

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



ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

Annual General Meeting of Shareholders: 24 February 2017

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Directors' report

INTRODUCTION

The directors submit their management report and financial statements for B.A.T. Netherlands Finance B.V. (the "Company" or "BATNF") for the year ended 31 December 2016. These are to be presented at the Annual General Meeting to be held on 24 February 2017. The financial statements of the Company are presented on pages 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/Baa2 stable, and by S&P Global A2/BBB+ stable.

THE DIRECTORS

The present Directors of the Company are:

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

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 outstanding under the EMTN Programme, other than where the Company is the issuer. Notes issued under the EMTN Programme prior to 9 December 2011 benefit from an additional guarantee by 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 (2015: GBP 15,000 million).

All notes issued by the Company were 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, in exchange for loans (the "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.

Effective 13 April 2016, BATHTN repaid all its euro denominated Loans, at fair value, due to the Company. On the same date, the Company novated all its euro denominated notes issued by it under the EMTN Programme to BATIF plc, at fair value, and subsequently became a guarantor of these notes.

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On 15 September 2016, BATHTN repaid the GBP denominated Loan due to the Company and the Company subsequently repaid its GBP denominated bond upon maturity.

As per 31 December 2016, the Company has no bonds in issue under the EMTN Programme, but remains a guarantor of all notes outstanding under the EMTN Programme.

The profit after tax of the Company for the year ended 31 December 2016 amounted to EUR nil (2015: EUR nil).

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 risk and uncertainty to which the Company is exposed can be summarised as follows:

EMTN programme

The Company, together with BAT plc, BATIF plc and BATHTN guarantees, as applicable, all notes outstanding 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 annually updated prospectus in respect 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 in line with Group policies. As a further part of the Company's liquidity risk management, the Company has access to a GBP 3,000 million revolving credit facility, with certain banks and institutions. The Company's obligations as a borrower under the facility are unconditionally and irrevocably guaranteed by BAT plc. At year-end, the Company has not drawn any funds under this facility. The board of the Company proposed and agreed in a meeting on 24 November 2016, to enter into a new revolving credit facility for up to GBP 6,000 million, together with other BAT group companies, to meet the liquidity requirements of the enlarged Group following the completion of the agreed merger with Reynolds American Inc. (the "Merger"). On 20 January 2017, the Company became a party to a GBP 5,680 million forward starting revolving credit facilities as one of the borrowers

Directors' report

and with BAT plc as guarantor. The facilities will become effective upon the completion of the Merger when the existing GBP3,000 million Revolving Credit Facility dated 29 May 2014 will be cancelled.

EMPLOYEES

The Company has no employees.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Company does not undertake research and development activities.

OUTLOOK

The Company remains a guarantor and issuer under the EMTN Programme. In the foreseeable future the Company may undertake new financing activities subject to market conditions.

REGISTERED OFFICE

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

INDEPENDENT AUDITOR

KPMG Accountants N.V.

On behalf of the Board of Management,

M Wiechers

J E P Bollen

Amstelveen, 24 February 2017

Balance sheet as at 31 December 2016

Before appropriation of result		2016	2015
All amounts in EUR'000	Notes		
Financial fixed assets			
Long-term loans	2	--	2,964,280
Total financial fixed assets		--	2,964,280
Current assets			
Receivables	3	18	532,307
Total current assets		18	532,307
Current liabilities	4	--	(532,289)
Current assets less current liabilities		18	18
Total assets less current liabilities		18	2,964,298
		=====	=====
Long-term liabilities			
	5	--	2,964,280
Shareholder's equity			
	6		
Issued capital		18	18
Unappropriated profit		--	--
		18	18
		18	2,964,298
		=====	=====

Profit & loss account for the year 2016

		2016	2015
All amounts in EUR'000	Notes		
Financial income	7	156,363	64,619
Financial expense	7	(156,363)	(64,619)
		<hr/>	<hr/>
Net financial result		--	--
		<hr/>	<hr/>
Profit before tax		--	--
Taxation	8	--	--
		<hr/>	<hr/>
Profit after tax		--	--
		=====	=====

Notes to the balance sheet and profit & loss account

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.

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 on 22 March 1999.

Effective 13 April 2016, British American Tobacco Holdings (The Netherlands) B.V. ("BATHTN") repaid all its euro denominated Loans, at fair value, due to the Company. On the same date the Company novated all its euro denominated notes issued by it under the EMTN Programme to B.A.T. International Finance p.l.c. ("BATIF plc"), at fair value, and subsequently became a guarantor of these notes.

On 15 September 2016, BATHTN repaid the GBP denominated Loan due to the Company and the Company subsequently repaid its GBP denominated bond upon maturity.

