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Exclusive Adam Smith Webinar



BRITISH AMERICAN
TOBACCO



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Treasury as a value creator

British American Tobacco



Agenda



- Company overview
- Treasury function evolution
- Treasury at BAT
- Processes Centre/Shared Services/End Markets
- Discussion/questions

Company overview



- The world's second largest listed tobacco group by global market share
- 200 brands sold in around 200 markets
- Main Global brands: Dunhill, Lucky Strike, Pall Mall, Kent
- GBP 15.8 bn – revenue
- GBP 5.5 bn - profit from operations
- 57,000 employees
- 46 factories



- Centralised in London
- Asia Pacific Regional Treasury in Singapore
- Global Treasury Operations in Romania
- 4 Regional Shared Service Centres + 1 Dealing room (London/Romania)
- End of day zero-balancing to London
- In-House Bank for Intercompany, Interest reallocation and Zero-balancing
- Banking landscape rationalised after 7 Regional RFPs (2006-2012)
- H2H built with 6 banks (Idoc +CTRL/BANSTA)
- 22 main core banks
- On-going SAP project to move to SWIFT & XML (2012-2016)

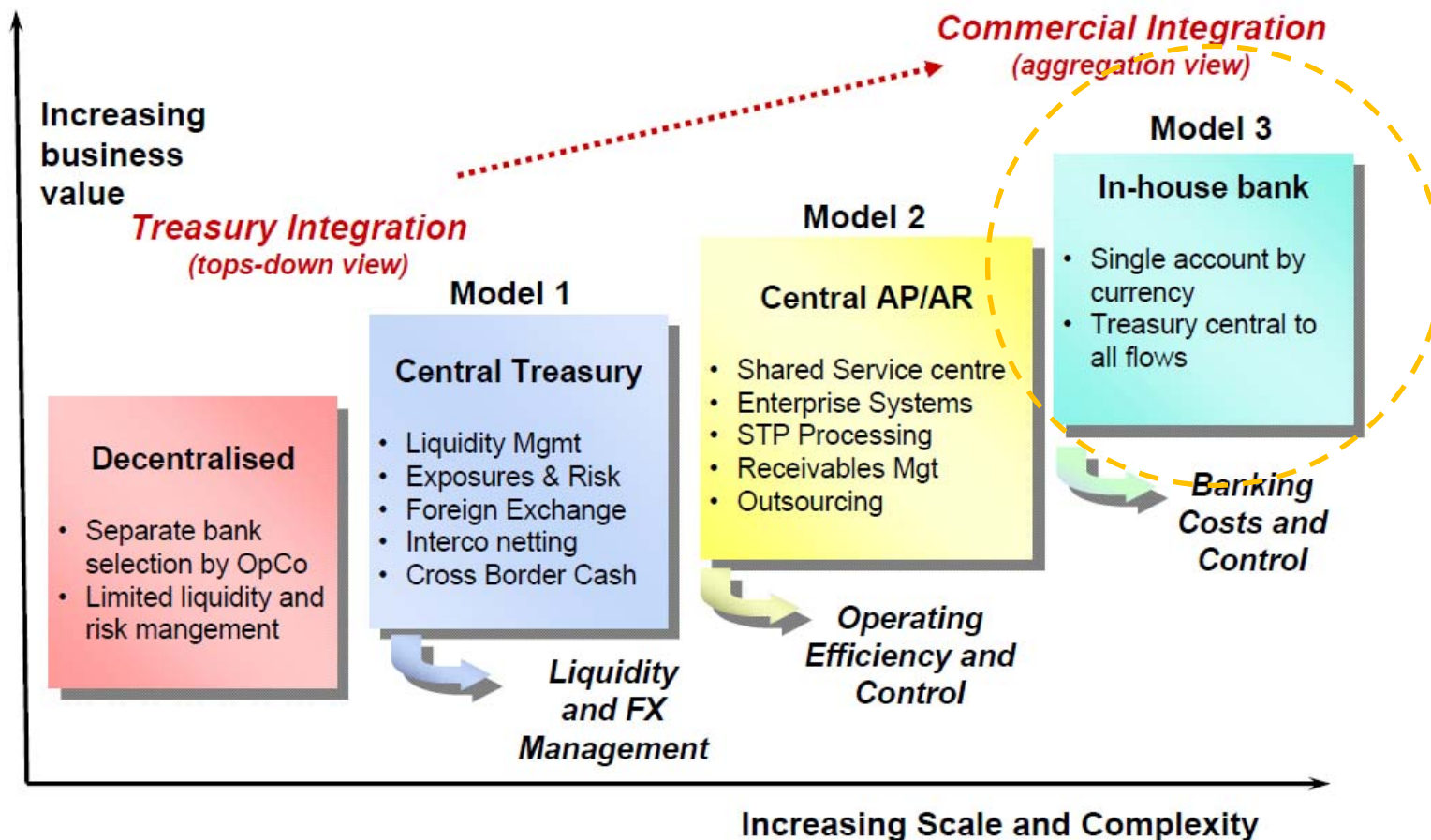
Treasury function evolution



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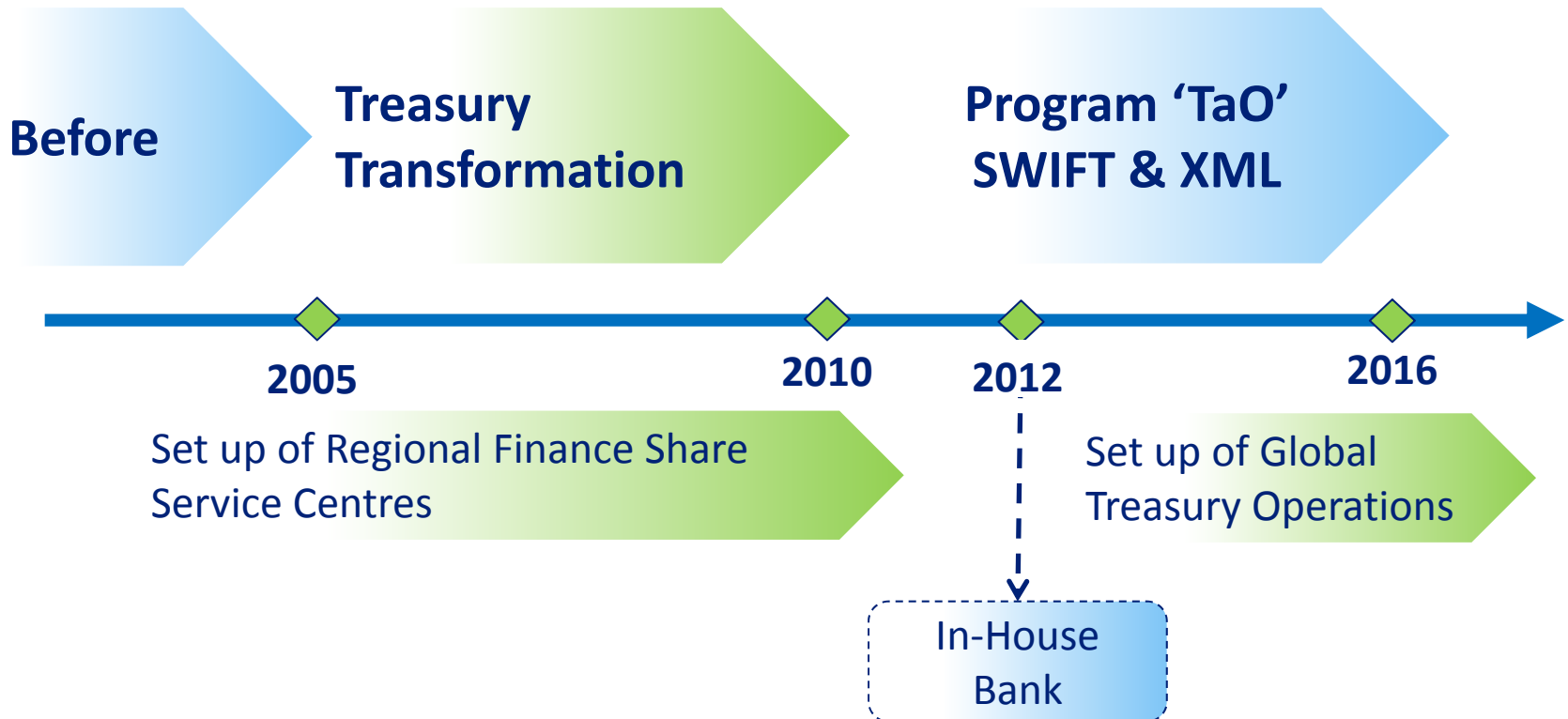
Theoretical

BAT treasury is currently closest to Model 3



BAT Treasury evolution

Decentralised Beginning of centralisation -> Further centralisation





Treasury organisational chart

British American Tobacco



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Head of Treasury 

Central Treasury 



Corporate finance 

Commercial Treasury 

Cash and Banking 

Insurance 

Dealing room 

Treasury controller 



Banking Operations 

Treasury accounting 

Settlements and In-House bank team 

Liquidity & FX team 

Global Treasury Operations 

Treasury processes



Central Treasury and Shared Service Centres

- During Treasury transformation a number of processes were reviewed and centralised including:
 - Cash flow forecasting
 - Facilities management
 - Bank accounts management

