



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



**ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2016**

Annual General Meeting of Shareholders: 24 February 2017

Document to which the KPMG report (1121670/  
17W00148752AVN) dated 24 February 2017 also refers.

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

## Contents

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	page
Directors' report	3
Financial statements:	
- Balance sheet as at 31 December 2016	7
- Profit & loss account for the year 2016	8
- Notes to the balance sheet and profit & loss account	9
Other information	24
Independent auditor's report	25

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

## Directors' report

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### INTRODUCTION

The directors submit their annual report for British American Tobacco Holdings (The Netherlands) B.V. (the "Company") for the year ended 31 December 2016. These are to be presented at the Annual General Meeting to be held on 24 February 2017. The financial statements of the Company are presented on pages 7 to 23.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is that of an intermediate holding and financing company, whose (indirect) subsidiary undertakings are primarily engaged in the manufacture, distribution and sale of tobacco products, including cigarettes and fine cut tobacco.

### PARENT UNDERTAKINGS

The Company is a wholly-owned subsidiary undertaking of British American Tobacco International (Holdings) B.V., Amsterdam, the Netherlands. The Company's ultimate parent undertaking is British American Tobacco p.l.c., London, United Kingdom, a public limited company incorporated in England and Wales and registered as an external company in the Republic of South Africa. The credit rating of British American Tobacco p.l.c. by Moody's is P2/Baa2 stable, and by S&P Global A2/BBB+ stable.

### THE DIRECTORS

The present Directors of the Company are:

J E P Bollen  
D P I Booth  
H M J Lina  
J C Nooij  
N A Wadey  
M Wiechers

### CHANGE IN ACCOUNTING POLICY

Until 1 January 2016, the Company accounted for pensions in accordance with IAS 19 Employee Benefits (revised 2011). Since the principal activity of the Company is that of a holding and finance company in combination with the preference of the Raad voor de Jaarverslaggeving, the Company decided to change its accounting policy for pensions and to apply the policy for pensions in accordance with RJ 271.3.

The change in accounting policy has been accounted for retrospectively per 31 December 2015 and comparative figures for the year 2015 have been adjusted.

Based on the new accounting policy, the pension liability has been calculated at 1 January 2015 for an amount of EUR nil. The previously reported pension liability of EUR 6,498 thousand and deferred tax asset of EUR 1,625 thousand have been reversed through other reserves as part of shareholders' equity in the net amount of EUR 4,873 thousand.

The impact of the change in accounting policy on the previously reported profit for the year 2015 was increased by EUR 127 thousand net of deferred taxation of EUR 42 thousand from EUR 544,389 thousand to EUR 544,516 thousand. Pension assets and the related deferred tax liability previously reported at 31 December 2015 of EUR 27,304 thousand and EUR 6,826 thousand have been reversed and a net pension liability of EUR nil per 31 December 2015 has been recorded. The net effect on other reserves per 31 December 2015 is EUR 20,478 thousand.

The impact of the change in accounting policy on the net profit for the year 2016 was a decrease in profit of EUR 218 thousand and a net decrease in shareholders' equity of EUR 35,537 thousand.



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

## Directors' report

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### RESULTS FOR THE YEAR

The profit after tax of the Company for the year 2016 amounted to EUR 611.1 million (2015: EUR 544.5 million). The increase in profit of EUR 66.7 million is primarily due to higher taxation benefit of EUR 71.4 million, lower financing cost of EUR 27.3 million and lower overheads of EUR 4.0 million, partly offset by lower dividend income received from subsidiaries of EUR 36.0 million.

Lower dividend income received from the Company's Dutch (indirect) trading subsidiaries and Allen & Ginter (UK) Limited are partly offset by higher dividends received from the Company's indirect subsidiaries in Russia and Australia. In Russia profit was significantly higher, driven by good pricing and an increase in volume more than offsetting the continuing adverse impact of foreign exchange on cost of sales. Market share continued to grow strongly, driven by another excellent performance by Rothmans with Kent premium segment share increasing. In Australia, market share returned to growth, driven by Rothmans. Pricing in the second half of the year was offset by lower volume due to the market contraction and down-trading, leading to a reduction in profit.

Following capitalisation of the Company during the year by its sole shareholder in the aggregate amount of EUR 3,455.3 million, the Company repaid its euro denominated debt on 13 April 2016 for an amount of EUR 3,029.4 million and its GBP denominated debt on 15 September 2016 for an amount of EUR 473.3 million, resulting in lower net financing cost of EUR 27.3 million. The repayment resulted in a fair value gain realised from the novation of the interest rate swaps of EUR 74,778 and a loss of repayment of long-term liabilities EUR 81,612 representing the difference between the carrying value and the settlement value.

Higher taxation benefits of EUR 71.4 million are mainly due to an amended application of the tax sharing agreement within the fiscal unity to which the Company belongs, effective per 1 January 2016. Under the amended application, the head of the fiscal unity, British American Tobacco International (Holdings) B.V. exercised its right to an early settlement of the gross deferred tax position recorded in the Company and this has resulted in the recognition of a gain of EUR 39.6 million which has been recorded in the 2016 profit & loss account of the Company.

