



**BRITISH AMERICAN  
TOBACCO**

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



**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

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

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

## Directors' report

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### INTRODUCTION

The directors submit their annual report and financial statements for B.A.T. Netherlands Finance B.V. (the "Company" or "BATNF") 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 6 to 17.

### PRINCIPAL ACTIVITIES

The Company was incorporated under Dutch law on 23 April 2014 and has limited liability. The principal activity of the Company is that of a financing company.

### PARENT UNDERTAKINGS

The Company is a wholly-owned subsidiary undertaking of British American Tobacco Holdings (The Netherlands) 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

### RESULTS FOR THE YEAR

The Company acceded to the British American Tobacco Euro Medium Term Note Programme (the "EMTN Programme") on 16 May 2014. As of this date, the Company, together with British American Tobacco p.l.c. ("BAT plc"), B.A.T. International Finance p.l.c. ("BATIF plc") and British American Tobacco Holdings (The Netherlands) B.V. ("BATHTN") guarantees, as applicable, all notes issued under the EMTN Programme, other than where the Company is the issuer. Notes issued under the EMTN Programme prior to 9 December 2011 benefit from an additional guarantee by 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).

All notes issued by the Company are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange p.l.c.'s Regulated Market.

Effective 11 December 2014, the Company's sole shareholder, BATHTN novated all notes issued by it under the EMTN Programme (the "Novation Notes") to the Company, at fair value, including accrued interest in the amount of EUR 71.2 million, in exchange for loans from the Company to BATHTN on the same terms and conditions as the Novation Notes. The Company has assumed all rights, obligations and liabilities of BATHTN as issuer and principal debtor in respect of the Novation Notes.

The profit after tax of the Company for the year ended 31 December 2015 amounted to EUR nil (2014: EUR nil).

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

## Directors' report

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### DIVIDENDS

No dividends have been declared or paid during the year.

### 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:

#### **BATHTN - holding company**

The Company is dependent on BATHTN to service and repay the long-term loans. BATHTN is a holding company dependent on its subsidiaries for dividends and other payments to service the long-term loans it has entered into with the Company.

The ability of BATHTN's subsidiaries to make dividends or other 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.

#### **EMTN programme**

The Company, together with BAT plc, BATIF plc and BATHTN guarantees, as applicable, all notes issued under the EMTN Programme, other than where the Company is the issuer. The risks associated with the issue of Notes by the Company are disclosed in the annual update of the EMTN programme, available from the London Stock Exchange.

### CASH FLOW AND BORROWINGS

The Company has sufficient access to 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.

### FINANCING AND RISK MANAGEMENT

It is the Company's policy to maximise financial flexibility and minimise refinancing risk by entering into debt issues with a range of maturities. Funds raised through the issue of debt are lent to affiliated companies under the same terms and conditions as the debt issue. The Company therefore has limited exposure towards price, credit, liquidity and cash flow 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 BAT plc. The facility has a final maturity in 2020, but a one-year option may be exercised in 2016 to extend this to 2021. At year-end, the Company has not drawn any funds under this facility.

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

## Directors' report

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### EMPLOYEES

The Company has no employees.

### RESEARCH AND DEVELOPMENT ACTIVITIES

The Company does not undertake research and development activities.

### OUTLOOK

The trading outlook of the Company remains sound and therefore the future prospects appear satisfactory.

### REGISTERED OFFICE

Handelsweg 53 A, 1181 ZA Amstelveen  
Registered in Amsterdam (No. 60533536)

### INDEPENDENT AUDITOR

KPMG Accountants N.V.

