



B.A.T. INTERNATIONAL FINANCE p.l.c.
(incorporated with limited liability in England and Wales)

BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.
(incorporated with limited liability in The Netherlands)

B.A.T. NETHERLANDS FINANCE B.V.
(incorporated with limited liability in The Netherlands)

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. BATIF, BATHTN, 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 15.

Under the Programme, each of BATIF, BATHTN, 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, SA ("Clearstream, Luxembourg"). Global notes which are not issued in NGN form ("Classic Global Notes" or "CGNs") and Certificates (as defined herein) will be deposited on the issue date of the relevant Tranche with a common depository on behalf of Euroclear and Clearstream, Luxembourg (the "Common Depository").

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, BATHTN, 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 (the "FSMA") (the "UK Listing Authority") 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 UK Listing Authority (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 2004/39/EC of the European Parliament and the Council on Markets in financial instruments ("MiFID").

The Programme has been rated Baa2 by Moody's Investors Service Ltd ("Moody's") and BBB+ by Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"). Long term debt issued or guaranteed by BAT is rated Baa2 by Moody's and BBB+ by Standard & Poor's. Short term debt issued or guaranteed by BAT is rated P-2 by Moody's and A-2 by Standard & Poor's. Each of Moody's and Standard & Poor's 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
Santander Global Corporate Banking
Société Générale Corporate & Investment Banking

The date of this Base Prospectus is 31 May 2017

Each of BAT, BATIF, BATHTN, 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. To the best of the knowledge and belief of BAT, BATIF, BATHTN, BATNF and BATCAP each of the foregoing declares (each having taken all reasonable care to ensure that such is the case) that the information 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 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 UK Listing Authority 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 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 and the Guarantors 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 and the Guarantors 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.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS: The Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, 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 ("MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC ("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 (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.

No person has been authorised by the Obligors, 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 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 or 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 UK Listing Authority, 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 or Guarantors 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.

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 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 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, 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) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

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 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.

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 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", "€", "euro" 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; "BRL" refer to the lawful currency of Brazil; and "ZAR" refer to the lawful currency of South Africa.

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 UK Listing Authority, BAT and the Group undertake no obligation to update publicly any of them in light of new information or future events. The Issuers and the 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 2015, together with the audit report thereon, for BATIF contained on pages 6 to 37 of the BATIF 2015 Annual Report;
2. the published consolidated audited annual financial information as at and for the year ended 31 December 2016, together with the audit report thereon, for BATIF contained on pages 6 to 32 of the BATIF 2016 Annual Report;
3. the published non-consolidated audited annual financial information as at and for the year ended 31 December 2015, together with the audit report thereon, for BATHTN contained on pages 7 to 29 of the BATHTN Annual Report and Financial Statements for the Year Ended 31 December 2015;
4. the published non-consolidated audited annual financial information as at and for the year ended 31 December 2016, together with the audit report thereon, for BATHTN contained on pages 7 to 27 of the BATHTN Annual Report for the Year Ended 31 December 2016;
5. the published non-consolidated audited annual financial information as at and for the year ended 31 December 2015, together with the audit report thereon, for BATNF contained on pages 6 to 22 of the BATNF Annual Report and Financial Statements for the Year Ended 31 December 2015;
6. the published non-consolidated audited annual financial information as at and for the year ended 31 December 2016, together with the audit report thereon, for BATNF contained on pages 6 to 21 of the BATNF Annual Report and Financial Statements for the Year Ended 31 December 2016;
7. the published consolidated audited annual financial information as at and for the year ended 31 December 2015, together with the audit report thereon, for BAT contained on pages 121 to 203 of the BAT Annual Report 2015;
8. the published consolidated audited annual financial information as at and for the year ended 31 December 2016, together with the audit report thereon, for BAT contained on pages 84 to 152 of the BAT Annual Report 2016;
9. the published non-consolidated audited annual financial information as at and for the years ended 31 December 2015 and 31 December 2016, each together with the audit report thereon, for BATCAP contained on pages 1 to 9 of the BATCAP Financial Statements December 31, 2016 and 2015 (With Independent Auditors' Report Thereon);
10. the section entitled "Terms and Conditions" on pages 52 to 79 of the Prospectus dated 9 December 2011 relating to the Programme;
11. the section entitled "Terms and Conditions" on pages 48 to 72 of the Prospectus dated 11 December 2012 relating to the Programme;
12. the section entitled "Terms and Conditions" on pages 49 to 73 of the Prospectus dated 12 December 2013 relating to the Programme;
13. the section entitled "Terms and Conditions" on pages 50 to 74 of the Prospectus dated 16 May 2014 relating to the Programme;
14. the section entitled "Terms and Conditions" on pages 58 to 84 of the Prospectus dated 18 May 2015 relating to the Programme; and

15. the section entitled “Terms and Conditions” on pages 51 to 71 of the Prospectus dated 20 May 2016 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 (9) 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 UK Listing Authority 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.

Issuers	B.A.T. International Finance p.l.c. (“BATIF”) British American Tobacco Holdings (The Netherlands) B.V. (“BATHTN”) 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) BATHTN (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 57), 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 Citigroup Global Markets Limited Commerzbank Aktiengesellschaft Deutsche Bank AG, London Branch HSBC Bank plc J.P. Morgan Securities plc Lloyds Bank plc Merrill Lynch International SMBC Nikko Capital Markets Limited Société Générale The Royal Bank of Scotland plc (trading as NatWest Markets) 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”).

Issuing and Principal Paying Agent	Citibank, N.A., London Branch
Paying Agent	Banque Internationale à Luxembourg, <i>société anonyme</i>
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: <ul style="list-style-type: none"> (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

(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service.

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.

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.

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 15 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).

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).

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 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.

All payments of principal and interest in respect of the Notes issued by BATHTN or BATNF, as the case may be, 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, BATHTN or BATNF, as the case may be, 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.

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 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 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.

Rating

The Programme has been rated Baa2 by Moody's and BBB+ by Standard & Poor's. Each of Moody's and Standard & Poor's 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 UK Listing Authority and for such Notes to be admitted to trading on the Regulated Market.

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.

Competition from illicit sources may have an adverse effect on the Group's overall sales volume, restricting the ability to increase selling prices and damaging brand equity

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, lack of law enforcement, weak border control, regulatory restrictions such as plain packaging or graphic health warnings, display bans, taste or ingredient restrictions and economic downturn are encouraging more adult tobacco consumers to switch to illegal cheaper tobacco products and providing greater rewards for counterfeiters and smugglers. Illicit trade can have an adverse effect on the Group's overall sales volume and profits, restrict the ability to increase selling prices and damage brand equity, which in turn could lead to a competitive disadvantage. Illicit trade can also potentially damage the Group's reputation, undermine the Group's investment in trade marketing and distribution, negatively impact the Group's brand image and may lead to commoditisation of its products. This could have an adverse effect on the Group's business, results of operations and financial conditions.

The Group's business faces increasing tobacco control and regulation which may have an impact on its overall sales volume and profit

The advertising, sale and consumption of tobacco products have been, and continue to be, subject to increasingly stringent regulatory regimes. These restrictions have been introduced by both regulation and voluntary agreements and may impact the Group's ability to sell its existing products, maintain or build brand equity, communicate with adult tobacco consumers, apply strategic pricing decisions, launch future products and innovations, enter new markets, including through acquisitions, and compete within the legitimate tobacco industry; may impact adult tobacco consumers' ability to differentiate products; may reduce adult tobacco consumer acceptability of new product specifications; and, in particular, may contribute to the growth of illicit tobacco products. This may have an adverse effect on the Group's business, results of operations and financial conditions.

Increased scope and severity of compliance regimes introduced by new regulation could lead to higher costs and greater complexity, and potential reputational damage, product recall, regulatory sanctions or fines in connection with inadvertent breach. The enactment of unduly onerous and restrictive regulation may adversely affect BAT's share price.

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, in particular, considering the speed and spread of any accusations through social media.

Most regulation or potential regulatory initiatives can typically be categorised as follows:

- *Place*: including regulations restricting smoking in private, public and work places (e.g., public place smoking bans);
- *Product*: including regulations on the use of ingredients, product design and attributes (e.g., ceilings regarding tar, nicotine and carbon monoxide yields, as well as restrictions on flavours); product safety regulations (e.g., General Product Safety Directive (2001/95/EC), electrical safety regulations and reduced cigarette ignition propensity standards) and regulatory product disclosure requirements (e.g., in relation to ingredients and emissions);
- *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; requirements on pack shape, size, weight and colour and mandatory plain packaging;
- *Sponsorship, promotion and advertising*: including partial or total bans on tobacco advertising, marketing, promotions and sponsorship and restrictions on brand sharing and stretching (the latter refers to the creation of an association between a tobacco product and a non-tobacco product by the use of tobacco branding on the non-tobacco product);
- *Purchase*: including regulations on the manner in which tobacco 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 which manufacturers can charge for their tobacco products (e.g., excise and minimum prices).

The Group believes that further tobacco-control regulation is inevitable over the medium term in most 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 is an international public health treaty, ratified by 180 governments worldwide, that establishes a global programme to promote the regulation of tobacco in an effort to reduce initiation and encourage cessation.

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, 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.

In recent years, some countries have moved beyond the recommendations of the FCTC. For example, the adoption of the Tobacco Plain Packaging Act 2011 in Australia has required the use of plain packaging in Australia since 1 December 2012. Also, the EU has adopted the revised Tobacco and Related Products Directive (Directive 2014/40/EU) ("TPD2"). Among other things, this directive bans the sale of tobacco products with a characterising flavour. Menthol flavoured cigarettes are exempt from the ban until May

2020. TPD2 also purports to leave open to EU member states the possibility of further standardising the packaging of tobacco products and to apply its provisions in different ways. For example, it provides, among other things, that the labelling, packaging and the tobacco product itself shall not include any element or feature that suggests that a particular tobacco product has vitalising, energetic, healing, rejuvenating, natural, organic properties or has other health or lifestyle benefits. On 1 February 2017, the French Government applied its laws transposing these provisions into French national law to prohibit the sale of all variants of Vogue cigarettes from February 2018, as well as the use of certain other tobacco brand and brand variant names.

More recently, significant debate has been generated regarding the appropriate regulation of next generation products. This includes debate over the nicotine liquids used in vapour products, and the classification of products and restrictions on advertising. A consensus framework for regulating and taxing such products has yet to emerge.

