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

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

Annual General Meeting of Shareholders: 10 March 2021

Contents

INTRODUCTION

The Board of Directors submit their annual report for B.A.T. Netherlands Finance B.V. ("the Company") for the year ended 31 December 2020. These are to be presented at the Annual General Meeting of Shareholders to be held on 10 March 2021. The Board of Directors of the Company hereby presents its directors' report for the financial year ended on 31 December 2020. The financial statements of the Company are presented on pages 8 to 24.

GENERAL INFORMATION

The principal activity of the Company is that of a financing company. The Company is the European financing vehicle of British American Tobacco p.l.c. ("BAT plc") and affiliated companies, (together referred to as "the Group"). The Group's principle activity is the production, sale and distribution of nicotine products. The Group is active in over 150 countries in the world.

During the financial year 2019 the Company did not have any operational activities as it did not act as an issuer under the Group's financing programmes, nor provide any loans.

The Euro Medium Term Note Programme ("the EMTN Programme") constitutes the principal means by which the Group accesses the European debt capital markets for medium to long-term funding. The Company acceded to the EMTN Programme in 2014 as an issuer and a guarantor and is currently guarantor of notes issued by B.A.T. International Finance p.l.c. ("BATIF plc"), B.A.T Capital Corporation ("BATCAP") and Reynolds American Inc. ("RAI").

On 7 April 2020, the Company has issued notes under the EMTN Programme on the London Stock Exchange Limited ("LSE") (the "Notes"). The Company's obligations as an issuer are guaranteed by BAT plc, BATIF plc and BATCAP. The proceeds of the Notes have been on-lent to BATIF plc (the "Loans"). The Loans exactly mirror the terms and conditions of the Notes plus an additional arms' length handling fee. The Loans are guaranteed by BAT plc.

On 3 June 2020 the Company has acceded as an issuer to the Group's Euro-Commercial Paper Programme ("ECP Programme") under which BATIF plc and BATCAP are the issuers and BAT plc is the guarantor. The ECP Programme is used to manage short-term liquidity requirements for the Group.

The issuances by the Company under the ECP Programme are undertaken as an intermediary for the Group and therefore the proceeds are on-lent to BATIF plc by way of loans mirroring the terms and conditions of the issuances with an additional arm's length handling fee. At year-end, no issuance or loan under the ECP Programme was outstanding for the Company.

The Company is, together with BATIF plc, BAT plc and BATCAP a borrower under the BAT Group's GBP 6bn Revolving Credit Facility ("GBP 6bn RCF"), comprising two GBP 3bn tranches, one of which matures on 11 March 2021 (Tranche A) with the second tranche maturing on 12 March 2025 (Tranche B). This facility is the BAT Group's primary source of backstop liquidity and BAT plc is the guarantor. The GBP 6bn RCF cannot be used in the event of a default under the financing programmes but provides an additional source of funds for general management purposes. As at 31 December 2020, the GBP 6bn RCF remains undrawn.

The Company is a guarantor under the SEC registered shelf programme of an indeterminate principal amount of guaranteed debt securities issued by BATCAP and BATIF plc (the "Issuers"). The Issuers (except where they are the relevant Issuer), BAT plc, BATHTN (limited), RAI and the Company guarantee the securities (the "Shelf Programme").

The Company qualified in 2020 as an *organisatie van openbaar belang* (public-interest entity) within the meaning of art. 2:398(7) DCC and art. 1(1)(l) of the Dutch Audit Firms Supervision Act. On 31 December 2020 midnight, the United

GENERAL INFORMATION - continued

Kingdom left the European Union (Brexit) and the Notes were no longer considered to be issued on an European regulated market, hence the status of *organisatie van openbaar belang* ceased to exist.

The Company's immediate parent company is BATIF plc and its ultimate parent undertaking is BAT plc, both being public limited companies being incorporated in the United Kingdom and registered in England and Wales. The financial information of the Company is included in the consolidated financial statements of BAT plc and may be obtained from www.BAT.com.

FINANCIAL INFORMATION

On 7 April 2020, the Company issued under the EMTN Programme on the LSE, notes in an amount of EUR 850 million at a 2,38% coupon and a maturity date at 7 October 2024 and Notes in an amount of EUR 850million at a 3,13% coupon and a maturity date at 7 April 2028. The Loans to BATIF plc mirror the Notes and are entered into on arms' length basis, including an additional handling fee. The Loans are construed on the Master Inter-Group Treasury Products Agreement ("MIGTPA") of the Group. On 8 April 2020 the Company entered into a guarantee agreement with BAT plc whereby BAT plc unconditionally and irrevocably guarantees the fulfilment of all obligations of BATIF plc as obligor under the Loans.

On 3 June 2020, the Company was accepted to the ECP as an issuer. The proceeds of any issuances are lent immediately to BATIF plc on an arms' length basis. During the year, the Company had a maximum outstanding amount under the ECP Programme of EUR 700 million and all issuances matured at 29 September 2020 and no outstanding balance is recognized on the balance at year end.

The result after tax of the Company for the year ended 31 December 2020 amounted to EUR 277 thousand (2019: EUR nil).

The Company's liquidity ratio is 1.01 and the Company has a solvability ratio of 0.01.

No cash flows and financing requirements are applicable.

RISK ANALYSIS

This section focuses on those risks the Board believes to be the most important after assessment of the likelihood and the potential impact on the business. Not all of these risks are within the control of the Company and other risks besides those listed may affect the Company's performance.

The principal risks that may affect the Company are set out below.

