



**BRITISH AMERICAN TOBACCO  
HOLDINGS (THE NETHERLANDS) B.V.**

Two large, expressive brushstrokes are positioned behind the central text. A yellow stroke curves from the left towards the top right, while a blue stroke curves from the bottom left towards the right. Both strokes have a textured, hand-painted appearance.

**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2007**

# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

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# **BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.**

## **Directors' report**

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### **INTRODUCTION**

The directors submit their annual report and financial statements for British American Tobacco Holdings (The Netherlands) B.V. ("the Company") for the year ended 31 December 2007. These are to be presented at the Annual General Meeting to be held on 1 April 2008. The financial statements of the Company are presented on pages 5 to 20.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is that of an investment holding and financing company whose subsidiary undertakings are primarily engaged in the manufacture, distribution and sale of tobacco products, including cigarettes, fine cut tobacco, pipe tobacco and cigars.

### **THE DIRECTORS**

The present directors of the Company are:

D J Booker  
D M Gibson  
A A de Haan  
D C Potter  
J C Nooij  
D A Swann

### **RESULTS FOR THE YEAR**

The profit after tax of the Company for the year ended 31 December 2007 amounted to EUR 464 million (2006: EUR 413 million).

### **DIVIDENDS**

Interim dividends of, in the aggregate, EUR 438.2 million were declared and paid during the year. The directors do not recommend the payment of a final dividend for the year ending 31 December 2007.

### **FINANCING AND RISK MANAGEMENT**

It is the Company's policy to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities.

# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

## Directors' report

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As a further part of the Company's liquidity risk management, during 2005 the Company together with British American Tobacco p.l.c. and certain other British American Tobacco Group companies entered into a committed five year multicurrency credit facility agreement (the "Facility Agreement") with certain banks and financial institutions. The facility limit under the Facility Agreement is GBP 1,750 million and the Company's obligations under the Facility Agreement are unconditionally and irrevocably guaranteed by British American Tobacco p.l.c.. During 2007, the Facility Agreement was extended under a one year extension option with final maturity dates between March 2011 and March 2012.

The Company's foreign exchange exposure on the Company's non euro denominated debt issues has been removed by swapping the liabilities under the USD and GBP Notes into floating EUR liabilities at fixed exchange rates with maturities consistent with the term of the issues.

With no refinancings in 2007 the Company's borrowings, after taking account of the related swaps, remain 45% floating and 55% fixed, a mix which is considered by the directors to be appropriate in the current circumstances.

## OUTLOOK

With the broad geographic spread of the businesses of the Company's indirect subsidiaries covering The Netherlands, West and East Europe, Australasia and Asia prospects for the future remain sound.

## SECRETARY TO THE BOARD

Mrs J E P Clot-Bollen

## REGISTERED OFFICE

Handelsweg 53 A, 1181 ZA Amstelveen  
Registered in Amsterdam (No. 33236251)

## AUDITORS

PricewaterhouseCoopers Accountants N.V.

On behalf of the Board



D J Booker



D M Gibson

Amstelveen, 12 March 2008

# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

## Balance sheet as at 31 December

Before appropriation of profit

2007

2006

All amounts in EUR'000	Notes		
<b>Fixed assets</b>			
Financial fixed assets	2	3,763,286	3,482,305
Total fixed assets		3,763,286	3,482,305
<b>Pension assets</b>	3	2,355	3,227
<b>Current assets</b>			
Accounts receivable	4	113,572	437,478
Total current assets		113,572	437,478
<b>Current liabilities</b>	5	(375,439)	(103,448)
<b>Current assets less current liabilities</b>		(261,867)	334,030
<b>Total assets less current liabilities</b>		3,503,774	3,819,562
		=====	=====
 <b>Long-term debts</b>	6	2,583,273	2,882,082
<b>Provisions</b>	8	600	1,823
<b>Shareholders' equity</b>	9		
Issued capital		112,502	112,502
Share premium account		640,453	640,453
Legal reserves		945	945
Other reserves		140,143	171,529
Undistributed profit		25,858	10,228
		919,901	935,657
		3,503,774	3,819,562
		=====	=====

# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

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

		2007	2006
All amounts in EUR'000	Notes		
Dividend income		581,656	545,157
Financial income	10	13,068	17,345
Financial expense	10	(175,929)	(156,080)
<b>Net financial and investment income</b>		<b>418,795</b>	<b>406,422</b>
General and administrative expenses		(4,515)	(2,692)
Impairment of investment		--	(30,000)
<b>Profit from ordinary activities before tax</b>		<b>414,280</b>	<b>373,730</b>
Taxation	11	49,732	38,860
<b>Profit after tax</b>		<b>464,012</b>	<b>412,590</b>
		=====	=====



# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

## Cash flow statement for the year ended 31 December

2007

2006

All amounts in EUR'000

### Cashflow from operating activities

Profit from ordinary activities before tax	414,280	373,730
<u>Adjustments for items not involving a movement in funds:</u>		
Depreciation/impairment of fixed assets	--	30,000
Amortisation of premia/discounts on bond issues/novations	3,609	(7,553)
Changes in provisions	(1,223)	(1,903)
Other non cash items	(987)	--

Total adjustments	1,399	20,544
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### Changes in working capital:

(Increase)/decrease in debtors	726	(186)
Increase/(decrease) in current liabilities	1,397	(311)
Increase/(decrease) in net interest payable	1,478	4,916
Increase/(decrease) in net payables to affiliated companies	35,696	(104,317)

Total changes in working capital	39,297	(99,898)
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Taxation received	23,425	34,274
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<b>Total cashflow from operating activities</b>	<b>478,401</b>	<b>328,650</b>
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### Cash flow absorbed by investing activities

Acquisition of subsidiary undertakings	(18)	--
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<b>Total cash flow absorbed by investing activities</b>	<b>(18)</b>	<b>--</b>
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### Cash flow from financing activities

Proceeds from issue of notes	--	1,585,004
Repayments of notes	--	(1,511,292)
Dividends paid to shareholders	(478,383)	(402,362)

<b>Total cash flow absorbed by financing activities</b>	<b>(478,401)</b>	<b>(328,650)</b>
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<b>Total net increase/(decrease) in cash</b>	<b>--</b>	<b>--</b>
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Cash at the beginning of the year	--	--
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Cash at the end of the year	--	--
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# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

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

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### NOTE 1 ~ BASIS OF PREPARATION AND ACCOUNTING POLICIES

#### (a) Principal activities

The Company is registered in Amsterdam and acts principally as an investment holding and financing company.

#### (b) Financial year

The financial year of the Company commences on 1 January and ends on 31 December.

#### (c) Parent undertakings

The Company is a wholly owned subsidiary undertaking of British American Tobacco International (Holdings) B.V.. The Company's ultimate parent undertaking is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales.

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

#### (d) Change in accounting policy

A change in Dutch Accounting Standards Board Guideline 271, alinea 101, now allows pensions to be accounted in line with International Financial Reporting Standards, with effect from 1 January 2007. In order to be more in line with the accounting policies of its ultimate parent, the Company has decided to change its accounting policies and to account for pensions in line with IAS 19 Employee Benefits.

The difference of the opening balance between IAS 19 and RJ271.3 has been debited to total shareholders' equity, taking account of relevant tax effects.

#### Impact of the change in accounting policy on total shareholders' equity

The effect of the change in accounting policy has been accounted for directly in shareholders' funds on 1 January 2007 as follows:

	<u>Total shareholders' equity</u>
Balance as at 31 December 2006	935,657
Cumulative change in pension accounting policy	(1,860)
Tax effect	474
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Balance as at 1 January 2007	934,271
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#### Impact of the change in accounting policy on profit & loss

There is no impact on 2006 comparatives for comparison with the 2007 profit and loss charge under the new accounting policy.



# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

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

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### (e) Accounting policies

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

The principal policies of the Company are set out below.

#### **Presentation of accounts**

The accounts have been prepared in accordance with the provisions of Book 2, Title 9 of the Dutch Civil Code.

#### **Method of valuation**

The financial statements have been prepared on the basis of historical costs. Unless otherwise stated in the notes, all assets and liabilities are stated at values at which they were acquired or incurred.

