



BRITISH-AMERICAN TOBACCO COMPANY LIMITED

Section 1	2
Objective	2
Procedure	3
Advisory & Specific	3
International Brand Management	3
Trading Operations - OPCO's and UK Exports	3
Projects	3
Administration - Own Cost Centre	4
Administration - Millbank/Woking	4
Other Head Office Departments	4
Courses & Conferences	5
Corporate & Statutory	5
Section 2	6
Option 100 - Time Allocation	6
Option 200 - Release Data to Management Accounts	8
Reporting - Options 340 & 355	9

Section 1

Objective

The principal aim is to maximise justifiable expense recovery through the annual T&A Service Fees, which provide a major contribution to BATCo's net income. The time allocated to the Company must be fully supportable, approved by the Regional Director, and recognised as adding value to that business.

T & A Fees have increased substantially in recent years. As a consequence we are facing increased resistance to the acceptability of this recovery both by OPCO's and overseas Government agencies. We are often required to provide supporting analyses, explanations of increases and Auditors Certificates substantiating both the services we are providing and their cost. In addition, the UK Revenue requires us to demonstrate that, where possible, full recovery of costs is achieved.

In order to produce information to support the charges, reduce queries and subsequent amendments, departmental managers are requested to ensure that only justifiable allocations are made.

It is necessary that we:

- a) are able to substantiate our claim for fees,
- b) offer what must be seen to be a competitively priced service,
- c) in the case of overseas companies, offer a unique service, fundamental to the more efficient running of the local business of ultimate benefit to that country.

The objective of the exercise is to establish time allocations for each BATCo Department. These allocations are then costed based on the individual's (or group's) "employee cost", and overheads added at a departmental level and a general BATCo level after taking account of any inter-departmental charges.

Eventually, all department allocations to Subsidiaries, Associates etc. are summarised by cost centre to:-

- a) provide a basis for calculating the charge for Technical and Advisory Services,
- b) ascertain the true level of profitability of our Trading Operations.
- c) obtain an analysis of expense for use in various Board reports including information to support the departmental budget approval process.

Where departments are able to make direct recoveries from companies, this should only be done when it is clear that such consultancy exercises are over and above those covered by the normal T & A Services agreement. They must be of a special nature, substantial, recognised by and acceptable to the recipient company. Such anticipated exceptional allocations should be made but with a covering explanatory note in order that we may adjust proposed recoveries accordingly.

Procedure

The computer system is designed to allow each individual's time to be allocated on the basis of "Number of days worked" - (220 days being the maximum based on one year's available working days minus a provision for holidays/sick etc.). Once the 220 days have been fully allocated and agreed by the Regional Director the data should be released to Management Accounts Department for further processing. For details relating to the procedure please refer to Section 2.

The following should be borne in mind when making allocations to the various sections:-

Advisory & Specific

- (i) This covers Advisory or specific work carried out for or on behalf of the Companies listed under this Section.
- (ii) Time allocations to Associate or Subsidiary companies and to UK Exports to a specific RBU must be approved by the Regional Director (See Section 2, "Reporting").
- (iii) Allocations to Subsidiary/Associate companies involved with diversification activities or other subsidiaries should be included in the allocation to the Parent Company concerned.
- (iv) For members of staff whose work is related to the BATUKE Export Operation their time should be allocated to "BATUKE EXPORTS" within the relevant RBU. If it is felt that the work cannot be specifically allocated to a RBU region then an allocation should be made against "UK Exports non RBU related". Costs resulting from allocations to this function will form the basis of the administrative charge from BATCo to BATUKE.

International Brand Management

Managers should now allocate their time over the Brand Houses i.e. Benson and Hedges, State Express 555 and US International Brands.

Trading Operations - OPCO's and UK Exports

This screen is only intended for those departments directly or indirectly involved in the purchase of leaf, wrapping materials, machinery etc. for, or on behalf of Operating Companies or the UK Export Manufacturing Operation in the Southampton Plant.

Projects

Where a Manager has identified time spent on a specific Project he should allocate his time to this section. If a project is not identified on the current list he/she should inform Management Accounts who will update the system accordingly to allow the required allocation.

Administration - Own Cost Centre

- ~ Managers should indicate here time spent on general work and welfare of staff within their own function.
- \ e.g. Organisation of work flow, staff appraisals, salary reviews, career planning etc.

Administration - Millbank/Woking

Whilst this section is intended to cover work done not specific to ones own department, any allocation under this heading must be identifiable as work common to Staines/Woking.

The Head of Accounting Services will ensure that allocations to General Millbank Administration are both reasonable and justified.

Examples of allocations would include:-

- a) Staff records, salary structures, payment of Salaries, Company Pensions, etc.
- b) Maintenance of general accounting records, budgets, and expense allocations, etc.
- c) Purchase of fixed assets, repairs and renewals, and other work directly associated with maintaining facilities of the buildings.
- d) Organising and preparing general training courses held internally for the UK based staff, e.g. PACE competency programmes, PC based courses etc.

It should be noted that any time allocated here, as with "Own Cost Centre", will be costed and spread pro-rata to values of other remaining cost centre allocations as an additional overhead.

Other Head Office Departments

- (i) This section should only be used where identifiable specific work is undertaken for another BATCo department or cost centre.
- (ii) The recipient department must be aware of and accept the allocation. Management Accounts section should also be consulted.
- (iii) Casual or undefined relationships should be excluded e.g. Salaries Section have indirect dealings with all departments but it would be inappropriate in this context and General Administration is the more obvious allocation point.
- (iv) Insignificant allocations should be avoided.
- (v) In order to prevent incorrect entries no person will have authority to input data to this area until they present to Management Accounts confirmation from the recipient department.

Courses & Conferences

Where time is spent in preparing and tutoring for a BATCo sponsored course or conference and the recipient Company has already paid to participate then, in order to prevent double counting, time should not be allocated to the Territory but against the appropriate programme. Please inform Management Accounts of courses/conferences to be added to the current list. Management Accounts will allocate net costs, after recoveries, pro rata over participating delegate companies as a T&A cost.

Corporate & Statutory

Allocation to this section should be avoided unless it is quite clear that the work is of a Corporate or Statutory nature or for time that should be borne by Centre and not recovered from Subsidiary and Associated Companies.

Examples are:-

- a) Directors carrying out their duties as Board members of BATCo Ltd.
- b) Corporate sponsorship, preparation of Consolidation and Statutory Accounts and work association with the Company Secretarial functions, etc.
- c) Corporate planning or acting in an advisory capacity to the Board.
- d) Protection and Registration of the Company's Trade Marks (except work on Project REMARK - see "Projects" section)

Work for BAT Industries should be allocated under the section "Other Operating Groups" within Advisory and Specific.