### DIVIDENDS

Interim dividends of, in the aggregate, EUR 522.3 million were declared and paid during the year. On 19 January 2017, the Company paid an additional interim dividend in the amount of EUR 74.7 million out of 2016 profits. The Directors recommend to transfer the remaining profit for the year of EUR 14.1 million to other reserves.

### RISK ANALYSIS

The Company periodically reviews the risks that are associated with its operations and has put in place a robust system of internal control and processes designed to safeguard shareholders' investment and the Company's assets. These are designed to manage risks that may impede the achievement of the Company's objectives rather than to eliminate these risks and can therefore provide only reasonable, not absolute, assurance against material misstatement or loss.

The main risks and uncertainties to which the Company is exposed can be summarised as follows:

#### **The Company is dependent on its subsidiaries for dividend income.**

The ability of the Company's (indirect) subsidiaries to make dividends payments will depend on their cash flows and earnings which, in turn, will be affected by business performance factors. In addition, under the corporate law of many jurisdictions, the ability of some subsidiaries to pay dividends is limited to the amount of distributable reserves of such companies and by foreign exchange restrictions imposed by respective governments.

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

## Directors' report

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### EMTN programme

The Company, together with British American Tobacco p.l.c., B.A.T. International Finance p.l.c. and, since 16 May 2014, B.A.T. Netherlands Finance B.V. guarantees, as applicable, all notes issued under the EMTN Programme. The risks associated with the Notes are disclosed in the annually updated prospectus in respect of the EMTN programme, available from the London Stock Exchange.

### Exposures resulting from participation in the defined benefit scheme (the "DBS") established with Stichting Pensioenfonds British American Tobacco (the "Fund")

The contributions to the Fund's defined benefit scheme and its valuations are determined in accordance with the advice of independent, professionally qualified actuaries. Changes in asset returns, salary increases, inflation, long-term interest rates and other actuarial assumptions could have an adverse impact on the Company's financial contributions due to the DBS.

### CASH FLOW AND BORROWINGS

The Company has sufficient access to funds from dividends paid by its subsidiary undertakings and borrowings from affiliated companies.

### LIQUIDITY AND SOLVENCY

The Company's liquidity and solvency position is reviewed periodically to ensure that the Company is able to meet its obligations. Excluding the current portion of long-term liabilities, the Company's liquidity ratio is 10.92 (2015: 1.35). The solvency ratio is 0.003 (2015: 0.83).

### FINANCING AND RISK MANAGEMENT

It is the Company's policy to maximise financial flexibility and minimise refinancing risk by entering into debt with affiliated companies with a range of maturities.

The Company uses a cash pooling facility in line with Group policies. As a further part of the Company's liquidity risk management, the Company has access to a GBP 3,000 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. The board of the Company proposed and agreed in a meeting on 24 November 2016, to enter into a new revolving credit facility for up to GBP 6,000 million, together with other BAT group companies, to meet the liquidity requirements of the enlarged Group following the completion of the agreed merger with Reynolds American Inc. (the "Merger"). On 20 January 2017, the Company became a party to a GBP 5,680 million forward starting revolving credit facilities as one of the borrowers and with BAT plc as guarantor. The facilities will become effective upon the completion of the Merger when the existing GBP 3,000 million Revolving Credit Facility dated 29 May 2014 will be cancelled.

### EMPLOYEES

The average number of employees decreased from 34 in 2015 to 30 in 2016. The number of employees is expected to reduce further to 9 employees by the end of 2017 as a result of the termination of the provision of certain services provided by the Company to affiliated group companies.

### RESEARCH AND DEVELOPMENT ACTIVITIES

The Company does not undertake research and development activities.



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

## Directors' report

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### OUTLOOK

With the broad geographic spread of the businesses of the Company's indirect subsidiaries covering the Netherlands, Western and Eastern Europe, Australasia and South America prospects for the future remain sound. There are no significant changes anticipated in respect of the Company's subsidiaries held, dividend income or the financing structure of the Company.

### REGISTERED OFFICE

Handelsweg 53 A, 1181 ZA Amstelveen  
Registered in Amsterdam (No. 33236251)

### INDEPENDENT AUDITOR

KPMG Accountants N.V.

