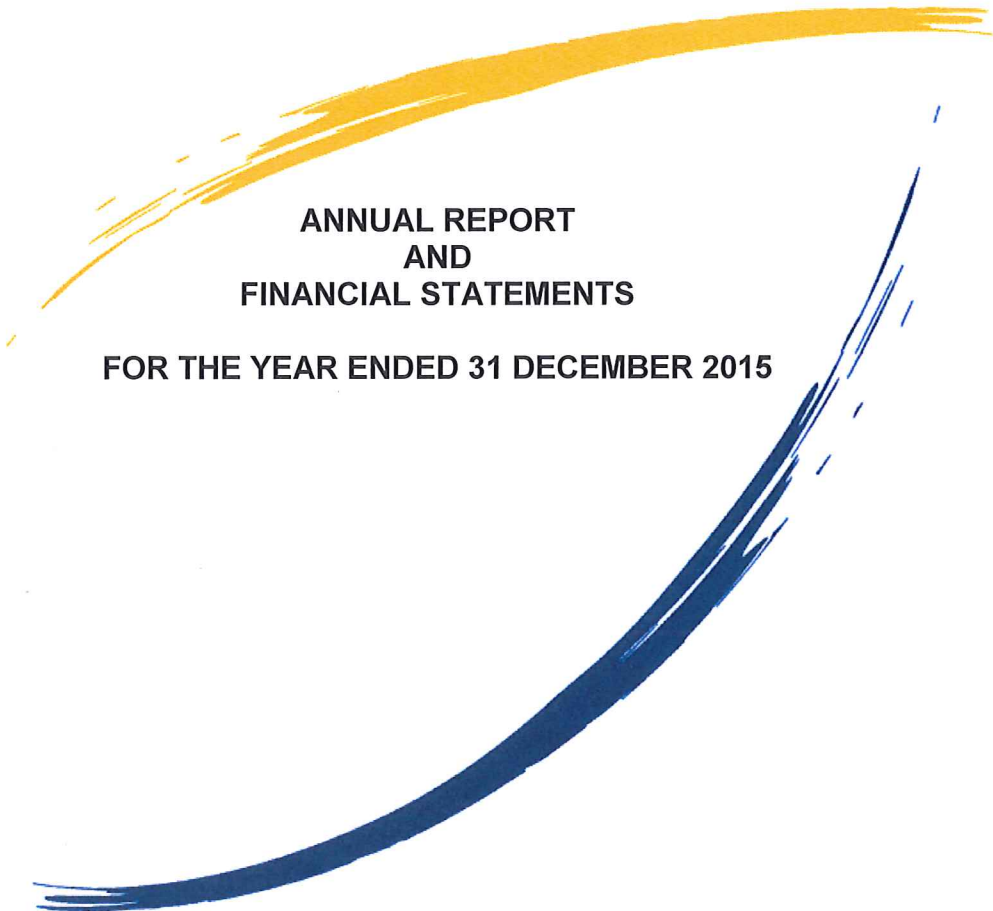




**BRITISH AMERICAN
TOBACCO**

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



**ANNUAL REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

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

Directors' report

INTRODUCTION

The directors submit their annual report and financial statements for British American Tobacco Holdings (The Netherlands) B.V. (the "Company") for the year ended 31 December 2015. These are to be presented at the Annual General Meeting to be held on 28 April 2016. The financial statements of the Company are presented on pages 7 to 25.

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/A3 stable, and by S&P's A2/A- stable.

THE DIRECTORS

On 25 February 2015, C E Steyn resigned as Director of the Company and on 26 February 2015, D P I Booth was appointed a Director of the Company.

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

COMPARATIVE FIGURES 2014

Effective 11 December 2014, the Company novated all notes issued by the Company (the "Novation Notes") under the British American Tobacco Euro Medium Term Note Programme (the "EMTN Programme") to B.A.T. Netherlands Finance B.V. ("BATNF"), an affiliated company, at fair value, including accrued interest in the amount of EUR 71.2 million, in exchange for loans from BATNF on the same terms and conditions as the Novation Notes. The fair value loss on the notes novated by the Company to BATNF, amounting to EUR 458.3 million, net of deferred taxation, EUR 343.7 million had been accounted for directly in equity and deducted from the share premium account.

