

British American Tobacco p.l.c. Proposed Acquisition of Reynolds American Inc.

January 2017



Important notice



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Forward looking statements

Certain statements in this communication regarding the proposed merger of Reynolds and BAT (the "Proposed Transaction"), the expected timetable for completing the Proposed Transaction, the benefits and synergies of the Proposed Transaction, future opportunities for the combined company and any other statements regarding BAT's, Reynolds' or the combined company's future expectations, beliefs, plans, objectives, financial conditions, assumptions or future events or performance that are not historical facts are "forward-looking" statements made within the meaning of Section 21E of the United States Securities Exchange Act of 1934. These statements are often, but not always, made through the use of words or phrases such as "believe," "anticipate," "could," "may," "would," "should," "intend," "plan," "potential," "predict," "will," "expect," "estimate," "project," "positioned," "strategy," "outlook" and similar expressions. All such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors that could cause actual future financial condition, performance and results to differ materially from the plans, goals, expectations and results expressed in the forward-looking statements and other financial and/or statistical data within this presentation. Among the key factors that could cause actual results to differ materially from those projected in the forward-looking statements are uncertainties related to the following: whether the conditions to the Proposed Transaction will be satisfied and the Proposed Transaction will be completed on the anticipated timeframe, or at all; the failure to realize contemplated synergies and other benefits from the Proposed Transaction; the incurrence of significant costs and the availability and cost of financing in connection with the Proposed Transaction; the effect of the announcement of the Proposed Transaction, and related uncertainties as to whether the Proposed Transaction will be completed, on BAT's, Reynolds' or the combined company's ability to retain customers, retain and hire key personnel and maintain relationships with suppliers and on their operating results and businesses generally; the ability to maintain credit ratings; changes in the tobacco industry and stock market trading conditions; changes or differences in domestic or international economic or political conditions; changes in tax laws and rates; the impact of adverse legislation and regulation; the ability to develop, produce or market new alternative products profitably; the ability to effectively implement strategic initiatives and actions taken to increase sales growth; the ability to enhance cash generation and pay dividends; adverse litigation and dispute outcomes; and changes in the market position, businesses, financial condition, results of operations or prospects of BAT, Reynolds or the combined company.

Additional information concerning these and other factors can be found in Reynolds' filings with the U.S. Securities and Exchange Commission ("SEC"), including Reynolds' most recent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and BAT's Annual Reports, which may be obtained free of charge from BAT's website www.bat.com. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof and Reynolds and BAT undertake no obligation to update or revise publicly any forward-looking statements or other data or statements contained within this presentation, whether as a result of new information, future events or otherwise.

No statement in this document is intended to be a profit forecast and no statement in this document should be interpreted to mean that earnings per share of BAT or Reynolds for the current or future financial years would necessarily match or exceed the historical published earnings per share of BAT or Reynolds, respectively.

Important notice



Additional information and where to find it

This communication is neither a solicitation of a proxy nor a substitute for any proxy statement or other filings that may be made with the SEC in connection with the Proposed Transaction. Any solicitation will only be made through materials filed with the SEC. Nonetheless, this communication may be deemed to be solicitation material in respect of the Proposed Transaction by BAT or Reynolds.

BAT and Reynolds intend to file relevant materials with the SEC, including a registration statement on Form F-4 that will include a proxy statement of Reynolds that also constitutes a prospectus of BAT. Investors and security holders are urged to read all relevant documents filed with the SEC (if and when they become available), including the proxy statement/prospectus, because they will contain important information about the Proposed Transaction. Investors and security holders will be able to obtain the documents (if and when available) free of charge at the SEC's website, <http://www.sec.gov> or for free from BAT upon request to BAT at batir@bat.com / +44 (0) 20 7845 1000 (for documents filed with the SEC by BAT) or from Reynolds at raiinvestorrelations@reynoldsamerican.com / +1 (336) 741-5165 (for documents filed with the SEC by Reynolds). Such documents are not currently available.