On behalf of the Board

M Wiechers

J E P Bollen

Amstelveen, 24 February 2017

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

### Balance sheet as at 31 December 2016

Before appropriation of result	2016	2015
All amounts in EUR'000	Notes	
<b>Financial fixed assets</b>		
Investments in subsidiaries	2	4,149,879
Deferred tax asset	3	--
		4,094,879
		54,913 *
<b>Total financial fixed assets</b>		<b>4,149,879</b>
		<b>4,149,792</b>
<b>Current assets</b>		
Receivables	4	98,440
		89,929
<b>Total current assets</b>		<b>98,440</b>
		<b>89,929</b>
<b>Current liabilities</b>	5	(9,012)
		(580,091)
<b>Current assets less current liabilities</b>		<b>89,428</b>
		<b>(490,162)</b>
<b>Total assets less current liabilities</b>		<b>4,239,307</b>
		<b>3,659,630</b>
<b>Long-term liabilities</b>		
	6	--
		2,964,280
Other provisions	8	3,190
		3,355
<b>Total provisions</b>		<b>3,190</b>
		<b>3,355</b>
<b>Shareholder's equity</b>		
	9	
Issued capital		112,502
Share premium account		3,837,000
Other reserves		197,840
Unappropriated profit		88,775
		112,502
		381,653
		162,817 *
		35,023 *
		4,236,117
		691,995
		4,239,307
		3,659,630

\* Due to a change in accounting policy, the 2015 comparative figures have been changed as set out in note 1(f) below

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

### Profit & loss account for the year 2016

		2016	2015
All amounts in EUR'000	Notes		
Dividend income		583,822	619,824
Financial income	10	15	103
Financial expense	10	(12,466)	(39,733)
		571,371	580,194
<b>Net financial and investment income</b>		<b>571,371</b>	<b>580,194</b>
General and administrative expenses	11	(3,722)	(7,700)*
		567,649	572,494
<b>Profit before tax</b>		<b>567,649</b>	<b>572,494</b>
Taxation (expense)/benefit	12	43,426	(27,978)*
		611,075	544,516
<b>Profit after tax</b>		<b>611,075</b>	<b>544,516</b>

\* Due to a change in accounting policy, the 2015 comparative figures have been changed as set out in note 1(f) below



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

## Notes to the balance sheet and profit & loss account

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### NOTE 1 ~ BASIS OF PREPARATION AND ACCOUNTING POLICIES

#### (a) Principal activities

The Company is registered in Amsterdam and acts principally as an intermediate holding and financing company. Its registered address is Handelsweg 53 A, 1181 ZA Amstelveen. The Company is registered at the Chamber of Commerce in Amsterdam under registration number 33236251.

#### (b) Financial year

The financial year of the Company commences on 1 January and ends on 31 December.

#### (c) Parent undertakings

The Company is a wholly-owned subsidiary undertaking of British American Tobacco International (Holdings) B.V. ("BATIH"), Amsterdam, the Netherlands. The Company's ultimate parent undertaking is British American Tobacco p.l.c. ("BAT plc"), London, United Kingdom, a public limited company incorporated in England and Wales and registered as an external company in the Republic of South Africa.

The Company applies Article 2:408 of the Dutch Civil Code. In accordance with this, the accounts of the Company and its subsidiary undertakings are included in the group report and accounts of BAT plc.

Copies of the group report and accounts of BAT plc are available at [www.bat.com](http://www.bat.com).

#### (d) Related parties

All subsidiaries, associates and joint ventures of BAT plc are considered to be a related party. Entities which can control the Company are also considered a related party. In addition, the Company's pension fund, the statutory directors and other key management (and their close relatives) of both the Company and its parent undertakings are regarded as related parties.

Significant transactions with related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information is disclosed if this is required to provide a true and fair view.

#### (e) Cash flow statement

BAT plc, the ultimate parent company, has filed consolidated accounts with the trade register of the Chamber of Commerce in Amsterdam, which include a consolidated cash flow statement. Accordingly, the Company has not included a cash flow statement in its statutory financial statements.

#### (f) Accounting policies

The financial statements have been prepared in accordance with the provisions of Book 2, Title 9 of the Dutch Civil Code. 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.

Other than set out below, the principal policies of the Company have been consistently applied in all years presented.

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

## Notes to the balance sheet and profit & loss account

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### Changes in accounting policy

Until 1 January 2016, the Company accounted for pensions in accordance with IAS 19 Employee Benefits (revised 2011). Since the principal activity of the Company is that of a holding and finance company in combination with the preference of the Raad voor de Jaarverslaggeving, the Company decided to change its accounting policy for pensions and to apply the policy for pensions in accordance with RJ 271.3.

The change in accounting policy has been accounted for retrospectively per 31 December 2015 and comparative figures for the year 2015 have been adjusted. Based on the new accounting policy, the pension liability has been calculated at 1 January 2015 for an amount of EUR nil. The previously reported pension liability of EUR 6,498 thousand and deferred tax asset of EUR 1,625 thousand have been reversed through other reserves as part of shareholders' equity in the net amount of EUR 4,873 thousand.

The impact of the change in accounting policy on the previously reported profit for the year 2015 was increased by EUR 127 thousand net of deferred taxation of EUR 42 thousand from EUR 544,389 thousand to EUR 544,516 thousand. Pension assets and the related deferred tax liability previously reported at 31 December 2015 of EUR 27,304 thousand and EUR 6,826 thousand have been reversed and a net pension liability of EUR nil per 31 December 2015 has been recorded. The net effect on other reserves per 31 December 2015 is EUR 20,478 thousand.

The impact of the change in accounting policy on the net profit for the year 2016 was a decrease in profit of EUR 218 thousand and a net decrease in shareholders' equity of EUR 35,537 thousand.