Significant and/or unexpected increases or structural changes in tobacco-related taxes have been proposed or enacted and are likely to continue to be proposed or enacted in numerous jurisdictions. These changes may result in a decline in overall sales volume for the Group's products or may alter its sales mix

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 tobacco excise 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 tobacco taxes, the introduction of laws establishing minimum retail selling prices, changes in relative tax rates for different tobacco products or adjustments to excise structures, may result in an increase in illicit trade, a decline in overall sales volume for the Group's products or an alteration in the sales mix in favour of value-for-money brands and may have an adverse effect on the Group's business, results of operations and financial conditions. Increases in tobacco-related taxes, the introduction of new tobacco-related taxes or changes to excise structures can limit the Group's ability to increase the prices on tobacco products or could necessitate absorption of tax increases. Additionally, tax increases can also lead to portfolio erosion, reduction of legal industry sales volumes and growth in illicit trade.

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

There are a number of legal and regulatory actions, proceedings and claims against the Group related to tobacco products pending in a number of jurisdictions, including the United States and Canada. These proceedings comprise claims for personal injury (both individual claims and class actions) and claims for economic loss arising from the treatment of smoking and health-related diseases (such as medical recoupment claims brought by local governments). There are also ongoing proceedings that are not directly related to tobacco products, including environmental pollution claims. These various proceedings could give rise to material liability.

Tobacco-related litigation

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

In the United States, Brown & Williamson Holdings, Inc. (formerly Brown & Williamson Tobacco Corporation) ("B&W") is a defendant in a number of product liability cases. Many of these pending cases seek unspecified damages. Consequently it is not possible to quantify the total amounts being claimed, but the aggregate amounts involved in such litigation are significant, possibly totalling billions of U.S. dollars.

Although the Group has the benefit of an indemnity from R.J. Reynolds Tobacco Company (“RJRT”), a subsidiary of Reynolds American Inc. (“RAI”), its associate company in which it holds an approximately 42 per cent. ownership interest through B&W, with respect to a broad range of US tobacco-related litigation concerning B&W, if RJRT is unable or unwilling under any particular circumstances to settle or honour the indemnity, the Group is at risk to the extent that the costs related to any liability cannot be recouped through the indemnity.

As of 31 December 2016, active product liability claims against the Group companies existed in 13 markets outside the United States. The only markets with more than five claims were Argentina, Brazil, Canada, Chile, Italy and Nigeria. In Canada, following the implementation of legislation enabling provincial governments to recover healthcare costs directly from tobacco manufacturers, ten actions for recovery of healthcare costs arising from the treatment of smoking and health-related diseases have been brought and are proceeding in ten provinces. Legislation in two of the three territories has received the Royal Assent but is not yet in force. As of 31 December 2016, medical reimbursement actions had been brought in Angola, Argentina, Brazil, Canada, Nigeria and South Korea and class actions had been brought in Brazil, Italy, Venezuela and Canada, with 11 class actions in Canada spread over seven provinces.

Non-tobacco-related litigation

There are also a number of non-tobacco-related legal and regulatory proceedings against the Group. For example, one of BAT’s subsidiaries has certain liabilities in respect of indemnities given on the purchase and disposal of former businesses in the United States, which has resulted in the Group subsidiary entering into an arrangement with certain parties to fund a portion of the ongoing costs of the clean-up of environmental contamination in the Fox River. Such BAT subsidiary may also be liable under the indemnities in respect of claims in relation to the environmental clean-up of the Kalamazoo River. The amount of the clean-up costs for the Kalamazoo River is presently unclear, but could run into hundreds of millions of dollars. Non-tobacco-related litigation, including for natural resource damages which costs cannot be estimated at this time, could impose substantial monetary obligations on the Group and could have an adverse effect on the results of operations, cash flows and financial position of the Group.

General litigation conclusion

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

The Group is exposed to economic, regulatory and political factors inherent in its global operations

The Group operates in over 200 markets. The Group’s results of operations and financial condition are influenced by the economic, regulatory and political situations in the markets and regions in which the Group has operations, which are often unpredictable and outside of its control. In particular, currently a substantial majority of the Group’s profit from operations is based on its operations in 15 markets. The Group’s reported profits may be adversely affected by a significant downturn in one or more of these larger markets.

Economic, regulatory and political factors affecting the Group 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 and consumer confidence. Any change to such factors in any of the markets in which the Group operates could affect consumer behaviour and have an impact on its revenue, margins and cash flow.

Additionally, some markets in which the Group operates face the threat of increasing civil unrest and can be subject to frequent changes in regime. In others, terrorism, conflict, the threat of war or criminal activity, or economic policy changes, such as state nationalisation of assets and withdrawal from international or bilateral trade agreements, may have a significant impact on the business environment. National and international sanction regimes may also affect jurisdictions where the Group operates or third parties with whom the Group may have commercial relationships and could lead to supply and payment chain disruptions. In addition, some markets maintain trade barriers or adopt policies that favour domestic producers, preventing or restricting the Group's sales.

Certain of these risks may disrupt the Group's supply chain, manufacturing capabilities or distribution capabilities, resulting in the loss of personnel, property or equipment that are critical to its business in certain markets and difficulty in staffing and managing its operations, which could in turn reduce the Group's volumes, revenues and net earnings. The Group may also face increased costs due to the need for more complex supply chain arrangements and to build new facilities or to maintain inefficient facilities as a result of these risks.

The Group's inability to obtain price increases may adversely affect its sales and growth

Annual manufacturers' price increases are among the key drivers in increasing market profitability. However, the Group may not be able to obtain such price increases as a result of increased regulation, which may reduce its ability to build brand equity and enhance its value proposition to its adult tobacco consumers; stretched consumer affordability arising from deteriorating economic conditions and rising prices; sharp increases or changes in excise structures; and competitor pricing activities. As a result, the Group may be unable to achieve its strategic growth metrics, have fewer funds to invest in growth opportunities, and be faced with quicker reductions in sales volumes than anticipated due to accelerated market decline. In addition, down-trading and illicit trade may increase. These in turn may impact the Group's business, results of operations and financial conditions.

The Group's business may be significantly impacted by constantly changing tax rates from around the world as well as unfavourable rulings in relation to tax disputes

The Group operates in over 200 markets and pays tax in accordance with the tax legislation of those markets. Tax laws and tax rates around the world frequently change on a prospective or retroactive basis and these changes may have a significant impact on the taxes the Group must pay and may impact its net profits, which could be material.

Further, taking into account the frequent changes to tax regulations, it is possible that the Group may be subject to claims for breach of such regulations, including for late or incorrect filings or for misinterpretation of rules. The Group is party to tax disputes in a number of jurisdictions, including Brazil, South Africa, The Netherlands and Bangladesh.

The Group may face significant financial penalties, including the payment of fines and interest in the event of an unfavourable ruling by a tax authority in a disputed area. The impact could affect the Group's profit and dividend and cause a disruption and loss of focus on the business due to the diversion of management time.

The Group's business is vulnerable to the effects of a tough trading environment and declining consumption of legitimate tobacco products

The Group competes primarily 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 products 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.

In tough competitive environments, where the price burden on adult tobacco consumers is high, the Group's ability to raise prices could be limited. In addition, the Group may be vulnerable to market size reduction, customer down-trading (including to fine cut), illicit trade and competitors aggressively taking market share through price repositioning or price wars, which generally has the impact of reducing the overall profit pool of the market and therefore the Group's profits, as well as lead to a decline in the sales volumes of the Group, erosion of its portfolio mix and reduction of funds available to it for investment in growth opportunities.

The Group's business is further impacted by the continued decline in consumption of tax-paid cigarettes in many of the Group's key markets. This decline is due to multiple factors, including the increase in excise taxes and changes in the regulatory environment leading to continued above-inflation price rises, the continuing difficult economic environment in many countries impacting consumers' disposable incomes, and the increase in the trade of illicit tobacco products. Any future substantial decline in the demand for legitimate tobacco products could have an adverse effect on the Group's business, results of operations and financial conditions.

The Group is exposed to foreign exchange rate risk

The Group is exposed to changes in currency rates on the translation of the net assets of overseas subsidiaries into BAT's reporting currency, Sterling. The Group is also exposed to currency changes from the translation of profits earned in overseas subsidiaries; these exposures are not normally hedged. Exposures also arise from the foreign currency denominated trading transactions undertaken by subsidiaries and dividend flows. These exposures are continuously monitored and where not offset by opposing flows, are hedged according to internal policies. However, hedging of certain currencies might not be possible due to exchange controls or limited currency availability. Volatility and/or increased costs in the Group's business due to transactional foreign exchange rate exposures may adversely affect its financial performance. Significant fluctuations in foreign currency exchange rates could have an adverse impact on the Group's results of operations and financial conditions.

During periods of exchange rate volatility, the impact on the Group's results can be significant. Fluctuations in the foreign exchange rate of key currencies against 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.

The Group may be required to incur significant costs to address breaches of or liabilities arising under, health and safety and environmental laws of the jurisdictions in which it operates

If the Group fails to maintain adequate safety standards or to comply with the health and safety laws and regulations to which it is subject, this could result in serious injury, ill health, disability or loss of life to employees, which could in turn lead to fines, penalties and criminal or civil legal liability. This could have a negative impact on the Group's reputation and also result in high staff turnover or difficulties in recruitment if the Group is perceived to have a poor health and safety record. It could further adversely affect its operations and financial condition and the value of its assets.

From time to time, the Group, or third party suppliers to the Group, have accidents in the workplace which, on occasion, can result in the fatality of an employee, a contractor working on the Group's behalf or a member of the public.

Failure to minimise the impact on the natural environment and the local communities in which the Group conducts its business activities or failure to comply with environmental laws and regulations and operational

standards to which the Group is subject could result in an adverse impact on the natural environment where the Group operates and could cause business disruption, reputational damage, consequential losses, the obligation to install or upgrade costly pollution control equipment, potentially significant remedial costs and damages, fines, or civil or criminal legal liability.

The Group is exposed to funding and liquidity, interest rate and counterparty risks

Funding and liquidity risks expose the Group to shortages of cash and cash equivalents needed in its operations and for refinancing its existing debt. The Group cannot be certain that it will have access to bank finance or to the debt and equity capital markets at all times. Some markets in which the Group operates are subject to currency controls and other limitations on currency convertibility which can affect the ability to pay for imports as well as impede dividend remittances and similar payments, and access to cash balances. Failure to access funding and foreign exchange may have an adverse effect on the Group's funding and liquidity position, the Group's credit rating or its ability to finance strategic opportunities, which would in turn result in increased funding costs for the Group or require the Group to issue equity or seek new sources of capital. The Group may also suffer reputational damage due to its perceived failure to manage the financial risk profile of the business, which may result in an erosion of shareholder value reflected in an underperforming share price.

