**The Black Book**

Contents

[**LEGAL AND EXTERNAL AFFAIRS 4**](#_Toc82496899)

[**FINANCE 5**](#_Toc82496900)

[**HR 6**](#_Toc82496901)

[**DBS (IDT) 7**](#_Toc82496902)

[**EXECUTIVE & CORPORATE SERVICES 8**](#_Toc82496903)

[**STRATEGY & PLANNING 8**](#_Toc82496904)

[**FACILITIES 8**](#_Toc82496905)

[**GROUP RESEARCH & DEVELOPMENT 8**](#_Toc82496906)

[**GLOBAL BUSINESS SERVICES 9**](#_Toc82496907)

[**COST CATEGORY 12**](#_Toc82496908)

Objective

The ‘Black Book’ provides a framework for the reporting and classification across the Group of the “other overheads” category. It outlines principles and provides standards of how “other overheads” will be treated to ensure consistency and a transparent benchmark. These overheads reporting standardization will allow the Group to have accurate and reliable information about functional other overheads at all levels of the organization.

It also includes the guidelines on the cost categories definitions.

*Please note*

*The Black Book does not include definitions and determination of the total list of cost elements which will be within the scope of the Chart of Accounts. The Black book also does not include definitions around Marketing and Operations cost centres and functional overheads which are to be included within the Pink and Green Books respectively.*

Global Cost Centre Structure

The cost centre structure presented in this document is based on primary (function) and secondary (department) levels only. Departments can be further split into other sub cost centres as necessary to reflect business structures of the entity.

This cost centre structure reflects recent developments in the Group and uses a functional (not a process) approach to the overheads classification. This principle applies irrespective of the reporting line of a particular function or department. That will enable the Group to see and analyse

the cost of each function. As you have noticed, there is no cost centre named ‘Other’ in this top level hierarchy in order to avoid ambiguity**.**

Principles

The following principles should be applied to the cost centres where practical:

* Please avoid the creation of one person cost centres, i.e. the ones that would contain only one person’s costs as this may cause confidentiality issues.
* If any function is small and has a headcount of only 1 or 2 people and their work or expenses cannot be directly or easily allocated to various departments within that function, then their overheads should be captured in one cost centre - ‘Function management’.
* In the case of one person responsible for more than one area of responsibility, for instance, the Finance Director being the head of Finance and IT, the costs should be recorded in one place based on their predominant responsibility, i.e. in this case the expenses of the Finance and IT Director will be wholly captured within the Finance cost centre.
* Business partner support costs include two types of costs:

a) Overheads of personnel providing services to that particular function, e.g. cost of finance consultants who report to and form part of the HR function.

b) Specialist support costs to other functions, e.g. the overheads of the HR Finance manager who provides support to Finance.

* The allocation of the personnel within this structure should be based upon their direct reporting line.
* Business partner support excludes the costs of Marketing and Operations Finance. These

are captured under Non BSE and Production overheads respectively.

* Individual projects should not have a separate dedicated cost centre. Instead the project related costs are captured on WBS (workgroup breakdown structure) or Internal orders or a project code with the function(s).

## **LEGAL AND EXTERNAL AFFAIRS**

* ***Function Management*** – costs of the Head of Function, functional strategy and functional talent

management, including costs of Management Trainees

* ***Corporate Affairs*** – expenses related to internal and external communications; corporate publications; media spend in-market and above-market; charitable, NGO and political donations; corporate memberships; and any sustainability-related spend.
* ***Government Affairs & External Engagement***– expenses related to advocacy development and deployment, and campaigning activities in the tobacco control regulatory space (e.g. against plain packaging and retail display bans) as well as expenses related in-market and above-market engagement on trade and excise and AIT engagement, including advocacy development.
* ***Security*** – the costs of safeguarding of the companies’ assets and ensuring information security.
* ***Marketing, Regulation & Litigation****-* Overheads relating to department(s) responsible for providing:  
  (1) Legal counselling on legislative and regulatory matters, research & development and harm reduction to regions and markets, and   
  (2) Deals with various litigation cases brought against BAT companies, such as product liability litigation, trade litigation etc.
* ***Company Secretary & Corporate***– expenses to facilitate board meetings, Group's stock listing compliance, corporate governance, etc.
* ***Commercial Legal*** *-* Overheads relating to department(s) responsible for providing: Legal counselling on brands, on Operations related issues e.g. equipment purchases, contracts etc. and other projects.
* ***Corporate Legal*** *-* Overheads relating to department(s) responsible for providing: Legal advice on matters relating to financing, relations with affiliates, tax issues, employment etc.
* ***Intellectual property***– overheads of the **Trademarks and Patents** departments who deal with such activities as renewal, searches, filing and the protection of the Group's intellectual properties globally. Intellectual property cost centre also includes **Brand Enforcement Group** overheads that relate to implementation of the AIT strategy and intelligence gathering, preparation of analysis, target prioritisation and oversight of the laboratory to support its activities.
* ***Business Conduct and Compliance –*** Overheads related to department(s) responsible for Business Conduct and Compliance; the costs should only be reported in this sub-function by the central Business Conduct and Compliance team, i.e. no regional costs are expected*.*

