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**Management Cash Flow Reporting**

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1. Purpose of the document

The purpose of this document is to provide a guidance for reporting of the cash flow statement in BPC Management. The cash flow reporting requirements for various SOP cycles is provided. The cash flow rules and manual input forms related to preparation of the cash flow statement are explained.

This guide supplements the BPC Management Balance Sheet Guidance published on interact.

1. SOP reporting requirement

Please note below general forecasting requirements.

|  |  |  |  |
| --- | --- | --- | --- |
| **Cash flow lines** | **SOP4** | **SOP10** | **All other SOPs** |
| Operating cash flow | Current year only with correct phasing for half and full year. | Full year forecast for current year and current year plus one. | Regions only: full year forecast for current year only |
| Free cash flow | Regional Corporate Finance: High level review. |
| Net Cash & Net Debt | Not required. |
| CAPEX (i302) supplementary | Current year & current year plus one full year forecast only. | | Not required. |

* 1. SOPs 4 and 10

Please note below requirements for SOPs 4 and 10:

* A full review and update of the income statement, balance sheet, cash flow, and net debt.
  + SOP4 = Current year only (with updated H1 phasing)
  + SOP10 = Current year and current year plus one
* The output of the CAPEX demand review must be incorporated on the cash flow statement and on the supplementary input i302: CAPEX by function (reporting of which must align to functional expectations).

Since there are only two forecasting cycles annually that require a full update of the balance sheet and cash flow, and considering the tight reporting deadlines, all entities are reminded to prepare in advance and set aside sufficient time to conduct a thorough review of items below adjusted profit on the income statement and the balance sheet position, so that BPC is able to calculate an correct cash flow movements.

Any cash flows related to items that materialise post locking of Round 1, can be adjusted at a high level (End market/ DRBU/ Region/ Group level) using the Last-Minute Commitment (LMC) functionality, which allows for direct input on the cash flow statement, without having to perform the update at the lowest level of granularity on the balance sheet. However, excessive use of LMC adjustments, particularly at SOPs 4 and 10, to ‘plug’ the forecast should be refrained, as this prohibits the proper understanding of underlying performance.

Simple Commentary templates are issued by Group CP&A via Regional Corporate Finance to better understand underlying drivers of:

* Movement in OCF%
* Working capital requirements

Comments are only required down to DRBU level, where there is material change in OCF% vs prior year and where the working capital impact for a specific line item is above £20m threshold.

* 1. Monthly Operating Cash Flow (OCF) conversion review

All entities within the Regional hierarchy structure are required to carry out a monthly review of the OCF%. OCF% can be impacted by specific changes to working capital and other non-cash movements (depreciation, amortisation, and impairment). In general, the Group expects all entities to hold OCF% flat when there are changes to underlaying operating profit, subject to specific exceptions.

Per the IBPM process, the outcomes of the CAPEX demand review is required to be updated in BPC only at SOPs 4 and 10, therefore for all other SOPs, the CAPEX impact on the cash flow statement is to be kept flat vs last CAPEX demand review (please utilise the CAPEX LMC account to maintain CAPEX flat, where required), unless specifically agreed with Group CP&A and Global Function on exceptional basis. There is no requirement for entities to complete the supplementary input i302: CAPEX by function for any other SOP expect for SOPs 4 and 10.

The monthly review of OCF%, should not simply be carried out by inputting a plug to get to the desired OCF%. Where possible, the relevant balance sheet accounts should be updated to provide a better understanding of underlying performance. The working capital LMC account (which allow for direct input into the cash flow statement, without having to perform the update at the lowest level of granularity on the balance sheet) is available for items that materialise post locking of round 1. Any adjustment performed post round 1, is automatically reversed out by the system in the following SOP cycle. The carry forward of the LMC adjustment should be appropriately reflected in the balance sheet in the following SOP cycle.

* 1. Monthly Regional Corporate Finance review of Free Cash Flow (FCF)

Regional Corporate Finance teams are required to perform a monthly high-level check-in on the FCF position (effective from SOP5). The monthly high-level check-in is required because FCF is a key contributor to the Group’s deleveraging, as assessed via the adjusted net debt to EBITDA ratio (which in turn is a key non-GAAP measure for the Group). A high-level plug can be inputted via ACGFO and FCF LMC accounts (which allows for direct input into the cash flow statement, without having to perform the update at the lowest level of granularity on the balance sheet), to reflect material changes to the cash flow forecast since last detailed review conducted at SOPs 4 or 10.

* 1. Use of Last-Minute Commitment (LMC) accounts

LMC accounts allow for high level adjustments to be made directly on the face of the cash flow statement, without having to update the balance sheet. They should mostly be used for accounting for items that materialise post the end market SOP (locking of round 1) and for reporting of unallocated stretches. Inputs must be for external transactions only. Any input made for internal items will prohibit a proper consolidation for the Group. Please note, the system automatically reverses out LMC adjustment in the next planning cycle. Please note below details of the various LMC accounts:

* MCOC20000\_ADJ - Working capital adjustment for LMC
* MCOC31000\_ADJ - Gross capital expenditure external adjustment for LMC
* MCGO00000\_ADJ - Cash Generated from Operations adjustment for LMC (adjustments must relate to interest, tax, and dividends to minorities)
* MCFC00000\_ADJ - Free Cashflow adjustment for LMC (adjustments must relate restructuring/ adjusting payments)
* MCNC00000\_ADJ - Net Cash Flow adjustment for LMC
  1. Accounting polices

IFRS guidelines are to be followed for all technical areas of accounting. Should you require clarification on accounting treatment, the Group Statutory team should be first consulted. The CP&A team can then advise on how the transaction(s) needs to b be treated in BPC Management based on Group Statutory advice.