Strategy

The principal activity of the Company is that of a financing company. Any default risk is managed by matching the maturity profile of the long-term liabilities with the maturity profile of the long-term loans to BATIF plc, a handling fee of +4.75bp and by having a guarantee agreement between the Company and BAT plc against a default of BATIF plc. In case short-term liabilities exist, these will be managed by matching the maturity profile with the short-term loans to BATIF plc, a handling fee of +4.75bp and by having a guarantee agreement between the Company and BAT plc against a default of BATIF plc.

Operational activities

The Company periodically reviews the risks that are associated with its operations and complies with the BAT Group's robust system of internal control and processes designed to safeguard shareholder's investment and the Company's assets. These include the Control navigator, standards of business conduct and policies on anti-money laundering & corruption and sanctions.

The Company obtains its services from British American Tobacco International (Holdings) B.V. ("BATIH") and BATIH ensures that its employees are qualified to provide these services. The BAT Group provides annual compulsory training of key employees.

RISK ANALYSIS Operational activities - continued

The Company issues Notes under BAT Group financing programmes that are ultimately guaranteed by BAT plc. The BAT Group financing programmes are regulated under UK or US law and are verified by external counsel providing legal opinions on the financing programme as such as well as the participation of the Company in the financing programme. The long-term loans to the shareholder are at arms' length and based on the MIGTPA. Management performs a yearly assessment of the financial performance of BATIF plc and its ability to repay the loans provided by the Company by reviewing the approved BATIF plc annual financial statements, taking into account credit ratings by credit agencies granted to BATIF plc in order to determine potential credit risk.

These activities 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.

Financial position

The Company is expected to maintain profitable as a result of the handling fee of +4.75bp, which will also ensure a positive cash flow. The Company is financially sound and profitable.

Financial reporting

In preparing this annual report, the Board of Directors has made judgements, estimates and assumptions that affect the application of the accounting principles and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The Company relies on the provision of services by British American Shared Services (Europe) S.R.L. ("GBS"), the BAT Group's central treasury accounting department defining all processes in SAP and which maintains the underlying information input such as ratings and on services provided by BATIH. The Company and GBS implemented different controls in the financial reporting process, such as the authorization of transactions and review of financial information.

Laws and regulation

The Company identified regulatory compliance in general as important. There are several processes in place to ascertain and manage this risk. In order to gain comfort over the risk, the Company engages with specialist partners at Stibbe N.V. for the provision of legal advice on specific transactions and on corporate governance in general. Loyens Loeff N.V. provides the notarial support to the Company. Updates on upcoming changes in legislation are provided to the Company as well as permanent professional education. Legal updates are given as required to the Board of Directors of the Company. Based on the controls the Company is able to comply with regulation and to respond timely to changes.

Social responsibility

As part of the BAT Group, the Company adheres to the BAT Group's commitment to carry out its business in an environmentally responsible and sustainable way.

The company does not employ any personnel. On Inclusion & Diversity, the Board of Directors ratio is 25% female. When a board seat is available, the best qualified candidate will be contracted.

The Company is not an employer but receives its required services from Group entities that need to comply and adhere to the Group's policies on social responsibility. An example is the BAT Group Code of Conduct, which includes business integrity, anti-bribery and corruption, environmental sustainability and respect for human rights (covering equal opportunities and fair treatment, health and safety, prevention of harassment and bullying and freedom of association).

The external service providers, such as Stibbe N.V., Loyens Loeff N.V. and KPMG N.V. are all verified suppliers on the Group list of preferred suppliers and have been investigated to adhere to the same standards. More details on the above principles can be found on www.bat.com/principles.

COVID-19

The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. The outbreak and the response from Governments in dealing with the pandemic is interfering with general activity levels within the community and the economy. Following the COVID-19 outbreak, the BAT Group has continued its business operations.

The impact of COVID-19 on the level of the Company has not been material. The Company does not employ personnel and the personnel of BATIH and GBS providing the services have been enabled to work from home. There has not been any disruption in the services.

The financial markets have shown some disturbance over the year, but the BAT Group has been able to access the financial markets and to continue to have access to funds.

FINANCIAL INSTRUMENTS

The maximum amount of credit risk that the Company incurs is EUR 1,710,492 thousand, consisting of EUR 1,685,703 thousand due from BATIF plc by way of long-term loans and EUR 24,789 thousand accrued interest, also due from BATIF plc. The back-to-back loans to BATIF plc are well secured against default by way of a guarantee agreement between the Company and BAT plc.

The interest and cash flow risk is considered low. The back-to-back loans to BATIF plc mirror the terms and conditions of the Notes in issue by the Company plus an additional fixed margin of +4.75bp, hence no residual interest risk remains. The repayment risk is low as a result of the guarantee provided by BAT plc.

Interest risk on the cash pool agreement with BATOF plc is low due to the limited balances maintained which are only to cover administrative costs of the Company.

The Company is able to verify the financial position of the issuers under the Group financing programmes with Central Treasury and Group Accounting and has no indications that any of the issuers under the respective financing programmes will not meet their obligations as they fall due for at least the next 12 months. No events of default were noted in the period up to the date of submission of these accounts.

OUTLOOK

The BAT Group continues to monitor developments closely as the COVID-19 pandemic develops. To date, the impact of the COVID-19 pandemic on the BAT Group's business has not been material, but if the situation deteriorates or persists for an extended period the risk of a significant adverse impact to the Group's business will increase. The impact will depend on a range of factors that cannot be accurately predicted, including duration and scope of the pandemic, the geographies impacted, the impact on economic activity and the nature and severity of the measures adopted by governments. At the level of the Company, we will take all necessary actions and continue to monitor the Group's performance and most importantly, protect the staff working on our behalf. Based on our current knowledge and available information, we do not expect Covid-19 to have an impact on our ability to continue as a going concern in the future.

