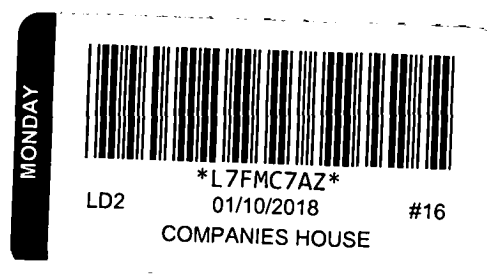


**British American Tobacco Western Europe Commercial Trading  
Limited**

**Registered Number 05203113**

**Directors' Report and Financial Statements**

**For the year ended 31 December 2017**



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## Strategic report

The Directors present their strategic report on British American Tobacco Western Europe Commercial Trading Limited (the "Company") for the year ended 31 December 2017.

### Principal activities

The Company's principal activity is the management of commercial and supply chain activities in Western Europe including the production and distribution of tobacco products to fellow British American Tobacco p.l.c. Group (the "Group") companies and external third parties.

The Directors expect the Company's activities to continue on a similar basis in the foreseeable future.

### Review of the year ended 31 December 2017

On 17 May 2016, as part of the on-going review of manufacturing operations, the Company gave notice to British American Tobacco (Germany) GmbH ("BAT Germany") of its intention to decrease sourcing of Factory Made Cigarette volumes and certain semi-finished goods and filters from BAT Germany's factory in Bayreuth, Germany. The manufacturing volumes will be allocated to other Group factories within the same region. Consequently, a notice of termination was issued to BAT Germany on 20 June 2016, terminating the existing Toll Manufacturing Agreement with effect from 31 December 2017.

A new Toll Manufacturing Agreement was negotiated with BAT Germany during 2017, which covers toll manufacturing requirements from 1 January 2018 onwards. The compensation amount that the Company has paid to BAT Germany in connection with the decrease in manufacturing volumes and related termination of the Toll Manufacturing Agreement is €182,200,000, although long term benefits are expected to accrue to the Company.

The profit for the financial year attributable to the Company's shareholders after deduction of all charges and the provision of taxation amounted to €492,453,000 (2016: €391,373,000).

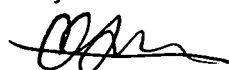
### Key performance indicators

Given the nature of the Company's activities, the Company's Directors believe that key performance indicators are not necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business. However, key performance indicators relevant to the Group, and which may be relevant to the Company, are disclosed in the Strategic Report in the Annual Report of British American Tobacco p.l.c. and do not form part of this report.

### Principal risks and uncertainties

The principal risks and uncertainties of the Company, including financial risk management, are integrated with the principal risks of the Group and are monitored by audit committees to provide a framework for identifying, evaluating and managing risks faced by the Group. Accordingly, the key Group risk factors that may be relevant to the Company are disclosed in the Annual Report of British American Tobacco p.l.c. and do not form part of this report.

By Order of the Board



Oliver Martin  
Secretary

1 October 2018

## Directors' report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2017.

### Employees

The Company utilises a range of initiatives to actively encourage employee involvement in the Group's business including individual discussions, team briefings, employee surveys, publications and regular meetings with employee representatives.

The company actively encourages employee share ownership through participation in the employee share plans, such as the Share Reward Scheme.

The Company has Employment Policies which are committed to providing a work environment that is free from harassment, bullying and discrimination – these policies are available to all staff on the Company's intranet. There is no discrimination against people with disabilities who apply to join the Company and anyone within the Company with disability is awarded the same opportunities for promotion, training and career development as other staff. We aim to establish and maintain a safe working environment for all staff, including those with disabilities.

### Dividends

During the year, the Company received dividends amounting to €161,563,000 (2016: €207,424,000) and paid dividends amounting to €507,271,000 (2016: €433,473,000).

### Post Balance Sheet Events

Subsequent to the year end, the Company has received dividends amounting to €176,567,804 and paid dividends amounting to €581,660,000.

