wheaton
(Chief Marketing Officer)

** Tadeu Marroco will succeed Benedict Stevens as Finance Director and be will appointed an Executive Director of the BAT Board of Directors on 5 August 2019.

*** Ricardo Oberlander's principal activities outside the Group are as a member of the Chief Marketing Officer Council North America Advisory Board and as an advisory board member of Coast Capital LLC.

The business address of the Directors and Management Board of BAT is Globe House, 4 Temple Place, London WC2R 2PG, save for the business address of Ricardo Oberlander which is 401 N Main Street, PO Box 2990, Winston Salem, North Carolina 27101-2990, U.S.A.

**Administrative, Management and Supervisory bodies conflicts of interest**

Other than as described above, there are no potential conflicts of interest between any duties to BAT of the Directors and the members of the Management Board listed above and/or their private interests and other duties.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. Part A of the applicable Final Terms in relation to any Tranche (as defined below) of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, complete the following Terms and Conditions for the purpose of such Notes. Part A of the applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for the form of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by B.A.T. International Finance p.l.c. ("**BATIF**"), B.A.T. Netherlands Finance B.V. ("**BATNF**") or B.A.T Capital Corporation ("**BATCAP**") as indicated in the applicable Final Terms (each in its capacity as the issuer of the Notes, the "**Issuers**" and, together with the other in its capacity as issuer of other notes, the "**Issuers**") constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the "**Trust Deed**") dated 6 July 1998 made between, *inter alios*, each of BATIF, BATNF and BATCAP as an Issuer, and where it is not the Issuer of the Notes, as guarantor of notes issued by the other Issuers, British American Tobacco p.l.c. ("**British American Tobacco**") as a guarantor and The Law Debenture Trust Corporation p.l.c. (the "**Trustee**", which expression shall include any successor as trustee). Each of BATIF, BATNF, BATCAP and British American Tobacco in its capacity as a guarantor is herein referred to as a "**Guarantor**" and all together in such capacities are herein referred to as the "**Guarantors**". The Issuer and the Guarantors in relation to the Notes are specified in the applicable Final Terms (as defined below) and such expressions shall be construed accordingly.

References herein to the "**Notes**" shall be references to the Notes of this Series and shall mean:

(i) in relation to any Notes represented by a global Note (a "**Global Note**"), units of each Specified Denomination in the Specified Currency;

(ii) any Global Note; and

(iii) any definitive Notes issued in exchange for a Global Note.

The Notes and the Coupons (as defined below) have the benefit of an amended and restated Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 1 May 2019 and made between the same parties as are parties to the Trust Deed, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the "**Agent**", which expression shall include any successor agent) and the other paying agent named therein (together with the Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agent).

Interest bearing definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons ("**Coupons**") and, if indicated in the applicable Final Terms, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Global Notes do not have Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these

Terms and Conditions, complete these Terms and Conditions for the purposes of this Note. References to the "**applicable Final Terms**" are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

The Trustee acts for the benefit of the holders for the time being of the Notes (the "**Noteholders**", which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below) and the holders of the Coupons (the "**Couponholders**", which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, "**Tranche**" means Notes which are identical in all respects (including as to listing and admission to trading) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series with an existing Tranche of Notes; and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed, the Agency Agreement and the applicable Final Terms are available for inspection during normal business hours at the registered office for the time being of the Trustee (being at the date of this Base Prospectus at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions contained in the Trust Deed.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

In the Conditions, "**euro**" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

## 1 Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions, the Trust Deed and the Agency Agreement are not applicable.

Subject as set out below, title to the Notes and Coupons will pass by delivery. The Issuer, the Guarantors and any Paying Agent will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantors and the Paying Agents as the holder of such nominal amount of such Notes for all purposes, other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Guarantors and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms, or as may otherwise be approved by the Issuer, the Guarantors, the Agent and the Trustee.

## 2 Status of the Notes and the Guarantee

*(a) Status of the Notes*

The Notes and Coupons constitute direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank and will rank *pari passu* and without any preference among themselves and (subject as aforesaid and save to the extent that laws affecting creditors' rights generally in a bankruptcy or winding up may give preference to any of such other obligations) equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

*(b) Status of the Guarantee*

The payment of principal of, and interest on, the Notes together with all other amounts payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably and jointly and severally guaranteed in the Trust Deed by the Guarantors (other than the Issuer).

The obligations of each Guarantor under its guarantee constitute direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the relevant Guarantor and (subject as aforesaid and save to the extent that laws affecting creditors' rights generally in a bankruptcy or winding up may give preference to any of such other obligations) rank and will rank equally with all other unsecured and unsubordinated obligations of the relevant Guarantor from time to time outstanding.

The Trust Deed contains a covenant on the part of the Issuers and the Guarantors in the event that any other company, the share capital of which is or is to be admitted to the official list of the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (the "**Official List**") and admitted to trading on the London Stock Exchange plc's Regulated Market (the "**Market**"), becomes the ultimate Holding Company of British American Tobacco, to procure that such other Holding Company shall become a guarantor under the Trust Deed, jointly and severally with the Guarantors, with effect from the later of (i) the date on which such other company becomes the ultimate Holding Company of British American Tobacco and (ii) the date on which the share capital of such other Holding Company is admitted to the Official List and

admitted to trading on the Market. In such event, the term "**Guarantors**" herein shall be deemed to include such other Holding Company.

## 3 Negative Pledge

So long as any of the Notes remains outstanding (as defined in the Trust Deed) neither the Issuer nor any Guarantor will secure or allow to be secured any Quoted Borrowing or any payment under any guarantee by any of them of any Quoted Borrowing by any mortgage, charge, pledge or lien (other than arising by operation of law) upon any of its undertaking or assets, whether present or future, unless at the same time the same mortgage, charge, pledge or lien is extended, or security which is in the opinion of the Trustee not materially less beneficial to the Noteholders than the security given as aforesaid or which shall be approved by Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders is extended, or (as the case may be) created, in favour of the Trustee to secure equally and rateably the principal of, and interest on, and all other payments (if any) in respect of the Notes and under the Trust Deed.

For the purposes of this Condition 3, "**Quoted Borrowing**" means any indebtedness which (a) is represented by notes, debentures or other securities issued otherwise than to constitute or represent advances made by banks and/or other lending institutions; (b) is denominated, or confers any right to payment of principal and/or interest, in or by reference to any currency other than the currency of the country in which the issuer of the indebtedness has its principal place of business or is denominated, or confers any right to payment of principal and/or interest, in or by reference to the currency of such country but is placed or offered for subscription or sale by or on behalf of, or by agreement with, the issuer of such indebtedness as to over 20 per cent. outside such country; and (c) at its date of issue is, or is intended by the issuer of such indebtedness to become, quoted, listed, traded or dealt in on any stock exchange or other organised and regulated securities market in any part of the world.

## 4 Interest

*(a) Interest on Fixed Rate Notes*

The applicable Final Terms contains provisions applicable to the determination of fixed rate interest and must be read in conjunction with this Condition 4*(a)* for full information on the manner in which interest is calculated on Fixed Rate Notes. In particular, the applicable Final Terms will specify, as applicable, the Interest Commencement Date, the Rate(s) of Interest, the Interest Payment Date(s), the Maturity Date, the Fixed Coupon Amount, any applicable Broken Amount, the Calculation Amount, the Day Count Fraction and any applicable Determination Date.

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as otherwise provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount (if any) specified in the applicable Final Terms. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding amount of the Fixed Rate Notes represented by such Global Note; or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and in each case, multiplying such sum by the applicable Day Count Fraction.

The resultant figure (including after application of any Fixed Coupon Amount or Broken Amount to the Calculation Amount in the case of Fixed Rate Notes in definitive form) shall be rounded to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means in respect of the calculation of an amount of interest in accordance with Condition 4*(a)*:

(i) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:

(A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates that would occur in one calendar year; or

(B) in the case of Notes where the Accrual Period is longer than the Determination Period commencing on the last Interest Payment Date (or, if none, the Interest Commencement Date), the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in one calendar year;

(ii) if "**30/360**" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360; and

(iii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date divided by 365.

In these Terms and Conditions:

"**Determination Period**" means the period from (and including) a Determination Date to (but excluding) the next Determination Date.

"**sub-unit**" means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, means one cent.

*(b)* *Interest on Floating Rate Notes*

The applicable Final Terms contains provisions applicable to the determination of floating rate interest and must be read in conjunction with this Condition 4*(b)* for full information on the manner in which interest is calculated on Floating Rate Notes. In particular, the applicable Final Terms will identify, as applicable, any Specified Interest Payment Dates, any Specified Period, the Interest Commencement Date, the Business Day Convention, any Additional Business Centres, whether ISDA Determination or Screen Rate Determination applies to the calculation of interest, the party who will calculate the amount of interest due if it is not the Agent, the Margin, any maximum or minimum interest rates and the Day Count Fraction. Where ISDA Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Floating Rate Option, Designated Maturity and Reset Date. Where Screen Rate Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Reference Rate, Interest Determination Date(s) and Relevant Screen Page.

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each "**Interest Period**" (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date) or the relevant payment date if the Floating Rate Notes become payable on a date other than an Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(1) in any case where Specified Periods are specified in accordance with Condition 4*(b)*(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month in which the Specified Period falls after the preceding applicable Interest Payment Date occurred; or

(2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition, "**Business Day**" means a day (other than a Saturday or a Sunday) which is both:

(A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London and each Additional Business Centre (if any) specified in the applicable Final Terms; and

(B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in Euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007, or any successor thereto (the "**TARGET System**") is operating.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as amended and updated as at the Issue Date of the first Tranche of the Notes and as published by the International Swaps and Derivatives Association, Inc. (the "**ISDA Definitions**") and under which:

(1) the Floating Rate Option is as specified in the applicable Final Terms;

(2) the Designated Maturity is a period specified in the applicable Final Terms; and

(3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate ("**LIBOR**") or on the euro-zone interbank offered rate ("**EURIBOR**") for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), (i) "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**euro-zone**" have the meanings given to those terms in the ISDA Definitions and (ii) the definition of "**Banking Day**" in the ISDA Definitions shall be amended to insert after the words "are open for" in the second line thereof the word "general".

(B) *Screen Rate Determination for Floating Rate Notes*

(1) Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(I) the offered quotation; or

(II) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate(s) which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations;

(2) If the Relevant Screen Page is not available or, if in the case of sub-paragraph (B)(1)(I) above, no such offered quotation appears or, in the case of sub-paragraph (B)(1)(II) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph the Agent shall request each of the several banks initially appointed as reference banks in relation to the Notes of any relevant Series and/or, if applicable, any Successor reference banks in relation thereto such banks being, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal euro-zone office of four major banks in the euro-zone inter-bank market, in each case selected by the Issuer or as specified in the applicable Final Terms (each a "**Reference Bank**", and together the "**Reference Banks**") to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being

rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent; and

(3) If on any Interest Determination Date one only or none of the Reference Banks provides the Agent with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the relevant Issuer suitable for such purpose) informs the Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(C) *Benchmark Discontinuation*

(1) Independent Adviser

Notwithstanding Conditions 4(b)(ii)(B)(2) and (3), if a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to advise the Issuer in determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 4(b)(ii)(C)(2)) and, in either case, an Adjustment Spread (in accordance with Condition 4(b)(ii)(C)(3)) and any Benchmark Amendments (in accordance with Condition 4(b)(ii)(C)(4)).