Instead of accounting for the Company's novation of its bonds in the 2014 financial statements as a direct charge to shareholders' equity, the loss on this transaction of EUR 343.7 million, (EUR 458.3 million net of deferred taxation of EUR 114.6 million), has been recognised in the profit and loss account for the year ended 31 December 2014, in accordance with the Dutch Accounting Standard 150 (edition 2015). The previously reported profit for the year ended 31 December 2014 of EUR 1,145.8 million was therefore reduced by EUR 343.7 million to EUR 802.1 million. The adjustment did not have an impact on the net amount of shareholders' equity in the balance sheet as at 31 December 2014.

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

Directors' report

RESULTS FOR THE YEAR

The profit after tax of the Company for the year ended 31 December 2015 amounted to EUR 544.4 million (2014: EUR 802.1 million). The decrease in profit of EUR 257.7 million is primarily due to lower dividend income received from subsidiaries in the amount of EUR 618.9 million and lower taxation benefit of EUR 173.3 million, partly offset by lower financing cost of EUR 540.9 million, mainly as a result of the loss on the bond novation included in 2014. The effective weighted average interest rate of the long-term liabilities has decreased from 3.715% in 2014 to 1.328% in 2015.

Lower dividend income was received from the Company's indirect subsidiaries in Australia and Russia. This is largely the result of higher levels of cash retention in Russia in 2015 and by the weakening of the Australian Dollar and the Russian Rouble against the euro in 2015. In Australia, volume fell due to market contraction and higher illicit trade, down-trading and the difficult pricing environment which led to lower profit. In Russia, market share continued to grow, driven by a strong performance of the Rothmans brand, with total volume decline at a lower rate than the market. Pricing partially offset the significant adverse effect of devaluation on cost of sales, leading to a decrease in profit.

DIVIDENDS

Interim dividends of, in the aggregate, EUR 509,493,226.40 were declared and paid during the year. The Directors recommend to transfer the remaining profit for the year of EUR 34,895,859.92 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:

Ability to service long-term liabilities

The Company is dependent on its subsidiaries for dividend income to service the long-term loans it has entered into.

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.

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 annual update 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.

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

Directors' report

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 1.35 (2014: 1.05). The solvency ratio is 0.83 (2014: 0.86).

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 according to Group policies. As a further part of the Company's liquidity risk, 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 British American Tobacco p.l.c.. The facility has a final maturity in 2020, but a one-year option may be exercised in 2016 to extend this to 2021. The Company has not drawn any funds under this facility.

The Company's foreign exchange exposure on the Company's non-EUR denominated debt issues has been removed by swapping the liability denominated in Sterling into a floating EUR liability at fixed exchange rates with maturities consistent with the term of the issue.

The Company's borrowings are 34% floating (31 December 2014: 59%) and 66% fixed (31 December 2014: 41%), a mix which is considered by the Directors to be appropriate in the current circumstances.

EMPLOYEES

The average number of employees decreased from 39 in 2014 to 34 in 2015. The number of employees is expected to reduce further as a result of the intended termination of the provision of certain services provided by the Company to affiliated group companies which will affect up to 25 positions.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Company does not undertake research and development activities.

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.

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

Directors' report

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, 29 February 2016

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

Balance sheet as at 31 December

Before appropriation of profit		2015	2014
All amounts in EUR'000	Notes		
Financial fixed assets			
Investments in subsidiaries	2	4,094,879	4,006,969
Pension asset	3	27,304	--
Deferred tax asset	4	48,087	113,643
		<u> </u>	<u> </u>
Total financial fixed assets		4,170,270	4,120,612
Current assets			
Receivables	5	89,929	53,766
		<u> </u>	<u> </u>
Total current assets		89,929	53,766
Current liabilities			
	6	(580,091)	(78,171)
Current assets less current liabilities		<u>(490,162)</u>	<u>(24,405)</u>
Total assets less current liabilities		<u>3,680,108</u> =====	<u>4,096,207</u> =====
Long-term liabilities			
	7	2,964,280	3,525,520
Pension liability	3	--	6,498
Other provisions	9	3,355	--
		<u> </u>	<u> </u>
Total provisions		3,355	6,498
Shareholder's equity			
	10		
Issued capital		112,502	112,502
Share premium account		381,653	637,453*
Other reserves		183,422	145,177
Undistributed profit		34,896	(330,943)*
		<u> </u>	<u> </u>
		712,473	564,189
		<u> </u>	<u> </u>
		<u>3,680,108</u> =====	<u>4,096,207</u> =====

* The 2014 comparative figures have been changed as set out in note 1(h) below.