As a consequence of Brexit, the Company will no longer qualify as an *organisatie van openbaar belang* (PIE) as from 1 January 2021. There is currently no intention to issue Notes under the EMTN Programme on any other regulated market than the UK and on the LSE.

The BAT Group is continuously looking at its financial position to opportunities to reduce its costs/costs of financing and, depending on market circumstances, new notes may be issued by any of the issuers.

In March 2020, the BAT Group refinanced its GBP 6bn RCF. Subsequent to the year-end, in February 2021, the BAT Group extended GBP 2.85bn of the 364-day tranche from March 2021 to March 2022 and GBP 2.85bn of the five-year tranche from March 2025 to March 2026. GBP 3bn of this tranche remains available until March 2025.

OUTLOOK - continued

In 2021 the Company is expected to continue to be profitable. The margin generated by the Company on the long-term liabilities and the long-term loans to shareholders is a handling fee of +4.75bp.

The Board of Directors:

J E P Bollen

D P I Booth

H M J Lina

N A Wadey

10 March 2021

Handelsweg 53 A, 1181 ZA
Amstelveen,
The Netherlands

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

Balance sheet as at 31 December 2020

Before appropriation of result		31 December 2020		31 December 2019	
All amounts in EUR'000	Notes				
Fixed assets					
Financial fixed assets					
Long-term loans to shareholder	1	1,685,703		--	
			1,685,703		--
Current assets					
Other receivables	2	24,789		18	
			24,789		18
Total assets			1,710,492		18
Shareholder's equity	3				
Issued capital		18		18	
Unappropriated result		277		--	
			295		18
Long-term liabilities	4		1,685,714		--
Current liabilities					
Other liabilities	5	24,483		--	
			24,483		--
			1,710,492		18

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

Profit & loss account for the year 2020

All amounts in EUR'000		2020	2019
Financial income	7	36,527	--
Financial expense	7	(35,896)	--
Net financial result		631	--
Other operating expenses	8	(262)	--
Profit before tax		369	--
Taxation	9	(92)	--
Profit after tax		277	--

General

(a) Reporting entity and relationship with parent companies

The Company, having its legal address at Handelsweg 53 A, 1181 ZA Amstelveen, is a private limited liability company under Dutch law and is listed under number 60533536 in the Trade Register. 100% of the shares of the Company are held by B.A.T. International Finance p.l.c. (“BATIF plc”), London, United Kingdom.

The Company’s ultimate parent undertaking is British American Tobacco p.l.c. (“BAT plc”), a public limited company being incorporated in the United Kingdom and registered in England and Wales. The financial information of the Company is included in the consolidated financial statements of BAT plc and may be obtained from www.BAT.com.

The principal activity of the Company is that of a financing company.

(b) Financial Reporting period

The financial year of the Company ends on 31 December. The profit & loss account covers the year from 1 January to 31 December and the balance sheet date is 31 December.

(c) Related parties

Transactions with related parties are disclosed if they have not been entered into at arm’s length. Disclosed are the nature and amounts involved with such transactions, and other information that is deemed necessary for an insight into the transactions. 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 Board of Directors and other key management (and their close relatives) of both the Company and its parent undertakings are regarded as related parties. Refer notes 1, 2, 5, 7, 10, 12, 14 and 15 for the identified related parties.

(d) Cash flow statement

The Company does not include a cash flow statement in its financial statements as the Company’s cash flows are included in the consolidated financial statements of British American Tobacco p.l.c.. Copies of the Group report and accounts of BAT plc are available at www.bat.com.

(e) Basis of preparation and accounting policies

The financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code. The accounting policies applied for measuring assets and liabilities and the determination of result are based on the historical cost convention, unless otherwise stated in the further principles. The Company has deviated from the requirements for the profit & loss account in the Decree Model Financial Statements in view of the nature of the Company’s activities.

General

Assets and liabilities are measured at historical cost, unless otherwise stated in the further principles.

An asset is recognised on the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company and the asset has a cost price or value which can be measured reliably. Assets that are not recognised on the balance sheet are considered as off-balance sheet assets.
A liability is recognised on the balance sheet when it is expected that the settlement of an existing obligation will result in an outflow of resources embodying economic benefits and the amount necessary to settle this obligation can be measured reliably.

Provisions are included in the liabilities of the Company. Liabilities that are not recognised on the balance sheet are considered as off-balance sheet liabilities.

General – continued

An asset or liability that is recognised on the balance sheet, remains recognised on the balance sheet if a transaction (with respect to the asset or liability) does not lead to a major change in the economic reality with respect to the asset or liability. Transactions of this nature will not result in the recognition of results. When assessing whether there is a significant change in the economic circumstances, the economic benefits and risks that are likely to occur in practice are taken into account. The benefits and risks that are not reasonably expected to occur, are not taken in to account in this assessment.

An asset or liability is no longer recognised on the balance sheet, and thus derecognised, when a transaction results in all or substantially all rights to economic benefits and all or substantially all of the risks related to the asset or liability are transferred to a third party. In such cases, the results of the transaction are directly recognised in the profit and loss account, taking into account any provisions related to the transaction.

If assets are recognised of which the Company does not have the legal ownership, this fact is being disclosed.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

Revenues and expenses are allocated to the period to which they relate.

Financial income is recognised in the profit and loss account on an accrual basis, using the effective interest rate method.

Going concern

These financial statements have been prepared on the basis of the going concern assumption.