1. Reporting in BPC
   1. Balance sheet flows

BPC utilises flows (that can be mapped to ECC transaction types) to report the balance sheet. A balance on specific account is the sum of the total flows recorded on it (opening plus movement). Different flows are utilised to recorded specific movements i.e. cash flows vs foreign currency revaluation. The combination of management accounts and flows are utilised to calculate the cash flow movements (aka cash flow rules). Please note below tables of the main flows that can be found in BPC Management.

|  |
| --- |
| MF00 - Opening Balance |
| MF01 - Fair Value of Subsidiaries Acquired |
| MF02 - Reversal of the Carried Forward Adjustments |
| MF03 - Change in Consolidation Method |
| MF06 - Dividends |
| MF09 - Change in Accounting Policies |
| MF10 - Net Profit (Loss) for the Period |
| MF13 - Other Movements in Reserves |
| MF14 - Depreciation Adjustment for Inter-Company Sale of Assets |
| MF15 - Net Variation |
| MF16 - Retirement Benefits |
| MF20 - Increase / Purchase |
| MF25 - Depreciation, Amortisation, Impairment |
| MF26 - Increases/Decreases (Non-Cash Relevant) |
| MF30 - Decrease / Disposal |
| MF40 - Increase in Share Capital (BAT plc) |
| MF41 - Capital Injection |
| MF50 - Reclassifications / Reallocations (Operating) |
| MF51 - Reclassifications (Adjusting Items) |
| MF52 - Reclassifications for Indirect Cash Flow |
| MF55 - Fair Value |
| MF70 - Internal Mergers |
| MF80 - Currency Translation Adjustment |
| MF81 - Exchange Differences |
| MF92 - Change in Legal Ownership Rate |
| MF98 - Fair Value of Subsidiaries Disposed |
| MF11 - Change in accounting policies at Average Rate |
| MF12 - Overdraft posting at Closing Rate |
| MF07 - BPC only Associate dividends |
| MF08 - BPC only Associate other equity movements |
| MF53 - Reclassifications (MF51 off-set) |
| MF35A - Interest payment (perpetual bond) |
| MF35B - Interest accrual (perpetual bond) |
| MF17 - Associates |
| **MEND - B/S Period End Closing** |
| MF99 - B/S Closing Balance |

Please note, the number of flows that can be utilised on specific balance sheet accounts is restricted for simplified input and to allow for correct calculation of the cash flow statement. You can check the permitted flow types on a particular account, by reviewing the following input forms:

* i201 – Balance Sheet – Workbook
* i202 – Balance Sheet by Month (Member Recognition)
  1. Cash flow rules

Please find attached detailed cash flow rules. This can be very handy to identify which balance sheet accounts need to be populated to impact a specific cash flow line or vice versa which cash flow lines are being impacted by the balance sheet input. The cash flow rules can be downloaded from the BPC back end. However, in the attached file, several additional columns (that cannot be found on BPC back end) have been added to better enable you to navigate to your desired area of enquiry.

Some cash flow rules require manual reclassification of balances to correctly calculate the cash flow statement i.e. split out movements between operating and adjusting items. This is done via the use of memo accounts. All such memo accounts can be found on the input form i301: flow reclassification and are referred to in the attached cash flow rules file.



Cash flow rules do tend to change as the business continues to evolve its operations and caters for external reporting requirements. Please contact the CP&A team or download the latest cash flow rules from the BPC back end if you would like to check for latest developments.

* 1. Input form i301: flow reclassification.

As mentioned above, the purpose of input form i301: flow reclassification, is for the user to provide the system with further granular information to calculate the cash flow movements correctly. This is required in respect of following areas:

* Withholding tax: deduction at source by the paying company.
* Adjusting cash flows: reclassification of movements from operating to adjusting cash flow, related to:
  + Adjusting depreciation, amortisation, and impairment for both tangible and intangible assets,
  + Adjusting gain or loss on sale of tangible and intangible assets,
  + Adjusting other non-cash items included in operating profit (that is required to be added back to operating profit for the indirect cash flow calculation),
  + Adjusting working capital movements.
* Derivatives:
  + Non-cash transactions included in operating profit (that is required to be added back to operating profit for the indirect cash flow calculation),
  + Where derivatives have initiated and matured in the same accounting period,
  + Reclassification of balance sheet movements between cash flow and non-cash flow (e.g. foreign exchange movement).
* Specific leaf operations profit centres:
  + Depreciation, amortisation, and impairment of leaf assets,
  + Gains and losses on disposals of tangible leaf assets,
* Finance leases: various cash flow adjustments required for IFRS16

Further guidance on treatment of withholding tax can be found on below Tax section.

Further guidance on adjusting cash flows calculation is provided on below Adjusting cash flow section.

Further guidance on derivatives is provided on below interest section. Additionally, please review the Balance Sheet forecasting guidelines document and input from i301: flow reclassification for further information. Alternatively, seek advice from the Group Treasury Accountants and CP&A if additional guidance is required.