The Company remains a guarantor and issuer under the EMTN Programme. In the foreseeable future the Company may undertake new financing activities subject to market conditions.

(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 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.

(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.

Notes to the balance sheet and profit & loss account

(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.

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.

Notes to the balance sheet and profit & loss account

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.

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 on the basis of the effective interest method, less impairment losses.

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

Notes to the balance sheet and profit & loss account

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 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 in line with Group policies. As a further part of the Company's liquidity risk management, the Company has access to a GBP 3,000 million revolving credit facility, with certain banks and institutions. The Company's obligations as a borrower under the facility are unconditionally and irrevocably guaranteed by BAT plc. At year-end, the Company has not drawn any funds under this facility. The board of the Company proposed and agreed in a meeting on 24 November 2016, to enter into a new revolving credit facility for up to GBP 6,000 million, together with other BAT group companies, to meet the liquidity requirements of the enlarged Group following the completion of the agreed merger with Reynolds American Inc. (the "Merger"). On 20 January 2017, the Company became a party to a GBP 5,680 million forward starting revolving credit facilities as one of the borrowers and with BAT plc as guarantor. The facilities will become effective upon the completion of the Merger when the existing GBP3,000 million Revolving Credit Facility dated 29 May 2014 will be cancelled.

Determination of fair values

The fair value of a financial instrument is the amount for which an asset can be sold or a liability settled, involving parties who are well informed regarding the matter, willing to enter into a transaction and are independent from each other, and is determined as follows:

- 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.

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

NOTE 2 ~ LONG-TERM LOANS

At 31 December 2015	3,418,387
Exchange differences	(61,891)
Amortisation of effective interest	(27,803)
Fair value gain on repayment of long-term loans	81,612
Repayment of long-term loans	(3,410,305)

At 31 December 2016

--

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

Long-term loans to an affiliated company:

	<u>31 December 2016</u>	<u>31 December 2015</u>
GBP 325 million 5.500% due 2016	--	454,107
EUR 600 million 4.000% due 2020	--	686,172
EUR 650 million 4.875% due 2021	--	780,588
EUR 750 million 2.375% due 2023	--	814,167
EUR 600 million 3.125% due 2029	--	683,353
	--	3,418,387
Less: Current portion	--	(454,107)
	--	2,964,280

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 (the "Loans") from the Company to BATHTN on the same terms and conditions as the Novation Notes. Effective 13 April 2016, BATHTN repaid all its euro denominated Loans, at fair value, due to the Company. The fair value gain of EUR 81,612 has been recorded in the profit & loss account. On 15 September 2016, BATHTN repaid the GBP denominated Loan due to the Company.

The weighted average interest rate of the long-term loans as at 31 December 2016 amounts to 3.797% (2015: 3.831%). The effective weighted average interest rate of the long-term loans as at 31 December 2016 amounts to 1.273% (2015: 1.328%). 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.

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

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Long-term loans	--	--	3,418,387	3,359,595
	--	--	3,418,387	3,359,595

The fair values represent mark to market values excluding interest accruals as at 31 December 2016 and 31 December 2015.

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

NOTE 3 ~ RECEIVABLES

	<u>31 December 2016</u>	<u>31 December 2015</u>
Receivables from affiliated companies	18	18
Interest receivable on long-term loans to affiliated companies	--	78,182
Current portion of long-term loans	--	454,107
	<hr/>	<hr/>
	18	532,307

Included in receivables is an amount of EUR nil that is not due within one year (2015: 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 and payable in line with the terms and conditions of each applicable long-term loan agreement.

NOTE 4 ~ CURRENT LIABILITIES

	<u>31 December 2016</u>	<u>31 December 2015</u>
Interest payable on long-term liabilities to third parties	--	78,182
Current portion of long-term liabilities	--	454,107
	<hr/>	<hr/>
	--	532,289

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

Amounts are unsecured and payable in line with the terms and conditions of each applicable series of notes issued under the EMTN Programme.

NOTE 5 ~ LONG-TERM LIABILITIES

At 31 December 2015	3,418,387
Exchange differences	(61,891)
Amortisation of effective interest	(27,803)
Fair value loss on novation of long-term liabilities	81,612
Novation and repayment of long-term liabilities	(3,410,305)
	<hr/>
At 31 December 2016	--

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

NOTE 5 ~ LONG-TERM LIABILITIES (continued)

Long-term liabilities to third parties:

		<u>31 December 2016</u>	<u>31 December 2015</u>
GBP	325 million 5.500% notes due 2016	--	454,107
EUR	600 million 4.000% notes due 2020	--	686,172
EUR	650 million 4.875% notes due 2021	--	780,588
EUR	750 million 2.375% notes due 2023	--	814,167
EUR	600 million 3.125% notes due 2029	--	683,353
		--	3,418,387
Less: Current portion		--	(454,107)
		--	2,964,280
		=====	=====

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 (the "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 issued on 22 March 1999.