Use of estimates

In preparing these financial statements, the Board has made judgements, estimates and assumptions that affect the application of the accounting principles and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The following accounting policies are in the opinion of management the most critical in preparing these financial statements and require judgements, estimates and assumptions:

The long-term loans to the shareholder: Management performs a yearly assessment of the financial performance of BATIF plc and its ability to repay the loans provided by the Company by reviewing the approved BATIF plc annual financial statements, taking into account credit ratings by credit agencies granted to BATIF plc in order to determine potential credit risk. Furthermore, there is a guarantee provided by BAT plc in relation to the long-term loans to the shareholder. Therefore, management also performs a yearly assessment of the financial performance of BAT plc and its ability to exercise the obligations under this guarantee by reviewing the approved BAT plc annual financial statements, taking into account credit ratings by credit agencies granted to BAT plc in order to determine potential credit risk.

Functional and presentation currency

The financial statements are presented in euro, the Company’s functional and presentation currency. All amounts have been rounded to the nearest thousand. All transactions are in euro’s, there are no transactions in foreign currencies.

General – continued

Financial instruments

These financial statements contain the following financial instruments: long-term loans to shareholder, interest receivable on long term loans to shareholder, long-term debts to third parties, interest payable on long-term debts to third parties, amounts due from/payable to affiliated companies and cash pooling receivables in amounts due from affiliated companies.

Financial assets and liabilities are recognised in the balance sheet at the moment that the contractual risks or rewards with respect to that financial instrument originate. Financial instruments are derecognised if a transaction results in a considerate part of the contractual risks or rewards with respect to that financial instrument being transferred to a third party.

Financial instruments (and individual components of financial instruments) are presented in the statutory financial statements in accordance with the economic substance of the contractual terms. Presentation of the financial instruments is based on the individual components of financial instruments as a financial asset, financial liability or equity instrument. Financial instruments are initially measured at fair value, including discount or premium and directly attributable transaction costs. After initial recognition, financial instruments are valued in the manner described below.

Determination of fair value

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.

The fair value of listed financial instruments included under long-term debts to third parties is determined on the basis of the listed last market price as published by Bloomberg. The fair value of non-listed financial instruments included under long-term loans to shareholder is determined on the same basis as listed financial instruments and further by discounting the expected additional margin earned by the Company to their present value, applying a discount rate that is equal to the current risk-free market interest rate for the remaining term.

Receivables

Receivables are measured at initial recognition at fair value, plus transaction costs.

After initial recognition, receivables are measured at amortised cost on the basis of the effective interest method, less impairment losses. If no premium or discount and transaction costs are applicable, the amortised cost is equal to the nominal value of the receivables, less a provision for uncollectible debts. These provisions are determined by individual assessment of the receivables. The effective interest and impairment losses, if any, are directly recognised in the profit and loss account.

Cash pooling receivables

The Company utilises cash pooling arrangements with B.A.T. Operational Finance p.l.c. (“BATOF plc”) which are not guaranteed. Balances, if any, are included under cash pooling receivables in amounts due from affiliated companies. The Company does not have cash and cash equivalents that are not included in the cash pooling arrangements. Amounts held under cash pooling receivables are stated at nominal value and are readily available.

General – continued

Impairment of financial assets

A financial asset that is not measured at (1) fair value with value changes reflected in the profit and loss account, or at (2) amortised cost or lower market value, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, with negative impact on the estimated future cash flows of that asset, which can be estimated reliably.

The entity considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and financial assets that are held to maturity) both individually and on a portfolio basis. All individually significant assets are assessed individually for impairment. The individually significant assets that are not found to be individually impaired and assets that are not individually significant are then collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate.

Impairment losses are 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. When, in a subsequent period, the amount of an impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss (up to the amount of the original cost).

Offsetting financial instruments

A financial asset and a financial liability are offset when the entity has a legally enforceable right to set off the financial asset and financial liability and the Company has the firm intention to settle the balance on a net basis, or to settle the asset and the liability simultaneously.

If there is a transfer of a financial asset that does not qualify for derecognition in the balance sheet, the transferred asset and the associated liability are not offset.

Shareholder’s equity

Financial instruments that are designated as equity instruments by virtue of the economic substance of the legal reality are presented under shareholder’s equity. Payments to holders of these instruments are deducted from the shareholder’s equity as part of the profit distribution.

Financial instruments that are designated as a financial liability by virtue of the legal reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the profit and loss as financial income or expense.

Long-term and current liabilities and other financial commitments

At initial recognition, long-term and current liabilities and other financial commitments are recognised at fair value.

After initial recognition, long-term and current liabilities and other financial commitments are measured at amortised cost on the basis of the effective interest method. If no premium or discount and transaction costs are applicable, the amortised cost is equal to the nominal value of the liability. Redemption payments regarding long-term liabilities that are due next year, are presented under current liabilities. The effective interest is directly recorded in the profit and loss account.

General – continued

Financial income and financial expense

Financial income is recognised in the profit and loss account on an accrual basis, using the effective interest rate method. Financial expenses and similar charges are recognised in the period to which they belong.

Premium, discount and redemption premiums are recognised as financial expense in the period to which they belong. The allocation of these financial expenses and the financial income on the loan is the effective interest rate that is recognised in the profit and loss account. On the balance sheet, the amortised value of the debt(s) is recognised (on balance).

The amounts of the premium that are not yet recognised in the profit and loss account and the redemption premiums already recognised in the profit and loss account, are recognised as an increase in debt(s) to which they relate. Amounts of the discount that are not yet recognised in the profit and loss account are recognised as a reduction of the debt(s) to which they relate.