The Group is subject to restrictive covenants under some of its credit facilities. These covenants could affect the way in which the Group conducts its business, and failure to comply with these covenants could lead to an acceleration of its debt, which may have an adverse impact on its business, results of operations and financial conditions.

The Group maintains both floating and fixed rate debt. Where appropriate, it uses derivatives, primarily interest rate swaps, to vary the fixed to floating mix. Changes in currency values and interest rates could have an adverse impact on the Group's financial condition or operations.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from counterparties. The failure of any counterparty to meet the Group's payment obligations or performance undertakings to it or the deterioration in the financial condition of one or more of its counterparties could have an adverse effect on its financial condition or operations. In addition, the failure of a transactional banking counterparty could cause disruption to the Group's operations.

The Group may be unsuccessful in launching innovative products that offer adult tobacco consumers meaningful value-added differentiation

The Group focuses its research and development activities on both creating new products and processes 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 inability to develop and roll-out innovations or consumer relevant products, including any failure to predict changes in adult tobacco consumer and societal behaviour and expectations and fill gaps in the product portfolio, as well as the risk of poor product quality or the Group's inability to timely develop and bring products to market could lead to missed opportunities, under- or over-supply, loss of competitive advantage, unrecoverable costs and/or the erosion of its consumer base. The Group's potential failure to predict changes in consumer behaviour, to install sufficient manufacturing capacity to meet such new or increased demand or to take appropriate pricing decisions, could have an adverse effect on the Group's operations and results. Moreover, additional product regulation could further reduce the ability to launch or use innovations, as well as differentiate tobacco products as a result of increased restrictions, such as on ingredients and design. In addition, restrictions on packaging and labelling, as well as restrictions on promotion and advertising, could impact the Group's ability to communicate permitted innovations and product differences to adult tobacco

consumers, leading to unsuccessful product launches. The occurrence of any of the above described risks could have an adverse effect on the Group's business, financial condition and results of operations.

The Group may be unsuccessful in its attempts to develop and commercialise consumer-appealing next generation products

The Group devotes considerable resources to the research and development of a next generation of nicotine and non-combustible tobacco products, some of which may have the potential to reduce the risks of tobacco-related disease. Given the challenges of achieving adult tobacco consumer, regulatory and scientific acceptance of these products, there is a risk that these investments may incur significant costs without achieving financial success. If the Group does not succeed, but the Group's competitors do, the Group may be at a competitive disadvantage. Furthermore, the regulatory environment impacting non-combustible 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 next generation products. Categorisation as medicines, for example, and restrictions on advertising could stifle innovation, increase complexity and cost and significantly undermine the commercial viability of these products. Alternatively, categorisation of next generation products as tobacco products could result in the application of onerous regulation, which could also stifle uptake. The Group's ability to generate future sales is dependent on a number of factors, many of which are beyond its control, including the pricing of competing products, overall demand for its products, changes in adult tobacco consumer preferences, market competition and government regulation. The occurrence of any of the above described risks could have an adverse effect on the Group's business, financial condition and results of operations.

Failure to uphold high standards of corporate behaviour could subject the Group to potential liability under sanctions, anti-corruption and other laws and regulations

The Group expects its employees to uphold a high standard of corporate behaviour and is subject to various anti-corruption laws and regulations ("Anti-Corruptions Laws") that generally prohibit its employees, vendors and agents from engaging in certain activities to obtain or retain business or to influence a person working in an official capacity. In addition, national and international sanction regimes may affect jurisdictions where the Group operates or third parties with whom it may have commercial relationships, which could lead to supply chain or payment chain disruption and forced market exits. Failure of the Group to comply with Anti-Corruption Laws or sanctions could result in significant fines and penalties, criminal sanctions against the Group and its officers and employees, prohibitions on the conduct of the Group's business, and damage to the Group's reputation.

Taking into account the significant number of regulations, including sanctions that may apply to the Group's businesses across the world, the Group may be subject to claims for breach of such regulations or for failure to uphold standards of corporate behaviour from time to time. Even when proven untrue, there are often financial costs and reputational impacts in defending against such claims, in particular, considering the speed and spread of any accusations through social media.

As reported last year, towards the end of 2015 a number of allegations were made regarding historic misconduct in Africa. The Group is investigating, through external legal advisers, allegations of misconduct and is liaising with the UK Serious Fraud Office and other relevant authorities. The BAT board of directors also created a sub-committee of the BAT board of directors to specifically monitor matters, having regard to the need to ensure active oversight of, and support for, the investigation between BAT board of director meetings. In 2016, the Group began a project, which has continued into 2017, to review and further strengthen all aspects of the Group's global compliance procedures. Any actions taken by government authorities or findings of courts in relation to these matters may result in the adverse consequences identified above for the Group.

Reliance on information technology means that a significant disruption, malicious manipulation or cyber-attack could affect the Group's communications and operations

The Group increasingly relies on information technology systems for its internal communications, controls, reporting and relations with customers and suppliers. Some of these information systems are managed by third-party service providers. A significant disruption due to computer viruses, cyber threats, malicious intrusions, unintended or malicious behaviour by employees, contractors or service providers, the lack of infrastructure or application resilience, slow or insufficient disaster recovery service levels or the installation of new systems could affect the Group's communications and operations. Any data, including confidential, personal or other sensitive information stored or transported by IT systems, could be corrupted, lost or disclosed, causing reputational, competitive or operational damage, fraudulent abuse, malicious manipulation or legal liability and result in significant remediation and other costs to the Group. Restoring or recreating such information could be costly, difficult or even impossible. Further, the General Data Protection Regulation (Regulation (EU) 2016/679), coming into effect in Europe in May 2018, will create a range of new compliance obligations, and increase financial penalties for noncompliance significantly.

Loss of key personnel or inability to attract the best global talent could have a negative impact on the Group's operations

The Group relies on a number of highly experienced employees with detailed knowledge of tobacco and other business-related issues. Unanticipated losses of key employees or the inability to identify, attract, develop and retain qualified personnel in the future could adversely affect the Group's business operations.

In addition, the tobacco industry competes for talent with consumer products and other companies that enjoy greater societal acceptance than a cigarette company. As a result, the Group may be unable to attract and retain the best global talent.

Failure to successfully design, implement and sustain an integrated operating model or to deliver costs savings may reduce profitability

The Group aims to improve profitability and productivity through supply chain improvements and the implementation of an integrated operating model, including standardisation of processes and shared back-office services. The failure 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, which in turn could further reduce profitability and funds available for investment in long-term growth opportunities.

The Group may be unable to achieve growth through successful 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 capitalise on growth opportunities. The Group may not be able to deliver strategic objectives and revenue improvements from business combinations, successfully integrate the businesses that it acquires or establishes or obtain the appropriate regulatory approvals for such 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. Any of the foregoing risks could result in increased costs, decreased revenues or a loss of opportunities and have a material adverse effect on the Group's business, results of operations and financial conditions.

In addition, the Group may become liable for claims arising in respect of conduct prior to a merger or acquisition in the event that it is deemed to be a successor to the liabilities of the acquired company. An adverse judgment against the Group may adversely affect its business.

The Group may be adversely affected by its leading market position in certain markets

According to the Group's internal estimates, the Group is a market leader in more than 55 countries by volume and is one of a small number of tobacco companies in certain other markets in which it operates. As a result, the Group 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, which could result in adverse regulatory action by the authorities, including monetary fines and negative publicity.

Contamination of the Group's products could adversely impact sales volume, market share and profitability

The Group's market position may be affected through the contamination of its products, either by accident or deliberate malicious intent during the supply chain or manufacturing process or may otherwise fail to comply with the Group's quality standards. In these instances, significant costs may be incurred in 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 a loss of sales volume which may take a long time to recover or may not fully recover, or the Group could be subject to legal action. During this time, the Group's competitors may substantially increase their market share, which would be difficult and costly to regain. Contamination of the Group's products may have an adverse effect on the Group's business, results of operations or financial condition.

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

Although the Group owns an approximately 42 per cent. interest in RAI, its associate company in the United States and the parent of RJRT, and an approximate 30 per cent. interest in ITC, the Group's associate company in India, it does not have control over either of these associates. The Group's ownership interest in RAI and ITC means the Group may be affected by its businesses and respective financial performances, as it is subject to tobacco-related industry and business risk factors similar to those the Group faces. Any issue with the business and respective financial performance of RAI or ITC may have an adverse impact on the business, financial condition and results of operations of the Group. On 17 January 2017, the Group announced the agreed terms of a recommended offer for the acquisition of the remaining approximately 58 per cent. of RAI not already owned by the Group. The transaction is expected to close during the third quarter of 2017 and, should the merger complete, RAI will become an indirect, wholly owned subsidiary of BAT.

The Group's licenses to use certain brands and trademarks may be terminated or not renewed

Some of the brands and trademarks under which the Group's products are sold are licensed to it for a fixed period of time in respect of specified markets, such as the right to use the Camel, Winston and Salem brands and trademarks in various markets in Latin America. In the event that the license to use any of such brands and trademarks is terminated or is not renewed after the end of the term of the relevant license, the Group will no longer have the right to use, and to sell products under, such brand(s) and trademark(s) in the relevant markets and this could have an adverse effect on its business, results of operations and financial condition.

The Group is exposed to intellectual property rights infringements as a result of limitations in judicial protection and/or inadequate enforceability

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. Investments over a period of time have led to many of its brands having significant brand equity and a global appeal to adult tobacco consumers, essential to delivering sustainable profit growth into the future. The protection and maintenance of the reputation of these brands is important to the Group's success. In some of the markets in which the Group operates, the risk of intellectual property rights infringement remains high as a result of limitations in judicial protection and/or inadequate enforceability. Any substantial erosion in the value of the Group's brands could have a material adverse effect on its business, results of operations and financial condition.

The Group's strategy or its execution may not maintain the value in any of its product brands. In addition, as third party rights are not always identifiable, it is possible that the Group may be subject to claims for infringement of third party intellectual property rights, which could result in interim injunctions, product recall and payment of damages. Failure to obtain or maintain adequate protection of intellectual property rights for any reason may adversely affect the Group's business, results of operation and financial conditions.

The Group is exposed to availability and price volatility in tobacco leaf and other raw materials

Raw materials and other inputs, such as leaf, wood pulp and energy, used in the Group's businesses are commodities that are subject to price volatility caused by numerous factors, including weather conditions, growing conditions, climate change, local planting decisions, political influence, market fluctuations and changes in agricultural regulations. The Group purchases more than 400,000 tons of tobacco leaf each year. Its results of operations will, therefore, be exposed to fluctuations in the availability and price of tobacco leaf and other commodities required in the manufacture of cigarettes.