### Board of Directors

The names of the persons who served as directors of the Company during the period from 1 January 2017 to the date of signing this report are as follows:

	Dates Appointed	Dates Resigned
Barry, Ronan	21/05/2015	31/12/2017
Brazier, Stuart Damon	21/05/2015	
Comin, Luciano	21/05/2015	31/12/2017
De Alwis, H Palliye Gurunnanselage Sandeep Nishan Drupath	28/09/2016	
Dees, Jeroen Abraham Johannes	20/01/2015	
Gomez, Ivan Vicente	01/01/2018	
Luemkemann, Leif	01/01/2017	21/08/2018
Marroco, Tadeu Luiz	01/12/2016	
Meyer, Bernd	07/04/2016	
Nemeth, Andrea Emberovic-Sarosacne	07/04/2016	01/01/2017
Sijtsma, Christiaan	01/01/2018	

## Directors' report

### Financial risk management

The Company's operations expose it to currency risk as part of its sales of cigarettes and purchases of raw materials and goods for resale are denominated in foreign currencies other than euros. The exposure is partially hedged with forward foreign exchange contracts.

The Company is also exposed to a credit risk due to sales to external parties. To minimise exposure, management monitors the level of outstanding debt on an on-going basis.

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

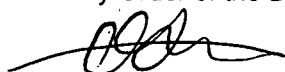
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement of disclosure of information to auditors

Having made appropriate inquiries, each of the Directors who held office at the date of approval of this Directors' report and financial statements confirms that:

- (a) to the best of their knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) they have taken all steps that a Director might reasonably be expected to have taken in order to make themselves aware of relevant audit information and to establish that the Company's auditor is aware of that information.

By Order of the Board



**Oliver Martin**  
Secretary

1 October 2018

# **INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF BRITISH AMERICAN TOBACCO WESTERN EUROPE COMMERCIAL TRADING LIMITED**

## **Opinion**

We have audited the financial statements of British American Tobacco Western Europe Commercial Trading Limited ("the company") for the year ended 31 December 2017, which comprise the Profit and Loss Account, Statement of Other Comprehensive Income, Statement of Changes in Equity, Balance Sheet and related notes, including the accounting policies in Note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

## **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on pages 3-4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**James Baker (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
15 Canada Square  
London, E14 5GL  
1 October 2018

**Profit and loss account for the year ended 31 December 2017**

		<b>2017</b>	<b>2016</b>
		<b>€'000</b>	<b>€'000</b>
<b>Continuing operations</b>			
	Note		
Turnover	2	<b>2,640,305</b>	2,158,589
Raw materials and consumables		<b>(1,326,707)</b>	(1,365,212)
Changes in stock		<b>16,073</b>	8,947
Employee Benefit Costs	3	<b>(58,055)</b>	(34,121)
Amortisation & Impairment	7	<b>(168,323)</b>	-
Other operating income		<b>52,070</b>	30,560
Other operating expenses	3	<b>(808,516)</b>	(586,159)
<b>Operating profit</b>		<b>346,847</b>	212,604
Investment Income	4	<b>161,563</b>	207,424
Interest receivable and similar income	4	<b>213</b>	116
Interest payable and similar expenses	5	<b>(17,121)</b>	(28,760)
<b>Profit before taxation</b>		<b>491,502</b>	391,384
Tax on profit	6	<b>951</b>	(11)
<b>Profit after taxation</b>		<b>492,453</b>	391,373

The accompanying notes are an integral part of the financial statements.