On behalf of the Board



M Wiechers



J E P Bollen

Amstelveen, 29 February 2016

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

### Balance sheet as at 31 December

| Before appropriation of profit                 | 2015  | 2014      |
|--|-------|-----------|
| All amounts in EUR'000                         | Notes |           |
| <b>Financial fixed assets</b>                  |       |           |
| Long-term loans                                | 2     | 2,964,280 |
|  |       | 3,470,960 |
| Total financial fixed assets                   |       | 2,964,280 |
|  |       | 3,470,960 |
| <b>Current assets</b>                          |       |           |
| Receivables                                    | 3     | 532,307   |
|  |       | 77,617    |
| Total current assets                           |       | 532,307   |
|  |       | 77,617    |
| <b>Current liabilities</b>                     | 4     | (532,289) |
|  |       | (77,599)  |
| <b>Current assets less current liabilities</b> |       | 18        |
|  |       | 18        |
| <b>Total assets less current liabilities</b>   |       | 2,964,298 |
|  |       | 3,470,978 |
| <br>   |       |           |
| <b>Long-term liabilities</b>                   | 5     | 2,964,280 |
|  |       | 3,470,960 |
| <b>Shareholder's equity</b>                    | 6     |           |
| Issued capital                                 |       | 18        |
| Undistributed profit                           |       | --        |
|  |       | 18        |
|  |       | 18        |
|  |       | 2,964,298 |
|  |       | 3,470,978 |

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

### Profit & loss account for the period

1 January 2015 to  
31 December 2015

23 April 2014 to  
31 December 2014

| All amounts in EUR'000      | Notes |          |           |
|-----------------------------|-------|----------|-----------|
| Financial income            | 7     | 64,619   | 10,333*   |
| Financial expense           | 7     | (64,619) | (10,333)* |
|                             |       | <hr/>    | <hr/>     |
| <b>Net financial result</b> |       | --       | --        |
|                             |       | <hr/>    | <hr/>     |
| <b>Profit before tax</b>    |       | --       | --        |
| Taxation                    | 8     | --       | --        |
|                             |       | <hr/>    | <hr/>     |
| <b>Profit after tax</b>     |       | --       | --        |
|                             |       | =====    | =====     |

\* The comparative figures have been adjusted for comparison purposes (refer Note 7).

# B.A.T. NETHERLANDS FINANCE 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 was incorporated under Dutch law on 23 April 2014 and has limited liability. The Company is registered in Amstelveen and acts principally as a 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 60533536.

#### (b) Financial year

The financial year of the Company commences on 1 January and ends on 31 December. The comparative figures cover the period from 23 April 2014 to 31 December 2014. On 16 May 2014 the Company acceded to the EMTN Programme as issuer and guarantor. Effective 11 December 2014, the Company's sole shareholder novated all notes issued by it under the EMTN Programme to the Company. In addition, the Company acceded as a guarantor in respect of all other notes in issue under the EMTN Programme with the exception of EUR 20 million notes due 2019, issued under the EMTN Programme prior to 16 April 2003.

#### (c) Parent undertakings

The Company is a wholly-owned subsidiary undertaking of British American Tobacco Holdings (The Netherlands) B.V. ("BATHTN"), 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's financial statements are included in the consolidated financial statements 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 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 principal policies of the Company, which have been consistently applied in all years presented, are set out below.



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

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

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### 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.

#### 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.

### Long-term loans

Long-term loans are initially valued at the fair value less transaction cost. These receivables are subsequently valued at amortised cost. In determining the value, any impairments are taken into account. Long-term loans include loans of more than one year's remaining duration.

### Impairment of long-term loans

At each balance sheet date, the Company assesses whether there is objective evidence that long-term loans are impaired. If such objective evidence exists, the recoverable amount of the loan is determined as the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The impairment loss is calculated as the difference between the carrying amount and the recoverable amount and is recognised in the profit and loss account. Interest on the impaired asset continues to be recognised by using the asset's original effective interest rate.

## **B.A.T. NETHERLANDS FINANCE B.V.**

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

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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, which can be related objectively to an event occurring after the impairment was recognised. 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. The decrease in impairment loss is reversed through profit or loss (up to the amount of the original cost).

#### **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 amount. 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.

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.

#### **Financial 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.

#### **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.

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

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

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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 does not utilise derivative financial instruments to manage its financial risks.

##### **Credit and price risk**

The Company has significant concentrations of credit risk on long-term loans issued to an affiliated company.

