

NOTE TO MR K ETHERINGTON

GROUP FUNDAMENTAL RESEARCH PROGRAMME

Rn) Funding

I refer to your note of 18th February.

Our understanding of the 1991 position is as follows:-

	R&D Allocation		Net Turnover Basis			Difference
	%	£000s	Net Turnover £ Mns	%	Allocation £000s	£000s
B&W	30	1166	1524	37.0	1437	+271
BATCF	19	738	473	11.5	447	-291
Imasco	19	738	484	11.8	458	-280
BATCo	32	1243	1636	39.7	1543	+300
	<u>100</u>	<u>3885</u>	<u>4117</u>	<u>100.0</u>	<u>3885</u>	<u>-</u>

As Souza Cruz is not included in this allocation, we would like to suggest that for a comparable basis we exclude from BATCo net turnover the following:-

- Countries where remittance is impossible. This would basically cover the sub-continent, most of Africa, Suriname and Guyana. These countries, furthermore, do not really benefit from the forefront of Group research.
- Also Denmark which is not a significant beneficiary. The original agreement in which BAT obtained a 33% shareholding was based on free access to future developments.
- Spain, as our partners, Tabacalera, do not accept the principle of central charges and do not use that method for recovery of their own overheads.

The position would then be:-

	Net Turnover		R&D Allocation		Difference
	£ Mns	%	£000s	£000s	
B&W	1524	40.1	1558	+392	
BATCF	473	12.4	482	-256	
Imasco	484	12.7	493	-245	
BATCo	1324	34.8	1352	+109	
	<u>3805</u>	<u>100.0</u>	<u>3885</u>	<u>-</u>	

If acceptable all round this produces a better, but not perfect, solution from a UK tax and cash flow perspective. It also seems unfortunate that the BATCF and Imasco charges are so far below the £738,000 which have, perhaps reluctantly, been agreed by them. I know nothing about BATCF and Imasco but would it be possible to edge their charges up to, say, £600,000 - some halfway between the original and revised figures - so that in total we can maintain the current level of U.K. income?

for
Souza Cruz
R H PILBEAM
9. 4.91

cc Mr M F Broughton
Mr B D Bramley
Mr D E Salt
Mr A L Heard

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