*Note: For the secondary view Ops LEX and Marketing LEX overheads will be added to the LEX functional overheads; Operations and Marketing Security overheads are also added to LEX total overheads for the secondary view.*

## **FINANCE**

Primary Costs

* ***Function management*** – the cost of FDs (including Heads of Finance for non-Direct Reporting Areas or Markets reporting to a GM), RFCs, Finance EAs (follow manager) and Finance Management trainees.
* ***Corporate Finance***– the costs captured under this cost centre should comprise the costs of activities to comply with quarterly announcements, Financial Management Information (Planning & Forecast) and compliance/control activities.

*Including the following; Group Financial Control and End Market; FC’s, Planning & Reporting, Compliance, Corporate Finance and Centre Finance Corporate Business Partners (this excludes Marketing Finance and Operations Finance costs that should be recorded within NBSE and Production overheads respectively).*

* ***Treasury***- the costs of the treasury department which is responsible for managing the funding requirement of the business, financial risk and cash assets. The costs of the insurance department are to be included in Treasury.

For clarification the costs of preparing forecasts (i.e. direct cash flow forecasts) used for managing financial risks, administrating compliance with financial regulation/currency controls, running operational banking infrastructure and data gathering for insurance purposes are not Treasury expenses and are to be classified under Finance Accounting Services with the exception of long term cash flow forecasting which should be classified under Corporate Finance.

* ***Corporate Tax*** - captures Corporate Tax roles and expenditure. Includes the costs of activities required to comply with local country corporate tax legislation as well as consideration of corporate tax planning. Note: junior tax compliance or reporting roles should be reported under Finance Accounting Services.
* ***Accounting services***– the cost of administering transactional finance activities which have not (yet) been transferred to Shared Services. This will include activities retained for LFR/business case reasons, tax compliance, banking/cash management or statutory accounting.
* ***Audit*** – costs of the internal audit department (including International) should be classified under this cost centre. In addition all external audit costs should be recorded under this cost centre.
* ***Investor Relations***– cost of promoting a greater understanding of the Group through dialogue with shareholders and the financial community.
* ***Mergers & Acquisition –*** expenses of the mergers and acquisitions department whose goal is to seek opportunities for group expansion, either via new acquisitions or third party agreements. Applicable to Head Office; may exist in Regions in exceptional circumstances only (should be confirmed with the Global Function)
* ***Business Controls –*** cost of advising, reviewing and improving controls which enable the Group to protect its investments and contribute to its strategic objectives. (Global function costs only, no markets’ costs are expected).

*Note: Operations, Marketing (Commercial) and IT finance are not included above but within Marketing, Operations and IT functions.*

Secondary Finance Cost

***Commercial Finance***

1. ***Part of COS (Production Overheads):***

* **Operations - Commercial Finance Business Partnering**

All departmental costs related to finance employees carrying out business partnering activities within operations. Includes costs related to finance personnel carrying out analysis and providing insights to support the supply chain functions: R&D, leaf, product, planning, procurement, manufacturing, logistics and service and indirect taxation.

* **Operations - Accounting Services**

All departmental costs related to finance employees carrying out back office activities such as: accounting (statutory and managerial), product costing, transfer pricing, cash flow forecasting and any compliance activities.

1. ***Part of NBSE (Marketing Overheads)***

* **Marketing - Commercial Finance Business Partnering**

All departmental costs related to employees providing financial insight & analysis in Marketing to drive decision making. Includes costs related to finance personnel giving support on pricing and excise management, trade margin management and resource allocation.

* **Marketing - Accounting Services**

All departmental costs related to finance employees carrying out back office activities such as: accounting services (invoice/sales processing, receivables collection and accounting support of sales/DSD/DSS offices), compliance activities in trade.