#### **Foreign currency**

Transactions denominated in currencies other than Euro are translated at exchange rates ruling at the date of their transaction. Assets and liabilities denominated in foreign currencies are translated into Euro at the exchange rates prevailing at the balance sheet date. Investments in subsidiary undertakings are translated into Euro at the exchange rates prevailing at the date of acquisition. Foreign currency exchange gains or losses are taken to the profit & loss account.

#### **Financial instruments**

The Company utilises derivative financial instruments to manage its financial risks. The counterparty for these financial instruments are fellow subsidiary treasury units of the British American Tobacco p.l.c. Group. It is the Company's policy that such instruments are only used where there is an identified underlying exposure.

Forward foreign currency contracts are used to hedge existing assets and liabilities and future transactions. Resulting gains and losses arising from contracts related to existing assets and liabilities are taken to the profit & loss account. Gains and losses from contracts related to future transactions are not recognised until the transactions occur.

The liabilities under foreign currency borrowings are swapped into floating EUR liabilities at fixed exchange rates with maturities consistent with the term of the liabilities. Cross currency swaps are accounted for in borrowings together with the related liabilities.

Where options are used to hedge future transactions, initial premiums and discounts are capitalised and amortised over the lives of the instruments and taken to the profit & loss account.

#### **Taxation and Deferred tax assets and liabilities**

Taxation on profit is calculated on the commercial results based on the rates applicable in the Netherlands. Deferred taxation arises from temporary differences between the recognition of certain items in the balance sheet for accounting and taxation purposes and is accounted for using the liability method in respect of all material temporary differences. Deferred tax liabilities and assets are calculated based on the tax rate prevailing at the balance sheet date or the rates that will apply in the future, insofar as these have been set down by law. Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised.

# **BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.**

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

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### **Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the expected economic lives of the assets, which is up to 5 years for fixtures, fittings, tools and equipment.

### **Investments in subsidiary undertakings**

The Company applies Article 2:389, Paragraph 9 of the Dutch Civil Code. In accordance with this, shares in subsidiary undertakings are, due to the international structure of the British American Tobacco p.l.c. Group, recorded at original cost at the time of acquisition and impaired to the higher of net realisable value and value in use when, in the opinion of the directors, a permanent diminution in value has occurred. An impairment is directly recognised as an expense in the profit and loss account.

Income is recognised when dividends are received.

### **Pension assets**

The Company along with other British American Tobacco Group fellow subsidiaries in The Netherlands provides a pension scheme to its employees through a group scheme ("the Scheme") established with Stichting Pensioenfonds British American Tobacco.

The Scheme provides defined pension benefits to the employees of the participating companies upon reaching retirement age, the amount of which depends on age, salary and years of service. The pension asset carried on the balance sheet by the Company is an allocation of the total fair value of plan assets net of the present value of pension benefit obligations attributable to its employees and ex employees under the defined benefit scheme together with adjustments for unrecognised actuarial gains or losses and past service costs. The pension benefit obligation for each participating company is measured annually by independent actuaries using the projected unit credit method. The present value of the obligation is computed by discounting estimated future cash flows, using interest rates applying to high quality corporate bonds with a term roughly consistent with the term of the related pension obligation.

Where actuarial gains and losses for the Scheme arising from changes in actuarial assumptions exceed 10% of the higher of the pension benefit obligations of the Scheme and the fair value of plan assets of the Scheme at the opening of the financial year, the Company's allocation of unrecognised gains and losses is credited or charged to the profit & loss account over the expected average future years of service of the employees concerned.

Unrecognised past service costs are taken directly to the profit & loss account unless the changes in the pension scheme depend on the employees remaining in service for a specific period (the qualifying period) in which case the past service costs are recognized on a straight-line basis over the qualifying period.

### **Debtors**

Debtors are included at nominal values. Provision for doubtful debtors is made where appropriate.

### **Other provisions**

Other provisions have been made to cover liabilities and risks arising from the ordinary course of business and are accounted for at nominal value.

### **Long-term debts**

These include borrowings of more than one year's duration.



# **BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.**

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

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### **Other assets and liabilities**

Other assets and liabilities are included at nominal values.

### **Costs**

Costs are recognised on the historical cost convention and are allocated to the reporting year to which they relate.