Corporate income tax

Corporate income tax comprises the current and deferred corporate income tax payable and deductible for the reporting period. Corporate income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity, or to business combinations.

Current tax comprises the expected tax payable or recoverable on the taxable profit or loss for the financial year, calculated using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

If the carrying amount of assets and liabilities for financial reporting purposes differ from their values for tax purposes (tax base), this results in temporary differences. For taxable temporary differences, a provision for deferred tax liabilities is recognised. For deductible temporary differences, available tax losses and unused tax credits, a deferred tax asset is recognised, but only to the extent that it is probable that future taxable profits will be available for set-off or compensation. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The measurement of deferred tax liabilities and deferred tax assets is based on the tax consequences following from the manner in which the Company expects, at the balance sheet date, to realise or settle its assets, provisions, debts and accrued liabilities. Deferred tax assets and liabilities are measured at nominal value.

The Company forms part of the fiscal unity BATIH (the “Fiscal Unity” and ”BATIH”, respectively). BATIH is the taxpayer of this Fiscal Unity and settles income taxes including, if any, deferred tax assets and deferred tax liabilities, 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.

As a consequence of the Brexit, as per 1 January 2021, the Company no longer forms part of the fiscal unity of BATIH but continues as standalone taxpayer under the Dutch Collection of State Taxes Act. As a standalone taxpayer, the Company is solely liable for all taxes due as a result of its business.

BATIH was the taxpayer of this Fiscal Unity and settled income taxes directly with the members of the Fiscal Unity via the Group’s inter-company netting procedure until 31 December 2020. Under the Dutch Collection of State Taxes Act, the Company and its fellow fiscal unity members were jointly and severally liable for any taxes payable by the Fiscal Unity.

The Tax Sharing Agreement between the Company and BATIH remains active for the years the Company has been part of the Fiscal Unity and BATIH thus continues to indemnify the Company in relation to any disputes arising from the submitted consolidated tax return for the BAT Fiscal Unity, the cost of any additional tax and/or interest together with any advisory or legal fee, without recourse for the period covering all fiscal years from the Company’s inception in 2014 up to and including 31 December 2020.

General – continued

Subsequent events

Events that provide further information on the actual situation at the balance sheet date and that appear before the financial statements are being prepared, are recognised in the financial statements.

Events that provide no information on the actual situation at the balance sheet date are not recognised in the financial statements. When those events are relevant for the economic decisions of users of the financial statements, the nature and the estimated financial effects of the events are disclosed in the financial statements.

Notes to the 2020 financial statements

All amounts in EUR'000

NOTE 1 ~ LONG-TERM LOANS TO SHAREHOLDER

Long-term loans to the Company's shareholder BATIF plc:

	31 December 2020	31 December 2019
(i) EUR 850 million 2.4225% due 7 October 2024	844,125	--
(ii) EUR 850 million 3.1725% due 7 April 2028	841,578	--
	1,685,703	--

Movement on long-term loans to shareholder comprise:

Long- term loans to shareholder as at 1 January 2020	--
Issue of new loans on 7 April 2020	1,685,703
Long- term loans to shareholder as at 31 December 2020	1,685,703

On 7 April 2020, the Company issued new notes under the EMTN programme (refer Note 4 to the financial statements). The proceeds of the issuance have been lent to BATIF plc on the same terms and conditions as applicable to the new notes issued, including an additional handling fee earned by the Company of +4.75bp. The weighted average interest rate of the long-term loans as at 31 December 2020 amounts to 2.798%. The effective weighted average interest rate of the long-term loans as at 31 December 2020 amounts to 2.914%.

The long- term loans to shareholder are guaranteed by BAT plc.

(i) Interest on the 2.4225% long-term loan in the amount of EUR 20.6 million is receivable annually on 7 October each year for the duration of the loan. The capital repayment of the long-term loan at nominal value of EUR 850 million is due on 7 October 2024.

(ii) Interest on the 3.1725% long-term loan in the amount of EUR 27.0 million is receivable annually on 7 April each year for the duration of the loan. The capital repayment of the long-term loan at nominal value of EUR 850 million is due on 7 April 2028.

The fair value of the long-term loans at 31 December 2020 amounted to EUR 1,918,118. The fair values represent the listed last market price published by Bloomberg as at 31 December 2020 on the same basis as listed financial instruments and by discounting the expected additional margin earned by the Company to their present value, applying a discount rate that is equal to the current risk-free market interest rate for the remaining term.

NOTE 2 ~ OTHER RECEIVABLES

	31 December 2020	31 December 2019
Interest receivable on long-term loans to shareholder	24,726	--
Amounts due from affiliated companies	63	18
	24,789	18

Interest receivable on long-term loans to shareholder are payable in accordance with the terms and conditions of the long-term loan agreements.

Notes to the 2020 financial statements

All amounts in EUR'000 except share capital details

NOTE 2 ~ OTHER RECEIVABLES - continued

All receivables have an estimated maturity shorter than one year. The carrying values of the recognised receivables approximate their respective fair values, given the short maturities of the positions and the fact that allowances for doubtful debts have been recognised, if necessary.

The Company utilises a cash pooling arrangement with BATOF plc and balances, if any, are included under cash pooling receivables in amounts due from affiliated companies. These are interest bearing, unsecured and repayable on demand. The interest rate is based on LIBOR.

NOTE 3 ~ SHAREHOLDER'S EQUITY

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

	Issued capital	Unappropriated result	Total
As at 1 January 2019	18	--	18
Result for the year 2019	--	--	--
As at 1 January 2020	18	--	18
Result for the year 2020	--	277	277
As at 31 December 2020	18	277	295

The Company's authorised and issued capital, amounting to EUR 18,000, consists of 40 ordinary shares of EUR 450.