## Statement of other comprehensive income for the year ended 31 December 2017

	2017	2016
	€'000	€'000
<b>Profit for the financial year</b>	<b>492,453</b>	<b>391,373</b>
Effective portion of changes in fair value of cash flow hedges	(47,775)	6,440
Net change in foreign currency translation	7,422	(1,624)
<b>Total recognised gains relating to the financial year</b>	<b>452,100</b>	<b>396,189</b>

## Statement of changes in equity for the year ended 31 December 2017

	Called up share capital €'000	Profit and loss account €'000	Cash flow hedge reserve €'000	Currency Translation reserve €'000	Total Equity €'000
<b>31 December 2015</b>	<b>50,000</b>	<b>201,401</b>	<b>20,402</b>	<b>-</b>	<b>271,803</b>
Profit for the financial year	-	391,373	-	-	391,373
Dividends paid	-	(433,473)	-	-	(433,473)
<b>Other comprehensive income</b>					
Cash flow hedge gain	-	-	6,440	-	6,440
Currency translation loss	-	-	-	(1,624)	(1,624)
<b>31 December 2016</b>	<b>50,000</b>	<b>159,301</b>	<b>26,842</b>	<b>(1,624)</b>	<b>234,519</b>
Profit for the financial year	-	492,453	-	-	492,453
Dividends paid	-	(507,271)	-	-	(507,271)
<b>Other comprehensive income</b>					
Cash flow hedge loss	-	-	(47,775)	-	(47,775)
Currency translation gain	-	-	-	7,422	7,422
<b>31 December 2017</b>	<b>50,000</b>	<b>144,483</b>	<b>(20,933)</b>	<b>5,798</b>	<b>179,348</b>

The accompanying notes are an integral part of the financial statements.

**Balance Sheet as at 31 December 2017**

	Note	2017 €'000	2016 €'000
<b>Non-Current Assets</b>			
Investment in Subsidiaries	8	3,136,645	2,993,927
Deferred Taxation	6	1,378	-
Financial Instruments	17	280	-
<b>Current assets</b>			
Stocks	9	232,208	273,634
Debtors: amounts falling due within one year	10	478,417	373,707
Financial Instruments	17	17,900	31,553
Restricted cash and cash equivalents	11	-	46,014
Cash at bank and in hand		109,607	679
		<b>838,132</b>	<b>725,587</b>
<b>Borrowings</b>	13	<b>(3,286,014)</b>	<b>(3,216,248)</b>
Provision for Liabilities and Charges	14	(15,000)	-
Provision for strategic manufacturing restructure	14	-	(142,690)
Creditors: amounts falling due within one year	12	(458,458)	(119,386)
Financial Instruments	17	(30,975)	(6,671)
<b>Net current (liabilities)/assets</b>		<b>(2,952,315)</b>	<b>(2,759,408)</b>
<b>Total assets less current liabilities</b>		<b>185,988</b>	<b>234,519</b>
<b>Financial Instruments</b>	17	<b>(697)</b>	<b>-</b>
<b>Provision for Liabilities</b>	14	<b>(5,943)</b>	<b>-</b>
<b>Total assets less total liabilities</b>		<b>179,348</b>	<b>234,519</b>
<b>Capital and reserves</b>			
Called up share capital	16	50,000	50,000
Profit and loss account		144,483	159,301
Cash Flow Hedge Reserve		(20,933)	26,842
Currency Translation Reserve		5,798	(1,624)
<b>Total shareholders' funds</b>		<b>179,348</b>	<b>234,519</b>

The financial statements on pages 7 to 22 were approved by the Directors on 1 October 2018 and signed on behalf of the Board.



Stuart Brazier  
Director

Registered number 05203113

The accompanying notes are an integral part of the Financial Statements.

## Notes to the financial statements for the year ended 31 December 2017

### 1. Accounting policies

#### Basis of Preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 101 – 'Reduced Disclosure Framework' ('FRS 101'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Comparative period reconciliations for intangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries and related parties;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs

As the consolidated financial statements of British American Tobacco p.l.c. include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share-based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The Company is exempt under CA2006 s400 from the obligation to prepare group accounts.

The Company is a wholly owned subsidiary of British American Tobacco p.l.c.. The cash flows of the Company are included in the consolidated cash flow statement of British American Tobacco p.l.c. which is publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 101.