Further guidance on the manual input required for leaf operations can be found on the below OCF section.

* 1. Difference vs the statutory cash flow

Conceptually, the Statutory and Management cash flows are very different. The purpose of the Statutory cash flow is to show how cash flow movements have impacted the cash and cash equivalents position, whereas the purpose of Management cash flow is to show how cash is generated by the business and how this is used to pay down debt.

Other difference vs the statutory cash flow

* The starting point on the Management cash flow is from on Adjusted Profit as opposed to Operating Profit on the Statutory cash flow.
* Depreciation, amortisation, and impairment charge is split out by operating and adjusting.
* Cash flows in respect of adjusting items are specifically called out.
* Development of intangible assets, other than that related to computer software (e.g. intellectual property, R&D), is classified as investing cash flow rather than capital expenditure.
* Cash flows in respect of derivatives are split out by those (i) related to financing items (accounted for in ACGFO) (ii) related to non-financing items (accounted for in investing items).
* Pension contribution are required to split out by (i) those that are operating in nature (ii) those that have been approved as adjusting in nature (ii) those payment that are one-off related shortfall funding.
* Cash flows related to investments are required to be split out in BPC Management by those related to (i) investments held at fair value (ii) loans (iii) other investments (all of which is accounted for within investing items section of BPC Management cash flow).

1. MGMT Cash Flow presentation

Please note below references to where guidance on various cash flow lines can be found.

|  |  |  |
| --- | --- | --- |
| **Section** | **Account** | **Description** |
|  |  |  |
|  | **MCOC11000** | **Adjusted profit from operations** |
| 5.1 | MCOC12000 | Depreciation & Impairment |
|  | MCOC13000 | Other non-cash items |
| 5.2 | MCOC20000 | (Inc) / Dec in working capital |
| 5.3 | MCOC30000 | Net capital expenditure |
| **5** | **MCOC00000** | **Operating Cashflow** |
| 6.1 | MCGO10000 | Pension funds shortfall funding |
| 6.3 & 6.4 | MCGO00000\_ADJ | ACGFO\_LMC |
| 6.2 | MCGO11000 | Net Interest paid |
| 6.3 | MCGO12000 | Tax Paid |
| 6.4 | MCGO13000 | Dividends paid to NCI |
| **6** | **MCGO00000** | **Adjusted Cash Generated from Operations** |
| 7.3 | MCFC00000\_ADJ | FCF\_LMC |
| 7.1 | MCFC10000 | Restructuring/ adjusting items |
| 7.2 | MCFC20000 | Dividends from associates |
| **7** | **MCFC00000** | **Free Cashflow** |
|  | MCNC10000 | Dividends paid to shareholders |
|  | **N/A** | **Free Cashflow after Dividends** |
|  | MCNC20000 | BAT plc share capital movements |
|  | MCNC30000 | Net investing activities |
|  | MCNC40000 | Net flow from share scheme |
|  | MCNC50000 | Exchange rate impact on cash flow |
|  | **MCNC00000** | **Net Cash Flow** |
|  |  |  |
|  | **MCND10000** | **Opening net debt** |
|  | MCND22000 | Other non-cash movements |
|  | MCND23000 | Exchange rate effects |
|  | MCNC00000 | Net Cash Flow |
|  | **MCND00000** | **Closing net debt** |

Guidance on below free cash flow items and on net debt will be updated on subsequent updates to this documents.

1. Operating Cash Flow
   1. Depreciation, amortisation, and impairment

Both actual and forecast depreciation, amortisation and impairment directly flows from the Overheads model in to the MGMT model, where it is used for the preparation of the cash flow statement. When reviewing the cash flow statement please validate actual depreciation is in line with the charge flowing through from TaO ECC and forecast depreciation is in line with correct assumption for useful economic life.

Please note, the system does not automatically split out operating and adjusting depreciation, amortisation, and impairment (even though adjusting depreciation is accounted for in separate cost centres). Therefore, there is a need to manually move depreciation, amortisation, and impairment related to adjusting items from operating cash flow to adjusting. This reclassification can be performed manually via input form i301: Flow reclassification. Please refer to below adjusting cash guidance.

It is critical to get the reporting of this line items correct, since the Group measures its leveraging position based on the adjusted net debt to adjusted EBITDA (inclusive of impairment) ratio.

* + 1. Associated memo accounts for depreciation, amortisation, and impairment

The cash flow sources the depreciation, amortisation and impairment charge from the overheads model using the following cost element group mapping.

|  |  |  |
| --- | --- | --- |
| **Cost Element Group (Overheads model)** | **Source Account (MGMT model)** | **Description** |
| XX\_PDA4000 | MEMO\_XX\_PDA4000. | Memo: Depreciation of tangible assets |
| XX\_PDA6000 | MEMO\_XX\_PDA6000. | Memo: Impairment of tangible assets |
| XX\_PDA1200 | MEMO\_XX\_PDA1200 | Memo: Amortisation of intangibles - computer software |
| XX\_PDA1300 | MEMO\_XX\_PDA1300 | Memo: Amortisation of intangibles - T'mark & Licence |
| XX\_PDA3000 | MEMO\_XX\_PDA3000 | Memo: Impairment of intangible assets - excl goodwill |
| XX\_PDA2100 | MEMO\_XX\_PDA2100 | Memo: (Gain)/Loss on sale intangible assets - software |
| XX\_PDA5000 | MEMO\_XX\_PDA5000. | Memo: (Gain)/Loss on sale of tangible assets |