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

Profit & loss account for the year ended 31 December

		2015	2014
All amounts in EUR'000	Notes		
Dividend income		619,824	1,238,690
Financial income	11	103	901
Financial expense	11	(39,733)	(580,585)*
		580,194	659,006
Net financial and investment income		580,194	659,006
General and administrative expenses	12	(7,869)	(2,321)
		572,325	656,685
Profit before tax		572,325	656,685
Taxation (expense)/benefit	13	(27,936)	145,408*
		544,389	802,093
Profit after tax		544,389	802,093
		544,389	802,093

* The 2014 comparative figures have been changed as set out in note 1(h) below.

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

Notes to the balance sheet and profit & loss account

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., 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 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 British American Tobacco p.l.c..

Copies of the group report and accounts of British American Tobacco p.l.c. are available at www.bat.com.

(d) Related parties

All subsidiaries, associates and joint ventures of British American Tobacco p.l.c. 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

British American Tobacco p.l.c., 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.

The principal policies of the Company, which have been consistently applied in all years presented, are set out below.

Going concern

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

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

Notes to the balance sheet and profit & loss account

Method of valuation

The financial statements have been prepared on the basis of historical costs, except for the net defined benefit liability (asset), which is measured at the fair value of plan assets, less the present value of the defined benefit obligation, as described below. 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.

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

Shares in subsidiaries are stated at cost less impairment losses, in accordance with Article 2:389, Paragraph 9 of the Dutch Civil Code.

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.

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

Notes to the balance sheet and profit & loss account

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.

Pension asset/(liability)

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 Pensioen-fonds British American Tobacco (the "Fund"). For joiners after 1 January 2010, a defined contribution scheme ("DCS") has been established, which is executed by an insurance company. The Company accounts for pensions in accordance with IAS 19 Employee Benefits (revised 2011).

The DBS is an average pay pension plan and provides defined pension benefits to the employees of the participating companies upon reaching retirement age, the amount of which depends on age, salary and years of service. The DBS currently provides that pensions in payment are conditionally indexed on the basis of the consumer price index if the reserves of the Fund are sufficient, as allowed by the pension scheme and pension act. The pension scheme has been amended as of 1 January 2015, as a consequence of the decision of the Company to comply with the legislative fiscal changes. In the old scheme, an accrual rate of 1.90% (final pay) was applicable with a formal retirement age of 67 years. As of 1 January 2015 this was changed to an accrual rate of 1.875% (average pay) with a pensionable salary cap of EUR 100,000. The Fund is subject to supervision by De Nederlandsche Bank and needs to comply with the Dutch Pension Act. The Fund was not subject to a short-term recovery plan as at 31 December 2015 or for the year 2014.

The pension asset/(liability) carried on the balance sheet by the Company is an allocation of the total fair value of plan assets net of the present value of pension benefit obligations attributable to its employees and former employees under the DBS.

The surplus of plan assets over liabilities should be limited to the present value of future refunds or reductions in contributions and/or refunds. Based on the Execution Agreement between the Company and the Fund, which stipulates that the Company is entitled to refunds above a certain solvency level, the surplus has not been limited. The funding arrangements (the "Contract") between the Fund and the Company can be summarized as follows: The Company pays premiums to the Fund, is liable for paying additional funding to cover deficits and is entitled to refunds and reductions in contribution if solvency levels are sufficiently high. Per the Contract, the Company will pay the net defined benefit cost in the form of pension premiums to the Fund based on local law and regulation.

The pension benefit obligation for each participating company is measured annually by independent actuaries using the projected unit credit method. The present value of the obligation is computed by discounting estimated future benefits that employees have earned in the current and prior periods, using interest rates applying to high quality corporate bonds with a term roughly consistent with the term of the related pension obligation.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in equity, net of deferred taxation. The cumulative amount of gains or losses recognised in equity will change annually with that year's re-measurements of assets and liabilities, net of deferred taxation.

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

Notes to the balance sheet and profit & loss account

Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost. 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.

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.

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

Notes to the balance sheet and profit & loss account

Contributions to defined contribution plans are recognised as an expense as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised as employee benefit expense in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

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. Resulting gains and losses arising from contracts related to existing assets and liabilities are taken to the profit & 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

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

Notes to the balance sheet and profit & loss account

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 risk. The Company manages market risk by stratifying the portfolio and imposing limits.

