

2000/01

NEW BUSINESS DEVELOPMENT STRATEGY

1. Opportunities for new business

There are four categories of markets where we have the opportunity to increase our business:

- a) Markets where we have no operations at all, with the possible exception of some exports. These are the markets on which New Business Development (NBD) will concentrate (Appendix 1).
- b) Markets where we have a business which is too small for the priority of the market, for example, France, Italy and Spain. It is not possible to expand significantly our business in these markets by developing brands, and we will need to consider our response to denationalisations. These markets could be addressed either by a central resource, separate from NBD, or by specified operating groups.
- c) Markets where we have either an Associate company (Appendix 2) or where there is a significant minority shareholding in our subsidiary (Appendix 3). BATCo should address each of these markets to assess the likelihood and cost of acquiring the third party share holdings, and make recommendations.
- d) Markets where we could gain/increase our presence through the acquisition candidates that are currently available. The main opportunities are in the UK and US through the acquisition of R.J. Reynolds (particularly International), Lorillard, Imperial, Rothmans or American Brands (including Gallagher). These acquisition appraisals will be handled through project teams reporting to the Chief Executive's Committee.

In addition, China is the subject of a strategy review by BATCo.

2. Role of the New Business Development Team

It is unlikely that B.A.T can build substantially its world-wide business based on manufacturing in a few large factories only. In many markets it will be necessary to establish domestic manufacturing in order to support the brands and build up leading market shares.

The role of the NBD Team is to evaluate the potential for investment in profitable growth in category (a) new markets, concentrating on Central Europe, CIS and Far East, preparing proposals and conducting negotiations. The specific aim has been to prepare proposals for, and implement investment in, at least one major new market each year. In view of the large number of opportunities currently available, this is being increased to an average of two a year, and could be higher than this in the earlier plan years. An objective of 2.5% volume increase p.a. is being set which is equivalent to two investments of 5 to 10 billion cigarettes each.

New Business Development priority markets are ones which are believed to be:

- of sufficient size;
- potentially profitable;

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- likely to be open for investment within two to three years;
- not already committed to a competitor.

They are set out in Appendix 1 together with the operating group which will assume management responsibility. It is the operating groups' responsibility to prospect for investment opportunities, and they must have employees with the appropriate linguistic skills to participate in the project teams and, subsequently, to manage the new businesses.

In order to meet the Group's objective to concentrate geographic expansion in relatively stable parts of the world from which profits can be freely remitted, the NBD expansion will be balanced by expansion in the major western markets such as in categories (b) and (d).

It is the role of the Tobacco Strategy Group (TSG) to determine the organisation for managing new investment opportunities. In addition the Marketing Directors from BATCo, B&W, BATCF and Souza Cruz will be used as a Group resource. They will meet with the TSG, and by themselves as often as is necessary, chaired by Mr Herter, in order to discuss the marketing strategy and resources for the new markets.

To be able to carry out its role, NBD must have strong leadership, travel widely, establish contacts at the highest level, and assess priorities. The team members must have the necessary skills and experience both in negotiation and in involving merchant banks and other relevant outside organisations.

3. Additional resources available to NBD

Additional resources available to develop new business are:

- operating group contacts and network to prospect for investment opportunities;
- support from the operating groups on specific proposals, both in developing business plans, and subsequently in managing the investment;
- Excise advisory team;
- accredited representatives in all territories in which BAT has a significant interest, to monitor and report on significant political, legal and market developments, and represent the Group's interest. It is also their role to maintain contacts with national authorities, identify potential investment opportunities, and set up meetings for top level negotiations;
- outside advisers and consultants with good connections with leading industry and political figures in the country, to provide insights into likely developments which could affect the climate for foreign investment, to ensure that all aspects of investment are covered, and to supplement limited in-house human resources;
- locally based law firms to ensure that all local legal aspects are covered.

External advisers will be appointed only by NBD as they will retain responsibility for the negotiations.

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4. NBD Strategy

If B.A.T Industries is to be successful in entering new markets it must:

which

- make early contacts in the priority countries;
- be quick to respond and be flexible;
- build up the trust of the relevant governments by advising over industry structure and excise;
- make agreements with governments that are transparently fair if they are to survive changes in regimes;
- be prepared to commit to investment;
- be prepared to offer licensed manufacture of our International Brands in order to build up local awareness of the brand supported by advertising;
- offer leaf and manufacturing know-how;
- be prepared to barter if necessary, especially leaf;
- win the confidence of local managers by explaining BAT's decentralised culture, offering to upgrade facilities, explaining how improved sales and marketing expertise, and the introduction of selected international brands, can benefit the company, and explaining management incentives.

5. Next Steps

New markets have been allocated to existing operating groups according to their particular special knowledge and expertise. They should now be allocated within the operating groups to specific marketing managers, and the network for collecting information from each market should be formally established.

