

BATMark Limited

Registered Number 02967280

Annual report and financial statements

For the year ended 31 December 2016

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Strategic Report

The Directors present their strategic report on BATMark Limited (the "Company") for the year ended 31 December 2016.

Principal activities

The Company's principal activity is the management of the intellectual property of the British American Tobacco p.l.c. (the "Group") companies. The Company also owns various trademarks which it licenses to fellow Group companies around the world and holds investments in companies operating in the tobacco industry as members of the Group.

Review of the year ended 31 December 2016

The profit for the financial year attributable to BATMark Limited shareholders after deduction of all charges and the provision of taxation amounted to £4,354,000 (2015: £20,160,000).

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

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



O.J. Martin
Secretary

12 September 2017

Directors' Report

The Directors present their report together with the audited financial statements of the Company for the year ended 31 December 2016.

Dividends

During the year the Company did not pay dividends (2015: £58,000,000).

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 2016 to the date of this report are as follows:

	Appointed	Resigned
Robert James Casey		
Nicola Snook		31 May 2017
Paul McCrory		
Andrew MacLachlan Gray		
Jerome Bruce Abelman	29 July 2016	

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, 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 they have elected to prepare the financial statements in accordance with UK 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.

Directors' Report (continued)

Directors' declaration in relation to relevant audit information

Having made appropriate enquiries, each of the Directors who held office at the date of approval of this report confirms that:

- (a) to the best of his or her knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) he or she has taken all steps that a Director might reasonably be expected to have taken in order to make himself or herself aware of relevant audit information and to establish that the Company's auditor is aware of that information .

By Order of the Board



O.J. Martin
Secretary

12 September 2017

Independent auditor's report to the members of BATMark Limited

Report on the financial statements

We have audited the financial statements of BATMark Limited for the year ended 31 December 2015 set out on pages 7 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion, BATMark Limited financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

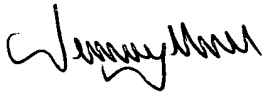
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of BATMark Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.



Jeremy Hall, (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
12 September 2017

Profit and loss account for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Continuing operations			
Turnover	2	3,783	4,077
Other operating income	2	8,223	7,035
Other operating charges	3	(7,426)	(5,849)
Operating profit		4,580	5,263
Income from shares in Group undertakings	4	-	15,019
Interest receivable and similar income	5	33	93
Profit on ordinary activities before taxation		4,613	20,375
Tax on profit on ordinary activities	6	(259)	(215)
Profit for the financial year		4,354	20,160

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

There are no recognised gains or losses other than the profit for the financial year and therefore no Statement of other comprehensive income has been presented.

Statement of changes in equity for the year ended 31 December 2016

	Called up share capital £'000	Profit and loss account £'000	Total Equity £'000
1 January 2015	-	70,287	70,287
Profit for the financial year	-	20,160	20,160
Dividends paid	-	(58,000)	(58,000)
31 December 2015	-	32,447	32,447
Profit for the financial year	-	4,354	4,354
31 December 2016	-	36,801	36,801

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

Balance sheet as at 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Intangible assets held-for-sale	7	5,693	5,691
Investments in Group undertakings	8	3,150	3,150
		8,843	8,841
Current assets			
Debtors: amounts falling due within one year	9	30,127	26,623
Creditors: amounts falling due within one year	10	(2,169)	(3,017)
Net current assets		27,958	23,606
Total assets less current liabilities		36,801	32,447
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account		36,801	32,447
Total shareholders' funds		36,801	32,447

The financial statements on pages 7 to 17 were approved by the Directors on 12 September 2017 and signed on behalf of the Board.

Mr R.J. Casey
Director



Registered number
02967280

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

Notes to the financial statements for the year ended 31 December 2016

1 Accounting policies

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2006 and where advantage of disclosure exemptions available under FRS 101 have been taken.

The preparation of the financial statements requires the Directors to make estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. The key estimates and assumptions are set out in the accounting policies below, together with the related notes to the accounts.