Participants in solicitation

This communication is neither a solicitation of a proxy nor a substitute for any proxy statement or other filings that may be made with the SEC in connection with the Proposed Transaction. Nonetheless, BAT, Reynolds and their affiliates and each of their directors and executive officers and certain employees may be deemed to be participants in the solicitation of proxies from the holders of Reynolds common stock with respect to the Proposed Transaction. Information about such parties and a description of their interests are set forth in BAT's 2015 Annual Report, which may be obtained free of charge from BAT's website www.bat.com and the proxy statement for Reynolds' 2016 Annual Meeting of Stockholders, which was filed with the SEC on March 23, 2016. To the extent holdings of Reynolds securities by such parties have changed since the amounts contained in the proxy statement for Reynolds' 2016 Annual Meeting of Stockholders, such changes have been or will be reflected on Statements of Change in Ownership on Form 4 filed with the SEC. Additional information regarding the interest of such parties will also be included in the materials that BAT and Reynolds intend to file with the SEC in connection with the Proposed Transaction. These documents (if and when available) may be obtained free of charge from the SEC's website <http://www.sec.gov> or from BAT and Reynolds using the contact information above.

Non-solicitation

This communication shall not constitute an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

This communication should not be construed as, investment advice and is not intended to form the basis of any investment decision, nor does it form the basis of any contract for acquisition or investment in any member of the Group, financial promotion or any offer, invitation or recommendation in relation to any acquisition of, or investment in, any member of the Group.

Compelling strategic rationale

Strategic Rationale

- Creates a stronger, truly global tobacco and Next Generation Products (NGP) company
 - Direct access to the attractive US market
 - A balanced presence in high growth emerging markets and high profitability developed markets
 - Portfolio of strong, growing global brands
 - Global NGP business with a world class pipeline
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Compelling financial rationale

Financial Rationale

- At least \$400m annualised cost synergies anticipated by the end of year 3
- EPS and DPS accretive in first full year, targeting mid-single digit EPS accretion in year 3
- Beats the Group WACC for the US by year 5
- Strong financial profile with commitment to maintaining a solid investment grade credit rating
- Enhanced cash generation
- Continued commitment to BAT's dividend policy with a minimum payout ratio of 65%

Key offer terms

- Reynolds shareholders will receive US\$29.44 in cash and 0.526x BAT shares per Reynolds share
 - Values each Reynolds share at \$59.64*
 - Represents a premium of 26% to the Reynolds closing price on 20 October 2016*
 - Values 57.8% of Reynolds not already owned by BAT at c. \$49.4bn*
 - SEC registration and Level III NYSE-listed ADR provide fully tradable instrument

Financing

- BAT has secured a US\$25bn fully committed bank facility to help finance the cash consideration
- Strong cash generation reduces Net Debt/EBITDA from a full year proforma 2017 metric of around 4.0x post transaction to target around 3.0x by 2019
- Committed to maintaining a solid investment grade credit rating for the combined company
- BAT anticipates taking actions to treat legacy Reynolds and BAT debt pari-passu