The operating groups should increase the resources used for prospecting and build up teams with expertise in the markets for which they are responsible. These teams will then be able to participate in developing business plans and will be in a good position to take over management responsibility when an investment is made.

The resources within NBD and the operating groups should be adjusted so that NBD has more negotiating and marketing skills and the operating groups have more project management skills and the ability to develop business plans. The operating groups should also identify and develop staff with appropriate leaf expertise and build more depth in excise knowledge.

The resource for the projects to address categories (b), (c) and (d) must be identified.

H.C. Barton
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NBD MARKETS (in descending order of cigarette markets)

Appendix 1

Country	GDP US\$ per Capita	Cigarettes per Capita	Cigarette Market billions	Population millions	Cig. Market weighted by GDP	Operating Group Responsibility
Russia	4930	1553	231.00	148.70	1139	BATCo
Poland	3668	2660	102.94	38.70	378	BATCF
Ukraine	5716	1543	81.00	52.50	463	BATCF
Philippines	715	1098	68.64	62.50	49	B&W
Mexico	4042	588	52.46	89.20	212	B&W
Egypt	751	716	40.75	56.90	31	BATCF
Thailand	1605	669	39.45	59.00	63	BATCo
Uzbekistan	4525	1502	32.00	21.30	145	BATCo
Cuba		2636	29.00	11.00	29	Souza Cruz
Colombia	1247	835	28.05	33.60	35	B&W
Kazakhstan	3803	1500	25.20	16.80	96	BATCo
Vietnam	280	359	24.60	68.49	7	BATCo
Iran	1690	412	24.00	58.30	41	BATCF
Romania	1775	988	23.00	23.29	41	B&W
Bulgaria	2320	2001	18.13	9.06	42	BATCo
Czechlands	8700	1692	17.60	10.40	153	BATCF
Belarus	6610	1550	16.00	10.32	106	BATCF
Portugal	7600	1455	15.42	10.60	117	BATCo
Georgia	7430	1968	10.92	5.55	81	BATCo
Azerbaijan		1467	10.65	7.26	11	BATCo
Sweden	27589	1209	10.40	8.60	287	BATCo
Slovakia	2167	1679	8.90	5.30	19	BATCF
Tajikistan	4070	1463	8.00	5.47	33	BATCo
Moldova	8705	1598	7.00	4.38	61	BATCo
Armenia	7895	2000	6.80	3.40	54	BATCo
Kirgizstan	5810	1477	6.60	4.47	38	BATCo
Denmark	25590	1294	6.60	5.10	169	BATCo
Turkmenistan	8560	1613	6.00	3.72	51	BATCo
Lithuania	5620	1583	6.00	3.79	34	BATCo
Cambodia	100	488	4.20	8.60	0	BATCo
Myanmar	200	98	4.00	40.78	1	BATCo
Uruguay	3215	1193	3.94	3.30	13	Souza Cruz
Estonia	8630	1875	3.00	1.60	26	BATCo
Norway	25230	674	2.90	4.30	73	BATCo
Paraguay	1247	648	2.85	4.40	4	BATCo
Albania	485	785	2.70	3.44	1	BATCo
Ethiopia	120	51	2.50	49.50	0	BATCo

Primitive

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Associate Companies

Appendix 2

Country	GDP US\$ per Capita	Cigarettes per Capita	Cigarette Market billions	Population millions	Cig. Market weighted by GDP
Denmark	25590	1294	6.60	5.10	169
Ghana			1.68		
India	319	102	86.30	842.00	28
Trinidad			0.85		

Subsidiaries with Minority Interests

Appendix 3

Country	GDP US\$ per Capita	Cigarettes per Capita	Cigarette Market billions	Population millions	Cig. Market weighted by GDP
Argentina	3769	1070	35.10	32.80	132
Bangladesh		123	13.58	110.00	4
Cameroon			3.12		
Chile	2396	776	10.40	13.40	25
Costa Rica			2.04		
Cyprus			1.30		
El Salvador			1.28		
Guatemala			1.86		
Guyana			0.32		
Honduras			2.11		
Indonesia	652	825	150.50	182.50	98
Kenya	349	220	5.90	26.80	2
Liberia	440	91	0.22	2.44	0
Malawi			0.94		
Malaysia	2617	1094	19.80	18.10	52
Nicaragua			1.90		
Nigeria	221	92	11.20	121.40	2
NZ	12765	1088	3.70	3.40	47
Pakistan	395	261	30.20	115.50	12
Sierra Leone			1.00		
Singapore	14849	1296	3.50	2.70	52
South Africa	3151	889	32.00	36.00	101
Sri Lanka	490	320	5.50	17.20	3
Uganda			1.68		
Zimbabwe			2.42		

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