

Guidelines for BATCo. : July 1987

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Tobacco

General

1. The first priority for BATCo., which should be reflected in the performance criteria for the Number Ones in operating companies should be to achieve progressive gains in sales, market share, profits, profitability and cash flow from BATCo.'s existing Tobacco activities.
2. Opportunities for expanding into new Tobacco markets should also continue to be sought, especially where these arise through relaxations in state controls or through opportunities to purchase an existing market leader.
3. In addition, opportunities for establishing or expanding other activities may also be considered in cases where:-
 - (a) The Tobacco business is already performing satisfactorily.
 - (b) There are spare funds, whose repatriation is uneconomic.
 - (c) The new activity is either necessary or desirable to support the Tobacco business either directly or in its relations with Government.
4. Although there will be a preference for these new activities to be in Financial Services, Retail or Paper/Pulp it is appreciated that, especially in developing countries, there may not be suitable opportunities for investment in these activities. In these cases, a preferred alternative will be Agribusiness, linked if possible with Biotechnology. However, it should also be emphasised that although Agribusiness is expected to be an important activity for individual countries, the overall potential for profits is not considered to be sufficient to justify treating it as a major Group development. The degree of priority and the resources to be committed to this activity should therefore be scaled accordingly.

Financial Guidelines

5. Returns : BATCo. should aim to achieve a current cost RONA of at least 20% for the Operating Group as a whole, with no individual business earning a return below 15%.
6. Dividends : The minimum dividends expected from BATCo. are:-

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
£m	122	145	167	192	212	230

It is appreciated that BATCo.'s UK cash flow may not fully cover the dividends proposed for 1990 and beyond, some of which will need to be paid from cash deposited with BATIP.

7. Debt/Equity : BATCo.'s debt/equity ratio should remain at 15% or below. There should be continued emphasis on maximising cash flow to the UK, even at the expense of additional borrowing overseas.

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Specific Priorities

8. **Market Shares** : For the Tobacco businesses, priority should be given to achieving improved market shares in the higher margin products, especially in the developed countries in Europe and in Malaysia. There should also be a continuing emphasis on increasing Exports.
9. Strategies to compete with Marlboro should be formulated, market by market, using the most appropriate brands for each market and market segment, concentrating on competing for the younger adult smoker through campaigns specifically directed at this customer group.
10. There should be continuing emphasis on innovation both in product design and in marketing. Particular emphasis should be given to improving market shares in Barclay and to the launch of Ultra Slim products.
11. **Quality** : There should also be continuing emphasis on quality. In particular, it may be necessary to consider increasing the proportion of imported leaf used in certain overseas companies where the local leaf fails to provide the quality required.
12. **Production Costs** : There should be a continuing aim to be the lowest cost producer of quality cigarettes. Two specific developments to be pursued will be:-
 - (a) The further development and use of the "Apex" expanded tobacco process.
 - (b) Manufacturing rationalisation, especially in the UK and Continental Europe where the joint study with BATIG should be completed and its findings implemented.
13. **EEC Tax Harmonisation** : BATCo. should take a leading role in formulating an approach to the Tax Harmonisation issue in the EEC which would be beneficial to the Group and which would be likely to be acceptable to other Tobacco companies including the State Monopolies.
14. **Smoking Issues** : BATCo. should also take a leading role in promoting the compendium on smoking issues and in setting up a conference on low-risk Epidemiology.
15. **R&D** : BATCo. has a continuing responsibility to formulate and agree with the other Tobacco operations, a Group-wide programme for R&D in Tobacco. This should be presented to the Tobacco Strategy Review team for their comments, prior to implementation.
16. **Agribusiness** : BATCo. should strengthen the management and control of the Group's Agribusiness activities:-
 - (a) Ensuring that the people responsible for each Agribusiness activity have the necessary level of expertise to be able to run the business efficiently.
 - (b) Considering whether it would be advantageous to employ a consultant; to provide the technical expertise required in the identification and assessment of potential new business opportunities in Agribusiness and to assist in the initial stages of the implementation of any projects which are agreed.
17. BATCo. should also be prepared to take over the full responsibility for managing the relationship with Twyfords and for establishing a closer link between the Group's Biotechnology and Agribusiness activities.

RS/DJA

29th July 1987

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