### **Cash flow statement**

The cash flow statement has been prepared applying the indirect method. The cash and cash equivalents in the cash flow statement comprise the balance sheet items cash at banks and in hand and the bank overdraft forming part of the current liabilities.

Dividends received, receipts and payments of interest and corporate income tax are included in the cash flow from operating activities.

### **Share options**

The costs of the share options granted to directors and employees are recharged to the Company by British American Tobacco p.l.c. at fair value on the date of granting and recognised in the profit & loss account in the year in which they are granted.

# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

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

All amounts in EUR'000

### NOTE 2 ~ FINANCIAL FIXED ASSETS

	31 December 2007	31 December 2006
Investments	3,760,348	3,450,877
Deferred tax assets	2,938	31,428
	<hr/>	<hr/>
	3,763,286	3,482,305

#### Investments:

The direct investments in the following subsidiary undertakings are stated at cost net of any impairments.

<u>Name</u>	<u>Statutory Seat</u>	<u>% Holding</u>
Allen & Ginter (UK) Limited	London	100
British American Tobacco Finance B.V.	Amsterdam	100
British American Tobacco International Europe (Nederland) B.V.	Amsterdam	100
British American Tobacco Russia (Investments) Limited	London	100
Rothmans International Holdings II B.V.	Amsterdam	100
The Raleigh Investment Company Limited	Douglas, Isle of Man	100
British American Tobacco European Operations Centre B.V.	Amsterdam	100

The investments comprise:

Carrying value 31 December 2006	3,450,877
Capitalisation of loans to subsidiaries	309,453
Incorporation of subsidiary	18
Contribution of subsidiary	(65,812)
Investment	65,812
	<hr/>
Carrying value 31 December 2007	3,760,348

During the year the Company increased its investments in British American Tobacco STC (The Netherlands) B.V. and British American Tobacco International Europe (Nederland) B.V., the proceeds of which were used by these subsidiaries to repay their term borrowings from the Company.

On 6 December 2007 the Company incorporated British American Tobacco European Operation Centre B.V. with a share capital of EUR 18,000.

In December 2007 the Company contributed its wholly-owned subsidiary British American Tobacco STC (The Netherlands) B.V. into British American Tobacco International Europe (Nederland) B.V. at book value (EUR 66 million), in exchange for a share and share premium.

The Company applies Article 2:408 of the Dutch Civil Code. In accordance with this, the accounts of the Company and its subsidiary undertakings are included in the group report and accounts of British American Tobacco p.l.c.. A copy of the group report and accounts is filed with the trade register of the Chamber of Commerce in Amsterdam.

A complete list of affiliated companies, drawn up in conformity with Article 2:379 of the Dutch Civil Code, is filed with the trade register of the Chamber of Commerce in Amsterdam by British American Tobacco p.l.c..

# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

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

All amounts in EUR'000

### NOTE 2 ~ FINANCIAL FIXED ASSETS ~ continued

#### Deferred tax assets:

The deferred tax asset relates to carried forward tax losses from unrealised double taxation relief of the profits of a foreign branch of a subsidiary member of the fiscal unity described in Note 11.

### NOTE 3 ~ PENSION ASSETS

With effect from 2007 the Company has adopted a new accounting policy for pensions, as described in Note 1 (d). Comparative figures for 2006 have been restated in line with the new policy.

The closing asset relates entirely to pension benefits.

The movements in the pension asset are analysed as follows:

Asset as at 31 December 2006	3,227
Effect of change in accounting policy	(1,860)
	<hr/>
Asset as at 1 January 2007	1,367
Net income recognised in the profit & loss account	751
Contributions by the Company	237
	<hr/>
Asset as at 31 December 2007	2,355
	=====

The amounts recognised in the balance sheet as at 31 December 2007 are analysed as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Fair value of plan assets	39,552	29,201
Present value of defined benefit obligations	(34,365)	(27,397)
	<hr/>	<hr/>
	5,187	1,804
Unrecognised actuarial (gains)/losses	(2,856)	(464)
Past service costs attributable to future years	24	27
	<hr/>	<hr/>
Net pension asset	2,355	1,367
	=====	=====



# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

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

All amounts in EUR'000

### NOTE 3 ~ PENSION ASSETS ~ continued

The amounts recognised in the profit & loss account were as follows:

	<u>31 December 2007</u>	<u>31 December 2006</u>
Current service cost	(256)	(255)
Interest cost	(1,250)	(751)
Expected return on plan assets	1,759	1,092
Recognised past service costs	(3)	(3)
Net transfer obligations/assets	501	2,510
	<hr/>	<hr/>
Net Pension income	751	2,593
Pension contributions	—	(6)
	<hr/>	<hr/>
Total pension income	751	2,587
	=====	=====

The net pension income of EUR 751 (2006: EUR 2,593 ) is included in general administrative expenses.