Since the above mapping does not differentiate items that should be treated as adjusting vs operating, a manual reclassification is needed to move adjusting items out of operating and into the adjusting section of management cash flow. This is done via input form i301: flow reclassification using following memo accounts.

|  |  |
| --- | --- |
| **Source Account** | **Description** |
| MEMO\_XX\_PDA4000A | Memo: Amortization and impairment tangible assets - adjust |
| MEMO\_XX\_PDA1000A | Memo: Amortization and impairment intangible assets - adjust |
| MEMO\_XX\_PDA5000A | Memo: (Gain) / Loss on sale of tangible assets - adjusting |
| MEMO\_XX\_PDA2000A | Memo: (Gain) / Loss on sale of intangible assets - adjusting |

Specifically in reference to those profit centres related to leaf operations, a further manual input is required, due to the limitations of the data available on the overhead model as a result of the product costing cycle, for depreciation and gain and losses on disposals of leaf specific assets. This again is performed via input form i301: flow reclassification using following memo accounts.

|  |  |
| --- | --- |
| **Source Account** | **Description** |
| MEMO\_OBA64100 | Memo: Leaf Depreciation/Impairment - cost dist. mkts only |
| MEMO\_OBA64200 | Memo: Leaf (Gains) / Loss on disposal of tangible assets |

* 1. Working Capital
     1. Cash flow rules for working capital movements

BPC calculates working capital movement as the difference between closing and opening balance sheet position less any amounts reclassified to adjusting using input form i301: flow reclassification.

* + 1. Inventory: finished goods

Assumptions for finished goods inventory should be aligned with any specific guidelines provided by the Supply Operations Network (SNO) team taking into consideration the impact of any government levies that is included in stock.

* + 1. Leaf Inventory

Assumption for leaf inventory should be aligned with any specific guidelines provide by the Central Leaf team.

* + 1. Stock builds

Assumption for stock builds over and above what has been included in the last SOP forecast must be aligned with CP&A Cash Manager and must agree to dully noted Stock Build Note. For more details on governance around stock builds please refer to finance governance on stock builds.

* + 1. Other workings capital movements

Assumption for receivables, payables, government levies and other working capital line items should reflect latest reality.

* + 1. Working capital movements related to approved adjusting spend

No items related to approved adjusting items should be reported here. As a default BPC will treat all working capital movements as operating in nature, therefore there is a need to manually reallocate any such items out of operating cash flow. This is done via input form i301 - flow reclassification. Please see below section adjusting cash flow section for further guidance.

* + 1. Working capital LMC account

The working capital LMC account can be utilised to account for items that materialise after locking of round 1 (end market SOP meeting) or to account for any unallocated stretches required to hit specific OCF% targets. The account should not be used to account for:

* any internal items - this prohibits proper Group consolidation.
* as a means for not performing a thorough review of the balance sheet position in BPC – this prohibits understanding of underlying performance.
  + 1. Associated balance sheet accounts for working capital

Please note below mapping of balance sheet accounts to the cash flow statement in respect to external and internal working capital. In vast majority of the cases, the total movement on below balance sheet accounts less any amounts reclassified to adjusting (flow ‘MF51: adjusting items’ done via input form i301: flow reclassification) is taken to the cash flow statement.

