BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Annual General Meeting of Shareholders: 26 April 2018

Contents

Balance sheet as at 31 December 2017

Before appropriation of result		2017		2016	
All amounts in EUR'000	Notes				
Fixed assets					
Financial fixed assets	1	4,183,588		4,149,879	
Total fixed assets			4,183,588		4,149,879
Current assets					
Receivables	2	27,082		98,440	
Total current assets			27,082		98,440
Total assets			4,210,670		4,248,319
Shareholders' equity	3				
Issued capital		112,502		112,502	
Share premium account		3,837,000		3,837,000	
Other reserves		211,926		197,840	
Unappropriated profit		36,175		88,775	
			4,197,603		4,236,117
Provisions	4		1,254		3,190
Current liabilities	5		11,813		9,012
			4,210,670		4,248,319

Profit & loss account for the year 2017

	Notes	2017	2016
All amounts in EUR'000			
Income from participating interests		725,884	583,822
Financial income	7	12	15
Financial expense	7	--	(12,466)
Net financial and investment income		725,896	571,371
General and administrative expenses	8	(4,731)	(3,722)
(Reversal of) impairment losses	1	30,000	--
Profit before tax		751,165	567,649
Taxation (expense)/benefit	9	1,078	43,426
Profit after tax		752,243	611,075

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 33236251 in the Trade Register. 100% of the shares of the Company are held by British American Tobacco International (Holdings) B.V. ("BATIH").

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 Whales. 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 and holding 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) Application of Section 408(1), Book 2 of the Netherlands Civil Code

The company applies the intermediate consolidation exemption pursuant to Section 2:408(1) of the Netherlands Civil Code. The financial data of the Company and of the companies that it should consolidate are included in the consolidated financial statements of BAT plc. BAT plc has filed consolidated financial statements with the trade register of the Chamber of Commerce in Amsterdam.

(e) 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 in to account in this assessment.

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.

Financial fixed assets

In accordance with Article 2:389 Paragraph 9 of the Dutch Civil Code and due to the application of Article 2:408, shares in subsidiaries are stated at cost less impairment losses.

Impairments of financial fixed assets

Investments in subsidiaries are assessed at each reporting date whether there is any indication of an impairment. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount is the higher of value in use and net realisable value. If it is not possible to assess the recoverable amount for an individual asset, the recoverable amount is assessed for the cash-generating unit to which the asset belongs.

Impairments of financial fixed assets - continued

When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, an impairment loss is recognised for the difference between the carrying amount and the recoverable amount. If there is an impairment loss for a cash-generating unit, the loss is first allocated to goodwill allocated to the cash-generating unit. Any residual loss is allocated to the other assets of the unit pro rata to their book values.

Subsequently, at each reporting date, the Company assesses whether there is any indication that an impairment loss that was recorded in previous years has been decreased. If any such indication exists, then the recoverable amount of the asset or cash-generating unit is estimated.

Reversal of a previously recognised impairment loss only takes place when there is a change in the assessment used to determine the recoverable amount since the recognition of the last impairment loss. In such case, the carrying amount of the asset (or cash- generating unit) is increased to its recoverable amount, but not higher than the carrying amount that would have applied (net of depreciation) if no impairment loss had been recognised in previous years for the asset (or cash-generating unit).

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.

The purchase of own shares is deducted from the other reserves.

Share premium

Amounts contributed by the shareholder of the Company in excess of the nominal share capital are accounted for as share premium. This also includes additional capital contributions by the existing shareholder without the issue of shares or issue of rights to acquire or acquire shares of the Company.

Costs and capital taxes associated with the issue of shares that are not capitalized are deducted from share premium, after taken into account tax effects. If the share premium is insufficient for such deductions, the amounts are deducted from retained earnings.

Provisions

A provision is recognised if the following applies: the Company has a legal or constructive obligation, arising from a past event; the amount can be estimated reliably; and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Rights and obligations resulting from contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent, are not recognised. Recognition occurs when the consideration to be received is not (or no longer) in balance with the performance obligation of the Company and this imbalance has adverse effects for the Company.

Provisions - continued

If all or part of the payments that are necessary to settle a provision are likely to be fully or partially compensated by a third party upon settlement of the provision, then the compensation amount is presented separately as an asset.

Provisions are measured at the nominal value of the best estimate of the expenditures that are expected to be required to settle the liabilities and losses.