Tobacco production in certain countries is also subject to a variety of controls, including regulation affecting farming and production control programmes, as well as competition for land use from other agriculture products. The Group's access to raw materials may be adversely affected by a significant event occurring in one or more major leaf growing areas. Climate instability and diseases causing crop failure may have a negative impact on the Group's business, which may include decreased quantity and/or quality of leaf, increased prices, reallocation of growing areas and factories or supply-chain disruptions. Commodity price, quality and quantity changes beyond the Group's control could affect its profitability and business. Such changes may result in unexpected increases in raw materials and packaging costs for the Group's products. The Group may not be able to increase its prices to offset these increased costs without suffering reduced sales volume and income, or be able to meet increased adult tobacco consumer demand for certain types of tobacco.

The Group has operations in geographic areas where full insurance coverage against damage resulting from natural disasters may not be obtainable or coverage may be subject to other limitations. The Group may be unable to recover any damages covered by its insurance or obtain certain types of insurance in the future.

The Group may lose market share and profit due to the loss of production capacity or key suppliers, distribution interruption or commodity risk

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. The Group may lose market share and profit in the event of loss of or insufficient production capacity needed to supply its products or meet increased demand. The Group has an increasingly global approach to managing its supply chain. Severe disruption to any aspect of the Group's supply chain or suppliers' operations or deterioration in the financial condition of a trading partner could have an adverse impact on the Group's ability to produce and deliver products meeting customer demands. A continuing industry consolidation among distributors and suppliers could lead to reduced efficiency, higher costs and concentrated risk of supply chain interruptions, contract disputes and systems and logistics failures. In certain markets, distribution of the Group's products is through third party monopoly channels, and is often licensed by governments. The Group may be unable to renew these third party supplier and distribution agreements on satisfactory terms for numerous reasons, including government regulations. Loss of distribution may adversely affect the Group's sales volume, market share and profits.

The Group has net liabilities under BAT's retirement benefit schemes which may increase in the future due to a number of factors

The Group operates approximately 170 retirement benefit arrangements worldwide. These arrangements have been developed in accordance with local practices in the markets concerned. The majority of the Group's scheme members belong to defined benefit schemes, most of which are funded externally,

although the Group operates an increasing number of defined contribution schemes. The contributions to the Group's defined benefit schemes and their valuations are determined in accordance with the advice of independent, professionally qualified actuaries. Changes in asset returns, salary increases, inflation, long-term interest rates, life expectancies, population trends and other actuarial assumptions could have an adverse impact on the Group's financial condition and operations, hence adversely affect its credit rating and ability to raise funds.

The Group's business may be negatively affected by the eurozone debt crisis

The Group's businesses and performance are influenced by local and global economic conditions and perceptions of those conditions and future economic prospects. In recent years, the global markets and economic conditions have been negatively impacted by market perceptions regarding the ability of certain EU member states to service their sovereign debt obligations, together with the risk of contagion to other, more stable, countries. The large sovereign debts and/or fiscal deficits of a number of European countries have raised concerns regarding the financial condition of financial institutions, insurers and other corporations (1) located in these countries; (2) that have direct or indirect exposure to these countries; and/or (3) whose banks, counterparties, custodians, customers, service providers, sources of funding and/or suppliers have direct or indirect exposure to these countries.

The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, as well as the breakup of or exit from the EU and/or eurozone, could cause severe stress in the financial system generally and on the euro and other European currencies, could disrupt the banking system generally and adversely affect the markets in which the Group operates and the businesses and economic condition and prospects of the Group's counterparties, customers, suppliers or creditors, directly or indirectly, in ways which are difficult to predict. In addition, these risks, alone or in combination with regulatory changes, including devaluation of local currencies and increased inflation, or actions of market participants, may increase the Group's exposure to foreign exchange rate risks and cause a loss of competitiveness from increased production cost and lower revenue, increased customer down-trading, significant write-downs of stock and a growth in illicit trade, which may adversely impact the Group's business, results of operations and financial conditions.

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

BAT and BATHTN are holding companies

Each of BAT and BATHTN 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.

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.

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.

In April 2016, BATIF replaced BATNF as the issuer and principal debtor and was replaced by BATNF as a guarantor in respect of an issue of €650,000,000 4.875 per cent. notes due 2021, an issue of €600,000,000 4.000 per cent. notes due 2020, an issue of €750,000,000 2.375 per cent. notes due 2023 and an issue of €600,000,000 3.125 per cent. notes due 2029, issued pursuant to the Programme.

In July 2016, BATIF issued £500,000,000 1.750 per cent. notes due 2021 pursuant to the Programme. In September 2016, BATIF issued £650,000,000 2.250 per cent. notes due 2052 and U.S.\$650,000,000 1.625 per cent. Notes due 2019 pursuant to the Programme.

Organisational structure

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

BATIF has two subsidiaries, which are B.A.T Finance B.V. and BATIF Dollar Limited.

Administrative, management and supervisory bodies of BATIF

Directors

The following is a list of the Directors of BATIF:

Name	Function
R.R. Bakker	Director
R.J. Casey	Director
S.G. Dale	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.

BATHTN

Incorporation and business

BATHTN was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of The Netherlands on 24 February 1992. It has its statutory seat (*statutaire zetel*) in Amstelveen and its registered office at Handelsweg 53A, 1181 ZA Amstelveen, The Netherlands. BATHTN is registered with the Trade Register (*Handelsregister*) of the Chamber of Commerce under number 33236251. BATHTN is domiciled in The Netherlands. BATHTN has an issued share capital of €112,501,800 represented by shares of €450 each.

Organisational structure

BATHTN is a wholly-owned indirect subsidiary of BAT and it is the investment holding company for the Dutch tobacco interests and a number of foreign tobacco interests of the Group.

Administrative, management and supervisory bodies of BATHTN

Directors

The following is a list of Directors of BATHTN:

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 BATHTN 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 BATHTN 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.

In April 2016, BATNF was replaced by BATIF as the issuer and principal debtor and replaced BATIF as a guarantor in respect of an issue of €650,000,000 4.875 per cent. notes due 2021, an issue of €600,000,000 4.000 per cent. notes due 2020, an issue of €750,000,000 2.375 per cent. notes due 2023 and an issue of €600,000,000 3.125 per cent. notes due 2029, issued pursuant to the Programme.

Organisational structure

BATNF is a wholly-owned subsidiary of BATHTN 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
L.B. Cotton	Director
J.J. Koach	Director
N.A. Wadey	Director
M.J. Walter	Director

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

Save for 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 2016 prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

British American Tobacco

BAT is the parent holding company of the Group, a global tobacco and next generation products group with brands sold in over 200 markets. According to the Group's internal estimates, the Group is a market leader in more than 55 countries by volume, producing the cigarette chosen by one in eight of the world's one billion smokers. The Group, excluding the Group's associated undertakings, is organised into four regions: Asia-Pacific, Americas, Western Europe and Eastern Europe, Middle East and Africa (“EEMEA”).

The Group manufactures and sells traditional tobacco products, which are comprised of cigarettes, Fine Cut (roll-your-own and make-your-own tobacco), Swedish-style snus and cigars, alongside next generation products, including vapour products and tobacco heating products. The Group's five global drive brands are Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans (the “Global Drive Brands”). The Group's cigarette portfolio also includes other international and local brands, such as Vogue, Viceroy, Kool, Peter Stuyvesant, Craven A, Benson & Hedges, John Player Gold Leaf, State Express 555 and Shuang Xi.

Adjusted profit from operations for 2016 increased by 9.8 per cent. to £5,480 million, compared with £4,992 million in 2015. The Group profit for 2016 was £4,839 million, compared with £4,522 million in 2015. Group cigarette volumes (excluding associates) increased by 0.2 per cent. in 2016 to 665 billion (663 billion in 2015), whereas the five Global Drive Brands achieved an overall growth of 7.5 per cent.

Significant Changes in the Group

On 30 May 2015, the Group signed an agreement to acquire TDR d.o.o. (“TDR”) and other tobacco and retail assets from Adris Grupa d.d. for a total enterprise value of €550 million. TDR is the leading independent cigarette manufacturer in Central Europe with a market leading position in Croatia and a position of scale in Bosnia and Serbia which will provide the Group with the opportunity to significantly grow its business in the region. The transaction was completed on 30 September 2015. Part of the consideration is contingent upon certain targets being met post-acquisition, and £5 million of this was paid in January 2017. A final adjustment of £12 million to net assets acquired and a corresponding reduction to goodwill was agreed in 2016.

On 22 September 2015, the Group announced the agreement to acquire 100 per cent. of the CHIC Group (“CHIC”) from private shareholders and the transaction concluded on 30 December 2015. The fair value of the consideration payable was £82 million, of which £30 million is contingent on achievement of certain post-acquisition targets. £6 million of this was paid during 2016. The fair value and book values of net

assets acquired were not materially different except for the recognition of trademarks and similar intangibles of £45 million and the recognition of a deferred tax liability of £8 million. Goodwill of £40 million arising on this transaction represents a strategic premium to enter the non-tobacco market.

On 16 October 2015, the Group announced that it had concluded the auction related to its public tender offer in Brazil to acquire up to all of the 24.7 per cent. of Souza Cruz S.A. ("Souza Cruz") shares not currently owned by the Group and to delist the company. As at 31 December 2015, the Group owned 99.1 per cent. of Souza Cruz. The cost of acquiring these shares up to the end of December 2015 was £1,660 million. The compulsory acquisition of the remaining minority shares was approved on 5 February 2016, with Souza Cruz becoming a wholly-owned subsidiary as at that date. The cost of acquiring the remaining shares was £70 million.

On 12 June 2015, RAI completed its acquisition of Lorillard Inc. ("Lorillard") and related divestiture transactions to ITG Brands LLC, a subsidiary of Imperial Brands plc, after receiving the required regulatory approval. At the same time, the intention of which was announced on 15 July 2014, the Group invested U.S.\$4.7 billion (£3.0 billion) of cash into RAI to maintain its 42 per cent. equity position in the enlarged business.

On 17 January 2017, the Group announced the agreed terms of a recommended offer for the acquisition of the remaining 57.8 per cent. of RAI not already owned by the Group. RAI shareholders will receive for each RAI share U.S.\$29.44 in cash and 0.5260 BAT ordinary shares which shall be represented by BAT American Depositary Shares ("ADSs") listed on the New York Stock Exchange ("NYSE"). The parties expect the transaction to close during the third quarter of 2017, subject to: obtaining affirmative votes from BAT and RAI shareholders; registration of BAT shares with the SEC; approval of the BAT shares for listing on the LSE and the BAT ADSs on the NYSE; and, other customary conditions. The completion of the merger is not subject to any financing condition.