In advising the Issuer, the Independent Adviser appointed pursuant to this Condition 4(b)(ii)(C) shall act in good faith as an expert. In the absence of bad

faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Paying Agents, the Noteholders or the Couponholders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 4(b)(ii)(C).

If, following the occurrence of a Benchmark Event (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Issuer fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 4(b)(ii)(C), in each case prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the determination of the Rate of Interest applicable to the next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 4(b)(ii)(C).

(2) Successor Rate or Alternative Rate

If the Issuer, following consultation with the Independent Adviser, determines that:

(I) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all relevant future payments of interest on the Notes (subject to the subsequent operation of this Condition 4(b)(ii)(C)); or

(II) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all relevant future payments of interest on the Notes (subject to the subsequent operation of this Condition 4(b)(ii)(C)).

(3) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(4) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 4(b)(ii)(C) and the Issuer, following consultation with the Independent Adviser and acting

in good faith and in a commercially reasonable manner, determines (a) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (b) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 4(b)(ii)(C)(5), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by an authorised signatory of the Issuer pursuant to Condition 4(b)(ii)(C)(5), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

In connection with any such variation in accordance with this Condition 4(b)(ii)(C)(4), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(5) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 4(b)(ii)(C) will be notified promptly by the Issuer to the Trustee, the Agent and, in accordance with Condition 13, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by an authorised signatory of the Issuer:

(I) confirming (a) that a Benchmark Event has occurred, (b) the Successor Rate or, as the case may be, the Alternative Rate, (c) the applicable Adjustment Spread and (d) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 4(b)(ii)(C); and

(II) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

The Trustee shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith

in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Agent and the Noteholders.

(6) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 4(b)(ii)(C)(1), (2), (3) and (4), the Original Reference Rate and the fallback provisions provided for in Condition 4(b)(ii)(B) and Clause 9.2 of the Agency Agreement will continue to apply unless and until a Benchmark Event has occurred.

(7) Definitions

As used in this Condition 4(b)(ii)(C):

"**Adjustment Spread**" means either (a) a spread (which may be positive, negative or zero), or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(I) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body;

(II) if no such recommendation has been made, or in the case of an Alternative Rate, the Issuer, following consultation with the Independent Adviser, determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate;

(III) if neither (I) nor (II) above apples, the Issuer, following consultation with the Independent Adviser, determines, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

"**Alternative Rate**" means an alternative benchmark or screen rate which the Issuer, following consultation with the Independent Adviser, determines in accordance with Condition 4(b)(ii)(C)(2) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) for an interest period of comparable duration and in the same Specified Currency as the Notes or, if the Issuer (following consultation with the Independent Adviser) determines that there is no such rate, such other rate as the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines in its discretion is most comparable to the relevant Original Reference Rate.

"**Benchmark Amendments**" has the meaning given to it in Condition 4(b)(ii)(C)(4).

"**Benchmark Event**" means:

(I) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(II) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(III) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or

(IV) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or

(V) it has become unlawful for any Agent or the Issuer to calculate any payments due to be made to any Noteholder using the Original Reference Rate,

provided that in the case of sub-paragraphs (II), (III) and (IV), the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement.

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser, in each case, with appropriate expertise appointed by the Issuer at its own expense under Condition 4(b)(ii)(C)(1) and notified in writing to the Trustee.

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(I) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(II) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(D) *Linear Interpolation*

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period, provided however, that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or

(B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half

of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest for any Interest Period:

(A) if "**Actual/Actual**" or "**Actual/Actual (ISDA)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(B) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(C) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(D) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as number, in which the day immediately following the last day included in the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(E) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30

(F) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and

(G) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366.

(v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to trading (if the rules of that stock exchange or other relevant authority so require) and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than (a) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such stock exchange of a Rate of Interest and Interest Amount, or (b) in all other cases, the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to trading (if the rules of that stock exchange or other relevant authority so require) and to the Noteholders in accordance with Condition 13. For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

(vi) *Determination or calculation by Trustee*

If for any reason at any relevant time the Agent defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (ii)(A) or (B) above or as otherwise specified in the applicable Final Terms, as the case may be, and, in each, case in accordance with paragraph (iv) above, the Trustee may determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee may calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent.

(vii) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4*(b)*, whether by the Agent or, if applicable, the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantors, the Agent, the other Paying Agents, the Trustee and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantors, the Noteholders or the Couponholders shall attach to the Agent or (if applicable) the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

*(c) Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

## 5 Payments

*(a) Method of payment*

Subject as provided below:

(i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

(ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7.

*(b) Presentation of definitive Notes and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (*a*) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Fixed Rate Notes in definitive form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Where any definitive Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any definitive Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become

void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

*(c) Payments in respect of Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be prima facie evidence that the payment in question has been made.

*(d) General provisions applicable to payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer or, as the case may be, any Guarantor will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, any Guarantor to, or to the order of, the holder of such Global Note.

Notwithstanding the provisions of paragraph *(a)* above, if any amount of principal and/or interest in respect of Notes is payable in US dollars, such US dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in US dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;

(ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in US dollars; and

(iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantors, adverse tax consequences to the Issuer or the Guarantors.

*(e) Payment Day*

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day (other than a Saturday or a Sunday) which (subject to Condition 8) is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in:

(A) in the case of definitive Notes only, the relevant place of presentation;

(B) each Additional Financial Centre (if any) specified in the applicable Final Terms; and

(ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is operating.

*(f) Interpretation of principal and interest*

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(i) any additional amounts which may be payable with respect to principal under Condition 7 or pursuant to any undertaking or covenant to pay additional amounts given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;

(ii) the Final Redemption Amount of the Notes;

(iii) the Early Redemption Amount of the Notes;

(iv) the Optional Redemption Amount(s) (if any) of the Notes;

(v) the Clean-Up Redemption Amount (if any) of the Notes; and

(vi) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 or pursuant to any undertaking or covenant to pay additional amounts given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

## 6 Redemption and Purchase

*(a) Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

*(b) Redemption for tax reasons*

(i) Where the Issuer is BATIF

(A) The provisions of this paragraph shall only apply where the Issuer is BATIF.

(B) The Notes may be redeemed in whole but not in part, at the option of the Issuer, at any time or, if the Notes are Floating Rate Notes, on any Interest Payment Date, upon not more than 30 nor less than 10 days' (or, in each case, such other number of days as specified in the applicable Final Terms) prior notice given in accordance

with Condition 13 (which notice will be irrevocable), at their Early Redemption Amount referred to in paragraph *(f)* below, together, if applicable, with interest accrued to (but excluding) the date fixed for redemption, if the Issuer satisfies the Trustee that, as a result of any amendment to, or change in, the laws or regulations of the United Kingdom or any political subdivision or taxing authority thereof or therein affecting taxation, or any amendment to or change in an official application or interpretation of such laws or regulations, which amendment or change becomes effective on or after the Issue Date of the first Tranche of the Notes, the Issuer will become obliged to pay any Additional Amounts pursuant to Condition 7*(a)* on the next succeeding Interest Payment Date in respect of the Notes; provided, however, that (1) no such notice of redemption will be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due and (2) at the time such notice of redemption is given, such obligation to pay such Additional Amounts remains in effect. Immediately prior to the publication of any notice of redemption pursuant to this paragraph *(b)*(i) the Issuer will deliver to the Trustee a certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the same in which event it shall be conclusive and binding on the Noteholders and the Couponholders. Upon the expiry of any notice of redemption pursuant to this paragraph *(b)*(i), the Issuer shall be bound to redeem the Notes as provided herein.

(ii) Where the Issuer is BATCAP

(A) The provisions of this paragraph shall only apply where the Issuer is BATCAP.

(B) The Notes may be redeemed in whole but not in part, at the option of the Issuer, at any time or, if the Notes are Floating Rate Notes, on any Interest Payment Date, upon not more than 30 nor less than 10 days' (or, in each case, such other number of days as specified in the applicable Final Terms) prior notice given in accordance with Condition 13 (which notice will be irrevocable), at their Early Redemption Amount referred to in paragraph *(f)* below, together, if applicable, with interest accrued to (but excluding) the date fixed for redemption, if the Issuer satisfies the Trustee that, as a result of any amendment to, or change in, the laws or regulations of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or any amendment to or change in an official application or interpretation of such laws or regulations, which amendment or change becomes effective on or after the Issue Date of the first Tranche of the Notes, the Issuer will become obliged to pay any Additional Amounts pursuant to Condition 7*(b)* on the next succeeding Interest Payment Date in respect of the Notes; provided, however, that (1) no such notice of redemption will be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts in respect of the Notes were a payment in respect of the Notes then due and (2) at the time such notice of redemption is given, such obligation to pay such Additional Amounts remains in effect. Immediately prior to the publication of any notice of redemption pursuant to this paragraph *(b)(ii)* the Issuer will deliver to the Trustee a certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the same in which event it shall

be conclusive and binding on the Noteholders and the Couponholders. Upon the expiry of any notice of redemption pursuant to this paragraph *(b)(ii)*, the Issuer shall be bound to redeem the Notes as provided herein.

(iii) Where the Issuer is BATNF

(A) The provisions of this paragraph shall only apply where the Issuer is BATNF.

(B) The Notes may be redeemed in whole but not in part, at the option of the Issuer, at any time or, if the Notes are Floating Rate Notes, on any Interest Payment Date, upon not more than 30 nor less than 10 days' (or, in each case, such other number of days as specified in the applicable Final Terms) prior notice given in accordance with Condition 13 (which notice will be irrevocable), at their Early Redemption Amount referred to in paragraph *(f)* below, together, if applicable, with interest accrued to (but excluding) the date fixed for redemption, if, as a result of any amendment to, or change in, the laws or regulations of The Netherlands or any political subdivision or taxing authority thereof or therein affecting taxation, or any amendment to or change in an official application or interpretation of such laws or regulations, which amendment or change becomes effective on or after the Issue Date of the first Tranche of the Notes, the Issuer will become obliged to pay any Additional Amounts pursuant to Condition 7*(b)* on the next succeeding Interest Payment Date in respect of the Notes; provided, however, that (1) no such notice of redemption will be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due and (2) at the time such notice of redemption is given, such obligation to pay such Additional Amounts remains in effect. Immediately prior to the publication of any notice of redemption pursuant to this paragraph *(b)*(iii) the Issuer will deliver to the Trustee a certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the same in which event it shall be conclusive and binding on the Noteholders and the Couponholders. Upon the expiry of any notice of redemption pursuant to this paragraph *(b)*(iii), the Issuer shall be bound to redeem the Notes as provided herein.

*(c) Redemption at the option of the Issuer (Issuer Call)*

This Condition 6*(c)* applies to Notes which are subject to redemption prior to the Maturity Date at the option of the Issuer (other than for taxation reasons), such option being referred to as an "**Issuer Call**". The applicable Final Terms contains provisions applicable to any Issuer Call and must be read in conjunction with this Condition 6*(c)* for full information on any Issuer Call. In particular, the applicable Final Terms will identify, as applicable, the Optional Redemption Date(s), the Optional Redemption Amount (or, if applicable, that the Optional Redemption Amount(s) applicable to any Optional Redemption Date will be the Make-whole Amount), any minimum or maximum amount of Notes which can be redeemed and the applicable notice periods.