Provision for restructuring costs

A restructuring provision is recognised when at the balance sheet date, the entity has a detailed formal plan, and ultimately at the date of preparation of the financial statements a valid expectation of implementation of the plan has been raised in respect of those that will be impacted by the reorganization. A valid expectation exists when the implementation of the reorganization has been started, or when the main elements of the plan have been announced to those for whom the reorganization will have consequences.

The provision for restructuring costs includes the costs that are directly associated with the restructuring, which are not associated with the ongoing activities of the Company.

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.

Employee benefits

Employee benefits are charged to the profit and loss account in the period in which the employee services are rendered and, to the extent not already paid, as a liability on the balance sheet. If the amount already paid exceeds the benefits owed, the excess is recognised as a current asset to the extent that there will be a reimbursement by the employees or a reduction in future payments by the Company.

Pensions

The Company, along with other British American Tobacco Group subsidiaries in the Netherlands, provides a pension scheme to its employees through a group defined benefit scheme (the “DBS”) established with Stichting Pensioenfonds British American Tobacco. For joiners after 1 January 2010, a defined contribution scheme (“DCS”) has been established, which is executed by an insurance company. In addition, on 31 December 2016, the Company has entered into an existing re-insured contract for the Britamer pension scheme (“Britamer”) previously entered into by another affiliated group company, under which contributions are due for yearly indexation (the DBS, DCS and Britamer together, “the Funds”).

The Company accounts for pensions in accordance with RJ 271.3.

The pension charge that is recognised for the reporting period is equal to the pension contributions payable to the pension providers over the period. In so far as the payable contributions have not yet been paid as at balance sheet date, a liability is recognised. If the contributions already paid at balance sheet date exceed the payable contributions, a receivable is recognised to account for any repayment by the Funds or settlement with contributions payable in future.

If, based on the administration agreement with respect to the DBS, there is an obligation for additional funding at balance sheet date, a provision is recognised when it is probable that the measures, which are necessary for the recovery of the existing funding ratio at balance sheet date, will result in an outflow of resources and the amount thereof can be estimated reliably. Pension contributions are calculated based on the pensionable salary as per 1 January of each year.

Pensions – continued

In addition, a provision is included as at balance sheet date for existing additional commitments to the Funds and the employees, provided that it is probable that there will be an outflow of funds for the settlement of the commitments and it is possible to reliably estimate the amount of the commitments. The existence or non-existence of additional commitments is assessed based on the administration agreement concluded with the fund, the pension agreement with the employees and other (explicit or implicit) commitments to the employees. The provision is stated at the best estimate of the present value of the anticipated costs of settling the commitments as at balance sheet date.

For any surplus at the DBS pension provider as at balance sheet date, a receivable is recognised if it is likely that the surplus will flow to the Company and if the receivable can be reliably determined.

Income from participating interests

Dividends from participating interests that are carried at cost, are recognised as income from participating interests in the period in which the dividends are received in cash.

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.

Notes to the 2017 financial statements

All amounts in EUR'000

NOTE 1 ~ FINANCIAL FIXED ASSETS

The financial fixed assets relate to direct investments in the following subsidiary undertakings are stated at cost net of any impairments.

Name	Statutory Seat	% Holding
Allen & Ginter (UK) Limited	London	100
British American Tobacco European Operations Centre B.V.	Amsterdam	100
British American Tobacco International Europe (Nederland) B.V.	Amsterdam	100
The Raleigh Investment Company Limited	Douglas, Isle of Man	100
B.A.T. Netherlands Finance B.V.	Amstelveen	100

Movements in investments in subsidiaries are as follows:

At 31 December 2016	4,149,879
(Reversal of) impairment losses	30,000
Share premium subscriptions	3,709
At 31 December 2017	4,183,588

The cumulative amount of impairment losses related to The Raleigh Investment Company Limited amounting to EUR 30,000 as at 31 December 2016 have been reversed and accounted for as a gain in the Company's profit & loss account, following management's assessment of the recoverable amount.

The cumulative amount of impairment losses amounts to EUR 0 as at 31 December 2017 (2016: EUR 30,000).

During the year, the Company subscribed to additional share premium in the aggregate amount of EUR 3,709 in its wholly owned subsidiary British American Tobacco International Europe (Nederland) B.V..