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 according to Group policies. As a further part of the Company's liquidity risk, 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 British American Tobacco p.l.c.. The facility has a final maturity in 2020, but a one-year option may be exercised in 2016 to extend this to 2021. The Company has not drawn any funds under this facility.

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:

- listed financial instruments: on the basis of the exit price.
- 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.

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.

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

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

(h) Comparative figures 2014

Effective 11 December 2014, the Company novated all notes issued by the Company (the "Novation Notes") under the British American Tobacco Euro Medium Term Note Programme (the "EMTN Programme") to B.A.T. Netherlands Finance B.V. ("BATNF"), an affiliated company, at fair value, including accrued interest in the amount of EUR 71,181, in exchange for loans from BATNF on the same terms and conditions as the Novation Notes. The fair value loss on the notes novated by the Company to BATNF, amounting to EUR 458,280, net of deferred taxation, EUR 343,710 had been accounted for directly in equity and deducted from the share premium account.

Instead of accounting for the Company's novation of its bonds in the 2014 financial statements as a direct charge to shareholders' equity, the loss on this transaction of EUR 343,710, (EUR 458,280 net of deferred taxation of EUR 114,570), has been recognised in the profit and loss account for the year ended 31 December 2014, in accordance with the Dutch Accounting Standard 150 (edition 2015). The previously reported profit for the year ended 31 December 2014 of EUR 1,145,803 was therefore reduced by EUR 343,710 to EUR 802,093. The adjustment did not have an impact on the net amount of shareholders' equity in the balance sheet as at 31 December 2014.

NOTE 2 ~ INVESTMENTS IN SUBSIDIARIES

The 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 2014	4,006,969
Investment	87,910
	4,094,879
At 31 December 2015	4,094,879

The cumulative amount of impairment losses amounts to EUR 30,000 as at 31 December 2015 (2014: EUR 30,000).

On 12 March 2015, the Company contributed share premium in the amount of EUR 87,910 into its wholly owned subsidiary, British American Tobacco International Europe (Nederland) B.V..

NOTE 3 ~ PENSION ASSET/(LIABILITY)

The closing liability relates entirely to pension benefits. The movements in the pension asset/(liability) are analysed as follows:

	<u>2015</u>	<u>2014</u>
Net asset/(liability) as at 1 January	(6,498)	21,854
Net (expense)/income recognised in the profit & loss account	(856)	830
Contributions by the Company	687	563
Re-measurements recognised in equity (Note 10)	33,971	(29,745)
	27,304	(6,498)
Net asset/(liability) as at 31 December	27,304	(6,498)

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

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

NOTE 3 ~ PENSION ASSET/(LIABILITY) (continued)

The amounts recognised in the balance sheet as at 31 December are analysed as follows:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets	239,414	191,359
Present value of defined benefit obligations	(212,110)	(197,857)
	27,304	(6,498)

Movements in the carrying value of plan assets can be analysed as follows:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets as at 1 January	191,359	153,780
Interest income	4,561	5,624
Cash flows:		
– employer contributions	687	563
– benefits paid	(6,387)	(4,124)
	190,220	155,843
Re-measurements: return on plan assets (excluding interest income)	49,194	35,516

Actual fair value of plan assets as at 31 December	239,414	191,359
--	---------	---------

Plan assets can be analysed as follows:

	<u>2015</u>	<u>2014</u>
Equities – listed	57,253	46,441
Bonds – listed	66,238	61,975
Property	1,538	1,271
Reinsurance policies	13,387	11,574
Cash	101,862	67,154
Hedge funds	(1,434)	2,944
Other assets	570	--
	239,414	191,359
Actual plan assets as at 31 December	239,414	191,359

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

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

NOTE 3 ~ PENSION ASSET/(LIABILITY) (continued)

Movements in the carrying value of benefit obligations can be analysed as follows:

	<u>2015</u>	<u>2014</u>
Present value of defined benefit obligations as at 1 January	197,857	131,926
Current net service cost	1,080	716
Recognised past service costs	(99)	(720)
Interest expense	4,436	4,798
Cash flows – benefits paid	(6,387)	(4,124)
	196,887	132,596
Expected present value of defined benefit obligations as at 31 December	196,887	132,596
Re-measurements:		
– effect of changes in economic assumptions	(33,980)	56,736
– effect of changes in demographic assumptions	--	2,336
– effect of experience adjustments	49,203	6,189
	212,110	197,857

The weighted average maturity profile of the defined benefit obligation as at 31 December 2015 is 18.0 years (2014: 19.7 years). The expected contribution to the Fund for the year 2016 amounts to EUR 714 (2015: EUR 687).