If Issuer Call is specified in the applicable Final Terms, the Issuer may (save in respect of any Notes in respect of which a Put Notice has been given pursuant to Condition 6(*e*)), having given:

(i) not less than 10 nor more than 30 days' (or, in each case, such other number of days as specified in the applicable Final Terms) notice to the Noteholders in accordance with Condition 13; and

(ii) not less than 10 days (or such shorter notice as such party shall accept) before the giving of the notice referred to in (i), notice to the Agent and the Trustee,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) applicable to such Optional Redemption Date together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such partial redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/ or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 14 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph *(c)* and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

If, in respect of any Optional Redemption Date, Make-whole Amount is specified in the applicable Final Terms as the Optional Redemption Amount, the Optional Redemption Amount per Note shall be equal to the higher of the following:

(i) the nominal amount of the relevant Note; and

(ii) the nominal amount of the relevant Note multiplied by the price (as reported in writing to the Issuer and the Trustee by the Determination Agent) expressed as a percentage (rounded to five decimal places, with 0.000005 being rounded upwards) at which the Gross Redemption Yield on the Notes on the Determination Date specified in the applicable Final Terms is equal to (A) the Gross Redemption Yield at the Quotation Time specified in the applicable Final Terms on the Determination Date of the Reference Bond specified in the applicable Final Terms (or, where the Determination Agent advises the Issuer and the Trustee that, for reasons of illiquidity or otherwise, such Reference Bond is not appropriate for such purpose, such other government stock as the Determination Agent may recommend) plus (B) any applicable Redemption Margin specified in the applicable Final Terms.

Any notice of redemption given under Condition 6*(e)* will override any notice of redemption given (whether previously, on the same date or subsequently) under this Condition 6*(c)*.

In this Condition:

"**Determination Agent**" means the Agent (or any successor financial adviser appointed by the Issuer for the purpose of determining the Make-whole Amount); and

"**Gross Redemption Yield**" means a yield calculated in accordance with generally accepted market practice at such time, as advised to the Issuer and the Trustee by the Determination Agent.

*(d) Clean-Up Call Option*

If Clean-Up Call is specified in the applicable Final Terms and 80 per cent. or more in nominal amount of the Notes originally issued (which shall for this purpose include any further Notes issued pursuant to Condition 15) have been redeemed or purchased and cancelled, the Issuer may, having given:

(i) not less than 10 nor more than 30 days' (or, in each case, such other number of days as specified in the applicable Final Terms) notice to the Noteholders in accordance with Condition 13; and

(ii) not less than 10 days (or such shorter notice as such party shall accept) before the giving of the notice referred to in (i), notice to the Agent and the Trustee,

(which notice shall be irrevocable and shall specify the date fixed for redemption) redeem or, at the Issuer's option, purchase (or procure the purchase of) on any Interest Payment Date (if the relevant Note is a Floating Rate Note) or at any time (if the relevant Note is not a Floating Rate Note), all but not some only of the Notes then outstanding at the Clean-Up Redemption Amount specified in the applicable Final Terms together with interest accrued (if any) to (but excluding) the date fixed for redemption.

*(e) Redemption at the option of the Noteholders (Investor Put)*

This Condition 6*(e)* applies to Notes which are subject to redemption prior to the Maturity Date at the option of the Noteholder, such option being referred to as an "**Investor Put**". The applicable Final Terms contains provisions applicable to any Investor Put and must be read in conjunction with this Condition 6*(e)* for full information on any Investor Put. In particular, the applicable Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount and the applicable notice periods.

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 13 not less than 10 nor more than 30 days' (or, in each case, such other number of days as specified in the applicable Final Terms) notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of a Note the holder of this Note must, if the relevant Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by the relevant Note or evidence satisfactory to the Paying Agent concerned that such Note will, following delivery of the Put Notice, be held to its order or under its control. If a Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of such Note the holder must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if the relevant Note is

represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

*(f) Early Redemption Amounts*

For the purpose of paragraph *(b)* above and Condition 9, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

(i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(ii) in the case of Notes (other than Zero Coupon Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at their nominal amount; or

(iii) in the case of Zero Coupon Notes, at their Early Redemption Amount equal to the sum of:

(A) the Reference Price; and

(B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Notes become due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (i) in the case of a Zero Coupon Note payable in a Specified Currency other than Sterling, on the basis of a 360-day year consisting of 12 months of 30 days each or (ii) in the case of a Zero Coupon Note payable in Sterling, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365).

*(g) Purchases*

The Issuer, the Guarantors or any other subsidiary (as defined in the Trust Deed) of the Issuer or any Guarantor may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer or the relevant Guarantor, surrendered to any Paying Agent for cancellation.

*(h) Cancellation*

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to paragraph *(g)* above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

*(i) Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph *(a)*, *(b)*, *(c), (d)* or *(e)* above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph *(f)*(iii) above as though the references therein to the date fixed for the redemption or the date upon

which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 13.

## 7 Taxation

*(a) Where the Issuer is BATIF*

(1) The provisions of this paragraph shall only apply where the Issuer is BATIF.

(2) All payments of principal and interest by the Issuer or any Guarantor will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges (together, "**Taxes**") of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority thereof or therein having power to levy the same unless such withholding or deduction is required by law. In that event, the Issuer or the relevant Guarantor (as the case may be) shall pay such amounts (the "**Additional Amounts**") as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such Taxes been required to be withheld or deducted; provided that no such Additional Amounts will be payable in respect of Notes or Coupons:

(i) presented for payment by or on behalf of a Noteholder or Couponholder who is liable for such withheld or deducted Taxes by reason of his having some connection with the United Kingdom other than the mere holding of a Note or Coupon; or

(ii) to, or to a third party on behalf of, a holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom, unless such holder proves that he is not entitled so to comply or to make such declaration or claim; or

(iii) presented for payment in the United Kingdom; or

(iv) presented for payment more than 30 days after the Relevant Date except to the extent that a Noteholder or Couponholder would have been entitled to payment of such Additional Amounts if he had presented his Note or Coupon for payment on the thirtieth day after the Relevant Date.

*(b) Where the Issuer is BATCAP*

(1) The provisions of this paragraph shall only apply where the Issuer is BATCAP.

(2) All payments of principal and interest by the Issuer or any Guarantor will be made without withholding or deduction for or on account of any Taxes of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United States or any political subdivision thereof or any authority thereof or therein having power to levy the same unless such withholding or deduction is required by law. In that event, the Issuer or the relevant Guarantor (as the case may be) shall pay such Additional Amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been

received by them had no such Taxes been required to be withheld or deducted; provided that the foregoing obligations shall not apply to:

(i) any such Taxes which would not have been so imposed but for (i) the existence of any present or former connection between the holder (or between a fiduciary, settlor, beneficiary, member or shareholder of or possessor of a power over such holder, if such holder is an estate, a trust, a partnership or a corporation) and the United States, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or possessor) being or having been a citizen or resident thereof, or being or having been engaged in a trade or business therein or being or having been present therein, or having or having had a permanent establishment therein, or (ii) such holder's present or former status as a personal holding company, passive foreign investment company, controlled foreign corporation or private foundation or other tax-exempt organisation (in each case, for United States federal income tax purposes), or as a corporation which accumulates earnings to avoid United States federal income taxes;

(ii) any such Taxes which would not have been so imposed but for the presentation of a Note or Coupon for payment more than 30 days after the Relevant Date except to the extent that a Noteholder or Couponholder would have been entitled to payment of such Additional Amounts if he had presented his Note or Coupon for payment on the thirtieth day after the Relevant Date;

(iii) any estate, inheritance, gift, sales, transfer or personal property Taxes or any similar Taxes;

(iv) any such Taxes which would not have been imposed but for the failure to comply with certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder of a Note or Coupon, if such compliance is required by statute, by regulation of the United States Treasury Department or by an applicable income tax treaty to which the United States is a party as a precondition to relief or exemption from such Taxes;

(v) any such Taxes which are payable otherwise than by deduction or withholding from payments in respect of a Note or Coupon;

(vi) any such Taxes imposed on interest received by a ten per cent. shareholder of the Issuer within the meaning of Section 871(h)(3)(B) or Section 881(c)(3)(B) of the United States Internal Revenue Code of 1986, as amended (the "**Code**") (or any amended or successor provisions);

(vii) any such Taxes imposed by reason of a holder of a Note or Coupon being or having been a bank receiving payments on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business, as described in Section 881(c)(3)(A) of the Code (or any amended or successor provisions);

(viii) any backup withholding imposed pursuant to Section 3406 of the Code (or any amended or successor provisions);

(ix) any such Taxes imposed pursuant to Section 871(h)(6) or 881(c)(6) of the Code (or any amended or successor provisions); and

(x) any combination of clauses (i) to (ix) above;

nor will any Additional Amounts be paid in respect of a Note or Coupon to any holder who is not a United States Alien or to any United States Alien who is a fiduciary or partnership or person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note or Coupon. The term "**United States Alien**" means any person who, for United States federal income tax purposes, is a foreign corporation, a non-resident alien individual, a non-resident alien fiduciary of a foreign estate or trust or a foreign partnership any partner of which is for United States federal income tax purposes a foreign corporation, a non-resident alien individual, a non-resident alien fiduciary of a foreign estate or trust or any such foreign partnership.

*(c) Where the Issuer is BATNF*

(1) The provisions of this paragraph shall only apply where the Issuer is BATNF.

(2) All payments of principal and interest by the Issuer or any Guarantor will be made without withholding or deduction for or on account of any Taxes of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of The Netherlands or any political subdivision thereof or any authority thereof or therein having power to levy the same unless such withholding or deduction is required by law. In that event, the Issuer or the relevant Guarantor (as the case may be) shall pay such Additional Amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such Taxes been required to be withheld or deducted; provided that no such Additional Amounts will be payable in respect of Notes or Coupons:

(i) presented for payment by or on behalf of a Noteholder or Couponholder who is liable for such withheld or deducted Taxes by reason of his having some connection with The Netherlands other than the mere holding of a Note or Coupon; or

(ii) to, or to a third party on behalf of, a holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in The Netherlands, unless such holder proves that he is not entitled so to comply or to make such declaration or claim; or

(iii) presented for payment in The Netherlands; or

(iv) presented for payment more than 30 days after the Relevant Date except to the extent that a Noteholder or Couponholder would have been entitled to payment of such Additional Amounts if he had presented his Note or Coupon for payment on the thirtieth day after the Relevant Date.

(d) The Trust Deed contains provisions (mutatis mutandis) to those contained in paragraphs (a), (b) and (c) above in relation to the relevant taxing jurisdiction of each Guarantor.

(e) Notwithstanding any other provision of these Terms and Conditions, any amounts to be paid on any Note or Coupon by or on behalf of the relevant Issuer will be paid net of any deduction or withholding imposed under Sections 1471 through 1474 of the Code (or any amended or successor provisions), including any regulations thereunder or official interpretations thereof, or required pursuant to an agreement described in Section 1471(b) of the Code or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation of any of the foregoing (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a

"**FATCA Withholding**"). Neither the relevant Issuer nor any Guarantor nor any other person will be required to pay any Additional Amounts in respect of FATCA Withholding.