The most significant items include:

- the review of asset values and impairment testing of non-financial assets;
- the estimation of amounts to be recognised in respect of taxation and legal matters; and
- the exemptions taken under IFRS 1 on the first time adoption of FRS 101 at 1 January 2014.

Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgment at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions, which could affect the financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

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. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The accounting policies set out below, have unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing the opening balance sheet at 1 January 2014 for the purpose of the transition to FRS 101.

Cash flow statement

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.

Foreign currencies

The functional currency of the Company is sterling. Transactions arising in currencies other than sterling are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities expressed in currencies other than sterling are translated at rates of exchange ruling at the end of the financial year.

Notes to the financial statements for the year ended 31 December 2016

1 Accounting policies (continued)

Turnover

Turnover comprises royalties receivable from fellow Group companies. Turnover and other income is recognised 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 is that chargeable on the profits for the period, together with deferred taxation.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date.

Deferred taxation is provided in full using the liability method for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. As required under IAS 12 *Income Taxes*, deferred tax assets and liabilities are not discounted.

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or changes in equity.

The Company has exposures in respect of the payment or recovery of a number of taxes. Liabilities or assets for these payments or recoveries are recognised at such time as an outcome becomes probable and when the amount can reasonably be estimated.

Investments in Group undertakings

Investments in Group undertakings are stated at cost, together with subsequent capital contributions, less provisions for any impairment in value, where appropriate.

Intangible assets classified as held-for-sale

The intangible assets shown on the Company balance sheet consist mainly of intellectual property rights.

Intangible assets classified as held-for-sale are not amortised.

Notes to the financial statements for the year ended 31 December 2016

1 Accounting policies (continued)

Dividends

Final dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders at the Annual General Meeting, while interim dividend distributions are recognised in the period in which the dividends are declared and paid.

Retirement benefits

The Company participates in both defined benefit and defined contribution schemes. The net deficit or surplus for each defined benefit pension scheme is calculated in accordance with IAS 19 Employee Benefits, based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets adjusted, where appropriate, for any surplus restrictions or the effect of minimum funding requirements.

Actuarial gains and losses, changes in unrecognised scheme surpluses and minimum funding requirements are recognised in full through other comprehensive income. Past service costs or credits resulting from amendments to benefits are recognised immediately.

For defined benefit schemes, the actuarial cost charged to profit from operations consists of current service cost, net interest on the net defined benefit liability or asset, past service cost and the impact of any settlements. Some benefits are provided through defined contribution schemes and payments to these are charged as an expense as they fall due.

Employee share schemes

The Company is recharged by British-American Tobacco (Holdings) Limited, a fellow Group undertaking, for the cost of share schemes to which its employees belong. This recharge is expensed in the year incurred. The fellow Group company, which administers the share schemes on behalf of other Group undertakings and calculates and reflects the charge for the share schemes, provides the relevant disclosures required under IFRS 2. Disclosures in regard to these costs are included in the consolidated financial statements of the Company's ultimate parent.

Notes to the financial statements for the year ended 31 December 2016

2 Turnover and other operating income

Turnover comprises royalties from fellow Group companies.

Other operating income comprises recharges for legal, consulting and professional fees received from fellow Group companies.

3 Other operating charges

	2016 £'000	2015 £'000
Other operating charges comprise:		
Staff costs	2,148	2,290
Exchange gain	(38)	100
Other	5,316	3,459
	7,426	5,849
Staff costs:		
Wages and salaries	1,461	1,749
Social security costs	149	192
Share-based payments	251	115
Defined contribution scheme costs (note 13)	105	84
Defined benefit scheme treated as defined contribution scheme (note 13)	182	150
	2,148	2,290

Audit fees of £2,500 were borne by a fellow Group undertaking (2015: £2,500).

The average monthly number of persons (including Directors) employed by the Company during the year was 27 (2015: 25), all of whom were working in an administrative capacity.

None of the Directors received any remuneration in respect of their services as a Director of the Company during the year (2015: £nil).