The amounts recognised in the profit & loss account for the year ended 31 December 2015 were as follows:

	<u>2015</u>	<u>2014</u>
Current service cost	(1,080)	(716)
Interest cost	(4,436)	(4,798)
Interest income	4,561	5,624
Recognised past service costs	99	720
	(856)	830

The net pension income/(expense) of EUR (856) (2014: EUR 830) is included in general administrative expenses.

As per 31 December 2014, a plan amendment was enacted as a consequence of changes in fiscal legislation. The current accrual rate of 1.90% per annum based on final pay with a formal retirement age of 67 years has been amended, as of 1 January 2015, to an accrual rate of 1.875% per annum based on average pay with a pensionable salary cap of EUR 100.

As a result of a reorganisation announced in 2015, a curtailment was triggered. This curtailment resulted in recognized past service income of EUR 99. In 2014 the plan amendment resulted in recognised past service income of EUR 720.

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

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

NOTE 3 ~ PENSION ASSET/(LIABILITY) (continued)

The main actuarial assumptions were as follows:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Discount rate and expected return on plan assets	2.50%	2.10%
Expected salary increases	2.00%	2.00%
Expected indexation of pensions	1.20%	1.60%
General inflation rate	2.00%	2.00%

The pension scheme currently provides that pensions in payment are indexed on the basis of 1.20% per annum (2014: 1.60%).

Mortality assumptions as per 31 December 2015 and 2014 were based on the AG Prognosetafel 2014, a setback according to earnings category mid for males and a setback according to earnings category high for females (vice versa for partners). The weighted average life expectancy was 28.3 years (2014: 29.0 years) and males were expected to be 3 years older than their spouse.

The investment strategy is based on both the objective of the Fund to provide indexation and the desire to mitigate investment risks up to a certain level. Therefore, the Fund invests in both in a return and matching portfolio. Interest rate is partially hedged taking into account both strategic and tactical considerations. Bonds and interest rate swaps are used to hedge interest rate risk. The duration of the matching portfolio is similar to the duration of the liabilities (according to the local financial oversight framework rules). The risk appetite is linked to the maturity of the Funds' liabilities. ALM studies are performed in order to support the investment policy.

Sensitivity analysis:

The sensitivity of the Defined Benefit Obligation ("DBO") and the Service Cost ("SC") is presented in the following table:

	<u>2015</u>		<u>2014</u>	
	<u>DBO</u>	<u>SC</u>	<u>DBO</u>	<u>SC</u>
Base scenario	212,110	808	197,857	873
Discount rate + 0.25%	202,921	757	188,445	812
Discount rate - 0.25%	221,930	863	207,961	940
General wage inflation + 0.25%	212,120	809	197,876	875
General wage inflation - 0.25%	212,099	807	197,838	871
Price inflation + 0.25%	212,110	809	197,859	874
Price inflation - 0.25%	212,109	807	197,854	872
Indexation active members + 0.25%	212,146	816	197,995	887
Indexation active members - 0.25%	212,077	800	197,745	860
Indexation deferred/pensioners + 0.25%	221,979	854	207,859	927
Indexation deferred/pensioners - 0.25%	202,845	765	188,515	823
Indexation all members + 0.25%	222,014	862	207,978	941
Indexation all members - 0.25%	202,804	758	188,385	810
Mortality + 1 year	204,671	782	190,377	842
Mortality - 1 year	219,551	834	205,384	904

Based on the assumptions used in the actuarial valuation at year-end, individual shocks on these assumptions are applied. The table above presents the effects of the individual shocks on the DBO and SC indicated against each assumption. When the mortality assumption is increased by a year the DBO decreases as a result of a shorter assumed lifespan.

The methodology applied in the sensitivity analysis has not changed compared to the previous year.