(f) For the purpose of this Condition 7, "**Relevant Date**" means, in respect of any payment, the date on which such payment became due and payable or the date on which payment thereof was duly provided for, whichever occurs the later.

## 8 Prescription

The Notes and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5(*b*) or any Talon which would be void pursuant to Condition 5(*b*).

## 9 Events of Default

(a) The Trustee at its discretion may, and if so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified to its satisfaction), (provided that, except in the case of the happening of any of the events mentioned in paragraph (i) below, the Trustee shall have certified in writing to the Issuer that, in its opinion, such event is materially prejudicial to the interests of the Noteholders) give notice to the Issuer that the Notes are, and they shall thereupon immediately become, due and repayable at their Early Redemption Amount referred to in Condition 6(f), together with accrued interest as provided in the Trust Deed, if any of the following events occurs and is continuing (each, an "**Event of Default**"):

(i) default is made for a period of seven days or more in the payment on the due date of any principal on the Notes or any of them or for a period of 14 days or more in the payment of any interest due in respect of the Notes or any of them; or

(ii) default is made by the Issuer or any Guarantor in the performance or observance of any covenant or provision binding on it under or pursuant to the Trust Deed or the Notes (other than a covenant for the payment of principal or interest due on or in respect of the Notes) and (except where the Trustee considers such default to be incapable of remedy when no notice as is referred to below is required, and for this purpose, something shall remain capable of remedy notwithstanding that it was required to have been previously done) such default continues on the thirtieth day after service by the Trustee on the Issuer or, as the case may be, the relevant Guarantor of written notice requiring the same to be remedied (or such later date as the Trustee may permit); or

(iii) any other Borrowed Moneys Indebtedness (as defined below) of either the Issuer or any Guarantor becomes due and repayable by reason of any event of default (howsoever described) prior to its stated date of payment or any other Borrowed Moneys Indebtedness of either the Issuer or any Guarantor is not paid within the longer of seven days of its due date or any applicable grace period therefor (and for such purpose there shall be deemed to be a grace period of not less than seven days in respect of any obligation under any guarantee or indemnity or otherwise as surety), provided that no such event shall constitute an Event of Default unless the Borrowed Moneys Indebtedness either (a) in any particular case amounts to at least £50,000,000 or the equivalent thereof in any other currency, or (b) when aggregated with other Borrowed Moneys Indebtedness then so due and repayable or

not so paid amounts to at least £200,000,000 or the equivalent thereof in any other currency; or

(iv) where the Issuer or any Guarantor is incorporated in England and Wales:

(A) an order is made or an effective resolution is passed for the winding-up of the Issuer or a relevant Guarantor, or any similar action is taken in any other jurisdiction; or

(B) a distress or execution or other legal process is levied or enforced against or an encumbrancer takes possession of or a receiver, administrative receiver or other similar officer is appointed of the whole or a part of its assets which is substantial in relation to the Group (as defined below) taken as a whole and is not discharged, stayed, removed or paid out within 45 days after such execution or appointment; or

(C) an administration order is made in relation to the Issuer or a relevant Guarantor which is not discharged, stayed or removed within 45 days of such order being made; or

(v) where the Issuer or the relevant Guarantor is BATCAP:

(A) a decree or order by a court having jurisdiction is entered adjudging BATCAP a bankrupt or insolvent, or approving as properly filed a petition seeking reorganisation of BATCAP under the United States Bankruptcy Code or any other similar federal or state applicable law, and such decree or order is continued undischarged and unstayed for a period of 45 days; or

(B) a decree or order of a court having jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of BATCAP is entered in respect of the whole of its property or a part thereof, which is substantial in relation to the Group taken as a whole, or for the winding-up or liquidation of its affairs, and such decree or order is continued and undischarged and unstayed for a period of 45 days; or

(C) BATCAP institutes proceedings to be adjudicated a voluntary bankrupt, or consents to the filing of a bankruptcy proceeding against it, or files a petition or answer or consent seeking reorganisation under the United States Bankruptcy Code or any other similar federal or state applicable law, or consents to the filing of any such petition, or consents to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of the whole of its property or a part thereof (which part is substantial in relation to the Group taken as a whole) or consents to the winding-up or liquidation of its affairs;

(the terms used in this sub-paragraph (v) shall be construed as they would be in the context of a proceeding instituted and conducted pursuant to the United States Bankruptcy Code or any other similar Federal or state applicable law); or

(vi) where the Issuer or the relevant Guarantor is BATNF:

(A) an order is made or an effective resolution is passed for the winding-up of BATNF or any similar action is taken in any other jurisdiction, including, without limitation, an application being made by BATNF for a '*surseance van betaling*' (within the meaning of The Netherlands Bankruptcy Code (*Faillissementswet*)); or

(B) a distress or execution or other legal process is levied or enforced against or an encumbrancer takes possession of or a receiver, administrative receiver or other similar officer is appointed of the whole or a part of its assets which is substantial in

relation to the Group taken as a whole and is not discharged, stayed, removed or paid out within 45 days after such execution or appointment; or

(C) an administration order is made in relation to BATNF which is not discharged, stayed or removed within 45 days of such order being made; or

(vii) either the Issuer or any Guarantor:

(A) admits in writing its inability to pay its debts generally as they fall due or makes or enters into a general assignment or composition with or for the benefit of its creditors generally; or

(B) stops or threatens to stop payment of its obligations generally or ceases or threatens to cease to carry on its business (except in either case for the purposes of amalgamation, reconstruction or corporate reorganisation, the terms of which shall have been previously approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders); or

(viii) for any reason whatsoever any guarantee ceases to be binding on and enforceable against the relevant Guarantor other than with the prior written consent of the Trustee or the sanction of an Extraordinary Resolution of the Noteholders.

For this purpose, "**Borrowed Moneys Indebtedness**" means, in relation to any person, any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent comprising or constituted by:

(A) any liability to repay the principal of or to pay interest on borrowed money or deposits; or

(B) any liability (i) under or pursuant to any (a) letter of credit, (b) acceptance credit facility or (c) note purchase facility; or (ii) in relation to (a) any foreign currency transaction or (b) any liability in respect of any purchase price for property or services payment of which is deferred for a period in excess of 180 days after the later of taking possession or becoming the legal owner thereof; or (iii) with regard to any guarantee or indemnity in respect of repayment of obligations as referred to in (i) and (ii) above or of any other borrowed money,

provided that nothing in Condition 9*(a)*(iv), (v), (vi) or (vii) shall apply to any matter or event resulting from or in connection with a disposal or divestiture of all or part of the interests in financial services businesses of the Group or any reconstruction, amalgamation or corporate reorganisation (or any similar action in any other jurisdiction), the terms of which shall have been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders.

For the purposes of these Terms and Conditions, "**Group**" means British American Tobacco and its Subsidiaries together with its or their ultimate Holding Company (if any) (as defined in the Trust Deed) and any such ultimate Holding Company's Subsidiaries.

(b) At any time after the Notes become due and repayable pursuant to paragraph (a) of this Condition the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or any Guarantor as it may think fit to enforce payment of the Notes, but it shall not be bound to take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (ii) it shall have been indemnified to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer or any relevant Guarantor

unless the Trustee, having become bound to proceed, fails to do so within a reasonable period and such failure is continuing.

## 10 Replacement of Notes, Coupons and Talons

Should any Note Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity the Issuer may reasonably require. Mutilated or defaced Notes Coupons or Talons must be surrendered before replacements will be issued.

## 11 Agents

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

(i) there will at all times be an Agent;

(ii) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or any other relevant authority; and

(iii) there will at all times be a Paying Agent with a specified office in a city approved by the Trustee in Western Europe outside the United Kingdom and The Netherlands.

In addition, the Issuer and the Guarantors shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5*(d)*. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 13.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the Guarantors and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders or Couponholders.

## 12 Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

## 13 Notices

All notices regarding the Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required

to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange or other relevant authority. Any such notice shall be deemed to have been given to the holders of the Notes on the fourth day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## 14 Meetings of Noteholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, any Guarantor or the Trustee and shall (subject to being indemnified to its satisfaction) be convened by the Trustee upon a request by Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or Coupons) the quorum shall be one or more persons holding or representing not less than three-fourths in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-fourth in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders. Notwithstanding the foregoing, a resolution in writing signed by persons holding or representing not less than 75 per cent. of the nominal amount of the Notes for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of the Noteholders duly convened and held in accordance with the provisions contained in the Trust Deed.

The Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature, to correct a manifest error or to comply with mandatory

provisions of applicable law. In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances and as otherwise set out in Condition 4(b)(C)(4) without the consent of the Noteholders or the Couponholders.

The Trustee may also agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or Couponholders, to the substitution (i) in place of the Issuer as the principal debtor under the Notes and the Trust Deed of any Guarantor or any successor in business or Holding Company of any Guarantor or any other subsidiary of any Guarantor, such successor in business or such Holding Company provided that all payments in respect of the Notes continue to be unconditionally and irrevocably guaranteed by each Guarantor or the successor in business or Holding Company of each Guarantor in the manner provided in the Trust Deed (or, where a Guarantor or its successor in business or Holding Company is the new principal debtor, by the other Guarantors or their successors in business or Holding Companies); or (ii) in place of any Guarantor as guarantor of the Notes under the Trust Deed, of any successor in business or Holding Company of any Guarantor. In the case of any proposed substitution, the Trustee may agree, without the consent of the Noteholders or Couponholders, to a change of the law governing the Notes, the Coupons and/or the Trust Deed, provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders. Any such modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification or substitution shall be notified to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, any Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

## 15 Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes of other Series where the Trustee so decides.

## 16 Indemnification of the Trustee and its Contracting with the Issuer and the Guarantors

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or any Guarantor and/or any Subsidiaries of any of them and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any Guarantor and/or any Subsidiaries of any of them, (ii) to exercise and enforce its rights,

comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

## 17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 18 Governing Law and Submission to Jurisdiction

(a) The Trust Deed, the Notes and the Coupons, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.

(b) Each of the parties to the Trust Deed has in the Trust Deed irrevocably agreed that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with them) and that accordingly any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with the Trust Deed, the Notes and the Coupons (including any proceedings relating to any non-contractual obligations arising out of or in connection with them) may be brought in such courts.

(c) Each of the parties to the Trust Deed has in the Trust Deed irrevocably and unconditionally waived any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agreed that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.

(d) Nothing contained in this Condition shall limit any right to take Proceedings against any of the parties to the Trust Deed in any other court of competent jurisdiction (outside the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982, as amended), nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(e) Each of BATNF and BATCAP has in the Trust Deed appointed British American Tobacco at its registered office for the time being (being at the date of this Base Prospectus at Globe House, 4 Temple Place, London WC2R 2PG) as its agent for service of process, and undertaken that, in the event of British American Tobacco ceasing so to act or ceasing to be registered in England, each of BATNF and BATCAP will appoint another person as its agent for service of process in England in respect of any Proceedings.