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

The Group increased its liquidity position with a new two-tranche £5.7 billion forward starting revolving credit facility, which consists of a £2.84 billion 364-day revolving credit facility (with a one-year extension option and a one-year term-out option), and a £2.84 billion revolving credit facility, maturing in 2021. This will effectively replace the Group's existing £3 billion revolving credit facility, which will be cancelled upon closing of the acquisition when the new revolving credit facility will become effective.

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 as reported in the Group's 2015 Annual Report and Accounts 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 manufacturing operations, supply chain, overheads and indirect costs, organisational structure and systems and software used. The costs of these 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 2016 principally relate to the restructuring initiatives directly related to implementation of a new operating model and the cost of initiatives in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover factory closure and downsizing activities in Germany, Malaysia and Brazil, certain exit costs and asset write-offs related to the change in approach to the commercialisation of Voke (as announced on 5 January 2017), uncertainties surrounding regulatory changes and restructurings in Japan and Australia.

Restructuring and integration costs in 2015 principally related to the restructuring initiatives directly related to implementation of a new operating model and the cost of initiatives in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover factory closure and downsizing activities in Australia, certain costs related to the acquisitions undertaken (including TDR in Croatia) and restructurings in Indonesia, Canada, Switzerland and Germany.

Other operating income in 2016 includes gains from the sale of land and buildings in Malaysia. In 2015, other operating income includes gains from the sale of land and buildings in Australia.

Amortisation of trademarks and similar intangibles

Acquisitions including Ten Motives, CHIC, TDR, PT Bentoel Internasional Investama Tbk, Tekel and Skandinavisk Tobakskompagni A/S 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 £149 million is included in depreciation, amortisation and impairment costs in profit from operations for the year to 31 December 2016. For the year to 31 December 2015, the amortisation charge was £65 million.

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. Based on this funding agreement, £17 million has been paid in 2016, which includes legal costs of £11 million (2015: £17 million, including legal costs of £8 million).

In 2016, NCR and Appvion entered into a settlement agreement with certain other defendants to release claims amongst those parties. In January 2017, NCR and Appvion also 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, although this consent decree requires approval from the District Court of Wisconsin. The agreements reduce the Group's exposure under the funding agreement. However, this is offset by the devaluation of Sterling against the US dollar, leading to a net charge of £20 million (2015: nil). Considering these developments, the provision is £163 million at 31 December 2016 (up £3 million against prior year) (see "Litigation" below).

South Korea sales tax

In 2016, the Board of Audit and Inspection of Korea ("BAI") concluded its tax assessment in relation to the 2014 year-end tobacco inventory, and imposed additional sales tax (excise and VAT) and penalties. This resulted in the recognition of a £53 million charge by a Group subsidiary. Management deems the tax and penalties to be unfounded and has appealed to the tax tribunal against the assessment. Based on the legal opinion from a local law firm, management believes that this appeal will be successful, and that the findings of the BAI will be reversed. On grounds of materiality and the high likelihood of the tax and penalties being reversed in future, the Group has classified the tax and penalties charge as an adjusting item in 2016.

Litigation

Product liability litigation

Group companies, notably 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.

Indemnity

On 30 July 2004, B&W completed the combination of the assets, liabilities and operations of its US tobacco business with RJRT, a wholly-owned subsidiary of R.J. Reynolds Tobacco Holdings, Inc., pursuant to which RAI was formed (the "Business Combination"). As part of the Business Combination, B&W contributed to RJRT all of the assets and liabilities of its US cigarette and tobacco business, subject to specified exceptions, in exchange for a 42 per cent. equity ownership interest in RAI.

As a result of the Business Combination, RJRT assumed all liabilities of B&W (except liabilities to the extent relating to businesses and assets not contributed by B&W to RJRT and other limited categories of liabilities) and contributed subsidiaries or otherwise to the extent related to B&W's tobacco business as conducted in the United States on or prior to 30 July 2004. In addition, RJRT agreed to indemnify B&W and each of its associates (other than RAI and its subsidiaries) against, among other matters, all losses (including those arising from Environmental Tobacco Smoke ("ETS") claims), liabilities, damages, expenses, judgments, attorneys' fees, etc., to the extent relating to or arising from such assumed liabilities or the assets contributed by B&W to RJRT (the "RJRT Indemnification").

The scope of the RJRT Indemnification includes all expenses and contingent liabilities in connection with litigation to the extent relating to or arising from B&W's US tobacco business as conducted on or prior to 30 July 2004, including smoking and health tobacco litigation, whether the litigation is commenced before or after 30 July 2004 (the "Tobacco Litigation").

Pursuant to the terms of the RJRT Indemnification, RJRT is liable for any possible judgments, the posting of appeal bonds or security, and all other expenses of and responsibility for managing the defence of the Tobacco Litigation. RJRT has assumed control of the defence of the Tobacco Litigation involving B&W, to which RJRT is also a party in most (but not all) of the same cases.

Included in the US litigation section below are all significant cases where B&W and/or a UK company is named as a defendant and all cases where RJRT is named as a defendant as a successor to B&W (the "RJRT Successor Cases"). The RJRT Successor Cases are covered by the RJRT Indemnification.

US litigation

The total number of US tobacco product liability cases pending at 31 December 2016 involving B&W was approximately 4,925 (compared to approximately 5,237 in 2015). Of these, 2,020 cases are RJRT Successor Cases. For all of the 4,925 cases involving B&W, the Group has the protection of the RJRT Indemnification. As at 31 December 2016, British American Tobacco (Investments) Limited ("Investments") has been served as a co-defendant in one of those cases (compared to one in 2015). 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 2016. Since many of these pending cases seek unspecified damages, it is not possible to quantify the total amounts being claimed, but the aggregate amounts involved in such litigation are significant, possibly totalling billions of US dollars. The cases fall into four broad categories: medical reimbursement cases; class actions; individual cases and other claims.

(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 2016, one US medical reimbursement suit was pending against B&W by an Indian tribe in an Indian tribal court in South Dakota. No other suits are pending against B&W by county or other political subdivisions of the states.

(b) *Class Actions*

At 31 December 2016, B&W was named as a defendant in five separate actions attempting to assert claims on behalf of classes of persons allegedly injured or financially impacted through smoking or where classes of tobacco claimants have been certified. If the classes are or remain certified, separate trials may be needed to assess individual plaintiffs' damages. Two of the five class actions against B&W allege that the use of the terms 'lights' and 'ultralights' constitutes unfair and deceptive trade practices. Similar class action suits have been filed in a number of states against individual cigarette manufacturers and their parent corporations.

- (i) Black is a 'lights' class action filed in November 2000, which in 2008, the Circuit Court, City of St. Louis, Missouri stayed pending US Supreme Court review in *Good v Altria Group, Inc.* A status conference is scheduled for 5 June 2017.
- (ii) Howard is a 'lights' class action filed in February 2000 in the Circuit Court, Madison County, Illinois, currently stayed pending resolution of *Price v Philip Morris, Inc.*
- (iii) Jones is a case filed in December 1998 in the Circuit Court, Jackson County, Missouri; the action was brought by tobacco product users and purchasers on behalf of all similarly situated Missouri consumers alleging that the plaintiffs' use of the defendants' tobacco products has caused them to become addicted to nicotine, and seeks an unspecified amount of compensatory and punitive damages. There has been limited activity in this case.
- (iv) Parsons is a case filed in February 1998 in the Circuit Court, Ohio County, West Virginia currently stayed pending final resolution of a motion brought by the plaintiffs, and because three defendants filed bankruptcy petitions.
- (v) Young is a case filed in November 1997 in the Circuit Court, Orleans Parish, Louisiana. This ETS class action on behalf of all residents of Louisiana 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, seeks an unspecified amount of compensatory and punitive damages, and has been stayed since 2004.

Engle Class Action (Florida): In 2000, three class representatives in the Engle class action were awarded a total of U.S.\$12.7 million in compensatory damages and punitive damages against B&W were assessed at U.S.\$17.6 billion. This decision was appealed and ultimately resulted in the Florida Supreme Court, in July 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 against the Engle defendants within one year of the Florida Supreme Court's decision (subsequently extended to 11 January 2008).

As at 31 December 2016, B&W had been served in approximately 30 Engle progeny cases in both state and federal courts in Florida. These cases include approximately 86 plaintiffs. RJRT, as a successor to B&W, is named in approximately 2,008 Engle progeny cases. These cases include approximately 2,618 plaintiffs. These 30 B&W cases and 2,008 RJRT cases have the benefit of the RJRT Indemnification.

As at 31 December 2016, approximately 109 additional phase three Engle trials naming RJRT as successor to B&W have proceeded to verdict. Of these 109 trials, approximately 62 resulted in plaintiffs' verdicts. As at 31 December 2016, total damages awarded against RJRT as successor to

B&W in final judgments in these cases are approximately U.S.\$283,252,767. This number comprises approximately U.S.\$143,915,963 in compensatory damages and approximately U.S.\$139,336,803 in punitive damages. As at 31 December 2016, RJRT had appealed 48 of these 62 adverse judgments and still had time to appeal 13 of these 62 adverse judgments. Out of the 48 adverse judgments appealed by RJRT, 22 appeals remain undecided (including two that have petitions for review pending in the Florida Supreme Court), and 26 appeals were decided and/or closed. Of these 26 appeals, 21 had the judgments affirmed in favour of plaintiffs, six had the liability findings affirmed but the damages award vacated and the matter remanded to the trial court and three were reversed and the matter remanded to the trial court for a new trial on all issues. One appeal was voluntarily dismissed. RJRT has paid damages to plaintiffs in 16 cases that are now closed. The total damages awarded may vary depending on the outcome of pending appeals.

The Florida legislature applies a U.S.\$200 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 but never exceeds U.S.\$5 million per case for appeals within the Florida state court system. Judicial attempts by several plaintiffs in the Engle progeny cases to challenge the bond cap as violating the Florida Constitution have failed, and legislation has been introduced in the Florida legislature to modify or eliminate the Engle progeny bond cap.

(c) *Individual Cases*

Approximately 2,899 cases were pending against B&W as at 31 December 2016 (compared to 2,995 in 2015), which were filed by or on behalf of individuals and in which it is contended that diseases or deaths have been caused by cigarette smoking or by exposure to ETS. Of these cases, approximately: (a) 2,407 are ETS cases brought by flight attendants who were members of a class action ("Broin") that was settled on terms that allow compensatory but not punitive damages claims by class members; (b) 393 are cases brought in consolidated proceedings in West Virginia, 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 plaintiffs' claims and the judgment resulting from the verdict was affirmed on appeal; (c) 30 are Engle progeny cases that have been filed directly against B&W; and (d) 69 are cases filed by other individuals.