## **HR**

* ***Function management*** – costs of the head of function, functional strategy and costs of Management trainees.
* ***Administration & systems*** – costs of all transactional activities including administrative shared services and HR systems.
* ***Talent & Organisational Effectiveness*** *-* expenses related to Talent Development and expenses related to Organisational Effectiveness and Organisational Design.
* ***Reward*** – Overheads of the department with activities related to all aspects of reward, e.g. pensions, salary management, job evaluation, incentives, etc.
* ***Business partner support***– Expenses of HRBP personnel that are part of HR (i.e. direct line reports) and provide HR support to other functions. This excludes Marketing HR and Operations HR costs that should be recorded within NBSE and Production

*Note: For the secondary view Ops HR and Marketing HR will be added to the HR functional overheads.*

## **DBS (IDT)**

* ***Functional Management*** - Costs associated with supporting the Global DBS business needs driven by Finance and Corporate Services DBS function.
* ***IDT Services Global*** - Costs of all centrally managed IDT Services costs, including: Technology Services Management, Application Services Management, Global Infrastructure and Operations Management, End User Experience and End Market Operations and IDT Services Functional Management.

(*Note:* *No regional/end market local IT costs are expected in this sub-function).*

* ***IDT Services Regional*** - Costs of all regionally managed IDT Services costs, including: Technology Services Management, Application Services Management, and End User Services and Service Operations.

*(Note: This sub-function is not related to Operations, Marketing and Corporate services. IDT services costs for those functions (global and regional) are allocated to the respective sub-functions and can be added to total IDT spend using Secondary (Management) View).*

* ***DBS Corporate Functions*** - Costs associated with supporting the Global IDT business needs driven by HR, LEX, Finance, GBS IDT and IDT functions. IDT services related to the applications supporting the above functions are also captured in this sub-function
* ***Technology Solutions–*** Consists of costs of various sub- functions including: Enterprise Data & Architecture, EPMO, Digital Platform CoE, Data & Reporting Analytics (D&A), Infrastructure and Services Engineering, and other costs related for the management, control & provisioning of digital services, to achieve A Better Tomorrow with Technology and Data for the Group
* ***Cyber Security*** *-*Costs related to BAT Group's IDT Cyber Security & Compliance technology & services

*(Note: No Regional/End Market local IDT costs are expected in this sub-function except for US IDT Centre of Execution (COEs) team, newly incorporated in 2020, the costs are managed centrally)*

*Note: For the secondary (management) view only, Ops IT and Marketing IT overheads will be added to IT functional overheads. P&L view will captures those costs under Production overheads and NBSE respectively.*

* ***Marketing IT –*** costs for all Marketing IDT projects (global and regional), as well as IT Services costs related to the marketing applications/projects (eg. Petra).
* ***Operations IT –*** costs for all Operations IDT projects (global and regional), as well as IT Services costs related to the Operations applications/projects (eg. TPD).

*Additional Corporate IDT subfunctions have been added to LEX, Finance, HR, GBS and GR&D*

## **EXECUTIVE & CORPORATE SERVICES**

* ***General Management***– costs of Top regional teams, directors and general managers that are not already covered by the Function management cost centre.
* ***Indirect Procurement***– overheads of the Indirect Procurement department.

***UK Head Office*** – overheads of the UK Head Office

(*Note:* *No regional/end market local costs are expected in this sub-function).*

# STRATEGY & PLANNING

* ***Strategy & Planning*** *–* expenses of strategy and planning department.
* ***Programme management office*** *–* expenses of the Programme management office department.

# FACILITIES

* ***Facilities*** - includes office rental, catering, cleaning, chauffeur, meeting room services, medical suite, reception, etc. costs.

# GROUP RESEARCH & DEVELOPMENT

* ***Group Research & Development*** *–* The costs captured under this cost centre should comprise the costs of Group R&D function located in Southampton, UK.
* ***Global R&D - Function Management* -** The costs captured under this category are costs related to Senior Management roles and their associated admin support which are not attributable to a specific sub-function as well as geographical hubs with functional R&D cost centres
* ***Global R&D - New Sciences*** Is for Analytical Development Centre, R&D Cambridge, New Platforms and Insights for R&D
* ***Global R&D – HR***  covers HR Business Partners serving the R&D Function
* ***Global R&D – Finance*** is for the costs related to Finance Business Partners serving the R&D function
* ***Global R&D – IDT*** includes Demand, Delivery, Service and Compliance of Scientific Computing for R&D
* ***Global R&D – New Category R&D -*** The costs captured in these cost centres comprise all New Categories R&D activity relating to Global Discover and Develop as well as Design for Manufacturing.
* ***Global R&D – Scientific Research Capabilities* -** The costs captured under this cost centre should comprise the costs of Group R&D function located in geographical hubs with functional TSS Scientific Research R&D cost centres

R&D costs incurred regionally in order to be captured here should be approved and agreed with GR&D function.