External Working Capital

|  |  |  |  |
| --- | --- | --- | --- |
| **Source Account** | **Account Description** | **Target Account** | **Target Account Description** |
| MBCA11100 | Leaf stocks for own consumption | MCOC21110 | Movements in stock - leaf |
| MBCA11200 | Leaf for external resale | MCOC21110 | Movements in stock - leaf |
| MBCA11300 | Leaf for internal resale | MCOC21110 | Movements in stock - leaf |
| MBCA11500 | Leaf LIFO | MCOC21110 | Movements in stock - leaf |
| MBCA11500 | Movements in stock - leaf | MCOC21110 | Movements in stock - leaf |
| MBCA11400 | Clove stocks | MCOC21115 | Movements in stock - cloves |
| MBCA13000 | Finished goods stocks - excl gov levies | MCOC21120 | Movements in stock - FG |
| MBCA14000 | Government levies in stocks | MCOC21130 | Movements in stock - excise |
| MBCA12000 | Manufacturing materials | MCOC21140 | Movements in stock - others |
| MBCA15000 | Other stocks including spares and consumables | MCOC21140 | Movements in stock - others |
| MBCA61100 | Trade receivables (curr) external | MCOC21210 | Movements in operating receivables external |
| MBCA61600 | Trade receivables (curr) external - bad debts provision | MCOC21210 | Movements in operating receivables external |
| MBNA61100 | Trade receivables (non-curr) external | MCOC21210 | Movements in operating receivables external |
| MBNA61300 | Trade receivables (non-curr) external - bad debts provision | MCOC21210 | Movements in operating receivables external |
| MBCA62300 | Other receivables (curr) external | MCOC21220 | Movements in other sundry receivables |
| MBCA62800 | Loans and other financial assets allowance (curr) - external | MCOC21220 | Movements in other sundry receivables |
| MBNA62300 | Other receivables external (non-curr) | MCOC21220 | Movements in other sundry receivables |
| MBCL61100 | Trade payables (curr) external | MCOC21310 | Movements in operating payables external |
| MBNL61100 | Trade payables (non-curr) external | MCOC21310 | Movements in operating payables external |
| MBCL63100 | Accrued charges and other payables (curr) external | MCOC21320 | Movements in other sundry payables external |
| MBCL64100 | Payroll and other sundry payables external | MCOC21320 | Movements in other sundry payables external |
| MBCL64500 | Unclaimed shares external | MCOC21320 | Movements in other sundry payables external |
| MBNL63000 | Accrued charges and other payables (non-curr) | MCOC21320 | Movements in other sundry payables external |
| MBCA62200 | Government levies receivables | MCOC21400 | Movements in government levies |
| MBCL62000 | Government levies payables (curr) | MCOC21400 | Movements in government levies |
| MBNL62000 | Duty, excise and other taxes (non-curr) | MCOC21400 | Movements in government levies |
| MBEQ14410 | Reserves - actuarial g/l on retirement ben schemes | MCOC21500 | Movements in retirement benefit scheme |
| MBNA40000 | Retirement benefit assets | MCOC21500 | Movements in retirement benefit scheme |
| MBNL20000 | Retirement benefit liabilities | MCOC21500 | Movements in retirement benefit scheme |
| MPFC61000 | Movements on retirement benefits | MCOC21500 | Movements in retirement benefit scheme |
| MBCL52000 | Other provisions (curr) | MCOC21600 | Movements in operating provisions |
| MBNL52000 | Other provisions (non-curr) | MCOC21600 | Movements in operating provisions |
| MBCL81000 | Liabilities related to MSA | MCOC21700 | Movements in master settlement agreements |
| MBCL81000 | Movements in master settlement agreements | MCOC21700 | Movements in master settlement agreements |
| MBCL63600 | Accruals related to regulatory bodies | MCOC21800 | Movements in regulatory bodies accruals |

Internal Working Capital

|  |  |  |  |
| --- | --- | --- | --- |
| **Source Account** | **Account Description** | **Target Account** | **Target Account Desciption** |
| MBCA61200 | Trade receivables (curr) internal | MCOC22100 | Movements in operating receivables internal |
| MBCA62410 | Accrued income and other receivables (curr) internal | MCOC22100 | Movements in operating receivables internal |
| MBEQ11000 | Share capital and share premium | MCOC22100 | Movements in operating receivables internal |
| MBEQ14310 | Reserves - treasury share scheme shares | MCOC22100 | Movements in operating receivables internal |
| MBNA61200 | Trade receivables (non-curr) internal | MCOC22100 | Movements in operating receivables internal |
| MBCL61200TT | Trade payables (curr) internal (net of CL) | MCOC22200 | Movements in operating payables internal |
| MBCL63200 | Accrued charges and other payables (curr) internal | MCOC22200 | Movements in operating payables internal |
| MBCL64400 | Sundry payables and prepayments internal | MCOC22200 | Movements in operating payables internal |
| MBEQ14900 | Other movements | MCOC21310 | Movements in operating payables external |
| MBEQ15000 | Other movements internal | MCOC22200 | Movements in operating payables internal |
| MBNL61200TT | Trade payables (non-curr) internal (net of CL) | MCOC22200 | Movements in operating payables internal |

* 1. Net Capital Expenditure
     1. Gross CAPEX

Please note below flow of data for Gross CAPEX.

Automated

Balance Sheet: Fixed Asset Tangible & Intangible

Gross CAPEX: Cash Flow (Fixed asset additions plus movement on CAPEX debtor/ creditor)

Supplementary:

CAPEX by function (i302). Validation with cash flow.

Project System Model (WBS)

Balance Sheet: CAPEX debtor/ creditor

* + - 1. Cash flow rule for Gross CAPEX

Gross CAPEX is calculated as total additions in respect of tangible and intangible assets plus movement in CAPEX accrual as illustrated below.

|  |  |  |
| --- | --- | --- |
| **Signage** | **Account** | **Flow** |
| - | MBNA21000 - Property, plant and equipment | MF20A: Additions |
| + | MBCL64700 - Accrual CAPEX – tangibles | MF00: Opening Balance Sheet |
| - | MBCL64700 - Accrual CAPEX – tangibles | MF99: Closing Balance Sheet |
| - | MBNA12000 - Computer software | MF20A: Additions & MF20B: Additions: Internal Development |
| + | MBCL64800: Accrual CAPEX – intangibles | MF00: Opening Balance Sheet |
| - | MBCL64800: Accrual CAPEX – intangibles | MF99: Closing Balance Sheet |

* + - 1. Capitalisation requirements

It is important to ensure the capitalisation requirements as defined under IAS 16: Property, Plant and Equipment and IAS: 38 intangible assets is met. Please contact Group Statutory team or CP&A if guidance is needed in this respect.

* + - 1. Intangible CAPEX other than computer software

For management reporting purposes, intangible CAPEX other than that related computer software e.g. development of intellectual property, R&D does not qualify for treatment within Operating Cash Flow. Any such, intangible development is defaulted as a Gross CAPEX by the system, but it must be reclassified to investing cash flows, using memo account MEMO\_OBA66500: CF adj for purchases of software - external. Please contact the Group CP&A for further guidance on this reclassification.