In addition to the 2,008 Engle progeny cases which name RJRT as successor to B&W, there are 12 cases filed by other individuals naming RJRT as successor to B&W. These cases are subject to the RJRT Indemnification and are not detailed here.

UK — Based Group Companies

As at 31 December 2016, 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.

In December 2016, BAT received a complaint in an individual personal injury action pending in state court in Seattle, Washington (Ratcliff). The plaintiff asserts various claims, including state law product liability, fraud and statutory claims, against multiple defendants, including BAT, and alleges that she developed malignant mesothelioma from amongst other things her exposure to asbestos found in certain talc-containing cosmetic products and powders. The case is currently in discovery. BAT filed a motion to dismiss for improper service and lack of personal jurisdiction on 8 February 2017, which motion remains pending. In March 2017, the same plaintiff (Ratcliff) filed another case, in federal court in North Carolina, against multiple defendants, including BAT, alleging essentially the same facts. BAT's response to the complainant in this action is due 19 June 2017.

Product Liability Outside the United States

As at 31 December 2016, active product liability claims against the Group's companies existed in 13 markets outside the US (2015:14) but the only markets with more than five claims were Argentina, Brazil, Canada, Chile, Italy and Nigeria. As at 31 December 2016, medical reimbursement actions are being brought in Angola, Argentina, Brazil, Canada, Nigeria and South Korea. Class actions are being brought in Brazil, Canada, Italy and Venezuela.

(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 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. 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 has since filed a Special Appeal to the Superior Court of Justice.

Canada

Following the implementation of legislation enabling provincial governments to recover healthcare costs directly from tobacco manufacturers, ten actions for recovery of healthcare costs arising from the treatment of smoking and health-related diseases have been brought. These proceedings name various Group companies as defendants, including BAT, Investments, B.A.T Industries p.l.c. ("Industries"), Carreras Rothmans Limited (collectively the "UK Companies") and Imperial Tobacco Canada Limited ("Imperial"), the Group's operating company in Canada, and actions are proceeding in British Columbia, New Brunswick, Newfoundland and Labrador, Ontario, Quebec, Manitoba, Alberta, Saskatchewan, Nova Scotia and Prince Edward Island ("PEI"). 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 Quebec, three Canadian manufacturers, including Imperial, challenged the enabling legislation. This challenge was dismissed.

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 and certain former Rothmans Group companies are named as defendants. In British Columbia the underlying medical reimbursement action remains at a

preliminary case management stage. On February 13, 2017 the province delivered an expert report dated October 2016, quantifying its damages in the amount of CAD\$118 billion. No hearing date has been set. The federal government is seeking CAD\$5 million jointly from all the defendants in respect of costs.

The government of New Brunswick has brought a healthcare reimbursement claim in June 2006, against domestic and foreign tobacco 'manufacturers', pursuant to the provisions of the Tobacco Damages and Health Care Costs Recovery Act 2000 enacted in that Province. The UK Companies and Imperial have all been named as defendants. Both Imperial and the UK Companies have now filed their defences and document production is underway and discoveries are substantially complete. Damages have recently been calculated by the province as in the range of CAD\$25-\$60 billion from 1954 to 2060. No trial date has been set.

The government of the Province of Ontario has 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. Both Imperial and the UK Companies have all been named as defendants. This case is at an early case management stage and Imperial and the UK Companies have filed defences. It is anticipated that document production will occur by 31 May 2017. The province has stated its claim to be worth CAD\$50 billion. 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 2006 enacted in that Province. Imperial and the UK Companies have all been named as defendants. The case is now under case management and Imperial and the UK Companies have filed defences. 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 2012 enacted in that Province. Imperial and the UK Companies have all been named as defendants. This case is at an early case management stage. A standstill agreement was negotiated under which defences were filed by 27 February 2015 and the matter will remain in abeyance until document production begins in September 2017. 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 and the UK Companies have all been named as defendants. This case is at an early case management stage. A standstill agreement has been negotiated, under which defences were filed and the matter will remain in abeyance until document production begins in mid 2017. 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 and the UK Companies have all been named as defendants. This case is at an early case management stage and Imperial and the UK Companies have filed defences. The province has stated its claim to be worth CAD\$10 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 2005 enacted in that Province. Imperial,

Investments, Industries, and Carreras Rothmans Limited have been named as defendants. Imperial and the other Canadian manufacturers' constitutional challenge to the Quebec Medicaid Legislation was unsuccessful at both first instance and on appeal. Another manufacturer sought leave to appeal to the Supreme Court of Canada. Leave was refused on 5 May 2016. This case is at an early case management stage. Defences have been filed. Motions over admissibility of documents and damages discovery have been filed but not heard. The province is seeking CAD\$60 billion. No trial date has been set.

The government of the Province of PEI 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 and the UK Companies have all been named as defendants. This case is at an early case management stage. A standstill agreement has been negotiated. Defences were filed in February 2015 and the next step will be document production, which will commence on or before 1 September 2017. 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 and the UK Companies have all been named as defendants. This case is at an early case management stage. A standstill agreement has been negotiated. Defences were filed in July 2015 and the next step will be document production, which will commence on or before 1 September 2017. Damages have not been quantified by the province. No trial date has been set.

Nigeria

As at 31 December 2016, six medical reimbursement actions filed by the federal government and five Nigerian states (Lagos, Kano, Gombe, Oyo, Ogun) were pending in the Nigerian courts. British American Tobacco (Nigeria) Limited ("BAT Nigeria"), BAT and Investments have been named as defendants in each of the cases. The plaintiffs in the six cases seek a total of approximately 11 trillion Nigerian naira (roughly £38 billion) in damages, including special, anticipatory and punitive damages, restitution and disgorgement of profits, as well as declaratory and injunctive relief.

The federal action was filed on 6 November 2007 in the Federal High Court, and the five state actions were commenced in their respective High Courts on 9 May 2007 (Kano), 30 May 2007 (Oyo), 13 March 2008 (Lagos), 17 October 2008 (Gombe), and 26 February 2008 (Ogun). 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 (roughly £37.5 million) in respect of healthcare 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 São Paulo 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 in the Superior Court of Justice on 15 March 2017.

Canada

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 parallel cost order of CAD\$5 million from Imperial. 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 is scheduled to be heard in June 2017.

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 Phillip Morris International and Japan Tobacco International 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. The plaintiffs seek damages in the amount of CAD\$50 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. A certification hearing has yet to be scheduled.

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, which have a combined value of CAD\$21 billion plus interest and costs. The Court certified two classes, which include residents of Quebec who suffered from lung, throat and laryngeal cancer or emphysema as of November 1998 or developed these diseases thereafter and who smoked a minimum of 15 cigarettes a day for at least five years, and residents who were addicted to nicotine at the time the proceedings were filed and who have since remained addicted. Judgment was rendered on 27 May 2015. The plaintiffs were awarded moral and punitive damages and interest against Imperial and the Canadian subsidiaries of Philip Morris International and Japan Tobacco International in the amount of CAD\$15.6 billion, of which Imperial's share is CAD\$10.4 billion. An appeal of the judgment was filed on 26 June 2015. The Court also awarded provisional execution pending appeal of CAD\$1.131 billion, of which Imperial's share was approximately CAD\$742 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 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, of which Imperial's share is CAD\$758 million to be paid in seven equal quarterly instalments. The first instalment, of just over CAD\$108 million, was paid on 31 December 2015 with subsequent instalments paid on 31 March 2016, 30 June 2016, 30 September 2016, 31 December 2016 and 31 March 2017. Imperial filed its Factum on Appeal on 11 December 2015 and the appeal was heard in November 2016. A decision is under reserve.

Other Canadian Smoking and Health Class Actions: In June 2009, four new smoking and health class actions were filed in Nova Scotia (Semple), Manitoba (Kunta), Saskatchewan (Adams) and Alberta (Dorion) against Canadian and foreign manufacturers and foreign companies, including the UK Companies and Imperial. In Saskatchewan, BAT and Carreras Rothmans Limited have been released from the action. No date has been set for 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 July 2010, two further smoking and health class actions in British Columbia were served on Imperial and the UK 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 and Imperial objected to jurisdiction. Subsequently, BAT and Carreras Rothmans Limited were released from Bourassa and McDermid. Imperial, Industries and Investments 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. Once the materials are delivered, the motions regarding jurisdiction/abuse of process matters will be dealt with.

In June 2012, a new smoking and health class action was filed in Ontario (Jacklin) against the domestic manufacturers and foreign companies, including Imperial and the UK Companies. Imperial was served on 20 November 2012, and the UK Companies were served on 30 November 2012. The claim is presently in abeyance.

Italy

In or about June 2010, BAT Italia was served with a class action filed in the Civil Court of Rome by the consumer association, Codacons, and three class representatives. The plaintiffs primarily asserted addiction-related claims. The class action lawsuit was rejected at the first instance (Civil Court of Rome) and appellate (Rome Court of Appeal) court levels. In July 2012, Codacons filed an appeal before the Italian Supreme Court. At a hearing on 21 January 2015, the Public Prosecutor's Office agreed that the appeal should be rejected, and the Supreme Court reserved its decision. On 1 February 2017, the Supreme Court rejected Codacons' appeal. Codacons' deadline to file a motion for rehearing before the Supreme Court falls on or about 5 March 2018.

Venezuela

In April 2008, the Venezuelan Federation of Associations of Users and Consumers (FEVACU) and Wolfgang 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") 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.

(c) Individual personal injury claims

As at 31 December 2016, the jurisdictions with the most active individual cases against Group companies were, in descending order: Brazil (81), Italy (23), Chile (10), Argentina (8), Canada (6) and Ireland (2). There were a further three jurisdictions with one active case only.

Non-Tobacco Related Litigation

RAI / Lorillard 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's 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 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 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 shareholders in connection with the Lorillard Transaction.

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. On 20 December 2016, the North Carolina Court of Appeals 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 re-hear 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 plaintiff opposed on 27 February 2017.

Khosravi

In January 2014 an individual named Mehdi Khosravi issued a claim in the English High Court against BAT, as well as Al Aqili Trading LLC, Mohammed Saleh Al Aqili and Mohammed Saeed Mohamed Al Aqili (the

“Al Aqili Defendants”). After obtaining multiple extensions of time for service, in September 2015, the claimant amended his claim to join B.A.T (U.K. and Export) Limited and B.A.T. Pars Company as defendants and served the claim on BAT and B.A.T (U.K. and Export) Limited (the “BAT UK Defendants”). B.A.T. Pars Company has not been served with the claim and therefore is currently not an active party to the proceedings.