- As a result, those processes were migrated from the End Markets to Shared Service Centres, especially to Shared Service Centre in Romania (Global Treasury Operations)

- Current set up defines that more strategic decisions are taken by Central Treasury in London with more processing and executional activities managed by Global Treasury Operations in Romania

- Global Treasury Operations is an extension of London Treasury team and together represent the centre of Treasury advice and expertise for the Group



Treasury processes

Treasury and the End Markets



- Treasury team is mainly centralised in London and Romania
- Local treasury teams are still set up only in the countries with more sophisticated treasury environment that drives the requirement for the local teams to be 'on the ground' (for example, in Russia and Brazil.)
- In majority of BAT End Markets treasury activities are partly covered by finance teams
- Treasury Manual sets out the processes to be followed by the Ends Markets for majority of treasury activities: new banking relationships, counterparty exposure, funding and financing, hedging, risk management
- In case of any questions End Markets are supposed to contact Central Treasury or Global Treasury Operations
- End Markets are also supposed to follow the guidelines set out in Treasury manual and advice/recommendation from Central Treasury

Banking Relationships

- Banking Relationships are managed by the Treasury team in London on a Global level and by the End Markets on the local level
- A new banking relationship has to be approved by the Treasury team in London
- BAT has 22 core banks (2 Tiers)
- BAT operates a “relationship model” with banks: Core banks are preferred suppliers & BAT is a preferred customer with these Core banks
- In end-markets where BAT is too small, or has poor credit, Core banks will still support
- In larger end-markets, preferential rates are compared to other bank customers



Reasons for using non-core banks:

- Core bank not present (some countries in Africa) or core bank can not offer required product (for example cash collections)
In that case, funds should be transferred to a Core bank as soon as possible
- If local banks (non-core) could offer:
Better business hours / Lower rates on loans / Higher rates on deposits/
More convenience (ie. Increased footprint)
- In case the End Markets wants to set up relationship with a non core bank they have to sign this off with Regional Treasury (part of Commercial Treasury team)



Counter Party Exposure (CPE)

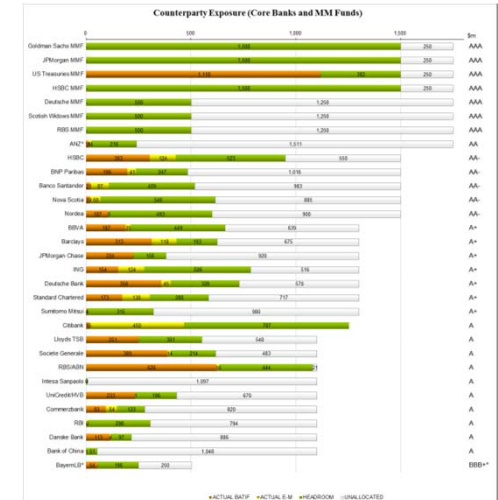


➤ BAT operates with \$100mn's every day in over 200 markets and hence even a small CPE increase in several markets can lead to serious consequences

➤ CPE is measured and managed via setting a limit on deposits that an End Market can hold with a specific bank

➤ CPE is measured quarterly via SAP (as SAP is implemented in all End Markets, CPE will be measured daily)

- Limits are established based on credit rating and the Tiers
- Potential future breaches are requested to be reported asap
- This assures alignment between Centre and End Market on limits



Financing principles and funding process

Group Level Policy



The Group Level policy has five Financing Principles:

1. Investment grade credit rating of A-/A3
2. Maintain an average Centre debt maturity of at least five years
3. No more than 20% of total centre debt matures on any twelve month rolling basis
4. Minimum of £1.5bn of available liquidity at the centre
5. Distribute, through dividends, 65% of long term sustainable earnings on an annual basis

In addition, the following KPI's are monitored in order to prevent a breach of the above:

1. RCF (Retained Cash Flow) Ratio
2. FFO (Funds From Operations) Ratio
3. Net debt / EBITDA
4. Interest cover ratio

Financing principles and funding process

Business Unit Level Policy

Funding requirements are addressed in a five step process, which aligns with the Group's Delegated Authorities:

1. Identify funding requirement – such as replacing existing loans, or planning new borrowings
2. Evaluation of funding alternatives
3. Recommendation from the End Market – supported by relevant stakeholders (ie. Local management team)
4. Recommendation reviewed by Regional Treasury, Corporate finance, Tax, Legal and group accounting (48 hours turnaround)
5. Recommendation signed off by Delegated Authority
6. Approvals – Delegated Authority
7. Implementation: facility set up in SAP etc





Financing principles and funding process

Business Unit Level Policy



Why does this policy need to apply to all End-Markets?

