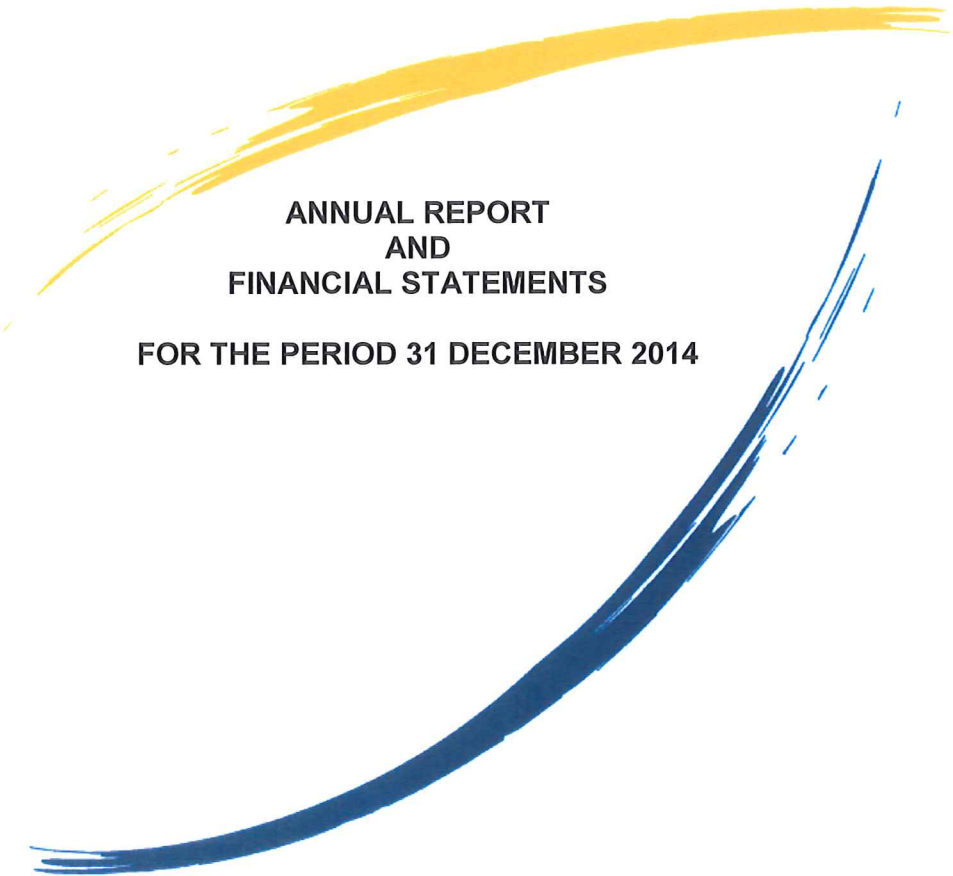




**B.A.T. NETHERLANDS FINANCE B.V.**



**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS  
FOR THE PERIOD 31 DECEMBER 2014**

Annual General Meeting of Shareholders: 26 February 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 period ended 31 December 2014. These are to be presented at the Annual General Meeting to be held on 26 February 2015. 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.

### THE DIRECTORS

The present Directors of the Company are:

J E P Bollen  
H M J Lina  
J C Nooij  
C E Steyn  
N A Wadey  
M Wiechers

### RESULTS FOR THE PERIOD

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., B.A.T. International Finance p.l.c. 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 (2013: USD 16,000 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 BATNF 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 period ended 31 December 2014 amounted to EUR 0.

### 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.

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

### **Directors' report**

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#### **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 interest rate, foreign exchange rate 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 British American Tobacco p.l.c.. Subject to two extension options, the facility has a final maturity in 2019. The Company has not drawn any funds under this facility.

#### **OUTLOOK**

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

#### **BOARD COMPOSITION**

As a consequence of the adoption of the Act on management and supervision (Wet bestuur en toezicht) on 1 January 2013, the Company is required to have a balanced composition in the members of its board, whereby as a minimum 30 per cent of board positions are filled by women.