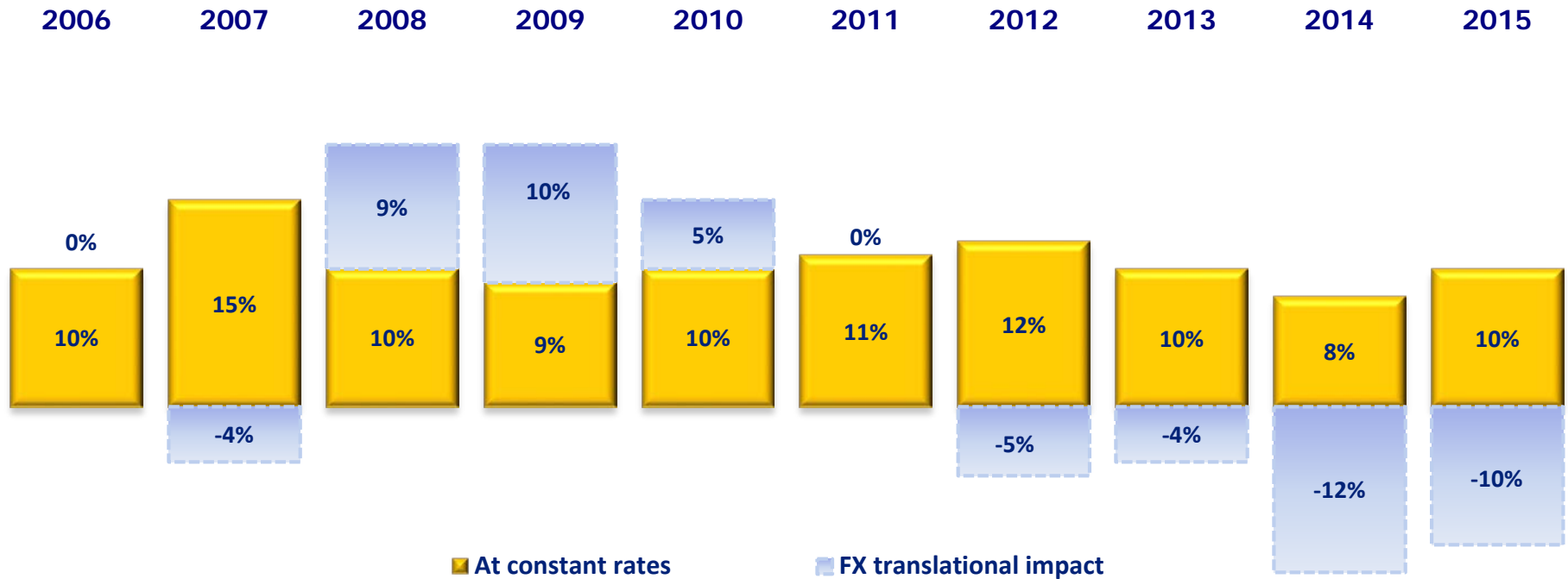
Timing and closing

- Transaction is recommended by the Transaction Committee of Reynolds and the Boards of both companies
- Subject to approval of Reynolds and BAT shareholders, certain customary closing conditions including regulatory approvals
- Transaction expected to close in Q3 2017
- Break fee of up to \$1 billion payable by either BAT or Reynolds under certain circumstances

