

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



**FINANCIAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

Annual General Meeting of Shareholders: 22 February 2018

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

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Balance sheet as at 31 December 2017

Before appropriation of result	2017	2016
All amounts in EUR'000	Notes	
Current assets		
Receivables	1	18
		18
Total current assets		18
		18
Total assets		18
		18
Shareholder's equity		
	2	
Issued capital		18
Unappropriated profit		--
		18
		18
		18
		18

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Profit & loss account for the year 2017

		2017	2016
All amounts in EUR'000	Notes		
Financial income	3	--	156,363
Financial expense	3	--	(156,363)
		--	--
Net financial result		--	--
Profit before tax		--	--
Taxation		--	--
		--	--
Profit after tax		--	--

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Notes to the 2017 financial statements

General

(a) Reporting entity and relationship with parent companies

The Company, having its legal address at Handelsweg 53 A, 1181 ZA Amstelveen, is a private limited liability company under Dutch law and is listed under number 60533536 in the Trade Register. 100% of the shares of the Company are held by British American Tobacco Holdings (The Netherlands) B.V. ("BATHTN").

The Company's ultimate parent undertaking is British American Tobacco p.l.c. ("BAT plc"), a public limited company being incorporated in the United Kingdom and registered in England and Wales. The financial information of the Company is included in the consolidated financial statements of BAT plc and may be obtained from www.BAT.com.

The principal activity of the Company is that of a financing company.

(b) Financial Reporting period

The financial statements cover the year 2017, which ended at the balance sheet date 31 December 2017.

(c) Basis of preparation

The financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code. The accounting policies applied for measuring assets and liabilities and the determination of result are based on the historical cost convention, unless otherwise stated in the further principles. The Company has deviated from the requirements for the profit & loss account in the Decree Model Financial Statements in view of the nature of the Company's activities.

(d) Going concern

These financial statements have been prepared on the basis of the going concern assumption.

Accounting policies

General

Assets and liabilities are measured at nominal value, unless otherwise stated in the further principles.

An asset is recognised on the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the asset has a cost price or value which can be measured reliably. Assets that are not recognised on the balance sheet are considered as off-balance sheet assets.

A liability is recognised on the balance sheet when it is expected that the settlement of an existing obligation will result in an outflow of resources embodying economic benefits and the amount necessary to settle this obligation can be measured reliably.

Provisions are included in the liabilities of the Company. Liabilities that are not recognised on the balance sheet are considered as off-balance sheet liabilities.

An asset or liability that is recognised on the balance sheet, remains recognised on the balance sheet if a transaction (with respect to the asset or liability) does not lead to a major change in the economic reality with respect to the asset or liability. Transactions of this nature will not result in the recognition of results. When assessing whether there is a significant change in the economic circumstances, the economic benefits and risks that are likely to occur in practice are taken into account. The benefits and risks that are not reasonably expected to occur, are not taken into account in this assessment.

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Notes to the 2017 financial statements

An asset or liability is no longer recognised on the balance sheet, and thus derecognised, when a transaction results in all or substantially all rights to economic benefits and all or substantially all of the risks related to the asset or liability are transferred to a third party. In such cases, the results of the transaction are directly recognised in the profit and loss account, taking into account any provisions related to the transaction.

If assets are recognised of which the Company does not have the legal ownership, this fact is being disclosed.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

Revenues and expenses are allocated to the period to which they relate. Revenues are recognised when the Company has transferred the significant risks and rewards of ownership of the goods to the buyer.

Functional and presentation currency

The financial statements are presented in euro, the Company's functional currency.

Principles for the translation of foreign currencies

Transactions in foreign currency

At initial recognition, transactions denominated in a foreign currency are translated into the relevant functional currency of the Company at the exchange rate applicable on the transaction date.

Monetary assets and liabilities denominated in a foreign currency are translated at the balance sheet date into to the functional currency at the exchange rate applicable on that date. Exchange differences resulting from the settlement of monetary items, or resulting from the translation of monetary items denominated in foreign currency, are recognised in the profit and loss account in the period in which they arise.

Non-monetary assets and liabilities denominated in a foreign currency that are stated at historical cost, are translated into euro at the exchange rates applicable on the transaction date.