The board of the Company is composed of five men and one woman and is not compliant with the Act on management and supervision. The board composition reflects the levels of expertise required in the board and for each board member to manage the Company at a professional level and to ensure the highest quality of corporate governance. The positions on the board have been determined to allow an optimal performance of the board, both in number of directors and expertise of each individual director, disregarding gender. Should any of the current board members resign from the board, the board and the shareholder are committed to review candidates for both the function and the board with the aim to appoint the best candidate and, at equal capabilities, to favour the female candidate.

#### **REGISTERED OFFICE**

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

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

## Directors' report

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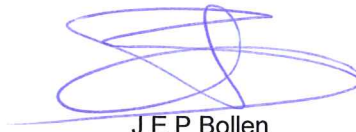
### AUDITORS

PricewaterhouseCoopers Accountants N.V.

On behalf of the Board



M Wiechers



J E P Bollen

Amstelveen, 25 February 2015

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

### Balance sheet as at 31 December

Before appropriation of profit	2014		
All amounts in EUR'000	Notes		
<b>Long-term loans</b>			
Long-term Loans	2	3,470,960	
		<hr/>	
Total long term loans			3,470,960
<b>Current assets</b>			
Accounts receivable	3	77,617	
		<hr/>	
Total current assets		77,617	
<b>Current liabilities</b>	4	(77,599)	
<b>Current assets less current liabilities</b>			<hr/> 18
<b>Total assets less current liabilities</b>			<hr/> 3,470,978 =====
<b>Long-term debts</b>	5		3,470,960
<b>Shareholder's equity</b>	6		
Issued capital		18	
Undistributed profit		--	
		<hr/>	
			18
			<hr/> 3,470,978 =====

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

### Profit & loss account for the period ended 31 December

23 April 2014 to  
31 December 2014

All amounts in EUR'000	Notes	
Financial income	7	2,242
Financial expense	7	(2,242)
		<hr/>
<b>Net financial and investment income</b>		--
		<hr/>
<b>Profit from ordinary activities before tax</b>		--
Taxation	8	--
		<hr/>
<b>Profit after tax</b>		--
		=====

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

### Cash flow statement for the period ended 31 December

23 April 2014 to  
31 December 2014

All amounts in EUR'000

#### Cash flow from operating activities

Profit from ordinary activities before tax	--
<u>Changes in working capital:</u>	
Increase/(decrease) in net interest payable	77,599
Increase/(decrease) in net payables to affiliated companies	(77,617)
	<hr/>
Total changes in working capital	(18)
Taxation received	--
	<hr/>
<b>Total cash flow from operating activities</b>	<b>(18)</b>
<b>Cash flow absorbed by investing activities</b>	
Share capital subscribed	18
	<hr/>
<b>Total cash flow absorbed by investing activities</b>	<b>18</b>
<b>Total net increase/(decrease) in cash</b>	<b>--</b>
Cash at the beginning of the period	--
	<hr/>
Cash at the end of the year	Nil
	=====



## 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.

##### (b) Financial year

The financial year of the Company commences on 1 January and ends on 31 December. The current year includes results for the period from 23 April 2014 to 31 December 2014.

##### (c) Parent undertakings

The Company is a wholly owned subsidiary undertaking of BATHTN. The Company's ultimate parent undertaking is British American Tobacco p.l.c., a public limited company incorporated in England and Wales and registered as an external company in the Republic of South Africa.

Copies of the group report and accounts of British American Tobacco p.l.c. may be obtained from The Company Secretary, British American Tobacco p.l.c., Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom.

##### (d) Related parties

All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also, entities which can control the Company are considered a related party. In addition, statutory directors, other key management and close relatives 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 the true and fair view.

##### (e) Accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles applied in the Netherlands.

The principal policies of the Company are set out below.