- The relevant Delegated Authorities need to have a continual line of sight for large items that may affect the Balance sheet
- This facilitates alignment with Group Level policy, as no view on End-Market loans would make it impossible to forecast cash flows, which would lead to shareholder uncertainty
- Allowing some markets to participate at less of a level will cause blind spots for the Delegated Authorities
- Consistent Funding principles facilitate minimisation of stock fluctuation through improved shareholder confidence and helps solidify a quality credit rating for all End Markets

Hedging strategy and FX execution

- Dealing room (London & Romania) execute majority of FX for the Group
- Execution is based on cash flow forecast submitted by the End Markets

➤ Why move above market ?

- Drive netting of exposures and transactions
- Simplify execution of FX and leverage expertise
- Risk management expertise above market



➤ How are decisions taken?

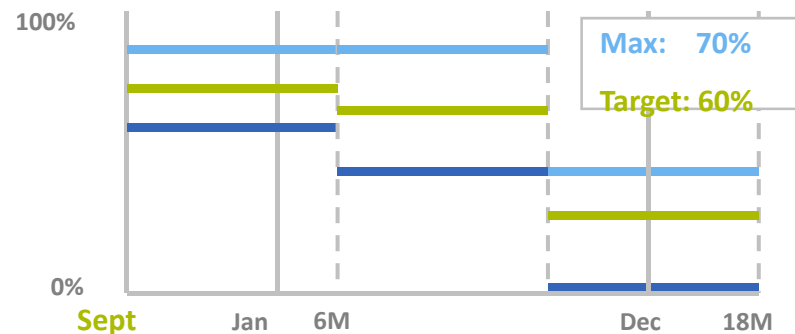
- End Markets delegate the execution to Treasury under an Service Level Agreement
- Treasury accountable to Corporate and Regional Finance Committee for transparency & decisions
- Quarterly updates with most End Markets to explain actions and agree approach for the future

Hedging strategy and FX execution

The actual hedge ratio in each End Market to be consistent and based on a Group view

- Risk in liquid markets?
 - 60% hedged for plan
 - 85% hedged on Jan 1st
- Risk in illiquid markets?
 - Remains material as limited opportunity to hedge
 - Constant dialog with Treasury required to effectively manage risk

Hedge Profile at Sept. 1st



Hedge Profile at Jan. 1st



➤ Status before

- Multiple bank accounts across multiple entities (due to federal model)
- Limited visibility regarding the number and purpose of bank accounts
- Insufficient visibility of bank accounts balances
- No robust controls in place for opening/closing bank accounts
- High maintenance fees

➤ Objective

- Improve visibility & Enhance controls
- Rationalise the number of bank accounts across the world and bring it closer to peers' /World class standard
- Reduce the fees of bank accounts maintenance



➤ **What was done?**

- Request sent out to all the End Markets requesting to justify maintenance of each bank account
- All bank accounts across the Group consolidated

➤ **New policy introduced:**

- 1 bank account per currency per entity
- All other require a waiver
- Central system introduced for account opening and closing
- Approval of Regional Treasurer & Treasurer Controller required for each bank account closure & opening
- Central bank accounts data base collated and maintained by Global Treasury Operations

Projects

Banking tenders (RFPs)

- Banking landscape rationalised after 7 Regional RFPs (2006-2012)
- Currently in process of rolling out Global SAP and conducting bank rationalisation exercise at design stage
- Usually wider RFPs (Regional) are initiated by Central Treasury (Cash and banking, Commercial treasury)
- Sometimes the initiative comes from the End Market when business or economic conditions change
- Central Treasury and the End Markets always work together to find the best solution (Central treasury leading with expertise and advice however the solution is signed off by the End Market)
- Implementation is always handed over to the End Markets but progress and deliverables are monitored by Central treasury





Projects

Single Euro Payments Area (SEPA)



- The project conducted November 2013 – March 2014 to achieve Group compliance to new regulation
- Scope included 17 countries, 6 banks, multi functions (finance, treasury, IT, human resources, procurement, sales)
- The project was led and coordinated from Central Treasury in London (cash management team) with participation of Shared Service centre (AP and AR) and Germany (Direct Debit receivables)
- Lots of communication and engagement done between London project team and the End Markets (especially with the HR department) however no requirement for the End Markets to be heavily involved in day to day project execution



Conclusion

We strive to work together efficiently and effectively

- Treasury is centralised in London (strategic)
- Treasury team in Romania is extension of London team
- Together Treasury in London and Romania aim to represent the centre of Treasury advice and expertise for the Group
- End Markets rarely have full time Treasury teams and it is expected that they will look for guidance from Central Treasury
- It is also expected that they will follow processes and guidelines set out in Treasury manual or recommendations received from Central Treasury
- So far this partnership has proven to be efficient and enjoyable!





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