The principal accounting policies have been applied consistently throughout the year and a summary is set out below.

The Company is included in the consolidated financial statements of British American Tobacco p.l.c. which is incorporated in the United Kingdom and registered in England and Wales.

#### Going Concern

Considering the Company's financial position as at 31 December 2017, British American Tobacco (Holdings) Limited ('the Parent') intends to provide continuing financial support to the Company for the purposes of its business operations for a period of at least 12 months from the date of approval of these financial statements. The Parent has indicated that it will not seek repayment of amounts currently made available. Given this and after reviewing the Company's forecasts and projections of the Company and the Parent for the 12 months from approval of these financial statements, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

## Notes to the financial statements for the year ended 31 December 2017

### 1. Accounting policies (continued)

#### Foreign currencies

Items included in the financial statements of the Company are reported in euros, being the primary currency of the economic environment in which the Company operates.

Transactions arising in currencies other than euros are translated at the rate of exchange ruling on the date of the transaction, or at the forward rate if fully hedged by a forward exchange contract. Monetary assets and liabilities expressed in currencies other than euros are translated at rates of exchange ruling at the end of the financial year, or at the forward rate if fully hedged by a forward exchange contract. All exchange differences are taken to the Profit and loss account in the year.

Forward contracts are used to manage exposure to foreign exchange risks. The Company does not hold derivative financial instruments for trading or speculative purposes.

#### Accounting for turnover and income

Turnover comprises sales at invoiced value (excluding duty, excise and other taxes) and, after deducting rebates, returns and similar discounts, is included in the Profit and loss account when all contractual or other applicable conditions for recognition have been met. Provisions are made for bad and doubtful debts where there is an expectation that all or a portion of the amount due will not be recovered.

#### Taxation

Taxation provided is that chargeable on the profits of the year, together with deferred taxation.

The current income taxation charge is calculated based on taxation laws enacted or substantially enacted at the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more taxation in the future or a right to pay less taxation in the future have occurred at the balance sheet date.

A net deferred taxation asset is recognised as recoverable and therefore recognised only when, based on all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward taxation losses and from which the future reversal of underlying timing differences can be deducted.

Deferred taxation is measured at the average taxation rates that are expected to apply in the periods in which the timing differences are expected to reverse based on taxation rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred taxation is measured on an undiscounted basis.

#### Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on weighted average cost incurred in acquiring inventories and bringing them to their existing location and condition, which will include raw materials, direct labour and overheads, where appropriate. Net realisable value is the estimated selling price less cost to completion and sale.

## Notes to the financial statements for the year ended 31 December 2017

### 1. Accounting Policies (continued)

#### Dividends

Dividends payable that are unapproved at the year-end are not recognised as a liability. Similarly, dividend income is recognised at the same time as the paying company recognises the liability to pay a dividend.

#### Share based payments

The Company is recharged by British-American Tobacco (Holdings) Limited, a fellow group company, for the cost of share schemes to which its employees belong. This recharge is expensed in the year incurred. The recharge in the year ended 31 December 2017 was €3,087,000 (2016: €2,509,000) as disclosed in note 3 Other external expenses. The fellow group company, which administers the share schemes on behalf of other group companies calculates and reflects the charge for the share schemes, and provides the relevant disclosures required under IFRS 2 *Share-based Payments*. Consequently, the Company has taken advantage of the disclosure exemptions under FRS101.

#### Derivative Financial Instruments

The Company uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

In order to qualify for hedge accounting, the Company is required to document in advance the relationship between the item being hedged and the hedging instrument. The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an on-going basis. This effectiveness testing is re-performed at each period end to ensure the hedge remains highly effective.

Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the Profit and loss account in the same period as the underlying income or expenditure. The ineffective portions of the gain or loss on the hedging instrument are recognised in profit or loss.

For the portion of hedges deemed ineffective or transactions that do not qualify for hedge accounting, where the forecasted or committed transaction is no longer expected to occur, the cumulative gain or loss that has been recorded in equity is transferred to the Profit and loss account.