##### **Presentation of accounts**

The accounts have been prepared in accordance with the provisions of Book 2, Title 9 of the Dutch Civil Code and according to the firm pronouncements in the DASs for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board.

##### **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**

No comparatives are presented as this is the first year of incorporation of the Company.

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

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

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#### 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 euros, which is the functional and presentation currency of the Company.

##### Transactions, receivables and debts

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, except when deferred in equity as qualifying hedges.

#### Long-term loans

Long-term loans are initially valued at the fair value less transaction cost (if material). 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

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.

The amount of an impairment loss incurred on financial assets stated at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised through profit or loss.

#### 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 revenues. When a receivable is uncollectible, it is written off against the allowance account for receivables.

#### Liabilities and long-term debts

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings 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 borrowings using the effective interest method.

Long-term debts include borrowings of more than one year's remaining duration.

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

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

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#### **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 instruments and risk management**

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

#### **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, foreign exchange rate and cash flow risk**

The Company incurs interest rate risk on long-term loans and on interest bearing non-current 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, foreign exchange rate and cash flow risk.

#### **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.. Subject to two extension options, the facility has a final maturity in 2019. The Company has not drawn any funds under this facility.

#### **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.

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 calculated based on the nominal method and on the tax rate prevailing at the balance sheet date or the rates that will apply in the future, insofar as these have been set down by law. Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised. Account is also taken of changes in deferred income tax assets and liabilities owing to changes in the applicable tax rates.

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

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

All amounts in EUR'000

#### Estimates

The preparation of the financial statements in conformity with the relevant rules requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. 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 judgments, including the related assumptions, is disclosed in the notes to the financial statement items in question.

#### Finance income and expense

Interest paid and received is recognised on a time-weighted basis taking account of the effective interest rate of the assets and liabilities concerned. When recognising interest paid, allowance is made for transaction costs on loans received 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.

#### Cash flow statement

The cash flow statement has been prepared using the indirect method. The cash items disclosed in the cash flow statement are comprised of cash and cash equivalents except for deposits with a maturity over three months. Cash balances are zero as a result of the cash pooling arrangement with B.A.T. International Finance p.l.c. and are included in accounts receivable. Cash flows denominated in foreign currencies have been translated at average estimated exchange rates. Exchange differences affecting cash items are shown separately in the cash flow statement.

Interest paid and received, and income taxes are included in cash from operating activities. Dividends paid are recognised as cash used in financing activities. Transactions not resulting in inflow or outflow of cash are not recognised in the cash flow statement.

#### NOTE 2 ~ LONG-TERM LOANS

31 December 2014

##### Long-term loans to an affiliated company:

GBP	325 million	5.500% due 2016	448,884
EUR	600 million	4.000% due 2020	704,909
EUR	650 million	4.875% due 2021	805,374
EUR	750 million	2.375% due 2023	822,920
EUR	600 million	3.125% due 2029	688,873
			<hr/>
			3,470,960
Less: Current portion			--
			<hr/>
			3,470,960
			=====

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 71,181, in exchange for loans from BATNF to BATHTN on the same terms and conditions as the Novation Notes.

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

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

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All amounts in EUR'000

#### NOTE 2 ~ LONG-TERM LOANS (continued)

The fair values and book values of the loans are as follows:

	<u>31 December 2014</u>	
	<u>Book value</u>	<u>Fair value</u>
Long-term loans	3,470,960	3,498,901
	<hr/>	<hr/>
	3,470,960	3,498,901

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

#### NOTE 3 ~ ACCOUNTS RECEIVABLE

	<u>31 December 2014</u>
Receivables from affiliated companies	18
Interest receivable on long-term loans to affiliated companies	77,599
	<hr/>
	77,617

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 long agreement.