### Going concern

These financial statements have been prepared on the basis that the Company will be able to continue as a going concern.

### Method of valuation

The financial statements have been prepared on the basis of historical costs. Unless otherwise stated in the notes, all assets and liabilities are stated at values at which they were acquired or incurred less any impairment. The balance sheet and profit & loss account include references to the notes.

### Prior-year comparison

The accounting policies have been consistently applied to all the years presented.

### Estimates

The preparation of the financial statements requires the use of estimates. It also requires management to exercise judgement in applying the Company's accounting policies. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed periodically. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences. If necessary for the purposes of providing the view required under Section 362(1), Book 2, of the Dutch Civil Code, the nature of these estimates and judgements, including the related assumptions, is disclosed in the notes to the financial statement items in question.

### Foreign currency

#### Functional currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in euro, which is the functional currency of the Company. All financial information in euro has been rounded to the nearest thousand.



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

## Notes to the balance sheet and profit & loss account

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### Transactions, receivables and liabilities

Foreign currency transactions in the reporting period are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates are recognised in the profit & loss account.

### Investments in subsidiary undertakings

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. Dividend income is recognised when dividends are declared.

### Impairment of financial fixed assets

At each balance sheet date, the Company tests whether there are any indications of assets being subject to impairment. If any such indications exist, the recoverable amount of the asset is determined. If this proves to be impossible, the recoverable amount of the cash generating unit to which the asset belongs is identified. An asset is subject to impairment if its carrying amount exceeds its recoverable amount; the recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Fair value less costs to sell is determined based on the active market. An impairment loss is directly expensed in the income statement.

At each balance sheet date, the Company assesses whether there is any indication that an impairment loss that was recorded in previous years has decreased. If it is established that a previously recognised impairment loss no longer applies or has declined, the increased carrying amount of the assets in question is not set any higher than the carrying amount that would have been determined had no asset impairment been recognised.

### Impairment of other financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, the impairment loss is determined and recognised in the income statement.

### Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, on the basis of the effective interest method, less impairment losses.

The Company assesses at each balance sheet date whether there is objective evidence that a receivable or a group of receivables is impaired. If any such evidence exists, the impairment loss is determined and recognised in the income statement. Objective evidence includes default or delinquency of a debtor. If payment of the receivable is postponed under an extended payment deadline, fair value is measured on the basis of the discounted value of the expected amounts. When a receivable is uncollectible, it is written off against the allowance account for receivables.

### Liabilities (including long-term liabilities)

Liabilities are initially recognised at fair value, net of transaction costs incurred. Liabilities are subsequently stated at amortised cost, being the amount received taking account of any premium or discount, less transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit & loss account over the period of the liabilities using the effective interest method.



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

## Notes to the balance sheet and profit & loss account

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Liabilities are derecognised when a transaction results in a major change of the economic reality with respect to the liability and a transfer of all or substantially all of the risks related to the liability. The difference between the carrying value and the fair value of the liability at the transaction date is recognised in the profit and loss account as part of 'financial income and expense'. Long-term liabilities include borrowings of more than one year's remaining duration.

### Provisions

Provisions are recognised for legally enforceable or constructive obligations existing at the balance sheet date, the settlement of which is probable to require an outflow of resources whose extent can be reliably estimated. Provisions are measured on the basis of the best estimate of the amounts required to settle the obligations at the balance sheet date. Unless indicated otherwise, provisions are stated at the present value of the expenditure expected to be required to settle the obligations.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

### Equity

Dividends are recognised as a liability when they are declared. Amounts received from shareholders in excess of the nominal value of shares issued are recognised as share premium, net of transaction costs.

### Finance income and expense

Interest income and expense is recognised on a time-weighted basis, taking account of the effective interest rate of the assets and liabilities concerned. When recognising interest expense, transaction costs on loans received are considered as part of the calculation of effective interest.

### General and administrative expenses

Costs are recognised on the historical cost convention and are allocated to the reporting year to which they relate.

### Employee benefits

Salaries, wages and social security contributions are recognised in the profit & loss account in the period that services are rendered by employees, in accordance with the terms of employment. Amounts charged to the Company in respect of share schemes of the ultimate parent are recognised as an expense in the period the services are rendered by the Company's employees.

### 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").

Until 1 January 2016, the Company accounted for pensions in accordance with IAS 19 Employee Benefits (revised 2011). From 1 January 2016, the Company has changed its accounting policy for pensions in accordance with RJ 271.3.



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

## Notes to the balance sheet and profit & loss account

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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, on the basis of 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.

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 on the basis of 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.

### Taxation and deferred tax assets and liabilities

Income tax is calculated based on the rates applicable in the Netherlands on the profit/loss before tax in the profit & loss account, taking into account any losses carried forward from previous financial years (where not included in deferred income tax assets) and tax-exempt items, and plus non-deductible expenses. Account is also taken of changes in deferred income tax assets and liabilities owing to changes in the applicable tax rates, to the extent these deferred taxes were not initially recognised in equity.