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

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

NOTE 4 ~ DEFERRED TAX ASSET/(LIABILITY)

	<u>31 December 2015</u>	<u>31 December 2014</u>
Deferred tax asset/(liability)	48,087	113,643
	48,087	113,643
At 31 December 2014	113,643	
Current year charge recognised in profit & loss	(17,489)	
Deferred tax on actuarial gains and losses recognised in equity (refer Note 10)	(8,493)	
Allowance for unrecoverable deferred tax asset recognised in profit & loss	(39,574)	
	48,087	
At 31 December 2015	48,087	

Deferred taxes relate mainly to timing differences on fair value adjustments on long-term debt and long-term pension assets/(liabilities). The current part of the deferred tax asset amounts to EUR 17,299 (2014: EUR 17,531).

NOTE 5 ~ RECEIVABLES

	<u>31 December 2015</u>	<u>31 December 2014</u>
Receivables from affiliated companies	83,712	53,753
Corporate taxation	6,194	--
Other receivables	23	13
	89,929	53,766

Included in receivables is an amount of EUR nil that is not due within one year (2014: EUR nil).

Receivables from affiliated companies include EUR 82,837 (2014: EUR 52,754) 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 40 (2014: EUR nil) due from the shareholder. Other amounts are unsecured, interest free and repayable on demand.

NOTE 6 ~ CURRENT LIABILITIES

	<u>31 December 2015</u>	<u>31 December 2014</u>
Current portion of long-term liabilities to affiliated companies	513,490	27,000
Payables to affiliated companies	2,450	4,873
Interest payable on long-term liabilities to affiliated companies	61,806	44,885
Wage tax and social security charges payable	125	129
Corporate taxation	--	394
Other payables	2,220	890
	580,091	78,171

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

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

NOTE 6 ~ CURRENT LIABILITIES (continued)

Included in current liabilities is an amount of EUR nil that is not due within one year (2014: EUR nil).

Included in payables to affiliated companies is EUR 100 (2014: EUR 100), which incurs interest based on EURIBOR 1M. Other amounts are unsecured, interest free and repayable on demand.

NOTE 7 ~ LONG-TERM LIABILITIES

	<u>31 December 2015</u>	<u>31 December 2014</u>
Long-term liabilities to affiliated companies:		
GBP 325 million 5.500% due 2016	486,490	503,443
EUR 600 million 4.000% due 2020	686,172	704,909
EUR 650 million 4.875% due 2021	780,588	805,374
EUR 750 million 2.375% due 2023	814,167	822,921
EUR 600 million 3.125% due 2029	683,353	688,873
	3,450,770	3,525,520
EUR 27 million EURIBOR 3M + 130 bps	27,000	27,000
	3,477,770	3,552,520
Less: Current portion	(513,490)	(27,000)
	2,964,280	3,525,520

Effective 11 December 2014, the Company novated all notes issued by the Company under the EMTN Programme (the "Novation Notes") to B.A.T. Netherlands Finance B.V. ("BATNF"), an affiliated company, at fair value, including accrued interest in the amount of EUR 71,181, in exchange for loans from BATNF on the same terms and conditions as the Novation Notes.

The fair value of the Novation Notes was determined based on market data (primarily yield curves, implied volatilities and exchange rates) to calculate the present value of all estimated flows associated with the Novation Notes at the date of novation. 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 weighted average interest rate of the long-term liabilities as at 31 December 2015 amounts to 3.831% (2014: 3.911%).

The effective weighted average interest rate of the long-term liabilities as at 31 December 2015 amounts to 1.328% (2014: 3.715%).

The GBP 325 million 5.5% notes due 2016 denominated in Sterling, have been swapped into floating EUR liabilities at fixed exchange rates with maturities consistent with the term of the issue.

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

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

NOTE 8 ~ FINANCIAL INSTRUMENTS

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

	<u>31 December 2015</u>		<u>31 December 2014</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	3,470,960	3,498,901
Cross currency swaps	32,383	20,883	54,560	29,170
Interest rate swaps	--	(56,439)	--	(55,045)
	<u>3,450,770</u>	<u>3,324,039</u>	<u>3,525,520</u>	<u>3,473,026</u>

The fair values of long-term liabilities and derivatives as at 31 December 2015 and 31 December 2014, respectively, 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 9 ~ OTHER PROVISIONS

	<u>31 December 2015</u>	<u>31 December 2014</u>
Other provisions	3,355	--
	<u>3,355</u>	<u>--</u>
At 31 December 2014	--	
Additions	3,355	
	<u>3,355</u>	
At 31 December 2015	3,355	

Other provisions relates to obligations in respect of a reorganisation and does not include obligations over five years. Other provisions are recognised at the nominal value of expected settlement or cash outflow.