The claimant sought damages of up to £1.5 billion for alleged personal injuries and economic loss which, he alleged, were caused by the Al Aqili Defendants acting as agents for the BAT UK Defendants and/or for which the BAT UK Defendants were vicariously liable. On 28 January 2016, the judge dismissed the case against the BAT UK Defendants and ordered that the claimant should pay their legal costs. The claimant then applied for permission to appeal the decision. Permission to appeal was refused on paper on 22 November 2016, but the claimant is entitled to a hearing to consider his application. The hearing is scheduled for 4 July 2017.

Georgian Competition Claim

In July 2016, OGT Ltd (“OGT”), a Georgian tobacco manufacturer, filed a claim in the Tbilisi City Court against British American Tobacco Georgia Limited (“BAT Georgia”) and BAT Georgia’s Representative Office in Tbilisi, as well as T&R Distribution Ltd, BAT Georgia’s exclusive distributor in Georgia, alleging anti-competitive practices on behalf of the defendants. In January 2017, OGT filed a revised pleading claiming damages of approximately U.S.\$101 million. BAT Georgia and its Representative Office filed their revised defence again denying the allegations and a counterclaim in January 2017. On 10 February 2017, judgment was entered against BAT Georgia for U.S.\$100,537,172, BAT Georgia’s counterclaim was dismissed and the Georgian court ordered that it would determine the price at which BAT Georgia’s brands would be sold. The judgment was appealed on 24 March 2017.

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, the total clean-up costs for the Fox River are estimated at U.S.\$825 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, although NCR now only retains residual exposure to NRDs in the form of claims by other PRPs as the US Government has withdrawn its direct claims for NRDs against NCR.

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 current position can be summarised as follows:

1. As regards the upper portion of the Fox River, the District Court has ruled that NCR is liable in respect of this portion of the river because the river constitutes one site. That notwithstanding, the District Court has since indicated that NCR had no liability for that portion of the river because it did not discharge PCBs there.

2. As regards the mid and lower portions of the Fox River:
 - (a) As a result of the US Government enforcement proceedings against it, NCR has been held jointly and severally liable in respect of the mid and lower portions of the Fox River. Consequently, NCR is responsible for the costs of cleaning up of the mid and lower portions of the river, subject to any right of contribution it has against other PRPs and any right to appeal.
 - (b) Appvion on the other hand has been found not liable in respect of the clean-up (including NRDs) in the US Government enforcement proceedings.
 - (c) The remaining element of the US Government enforcement proceedings (the US Government's claim against NCR to recover costs it has incurred in relation to the clean-up) was scheduled to go to trial in May 2017 but those proceedings have now been stayed (as explained below).
 - (d) NCR's claims for contribution against the other PRPs in respect of the costs it has incurred in relation to the clean-up (and those PRPs' cross-claims for contribution against NCR to recover the costs they have incurred and NRDs they have had to pay) were scheduled to go to trial in May 2017 but those proceedings have also been stayed (as explained below).
 - (e) Appvion's claims to recover from PRPs other than NCR monies that it spent on the clean-up prior to being held not liable were also due to go to trial at the same time but have been stayed as well.

Recent settlements

On 22 December 2016, NCR and Appvion entered into a settlement agreement with certain of the other PRPs pursuant to which those PRPs released their contribution claims against NCR and Appvion released its claims against those PRPs. The provision has been updated accordingly.

On 17 January 2017, NCR and Appvion entered into a Consent Decree (a form of settlement agreement) with the US Government to resolve how the remaining clean-up will be funded and to resolve all outstanding claims between them.

The Consent Decree requires approval from the District Court in Wisconsin in order to be made final. The public has 30 days (until 22 February 2017) to comment on the proposal, after which the Court will make a determination. It is anticipated that the Court approval process will take several months. The US Government enforcement action and the PRPs' contribution claims have been stayed pending the outcome of the Court approval process.

If the Consent Decree is approved its principal effects will, in summary, be as follows:

1. NCR will perform and fund all of the remaining Fox River remediation work by itself.
2. 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.
3. 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.
4. 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.

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.

Until May 2012, Appvion and the AWA Entities paid the 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 Prospects Ltd ("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 the extent to which a further 10 per cent. of the costs ought to be allocated at a later stage). In addition, Windward has contributed U.S.\$10 million of funding and Appvion has contributed U.S.\$25 million for Fox River and agreed to contribute U.S.\$25 million for the Kalamazoo River (see further below).

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 S.A. ("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 in 2008 and €135 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 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). 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 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 appeal hearing is expected to take place during 2018. The Court also granted Sequana a stay in respect of the above payments it has been ordered to make pending Sequana's appeal being resolved.

In February 2017, Sequana entered into a process in France seeking court protection (the "Sauvegarde").

BTI has brought claims against certain of Windward's former advisers, including Windward's auditors at the time of the dividend payments, PricewaterhouseCoopers LLP (which claims were also assigned to BTI under the Funding Agreement). Those claims are currently subject to a stay.

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 2016, Industries paid £6 million in respect of clean-up costs and is potentially liable for a further £159 million in future clean-up costs. Industries has a provision of £163 million which represents the current best estimate of its exposure.

Kalamazoo

Industries is aware that 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:

1. a predecessor to NCR's Appleton Papers Division sold "broke" containing PCBs to Georgia-Pacific or others for recycling;
2. NCR itself sold paper containing PCBs to Georgia-Pacific or others for recycling; and/or
3. 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, but the Court did not specify directly the entity(ies) whose broke sales form the basis of NCR's liability. NCR will have the ability to appeal the ruling once a final judgment has been entered or it has been otherwise certified for 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. The parties are currently waiting for the Court to hand down its judgment. The court may or may not also rule on the allocation of future costs. Industries anticipates that NCR may seek to recover from Appvion (subject to a cap of U.S.\$25 million for "Future Sites" under the Funding Agreement as described above) and/or Industries 60 per cent. of any Kalamazoo clean-up costs for which it is found liable on the basis, it would be asserted, that the river constitutes a "Future Site" for the purposes of the Settlement Agreement. Industries believes it may have defences to any such claim by NCR. 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). The quantum of the clean-up costs for the Kalamazoo River is presently unclear (as is the extent of NCR's

liability in respect of such costs), but could run into 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. 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.

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. An adverse judgment was entered against one Group company, Imperial, in the Quebec class actions and an appeal has been made. If further adverse judgments are entered against any of the Group's companies in any case, all 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. In any event, the Group has the benefit of the RJRT Indemnification with regard to US litigation (excluding the litigation brought by the shareholders of RAI and the Ratcliff personal injury action). 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 affected by this and by the final outcome of any particular litigation.

Having regard to all these matters, with the exception of Fox River, the Group (i) does not consider it appropriate to make any provision in respect of any pending litigation; and (ii) does not believe that the ultimate outcome of this litigation will significantly impair the Group's financial condition.

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 partial 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\$1,386 million (£345 million) to cover tax, interest and penalties. The 2011 and 2012 reassessments were raised in December 2016.

Souza Cruz appealed all reassessments. Regarding the first assessments (2004-2006), the Souza Cruz 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 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 has 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 assessment at a later date. In 2016 SARS has filed a Statement of Grounds of Assessment and BATSA is due to file its Statement of Grounds of Appeal in early 2017. Across the period from 2006 to 2010, the reassessments are for R1.92 billion (£112 million) covering both tax and interest.

The Netherlands

The Dutch tax authority has issued assessments for the years 2008, 2009, 2011 and 2012 in the sum of €202 million (£172 million) to cover tax, interest and penalties. The assessments relate to a number of intra group transactions. Objection letters have been filed against the 2008, 2009, 2011 and 2012 assessments. In April 2017, an assessment was issued for the year 2010 for an amount of €14 million (£12 million) to cover tax, interest and penalties. A pro forma objection letter has been filed against this assessment.

The Group believes that the Group’s 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 assessed nor for any potential further amounts which may be assessed 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

British American Tobacco Bangladesh Company Limited (“BATBC”) is in receipt of a retrospective notice of imposition and realisation of VAT and supplementary duty on low price category brands from the National Board of Revenue for approximately £186 million. BATBC is alleged to have evaded tax by selling the products in the low price segments rather than the mid-tier price segments. Management believe that the claims are unfounded. Litigation has proceeded during 2016. The issue is currently awaiting outcome from the Supreme Court, and a 10 per cent. deposit may have to be paid during 2017 in order to pursue any appeal.

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

Nicandro Durante
(Chief Executive).....

J. Benedict Stevens
(Finance Director)

Principal Activities outside the Group

Reckitt Benckiser Group plc (Non-Executive Director)

ISS A/S (Non-Executive Director)

Chairman

Richard G.W. Burrows.....

Principal Activities outside the Group

Craven House Capital plc (Chairman)
Rentokil Initial plc (Non-Executive Director)
Carlsberg A/S (Supervisory Board Member)

Non-Executive Directors

Sue Farr.....

Principal Activities outside the Group

Chime Group (Special Advisor)
Dairy Crest Group plc (Non-Executive Director)
Millennium & Copthorne Hotels plc (Non-Executive Director)
Accsys Technologies plc (Non-Executive Director)
Dolphin Capital Investors Limited (Non-Executive Director)

Ann F. Godbehere

Rio Tinto plc and Rio Tinto Limited (Non-Executive Director)
UBS Group AG and UBS AG (Non-Executive Director)

Dr Marion Helmes

Bilfinger SE (Supervisory Board Member)
NXP Semiconductors N.V. (Non-Executive Director)
ProSiebenSat.1 Media SE (Vice Chairwoman of the Supervisory Board)
Uniper SE (Supervisory Board Member)

Savio Kwan

A&K Consulting Co Ltd (Chief Executive Officer)
Henley Business School (Visiting Professor)

Non-Executive Directors

Dr Pedro Malan

Dimitri Panayotopoulos

Kieran C. Poynter
(Senior Independent Director)

Principal Activities outside the Group

Alibaba Hong Kong Entrepreneurs Fund (Member of the Governing Board)

Itaú Unibanco Holding S.A. (Chairman of the International Advisory Board)

EDP – Energias do Brasil SA (Board Member)

Thomson Reuters Trust Principles (Trustee)
Temasek Holdings (Private) Limited (Member of Advisory Panel)

The Boston Consulting Group (Senior Advisor)

Logitech International S.A. (Non-Executive Director)

International Consolidated Airlines Group S.A. (Non-Executive Director)

F&C Asset Management PLC (Chairman)

Management Board

The Executive Directors of BAT together with the following executives:

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

Jack Bowles
(Regional Director, Asia-Pacific)

Alan Davy
(Director, Operations)

Giovanni Giordano
(Director, Group Human Resources)

Andrew Gray
(Director, Marketing)

Tadeu Marroco
(Regional Director, Western Europe)

Ricardo Oberlander**
(Regional Director, Americas)

Dr David O'Reilly
(Group Scientific Director)

Naresh Sethi
(Director, Business Development)

Johan Vandermuelen
(Regional Director, Eastern Europe, Middle East and Africa)

Kingsley Wheaton
(Managing Director, Next Generation Products)

*Jerome Abelman's principal activity outside the Group is as a Non-Executive Director of RAI.