The actual return on plan assets amounted to a profit of EUR 3,321 in 2007 (2006: EUR (1,565)).

The main actuarial assumptions were as follows:

	<u>2007</u>	<u>2006</u>
Discount rate	5.50%	4.65%
Expected return on plan assets	6.80%	6.10%
Expected salary increases	3.50%	3.50%
Expected indexation of pensions	2.50%	2.00%
General inflation rate	2.50%	2.00%

The pension scheme currently provides that pensions in payment are indexed on the basis of 2.5% per annum (2006: 2.0%).

### NOTE 4 ~ ACCOUNTS RECEIVABLE

	<u>31 December 2007</u>	<u>31 December 2006</u>
Receivables from affiliated companies	106,621	415,212
Taxes	6,773	21,362
Other receivables	178	904
	<hr/>	<hr/>
	113,572	437,478

# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

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

All amounts in EUR'000

### NOTE 5 ~ CURRENT LIABILITIES

	<u>31 December 2007</u>	<u>31 December 2006</u>
Current portion of long-term debts (Note 6)	302,418	--
Payables to affiliated companies	31,636	61,938
Deferred taxes	--	3,000
Interest payable on long term debts	39,119	37,641
Other payables	2,266	869
	<hr/>	<hr/>
	375,439	103,448

### NOTE 6 ~ LONG-TERM DEBTS

	<u>31 December 2007</u>	<u>31 December 2006</u>
USD 330 million 6.875% Notes due 2008	302,418	302,184
EUR 1,000 million 4.375% Notes due 2011	995,182	993,793
EUR 525 million Floating Rate Notes due 2010	524,298	524,003
EUR 600 million 4.375% Notes due 2014	594,578	593,774
GBP 325 million 5.5% Notes due 2016	469,215	468,328
	<hr/>	<hr/>
	2,885,691	2,882,082
Less: Current portion	(302,418)	--
	<hr/>	<hr/>
	2,583,273	2,882,082

The liabilities under the USD Notes and the GBP Notes have been swapped into floating EUR liabilities at fixed exchange rates with maturities consistent with the term of the issues.

The USD 330 million Notes due 2008 issued under the British American Tobacco Global Medium Term Note Programme are listed on the Luxembourg Stock Exchange and are unconditionally and irrevocably guaranteed by British American Tobacco p.l.c. and British American Tobacco International (Holdings) B.V.. The remaining Notes are listed on the London Stock Exchange and are unconditionally and irrevocably guaranteed by British American Tobacco p.l.c. and other Issuers under the British American Tobacco Euro Medium Term Note Programme.

# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

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

All amounts in EUR'000

### NOTE 7 ~ FINANCIAL INSTRUMENTS

The fair values and book values of the borrowings and the related cross-currency swaps are as follows:

	<u>31 December 2007</u>		<u>31 December 2006</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Notes	2,778,073	2,709,819	2,838,876	2,839,152
Cross-currency swaps	107,618	123,625	43,206	58,186
	<u>2,885,691</u>	<u>2,833,444</u>	<u>2,882,082</u>	<u>2,897,338</u>

The fair values represent mark to market values excluding interest accruals as at 31 December 2007 and 31 December 2006, respectively.

For all other financial assets and financial liabilities, excluding the investment in subsidiary undertakings, the fair value is considered to be equal to the book value.