The fair value of the forward currency contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

#### Provisions for liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

## Notes to the financial statements for the year ended 31 December 2017

### 2. Turnover

Turnover comprises the sale of tobacco products to external third parties and fellow British American Tobacco p.l.c. Group (the "Group") companies, primarily within Western Europe.

### 3. Other external expenses

	2017 €'000	2016 €'000
<b>Other external expenses comprise:</b>		
Sourcing compensation payment	39,510	142,690
Freight and logistics	58,784	53,027
Royalties	295,727	104,785
Exchange losses / (gains)	(8,076)	10,727
Auditor's remuneration:		
- Audit services	205	217
Other external expenses	422,366	274,713
	<b>808,516</b>	<b>586,159</b>
<b>Staff costs:</b>		
Wages and salaries	45,808	26,183
Social security costs	5,092	2,956
Defined benefit scheme treated as defined contribution scheme	1,853	1,027
Defined contribution pension costs	2,215	1,446
Share-based payments	3,087	2,509
	<b>58,055</b>	<b>34,121</b>

The above staff costs, which are borne by the Company, relate to the employees of fellow Group undertakings. The associated employee numbers are 224 (2016: 300).

## Notes to the financial statements for the year ended 31 December 2017

### 3. Other operating charges (continued)

#### Directors

The aggregate emoluments of the Directors payable by the Company in respect of their services to the Company were as follows:

	2017 €'000	2016 €'000
Aggregate emoluments	4,406	3,214
	Number	Number
Directors exercising share options during the year	7	7
Directors entitled to receive shares under a long-term incentive scheme	6	6
Directors retirement benefits accruing under a defined benefit scheme	5	4
Directors retirement benefits accruing under a defined contribution scheme	3	3

The highest paid Director was entitled to receive shares under a long-term incentive scheme and did not exercise share options during the year. No Directors received emoluments (excluding shares) under long term incentive schemes during the year (2016: none).

#### Highest paid Director

	2017 €'000	2016 €'000
Aggregate emoluments	973	693
Defined benefit pension scheme: accrued pension at end of year	117	105

### 4. Interest receivable and similar income

	2017 €'000	2016 €'000
Investment Income – dividends received	161,563	207,424
Interest receivable from Group undertakings	210	116
Bank Interest	3	-
	161,776	207,540

### 5. Interest payable and similar expenses

	2017 €'000	2016 €'000
Interest payable to Group undertakings	17,120	28,760
Bank Loans and Overdrafts	1	-
	17,121	28,760

## Notes to the financial statements for the year ended 31 December 2017

### 6. Tax on profit on ordinary activities

#### (a) Recognised in the profit and loss account

	2017 €'000	2017 €'000	2016 €'000	2016 €'000
<i>UK corporation tax</i>				
Current tax on income for the period	18		11	
Double taxation relief	(18)		(11)	
<i>Foreign tax</i>				
Current tax on income for the period	426		11	
<b>Total current tax</b>		<b>426</b>		<b>11</b>
<i>Deferred Tax</i>				
Origination and reversal of temporary differences		(1,396)		-
<i>Tax rate changes</i>		18		-
<b>Total deferred tax</b>		<b>(1,378)</b>		<b>-</b>
<b>Total income tax expense note 6(b)</b>		<b>(951)</b>		<b>11</b>

#### (b) Factors affecting the taxation charge

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly.

The current taxation charge differs from the standard 19.25% (2016: 20.00%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2017 €'000	2016 €'000
Profit for the year	492,453	391,373
Total tax expense	(951)	11
Profit excluding taxation	491,502	391,384
Tax using the corporation tax rate of 19.25% (2016: 20.00%)	94,614	78,277
Expenses not deductible	(19,467)	(9,802)
Income not taxable	(31,095)	(41,733)
Tax rate changes	18	-
Foreign tax suffered	409	-
Temporary differences not previously recognised	(1,701)	-
Group loss relief claimed for nil consideration	(43,729)	(26,731)
<b>Total current taxation note 6(a)</b>	<b>(951)</b>	<b>11</b>

The Company has recognised a deferred taxation asset of €1,377,612 (2016: €1,768,000 unrecognised) on the balance sheet in respect of fixed asset timing difference.