#### NOTE 4 ~ CURRENT LIABILITIES

	<u>31 December 2014</u>
Interest payable on long-term debts to third parties	77,599
	<hr/>
	77,599

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

## 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 DEBTS

			<u>31 December 2014</u>
<b>Long-term debts to third parties:</b>			
GBP	325 million	5.500% notes due 2016	448,884
EUR	600 million	4.000% notes due 2020	704,909
EUR	650 million	4.875% notes due 2021	805,374
EUR	750 million	2.375% notes due 2023	822,920
EUR	600 million	3.125% notes due 2029	688,873
			3,470,960
Less: Current portion			--
			3,470,960

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 71,181, in exchange for loans from BATNF 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.

Long-term debts 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 2014</u>	
			<u>Book value</u>	<u>Fair value</u>
Notes			3,470,960	3,498,901
			3,470,960	3,498,901

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

## 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

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

	<u>Issued capital</u>	<u>Undistributed profit</u>	<u>Total</u>
Paid up capital on Incorporation	18	--	18
Profit for the year	--	--	--
	18	--	18
At 31 December 2014	18	--	18

<u>Authorised capital</u>	<u>Number of ordinary shares</u>	<u>Par value</u>
At 31 December 2014	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

The Company was incorporated under Dutch law on 23 April 2014 and has limited liability.

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

	<u>2014</u>	
	<u>Financial income</u>	<u>Financial expense</u>
Affiliated companies	2,242	--
Financial expenses on long-term debts	--	(2,242)
	2,242	(2,242)

Transactions with affiliated companies are at market rates.

#### 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%.

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

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

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

##### **Directors**

The Company's directors received no remuneration during the period.

##### **Employees**

The Company did not have any employees during the period.

#### **NOTE 10 ~ CONTINGENT LIABILITIES**

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

##### **Guarantees:**

Since acceding to EMTN Programme on 16 May 2014, the Company, together with British American Tobacco p.l.c., B.A.T. International Finance p.l.c. 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 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.

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 BATNF 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 2,675 million, EUR 4,150 million, CHF 1,000 million and USD 300 million.

##### **Taxation:**

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



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

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

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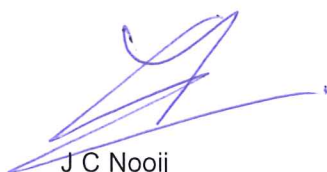
The Directors hereby approve the financial statements



J E P Bollen



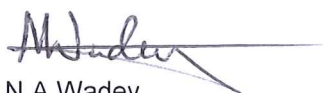
H M J Lina



J C Nooij



C E Steyn



N A Wadey



M Wiechers

Amstelveen, 25 February 2015

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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 period.

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

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



## *Independent auditor's report*

To: the general meeting of B.A.T. Netherlands Finance B.V.

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### *Report on the financial statements 2014*

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#### *Our opinion*

In our opinion the financial statements give a true and fair view of the financial position of B.A.T. Netherlands Finance B.V. as at 31 December 2014, and of its result for the period then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

#### *What we have audited*

We have audited the financial statements 2014 of B.A.T. Netherlands Finance B.V., Amstelveen ('the company'). The financial statements comprise:

- the balance sheet as at 31 December 2014;
- the profit and loss account for the period then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Part 9 of Book 2 of the Dutch Civil Code.

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#### *The 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 assuranceopdrachten" (ViO) and other relevant independence requirements 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.

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Ref.: e0347260

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*PricewaterhouseCoopers Accountants N.V., Zuiderzeelaan 53, 8017 JV Zwolle, P.O. Box 513, 8000 AM Zwolle, The Netherlands*

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'PwC' is the brand under which PricewaterhouseCoopers Accountants N.V. (Chamber of Commerce 34180285), PricewaterhouseCoopers Belastingadviseurs N.V. (Chamber of Commerce 34180284), PricewaterhouseCoopers Advisory N.V. (Chamber of Commerce 34180287), PricewaterhouseCoopers Compliance Services B.V. (Chamber of Commerce 51414406), PricewaterhouseCoopers Pensions, Actuarial & Insurance Services B.V. (Chamber of Commerce 54226368), PricewaterhouseCoopers B.V. (Chamber of Commerce 34180289) and other companies operate and provide services. These services are governed by General Terms and Conditions ('algemene voorwaarden'), which include provisions regarding our liability. Purchases by these companies are governed by General Terms and Conditions of Purchase ('algemene inkoopvoorwaarden'). At [www.pwc.nl](http://www.pwc.nl) more detailed information on these companies is available, including these General Terms and Conditions and the General Terms and Conditions of Purchase, which have also been filed at the Amsterdam Chamber of Commerce.