(f) Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

## FORM OF FINAL TERMS

**Dated [●]**

**[B.A.T. INTERNATIONAL FINANCE p.l.c.]**
**[B.A.T. NETHERLANDS FINANCE B.V.]**
**[B.A.T CAPITAL CORPORATION]**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]**

**Guaranteed by [B.A.T. INTERNATIONAL FINANCE p.l.c.]**
**[BRITISH AMERICAN TOBACCO p.l.c.]**
**[B.A.T. NETHERLANDS FINANCE B.V.]**
**[B.A.T CAPITAL CORPORATION]**

**under the £25,000,000,000 Euro Medium Term Note Programme**

## PART A – CONTRACTUAL TERMS

**MiFID II product governance/Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "MiFID II"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS**: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, "IMD"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "Prospectus Directive"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**Singapore Securities and Futures Act Product Classification** – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "SFA"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Regulation 3(b) of the Securities and Futures (Capital Markets Products) Regulations 2018 (the "SF (CMP) Regulations")) that the Notes are "prescribed capital markets products" (as defined in the SF (CMP) Regulations) and "Excluded Investment Products" (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Base Prospectus dated 1 May 2019 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive.

This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]]. Full information on the Issuer and the offer of the Notes is only available on the basis and of the combination of these Final Terms and the Base Prospectus [as so supplemented]. [The Base Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at *www.londonstockexchange.com/exchange/news/market-news/market-news-home.html* and copies may be obtained from British American Tobacco p.l.c., Globe House, 4 Temple Place, London WC2R 2PG or Citibank, N.A., London Branch, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.]]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") contained in the Trust Deed dated [original date] and set forth in the Base Prospectus dated [original date] [and the supplemental Prospectus dated [●]] and incorporated by reference into the Prospectus dated [●] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus dated [●] [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. Full information on the Issuer and the offer of the Notes is only available on the basis and of the combination of these Final Terms and the Base Prospectuses [and the supplemental Prospectuses]. [The Base Prospectuses [and the supplemental Prospectuses] are available for viewing at www.londonstockexchange.com/exchange/news/market-news/market-news-home.html and copies may be obtained from British American Tobacco p.l.c., Globe House, 4 Temple Place, London WC2R 2PG or Citibank, N.A., London Branch, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.]]

| | | | |
|---|---|---|---|
| 1 | (i) | Issuer: | [●] |
| | (ii) | Guarantors: | [●] |
| 2 | (i) | Series Number: | [●] |
| | (ii) | Tranche Number: | [On the Issue Date, the Notes will be consolidated and form a single Series with the existing [●] Notes due [●] issued on [●]]<br>[●] |
| 3 | Specified Currency or Currencies: | | [●] |
| 4 | Aggregate Nominal Amount: | | [●] |
| | (i) | Series: | [●] |
| | (ii) | Tranche: | [●] |
| 5 | Issue Price of Tranche: | | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●] |
| 6 | (i) | Specified Denominations: | [●] [and integral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above [●]] |
| | (ii) | Calculation Amount: | [●] |
| 7 | (i) | Issue Date: | [●] |
| | (ii) | Interest Commencement Date: | [[●]/Issue Date/Not Applicable] |
| 8 | Maturity Date: | | [●]<br>[Interest Payment Date falling in or nearest to [●]] |

| | | | |
|---|---|---|---|
| 9 | Interest Basis: | | [Fixed Rate]<br>[Floating Rate]<br>[Zero Coupon]<br>[●]<br>(Further particulars specified below in paragraph [14/15/16]) |
| 10 | Redemption Basis: | | Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [●] per cent. of their nominal amount |
| 11 | Change of Interest: | | [●] [Not Applicable] |
| 12 | Put/Call Options: | | [Investor Put]<br>[Issuer Call]<br>[Clean-Up Call]<br>[Not Applicable]<br>(Further particulars specified below in paragraph [18/19/20]) |
| 13 | (i) | Status of the Notes: | Senior |
| | (ii) | Status of the Guarantee: | Senior |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | | |
|---|---|---|---|
| 14 | Fixed Rate Note Provisions | | [Applicable/Not Applicable] |
| | (i) | Rate[(s)] of Interest: | [●] per cent. per annum payable in arrear on each Interest Payment Date |
| | (ii) | Interest Payment Date(s): | [[●] [and [●]] in each year, commencing on [●], up to and including the Maturity Date |
| | (iii) | Fixed Coupon Amount[(s)]: | [●] per Calculation Amount |
| | (iv) | Broken Amount(s): | [●] per Calculation Amount payable on the Interest Payment Date falling [in/on]<br>[Not Applicable] |
| | (v) | Day Count Fraction: | [30/360] [Actual/Actual (ICMA)] [Actual/365 (Fixed)] |
| | (vi) | [Determination Dates: | [[●] in each year] [Not Applicable]] |
| 15 | Floating Rate Note Provisions | | [Applicable/Not Applicable] |
| | (i) | Specified Period(s)/Specified Interest Payment Dates: | [●] [, subject to adjustment in accordance with the Business Day Convention set out in (ii) below/, not subject to any adjustment, as the Business Day Convention in (ii) below is specified to be Not Applicable] |
| | (ii) | Business Day Convention: | [Floating Rate Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention] [Not Applicable] |
| | (iii) | Additional Business Centre(s): | [●] |

| | | |
|---|---|---|
| (iv) | Manner in which the Rate(s) of Interest and Interest Amount is/are to be determined: | [Screen Rate Determination] [ISDA Determination] |
| (v) | Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Agent): | [●] |
| (vi) | Screen Rate Determination: | |
| | - Reference Rate: | [●]-month [LIBOR/EURIBOR] |
| | - Interest Determination Date(s): | [Second London business day prior to the start of each Interest Period]<br>[First day of each Interest Period]<br>[Second day on which the TARGET System is open prior to the start of each Interest Period]<br>[●] |
| | - Relevant Screen Page: | [●] |
| (vii) | ISDA Determination: | |
| | - Floating Rate Option: | [●] |
| | - Designated Maturity: | [●] |
| | - Reset Date: | [●] |
| (viii) | Margin(s): | [+/-] [●] per cent. per annum |
| (ix) | Linear Interpolation: | [Not Applicable][Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation] |
| (x) | Minimum Rate of Interest: | [[●] per cent. per annum] [Not Applicable] |
| (xi) | Maximum Rate of Interest: | [[●] per cent. per annum] [Not Applicable] |
| (xii) | Day Count Fraction: | [Actual/Actual]<br>[Actual/Actual (ISDA)]<br>[Actual/365 (Fixed)]<br>[Actual/365 (Sterling)]<br>[Actual/360]<br>[30/360] [360/360] [Bond Basis]<br>[30E/360] [Eurobond Basis]<br>[30E/360 (ISDA)] |
| 16 | Zero Coupon Note Provisions | [Applicable/Not Applicable] |
| (i) | Accrual Yield: | [●] per cent. per annum |
| (ii) | Reference Price | [●] |
| (iii) | Day Count Fraction in relation to Early Redemption Amounts and late payment: | [Conditions 6(f)(iii) and 6(i) apply] |

**PROVISIONS RELATING TO REDEMPTION**

| | | |
|---|---|---|
| 17 | Notice Period for Condition 6(b): | Minimum period: [10] [●] days<br>Maximum period: [30] [●] days |
| 18 | Issuer Call | [Applicable/Not Applicable] |

| | | |
|---|---|---|
| | (i) Optional Redemption Date(s): | [●] |
| | (ii) Optional Redemption Amount(s): | [[●] per Calculation Amount]/[Make-whole Amount] |
| | (iii) If redeemable in part: | |
| | (a) Minimum Redemption Amount: | [●] per Calculation Amount |
| | (b) Maximum Redemption Amount: | [●] per Calculation Amount |
| | (iv) Notice Period: | Minimum period: [10] [●] days<br>Maximum period: [30] [●] days |
| | (v) Quotation Time: | [[●]/Not Applicable] |
| | (vi) Determination Date: | [[●]/Not Applicable] |
| | (vii) Reference Bond: | [[●]/Not Applicable] |
| | (viii) Redemption Margin: | [[●]/Not Applicable] |
| 19 | Clean-Up Call | [Applicable/Not Applicable] |
| | (i) Clean-Up Redemption Amount: | [●] per Calculation Amount |
| | (ii) Notice Period: | Minimum period: [10] [●] days<br>Maximum period: [30] [●] days |
| 20 | Investor Put | [Applicable/Not Applicable] |
| | (i) Optional Redemption Date(s): | [●] |
| | (ii) Optional Redemption Amount(s): | [[●] per Calculation Amount] |
| | (iii) Notice Period: | Minimum period: [10] [●] days<br>Maximum period: [30] [●] days |
| 21 | Final Redemption Amount: | [●] per Calculation Amount |
| 22 | Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default or other early redemption: | [As set out in Condition 6(f)] [[●] per Calculation Amount] |

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

| | | |
|---|---|---|
| 23 | Form of Notes: | **Bearer Notes**: |
| | (i) Form: | Global Note exchangeable for Definitive Notes upon an Exchange Event. |
| | (ii) New Global Note: | [Yes/No] |
| 24 | Additional Financial Centre(s): | [Not Applicable] [●] |
| 25 | Talons for future Coupons to be attached to Definitive Notes: | [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No] |

Signed on behalf of [name of the Issuer]:

By: .....
Duly authorised

Signed on behalf of [name of the Guarantor]:

By: .....
Duly authorised

Signed on behalf of [name of the Guarantor]:

By: .....
Duly authorised

Signed on behalf of [name of the Guarantor]:

By: .....
Duly authorised

## PART B – OTHER INFORMATION

1 **LISTING**

| | | |
|---|---|---|
| (i) | Admission to trading: | [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Regulated Market of the London Stock Exchange plc with effect from [●].] |
| (ii) | Estimate of total expenses related to admission to trading: | [●] |

2 **RATINGS**

| | |
|---|---|
| Ratings: | [The Issuer has not applied, and does not intend to apply, for a credit rating to be assigned to the Notes] [The Notes to be issued [have been/are expected to be] rated]: |
| | [Moody's: [●]] |
| | [S&P: [●]] |

3 **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]]**

[Save for the fees [of *[insert relevant fee disclosure]*] payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions, and may perform other services for the Issuer and its affiliates in the ordinary course of business.]

4 **[Fixed Rate Notes only – YIELD]**

| | |
|---|---|
| Indication of yield: | [●] |

5 **OPERATIONAL INFORMATION**

| | | |
|---|---|---|
| (i) | ISIN: | [●] |
| (ii) | Common Code: | [●] |
| (iii) | CFI: | [[[*include code*], as updated, as set out on]/[See] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available] |
| (iv) | FISN: | [[[*include code*], as updated, as set out on]/[See] the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN/Not Applicable/Not Available]<br>(*If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable" or "Not Available"*) |

| | | |
|---|---|---|
| (v) | Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): | [Not Applicable]/[●] |
| (vi) | Names and addresses of additional Paying Agent(s) (if any): | [Not Applicable/[●]] |
| (vii) | Intended to be held in a manner which would allow Eurosystem eligibility: | [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]<br><br>[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] |
| (viii) | [Prohibition of Sales to Belgian Consumers: | [Applicable/Not Applicable]<br>(*Advice should be taken from Belgian counsel before disapplying this selling restriction*)] |

6 **[THIRD PARTY INFORMATION]**

[[●]] has been extracted from [●]. [Each of the] [The] Issuer [and the Guarantors] confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

## FORM OF THE NOTES

The Notes of each Series will be in bearer form, with or without Coupons and Talons attached, but will be issued so as to be in registered form for United States federal income tax purposes. Accordingly, as further described below, Noteholders will only be entitled to obtain definitive Notes in bearer form upon the occurrence of an Exchange Event (as defined below).