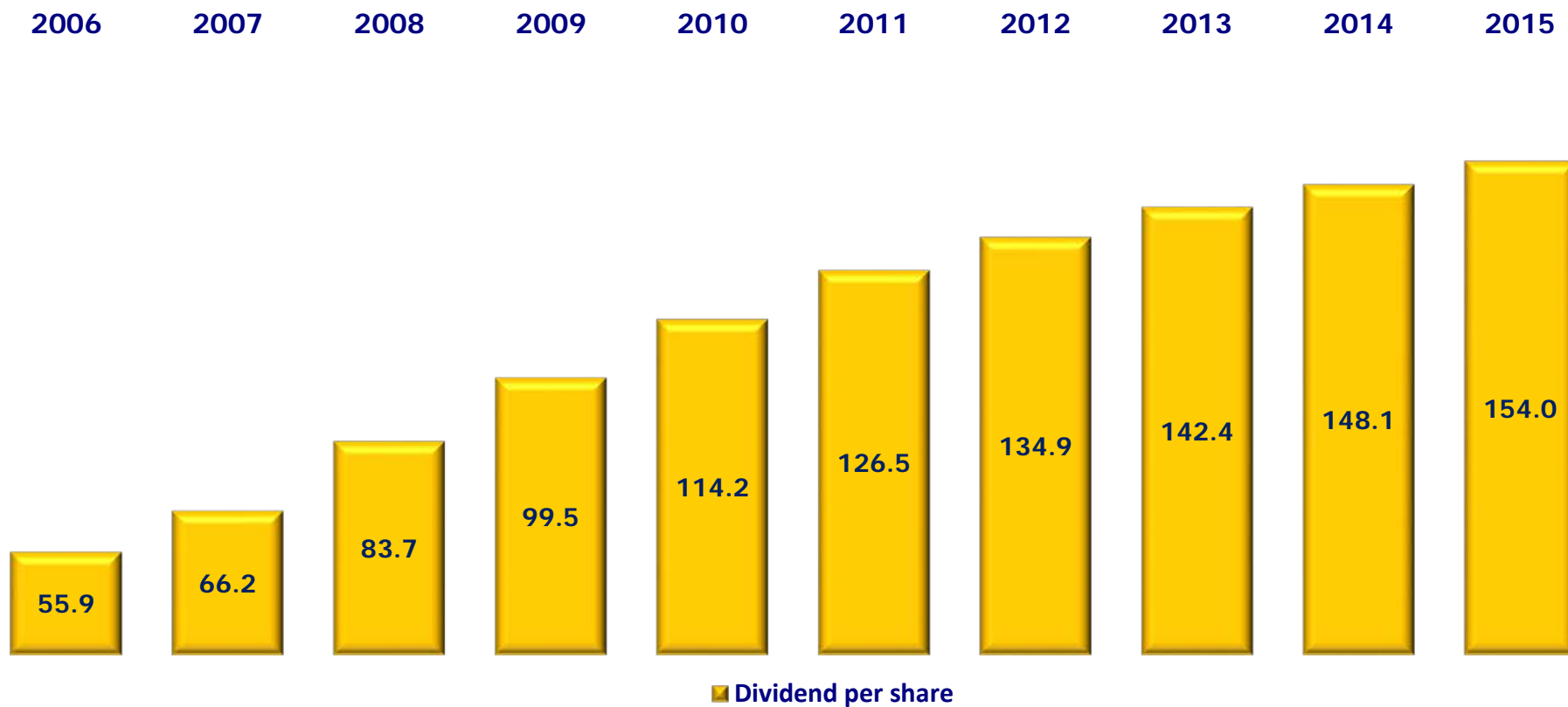
Timeline

<p>SEC process expected to take 4 to 5 months</p>	<ul style="list-style-type: none"> ■ BAT p.l.c. intends to be registered under the US securities laws as part of the transaction. ■ New BAT shares will be issued to Reynolds shareholders in the form of NYSE-listed Level III ADRs as part of the deal consideration.
<p>BAT shareholder vote</p>	<ul style="list-style-type: none"> ■ The merger constitutes a Class 1 transaction for BAT under the UK Listing Rules requiring a simple majority of votes cast in favour. ■ A shareholder circular, together with notice of the relevant BAT shareholder meeting, will be distributed to BAT shareholders in late Q2 or Q3. ■ The timing of the BAT shareholders meeting will be aligned with the timing of the Reynolds shareholder vote.
<p>Reynolds shareholder vote</p>	<ul style="list-style-type: none"> ■ The transaction is required to be approved by holders of a majority of the unaffiliated RAI shares entitled to vote and who are present (in person or by proxy) and voting at the RAI shareholders' meeting, as well as a majority of the outstanding RAI shares. ■ A proxy statement / prospectus, together with notice of the relevant Reynolds shareholder meeting, will be distributed to Reynolds shareholders in late Q2 or Q3.
<p>Subject to regulatory clearances</p>	<ul style="list-style-type: none"> ■ The merger is subject to US and Japan anti-trust clearance along with certain other regulatory approvals and customary closing conditions. ■ US and Japan anti-trust clearance is expected to be obtained prior to the BAT and Reynolds shareholder votes.
<p>Expected closing in Q3 2017</p>	<ul style="list-style-type: none"> ■ Completion is expected take place shortly after the BAT and Reynolds affirmative shareholder votes and is expected to occur in Q3 2017.

BAT - A proven track record of growth...