##### **Interest rate, currency and cash flow risk**

The Company incurs interest rate, currency and cash flow risk on long-term loans and on interest bearing long-term and current liabilities (including borrowings). Funds raised through the issue of debt are lent to affiliated companies under the same terms and conditions as the debt issue. The Company therefore has limited interest rate, currency and cash flow risk.

##### **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 BAT plc. The facility has a final maturity in 2020, but a one-year option may be exercised in 2016 to extend this to 2021. At year-end, 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.

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

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

All amounts in EUR'000

#### NOTE 2 ~ LONG-TERM LOANS

Movements in long-term loans are as follows:

|                                    |           |
|------------------------------------|-----------|
| At 31 December 2014                | 3,470,960 |
| Exchange differences               | 24,235    |
| Amortisation of effective interest | (76,808)  |
| Reclassification current assets    | (454,107) |
|                                    | 2,964,280 |

At 31 December 2015 2,964,280

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

Long-term loans to an affiliated company:

|                                 | <u>31 December 2015</u> | <u>31 December 2014</u> |
|---------------------------------|-------------------------|-------------------------|
| GBP 325 million 5.500% due 2016 | 454,107                 | 448,884                 |
| 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                 | 822,920                 |
| EUR 600 million 3.125% due 2029 | 683,353                 | 688,873                 |
|                                 | 3,418,387               | 3,470,960               |
| Less: Current portion           | (454,107)               | --                      |
|                                 | 2,964,280               | 3,470,960               |

The weighted average interest rate of the long-term loans as at 31 December 2015 amounts to 3.831% (2014: 3.819%). The effective weighted average interest rate of the long-term loans as at 31 December 2015 amounts to 1.328% (2014: 1.355%).

The effective weighted average interest rates are significantly lower than the nominal interest rates as a result of the novation of all the Novation Notes, effective 11 December 2014, by the Company's sole shareholder, BATHTN to the Company, at fair value, including accrued interest in the amount of EUR 71,181, in exchange for loans from the Company to BATHTN on the same terms and conditions as the Novation Notes.

The fair values and book values of the loans 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 loans | 3,418,387               | 3,359,595         | 3,470,960               | 3,498,901         |
|                 | 3,418,387               | 3,359,595         | 3,470,960               | 3,498,901         |

The fair values represent mark to market values excluding interest accruals as at 31 December 2015 and 31 December 2014.

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

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

All amounts in EUR'000

#### NOTE 3 ~ RECEIVABLES

|  | 31 December 2015 | 31 December 2014 |
|--|------------------|------------------|
| Receivables from affiliated companies                          | 18               | 18               |
| Interest receivable on long-term loans to affiliated companies | 78,182           | 77,599           |
| Current portion of long-term loans                             | 454,107          | --               |
|  | 532,307          | 77,617           |

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

Receivables from affiliated companies are unsecured, interest free and payable on demand. Interest receivable on long-term loans to affiliated companies are unsecured, interest free and repayable in line with the terms and conditions of each applicable long-term loan agreement.

#### NOTE 4 ~ CURRENT LIABILITIES

|  | 31 December 2015 | 31 December 2014 |
|--|------------------|------------------|
| Interest payable on long-term liabilities to third parties | 78,182           | 77,599           |
| Current portion of long-term liabilities                   | 454,107          | --               |
|  | 532,289          | 77,599           |

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

Amounts are secured and repayable in line with the terms and conditions of each applicable series of notes under the EMTN Programme.

#### NOTE 5 ~ LONG-TERM LIABILITIES

Long-term liabilities to third parties:

|                                       | 31 December 2015 | 31 December 2014 |
|---------------------------------------|------------------|------------------|
| GBP 325 million 5.500% notes due 2016 | 454,107          | 448,884          |
| EUR 600 million 4.000% notes due 2020 | 686,172          | 704,909          |
| EUR 650 million 4.875% notes due 2021 | 780,588          | 805,374          |
| EUR 750 million 2.375% notes due 2023 | 814,167          | 822,920          |
| EUR 600 million 3.125% notes due 2029 | 683,353          | 688,873          |
|                                       | 3,418,387        | 3,470,960        |
| Less: Current portion                 | (454,107)        | --               |
|                                       | 2,964,280        | 3,470,960        |

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

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

All amounts in EUR'000

#### NOTE 5 ~ LONG-TERM LIABILITIES (continued)

The weighted average interest rate of the long-term liabilities as at 31 December 2015 amounts to 3.831% (2014: 3.819%). The effective weighted average interest rate of the long-term liabilities as at 31 December 2015 amounts to 1.328% (2014: 1.355%).