Deferred taxation arises from temporary differences between the recognition of certain items in the balance sheet for accounting and taxation purposes and is accounted for using the liability method in respect of all material temporary differences. Deferred tax liabilities and assets are measured at nominal value, using the tax rate prevailing at the balance sheet date or the rates that will apply in the future, insofar as these have substantively been enacted at the balance sheet date.

A deferred tax asset is recognised for deductible temporary differences, unused loss carry forwards and unused tax credits, to the extent taxable temporary differences are available or it is probable that future taxable profit will be available. A provision for deferred tax liabilities is recognised for taxable temporary differences.

Deferred tax assets are reviewed at each reporting date and recognised/reduced to the extent that it is probable/not probable that they will be recovered.

### (g) Financial instruments and risk management

The Company utilises derivative financial instruments to manage its financial risks. These include interest rate swaps and cross currency swaps. The counterparty for these financial instruments are fellow subsidiary treasury units of the British American Tobacco Group. It is the Company's policy that such instruments are only used where there is an identified underlying exposure.

Forward foreign currency contracts are used to hedge existing assets and liabilities. Cost price hedge accounting is applied for forward exchange contracts that are concluded to hedge monetary assets and liabilities denominated in foreign currencies. No revaluation of the derivative instrument takes place, as long as the derivative hedges the specific risk of a future transaction that is expected to take place. As soon as the expected future transaction leads to recognition in the profit and loss account, then the profit or loss that is associated with the derivative is recognised in the profit and



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

## Notes to the balance sheet and profit & loss account

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loss account. If the hedged position of an expected future transaction leads to the recognition in the balance sheet of a non-financial asset or a non-financial liability, then the cost of the asset is adjusted by the hedge results that have not yet been recognised in the profit and loss account.

The liabilities under foreign currency borrowings are swapped into floating EUR liabilities at fixed exchange rates with maturities consistent with the term of the liabilities. Cross currency swaps are accounted for in borrowings together with the related liabilities. Derivative financial instruments are stated at amortised cost after initial recognition at fair value. Financial instruments are stated at amortised cost. Amortisation is based on the effective interest rate method.

The Company documents the relationship between hedging instruments and hedged items at the inception of the transaction. The Company also tests its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The ineffective portion of the hedge is recognised directly in profit or loss. The Company discontinues prospectively the cost price hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting.

### Credit and price risk

The Company does not have any significant concentrations of credit and price risk.

### Interest rate and cash flow risk

The Company incurs interest rate risk on interest bearing receivables and on interest bearing long-term and current liabilities (including borrowings). Where floating interest loans and receivables are concerned, the Company incurs risk regarding future cash flows. In addition, the Company incurs risks on fixed interest loans and receivables with respect to the fair value due to changes in the market rate of interest. The Company has contracted interest rate swaps for specific fixed interest liabilities (borrowings), so that it receives fixed interest and pays floating interest.

### Currency risk

The Company is exposed to currency risk, mainly relating to long-term liabilities that are denominated in GBP. These liabilities were swapped to EUR using cross currency swaps, thereby effectively eliminating the GBP exposure.

### Liquidity risk

The Company uses a cash pooling facility in line with Group policies. As a further part of the Company's liquidity risk management, the Company has access to a GBP 3,000 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. The board of the Company proposed and agreed in a meeting on 24 November 2016, to enter into a new revolving credit facility for up to GBP 6,000 million, together with other BAT group companies, to meet the liquidity requirements of the enlarged Group following the completion of the agreed merger with Reynolds American Inc. (the "Merger"). On 20 January 2017, the Company became a party to a GBP 5,680 million forward starting revolving credit facilities as one of the borrowers and with BAT plc as guarantor. The facilities will become effective upon the completion of the Merger when the existing GBP 3,000 million Revolving Credit Facility dated 29 May 2014 will be cancelled.

### Determination of fair values

The fair value of a financial instrument is the amount for which an asset can be sold or a liability settled, involving parties who are well informed regarding the matter, willing to enter into a transaction and are independent from each other and is determined as follows: (i) listed financial instruments: on the basis of the exit price and (ii) non-listed financial instruments: discounting expected cash flows to present value, applying a discount rate that is equal to the current risk-free market interest rate for the remaining term, plus credit and liquidity surcharges.



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

### Notes to the balance sheet and profit & loss account

All amounts in EUR'000

The fair values of derivatives are determined based on market data (primarily yield curves, implied volatilities and exchange rates) to calculate the present value of all estimated flows associated with each derivative at balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives.

#### NOTE 2 ~ INVESTMENTS IN SUBSIDIARIES

The direct investments in the following subsidiary undertakings are stated at cost net of any impairments.

<u>Name</u>	<u>Statutory Seat</u>	<u>% Holding</u>
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 2015	4,094,879
Share premium subscriptions	55,000
	<hr/>

At 31 December 2016	4,149,879
---------------------	-----------

The cumulative amount of impairment losses amounts to EUR 30,000 as at 31 December 2016 (2015: EUR 30,000).