Each Tranche of Notes will be initially issued in the form of a permanent global note (a "Global Note"). The relevant Global Note will be delivered on or prior to the original issue date of the Tranche (if the relevant Global Note is an NGN) to a Common Safekeeper for Euroclear and Clearstream, Luxembourg or (if the relevant Global Note is a CGN) to a Common Depositary for Euroclear and Clearstream, Luxembourg.

Each Global Note, definitive Notes and Talon will include a legend which states that the Notes have not been and are not required to be registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction of the United States and that the Notes may not be offered, sold or otherwise transferred in the absence of such registration or unless such transaction is exempt from, or not subject to, such registration. Such legend will further state that the Notes are being offered and sold outside the United States in compliance with Regulation S promulgated under the Securities Act and that the Notes may not be offered, sold or otherwise transferred within the United States or to or for the account or benefit of U.S. persons (i) as part of their distribution at any time, or (ii) until 40 days after the completion of the distribution of all notes of the tranche of which those notes are a part, as determined and certified to the Dealers or, in the case of notes issued on a syndicated basis, the lead manager, by the Agent, except in either case in accordance with Regulation S under the Securities Act. Terms used in such legend will have the meanings given to them by Regulation S.

If the relevant Global Note is stated in the applicable Final Terms to be issued in NGN form, on or prior to the original issue date of the Tranche, the Global Note will be delivered to a common safekeeper and the applicable Final Terms will set out whether or not the Notes are intended to be held as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem. The fact that Notes are intended to be held in a manner which would allow Eurosystem eligibility simply means that the Notes are intended upon issue to be deposited with one of Euroclear and Clearstream, Luxembourg as Common Safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

If the relevant Global Note is a CGN, upon the initial deposit of a Global Note with the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the relevant Global Note is an NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the relevant Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Payments of principal, interest (if any) or any other amounts on a Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Global Note if the Global Note is a CGN).

If the relevant Global Note is a CGN, a record of each payment so made will be endorsed on the Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. If the Global Note is an NGN, the Issuer shall procure that details of each such payment shall

be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note will be reduced accordingly. Payments under the NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge.

The applicable Final Terms will specify that a Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, Coupons and Talons attached only upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that (i) both Euroclear and Clearstream, Luxembourg have terminated their businesses without a successor clearing organisation being available or (ii) the relevant Issuer has requested the issuance of definitive Notes upon a change in tax law that would be adverse to such Issuer but for the issuance of definitive Notes in bearer form. The relevant Issuer will promptly give notice to Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Note) or the Trustee may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the relevant Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Agent. The following legend will appear on all definitive Notes, Coupons and Talons in bearer form with a maturity of more than one year:

**"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."**

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, Coupons or Talons in bearer form and will not be entitled to capital gains treatment on any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, Coupons or Talons.

Notes which are represented by a Global Note will only be transferable to a successor clearing organisation subject to the same terms, in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under "Terms and Conditions of the Notes" above) the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the Distribution Compliance Period applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the relevant Issuer, the relevant Guarantors and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the relevant Issuer, the relevant Guarantors and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "Noteholder" and "holder of Notes" and related expressions shall be construed accordingly.

Any reference in this Base Prospectus to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Obligors, the Agent and the Trustee.

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuers or the Guarantors unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

# TAXATION

## United Kingdom

The following is a general summary of the Issuers' understanding of certain aspects of current United Kingdom tax law as applied in England and Wales and published HM Revenue & Customs ("HMRC") practice (which may not be binding on HMRC) relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of the Notes and is not intended to be exhaustive. The following assumes that there will be no substitution of any Issuer and does not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the terms and conditions of the Notes). It relates only to persons who are the absolute beneficial owners of Notes and related Coupons and may not apply to certain classes of persons such as dealers or certain professional advisors. It does not necessarily apply where the income is deemed for tax purposes to be the income of any other person.

Any Noteholders who are in any doubt as to their tax position or who may be subject to tax in any jurisdiction other than the United Kingdom should seek independent professional advice without delay.

### Withholding Tax on Interest Paid by BATIF as Issuer

Payments of interest made in respect of Notes issued by BATIF ("UK Notes") which carry a right to interest and are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 may be made without withholding or deduction for or on account of United Kingdom income tax (the "Quoted Eurobond exemption").

The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of, and in accordance with, the provisions of Part VI of the FSMA) by the United Kingdom Financial Conduct Authority and admitted to trading on the London Stock Exchange.

Payments of interest in respect of UK Notes issued for a term of less than one year (and which are not issued under a scheme or arrangement the intention or effect of which is to render the UK Notes capable of being part of a borrowing with a total term of one year or more) may also be paid by BATIF without withholding or deduction for or on account of United Kingdom income tax.

In other cases an amount must generally be withheld from payments of interest on UK Notes that have a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to the availability of other exemptions and reliefs under domestic law, or to any direction to the contrary from HMRC in respect of such reliefs as may be available under the provisions of an applicable double taxation treaty.

If UK Notes are issued at a discount to their principal amount, any such discount element should not generally be subject to any withholding or deduction for or on account of United Kingdom income tax. If UK Notes are redeemed at a premium to their principal amount (as opposed to being issued at a discount) then, depending on the circumstances, such premium may constitute a payment of interest for United Kingdom tax purposes and hence be subject to the United Kingdom withholding tax rules outlined above.

### Withholding Tax on Interest Paid by BATNF or BATCAP as an Issuer

Payments of interest made in respect of Notes issued by BATNF or BATCAP, each, in this section and the next section, referred to as an Issuer and, together, the Issuers ("Non-UK Notes"), may be paid by the Issuers without withholding or deduction for or on account of United Kingdom income tax except in circumstances when such interest has a United Kingdom source. Interest on Non-UK Notes may have a

United Kingdom source; for example, interest on Non-UK Notes principally funded by assets situated in the United Kingdom may have a United Kingdom source.

### The following applies only where interest on the Non-UK Notes has a United Kingdom source

Payments of interest made in respect of the Non-UK Notes with a United Kingdom source may be made without withholding or deduction for or on account of United Kingdom income tax if the Quoted Eurobond exemption applies (as described above).

Payments of interest made in respect of Non-UK Notes issued for a term of less than one year (and which are not issued under a scheme or arrangement the intention or effect of which is to render the Non-UK Notes capable of being part of a borrowing with a total term of one year or more) may also be paid by each Issuer without withholding or deduction for or on account of United Kingdom income tax.

In other cases an amount must generally be withheld from payments of interest on Non-UK Notes that have a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to the availability of other exemptions and reliefs under domestic law, or to any direction to the contrary from HMRC in respect of such reliefs as may be available under the provisions of an applicable double taxation treaty.

If Non-UK Notes are issued at a discount to their principal amount, any such discount element should not generally be subject to any withholding or deduction for or on account of United Kingdom income tax. If Non-UK Notes are redeemed at a premium to their principal amount (as opposed to being issued at a discount) then, depending on the circumstances, such premium may constitute a payment of interest for United Kingdom tax purposes and hence be subject to the United Kingdom withholding tax rules outlined above.

#### Withholding tax on payments by a guarantor or RAI

The United Kingdom withholding tax treatment of payments by a guarantor in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Bonds) is uncertain. In particular, if BATIF or BAT is required to make a payment as a guarantor or if BATNF, BATCAP or RAI is required to make a payment as a guarantor (to the extent that such payment has a United Kingdom source) the payment may be subject to withholding or deduction for or on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to the availability of other reliefs or to any direction by HMRC in respect of such reliefs as may be available under the provisions of an applicable double tax treaty. Such payments may not be eligible for any of the exemptions outlined above.

### The Netherlands

This section provides a general description of certain Dutch tax consequences of the acquisition, ownership and transfer of the Notes issued by BATNF, in this section, referred to as the Issuer.

This summary provides general information only and is restricted to the matters of Dutch taxation stated herein. It is intended neither as tax advice nor as a comprehensive description of all Dutch tax considerations that may be relevant to a decision to acquire, to hold, or to transfer the Notes. This summary does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as investment institutions, pension funds and dealers in securities) may be subject to special rules.

The summary provided below is based on the tax laws of The Netherlands as in effect on the date of this Base Prospectus, including regulations, rulings and decisions of The Netherlands and its taxing and

other authorities available in printed form on or before this date and now in effect, and as generally applied and interpreted by Dutch courts, without prejudice to any changes in law or the interpretation or application thereof, which changes may be implemented with or without retroactive effect. All references in this section to The Netherlands and Dutch tax, taxation or law are to the European part of the Kingdom of The Netherlands and its tax, taxation or law, respectively, only.

For Dutch tax purposes, a Noteholder may include an individual who, or an entity that, does not have the legal title to the Notes, but to whom nevertheless the Notes are attributed based either on such individual or entity holding a beneficial interest in the Notes or based on specific statutory provisions, including statutory provisions pursuant to which the Notes are attributed to an individual who is, or who has directly or indirectly inherited from a person who was, the settlor, grantor or similar originator of a trust, foundation or similar entity that holds the Notes.

Noteholders (and prospective Noteholders) should consult their own tax advisors as to the Dutch or other tax consequences of the acquisition, ownership and transfer of Notes, including, in particular, the application to their particular situations of the tax considerations discussed below.

The Issuer has been advised that the following Dutch tax treatment will apply to the Notes provided that:

(i) in each and every respect the terms and conditions of this Base Prospectus, the Notes and the documents relating to the Notes, the performance by the parties thereto of their respective obligations and the exercise of their rights thereunder and the transactions contemplated therein, including, without limitation all payments made thereunder, are at arm's length as this term is understood under Netherlands tax law; and

(ii) no Notes will be issued under such terms and conditions that they actually function as equity of the Issuer within the meaning of article 10, paragraph 1, under d, of the Dutch Corporate Income Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*).

**Withholding Tax**

All payments made by the Issuer of interest and principal under the Notes may be made free of withholding or deduction of any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

(For developments and risks in relation to the application of Dutch withholding tax on interest payments see "Risk Factors - Dutch tax risk related to approach of the Dutch government on tax avoidance".)

**Taxes on Income and Capital Gains**

A Noteholder who derives income from a Note or who realises a gain from the transfer or redemption of a Note will not be subject to Dutch taxation on such income or gain, provided that such Noteholder:

(i) is neither resident nor deemed to be resident in The Netherlands for Dutch tax purposes;

(ii) does not have an enterprise or deemed enterprise (as defined in Dutch tax law) or an interest in or a co-entitlement to the net worth of an enterprise or deemed enterprise (as defined in Dutch tax law) that is, in whole or in part, carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in The Netherlands and to which enterprise or part of that enterprise, as the case may be, the Notes are attributable;

(iii) in the event such person is not an individual, neither entitled to a share in the profits of an enterprise effectively managed in The Netherlands nor co-entitled to the net worth of such enterprise, other than by way of the holding of securities, to which enterprise the Notes or payments in respect of the Notes are attributable;

(iv) in the event such person who is an individual, is not entitled to a share in the profits of an enterprise effectively managed in The Netherlands, other than by way of the holding of securities

or through an employment contract, to which enterprise the Notes or payments in respect of the Notes are attributable;

(v) in the event such person is an individual, does not have, and certain persons related or deemed related to that Noteholder do not have, directly or indirectly, a substantial interest (*aanmerkelijk belang*) as defined in the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), in the Issuer, or in any company that has, or that is part of a co-operation (*samenwerkingsverband*) that has, legally or in fact, directly or indirectly, the disposition of any part of the proceeds of the Notes;

(vi) in the event such person is not an individual, does not have, directly or indirectly, a substantial interest (*aanmerkelijk belang*) as defined in the Dutch Income Tax Act 2001, in the Issuer, or, in the event that the Noteholder does have such interest, either (a) the Noteholder does not hold such interest with the main purpose or one of the main purposes to avoid the levy of income tax (*inkomstenbelasting*) of another person or entity, or (b) there is no arrangement or a series of arrangements that is not genuine. An arrangement or series of arrangements shall be regarded as not genuine to the extent that it is not put into place for valid commercial reasons which reflect economic reality; and

(vii) does not derive benefits from the Notes that are taxable as benefits from miscellaneous activities in The Netherlands (*resultaat uit overige werkzaamheden in Nederland)* as defined in the Dutch Income Tax Act 2001, which include, but are not limited to, activities in respect of the Notes which are beyond the scope of "regular active asset management" (*normaal actief vermogensbeheer*).