The effective weighted average interest rates are significantly lower than the nominal interest rates as a result of the novation of all the Novation Notes, effective 11 December 2014, by the Company's sole shareholder, BATHTN to the Company, at fair value, including accrued interest in the amount of EUR 71,181, in exchange for loans from the Company to BATHTN on the same terms and conditions as the Novation Notes.

The Company has assumed all rights, obligations and liabilities of BATHTN as issuer and principal debtor in respect of the Novation Notes. The Company has been added as a guarantor in respect of all other notes in issue under the EMTN Programme with the exception of EUR 20 million notes due 2019, issued under the EMTN Programme prior to 16 April 2003.

Long-term liabilities to third parties consist of notes that are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange p.l.c.'s Regulated Market.

The fair values and book values of the borrowings 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> |
| Notes | 3,418,387               | 3,359,595         | 3,470,960               | 3,498,901         |
|       | <u>3,418,387</u>        | <u>3,359,595</u>  | <u>3,470,960</u>        | <u>3,498,901</u>  |

The fair values represent mark to market values excluding interest accruals as at 31 December 2015 and 31 December 2014.

#### NOTE 6 ~ SHAREHOLDER'S EQUITY

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

|                     | <u>Issued<br/>capital</u> | <u>Undistr.<br/>profit</u> | <u>Total</u> |
|---------------------|---------------------------|----------------------------|--------------|
| At 31 December 2014 | 18                        | --                         | 18           |
| Profit for the year | --                        | --                         | --           |
|                     | <u>18</u>                 | <u>--</u>                  | <u>18</u>    |
| At 31 December 2015 | =====                     | =====                      | =====        |

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

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

All amounts in EUR'000 except for share capital details

#### NOTE 6 ~ SHAREHOLDER'S EQUITY (continued)

| <u>Authorised capital</u> | <u>Number of ordinary shares</u> | <u>Par value</u> |
|---------------------------|----------------------------------|------------------|
| At 31 December 2014       | 40                               | EUR 450.00       |
| At 31 December 2015       | 40                               | EUR 450.00       |

| <u>Issued and fully paid capital</u> | <u>Number of ordinary shares</u> | <u>Par value</u> |
|--------------------------------------|----------------------------------|------------------|
| At 31 December 2014                  | 40                               | EUR 450.00       |
| At 31 December 2015                  | 40                               | EUR 450.00       |

#### NOTE 7 ~ FINANCIAL INCOME/(EXPENSE)

|   | <u>2015</u>             |                          | <u>23 April to 31 December 2014</u> |                          |
|---|-------------------------|--------------------------|-------------------------------------|--------------------------|
|   | <u>Financial income</u> | <u>Financial expense</u> | <u>Financial income</u>             | <u>Financial expense</u> |
| Financial income on loans to affiliated companies | 40,384                  | --                       | 2,242                               | --                       |
| Financial expenses on long-term liabilities       | --                      | (40,384)                 | --                                  | (2,242)                  |
| Foreign exchange gains/(losses)                   | 24,235                  | (24,235)                 | 8,091*                              | (8,091)*                 |
|   | <u>64,619</u>           | <u>(64,619)</u>          | <u>10,333</u>                       | <u>(10,333)</u>          |

Transactions with affiliated companies are at market rates.

\* In the 2014 financial statements the foreign exchange gains and losses were netted. This has been separately disclosed in the 2015 financial statements with the comparative figures adjusted accordingly.

#### NOTE 8 ~ TAXATION

The Company forms part of the fiscal unity of British American Tobacco International (Holdings) B.V.. The effective and applicable tax rate is 25% (2014: 25%).