During the year, the Company subscribed to additional share premium in the aggregate amount of EUR 55,000 in its wholly owned subsidiary British American Tobacco International Europe (Nederland) B.V..

#### NOTE 3 ~ DEFERRED TAX ASSET/(LIABILITY)

	<u>31 December 2016</u>	<u>31 December 2015</u>
Deferred tax asset	--	54,913*
	<hr/>	<hr/>
	--	54,913
At 31 December 2015 previously reported	48,087	
Effect of change in accounting policy	6,826	
	<hr/>	
At 31 December 2015	54,913	
Reversal of previously recorded valuation allowance	39,574	
Utilised deferred tax	(94,487)	
	<hr/>	
At 31 December 2016	--	

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

\* Due to a change in accounting policy, the 2015 comparative figures have been changed as set out in note 1(f) above

### Notes to the balance sheet and profit & loss account

All amounts in EUR'000

#### NOTE 3 ~ DEFERRED TAX ASSET/(LIABILITY) (continued)

The amount of EUR 39,574 recognised in the profit & loss account is mainly due to the amended application of the tax sharing agreement within the fiscal unity to which the Company belongs, effective as per 1 January 2016. 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.

The current portion of the deferred tax asset/(liability) amounts to EUR nil (2015: EUR 17,299).

#### NOTE 4 ~ RECEIVABLES

	<u>31 December 2016</u>	<u>31 December 2015</u>
Receivables from affiliated companies	21,499	83,712
Corporate taxation receivable from the shareholder	76,855	6,194
Other receivables	86	23
	<hr/>	<hr/>
	98,440	89,929

Included in receivables is an amount of EUR nil that is not due within one year (2015: EUR nil).

Receivables from affiliated companies include EUR 20,307 (2015: EUR 82,837) 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. Amounts due from affiliated companies include an amount of EUR nil (2015: EUR 40) due from the shareholder. Other amounts are unsecured, interest free and repayable on demand.

#### NOTE 5 ~ CURRENT LIABILITIES

	<u>31 December 2016</u>	<u>31 December 2015</u>
Current portion of long-term liabilities to affiliated companies	--	513,490
Payables to affiliated companies	6,678	2,450
Interest payable on long-term liabilities to affiliated companies	--	61,806
Wage tax and social security charges payable	253	125
Other payables	2,081	2,220
	<hr/>	<hr/>
	9,012	580,091

Included in current liabilities is an amount of EUR nil that is not due within one year (2015: EUR nil).

Included in payables to affiliated companies is EUR 100 (2015: EUR 100), which incurs interest based on EURIBOR 1M. Other amounts are unsecured, interest free and repayable on demand.

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

### Notes to the balance sheet and profit & loss account

All amounts in EUR'000

#### NOTE 6 ~ LONG-TERM LIABILITIES

At 31 December 2015	3,477,770	
Exchange differences	(1,792)	
Amortisation of effective interest	(27,803)	
Loss on repayment of long-term liabilities	81,612	
Repayment of long-term liabilities	(3,529,787)	
	--	
At 31 December 2016	--	
	<u>31 December 2016</u>	<u>31 December 2015</u>
<b>Long-term liabilities to affiliated companies:</b>		
GBP 325 million 5.500% due 2016	--	454,107
EUR 600 million 4.000% due 2020	--	686,172
EUR 650 million 4.875% due 2021	--	780,588
EUR 750 million 2.375% due 2023	--	814,167
EUR 600 million 3.125% due 2029	--	683,353
	--	3,418,387
Long-term liabilities due to B.A.T. Netherlands Finance B.V.	--	3,418,387
EUR 27 million EURIBOR 3M + 130 bps due to BATIF	--	27,000
GBP 325 million Cross currency swap due to BATIF	--	32,383
	--	3,477,770
Less: Current portion	--	(513,490)
	--	2,964,280
	=====	=====

Effective 13 April 2016, the Company repaid all its euro denominated Loans, at fair value, due to B.A.T. Netherlands Finance B.V. ("BATNF"). The difference between the carrying value and the settlement value of EUR 81,612 has been recorded in the profit & loss account. On 15 September 2016, the Company repaid the GBP denominated Loan due to BATNF upon redemption.

The weighted average interest rate of the long-term liabilities for the year 2016 amounts to 3.797% (2015: 3.831%). The effective weighted average interest rate of the long-term liabilities for the year 2016 amounts to 1.299% (2015: 1.328%). The effective weighted average interest rates are significantly lower than the nominal interest rates as a result of the novation of the Novation Notes.



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

## Notes to the balance sheet and profit & loss account

All amounts in EUR'000

### NOTE 7 ~ FINANCIAL INSTRUMENTS

The fair values and book values of the borrowings and the related swaps are as follows:

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Long-term liabilities to affiliated companies	--	--	3,418,387	3,359,595
Cross currency swaps	--	--	32,383	20,883
Interest rate swaps	--	--	--	(56,439)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	--	--	3,450,770	3,324,039

The fair values of long-term liabilities and derivatives as at 31 December 2015, have been determined based on market data (primarily yield curves, implied volatilities and exchange rates) to calculate the present value of all estimated flows associated with each derivative at balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives.