10% average EPS growth at constant currency

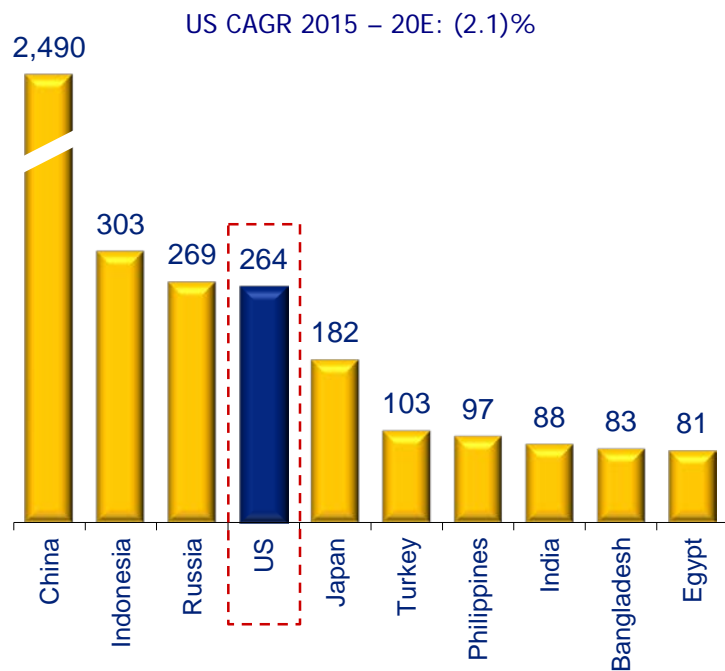


12% CAGR DPS growth

Highly attractive US market

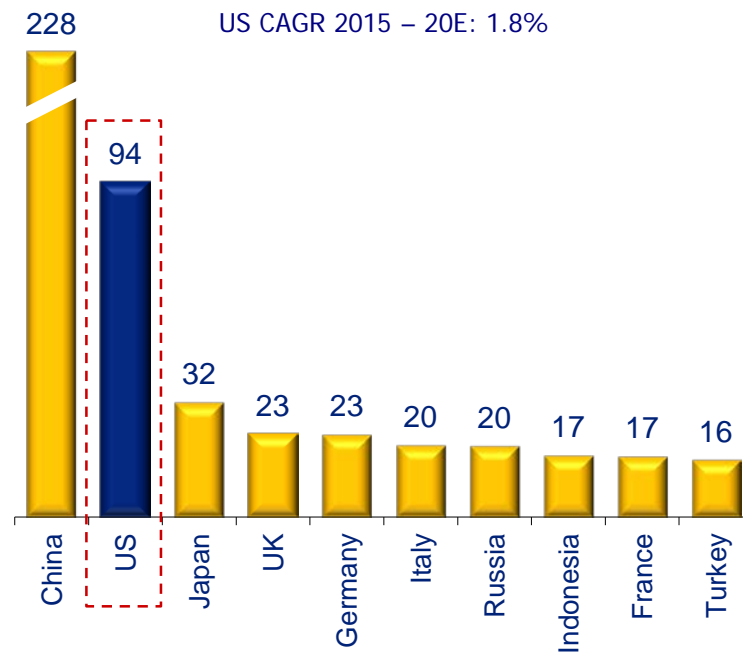
One of the biggest tobacco markets by volume...

Bn sticks 2015

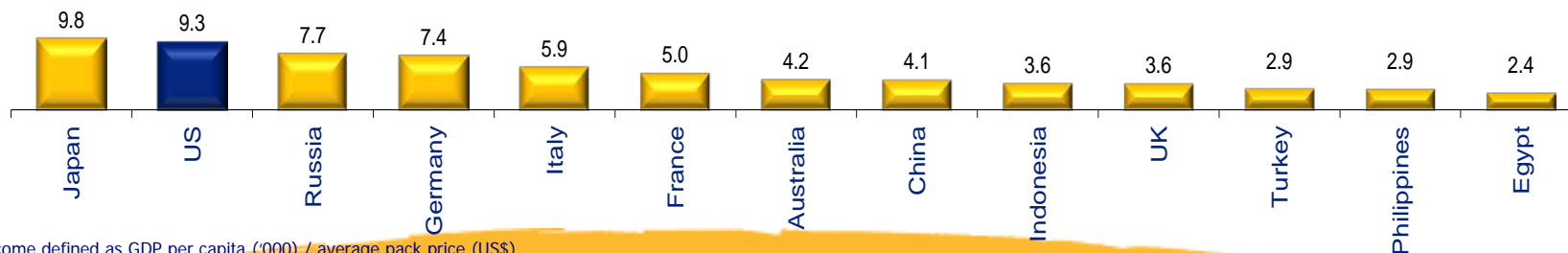


...and largest open market by value...

Value \$bn 2015



... with low cigarette prices relative to income*

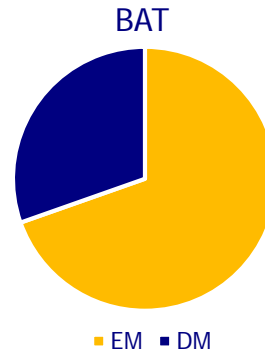


*Income defined as GDP per capita ('000) / average pack price (US\$)

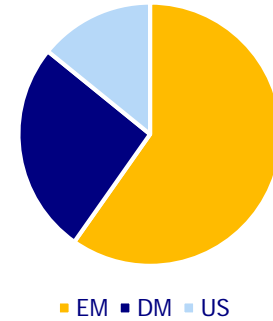
Source: Euromonitor, Global Insights, Company internal data