Receivables

Receivables are measured at initial recognition at fair value, plus transaction costs (if material). After initial recognition, receivables are measured at amortised cost. If no premium or discount and transaction costs are applicable, the amortised cost is equal to the nominal value of the receivables, less a provision for uncollectible debts. These provisions are determined by individual assessment of the receivables.

Shareholders' equity

Financial instruments that are designated as equity instruments by virtue of the legal reality are presented under shareholders' equity. Payments to holders of these instruments are deducted from the shareholders' equity as part of the profit distribution.

Financial instruments that are designated as a financial liability by virtue of the legal reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the profit and loss as financial income or expense.

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Notes to the 2017 financial statements

Current liabilities

At initial recognition, current liabilities are recognised at fair value. After initial recognition, current liabilities are measured at amortised cost. If no premium or discount and transaction costs are applicable, the amortised cost is equal to the nominal value of the liability.

Interest receivable and similar income and interest payable and similar charges

Interest income is recognised in the profit and loss account on an accrual basis, using the effective interest rate method. Interest expenses and similar charges are recognised in the period to which they belong.

Corporate income tax

Corporate income tax comprises the current and deferred corporate income tax payable and deductible for the reporting period. Corporate income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity, or to business combinations.

Current tax comprises the expected tax payable or recoverable on the taxable profit or loss for the financial year, calculated using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

If the carrying amount of assets and liabilities for financial reporting purposes differ from their values for tax purposes (tax base), this results in temporary differences. For taxable temporary differences, a provision for deferred tax liabilities is recognised. For deductible temporary differences, available tax losses and unused tax credits, a deferred tax asset is recognised, but only to the extent that it is probable that future taxable profits will be available for set-off or compensation. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The measurement of deferred tax liabilities and deferred tax assets is based on the tax consequences following from the manner in which the Company expects, at the balance sheet date, to realise or settle its assets, provisions, debts and accrued liabilities. Deferred tax assets and liabilities are measured at nominal value.

Subsequent events

Events that provide further information on the actual situation at the balance sheet date and that appear before the financial statements are being prepared, are recognised in the financial statements.

Events that provide no information on the actual situation at the balance sheet date are not recognised in the financial statements. When those events are relevant for the economic decisions of users of the financial statements, the nature and the estimated financial effects of the events are disclosed in the financial statements.

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Notes to the 2017 financial statements

All amounts in EUR'000 except share capital details

NOTE 1 ~ RECEIVABLES

	<u>31 December 2017</u>	<u>31 December 2016</u>
Receivables from affiliated companies	18	18
	18	18

Receivables from affiliated companies are unsecured, interest free and payable on demand.

NOTE 2 ~ SHAREHOLDER'S EQUITY

The shareholder's equity of the Company was as follows:

	<u>Issued capital</u>	<u>Unappr. profit</u>	<u>Total</u>
At 31 December 2016	18	--	18
Profit for the year	--	--	--
	18	--	18
At 31 December 2017	18	--	18

The Company's authorised and issued capital, amounting to EUR 18,000, consists of 40 ordinary shares of EUR 450.

Proposal for profit appropriation

There is no proposal for profit appropriation as the Company has not generated a result during the year.

NOTE 3 ~ FINANCIAL INCOME/(EXPENSE)

	<u>2017</u>		<u>2016</u>	
	<u>Financial income</u>	<u>Financial expense</u>	<u>Financial income</u>	<u>Financial expense</u>
Financial income on loans to affiliated companies	--	--	12,860	--
Financial expenses on long-term liabilities	--	--	--	(12,860)
Loss on novation of long-term liabilities	--	--	--	(81,612)
Gain on repayment of long-term loans	--	--	81,612	--
Foreign exchange gains/(losses)	--	--	61,891	(61,891)
	--	--	156,363	(156,363)

Transactions with affiliated companies are at market rates.

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Notes to the 2017 financial statements

NOTE 4 ~ CONTINGENT LIABILITIES

The Company has contingent liabilities in respect of guarantees and taxation.