**Gift and Inheritance Taxes**

No Dutch gift or inheritance taxes will arise in The Netherlands with respect to the acquisition of the Notes by way of gift by, or on the death of, a Noteholder who is neither resident nor deemed to be resident in The Netherlands for the purpose of the relevant provisions, unless:

(i) such acquisition is construed as an inheritance, a bequest or a gift by or on behalf of a person who, at the time of the gift or his death, is or was a resident or a deemed resident of The Netherlands for the purpose of the relevant provisions;

(ii) in the case of a gift of the Notes by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands; or

(iii) the gift is made under a condition precedent and such holder is or is deemed to be a resident of The Netherlands at the time the condition is fulfilled.

For the purpose of Dutch gift and inheritance tax, an individual who has the Dutch nationality will be deemed to be a resident of The Netherlands at the date of the gift or the date of his death if he has been a resident of The Netherlands at any time during the ten years preceding the date of the gift or the date of his death.

For the purposes of Dutch gift tax, an individual will, irrespective of his nationality, be deemed to be a resident of The Netherlands at the date of the gift if he has been a resident of The Netherlands at any time during the 12 months preceding the date of the gift.

**Value added Tax**

No Dutch value added tax (*omzetbelasting*) will be payable by a Noteholder in consideration for the issue of the Notes (other than value added taxes on fees payable in respect of services not exempt from Netherlands value added tax).

### Other taxes and duties

No Dutch registration tax, stamp duty or any other similar tax or duty, other than court fees, will be payable in The Netherlands by a Noteholder in respect of or in connection with the acquisition, ownership or transfer of the Notes.

### Residence

A Noteholder will not become or be deemed to become a resident of The Netherlands for tax purposes by reason only of the acquisition, ownership or transfer of the Notes.

## United States

In respect of Notes issued by BATCAP, BATCAP has been advised that under current United States federal income and estate tax law, and subject to the discussion below concerning backup withholding and FATCA:

(i) payments of principal of and interest on such Notes by BATCAP or by any Guarantor to any United States Alien holder (as defined below) will not be subject to United States withholding tax, provided that, in the case of interest, appropriate certifications (including IRS Form W-8BEN, IRS Form W-8BEN-E or other successor form) are obtained or provided, and that the holder:

  (a) does not actually or constructively (taking into account applicable attribution rules) own ten per cent. or more of the total combined voting power of all classes of stock of BATCAP entitled to vote;

  (b) is not a controlled foreign corporation related to BATCAP through stock ownership; and

  (c) is not a bank receiving interest described in Section 881(c)(3)(A) of the Code;

(ii) any gain realised by a United States Alien holder on the sale, exchange or redemption of a Note will not be subject to United States federal income tax unless:

  (a) the United States Alien holder is an individual who is present in the United States for a period or periods aggregating 183 days or more during the taxable year of the sale, exchange or redemption and certain other conditions are met;

  (b) the gain is effectively connected with the conduct of a United States trade or business by the United States Alien holder, or if required by an applicable income tax treaty, is generally attributable to a United States “permanent establishment” maintained by the United States Alien holder; or

  (c) the United States Alien holder is subject to tax pursuant to provisions of the United States federal tax law applicable to certain United States expatriates;

(iii) if interest or gain on a sale of a Note is effectively connected with the conduct of a trade or business within the United States by a United State Alien holder, the interest, although exempt from withholding tax, and the gain will be subject to the United States federal income tax on net income that applies to United States persons (defined below) generally. In addition, if a United States Alien holder is a foreign corporation, it may be subject to a branch profits tax equal to 30 per cent., (or lower applicable treaty rate) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments; and

(iv) a Note, held by an individual who at the time of death is not a citizen or resident of the United States, will not be subject to United States federal estate tax as a result of such individual’s death, provided that the individual does not actually or constructively (taking into account applicable attribution rules) own ten per cent. or more of the total combined voting power of all classes of

stock of BATCAP entitled to vote and, at the time of the individual's death, payments of interest on such Note would not have been effectively connected with the conduct by such individual of a trade or business in the United States.

Certain United States Alien holders who are United States expatriates are subject to special federal income tax rules and are urged to consult their own tax advisors regarding the tax consequences to them of holding and disposing of Notes.

**Backup withholding and information reporting**

Under current United States federal income tax law and regulations, certain information reporting requirements generally apply to interest and principal payments made to, and to the proceeds of sales of debt obligations before maturity by, certain non-corporate holders that are United States persons, and a "backup" withholding tax may be applied to persons who fail to supply correct taxpayer identification numbers and other information or otherwise identify themselves. Backup withholding and in some instances information reporting will not apply to payments of interest made outside the United States by BATCAP (or any Guarantor) or a paying agent on a Note, provided in each case that the holder has complied with applicable certification requirements and BATCAP (or any Guarantor) or the Paying Agent, as the case may be, does not have actual knowledge that the beneficial owner is a United States person. In addition, if payment of the proceeds of the sale of a Note is collected outside the United States by a foreign office of a custodian, nominee or other agent acting on behalf of a beneficial owner of a Note, such custodian, nominee or other agent will not be required to apply backup withholding or information reporting to payments made to such owner. However, if such custodian, nominee or other agent is a United States person, a controlled foreign corporation for United States tax federal purposes, or a foreign person 50 per cent. or more of whose gross income is from a United States trade or business for a specified three-year period, or a foreign partnership that, at any time during its taxable year, is 50 per cent. or more owned (by income or capital interest) by United States persons or is engaged in the conduct of a United States trade or business, such payments may be subject to information reporting unless the custodian, nominee or agent has sufficient documentary evidence in its records that the beneficial owner is not a United States person and certain conditions are met, or the beneficial owner otherwise establishes an exemption with respect to such payment. If payments of interest, principal or the proceeds of the sale of a Note are collected by the United States office of a custodian, agent or nominee acting on behalf of the beneficial owner, information reporting and backup withholding will apply to payments made by such custodian, agent or nominee to the beneficial owner unless such owner certifies under penalty of perjury that it is not a United States person or otherwise establishes an exemption. The backup withholding rate is currently equal to 24 per cent.

**FATCA**

A 30 per cent. United States federal withholding tax may apply to interest income paid on Notes issued by BATCAP to (i) a "foreign financial institution" (as specifically defined in the Code), whether such foreign financial institution is the beneficial owner or an intermediary, unless such foreign financial institution agrees to verify, report and disclose its "United States account" holders (as specifically defined in the Code) and meets certain other specified requirements or (ii) a "non-financial foreign entity" (as specifically defined in the Code), whether such non-financial foreign entity is the beneficial owner or an intermediary, unless such entity provides a certification that the beneficial owner of the payment does not have any substantial United States owners or provides the name, address and taxpayer identification number of each substantial United States owner and certain other specified requirements are met. In certain cases, the relevant foreign financial institution or non-financial foreign entity may qualify for an exemption from, or be deemed to be in compliance with, these rules. Intergovernmental agreements between the United States and certain other countries may modify the foregoing rules. Holders should consult their tax advisors regarding the applicability of these rules to their holding of Notes issued by BATCAP.

**General**

As used in this section, "United States person" means any citizen or resident of the United States, a corporation, partnership or other entity organised in or under the laws of the United States or any political subdivision thereof (other than a partnership that is not treated as a United States person under applicable United States Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source and a trust if either (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all subsequent decisions of the trust or (ii) the trust has a valid election in place to be treated as a United States trust; and "United States Alien" means any person that is not a United States person.

The discussion above relates to certain material aspects of current United States federal income and estate tax law arising as a result of the holding and disposing of Notes or receiving interest on Notes by United States Alien holders who purchased Notes in connection with an offering at the initial offering price. As discussed under "Form of the Notes" above, the Notes issued by BATCAP will be issued so as to be in registered form for United States federal income tax purposes. This discussion assumes that no Exchange Event will occur and that no definitive Notes in bearer form will be issuable to holders. The discussion above does not address any other United States federal, state or local tax issues nor does it address the United States federal tax consequences of ownership of Notes not held as capital assets within the meaning of Section 1221 of the Code, or the United States federal income tax consequences to investors subject to special treatment under the United States federal income tax laws. The above discussion is based on the Code, regulations, rulings and judicial decisions as of the date hereof, all of which are subject to change or differing interpretations at any time and in some circumstances with retroactive effect. Any such subsequent developments in these areas could have a material effect on the foregoing summary.

**FATCA Withholding with Respect to Notes Issued by BATIF and BATNF**

This discussion of FATCA applies to Notes issued by BATIF and BATNF, and does not apply to Notes issued by BATCAP. Pursuant to certain provisions of the Code commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. Each Issuer is not a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom and The Netherlands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply to such payments made prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are published in the United States Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional notes (as described under "Terms and Conditions of the Notes — Further Issues") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to

payments on the Notes, no person will be required to pay Additional Amounts as a result of the withholding.

## General

**THE ABOVE SUMMARIES ARE NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF NOTES. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS CONCERNING THE CONSEQUENCES OF AN INVESTMENT IN THE NOTES AND OF THEIR PARTICULAR SITUATION.**

### The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "Commission's Proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "Participating Member States"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

However, the FTT proposal remains subject to negotiation between Participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states may decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

The Dealers have in an amended and restated programme agreement (such Programme Agreement as amended and/or supplemented and/or restated from time to time, the "Programme Agreement") dated 1 May 2019, agreed with the Obligors a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "Form of the Notes" and "Terms and Conditions of the Notes". In the Programme Agreement, the Obligors have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### Selling Restrictions

#### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, United States persons except in certain transactions exempt from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes will be offered outside the United States to non-US persons in accordance with Regulation S. BATIF, BATCAP and BATNF are Category 2 issuers for the purposes of Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, United States persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, United States persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

By purchasing Notes of any tranche, holders will be deemed to have represented that they are not a U.S. person (as defined in Regulation S) or purchasing such Notes for the account or benefit of a U.S. person, other than a distributor, and they are purchasing such Notes in an offshore transaction in accordance with Regulation S. This Base Prospectus has been prepared by the Issuers for use in connection with the offer and sale of Notes outside the United States. Each of the Issuers reserves the right to reject any offer to purchase the Notes issued by such Issuer, in whole or in part, for any reason, and each of the Dealers reserves the right to reject any offer to purchase any of the Notes, in whole or in part for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person. Distribution of this Base Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States other than those persons, if any, retained to advise such non-U.S. person with respect thereto, is unauthorised and any disclosure without the prior written consent of the relevant Issuer of any of its contents to any such U.S. person or other person

within the United States, other than those persons, if any, retained to advise such non-U.S. person is prohibited.