Product sub-function’s costs captured within Production overheads from primary view are allocated to GR&D total costs from the secondary view.

# GLOBAL BUSINESS SERVICES

* ***Global Business Services*** *–* this cost centres group has been created following the creation of Global Business Services as a separate function.

It should comprise the admin overheads of the Shared Services operations for BAT Group.

Markets are not expected to be impacted by this changes, change is relevant only to GBS centres.

* **Global Business Services - Function Management** -costs of General Management, functional strategy and costs of Management trainees.
* **Global Business Services - Business Optimization Centre** - costs for managing processes related to TOM, process optimization, managing change Enterprise, including managing of change request method and progression.
* **Global Business Services - Global Data Management** - cost for managing all master data information (customer and vendor data, house bank, exchange rates, cost centres, chart of accounts, approval structures); includes Global Master Data management, Data Quality, Data Stewards, Development & Projects.
* **Global Business Services - Transformation & Business Relationship Management** cost for providing: Performance Reporting ( KPI Calculation), Relationship Management (managing the relation with the end markets via dedicated customer accounts managers), Migration (managing new activities transferred from end markets to GBS), Communication (internal communication in GBS community), FSD (Finance Service Desk: managing queries from external suppliers and internal customers, on invoices and payments), AIM and Continuous Improvement (optimisation), Projects. Function Management is used to book the costs of the Head of function.
* **Global Business Services – Compliance -** overheads related to department(s) responsible for Business Conduct and Compliance; costs of ensuring compliance with internal controls and external regulation, e.g. SOX implementation.
* **Global Business Services - Data, Reporting & Analytics -** costs related to the automation and implementation of various tools, such as building and deployment of GM dashboard, delivering data quality reporting.
* Global Business Services - GBS Finance **-** cost for providing Finance activities in GBS:
  + ***Global Treasury Operations -*** Centralised Treasury activities such as Daily Cash and FX management, dealing of transactions like: FX spot and forward, Money Markets, drawdowns; settlement and confirmation of transactions; IHC Operations, Treasury Compliance and Reporting.
  + ***Order to Cash* -** Includes the costs of activities related to billing finished goods to external customers and allocation of incoming payments on the customer’s account.
  + ***Procure to Pay* -** Includes the costs of activities related to invoice processing and payment, processing of T&E claims, vendor reconciliations and reporting, transactional procurement services.
  + ***Record to Report* -** Includes the costs of activities related to general accounting services such as General Ledger, Intercompany, Planning & Reporting services (S&OP, budgeting and forecasting), BPC support activities, Commercial Planning and Analysis.
  + ***Tax Compliance* -** Includes the costs of activities required to comply with local country corporate tax legislation as well as consideration of corporate tax planning. Note: Junior tax compliance or reporting roles should be reported under Finance - Accounting Services.
  + ***Hosted Functions* -** Cost of functions for which headcount and costs are reported under another BAT entity (e.g. Audit, Business Controls, IT).
  + ***GBS Finance DBS* -** – the cost of administering transactional finance activities for GBS Hubs only. This will include activities retained for LFR/business case reasons, tax compliance, banking/cash management or statutory accounting.
* Global Business Services - GBS HR **-** cost for providing Finance activities in GBS related to:

* + ***Recruitment activities*** – Costs associated with activities related to recruitment processes
  + ***Employee administration*** – Costs associated with activities related to legal documentation and data maintenance in Success Factors (Tier 1 and Tier 2)
  + ***Reward and benefits*** - Overheads of the department with activities related to all aspects of reward, e.g. pensions, salary management, job evaluation, incentives, etc.
  + ***Global mobility*** – Overheads associated with the coordination of international assignments or relocation costs incurred when there is a permanent or short term move to a different location.
  + ***Talent operations*** - Expenses related to Talent Development and expenses related to Organisational Effectiveness and Organisational Design.
  + ***People and Organisation Analytics*** – Costs associated with activities related to headcount reporting, HR data quality.
  + ***HR Technology*** – Costs of all activities related to HR systems & tools, such as Success Factors, BPC interface with Success Factors and other specific tools used by HR.

\* The change in CC hierarchy has impacted only the Finance SS node, no impact/change in reporting for Support Functions (e.g. Finance, HR, Facilities, HR and LEX).

**NEXT GENERATION PRODUCTS**

Following the integration of the NGP to business, NGP cost center group “Next Generation Products” will become obsolete from 2019, all markets are expected to merge NGP spend within the relevant functions.