4 Income from shares in Group undertakings

	2016 £'000	2015 £'000
Income from shares in Group undertakings	-	15,019

Income from shares in Group undertakings represent mainly dividends received from Benson & Hedges (Overseas) Limited.

5 Interest receivable and similar income

	2016 £'000	2015 £'000
Interest receivable from Group undertakings and similar income	33	93

Notes to the financial statements for the year ended 31 December 2016

6 Taxation

(a) Recognised in the profit and loss account

	2016 £'000	£'000	2015 £'000	£'000
<i>UK corporation tax</i>				
Current tax on income for the period	120		215	
Double taxation relief	(120)		(215)	
<i>Foreign tax</i>				
Current tax on income for the period	259		215	
Total current tax		259		215
Total income tax expense (note 6b)		259		215

(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 20.00% (2015: 20.25%) rate of corporation taxation in the UK. The major causes of this difference are listed below:

	2016 £'000	2015 £'000
Profit for the year	4,354	20,160
Total tax expense	259	215
Profit excluding taxation	4,613	20,375
Tax using the UK corporation tax rate of 20.00% (2015: 20.25%)	923	3,140
Non-deductible expenses	51	158
Irrecoverable WHT	138	-
Tax exempt revenues		(2,188)
Group relief surrendered/(claimed) for nil consideration	(853)	(832)
Tax charge for the period (note 6a)	259	215

The Company has a deductible temporary differences of £648,000 (2015: £648,000) which are not recognised on the balance sheet due to it not being sufficiently probable that they will be utilised in the foreseeable future.

7 Intangible assets held-for-sale

Intangible assets held-for-sale represents purchase of intellectual property. The Company intends to sell the acquired intangible asset to another Group company by the end of 2017. This will ensure the asset is owned and managed in accordance with the activities of the acquiring entity.

Notes to the financial statements for the year ended 31 December 2016

8 Investments in Group companies

(1) Shares in Group Undertakings

Company	Share Class	Direct interest	Subsidiary Interest	Attributable Interest
United Kingdom				
<i>Globe House, 2 Milford Lane, London, WC2R 3LN, United Kingdom</i>				
World Investment Company Limited	Ordinary	100.00	0.00	100.00
<i>Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom</i>				
Amalgamated Tobacco Company Limited	Ordinary	0.00	100.00	99.00
American Cigarette Company (Overseas) Limited	Ordinary	0.00	100.00	99.00
Ardath Tobacco Company Limited	Ordinary	100.00	0.00	99.00
Benson & Hedges (Overseas) Limited	Ordinary	99.99	0.00	99.99
British American Tobacco (Brands) Limited	Ordinary	99.00	0.00	99.00
Brown & Williamson Tobacco Corporation (Export) Limited	Ordinary	99.98	0.00	99.98
Carreras Limited	Ordinary	0.00	100.00	99.00
Courtleigh of London Limited	Ordinary	0.00	100.00	99.00
Dunhill Tobacco of London Limited	Ordinary	0.00	100.00	99.00
John Sinclair Limited	Ordinary	0.00	100.00	99.00
Moorgate Tobacco Co. Limited	Ordinary	99.99	0.00	99.99
Peter Jackson (Overseas) Limited	Ordinary	99.99	0.00	99.99
Rothmans of Pall Mall Limited	Ordinary	0.00	100.00	99.00
Senior Service (Overseas) Limited	Ordinary	99.00	0.00	99.00
The London Tobacco Company Limited	Ordinary	0.00	100.00	99.00

(2) Investments in Group undertakings

	£'000
Cost	
1 January 2016	3,213
31 December 2016	3,213
Impairment provisions	
1 January 2016	63
Charge in the year	-
31 December 2016	63
Net book value	
1 January 2016	3,150
31 December 2016	3,150

- (3) The Directors are of the opinion that the individual investments in the Group undertakings have a value not less than the amount at which they are shown in the balance sheet.

