



BRITISH-AMERICAN TOBACCO COMPANY LTD

A member of the B-A-T Industries Group

DES/JT

17 May, 1991

Mr K Etherington
BAT Industries
Windsor House

Dear Ken

R & D Funding

Richard has asked me to respond to your note dated 22 April.

I cannot reconcile your turnover figure of £1518 mns. The figure should be:-

	<u>£mns</u>
Tobacco subs as per Company plan	1776.1
Companies that do not or find it difficult to pay	312.0
Less Spain	61.4
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	250.6
	<u>1525.5</u>

I would also suggest the Cigar Group and Leaf Processing companies be excluded. If you agree the net turnover figure should be:-

	<u>£mns</u>
As above	1525.5
Less Cigar Group	42.6
Less ELT - Zimbabwe	17.8
Less TPZ - Zimbabwe	5.0
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	65.4
	<u>1460.1</u>

Incorporated in London Number 74974 Cable: Vehicular London SW1

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2.

Whilst I agree that external net turnover should be used regardless of whether or not contract manufacture is used, I would suggest the B & W trade to China through Hong Kong is not in the same category. Normally a contract manufacturing arrangement, the ultimate seller derives the most financial benefit and has complete control of specification/ quality and could switch manufacture to another company if it so wished. The arrangement for sales through to China is different in that Hong Kong only make a 16% contribution on this business from which it is required to cover all marketing and selling costs. Consequently, it is felt that the inter-company net turnover value of sales through Hong Kong should be allocated to B & W. This principle is applied within the BAT Co allocation exercise, where BATUKE bears the cost relating to its sales into China through Hong Kong.

The allocations on this basis would be:-

	<u>Net Turnover</u>	<u>R & D Expenses</u>
	<u>£mns</u>	<u>£mns</u>
B & W (1524 + 74)	1598	1575
BATCF	473	466
Imasco	484	477
BAT Co (1460 - 74)	1386	1367
	<u>3941</u>	<u>3885</u>

If you agree, please make the necessary arrangements with B & W, as suggested, and let me know so that an invoice can be raised. It is not clear from your note who should be speaking to Imasco and BATCF. Please advise.

With kind regards.

Yours sincerely

D E Salt

cc: Mr R H Pilbeam

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