Guarantees

The Company acceded to the British American Tobacco Euro Medium Term Note Programme (the "EMTN Programme") on 16 May 2014. As of this date, the Company, together with British American Tobacco p.l.c. ("BAT plc"), B.A.T. International Finance p.l.c. ("BATIF plc") and British American Tobacco Holdings (The Netherlands) B.V. ("BATHTN"), and as from 31 May 2017, B.A.T Capital Corporation ("BATCAP"), having re-acceded as participant under the EMTN Programme, guarantees, as applicable, all notes outstanding under the EMTN Programme, other than where the Company is the issuer. Notes issued under the EMTN Programme prior to 9 December 2011 benefit from an additional guarantee by BATCAP. The maximum aggregate nominal amount of all notes that may from time to time be outstanding under the EMTN Programme is GBP 25,000 million (2016: GBP 15,000 million).

All notes issued have been admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange p.l.c.'s Regulated Market, or to the SIX Swiss Exchange, as applicable.

At the balance sheet date, the Company is the guarantor of notes issued under the EMTN Programme of GBP 4,625 million, EUR 10,950 million, CHF 650 million and USD 650 million (2016: GBP 4,175 million, EUR 9,100 million, CHF 650 million and USD 650 million). The notes mature between 2018 and 2055.

Subsequent to the year-end, effective 13 February 2018, BATCAP acceded as guarantor of the series of notes issued under the EMTN, which it did not already guarantee (other than where BATCAP is the issuer).

The Company, together with BAT plc and BATHTN, guarantees five series of notes totalling USD 4,500 million (2016: USD 6,000 million) issued by BATIF plc, pursuant to Rule 144A and Regulation S under the United States Securities Act of 1933 (as amended). The notes mature between 2018 and 2025.

The Company, together with BAT plc, BATIF plc, BATHTN and Reynolds American Inc., guarantees eight series of notes totalling USD 17,250 million (2016: nil) issued by BATCAP, pursuant to Rule 144A and Regulation S under the United States Securities Act of 1933 (as amended) with SEC registration rights. The notes mature between 2020 and 2047.

As a further part of the Company's liquidity risk management, the Company has access to a GBP 6,000 million revolving credit facility, with certain banks and institutions. The Company's obligations as a borrower under the facility are unconditionally and irrevocably guaranteed by BAT plc. At year-end, the Company has not drawn any funds under this facility.

Taxation

The Company forms part of the fiscal unity of British American Tobacco International (Holdings) B.V. (the "Fiscal Unity" and "BATIH", respectively). BATIH is the taxpayer of this Fiscal Unity and settles taxes directly with the members of the Fiscal Unity via the Group's inter-company netting procedure. Under the Dutch Collection of State Taxes Act, the Company and its fellow fiscal unity members are jointly and severally liable for any taxes payable by the Fiscal Unity.

The Company has entered into a tax sharing agreement with BATIH, pursuant to which BATIH assumes the economic ownership of all tax expenses of the Company related to the potential future settlement of tax exposures (and others as they may arise).

The estimated costs of known tax obligations have been provided in these accounts in accordance with the Company's accounting policies.

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Notes to the 2017 financial statements

NOTE 5 ~ STAFFING

The Company does not have any employees.

The Directors hereby approve the financial statements

J E P Bollen

D P I Booth

H M J Lina

J C Nooij

N A Wadey

M Wiechers

22 February 2018

Handelsweg 53 A, 1181 ZA
Amstelveen
The Netherlands

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

Other information

Independent auditor's report

The report of the independent auditors, KPMG Accountants N.V., is set out on the following pages.

Provisions in the Articles of Association governing the appropriation of profit

In accordance with Article 19 of the Company's Articles of Association, the result for the year is at the disposal of the General Meeting of Shareholders.



Independent auditor's report

To: the General Meeting of Shareholders of B.A.T. Netherlands Finance B.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2017 of B.A.T. Netherlands Finance B.V., based in Amstelveen.

In our opinion the accompanying financial statements give a true and fair view of the financial position of B.A.T. Netherlands Finance B.V. as at 31 December 2017, and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- 1 the balance sheet as at 31 December 2017;
- 2 the profit and loss account for 2017; and
- 3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of B.A.T. Netherlands Finance B.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

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

Report on the other information included in the financial report

In addition to the financial statements and our auditor's report thereon, the financial report contains other information that consists of:

— other information.

Based on the following procedures performed, we conclude that the other information is consistent with the financial statements and does not contain material misstatements.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.



By performing these procedures, we comply with the requirements of the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information.

Description of the responsibilities for the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;



- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amstelveen, 22 February 2018

KPMG Accountants N.V.

S. de Vree RA