* + - 1. CAPEX Governance

Regardless of whether the item has been budgeted, it must always pass through relevant delegated authority before it can be committed. All projects above £2mrequire specific noting by the Capex Investment Committee (CIC). Please contact Commercial Finance for further guidance.

* + - 1. Gross CAPEX requirements for SOPs (IBPM process)

Commercial Finance runs the CAPEX demand review twice a year for current year and current year plus one, the outcome of which is reported in BPC at SOPs 4 and 10. Capex targets for all other reporting cycles remain flat vs last CAPEX demand review.

* + - 1. CAPEX accrual (forecast)

Where any amount reported in the PS model by WBS is not expected to materialise in terms of a cash flow, an accrual must be booked to account for it on the balance sheet. The cash flow rule will consider movement CAPEX accrual plus additions on tangible and intangible asset when calculating in-year the cash impact.

* + - 1. CAPEX validation/ supplementary input form i302: CAPEX by function.

The base level input for the cash flow calculation (input in PS model by WBS and reporting of the CAPEX accrual in MGMT model) must be completed ahead of locking of round 1. Markets will have until the locking of round 2 to complete the supplementary input form i302: CAPEX by function. A CAPEX validation will exist in situations where total movement on the cash flow statement does not align with the supplementary input form i302: CAPEX by function. This validation is required to be cleared out ahead of round 2 lock for SOPs 4 and 10 only. The validation is also required to be cleared for quarterly actuals reporting exercise.

* + - 1. Late adjustments after locking of Round 1 (SOPs 4 and 10 only)

The supplementary input form i302: CAPEX by function will remain open until the locking of round 2. Any changes required to align the cash flow forecast vs functional expectations can be done by reopening round 1.

* + - 1. Late adjustments after locking of Round 2 (SOPs 4 and 10 only).

Will only be allowed in very extreme cases, where agreed with Global functional and Group CP&A. Group CP&A will advise on process accordingly.

* + - 1. Non-SOP 4 and 10, reporting.

As per the IBPM process, for all other SOPs cycles, the target for gross CAPEX remains flat versus the last CAPEX demand review (outcome of which is incorporated in SOPs 4 and 10), unless specifically agreed with Group CP&A and Global Function on exceptional basis. During these other SOP cycles, BAT entities can utilise the use of the Gross CAPEX LMC account to keep the Gross CAPEX line on the cash flow flat. The CAPEX validation during these SOP cycles isn’t required to cleared.

* + - 1. CAPEX accrual (actual)

By default ECC posts CAPEX accruals to an trade debtor/creditor account, as such an manual reclassification is needed in ECC to reclassify the accrual from trade to CAPEX accrual, so that it can be picked up properly by both BPC STAT and MGMT for the cash flow calculation.

* + - 1. Goods receipts not paid (actuals)

The cash flow rule will treat all goods receipts not paid as cash movement, therefore there is a need to manually book an accrual to move any such items into a non-cash flow, so that the system correctly calculates the cash flow movement.

* + - 1. FX difference on clearing of invoices (actuals)

FX may arise due to timing difference between when invoices was paid versus when the entry was settled to the asset. Where such FX difference is greater than £0.5m, the Group Statutory team needs to be informed so the corrective posting can be performed.

* + - 1. BI CAPEX Cash Report (actuals)

For actual reporting, please utilise the BI CAPEX cash report to assist with identifying the function split for the supplementary input form i302: CAPEX by function. Please also utilise the report to identify goods and invoices receipts that have not been paid. Where any such situation is identified, a corrective accrual posting is required to ensure the system calculates the correct cash flow value.

* + 1. Proceeds from sales of assets – further guidance to added.

These must be calculated and accounted for as per IFRS guidelines. Markets are discouraged to input working capital ‘plug’ to forecast for any such items. Please review the Balance Sheet forecasting Guidance for details on accounting treatment.

1. Adjusted Cash Generated from Operations (ACGFO)
   1. Pension funds shortfall funding

In BPC management, pension contributions are required to split out by (i) those that are operating in nature (ii) those that have been approved as adjusting in nature (ii) those payment that are one-off related shortfall funding. Operating contribution are accounted for in Operating Cash Flow, adjusting pension contribution are accounted for within adjusting cash flows (part of free cash flow), one-off payment for shortfall funding are accounted for in ACGFO. Reclassification of pension contribution that are of adjusting in nature is manually required, this can be processed via input form i301: flow reclassification. Reclassification of pension contribution related to shortfall funding needs to be agreed with Group CP&A, who can further advise on how this is done in the system.

* 1. Interest

This includes all cash movements in respect of interest paid and received in relation to loans and borrowings, including any element of interest related to investments (cash flow account MCGO11130), finance leases (cash flow account MCGO11120) and cash flows in respect of financing derivatives (cash flow account MCGO11140). Current guidance also includes interest that is of adjusting in nature.

* + 1. Cash flow on financing derivatives.

Cash flow on financing derivatives must be accounted for within interest on the cash flow statement (they should not be recorded as cash movement on net debt). Cash flows in respect of non-financing derivatives must be accounted for in the investing section of management cash flow (they should not be recorded as cash movement on net debt). There are several manual inputs that are required on input form i301: flow reclassification in respect of derivatives. Please refer to above section input form i301: flow reclassification for more details.

* + 1. Internal derivatives.