A unique geographic footprint

Volume split



BAT Post-Transaction



Equivalent
Net Revenue

Net Revenue/Pack
CAGR (2010-2015)

Developing

13 packs

+8%

USA

2 packs

+5%

Developed

6 packs

+4%

Group (T40)

10 packs

5%

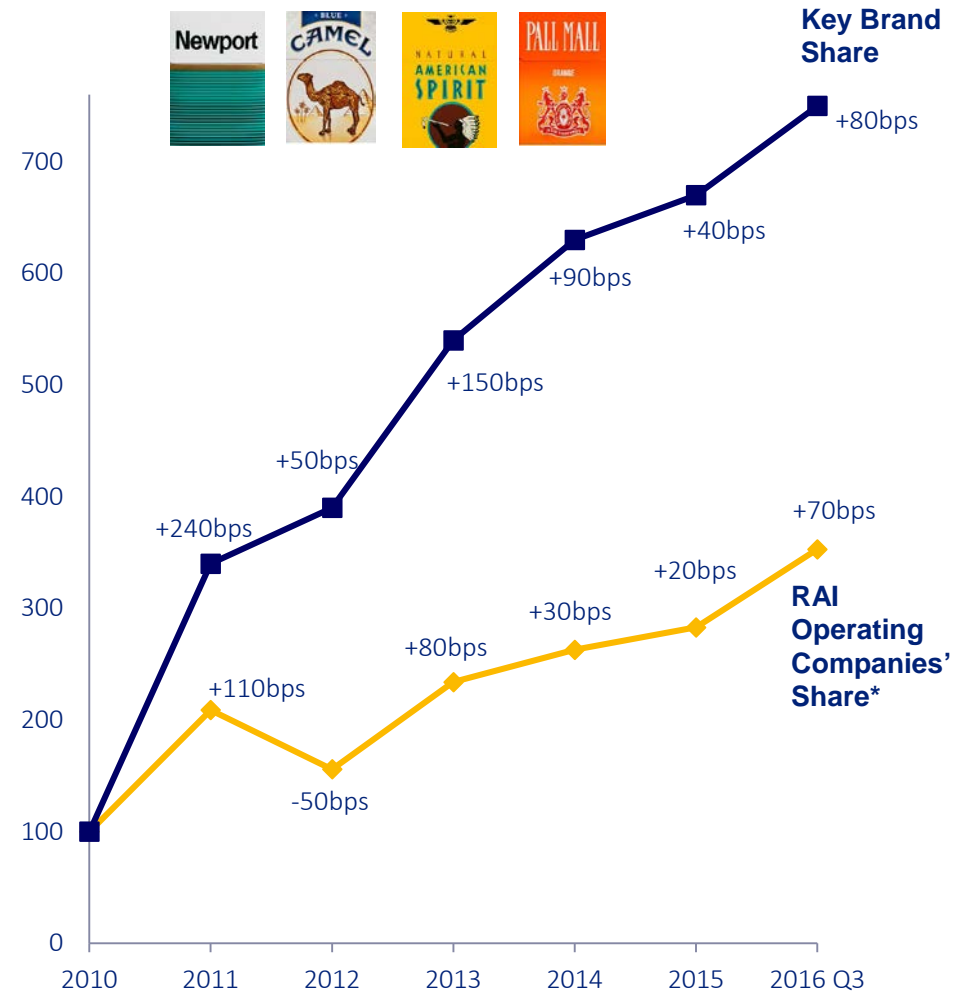
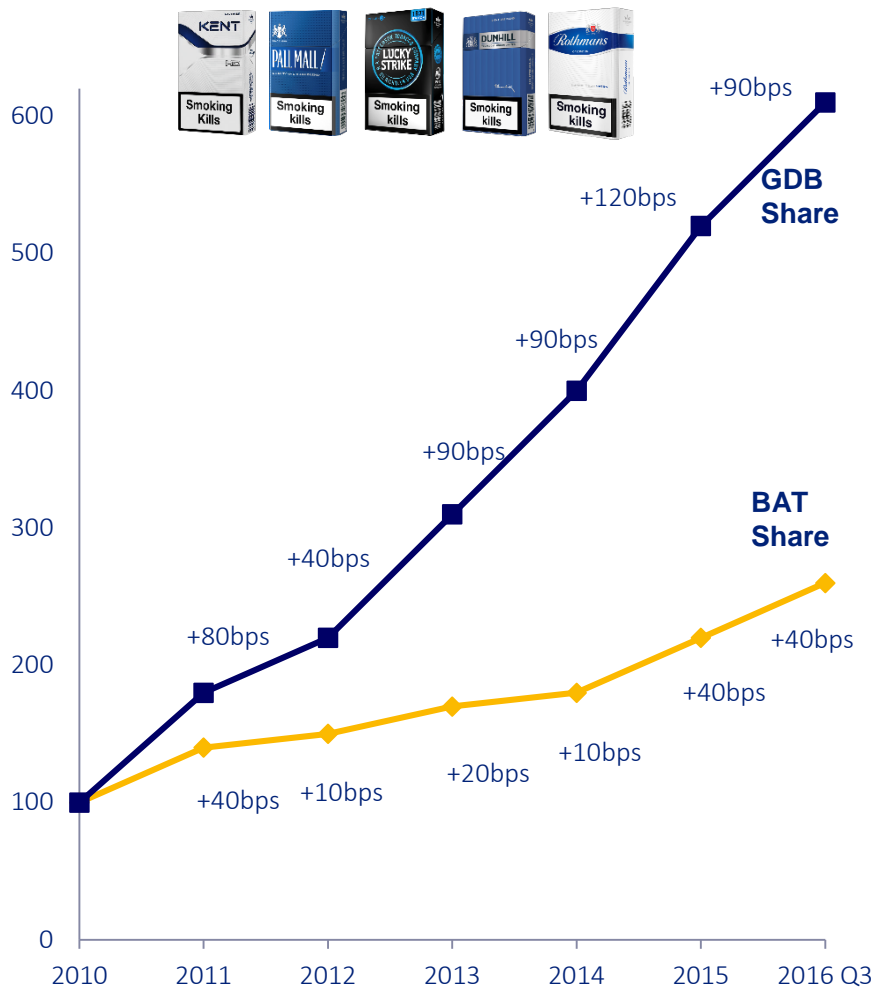
Greater proportion of Group volume will come from high growth markets