## Notes to the financial statements for the year ended 31 December 2017

### 7. Intangible Assets

	Trademarks & Licences €'000
<b>Cost</b>	
At 1 January 2017	-
Increase during the year	-
Acquisition of Tobacco Assets	168,323
<b>At 31 December 2017</b>	<b>168,323</b>
<b>Amortisation</b>	
At 1 January 2017	-
Provided during the year	-
Annual Impairment Review	168,323
<b>At 31 December 2017</b>	<b>168,323</b>
<b>Carrying amount at 31 December 2017</b>	<b>-</b>
Carrying amount at 1 January 2017	-

### Acquisition of tobacco assets in Bulgaria and Bosnia

During 2017, the Group acquired certain tobacco assets, including trademarks and individual immaterial distribution businesses, in Bulgaria from Bulgartabac (in May), and in Bosnia from Fabrika Duhana Sarajevo (in August).

The acquired brands have been subject to an impairment review as a result of the intention to migrate to existing BAT brands shortly after the acquisition.

## Notes to the financial statements for the year ended 31 December 2017

### 8. Investment in Subsidiaries

Details of the Company's subsidiaries at 31 December 2017 are as follows:

	€'000
<b>Cost</b>	
At 1 January 2017	2,993,927
Additions	142,718
Disposals	-
At 31 December 2017	3,136,645
Impairments for year end 31 December 2017	-
Net book value at 31 December 2017	3,136,645

Additions to Investment in Subsidiaries relates to an equity injection of €142,717,731 in Precis (1789) Denmark A/S.

Company	Share Class	Direct Interest	Subsidiary Interest	Attributable Interest
<b><u>Bosnia</u></b>				
<b>FDBL-B d.o.o. Banja Luka</b>				
<i>ul. Kralja Petra I Karadordevica br. 82, 78000 Banja Luka, Bosnia and Herzegovina</i>	Ordinary	100%	0%	100%
<b>Tobacco Press d.o.o. Mostar</b>				
<i>Blajburških žrtava br. 62, Mostar, Bosnia and Herzegovina</i>	Ordinary	100%	0%	100%
<b><u>Denmark</u></b>				
<b>British American Tobacco Denmark A/S</b> (House of Prince A/S)				
<i>Vester Farimagsgade 19, 1606, København V, Denmark</i>	Ordinary	0%	100%	100%
<b>Precis (1789) Denmark A/S</b>				
<i>Vester Farimagsgade 19, 1606, København V, Denmark</i>	Ordinary	100%	0%	100%
<b>X-international Aps</b>				
<i>Vester Farimagsgade 19, 1606, København V, Denmark</i>	Ordinary	0%	100%	100%
<b><u>Norway</u></b>				
<b>British American Tobacco Norway AS</b>				
<i>Klaus Torgårdsvej 3, 0372 Oslo, Norway</i>	Ordinary	0%	100%	100%
<b><u>Poland</u></b>				
<b>British American Tobacco Polska S.A.</b>				
<i>Ul. Tytoniowa 16, 16-300, Augustow, Poland</i>	Ordinary	0%	34.64%	34.64%
<b>British-American Tobacco Polska Trading sp. z o.o.</b>				
<i>Krakowiakow 48, 02-255, Warszawa, Poland</i>	Ordinary	0%	34.64%	34.64%