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

NOTE 10 ~ 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>Undistr. profit</u>	<u>Total</u>
At 31 December 2014	112,502	637,453*	145,177	(330,943)*	564,189
Appropriation of profit	--	(343,710)*	12,767	330,943*	--
Share premium contributed	--	87,910	--	--	87,910
Profit for the year	--	--	--	544,389	544,389
Interim dividends	--	--	--	(509,493)	(509,493)
Other movements	--	--	25,478	--	25,478
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2015	112,502	381,653	183,422	34,896	712,473
	=====	=====	=====	=====	=====

<u>Authorised capital</u>	<u>Number of ordinary shares</u>	<u>Par value</u>
At 31 December 2014	300,000	EUR 450.00
At 31 December 2015	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 2014	250,004	EUR 450.00
At 31 December 2015	250,004	EUR 450.00

On 12 March 2015, the Company's sole shareholder subscribed to share premium in the aggregate amount of EUR 87,910. The other movements of EUR 25,478 relate to pension re-measurements under IAS19R of EUR 33,971 (refer Note 3), net of deferred taxation of EUR 8,493 (refer Note 4).

* The 2014 comparative figures have been changed as set out in note 1(h) above

NOTE 11 ~ FINANCIAL INCOME/(EXPENSE)

	<u>2015</u>		<u>2014</u>	
	<u>Financial income</u>	<u>Financial expense</u>	<u>Financial income</u>	<u>Financial expense</u>
Financial income/(expense) to affiliated companies	17	(64,323)	817	(32,296)
External financial expenses on long-term liabilities	--	--	--	(124,263)
Financial result from long-term debt instruments	--	27,675	--	34,889
Other	86	(3,085)	84	(635)
Loss on bond novation to an affiliated company	--	--	--	(458,280)*
	<hr/>	<hr/>	<hr/>	<hr/>
	103	(39,733)	901	(580,585)

Transactions with affiliated companies are at market rates.

* The 2014 comparative figures have been changed as set out in note 1(h) above

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

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

NOTE 11 ~ FINANCIAL INCOME/(EXPENSE) (continued)

The interest expense on long-term debt, including discounts and commissions on bonds of EUR 40,629 (2014: EUR 126,809) is included in financial income/(expense) to affiliated companies for EUR 40,629 (2014: EUR 2,546) and in financial expenses on long-term liabilities for EUR nil (2014: EUR 124,263).

Interest expense on the Novation Notes for 2015 amounts to EUR 40,384 and for the period 11 December to 31 December 2014 amounts to EUR 2,242 and is included in financial expense to affiliated companies.

Financial result from long-term debt instruments of EUR 27,675 (2014: EUR 34,889) represents the financial results realised on interest rate swaps of EUR 6,931 (2014: EUR 17,041) and a cross currency swap of EUR 20,744 (2014: EUR 17,848).

Foreign exchange (gains)/losses amount to EUR 2,284 (2014: EUR 592) and are included in financial expense other.

NOTE 12 ~ GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2015</u>	<u>2014</u>
Salaries and wages	3,247	3,947
Social security	344	288
Pension expense/(income) from defined benefit scheme (refer Note 3)	856	(830)
Other pension cost	131	64
Other expenses	4,245	2,030
Restructuring costs	3,355	--
Other income	(4,309)	(3,178)
	7,869	2,321
	7,869	2,321

The average number of employees during the year was 34 (2014: 39). There are no employees working outside the Netherlands (2014: nil). Other income relates to service fees for the provision of services to other group undertakings.

NOTE 13 ~ TAXATION

	<u>2015</u>	<u>2014</u>
Profit/(loss) before tax	572,325	656,685*
Applicable tax 25%	143,081	164,171
Exempt dividend income	(154,956)	(309,673)
Allowance for unrecoverable deferred tax asset	39,574	--
Non-deductible expenses	92	94
Prior year adjustments	145	--
	27,936	(145,408)
Tax expense/(benefit)	27,936	(145,408)
Effective tax rate	4.9%	22.2%*

* The 2014 comparative figures have been changed as set out in note 1(h) above

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

Notes to the balance sheet and profit & loss account

All amounts in EUR'000 except contingent liability details

NOTE 13 ~ TAXATION (continued)

The Company forms part of the fiscal unity of British American Tobacco International (Holdings) B.V..