Combined business will have unique portfolio of strong brands...



(a) Nielsen data YTD Aug-16
 (b) Reynolds press release Sep-16

To drive continued strong corporate share growth...



Source: BAT - Nielsen retail audit;
Reynolds - BAT internal estimates, Euromonitor. Key brand share based on Reynolds and Lorillard public filings

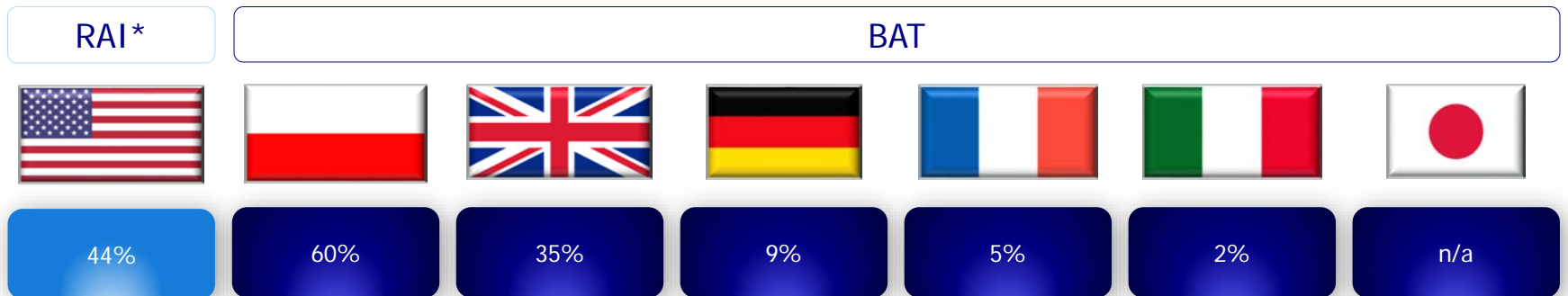
* Adjusted for current portfolio pro-forma volume share estimates based on BAT internal data.

World class Next Generation Products

Opportunity to create truly global leading NGP brands



Significant presence in the largest NGP markets



Market shares based on Nielsen data where available, otherwise internal estimates


* RAI Operating Companies


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