Where internal derivative input is required, please ensure to agree with the counterparty the correct closing balance sheet position as well as split of the movement between cash and non-cash for proper group consolidation as currently no inter-company mismatch report is available.

* + 1. Further guidance on derivatives.

Please review the Balance Sheet forecasting guidelines document and input from i301: flow reclassification for further information on derivatives reporting in BPC Management. Alternatively, seek advice from Group Treasury Accountant and CP&A if additional guidance is required.

* + 1. Cash flow rule: Interest

At a simplified level, BPC calculates interest as total interest on the income statement plus year on year movement on the balance sheet accruals related to interest. Please refer to the attached cash flow rules for full details of associated accounts.

* + 1. Adjusting cash interest.

Current guidance does not require BAT entities to treat adjusting cash interest any different to operating interest. This distinction is only made in the income statement.

* + 1. ACGFO LMC account/ Post round 1 adjustment

Any changes post locking of round 1 to external interest payments can be made using the ACGFO LMC account. The ACGFO LMC account allow for high level adjustments to be made directly on the face of the cash flow statement, without having to update the balance sheet. Since this account is also be used for input of post round 1 adjustments related to tax and dividends paid to NCI, it is important to communicate to BATIF accountants and CP&A Cash Manager, how much of the input relates to interest. The ACGFO LMC account should not be utilised for inputting of any internal transactions as this prohibits proper Group consolidation. The ACGFO LMC account should also not be used to account for any adjustments required for adjusting cash flows.

* 1. Corporate Tax
     1. Cash flow rule: Tax

In summary, the corporate tax cash flow for a period is calculated as the sum of the movement in the balance sheet position for the period (MBCA20000 income tax receivable, MBCL20000 income tax payable, in rare cases also MBEQ14700 - Corporation tax) and the corporate tax charge for the period in the income statement (MPTX11400 - Taxation - corporate tax). Please note below table of associated accounts for the cash flow calculation.

|  |  |
| --- | --- |
| Source Account | Account Description |
| MPTX11400 | Taxation - corporate tax |
| MBCA20000 | Income tax receivable |
| MBCL20000 | Income tax payable |
| MBEQ14700 | Corporation tax |
| MBCL64210 | Withholding tax - dividends payable |
| MEMO\_OBA60300 | Memo: Withholding tax for internal dividends |
| MEMO\_OBA60400 | Memo: Withholding tax for external dividends |
| MEMO\_OBA66530 | CF adj for WHT paid on Group and NCI Dividends |
| MBCL64220 | Withholding tax - other |
| MBCL64230 | Withholding tax - interest |
| MEMO\_OBA60100 | Memo: WHT for T&A royalties and recharges included in profit |
| MEMO\_OBA60200 | Memo: WHT for internal interest |
| MEMO\_OBA60500 | Memo: Withholding tax for other operating others external |
| MEMO\_OBA60600 | Memo: WHT for external interest |

* + 1. Deferred tax

Movements in deferred tax do not impact cash tax (unless there is a corresponding movement in the current tax calculation, which is accounted for in the cash tax calculation as described above).

* + 1. Withholding tax

Input is required in supplementary input form i301: flow reclassification for withholding tax deducted at source by the paying entity. For example, where a dividend of £100 is declared which is subject to 10% withholding tax, the entity which declares the dividend will usually pay a net dividend of £90 and withhold £10 (paid to the local tax authority). The income statement of the recipient of the dividend will show the gross dividend income received of £100 and the tax suffered of £10, leaving net income of £90 aligned to the cash payment received. In BPC MGMT the paying entity needs to complete input form i301: flow reclassification to correctly show tax cash position post deduction of withholding tax on the cash flow statement. Cash withheld is required to split between dividends, and interest & other charges.

* + 1. Adjusting cash tax

Current guidance does not require BAT entities to distinguish between adjusting and operating cash flows in respect of tax. This distinction is only made in the income statement.

* + 1. Plugs

The corporate taxation accounts should not be used to input plugs or stretches to arrive at an expected ACGFO number.

* + 1. Post round 1 adjustment, ACGFO adjustments

Any changes that materialise after locking of round 1 (post end market SOP meeting) related to corporate tax payments can be made using the ACGFO LMC account. The ACGFO LMC account allow for high level adjustments to be made directly on the face of the cash flow statement, without having to update the balance sheet. Since this account is also used for input of post round 1 adjustment for interest and dividends paid to NCI, it is important to communicate to Group Tax and CP&A Cash Manager, the amount that relates to Tax. The ACGFO LMC account should not be utilised for inputting of any internal transactions as this prohibits proper Group consolidation. The ACGFO LMC account should also not be used to account for any adjustments required for adjusting cash flows.

* 1. Dividends Paid to non-controlling interest (minorities)

BPC calculates cash impact of this as total dividends paid to minorities reported in equity plus movement on balance sheet accrual any applicable withholding tax deducted at source. Input form i301: flow reclassification must be utilised to account for any withholding tax deductions. Please note below associated accounts.

|  |  |
| --- | --- |
| **Source Account** | **Account Description** |
| MBCL64320 | Dividends payable - external to non-controlling interests |
| MBEQ20100 | NCI - ordinary dividends paid external |
| MEMO\_OBA60400 | Memo: Withholding tax for external dividends |

1. Free Cash Flow:
   1. Restructuring (adjusting) cash flow.
      1. Adjusting items governance

The Group Statutory team reviews and approves treatment of adjusting items on the income statement. The classification on the cash flow must mirror treatment on the income statement with the exception for adjusting interest and tax. The Group guidance for the cash flows related to adjusting tax and interest is not to distinguish them between operating and adjusting. This is mainly because they have been such treated historically in the Group’s annual report.