Notes to the financial statements for the year ended 31 December 2016

9 Debtors: amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed by Group undertakings	30,127	26,623
	30,127	26,623

Included within amounts owed by Group undertakings is an amount of £23,862,000 (2015: £19,156,634) which is unsecured, interest bearing and repayable on demand. The interest rate is based on LIBOR. All other amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

10 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Amounts owed to Group undertakings	479	1,976
Accruals and deferred income	1,690	1,041
	2,169	3,017

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

11 Called up share capital

Ordinary shares of £1 each	2016	2015
Allotted, called up and fully paid		
- value	£2	£2
- number	2	2

12 Pensions

The Company participates in the British American Tobacco UK Pension Fund, a multi-employer funded scheme. Under FRS 101, where more than one employer participates in a defined benefit scheme, if there is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities, then the net defined benefit cost shall be recognised in the accounts of the group entity that is legally the sponsoring employer. British American Tobacco (Investments) Limited is the sponsoring employer with the other participating employers recognising costs equal to their contributions to those liabilities.

Details of the latest actuarial valuation of this defined benefit scheme are contained in the financial statements of British American Tobacco (Investments) Limited.

The last full tri-annual actuarial valuation of the British American Tobacco UK Pension Fund was carried out as at 31 March 2014 by a qualified independent actuary. The valuation showed that the fund had a deficit of £264,000,000 (2011: £516,000,000).

The Company only participates in multi-employer schemes and the Company is unable to identify its share of the underlying assets and liabilities of the schemes.

The defined benefit pension scheme cost was £182,000 (2015: £150,000) for the year.

The Company also participates in a defined contribution scheme. Payments in respect of defined contribution schemes are charged as an expense as they fall due. The defined contribution pension cost for the Company was £105,000 (2015: £84,000).

Notes to the financial statements for the year ended 31 December 2016

13 Related party disclosures

As a wholly-owned subsidiary the Company has taken advantage of the exemption under FRS 101 from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. Group.

14 Share-based payments

Employees of the Company participate in the British American Tobacco share schemes arrangements. The group operates a number of share-based payment arrangements of which the two principal ones are:

Long-Term Incentive plan (LTIP)

Nil-cost options exercisable after three years from date of grant with a contractual life of ten years. Pay-out is subject to performance conditions based on earnings per share (40% of grant (2015: 50%)), operating cash flow (20% of grant (2015: 0%)), total shareholder return (20% of grant (2015: 25%)) and net turnover (20% of grant (2015: 25%)). Total shareholder return combines the share price and dividend performance of the Company by reference to one comparator group. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled LTIPs are granted in March each year.

Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subject to forfeit if participant leaves employment before the end of the three year holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Both equity and cash-settled grants are granted in March each year.

The Group also has a number of other arrangements which are not material for the Group and these are as follows:

Share Reward Scheme (SRS) and International Share Reward Scheme (ISRS)

Free shares granted in April each year (maximum £3,600 in any year (2015: £3,000)) under the equity-settled scheme are subject to a three year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

Share-based payment expense

Please refer to the Annual Report of British American Tobacco p.l.c. for full disclosures under IFRS 2. The weighted average share price on exercise of LTIP shares in 2016 was £45.80 (2015: £35.39).

The weighted average share price on exercise of DSBS shares in 2016 was £42.26 (2015: £35.05).

The outstanding shares for the year ended 31 December 2016 had an exercise price range of £34.64 - £47.71 (2015: £34.88 - £36.62). The weighted average remaining contractual life are 8.2 years (2015: 8.2 years) for the LTIP shares and are 1.3 years (2015: 1.2 years) for the DSBS shares.

Notes to the financial statements for the year ended 31 December 2016

15 Contingent liabilities

The Company's ultimate parent British American Tobacco p.l.c. has guaranteed the liabilities of the British American Tobacco UK Pension Fund, on behalf of the Company and the other participating employers of the scheme. In addition all of the participating employers have cross guaranteed the contributions due to the scheme. The fund had a deficit according to the last triennial actuarial valuation in March 2014, of £264,000,000. As at 31 December 2016 the valuation of the asset on an IAS 19 basis was £341,722,000 (2015: £311,222,000).

16 Parent undertakings

The Company's ultimate parent undertaking and ultimate and immediate controlling party is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. 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