NOTE 2 ~ RECEIVABLES

	31 December 2017	31 December 2016
Receivables from affiliated companies	27,017	21,499
Corporate taxation receivable from the shareholder	--	76,855
Other receivables	65	86
	27,082	98,440

Included in receivables is an amount of EUR nil that is not due within one year (2016: EUR nil).

Receivables from affiliated companies include EUR 26,191 (2016: EUR 20,307) of interest bearing loans and deposits that are unsecured and repayable on demand. The interest rate is mainly based on EURIBOR, taking into consideration the length and amount of the loans and deposits. Receivables due from affiliated companies include an amount of EUR nil (2016: EUR nil) due from the shareholder. Other amounts are unsecured, interest free and repayable on demand.

Notes to the 2017 financial statements

All amounts in EUR'000 except share capital and profit distribution details

NOTE 3 ~ SHAREHOLDER'S EQUITY

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

	Issued capital	Share premium account	Other reserves	Unappr. profit	Total
At 31 December 2016	112,502	3,837,000	197,840	88,775	4,236,117
Dividend relating to 2016	--	--	--	(74,689)	(74,689)
Appropriation of profit	--	--	14,086	(14,086)	--
Profit for the year	--	--	--	752,243	752,243
Interim dividends	--	--	--	(716,068)	(716,068)
At 31 December 2017	112,502	3,837,000	211,926	36,175	4,197,603

The Company's authorised capital amounts to EUR 135,000,000 and consists of 300,000 ordinary shares of EUR 450 each. The Company's issued capital amounts to EUR 112,501,800 and consists of 250,004 ordinary shares of EUR 450 each.

Interim dividends of, in the aggregate, EUR 716,068,000 were declared and paid during the year out of current year's profit to the sole shareholder.

Proposed profit appropriation

At the Annual General Meeting, it will be proposed to transfer the remaining profit for the year in the amount of EUR 36,174,814 to other reserves. The 2017 profit after tax is presented as unappropriated profit in shareholders' equity.

NOTE 4 ~ PROVISIONS

	31 December 2017	31 December 2016
Restructuring provision	1,254	3,190
	1,254	3,190
At 31 December	3,190	3,355
Additions	388	--
Utilised	(2,324)	(165)
At 31 December	1,254	3,190

The restructuring provision is recognised at the nominal value of the expected settlement or cash outflow and is expected to be settled within one year.

All amounts in EUR'000

NOTE 5 ~ CURRENT LIABILITIES

	31 December 2017	31 December 2016
Payables to affiliated companies	1,769	6,678
Wage tax and social security charges payable	73	253
Corporate taxation payable to the shareholder	8,083	--
Other payables	1,888	2,081
	11,813	9,012

Included in current liabilities is an amount of EUR nil that is not due within one year (2016: EUR nil).

Included in payables to affiliated companies is EUR 100 (2016: EUR 100), which incurs interest based on EURIBOR 1M. Other amounts are unsecured, interest free and repayable on demand.

NOTE 6 ~ CONTINGENT LIABILITIES

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

Guarantees

Since acceding to the British American Tobacco EMTN Programme as an issuer and guarantor in 2003, the Company, together with British American Tobacco p.l.c. ("BAT plc"), B.A.T. International Finance p.l.c. ("BATIF plc"), B.A.T. Netherlands Finance B.V. ("BATNF"), 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 all 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.

The Company, together with BAT plc and BATNF, guarantees five series of notes totalling USD 4,500 million (2016: USD 5,100 million), and together with BAT plc only, guarantees one series of notes totalling USD 900 million (2016: USD 900 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, BATNF 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.

NOTE 6 ~ CONTINGENT LIABILITIES – continued

Taxation

Until 31 December 2012, the Company was head of the fiscal unity British American Tobacco Holdings (The Netherlands) B.V.. As from 1 January 2013, the Company forms part of the fiscal unity headed by BATIH (the "Fiscal Unity"). The head of the Fiscal Unity is the taxpayer of the Fiscal Unity and settles taxes directly with affiliated Fiscal Unity companies via the Group's intercompany netting procedure. Under the Dutch Collection of State Taxes Act, all Fiscal Unity Members are jointly and severally liable for any taxes payable by that 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) as summarized below. BATIH as parent company of the Fiscal Unity has a right to request an early settlement of the gross tax position accounted for in the books of the Fiscal Unity Companies. The gross tax position includes the full amount of temporary differences, carry forward losses and recapture obligations recorded in the books of the Fiscal Unity Members and is independent of (future) taxable income available of the Fiscal Unity Member(s).

