

NOTES TO APPENDIX A

- (1) The lines in these columns are analysed by brand and market. In general, this analysis is on specific items down to gross margin but then represents an allocation of non-specific costs: the basis of this allocation is still to be finalised.
- (2) The lines in this column are analysed by brand, but the above point on allocation applies to items below the brand margin.
- (3) The TSG column for cigarette profitability includes RYO and smoking tobacco but not cigars or leaf; these will be added to give legal entity profit but are not part of the analysis by end market/brand owner profitability.
- (4) As the legal entity includes "other tobacco" and "non tobacco" operations the lines shown in this column will need to be extended to take account of the relevant income and costs. Also the treatment of associated companies would need to be addressed.
- (5) Volume would separately identify cigarettes, RYO and smoking tobaccos. Contract and licence manufacture would also be separately identified, with appropriate analysis to eliminate the inter company volume on consolidation. These amounts would be based on shipments and information on consumer sales might be collected in an expanded Cigmar data base (see covering note).
- (6) Gross sales value less normal trading credits (those on Rate Card/List Price which are available to the majority of customers).
- (7) Government levies include excise, sales and VAT; the government levies for the TSG column will be the total of those in the production and end market columns.
- (8) Material cost based on "stock analysis/moving book average" for leaf, wrapping and casing costs.
- (9) Profit on material sales - this does not include leaf sales which are excluded from this analysis of end market/brand profitability as it is not practical to maintain such an analysis. Any material profit on leaf sales can be estimated on an ad hoc basis if relevant to a particular decision.
- (10) All attributable costs relating to the conversion of inputs into outputs covering production salaries and wages (including all factory management and employee costs), production expenses (including spares, energy, maintenance etc.) and all depreciation relating to the manufacturing area etc. Pension and any other employee related costs for existing employees are included here: adjustments in respect of past employees would be included under other income/expenses in overheads. Waste is included here rather than in material cost.

Conversion costs are split between variable and non variable, with the former containing those costs varying directly with the level of production.

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- (11) This includes all advertising/promotion costs which are brand specific i.e. communication (above and below the line spend on advertising and promotion), performance investments branded (specific relates. incentives etc.), other brand support expenditure (e.g. brand specific product development or research and trademark expenses). This also includes loss on returns.

The brand support costs are split between those which are the responsibility of the end market manager and those which are the brand owners. The latter would be those which are world wide, or perhaps regional, but not directly attributable to an end market; this would, for example, include international press, radio/film production or general sponsorship.

- (12) The Group brand margin is the sum of the gross margin in production and the brand margins of the brand owner and end market manager. This will have been allocated by market, as well as brand, although some allocation of non market specific cost will have been necessary for that purpose.

Consequently the brand margin and trading profit (brand owner) represent only part of the total Group profit from a brand.

- (13) This relates to non brand specific expenditure e.g. freight for domestic markets, bad debts, sales administration and support etc.
- (14) This relates to non brand specific costs e.g. vending.
- (15) The Group end market profitability at a market contribution level reflects full allocation of costs excluding general overheads. It is the sum of the gross margin on production, brand margin for brand owner and market contribution for end market manager.
- (16) These include costs at production facilities not covered by the items in gross margin. Thus, for example, overheads would include central/technical planning, security etc. and other income/expense would include sales of fixed assets
- (17) These include costs of brand owner not covered by the items in brand margin. Thus, for example, overheads would include the brand manager, specific finance staff, market research etc. and other income/expenditure would include sales of trade marks.
- (18) These include costs of end market management not covered by the items in market contribution. Thus, for example, overheads would include local financial and legal staff and other income/expense would include sale of fixed assets.
- (19) These represent the total of (16), (17) and (18) above together with the relevant costs in "other tobacco" and "non tobacco" operations.
- (20) This includes overheads of the legal entity not allocated to cigarette, other tobacco or non tobacco operations e.g. Board of Directors and central functions such as finance and legal.