### NOTE 8 ~ OTHER PROVISIONS

	<u>31 December 2016</u>	<u>31 December 2015</u>
Restructuring provision	3,190	3,355
	<u>          </u>	<u>          </u>
	3,190	3,355
At 31 December 2015	3,355	
Utilised	(165)	
	<u>          </u>	
At 31 December 2016	3,190	

The restructuring provision does not include obligations over five years. It is recognised at the nominal value of the expected settlement or cash outflow. Approximately EUR 2,900 of the restructuring provision is due within one year.

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

### Notes to the balance sheet and profit & loss account

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

#### NOTE 9 ~ SHAREHOLDER'S EQUITY

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

	<u>Issued capital</u>	<u>Share premium account</u>	<u>Other reserves</u>	<u>Unappr. profit</u>	<u>Total</u>
At 31 Dec 2014 previously reported	112,502	637,453	145,177	(330,943)	564,189
Effect of change in accounting policy	--	--	4,873*	--	4,873*
<b>At 31 December 2014</b>	<b>112,502</b>	<b>637,453</b>	<b>150,050</b>	<b>(330,943)</b>	<b>569,062</b>
Appropriation of profit	--	(343,710)	12,767	330,943	--
Share premium contributed	--	87,910	--	--	87,910
Profit for the year	--	--	--	544,516*	544,516*
Interim dividends	--	--	--	(509,493)	(509,493)
<b>At 31 December 2015</b>	<b>112,502</b>	<b>381,653</b>	<b>162,817</b>	<b>35,023</b>	<b>691,995</b>
Appropriation of profit	--	--	35,023*	(35,023)*	--
Share premium subscriptions	--	3,455,347	--	--	3,455,347
Profit for the year	--	--	--	611,075	611,075
Interim dividends	--	--	--	(522,300)	(522,300)
<b>At 31 December 2016</b>	<b>112,502</b>	<b>3,837,000</b>	<b>197,840</b>	<b>88,775</b>	<b>4,236,117</b>

<u>Authorised capital</u>	<u>Number of ordinary shares</u>	<u>Par value</u>
At 31 December 2015	300,000	EUR 450.00
At 31 December 2016	300,000	EUR 450.00

<u>Issued and fully paid capital</u>	<u>Number of ordinary shares</u>	<u>Par value</u>
At 31 December 2015	250,004	EUR 450.00
At 31 December 2016	250,004	EUR 450.00

During the year, the Company's sole shareholder subscribed to share premium in the aggregate amount of EUR 3,455,347. Interim dividends of, in the aggregate, EUR 522,299,866.17 were declared and paid during the year out of current year's profit to the sole shareholder. On 19 January 2017, the Company paid an additional interim dividend in the amount of EUR 74,689,073.00 out of 2016 profits to the sole shareholder.

At the Annual General Meeting, it will be proposed to transfer the remaining profit for the year in the amount of EUR 14,086,128.90 to other reserves. The 2016 profit after tax is presented as unappropriated profit in shareholders' equity.

\* Due to a change in accounting policy, the 2015 comparative figures have been changed as set out in note 1(f) above



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

### Notes to the balance sheet and profit & loss account

All amounts in EUR'000

#### NOTE 10 ~ FINANCIAL INCOME/(EXPENSE)

	<u>2016</u>		<u>2015</u>	
	Financial income	Financial expense	Financial income	Financial expense
Financial income/(expense) to affiliated companies	15	(21,957)	17	(65,124)*
Financial result from long-term debt instruments	--	88,441	--	27,675
Foreign exchange gains/(losses)	--	2,662	86	(2,284)*
Loss on repayment of long-term liabilities	--	(81,612)	--	--
	<u>15</u>	<u>(12,466)</u>	<u>103</u>	<u>(39,733)</u>

Transactions with affiliated companies are at market rates.

Financial expense to affiliated companies includes interest on long term debts of EUR 13,010 (2015: EUR 40,629) and commitment and guarantee fees of EUR 8,947 (2015: EUR 24,495).

Financial result from long-term debt instruments of EUR 88,441 (2015: EUR 27,675) represents the financial results realised on interest rate swaps of EUR 1,975 (2015: EUR 6,931), a cross currency swap of EUR 11,688 (2015: EUR 20,744) and a fair value gain realised from the novation of the interest rate swaps of EUR 74,778 (2015: nil).

The loss on repayment of long-term liabilities of EUR 81,612 is related to the repayment of the euro denominated loans at fair value to BATNF on 13 April 2016. The loss of EUR 81,612 represents the difference between the carrying value and the settlement value.

\* Prior year figures have been restated for comparison purposes

#### NOTE 11 ~ GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2016</u>	<u>2015</u>
Salaries and wages	3,057	3,247
Social security	263	344
Defined benefit pension contributions	795	687*
Defined contribution pension cost	164	131
Other expenses	4,307	4,245
Restructuring costs	--	3,355
Other income	(4,864)	(4,309)
	<u>3,722</u>	<u>7,700</u>
	=====	=====

The average number of employees during the year was 30 (2015: 34) employed within the legal, tax, finance and support functions. There are no employees working outside the Netherlands (2015: nil). Other income relates to service fees for the provision of services to other group undertakings.