## Notes to the financial statements for the year ended 31 December 2017

### 8. Investment in Subsidiaries (continued)

Company	Share Class	Direct Interest	Subsidiary Interest	Attributable Interest
<b><u>Sweden</u></b>				
<b>British American Tobacco Sweden AB</b>				
<i>Västra Trädgårdsgatan 15, 111 53 Stockholm, Sweden</i>	Ordinary	0%	100%	100%
<b>British American Tobacco Sweden Holding AB</b>				
<i>Västra Trädgårdsgatan 15, 111 53 Stockholm, Sweden</i>	Ordinary	0%	100%	100%
<b>Fiedler &amp; Lundgren AB</b>				
<i>Stenåldersgatan 23, 213 76 Malmö, Sweden</i>	Ordinary	0%	100%	100%
<b>Winds Global AB</b>				
<i>Sweden Stationsvägen 11, 523 74 Hökerum, Sweden</i>	Ordinary	0%	100%	100%
<b>Winnington AB</b>				
<i>Sweden Stationsvägen 11, 523 74 Hökerum, Sweden</i>	Ordinary	0%	100%	100%
<b>Winnington Holding AB</b>				
<i>Sweden Stationsvägen 11, 523 74 Hökerum, Sweden</i>	Ordinary	0%	100%	100%
<b><u>Switzerland</u></b>				
<b>British American Tobacco Switzerland S.A.</b>				
<i>Route de France 17, 2926 Boncourt, Switzerland</i>	Registered	100%	0%	100%
<b>British American Tobacco Switzerland Vending SA</b>				
<i>Route de France 17, 2926 Boncourt, Switzerland</i>	Ordinary	0%	100%	100%
<b>Intertab S.A.</b>				
<i>Route de la Glâne 107, c/o NBA Fiduciaire S.A. 1752 Villars-sur-Glâne, Switzerland</i>	Registered	0%	50%	50%

### 9. Stocks

	2017	2016
	€'000	€'000
Raw materials and consumables	196,051	247,396
Finished goods and goods for resale	36,157	26,238
Total	232,208	273,634
Current replacement cost of stock	232,208	273,634

## Notes to the financial statements for the year ended 31 December 2017

### 10. Debtors: amounts falling due within one year

	2017	2016
	€'000	€'000
Trade debtors	24,081	19,812
Amounts owed by Group undertakings	433,015	328,446
Other debtors	11,130	19,692
Prepayments and accrued income	10,191	5,757
	<b>478,417</b>	<b>373,707</b>

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

### 11. Restricted Cash and cash equivalents

The Company's restricted cash balance at year end 2017 and year end 2016 is recorded as €nil and €46,014,000 respectively, as part of "Current Assets" on the Balance Sheet. Restricted cash historically consisted of cash held internationally that the Company was unable to repatriate due to statutory, tax and currency risks.

### 12. Creditors: amounts falling due within one year

	2017	2016
	€'000	€'000
Trade creditors	111,035	71,985
Amounts owed to Group undertakings	319,932	-
Accruals and deferred income	27,491	47,401
	<b>458,458</b>	<b>119,386</b>

### 13. Borrowings

	2017	2016
	€'000	€'000
Unsecured borrowings at amortised cost	3,286,014	2,994,000
Other amounts owed to Group undertakings	-	222,248
Bank Loans and overdrafts	-	-
<b>Total Borrowings</b>	<b>3,286,014</b>	<b>3,216,248</b>

Amount due for settlement within 12 months	<b>3,286,014</b>	<b>3,216,248</b>
Amount due for settlement after 12 months	-	-
Amount due for settlement after 5 years	-	-

Unsecured borrowings at amortised cost relates to an amount owed to Group undertakings of €3,286,014,000 (2016: €2,994,000,000) which is unsecured, repayable on demand and incurs interest at rates ranging from LIBOR +0.65% to LIBOR +1.58 %.