The Company, as the previous head of the fiscal unity, is exposed to various pending issues with the Dutch Tax Authorities ("DTA") involving material amounts covering the years 2003 to 2012. The DTA has issued (additional) assessments for all these years in the total sum of EUR 181.6 million to cover tax, interest and penalties. The assessments relate to a number of intra-group transactions, including guarantee and factoring fees, loan interest and product pricing.

Detailed objection letters have been filed against the (additional) assessments for the years 2003 through 2012. Subsequently, the objections for the years 2003 through 2010 have been rejected by the DTA. For the years 2011 and 2012 the decision by the DTA is expected shortly.

The Company believes that it has meritorious defences in law and will now pursue the disputes through the judicial system as necessary.

On 5 April 2018 the Company filed a notice of appeal with the District Court of North Holland, Haarlem, covering the years 2008 through 2010. For the years 2003 through 2007 notice of appeal is expected to be filed in May 2018.

Based on the tax sharing agreement and as the Company believes that it has meritorious defences in law, the Board does not consider it appropriate to make any provisions for the assessed amounts.

The Fiscal Unity is exposed to similar transfer pricing challenges, as well as other tax matters, in respect of the years 2013 to 2016, which involve material amounts which are subject to uncertainties and complexities.

Notes to the 2017 financial statements

All amounts in EUR'000

NOTE 7 ~ NET FINANCIAL INCOME/EXPENSE

	2017		2016	
	Financial income	Financial expense	Financial income	Financial expense
Financial income/(expense) to affiliated companies	--	--	15	(21,957)
Financial result from long-term debt instruments	--	--	--	88,441
Foreign exchange gains/(losses)	12	--	--	2,662
Loss on repayment of long-term liabilities	--	--	--	(81,612)
	12	--	15	(12,466)

Transactions with affiliated companies are at market rates.

Financial expense to affiliated companies in 2016 included interest on long term debts of EUR 13,010 and commitment and guarantee fees of EUR 8,947.

Financial result from long-term debt instruments in 2016 of EUR 88,441 included the financial results realised on interest rate swaps of EUR 1,975, a cross currency swap of EUR 11,688 and a fair value gain realised from the novation of the interest rate swaps of EUR 74,778.

NOTE 8 ~ GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Salaries and wages	1,825	3,057
Social security	105	263
Defined benefit pension contributions	507	795
Defined contribution pension cost	86	164
Other expenses	2,818	4,307
Recharges to group companies	(610)	(4,864)
	4,731	3,722

During the 2017 financial year, the average number of staff employed at the company, converted into full-time equivalents, amounted to 10 (2016: 30). The decrease in number of employees and the related costs and recharges included under general and administrative expenses in 2017 is a consequence of the termination of certain services provided by the Company to affiliated companies in 2016.

Notes to the 2017 financial statements

All amounts in EUR'000

NOTE 9 ~ TAXATION

	2017	2016
Profit before tax	751,165	567,649
Applicable tax 25%	187,791	141,912
Exempt dividend income	(181,471)	(145,956)
Allowance for unrecoverable deferred tax asset	--	(39,574)
Non-taxable (reversal of) impairment losses	(7,500)	--
Non-deductible expenses	102	163
Prior year adjustments	--	29
Tax expense/(benefit)	(1,078)	(43,426)
Effective tax rate	(0.1)%	(7.7)%

The Company forms part of the Fiscal Unity of BATIH. The effective tax rate in 2017 differs from 2016 mainly due to the effect of the amended application of the tax sharing agreement within the fiscal unity in 2016, to which the Company belongs. Under the amended application BATIH as parent company of the fiscal unity exercised its right to an early settlement of the gross deferred tax position. As a consequence, the allowance for the unrecoverable deferred tax asset was reversed and a gain of EUR 39,574 has been recorded in the 2016 profit & loss account.

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

Amstelveen, 26 April 2018

Handelsweg 53 A, 1181 ZA
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The Netherlands

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 British American Tobacco Holdings (The Netherlands) B.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2017 of British American Tobacco Holdings (The Netherlands) B.V., based in Amstelveen.

In our opinion the accompanying financial statements give a true and fair view of the financial position of British American Tobacco Holdings (The Netherlands) 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 British American Tobacco Holdings (The Netherlands) 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 represent 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, 26 April 2018

KPMG Accountants N.V.

M.G. Schönhage RA