Appropriation of result of 2019

The financial statements of the Company for the reporting year 2019 have been adopted by the Annual General Meeting of Shareholders on 2 March 2020. The Annual General Meeting of Shareholders had adopted the appropriation of the profit after tax as proposed by the Board being EUR nil.

Proposal for result appropriation 2020

At the Annual General Meeting of Shareholders it will be proposed to transfer the remaining profit for the year in the amount of EUR 277 to other reserves. The 2020 profit after tax is presented as unappropriated result in shareholder's equity.

NOTE 4 ~ LONG-TERM LIABILITIES

Long-term debts to third parties:

	31 December 2020	31 December 2019
(i) EUR850 million 2.375% due 7 October 2024	844,130	--
(ii) EUR850 million 3.125% due 7 April 2028	841,584	--
	1,685,714	--

Notes to the 2020 financial statements

All amounts in EUR'000

NOTE 4 ~ LONG-TERM LIABILITIES continued

	31 December 2020	31 December 2019
Movement on long-term debts to third parties comprise:		
Long- term debts to third parties as at 1 January 2020	--	
Issue of new notes on 7 April 2020	1,685,714	
Long- term debts to third parties as at 31 December 2020	1,685,714	

On 7 April 2020, the Company issued new notes under the EMTN programme.

The weighted average interest rate of the long-term borrowings as at 31 December 2020 amounts to 2.750%. The effective weighted average interest rate of the long-term borrowings at 31 December 2020 amounts to 2.868%.

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 long- term debts to third parties are guaranteed under the terms and conditions of the EMTN Programme by all issuers that are not issuers of these notes and BAT plc. Refer to Note 10 for notes issued under the EMTN Programme guaranteed by the Company.

(i) Interest on the 2.375% long-term liabilities in the amount of EUR 20.2 million is payable annually on 7 October each year for the duration of the loan. The capital repayment of the long-term loan at nominal value of EUR 850 million is due on 7 October 2024.

(ii) Interest on the 3.125% long-term debts in the amount of EUR 26.6 million is receivable annually on 7 April each year for the duration of the loan. The capital repayment of the long-term loan at nominal value of EUR 850 million is due on 7 April 2028.

The fair value of the long-term debts at 31 December 2020 amounted to EUR 1,913,273. The fair values represent the listed last market price published by Bloomberg as at 31 December 2020. Specified denominations of the long-term debts is EUR 100 and integral multiples of EUR 1 in excess thereof up to and including EUR 199. No notes are issued with a denomination above EUR 199.

NOTE 5 ~ OTHER LIABILITIES

	31 December 2020	31 December 2019
Other payables	58	--
Interest payable on long-term debts to third parties	24,333	--
Payables to affiliated companies	92	--
	24,483	--

Included in current liabilities is an amount of EUR nil that is not due within one year (2019: EUR nil).

Interest payable on long-term debts to third parties are unsecured and payable in line with the terms and conditions of each applicable series of notes issued under the EMTN Programme.

Payables to affiliated companies relate to a corporate tax liability to BATIH, which is the head of the fiscal unity.

The carrying values of the recognised payables approximate their respective fair values, given the short maturities of the positions.

All amounts in EUR'000

NOTE 6 ~ FINANCIAL INSTRUMENTS

During the normal course of business, the Company uses various financial instruments that expose it to market, currency, interest, cash flow, credit and liquidity risks. To control these risks, the Company has instituted a policy including a code of conduct and procedures that are intended to limit the risks of unpredictable adverse developments in the financial markets and thus for the financial performance of the Company.

Financial and liquidity risk:
The maturity profile of the long-term liabilities equals the maturity profile of the long-term loans to shareholders.

Currency risk:
Both the long-term liabilities and the long-term loans to shareholders are denominated in Euro.

Interest risk:
The handling fee generated by the Company on the long-term liabilities and the long-term loans to shareholders is a spread of +4.75bp.

Cash flow risk:
The maturity profile of the long-term liabilities being equal to the maturity profile of the long-term loans to shareholders, together with the handling fee of +4.75bp generated, ensures a positive cash flow.

Credit risk:
Management performs a yearly assessment of the financial performance of BATIF plc and its ability to repay the loans provided by the Company by reviewing the approved BATIF plc annual financial statements and taking into account credit ratings by credit agencies granted to BATIF plc in order to determine potential credit risk.

The credit risk is mitigated by a well secured guarantee agreement between the Company and BAT plc..

The overall credit risk on the long-term loan to the shareholders is considered to be low.

NOTE 7 ~ FINANCIAL INCOME/(EXPENSE)

	2020		2019	
	Financial income	Financial expense	Financial income	Financial expense
Financial income on long-term loans to the shareholder	36,526	--	--	--
Financial expenses on long-term liabilities	--	(35,895)	--	--
Other financial income/(expense)	1	(1)	--	--
	36,527	(35,896)	--	--

NOTE 8 ~ OTHER OPERATING EXPENSES

Other operating expenses comprise audit and other engagement fees charged by the Company's auditors and legal advisory fees. Administration and accounting services are provided by affiliated companies from within the Fiscal Unity and are not recharged to the Company.

All amounts in EUR'000

NOTE 9 ~ TAXATION

	2020	2019
Profit before tax	369	--
Applicable tax 25%	92	--
Tax expense/(benefit)	92	--
Effective tax rate	25.0%	0.0 %

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 Fiscal Unity.