Effective 13 April 2016, BATHTN repaid all its euro denominated Loans, at fair value, due to the Company. On the same date the Company novated all its euro denominated notes issued by it under the EMTN Programme to BATIF plc, at fair value, resulting in a fair value loss of EUR 81,612 recorded in the profit & loss account. Subsequently the Company became a guarantor of these notes.

On 15 September 2016, BATHTN repaid the GBP denominated Loan due to the Company and the Company subsequently repaid its GBP denominated bond upon maturity.

The weighted average interest rate of the long-term liabilities for the year 2016 amounts to 3.797% (2015: 3.831%). The effective weighted average interest rate of the long-term liabilities for the year 2016 amounts to 1.273% (2015: 1.328%).

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

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.

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

NOTE 5 ~ LONG-TERM LIABILITIES (continued)

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

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Notes	--	--	3,418,387	3,359,595
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	--	--	3,418,387	3,359,595

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

NOTE 6 ~ SHAREHOLDER'S EQUITY

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

	<u>Issued capital</u>	<u>Unappr. profit</u>	<u>Total</u>
At 31 December 2015	18	--	18
Profit for the year	--	--	--
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2016	18	--	18
	<u> </u>	<u> </u>	<u> </u>

<u>Authorised capital</u>	<u>Number of ordinary shares</u>	<u>Par value</u>
At 31 December 2015	40	EUR 450.00
At 31 December 2016	40	EUR 450.00

<u>Issued and fully paid capital</u>	<u>Number of ordinary shares</u>	<u>Par value</u>
At 31 December 2015	40	EUR 450.00
At 31 December 2016	40	EUR 450.00

Proposal for profit appropriation

There is no proposal for profit appropriation as the Company has not generated profit during the year.

Notes to the balance sheet and profit & loss account

All amounts in EUR'000

NOTE 7 ~ FINANCIAL INCOME/(EXPENSE)

	<u>2016</u>		<u>2015</u>	
	<u>Financial income</u>	<u>Financial expense</u>	<u>Financial income</u>	<u>Financial expense</u>
Financial income on loans to affiliated companies	12,860	--	40,384	--
Financial expenses on long-term liabilities	--	(12,860)	--	(40,384)
Loss on novation of long-term liabilities	--	(81,612)	--	--
Gain on repayment of long-term loans	81,612	--	--	--
Foreign exchange gains/(losses)	61,891	(61,891)	24,235	(24,235)
	<u>156,363</u>	<u>(156,363)</u>	<u>64,619</u>	<u>(64,619)</u>

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% (2015: 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

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

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 outstanding 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 (2015: GBP 15,000 million).

Notes to the balance sheet and profit & loss account

NOTE 11 ~ CONTINGENT LIABILITIES (continued)

At the balance sheet date, the Company is the guarantor of notes issued under the EMTN Programme of GBP 4,175 million, EUR 9,100 million, CHF 650 million and USD 650 million (2015: GBP 3,025 million, EUR 6,500 million, CHF 1,000 million and USD 300 million). The notes mature between 2017 and 2055.

In addition, the Company, together with BAT plc and BATHTN, guarantees seven series of notes totalling USD 6,000 million (2015: USD 4,500 million) issued by BATIF plc, pursuant to Rule 144A and Regulation S under the United States Securities Act of 1933 (as amended). The notes mature between 2017 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.

On 17 February 2016, the Company entered into a tax sharing agreement with BATIH, pursuant to which BATIH assumes the economic ownership of all tax expenses of the Company related to the potential future settlement of tax exposures (and others as they may arise).

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

The Directors hereby approve the financial statements

J E P Bollen

D P I Booth

H M J Lina

J C Nooij

N A Wadey

M Wiechers

Amstelveen, 24 February 2017

Other information

(a) Provisions in the Articles of Association governing the appropriation of profit

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

(b) Independent auditor's report

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

Independent auditor's report

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2016 of B.A.T. Netherlands Finance B.V., based in Amstelveen.

In our opinion the accompanying financial statements give a true and fair view of the financial position of B.A.T. Netherlands Finance B.V. as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

The financial statements comprise:

- 1 the balance sheet as at 31 December 2016;
- 2 the profit and loss account for 2016; and
- 3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

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

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

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

Report on the other information included in the annual report

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

- directors' report;
- other information

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

— is consistent with the financial statements and does not contain material misstatements;

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information including the directors' report.

Description of the responsibilities for the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

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

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

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

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

Amstelveen, 24 February 2017

KPMG Accountants N.V.

M.G. Schönhage RA