For Admin, OPS and NBSE NGP overheads, all NGP cost center related mandatory to have material group applicable to NGP products.

# COST CATEGORY

|  |  |
| --- | --- |
| Cost Categories | Description |
| The table below contains overall description for each of the cost categories. | |
| **XX\_PEE**  EMPLOYMENT EXPENSES | This includes any expense relating to all fixed employment costs: salary including overtime, expatriate related costs including relocation and housing, any applicable payroll taxes pension contributions, car scheme, and medical healthcare costs, annual bonus (guaranteed by the employment contract, eg. 13th salary) |
| **XX\_PVP**  VARIABLE PAY | These are costs of the performance related bonus (incentive scheme), share scheme (excl. those internal share scheme charges communicated on Interact, which must continue to be reported in Share scheme recharges expense/income P&L Accounts) and other collective one-off awards relating to individual or company performance. |
| For further details related to Employment cost pls consult the attached presentation | |
| **XX\_PTE**  TRAVEL & ENTERTAINMENT | Specifically, travel expenses will include overnight hotels, flights, meals, trains, taxis and parking whilst entertainment will include any costs related to entertaining BAT employees and customers. In addition conference facilities hire and associated entertainment.  This reflects all costs associated with MICE (Meetings and corporate entertainment) i.e. Global conferences, Functional conferences and meetings (including team building). |
| **XX\_PCO0450**  CONSULTING  FEES | 3rd Party services retained to deliver or develop specific business capabilities - one-off / discretionary by nature. |
| **XX\_PPS**  PROFESSIONAL SERVICES | Services bought in by the company to comply with Statutory Requirements or Local Legislation. |
| **XX\_PIT**  IT SERVICE CONTRACTS | 3rd party costs relating to the Group's IT infrastructure & processes including:   * Data Network * Voice Network * Data Centre Costs * Cloud * IT Service Desks * Application Development and Application support * IT Security Contracts * End User computing |
| **XX\_PTD**  TRAINING & DEVELOPMENT | Any costs related to employee training and development which will consist of courses held internally and externally, any training fees paid to third parties (facilitators, course developers), self-study. |
| **XX\_PRU**  RENT & UTILITIES | Rent and Rates paid internally and externally along with gas, water, electricity, council and land taxes and waste services. If these services are provided by a central body, any recharges from this body need to be included here as well. |
| **XX\_PDA**  DEPRECIATION, AMORTISATION & IMPAIRMENT | Depreciation for tangible assets and amortization for intangible fixed assets. |
| **XX\_PIN**  INSURANCE | The collection of all insurance costs (excluding employee related cover e.g. medical and death and disability). This includes all insurance for buildings, land or site, outbound freight or goods and company/director liability.  This should exclude global insurance schemes recharged as T&A. |
| **XX\_PRM**  REPAIRS & MAINTENANCE | Any maintenance costs that are recorded as part of the other and central office overheads, including software maintenance.  ***IT Specific Guidance:*** Costs of license fees and other costs for maintenance of systems should be captured here. |
| **XX\_PIR**  FUNCTIONAL INTERNAL RECHARGES | Only for expenses recharged internally when they cannot be accounted for in any other category.  This category should not be used until agreed with counterparty to report the same figure with opposite sign and only for particular cases.  When arrange the recharge, the “owner/driver” concept must be followed: “owner” recognises the costs as overheads and should be allocated the recharge in XX\_PIR, if receive the recharge as service, “driver” is allowed to allocate the internal recharge in XX\_PIR. |
| **XX\_POT**  OTHER | Any costs that do not fall into any of the categories above.  However this should not be a ‘dumping ground’ – only costs that are **not** related to any heading above should be captured here.  Examples of other costs include:  - donations, sponsorship, charity fees  - stationary, office supplies, couriers  - bank fees, charges and guarantees  - write-offs  More granularity of XX\_POT is provided in BPC |
| **XX\_PFR**  FREIGHT COSTS | Freight element of SSC costs.  All transportation costs of moving goods though the secondary supply chain.  Costs associated with the relocation of IA’s should **not** be captured here. |
| **XX\_PFL**  FLEET | The costs related to company fleet (includes pool motor vehicles, forklift trucks, delivery vehicles etc.)  Excludes company vehicle offered as a benefit as part of employment package accounted for under staff costs. |
| **XX\_PRE**  NON BRANDED RESEARCH | Non brand specific research costs such as AC Nielsen, Oracle Tracker etc.  Development costs including product, packaging & creative development. |
| **XX\_PCO0480**  AGENCY FEE | Non-brand specific Agency Fee. |