## **Our audit approach**

### **Overview**

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

The main purpose of the company is the financing of companies belonging to the British American Tobacco p.l.c. ('BAT plc') group. The repayment of loans issued to group companies is guaranteed by BAT plc as disclosed in note 10 to the financial statements. The loans are carried at amortised cost and the fair value is disclosed in the notes to the financial statements.

### **Materiality**

The scope of our audit is influenced by the application of materiality. Our audit opinion aims on providing reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall materiality</b>	€ 17 million
<b>How we determined it</b>	0.5% of total assets
<b>Rationale for benchmark applied</b>	We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that total assets is an important metric for the financial performance of the company.

The general materiality benchmark for finance companies such as B.A.T. Finance Netherlands B.V. is 1% of total assets. Based on our professional judgement we have used 0.5% of total assets, to ensure that all relevant balance sheet and income statement items are in scope. We use total assets since the company's main activity is financing. Funding is raised by the company through issuance of notes, as part of the British American Tobacco Euro Medium Term Note Programme ('EMTN Programme'), and loans are issued to group companies.

We also take misstatements and/or possible misstatements into account that, in our judgment, are material for qualitative reasons.





### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

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

<i>Key audit matter</i>	<i>How our audit addressed the matter</i>
<p><b><i>Recognition and valuation of long term debts</i></b></p> <p><i>Refer to page 14 (Note 5 – long term debts)</i></p> <p>As per 11 December 2014, the Company's sole shareholder, British American Tobacco Holding The Netherlands B.V. novated all notes issued by it under the EMTN Programme to the Company, at the fair value of € 3.4 billion, in exchange for loans from British American Tobacco Netherlands Finance B.V. to British American Tobacco Holding The Netherlands B.V. on the same terms and conditions as the Novation Notes. This transaction is considered significant due to its magnitude on the financial statements.</p>	<p>Our audit procedures included, amongst others, assessing the effective date of the transaction, testing the fair value of the bonds at transaction date by using market observable inputs, review of supporting legal documentation and testing the accounting treatment of the transaction. Furthermore, we have tested the (fair value) disclosures in the financial statements.</p>

### *Responsibilities of the directors*

The directors are responsible for:

- the preparation and fair presentation of the financial statements and for the preparation of the directors' report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code, and for
- such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### *Our responsibilities for the audit of the financial statements*

Our responsibility is to plan and perform an audit engagement to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit has been performed with a high but not absolute level of assurance which makes it possible that we did not detect all frauds or errors.

A more detailed description of our responsibilities is set out in the appendix to our report.



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

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

Pursuant to the legal requirements of Part 9 of Book 2 of the Dutch 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 this Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.
  - We report that the directors' report, to the extent we can assess, is consistent with the financial statements.
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### ***Our appointment***

We were appointed as auditors of B.A.T. Netherlands Finance B.V. following the passing of a resolution by the shareholders at the annual meeting held on 19 January 2015.

Zwolle, 25 February 2015  
PricewaterhouseCoopers Accountants N.V.

A handwritten signature in blue ink, consisting of several overlapping loops and lines, positioned above the name 'drs. F.S. van der Ploeg RA'.

drs. F.S. van der Ploeg RA



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## ***Appendix to our auditor's report on the financial statements 2014 of B.A.T. Netherlands Finance B.V.***

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In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

### ***The auditor's responsibilities for the audit of the financial statements***

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among others of:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Concluding on the appropriateness of the directors' use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.