NOTE 14 ~ 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 15 ~ DIRECTORS' REMUNERATION

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

	<u>2015</u>	<u>2014</u>
Salaries and wages	1,317	1,329
Social security	38	32
Defined benefit pension costs	135	212
Taxation on prior years redundancy payments	--	738
	<hr/>	<hr/>
	1,490	2,311
	=====	=====

NOTE 16 ~ 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 3,350 million, EUR 9,100 million, CHF 1,000 million and USD 300 million (2014: GBP 3,000 million, EUR 6,750 million, CHF 1,000 million and USD 300 million). The notes mature between 2016 and 2055.

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

Notes to the balance sheet and profit & loss account

NOTE 16 ~ CONTINGENT LIABILITIES (continued)

In addition, the Company, together with BAT plc, and in respect of the notes issued in 2015 only, BATNF, guarantees eight series of notes totalling USD 6,700 million issued by B.A.T. International Finance p.l.c. in 2008, 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 British American Tobacco International (Holdings) B.V.. 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, the Company and its fellow fiscal unity members are jointly and severally liable for any taxes payable by the tax group.

As referred to above under Guarantees, the Company guarantees, as applicable, all notes issued under the EMTN Programme, with a cross guarantee from its ultimate parent company, BAT plc. The Company continues to pay, inclusive of the current financial year, guarantee fees to BAT plc for the acquired affiliated long-term liabilities. In November 2013, a new transfer pricing decree was introduced by the Dutch Ministry of Finance. The Dutch tax office have stated that they will retrospectively deny all deductions for guarantee fees going back to 2008, even though the earlier years are closed, and have issued (additional) assessments for the years 2008, 2009 and 2011 in the sum of EUR 30.8 million to cover tax and interest. A detailed objection letter has been filed against the 2008 (additional) assessment and pro forma objections have been filed against the 2009 and 2011 (additional) assessments.

The Company, until 31 December 2012, and British American Tobacco International (Holdings) B.V., starting as from 1 January 2013 (jointly referred to as 'Fiscal Unity'), believe they have meritorious defences in law and intends to pursue the dispute through the judicial system as necessary. The Fiscal Unity does not consider it appropriate to make any provisions for the assessed amounts.

The Fiscal Unity is exposed to various other pending issues with the tax authorities involving material amounts, which are subject to uncertainties and complexities. The aggregate amount of the potential liabilities under the various issues cannot be reliably estimated as the final position of the Dutch Tax office is undecided.

Liabilities or assets for these pending issues are recognised as such time as an outcome becomes probable and when the amount can reasonably be estimated.

Based on the analyses made in accordance with aforementioned policy, the Board is of the opinion that no additional provisions have to be made for the pending tax issues. The estimated costs of known tax obligations have been provided in these accounts in accordance with the Company's accounting policies.

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

Notes to the balance sheet and profit & loss account

The Directors hereby approve the financial statements

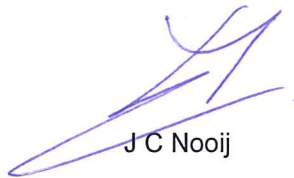


J E P Bollen

D P I Booth



H M J Lina



J C Nooij

N A Wadey



M Wiechers

Amstelveen, 29 February 2016

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

Notes to the balance sheet and 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, 29 February 2016

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

Other information

(a) Appropriation of profit

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

(b) Proposed distribution of profit

During the year interim dividends of EUR 509,493,226.40 were paid out of current year's profit.

The directors recommend to transfer the remaining profit for the year of EUR 34,895,859.92 to other reserves.

(c) Subsequent events

On 17 February 2016 the Company has received a guarantee from British American Tobacco International (Holdings) B.V. in which British American Tobacco International (Holdings) B.V. assumes the economic ownership for all tax expenses of the Company related to the potential future settlement of the tax exposures as summarized in note 16 of the financial statements.

(d) 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 financial statements

We have audited the accompanying financial statements 2015 of British American Tobacco Holdings (The Netherlands) B.V., Amstelveen, which comprise the balance sheet as at 31 December 2015, the profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

The Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of these financial statements and for the preparation of the director's report, both 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 it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the 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 2015 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the annual report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b – h has been annexed. Further, we report that the director's report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Utrecht, 29 February 2016

KPMG Accountants N.V.

C.J.M. van Veen RA