** Ricardo Oberlander's principal activities outside the Group are as a Non-Executive Director of RAI and member of the Chief Marketing Officer Council Latin America Advisory Board.

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 Jack Bowles which is 16 Floor, 2 IFC, 8 Finance Street, Central, Hong Kong.

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**"), British American Tobacco Holdings (The Netherlands) B.V. ("**BATHTN**"), 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, BATHTN, 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, BATHTN, 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 31 May 2017 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, SA (“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. 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, 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 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).

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*

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:

- (1) the offered quotation; or
- (2) 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.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

(C) *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:

- (i) 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
- (ii) 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:

- (i) 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);
- (ii) if **"Actual/365 (Fixed)"** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if **"Actual/360"** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

- (iv) 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;

- (v) 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

- (vi) 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

(vii) 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 shall 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 shall 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 10 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) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 6(e)(iii)); 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

- (1) The provisions of this paragraph shall only apply where the Issuer is BATIF.
- (2) 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 15 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 (e) 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

- (1) The provisions of this paragraph shall only apply where the Issuer is BATCAP.
- (2) 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 15 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 (e) 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 BATHTN or BATNF

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

(2) 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 15 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 (e) 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, 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, having given:

- (i) not less than 15 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 15 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) specified in the applicable Final Terms 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.

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

This Condition 6(d) 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(d) 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 15 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.

(e) *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 an amount (the "Amortised Face 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).

(f) *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.

(g) *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 (f) above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(h) *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) or (d) 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 (e)(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 10 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 BATHTN or BATNF*

- (1) The provisions of this paragraph shall only apply where the Issuer is BATHTN or 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 10 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(e), 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:
- (1) 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
- (2) 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

(3) 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:

(1) 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

(2) 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 undischarged and unstayed for a period of 45 days; or

(3) 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 BATHTN or BATNF:

(1) an order is made or an effective resolution is passed for the winding-up of BATHTN or BATNF or any similar action is taken in any other jurisdiction, including, without limitation, an application being made by BATHTN or BATNF for a '*surseance van betaling*' (within the meaning of The Netherlands Bankruptcy Code (*Faillissementswet*)); or

(2) 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

(3) an administration order is made in relation to BATHTN or BATNF which is not discharged, stayed or removed within 45 days of such order being made; or

(vii) either the Issuer or any Guarantor:

(1) 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

(2) 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:

- (1) any liability to repay the principal of or to pay interest on borrowed money or deposits; or
- (2) 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 10 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.

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 BATHTN, 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 BATHTN, 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.] [BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.]
[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 HOLDINGS (THE NETHERLANDS) B.V.]
[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

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS: The Notes are not intended[, from 1 January 2018,] to be offered, sold or otherwise made available to and[, with effect from such date,] 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 Directive 2014/65/EU ("MiFID II"); (ii) a customer within the meaning of Directive 2002/92/EC ("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 (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.]

[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 31 May 2017 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) (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 Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU) (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 [●]]
		[●]
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:	[●] [Interest Payment Date falling in or nearest to [●]]
9	Interest Basis:	[Fixed Rate] [Floating Rate] [Zero Coupon] [●] (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]
[Issuer Call]
[Not Applicable]
(Further particulars specified below in paragraph [18/19])
- 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] [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]
[First day of each Interest Period]
[Second day on which the TARGET System is open prior to the start of each Interest Period]

		[•]
	- 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] [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [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(e)(iii) and 6(h) apply]
PROVISIONS RELATING TO REDEMPTION		
17	Notice periods for Condition 6(b):	Minimum period: [15] [•] days Maximum period: [30] [•] days
18	Issuer Call	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[•]
	(ii) Optional Redemption Amount(s):	[[•] per Calculation Amount]
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[•] per Calculation Amount
	(b) Maximum Redemption Amount:	[•] per Calculation Amount
	(iv) Notice periods:	Minimum period: [15] [•] days Maximum period: [30] [•] days
19	Investor Put	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[•]
	(ii) Optional Redemption Amount(s):	[[•] per Calculation Amount]
	(iii) Notice periods:	Minimum period: [15] [•] days Maximum period: [30] [•] days

- | | | |
|----|---|---|
| 20 | Final Redemption Amount: | [●] per Calculation Amount |
| 21 | 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(e)] [[●] per Calculation Amount] |

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- | | | |
|----|---|--|
| 22 | Form of Notes: | Bearer Notes: |
| | (i) Form: | Global Note exchangeable for Definitive Notes upon an Exchange Event. |
| | (ii) New Global Note: | [Yes/No] |
| 23 | Additional Financial Centre(s): | [Not Applicable] [●] |
| 24 | 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

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: [•]]
- [Standard & Poor's: [•]]

3 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]]

[Save as discussed in "Subscription and Sale", 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) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, SA and the relevant identification number(s): [Not Applicable]/[•]
- (iv) Names and addresses of additional Paying Agent(s) (if any): [Not Applicable]/[•]

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 Depository for Euroclear and Clearstream, Luxembourg.

If the relevant Global Note is stated in the applicable Final Terms to be issued in NGN form, the relevant Global Note will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. The Issuer will procure that, at the time of issue of each Tranche of Notes, Euroclear and Clearstream, Luxembourg are notified whether or not such Notes are intended to be held in a manner which would allow Eurosystem eligibility and whether the Notes are to be issued in NGN form. 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 Depository, 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) an Event of Default has occurred and is continuing, (ii) both Euroclear and Clearstream, Luxembourg have terminated their businesses without a successor clearing organisation being available or (iii) 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 (iii) 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. 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 6 of the Financial Services and Markets Act 2000) by the United Kingdom Listing 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, including an exemption for certain payments of interest to which a company within the charge to United Kingdom corporation tax is beneficially entitled, or to any direction by 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 BATHTN, BATNF or BATCAP as an Issuer

Payments of interest made in respect of Notes issued by BATHTN, 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 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, including an exemption for certain payments of interest to which a company within the charge to United Kingdom corporation tax is beneficially entitled, or to any direction by 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

If BATIF or BAT is required to make a payment as a guarantor or if BATHTN, BATNF or BATCAP is required to make a payment as a guarantor (to the extent that 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 BATHTN or BATNF, each is, in this section, referred to as an Issuer and together, the Issuers.

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.

Each of the Issuers 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 either of the Issuers 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.

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 an 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 an 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*) or dividend withholding tax (*dividendbelasting*) of another person or entity, or (b) there is no arrangement or a series of arrangements that are not genuine. An arrangement or series of arrangements shall be regarded as not genuine to the extent that they are 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 10 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 an income tax treaty applies, 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 10 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 28 per cent.

FATCA

A 30 per cent. United States federal withholding tax may apply to interest income paid on Notes issued by BATCAP and, after 31 December 2018, to the gross proceeds from a disposition of such Notes (including a repayment of principal), in each case paid 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 was in existence on 20 August 1996 and has elected 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, BATHTN and BATNF

This discussion of FATCA applies to Notes issued by BATIF, BATHTN 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 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. The issuance and subscription of Notes should, however, 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 31 May 2017, 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. 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.

Prospectus Directive Public Offer Selling Restriction

From 1 January 2018, 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 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 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.

Prior to 1 January 2018, in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (A) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (B) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or
- (C) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (A) to (C) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means 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, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

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.

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 restreint*) 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.

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 UK Listing Authority and the London Stock Exchange of the relevant Final Terms and any other information required by the UK Listing Authority 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 5 June 2017. 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 and 3 May 2016 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 and 27 April 2017; (iii) in the case of BATHTN, by resolutions of Meetings of the Board of Directors on 14 April 2003, 25 February 2004, 14 April 2005, 21 November 2005, 16 November 2006, 23 November 2007, 21 November 2008, 20 November 2009, 19 November 2010, 23 November 2011, 30 November 2012, 2 December 2013, 12 May 2014, 28 April 2015, 11 May 2016 and 22 May 2017; (iv) in the case of BATNF, by resolutions of Meetings of the Board of Directors on 12 May 2014, 28 April 2015, 11 May 2016 and 22 May 2017; and (v) in the case of BATCAP, by resolutions of Meetings of the Board of Directors on 20 April 2017.
4. Save as disclosed in the section “BAT and the Group – Litigation” of this Base Prospectus, (pages 37 to 51 inclusive), there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which any Obligor and its subsidiaries taken as a whole is aware) during the period covering at least the 12 months prior to the date of this Base Prospectus which may have, or have had in the recent past, significant effects on the financial position or profitability of any Obligor and its subsidiaries taken as a whole. Since many of the pending cases seek unspecified damages it is not possible to quantify the total amount being claimed.
5. Save as disclosed in the third, fourth and fifth complete paragraphs on page 35 of this Base Prospectus, there has been no significant change in the financial or trading position of BAT, BATIF, BATHTN, BATNF or BATCAP and their respective subsidiaries taken as a whole since 31 December 2016, nor has there been any material adverse change in the prospects of BATIF, BATHTN, BATNF, BAT or BATCAP and their respective subsidiaries taken as a whole since 31 December 2016.

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 2015 and 31 December 2016 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 2015 and 31 December 2016.
9. The auditors of BATHTN and 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 BATHTN and 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 2015 and 31 December 2016.
10. The auditors of BATCAP are KPMG LLP (independent auditors) who have audited the accounts of BATCAP without qualification in accordance with generally accepted auditing standards in the United States ("US GAAP") for each of the two financial years ended 31 December 2015 and 31 December 2016.
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) 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. Save as disclosed in the third, fourth and fifth complete paragraphs on page 35 of this Base Prospectus, neither any of the Issuers nor any of the Guarantors has entered into any contract outside the ordinary course of its business which could result in any Issuer or any Guarantor 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 or to any Guarantor's ability to meet its obligations under the 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, SA, 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, 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 BATHTN and 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 most recent publicly available audited financial statements (together in each case with the audit report thereon) of BAT (consolidated), BATIF (consolidated), BATHTN (non-consolidated), BATNF (non-consolidated) and BATCAP (non-consolidated) for the years ended 31 December 2015 and 31 December 2016;
- (f) reports, letters, balance sheets, valuations and statements of experts included or referred to in this Base Prospectus (other than consent letters); and
- (g) 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.

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