* + 1. Cash flow rule for restructuring cash flow.

At simplified level restructuring (adjusting) cash flow is calculated as adjusting items on the income statement (excluding adjusting interest and tax) after add of adjusting non-cash items such as depreciation, amortisation and impairment related reported on the income statement plus (i) movement in litigation provision and (ii) movement in working capital reclassified as adjusting using flow MF51 (done via input form i301: flow reclassification).

* + 1. Reclassification of non-cash items to adjusting

Since BPC is unable to distinguish non-cash items (depreciation, amortisation, impairment and other) between operating and adjusting, there is a need to manually reclassify any such items. This is performed via input form i301: flow reclassification, using following memo accounts:

* MEMO\_XX\_PDA1000A - Memo: Amortization and impairment intangible assets – adjusting
* MEMO\_XX\_PDA4000A - Memo: Amortization and impairment tangible assets – adjusting
* MEMO\_ONC1000 - Memo: Other non-cash items adjusting
* MEMO\_XX\_PDA2000A - Memo: (Gain) / Loss on sale of intangible assets – adjusting
* MEMO\_XX\_PDA5000A - Memo: (Gain) / Loss on sale of tangible assets - adjusting
  + 1. Reclassification of working capital movements related to adjusting items

This is performed via input form i301: flow reclassification using flow MF51 adjusting. Please note below balance sheet accounts that can be reclassified and the mapping of them to the cash flow statement.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Source Account | Account Description | Source Flow | Target Account | Target Account Description |
| MBCA11000 | Total leaf stocks | MF51 Adjusting | MCFC12100 | Movements in stocks - adjusting items |
| MBCA12000 | Manufacturing materials | MF51 Adjusting | MCFC12100 | Movements in stocks - adjusting items |
| MBCA13000 | Finished goods stocks - excl gov levies | MF51 Adjusting | MCFC12100 | Movements in stocks - adjusting items |
| MBCA14000 | Government levies in stocks | MF51 Adjusting | MCFC12100 | Movements in stocks - adjusting items |
| MBCA15000 | Other stocks including spares and consumables | MF51 Adjusting | MCFC12100 | Movements in stocks - adjusting items |
| MBCA61100 | Trade receivables (curr) external | MF51 Adjusting | MCFC12200 | Movements in operating receivables - adjusting items |
| MBCA62300 | Other receivables (curr) external | MF51 Adjusting | MCFC12300 | Movements in sundry receivables - adjusting items |
| MBCA62200 | Government levies receivables | MF51 Adjusting | MCFC12400 | Movements in government levies - adjusting items |
| MBCL62000 | Government levies payables (curr) | MF51 Adjusting | MCFC12400 | Movements in government levies - adjusting items |
| MBCL61100 | Trade payables (curr) external | MF51 Adjusting | MCFC12500 | Movements in operating payables - adjusting items |
| MBCL63100 | Accrued charges and other payables (curr) | MF51 Adjusting | MCFC12600 | Movements in sundry payables - adjusting items |
| MBCL64100 | Payroll and other sundry payables external | MF51 Adjusting | MCFC12600 | Movements in sundry payables - adjusting items |
| MBNL20000 | Retirement benefit liabilities | MF51 Adjusting | MCFC12700 | Movements in retirement benefit schemes - adjusting items |
| MBCL52000 | Other provisions (curr) | MF51 Adjusting | MCFC12800 | Movements in provisions - adjusting items |
| MBCL81000 | Mvmt. in MSA | MF51 Adjusting | MCFC12900 | Mvmt. in MSA - adjusting |

* + 1. Other associated balance sheets

In addition to above mentioned balance sheet and memo accounts, the management cash flow also considers the total movement on the following accounts in its calculation of adjusting cash flow.

|  |  |  |  |
| --- | --- | --- | --- |
| Source Account | Account Description | Target Account | Target Account Description |
| MBCL51000 | Restructuring of existing business (curr) | MCFC12800 | Movements in provisions - adjusting items |
| MBNL51000 | Restructuring existing business (non-curr) | MCFC12800 | Movements in provisions - adjusting items |

* 1. Dividends from associates

BPC calculates cash impact of this as total dividends received from associates reported on the net finance cost section of the income statement less any withholding tax deducted at source plus the movement on balance sheet accrual. Please note below associated accounts for the cash flow calculation.

|  |  |
| --- | --- |
| **Source Account** | **Account Description** |
| MBCA62730 | Dividends receivable from associates |
| MPNF11000 | Dividends received from associates |
| MPTX12400 | WHT on dividends received external/associates |

* 1. Free cash flow LMC account

The free cash flow LMC account should only be utilised for posting of post round 1 adjustments (after end market SOP meeting) that specifically relate to adjusting cash flows, or dividends received from associates. The FCF LMC account allows for high level adjustments to be made directly on the face of the cash flow statement, without having to update the balance sheet. Adjustments related to tax and interest must not be posted here, please utilise the ACGFO LMC account for any such adjustments.