### NOTE 8 ~ PROVISIONS

	<u>31 December 2007</u>	<u>31 December 2006</u>
Deferred tax liability	600	823
Other provisions	--	1,000
	<u>600</u>	<u>1,823</u>

### NOTE 9 ~ SHAREHOLDERS' EQUITY

The shareholders' equity of the Company was as follows:

	<u>Share capital</u>	<u>Share premium</u>	<u>Legal reserves</u>	<u>Other reserves</u>	<u>Undistr. profit</u>	<u>Total</u>
At 31 December 2006	112,502	640,453	945	171,529	10,228	935,657
Change in accounting policy	--	--	--	(1,386)	--	(1,386)
Dividend relating to 2006	--	--	--	--	(10,228)	(10,228)
Profit for the year	--	--	--	--	464,012	464,012
Interim dividends	--	--	--	--	(438,154)	(438,154)
Other dividend	--	--	--	(30,000)	--	(30,000)
At 31 December 2007	<u>112,502</u>	<u>640,453</u>	<u>945</u>	<u>140,143</u>	<u>25,858</u>	<u>919,901</u>



# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

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

All amounts in EUR'000 except for share capital details

### NOTE 9 ~ SHAREHOLDERS' EQUITY ~ continued

<u>Authorised capital</u>	<u>Number of shares</u>	<u>Par value</u>
At 31 December 2006	300,000	EUR 450.00
At 31 December 2007	300,000	EUR 450.00
<u>Issued and fully paid capital</u>	<u>Number of shares</u>	<u>Par value</u>
At 31 December 2006	250,004	EUR 450.00
At 31 December 2007	250,004	EUR 450.00

### NOTE 10 ~ FINANCIAL INCOME/(EXPENSE)

	<u>31 December 2007</u>		<u>31 December 2006</u>	
	<u>Financial income</u>	<u>Financial expense</u>	<u>Financial income</u>	<u>Financial expense</u>
Affiliated companies	12,738	(36,851)	16,733	(24,056)
Other	330	(139,078)	612	(132,024)
	<u>13,068</u>	<u>(175,929)</u>	<u>17,345</u>	<u>(156,080)</u>

Transactions with affiliated companies are at market rates.

The interest expense on long term debt of EUR 134,586 (2006: EUR 128,208) is included in financial expense - other.

### NOTE 11 ~ TAXATION

The Company forms a fiscal unity with a number of its subsidiary undertakings. The Company is the taxpayer of this fiscal unity.

### NOTE 12 ~ SALARIES AND WAGES

	<u>2007</u>	<u>2006</u>
Salaries and wages	2,601	2,917
Social security	370	143
Pensions	272	321
	<u>3,243</u>	<u>3,381</u>
	=====	=====

The average number of employees during the year was 13 (2006: 14)

## BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

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

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All amounts in EUR'000

#### NOTE 13 ~ DIRECTORS' REMUNERATION

The remuneration of the directors in office during the year amounted to EUR 1,554 (2006: 1,580) including EUR 292 (2006: 18) and EUR 70 (2006: 84) for social security and pensions, respectively.

#### NOTE 14 ~ OPTION AND SHARE SCHEMES

British American Tobacco p.l.c. operates various employee share schemes which are designed to incentivise employees of the Group. All benefits under the employee share schemes are non-transferable and non-pensionable.

Schemes under which directors and employees of the Company have received awards are as follows:

##### The Executive Share Option Scheme ("ESOS")

Options granted under ESOS are not issued at a discount to the market price at the time of grant. Options are normally exercisable after the third anniversary of the date of the grant and ten years after the date of their original grant, subject to a performance condition based on earnings per share growth of British American Tobacco p.l.c..

##### Long Term Incentive Plan ("LTIP")

The LTIP provides for awards of free ordinary shares provided certain demanding performance conditions are met over a three year performance period. The performance conditions relate to an apportionment between measures relating to relative total shareholder return and earnings per share growth relative to inflation. To the extent that the performance conditions have been satisfied, awards are normally exercisable between three and ten years after they have been granted. An award of shares lapses to the extent that the performance conditions are not satisfied at the end of the three year performance period.

##### Deferred Share Bonus Scheme ("DSBS")

The DSBS provides for awards of free ordinary shares three years after granting.

For all the above schemes, in certain instances options and grants are made with reference to Notional Ordinary Shares, in which case equivalent cash payments are made at exercise or maturity. The costs of these schemes are disclosed within employee benefit costs in the accounts of British American Tobacco p.l.c. and are not included in the tables overleaf.



**BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.**

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

## Options and awards over British American Tobacco p.l.c. ordinary shares of 25p, expressed in GBP

	At 31 December 2006 or date of appointment		Period to 31 December 2007				At 31 December 2007			
			Granted		Matured/ exercised/ lapsed	Transfer				
	No.	Average grant price £	No.	Average grant price £	No.	No.	No.	Average grant price £	First maturity date/dates from which exercisable	Last maturity/ expiry date
<b>Directors / Employees</b>										
ESOS	55,963	6.712	--	--	34,469	--	21,494	7.202	Mar-04	Mar-14
LTIP	131,144	10.641	35,787	15.407	48,965	--	117,966	13.147	May-08	Mar-17
DSBS	69,622	10.401	30,483	15.407	25,961	--	74,144	13.270	Mar-08	Mar-10

	Date of exercise	Average grant price £	Average market price £	Number of options exercised	Gain £
<b>Directors</b>					
ESOS	Mar-07 - Dec-07	6.407	17.807	34,469	392,933
LTIP	Mar/Jun-07	--	16.305	48,965	798,375
DSBS	Mar-07	--	15.890	25,961	412,520

Share Reward Scheme (“**SRS**”)

The SRS provides for grants of free ordinary shares to employees, subject to performance conditions having been met. These SRS shares are acquired by the Company and passed onto the employees involved. The costs associated with this scheme are charged to general and administrative expenses in the profit & loss account. Where SRS shares have been allocated to directors, the costs have been included as part of directors' remuneration.

## NOTE 15 ~ CONTINGENT LIABILITIES

As at the year end the Company had outstanding customs and excise guarantees of EUR 19.8 million.

Since being added to the British American Tobacco Euro Medium Term Note Programme (the “EMTN Programme”) as an issuer, the Company, together with British American Tobacco p.l.c., guarantees all Notes issued by other Issuers under the EMTN Programme. The maximum aggregate nominal amount of all Notes that may from time to time be outstanding under the EMTN Programme is USD 16 billion. At the balance sheet date the Company is the guarantor of notes issued under the EMTN Programme of GBP 850 million and EUR 2,750 million.

On 12 March 2008 the company became a guarantor of two issues of notes by B.A.T. International Finance p.l.c. under the EMTN Programme amounting to EUR 1,250 million and GBP 500 million.

# BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.

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

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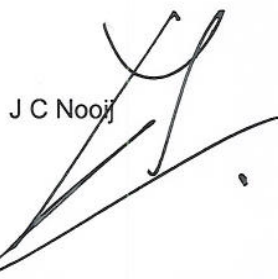
The directors hereby approve the financial statements



D J Booker



A A de Haan



J C Nooij

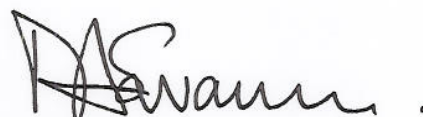
Amstelveen, 12 March 2008



D M Gibson



D C Potter



D A Swann

## **BRITISH AMERICAN TOBACCO HOLDINGS (THE NETHERLANDS) B.V.**

### **Other information**

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#### **(a) Appropriation of profit**

In accordance with Article 14 of the Company's Articles of Association, the profit for the year is at the disposal of the General Meeting of Shareholders.

#### **(b) Proposed distribution of profit**

During the year interim dividends of EUR 438,154,327.47 were paid out of current year's profit.

The directors recommend the transfer of the remaining profit for the year of EUR 25,857,855.15 to other reserves.



To the General Meeting of Shareholders of British American Tobacco Holdings (The Netherlands) B.V.

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## Auditor's report

### Report on the financial statements

We have audited the accompanying financial statements 2007 of British American Tobacco Holdings (The Netherlands) B.V., as set out on pages 5 to 20 which comprise the balance sheet as at 31 December 2007, the profit and loss account for the year then ended and the notes.

#### *The Directors' responsibility*

The Directors of the company are responsible for the preparation and fair presentation of the financial statements and for the preparation of the Directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of British American Tobacco Holdings (The Netherlands) B.V. as at 31 December 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

**Report on other legal and regulatory requirements**

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the Directors' report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 12 March 2008

PricewaterhouseCoopers Accountants N.V.



P.F.J. Veuger RA