\* Due to a change in accounting policy, the 2015 comparative figures have been changed as set out in note 1(f) above

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

## Notes to the balance sheet and profit & loss account

All amounts in EUR'000

### NOTE 12 ~ TAXATION

	<u>2016</u>	<u>2015</u>
Profit before tax	567,649	572,494*
Applicable tax 25%	141,912	143,123*
Exempt dividend income	(145,956)	(154,956)
Allowance for unrecoverable deferred tax asset – refer Note 3 above	(39,574)	39,574
Non-deductible expenses	163	92
Prior year adjustments	29	145
	(43,426)	27,978*
Tax expense/(benefit)		
Effective tax rate	(7.7)%	4.9%

The Company forms part of the fiscal unity of BATIH. The effective tax rate in 2016 differs from 2015 mainly due to the effect of the amended application of the tax sharing agreement within the fiscal unity to which the Company belongs, effective per 1 January 2016. 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.

\* Due to a change in accounting policy, the 2015 comparative figures have been changed as set out in note 1(f) above

### NOTE 13 ~ INDEPENDENT AUDITOR REMUNERATION

The remuneration of the independent auditor is not disclosed in accordance with section 2:382a subsection 3, Book 2, of the Dutch Civil Code.

### NOTE 14 ~ DIRECTORS' REMUNERATION

The remuneration of the Directors employed by the Company in office amounted to:

	<u>2016</u>	<u>2015</u>
Salaries and wages	1,446	1,317
Social security	41	38
Defined benefit pension costs	199	135
	1,686	1,490
	=====	=====



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

## Notes to the balance sheet and profit & loss account

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### NOTE 15 ~ 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. and, since 16 May 2014, B.A.T. Netherlands Finance B.V. ("BATNF") guarantees, as applicable, all notes issued under the EMTN Programme, other than where the Company was the issuer. Notes issued under the EMTN Programme prior to 2012 benefit from an additional guarantee by B.A.T. Capital Corporation. The maximum aggregate nominal amount of all notes that may from time to time be outstanding under the EMTN Programme is GBP 15,000 million (2014: GBP 15,000 million).

Effective 11 December 2014, the Company novated all notes issued by the Company under the EMTN Programme to BATNF, whereby BATNF has assumed all rights, obligations and liabilities of the Company as issuer and principal debtor in respect of the Novation Notes. The Company has been added as a guarantor in respect of the Novation Notes.

The Company continues to pay a guarantee fee to BAT plc for the acquired affiliated long-term liabilities, as it continues to benefit from BAT plc's credit worthiness, and the pricing of its debt funding from BATNF, derived from the Novation Notes, incorporate BAT plc's guarantee.

At the balance sheet date, the Company remains the guarantor of notes issued under the EMTN Programme of GBP 4,175 million, EUR 9,100 million, CHF 650 million and USD 650 million (2015: GBP 3,350 million, EUR 9,100 million, CHF 1,000 million and USD 300 million). The notes mature between 2017 and 2055.

In addition, the Company, together with BAT plc, and in respect of the notes issued in 2015 only, BATNF, guarantees seven series of notes totalling USD 6,000 million (2015: USD 6,700 million) issued by B.A.T. International Finance p.l.c. in 2012 and 2015 pursuant to Rule 144A and Regulation S under the United States Securities Act of 1933 (as amended). The notes mature between 2017 and 2025.

#### 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 tax authorities involving material amounts. The Dutch tax office has issued (additional) assessments for the years 2008, 2009, 2011 and 2012 in the total sum of EUR 201.7 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. On the same basis, should an assessment be received for 2010, it is estimated that the Company would be exposed to an additional aggregate sum of EUR 14.1 million covering tax, interest and penalties.

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

## Notes to the balance sheet and profit & loss account

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### NOTE 15 ~ CONTINGENT LIABILITIES (continued)

Detailed objection letters have been filed against the 2008, 2009 and 2011 (additional) assessments and a pro forma objection letter has been filed against the 2012 assessment. The Company believes that it has meritorious defences in law and intends to pursue the disputes through the judicial system as necessary. The Board therefore 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.

### 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, 24 February 2017

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

### Other information

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**(a) 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.

**(b) Independent auditor's report**

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



## **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 2016 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 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

The financial statements comprise:

- 1 the balance sheet as at 31 December 2016;
- 2 the profit and loss account for 2016; 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 annual report**

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

- directors' report;
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code;



Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

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 Part 9 of Book 2 of the Netherlands Civil Code and 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, including the directors' report, in accordance with Part 9 of Book 2 of the Netherlands Civil Code, and other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

## **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 Netherlands 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 the Board of Directors 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, 24 February 2017

KPMG Accountants N.V.

M.G. Schönhage RA