Other amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

## Notes to the financial statements for the year ended 31 December 2017

### 14. Provision for Liabilities and Charges

	2017 €'000	2016 €'000
Provision for sourcing compensation payment	-	142,690
Provision for Deferred consideration <1 year	15,000	-
Provision for Deferred consideration >1 year	5,943	-
	<b>20,943</b>	<b>142,690</b>

	Sourcing Compensation €'000	Deferred consideration <1 year €'000	Deferred consideration >1 year €'000	Total €'000
At 1 <sup>st</sup> January 2017	142,690	-	-	142,690
Additions	-	15,000	5,943	20,943
Utilised	(142,690)	-	-	(142,690)
Reversals	-	-	-	-
Exchange difference	-	-	-	-
<b>At 31<sup>st</sup> December 2017</b>	<b>-</b>	<b>15,000</b>	<b>5,943</b>	<b>20,943</b>

The 2016 provision for sourcing compensation relates to the termination of the Toll Manufacturing Agreement with BAT Germany, and the agreement by the Company to pay BAT Germany in connection with the decrease in manufacturing volumes. As planned, this provision was fully utilised in 2017.

Deferred consideration payments relate to the acquisition of Bulgartabac in 2017. As per the acquisition agreement, €15,000,000 was paid in May 2018.

A final consideration payment of €5,943,000 is scheduled to be paid in 2019 subject to certain conditions being met.

## Notes to the financial statements for the year ended 31 December 2017

### 15. Restructuring costs

On 17 May 2016, as part of the on-going review of manufacturing operations, the Company gave notice to British American Tobacco (Germany) GmbH ("BAT Germany") of its intention to decrease sourcing of Factory Made Cigarette volumes and certain semi-finished goods and filters from BAT Germany's factory in Bayreuth, Germany. The manufacturing volumes will be allocated to other Group factories within the same region. Consequently, a notice of termination was issued to BAT Germany on 20 June 2016, terminating the existing Toll Manufacturing Agreement with effect from 31 December 2017.

A new Toll Manufacturing Agreement was negotiated with BAT Germany, covering toll manufacturing requirements from 1 January 2018 onwards. The total compensation amount that the Company has paid to BAT Germany in connection with the decrease in manufacturing volumes and related termination of the Toll Manufacturing Agreement cost was €182,200,000, although long term benefits are expected to accrue to the Company.

	Year ended	
	2017	2016
	€'000	€'000
Provision for sourcing compensation payment	-	142,690
Incremental sourcing compensation payments in 2017	39,510	-
Total Sourcing compensation paid to BAT Germany	39,510	142,690

### 16. Called up share capital

Ordinary shares of £1 each		2017	2016
Allotted, called up and fully paid			
- value		£2	£2
- number		2	2

Ordinary shares of €1 each		2017	2016
Allotted, called up and fully paid			
- value		€50,000,000	€50,000,000
- number		50,000,000	50,000,000

## Notes to the financial statements for the year ended 31 December 2017

### 17. Financial Instruments

The Company's operations expose it to currency risk as part of its sales of cigarettes and purchases of raw materials, and goods for resale are denominated in foreign currencies other than euros.

The exposure is hedged with forward foreign exchange contracts.

The fair value of the instruments at 31 December 2017 was a net payable of €13,492,000 (2016: net receivable of €24,882,000).

	2017	2017	2016	2016
	Assets	Liabilities	Assets	Liabilities
	€'000	€'000	€'000	€'000
Cash flow hedges				
- Forward foreign currency contracts	18,180	31,672	31,553	6,671

### 18. Post Balance Sheet Events

#### Dividends

Subsequent to the year end, the Company has received dividends amounting to €176,567,804 and paid dividends amounting to €581,660,000.

### 19. Related Party Disclosures

As a wholly owned subsidiary the Company has taken advantage of the exemption under FRS101 from disclosing transactions with other subsidiary undertakings of the Group.

### 20. Parent Undertakings

The Company's ultimate parent undertaking and ultimate controlling party is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. The Company's immediate parent undertaking is British-American Tobacco (Holdings) Limited. Group financial statements are prepared only at the British American Tobacco p.l.c. level and may be obtained from:

**The Company Secretary**  
**Globe House**  
**4 Temple Place**  
**London**  
**WC2R 2PG**