NOTE 10 ~ CONTINGENT LIABILITIES

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

Guarantees

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 BAT plc, BATIF plc, British American Tobacco Holdings (The Netherlands) BV ("BATHTN"), and as from 31 May 2017, B.A.T Capital Corporation ("BATCAP") having re-acceded as participant under the EMTN Programme, guarantees, as applicable, all notes outstanding under the EMTN Programme, other than where the Company is the issuer. Effective 13 February 2018, BATCAP acceded as guarantor of the series of notes issued under the EMTN, which it did not already guarantee (other than where BATCAP is the issuer). During 2020, BATHTN was removed as a participant to the EMTN programme.

The maximum aggregate nominal amount of all notes that may from time to time be outstanding under the EMTN Programme is GBP 25,000 million (2019: GBP 25,000 million). All notes issued have been admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange p.l.c.'s Regulated Market, or to the SIX Swiss Exchange, as applicable.

At the balance sheet date, the Company is the guarantor of notes issued under the EMTN Programme of GBP 4,555 million, EUR 9,050 million and CHF 650 million (2019: GBP 4,125 million, EUR 9,750 million and CHF 650 million). The notes mature between 2021 and 2052.

The Company, together with BAT plc, BATCAP and BATHTN, guarantees three series of notes totalling USD 1,919 million (2019: two series of notes totalling USD 2,000 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 2022 and 2025.

The Company, together with BAT plc, BATIF plc, BATHTN and Reynolds American Inc., guarantees numerous series of notes pursuant to Rule 144A. with registration rights, issued as from August 2017, totalling USD 24,501 million (2019: 18,500 million). The notes mature between 2022 and 2050.

As part of the Company's liquidity management, the Company is, together with BATIF plc, BAT plc and BATCAP a borrower under the BAT Group's GBP 6bn Revolving Credit Facility ("GBP 6bn RCF"), comprising two GBP 3bn tranches, one of which matures in March 2021 (Tranche A) with the second tranche maturing in March 2025 (Tranche B). This facility is the BAT Group's primary source of backstop liquidity and BAT plc is the guarantor.

NOTE 10 ~ CONTINGENT LIABILITIES - continued

Income tax liability

The Company forms part of the Fiscal Unity of BATIH. BATIH is the taxpayer of this Fiscal Unity and settles income 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. The Company has entered into a tax sharing agreement with BATIH, pursuant to which BATIH assumes the economic ownership of all tax expenses of the Company related to the potential future settlement of tax exposures (and others as they may arise). The estimated costs of known tax obligations have been provided in these accounts in accordance with the Company's accounting policies.

As a consequence of the Brexit, as per 1 January 2021, the Company no longer forms part of the fiscal unity of BATIH but continues as standalone taxpayer under the Dutch Collection of State Taxes Act. As a standalone taxpayer, the Company is solely liable for all taxes due as a result of its business.

BATIH was the taxpayer of this Fiscal Unity and settled income taxes directly with the members of the Fiscal Unity via the Group's inter-company netting procedure until 31 December 2020. Under the Dutch Collection of State Taxes Act, the Company and its fellow fiscal unity members were jointly and severally liable for any taxes payable by the Fiscal Unity.

The Dutch tax authority has issued a number of assessments to the Fiscal Unity on various issues across the years 2003-2016 in relation to various intra-group transactions. BATIH has appealed against the assessments in full. BATIH believes that its companies have meritorious defences in law and fact in each of the above matters and intends to pursue each dispute through the judicial system as necessary.

The Tax Sharing Agreement between the Company and BATIH remains active for the years the Company has been part of the Fiscal Unity and BATIH thus continues to indemnify the Company in relation to any disputes arising from the submitted consolidated tax return for the BAT Fiscal Unity, the cost of any additional tax and/or interest together with any advisory or legal fee, without recourse for the period covering all fiscal years from the Company's inception in 2014 up to and including 31 December 2020.

NOTE 11 ~ STAFFING

The Company does not have any employees.

NOTE 12 ~ TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are assumed when a relationship exists between the Company and a natural person or entity that is affiliated with the Company. This includes, amongst others, the relationship between the Company and its shareholder, Board of Directors and key management personnel. Transactions are transfers of resources, services or obligations, regardless whether anything has been charged.

The Board of Directors do not receive remuneration for their services. The Board of Directors are employed by affiliated group companies and their costs are not recharged to the Company.

The Company does not pay any guarantee fees in relation to the financial instruments which are guaranteed by entities within the BAT group.

During the year there have been no transactions with related parties that were not on a commercial basis.

All amounts in EUR'000

NOTE 13 ~ AUDITOR'S FEES

The following fees were charged by KPMG Accountants N.V. to the Company, as referred to in Section 2:382a(1) and (2) of the Dutch Civil Code.

	KPMG Accountants N.V. 2020	KPMG Accountants N.V. 2019
Audit of the financial statements	51	10
Other audit engagements	24	24
	75	34

The fees included above for the audit of the 2020 financial statements relate to the total fees for the audit of the 2020 financial statements, excluding VAT, irrespective of whether the activities have been performed, respectively, during the 2020 financial year.

Included under other audit engagements, KPMG Accountants N.V. provided, in addition to the statutory audit of the financial statements, assurance work concerning the issuing of an annual comfort letter in connection with the EMTN programme.

NOTE 14 ~ THE BOARD OF DIRECTORS

On 31 July 2020, Mr M Wiechers resigned as a Director of the Company.

The present Board of Directors of the Company consists of:

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

NOTE 15 ~ DIRECTORS REMUNERATION

The Board of Directors do not receive remuneration for their services (2019: nil). The Board of Directors are employed by affiliated group companies and their costs are not recharged to the Company.