**Prohibition of Sales to EEA Retail Investors**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(A) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the IMD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in the Prospectus Directive; and

(B) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

**United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(A) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the relevant Issuer;

(B) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer or the Guarantors; and

(C) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

**The Netherlands**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that unless otherwise specified in the relevant Final Terms it will not make an offer of Notes in The Netherlands unless such offer is made exclusively to persons who or legal entities which are qualified investors (*gekwalificeerde beleggers*) as defined in section 1:1 of the Financial Supervision Act (*Wet op het financieel toezicht*) of The Netherlands.

Zero Coupon Notes (as defined below) in definitive form may only be transferred and accepted, directly or indirectly, within, from or into The Netherlands through the mediation of either the Issuer or a member of Euronext Amsterdam N.V. in accordance with the Dutch Savings Certificates Act (*Wet inzake*

*spaarbewijzen*) of 21 May 1985 (as amended) and its implementing regulations (which include registration requirements). Such restrictions do not apply (a) to the initial issue of Zero Coupon Notes to the first holders thereof, (b) to a transfer and acceptance of Zero Coupon Notes in definitive form between individuals not acting in the conduct of a business or profession, or (c) to a transfer and acceptance of Zero Coupon Notes in definitive form within, from or into The Netherlands if all Zero Coupon Notes of any particular series are issued outside The Netherlands and are not distributed within The Netherlands in the course of their initial distribution or immediately thereafter. For the purposes of this paragraph, "Zero Coupon Notes" are Notes that are in bearer form and that constitute a claim for a fixed sum against the Issuer and on which interest does not become due during their tenor or on which no interest is due whatsoever.

**Belgium**

Other than in respect of Notes for which "Prohibition of Sales to Belgian Consumers" is specified as "Not Applicable" in the applicable Final Terms, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Notes may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a "Belgian Consumer") and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Notes, directly or indirectly, to any Belgian Consumer.

**France**

Each of the Dealers and each of the Obligors has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(A) it has only made and will only make an offer of Notes to the public (*appel public à l'épargne*) in France in the period beginning on the date of notification to the *Autorité des marchés financiers* ("AMF") of the approval of the prospectus relating to those Notes by the competent authority of a member state of the European Economic Area, other than the AMF, which has implemented the EU Prospectus Directive 2003/71/EC (as amended by Directive 2010/73/EU), all in accordance with articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and the *Règlement général* of the AMF, and ending at the latest on the date which is 12 months after the date of the approval of the Base Prospectus; or

(B) it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France, it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Base Prospectus, the relevant Final Terms or any other offering material relating to the Notes, and such offers, sales and distributions have been and shall only be made in France to (i) providers of investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (ii) qualified investors (*investisseurs qualifiés*), and/or (iii) a limited circle of investors (*cercle restraint*) acting for their own account, all as defined in, and in accordance with, articles L.411-1, L.411-2, D.411-1 and D.411-4 of the French *Code monétaire et financier*.

**Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "FIEA"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means

any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan.

**Singapore**

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

## General

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems as may be specified in the Final Terms, no action has been or will be taken in any country or jurisdiction by the relevant Issuer or any of the Dealers that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose

hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

The Programme Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change or changes in official interpretation, after the date hereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the preceding paragraph.

Selling Restrictions may be supplemented or modified with the agreement of the Issuers.

## GENERAL INFORMATION

**1** The admission to trading of the Notes on the Market will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Tranche of Notes intended to be admitted to the Official List and admitted to trading on the Market will be so admitted to trading upon submission to the FCA and the London Stock Exchange of the relevant Final Terms and any other information required by the FCA and the London Stock Exchange, subject in each case to the issue of the relevant Notes.

**2** The admission of the Programme to the Official List and to trading on the London Stock Exchange is expected to take effect on or around 7 May 2019. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions on the Market will normally be effected for delivery on the third working day after the day of the transaction.

**3** The establishment of the Programme and the issue of Notes and the execution by each Obligor of the documents relating thereto and the incurring by each Obligor of its obligations as Issuer and/or Guarantor thereunder have been duly authorised (i) in the case of BAT, by resolutions of Meetings of the Board of Directors on 18 June 1998, 5 March 1999, 24 May 2000, 28 July 2000, 14 April 2003, 20 February 2004, 29 October 2007, 25 February 2014, and 25 April 2017, by resolutions of the Executive Committee of the Board of Directors on 24 April 2002 and 24 June 2002, by resolutions of the Transactions Committee of the Board of Directors on 11 April 2005, 21 November 2005, 16 November 2006, 20 November 2007, 21 November 2008, 17 November 2009, 19 November 2010, 23 November 2011, 30 November 2012, 29 November 2013, 12 May 2014, 23 April 2015, 3 May 2016, 10 May 2018 and 23 April 2019 and by resolutions of a Committee of the Board of Directors on 1 July 1998; (ii) in the case of BATIF, by resolutions of Meetings of the Board of Directors on 30 June 1998, 23 February 1999, 23 May 2000, 24 July 2000, 24 June 2002, 14 April 2003, 25 February 2004, 12 April 2005, 21 November 2005, 23 November 2006, 23 November 2007, 21 November 2008, 25 November 2009, 19 November 2010, 23 November 2011, 30 November 2012, 29 November 2013, 15 May 2014, 24 April 2015, 6 May 2016, 27 April 2017, 10 May 2018 and 24 April 2019; (iii) in the case of BATNF, by resolutions of Meetings of the Board of Directors on 12 May 2014, 28 April 2015, 11 May 2016, 22 May 2017, 15 May 2018 and 29 April 2019; and (iv) in the case of BATCAP, by resolutions of Meetings of the Board of Directors on 20 April 2017, 11 May 2018 and 25 April 2019. The accession of RAI as an Additional Guarantor pursuant to the Programme, the execution of the documents relating thereto and the incurring of its obligations thereunder have been duly authorised by resolutions of Meetings of the RAI Board of Directors on 25 July 2017.

**4** Save as disclosed in the section "BAT and the Group – Litigation" of this Base Prospectus, (pages 43 to 75 inclusive), there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which any Obligor or RAI and their respective subsidiaries taken as a whole is aware) during the period covering at least the 12 months prior to the date of this Base Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of any Obligor or RAI and their respective subsidiaries taken as a whole. Since many of the pending cases seek unspecified damages it is not possible to quantify the total amount being claimed.

**5** There has been no significant change in the financial or trading position of BAT, BATIF, BATNF, BATCAP or RAI and their respective subsidiaries taken as a whole since 31 December 2018, nor has there been any material adverse change in the prospects of BATIF, BATNF, BAT, BATCAP or RAI and their respective subsidiaries taken as a whole since 31 December 2018.

**6** In relation to any Tranche of Fixed Rate Notes, an indication of the yield in respect of such Notes will be specified in the applicable Final terms. The yield is calculated at the Issue Date of the Notes on the basis

of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Notes and will not be an indication of future yield.

**7** The auditors of BAT and BATIF made reports under section 495 of the Companies Act 2006 (the "Companies Act") in respect of the statutory accounts, and each report in respect of the 12 months ended 31 December 2017 and 31 December 2018 was an unqualified report and did not contain a statement under section 498(2) and (4) of the Companies Act.

**8** The auditors of BAT and BATIF are KPMG LLP (Chartered Accountants and Registered Auditors (members of the Institute of Chartered Accountants in England and Wales)) who have audited the accounts of BAT and BATIF without qualification in accordance with applicable law and International Standards on Auditing (UK and Ireland) for each of the two financial years ended 31 December 2017 and 31 December 2018.

**9** The auditors of BATNF are KPMG Accountants N.V. (Chartered Accountants and Registered Auditors (members of the Institute of Chartered Accountants in The Netherlands)) who have audited the accounts of BATNF without qualification in accordance with Part 9 of Book 2 of the Dutch Civil Code for each of the two financial years ended 31 December 2017 and 31 December 2018.

**10** The auditors of BATCAP and RAI are KPMG LLP (independent auditors) who have audited the accounts of BATCAP and RAI without qualification in accordance with generally accepted auditing standards in the United States ("US GAAS") for each of the two financial years ended 31 December 2017 and 31 December 2018.

**11** The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and the International Securities Identification Number (ISIN) and, where applicable, the Classification of Financial Instruments (CFI) code and the Financial Instrument Short Name (FISN) in relation to the Notes of each Series will be specified in the Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with the identification number.

**12** Neither any of the Issuers, any of the Guarantors nor RAI has entered into any contract outside the ordinary course of its business which could result in any Issuer, any Guarantor or RAI being under an obligation or entitlement that is material to any Issuer's ability to meet its obligations to the holders of its Notes in respect of the Notes being issued, to any Guarantor's ability to meet its obligations under the Guarantee or to RAI's ability to meet its obligations under the Deed of Guarantee.

**13** The address of Euroclear is Euroclear SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855, Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

**14** For so long as the Programme remains in effect or any Notes issued hereunder shall remain outstanding (and in the case of (e) below up to and including the Termination Date), the following documents may be inspected during normal business hours at the specified office of the Issuing and Principal Paying Agent and from the head offices of the relevant Issuer, namely:

(a) the constitutional documents of each Obligor (including an English translation of the constitutional documents of BATNF);

(b) a copy of this Base Prospectus, together with any Supplements to this Base Prospectus;

(c) the Trust Deed;

(d) the Agency Agreement;

(e) the Deed of Guarantee;

(f) the most recent publicly available audited financial statements (together in each case with the audit report thereon) of BAT (consolidated), BATIF (consolidated), BATNF (non-consolidated), BATCAP (non-consolidated) and RAI (consolidated) for the years ended 31 December 2017 and 31 December 2018;

(g) reports, letters, balance sheets, valuations and statements of experts included or referred to in this Base Prospectus (other than consent letters); and

(h) any Final Terms relating to Notes which are admitted to listing on the Official List and to trading on the Market.

The English translation referred to above is a direct and accurate translation of the original Dutch document.

In addition, copies of this Base Prospectus, each Final Terms relating to Notes which are listed on the London Stock Exchange and each document incorporated by reference are available at the website of the Regulatory News Service operated by the London Stock Exchange at *www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.*

**15** The issue price and amount of Notes to be issued under the Programme will be determined, before filing of the relevant Final Terms of each Tranche, by the relevant Issuer, the Guarantors and the Dealer(s) at the time of issue in accordance with prevailing market conditions.

**16** Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, each Obligor and their respective affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial notes (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or notes of the Obligors or Obligors' affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Obligors routinely hedge their credit exposure to the Obligors consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial notes and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and notes.

**17** The Legal Entity Identifier (LEI) code of:

(a) BAT is 213800FKA5MF17RJKT63;

(b) BATIF is 21380041YBGOQDFAC823;

(c) BATNF is 2138009B37VJ9VOWAO51;

(d) BATCAP is 2138005GYEXN7XRHFA84; and

(e) RAI is 02S2RPPVO9RP4NEU2740.

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