#### NOTE 9 ~ 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 10 ~ DIRECTORS' REMUNERATION AND NUMBER OF EMPLOYEES

##### 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 Company's directors received no remuneration during the year.

## **B.A.T. NETHERLANDS FINANCE B.V.**

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

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#### **NOTE 10 ~ DIRECTORS' REMUNERATION AND NUMBER OF EMPLOYEES (continued)**

##### **Employees**

The Company did not have any employees during the year.

#### **NOTE 11 ~ CONTINGENT LIABILITIES**

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

##### **Guarantees**

Since acceding to the EMTN Programme on 16 May 2014, the Company, together with BAT plc, BATIF plc and BATHTN guarantees, as applicable, all notes issued under the EMTN Programme, other than where the Company is 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's sole shareholder, BATHTN, novated all notes issued by it under the EMTN Programme (the "Novation Notes") to the Company, at fair value, in exchange for loans from the Company to BATHTN on the same terms and conditions as the Novation Notes.

The Company has assumed all rights, obligations and liabilities of BATHTN as issuer and principal debtor in respect of the Novation Notes.

At the balance sheet date, the Company is the guarantor of notes issued under the EMTN Programme of GBP 3,025 million, EUR 6,500 million, CHF 1,000 million and USD 300 million (2014: GBP 2,675 million, EUR 4,150 million, CHF 1,000 million and USD 300 million). The notes mature between 2016 and 2055.

In addition, the Company, together with BAT plc and BATHTN, guarantees five series of notes totalling USD 4,500 million issued by BATIF plc in 2015, pursuant to Rule 144A and Regulation S under the United States Securities Act of 1933 (as amended). The notes mature between 2018 and 2025.

##### **Taxation**

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

A guarantee has been issued by BATIH as the head of the Fiscal Unity, which releases the Company and its fellow Fiscal Unity members from their liability, if any, with respect to the outcome of the possible tax disputes.

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



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

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

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The Directors hereby approve the financial statements




J E P Bollen

D P I Booth



H M J Lina



J C Nooij



M Wiechers

N A Wadey

Amstelveen, 29 February 2016

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

Notes to the balance sheet and profit & loss account

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

### Other information

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**(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**

No profit has been generated during the year.

**(c) 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 B.A.T. Netherlands Finance B.V.

## **Report on the audit of the financial statements for the year ended 31 December 2015**

### **Opinion**

In our opinion the financial statements for the year ended 31 December 2015 give a true and fair view of the financial position of B.A.T. Netherlands Finance B.V. as at 31 December 2015, and of its result for 2015 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

### **What we have audited**

We have audited the financial statements for the year ended 31 December 2015 of B.A.T. Netherlands Finance B.V., based in Amsterdam.

The financial statements comprise:

1. the balance sheet as at 31 December 2015;
2. the profit and loss account for the year ended 31 December 2015; and
3. the notes comprising a summary of the significant accounting policies and other explanatory information.

### **Basis for our opinion**

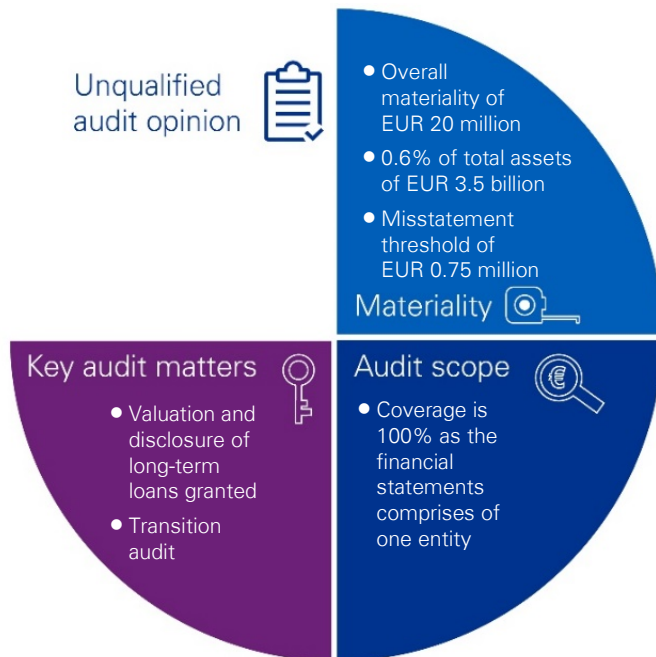
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of B.A.T. Netherlands Finance B.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

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

## Audit approach

### Summary



### Materiality

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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.