NOTE 16 ~ SUBSEQUENT EVENTS POST YEAR END

(i) ***Fiscal Unity ended upon Brexit***

As a consequence of the Brexit, as per 1 January 2021, the Company no longer forms part of the fiscal unity of BATIH but continues as standalone taxpayer under the Dutch Collection of State Taxes Act. As a standalone taxpayer, the Company is solely liable for all taxes due as a result of its business.

BATIH was the taxpayer of this Fiscal Unity and settled income taxes directly with the members of the Fiscal Unity via the Group's inter-company netting procedure until 31 December 2020. Under the Dutch Collection of State Taxes Act, the Company and its fellow fiscal unity members were jointly and severally liable for any taxes payable by the Fiscal Unity.

All amounts in EUR’000

NOTE 16 ~ SUBSEQUENT EVENTS POST YEAR END - continued

The Tax Sharing Agreement between the Company and BATIH remains active for the years the Company has been part of the Fiscal Unity and BATIH thus continues to indemnify the Company in relation to any disputes arising from the submitted consolidated tax return for the BAT Fiscal Unity, the cost of any additional tax and/or interest together with any advisory or legal fee, without recourse for the period covering all fiscal years from the Company’s inception in 2014 up to and including 31 December 2020.

(ii) *Organisatie van openbaar belang* ended upon Brexit

As a consequence of Brexit, the Company will no longer qualify as an *organisatie van openbaar belang* (PIE) as from 1 January 2021. There is currently no intention to issue Notes under the EMTN Programme on any other market than the UK and on the LSE.

(iii) *GBP 6bn RCF*

In March 2020, the BAT Group refinanced its GBP 6bn RCF. Subsequent to the year-end, in February 2021, the BAT Group extended GBP 2.85bn of the 364-day tranche from March 2021 to March 2022 and GBP 2.85bn of the five-year tranche from March 2025 to March 2026. GBP 3bn of this tranche remains available until March 2025.

The Board of Directors hereby approve the financial statements

J E P Bollen

D P I Booth

H M J Lina

N A Wadey

10 March 2021

Handelsweg 53 A, 1181 ZA
Amstelveen,
The Netherlands

Other information

Independent auditor’s report

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

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 Annual General Meeting of Shareholders.

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 2020 included in the annual report

Our opinion

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 2020 and of its result for the year 2020 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 2020 of B.A.T. Netherlands Finance B.V. (the Company) based in Amstelveen.

The financial statements comprise:

1 the balance sheet as at 31 December 2020;

2 the profit and loss account for the year 2020; 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Materiality
— Materiality of EUR 15 million
— 0,88% of total assets

Key audit matters
— Valuation of receivables due from the shareholder

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 15 million. The materiality is determined with reference to total assets of which it represents approximately 0.88%. We consider total assets as the most appropriate benchmark because the users of the Company's financial statements tend to be focused on total assets and also given its role as a financing entity. The benchmark on which materiality is based significantly increased compared to last year due to loans issued to the shareholder resulting from the issuance of notes under the British American Tobacco Euro Medium Term Note Programme in 2020. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

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 matter

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

This matter was 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 this matter.

Valuation of receivables due from the shareholder

Description

The Company is a financing entity that issues bonds to external parties in order to obtain funding for the shareholder, B.A.T. International Finance p.l.c. ('BATIF p.l.c.'). The Company has no substantial assets other than the loans granted to BATIF p.l.c., which are guaranteed by BAT p.l.c.

The Company is therefore interrelated with and dependent on the financial performance of BATIF p.l.c. for the repayment of principal and (accrued) interest. This is highlighted in note 6 to the financial statements. Given the pervasive impact on the financial statements of the Company, we consider the valuation of long-term loans to and interest receivable on long-term loans to BATIF p.l.c. as a key audit matter.

Our response

Our audit response consisted of testing the Board of Directors' assessment of the financial viability of BATIF p.l.c. and BAT p.l.c. to assess their ability to meet their contractual obligations towards the Company. Specifically, we evaluated the liquidity and solvency of BATIF p.l.c. and BAT p.l.c. based on financial information as at 31 December 2020, analysed historical trends in its net equity, net income before tax and cash flows. Additionally, we evaluated the timely repayment of interest and principal obligations by BATIF p.l.c. during the year and subsequent to balance sheet date, to determine whether conditions exist that indicate a negative impact on the counterparties' ability to meet its future obligations. Moreover, we inspected externally available information, such as external rating agencies' reports for BAT p.l.c.

Furthermore, we determined, via inquiry with the Board of Directors of B.A.T. Netherlands Finance B.V. and with the external auditor of both BATIF p.l.c. and BAT p.l.c., whether any indications existed as at or subsequent to the Company's year-end balance sheet date, that BATIF p.l.c. and BAT p.l.c. would be unable to meet its contractual obligations under the respective loan and guarantee agreements with the Company.

In addition, we evaluated the adequacy of the Company's disclosure in respect of the credit risk in note 6 to the financial statements.

Our observation

The results of our procedures performed were satisfactory. We found that the Board of Directors' assessment of the recoverability of the long-term loans to and interest receivable on long-term loans to BATIF p.l.c. to be sufficient and that the risk is adequately disclosed in the financial statements.

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.

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

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

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

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of B.A.T. Netherlands Finance B.V., as of the audit for the year 2015 and have operated as statutory auditor ever since that financial year.

Description of responsibilities regarding 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 Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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 engagement 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 detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error 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 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.

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 audit included among others:

- 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 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 the Board of Directors' 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 a 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 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.

We provide the Board of 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 Board of Directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. 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.

Amstelveen, 10 March 2021

KPMG Accountants N.V.

M.G. Schönhage RA