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 20 million. The materiality is determined with reference to total assets of B.A.T. Netherlands Finance B.V. amounting to EUR 3.5 billion (0.6%). We consider total assets as the most appropriate benchmark as total assets is an important metric for the performance of B.A.T. Netherlands Finance B.V. given the nature of the business and the size of the company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Board of Directors that misstatements in excess of EUR 0.75 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

### Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Board of Directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Opening balance and transitioning process

### Description



We were engaged by the Board of Directors as auditor of B.A.T. Netherlands Finance B.V. for the first time on 16 October 2015. In a transition year, we define our initial audit strategy and prepare a detailed audit plan. In comparison to a recurring audit, this involves a number of steps to be performed that require significant auditor's attention.

### Our response



Our audit procedures included, amongst others:

- We communicated with the previous auditor on significant audit matters, materiality applied and risks identified by the previous auditor as part of the 2014 audit in combination with a file review of the previous auditor's audit file for the year 2014 in accordance with our professional standards.
- We identified and evaluated critical accounting policies selected by management and key audit matters in prior years.
- We interviewed key management and staff involved in the financial reporting processes, to understand their knowledge of issues and views on risks in the financial reporting process.
- We held a number of introductory meetings with management regarding our audit strategy and audit plan.

### Our observation



During the performance of our procedures, we were provided with sufficient information and cooperation to gain a sufficient understanding to base our audit strategy on.

## Valuation and disclosure of long-term loans granted

### Description



The main purpose of the company is the financing of companies belonging to the British American Tobacco p.l.c. ('BAT plc') group. As at 31 December 2015, the face value of the loans granted by the company to BAT group companies amounted to EUR 2,600 million and GBP 325 million. The loans are carried at amortised cost and the fair value is disclosed in the notes to the financial statements. We consider the valuation and disclosure to be a key audit matter considering the amount in relation to the materiality and by considering the loan is related to a group company. Reference is made to the disclosure on note 2 "Long-term loans" of the financial statements.

### Our response



Our audit procedures included, amongst others, an assessment of the recoverability of the loans granted to BAT group companies, testing of the effective interest rate used for the determination of the amortised cost of the loans granted, testing of the interest amounts received on the loans with supporting documentation, testing of the disclosed fair values of the loans by reference to market observable inputs, and testing of other disclosures with supporting documentation.

### Our observation



Based on the aforementioned procedures, we determined that the loans granted are recorded and disclosed in the financial statements in accordance with the relevant accounting principles.



## **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 and for the preparation of the directors' report 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 framework 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 financial statements**

Our objective is to plan and perform the audit 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 errors and fraud. For a further description of our responsibilities in respect of an audit of financial statements we refer to the website of the professional body for accountants in the Netherlands (NBA) [www.nba.nl/standardtexts-auditorsreport](http://www.nba.nl/standardtexts-auditorsreport).

## **Report on other legal and regulatory requirements**

### **Report on the directors' report and the other information**

Pursuant to legal requirements of Part 9 of Book 2 of the Netherlands Civil Code (concerning our obligation to report about the directors' report and other information):

- We have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code, and whether the information as required by Part 9 of Book 2 of the Netherlands Civil Code has been annexed.
- We report that the directors' report, to the extent we can assess, is consistent with the financial statements.

### **Engagement**

We were engaged by the Board of Directors as auditor of B.A.T. Netherlands Finance B.V. for the first time on 16 October 2015, in respect of the audit of the financial statements for the year ended 31 December 2015.

Utrecht, 29 February 2016

KPMG Accountants N.V.

C.J.M. van Veen RA