

CAC XI : RIO DE JANEIRO

Item 'A' : Chairman's Introduction

Welcome delegates, especially Lord Armstrong, Barry Bramley, Martin Broughton, Mike Wilson, David Allvey and Ulrich Herter attending for the first time.

Thank Peter Rombaut for agreeing to host the conference in Rio and for arranging the facilities and administration.

The two years since the last CAC in London have seen continuing progress in the implementation of our agreed strategies and last year in particular was marked by a major entry to the US insurance market through the acquisition of the Farmers Group.

The results for 1988 showed significant progress in financial services even though these figures exclude any contribution from Farmers. However, as the figures on the first slide show, the picture for the other activities and in particular for Retail and Paper/Pulp is less encouraging. Although the comparison between 1987 and 1986 is complicated by the exchange factor, this was not the case in 1988 and the lack of progress in Retailing and in Paper/Pulp must be a cause for concern. The potential for growth in these activities will be one of the major issues on which we will need to focus during this conference.

Many of the strategies which have been pursued since 1982 have now run their course and it is no exaggeration to say that 1989 represents a watershed for the Group. Past successes in improving performance are no guarantee that we can sustain growth. In fact, the progress we have made in Paper/Pulp in focussing on a limited number of products has actually made us more vulnerable to change in the market for these products. The likelihood that the growth in Carbonless will plateau and that competition will intensify makes it essential that we should identify opportunities for repositioning our businesses in other market segments with better prospects for sustained, long term profitable growth.

In Retailing, we have strong positions in Argos in the UK, and in Saks and Marshall Field's in the USA but only Argos has a track record for sustained growth in sales and profits. We will need to review our strategies for Saks and Marshall Field's and we will also need to look critically at the prospects for Argos to ensure that growth is sustainable into the long term. Elsewhere in retailing, we have problems in Ivey's, Breuners, Horten and Peoples which we need to address and we will also need to consider the contribution that Shoppers Drug, Hardees and UCS can make to the overall strategy for Imasco.

I have concentrated first on Paper/Pulp and Retailing because I believe that in both cases we need to review critically what contribution these activities can and should make to the longer term development of the Group.

Important though these issues are, however, we must also remember that in terms of size the Group's major activities are Tobacco and Financial Services. It is vital to the future success of the Group that the profits from Tobacco continue to grow and that the activity continues to provide a strong cash flow. It is equally vital that we have a clear strategy and have agreed the priorities for the development of our Financial Services activities. There will be opportunities for a full discussion of both these issues during the week.

The programme for the conference follows much the same pattern as in previous years, starting today with an exchange of information on the current status and medium term plans for each of our businesses.

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Tomorrow morning, we will begin by reviewing the overall financial forecasts for the Group and this will be followed by an analysis of the main strategic issues which it is suggested we should discuss.

The following item, on manager development, is being taken earlier than in previous conferences, emphasising the importance which is placed on this subject as one of the keys to our future success.

Tom Long has written to the Chief Executives of each operation suggesting how this session might best be structured and I hope that this will provide a good basis for a discussion in which everyone will participate fully. I also hope that the issues which emerge from the discussion will be borne in mind in the later sessions when we will be discussing the issues relating to Tobacco, Financial Services, Retail and Paper/Pulp.

Following the industry sessions, there will be an opportunity on Thursday to discuss the main conclusions from the conference, ahead of my own summing-up at the end of that afternoon.

In my introduction to the last CAC, I said that we had been reasonably successful in devising and implementing plans to improve the profitability of our existing businesses and that we had also succeeded in making a major move into Financial Services. Where we had a weakness was in being able to identify opportunities for investing in growth either in our existing businesses or in complementary activities offering prospects for meeting the Group's performance criteria for profitable, long term growth.

This is still the most critical issue for the Group and I hope, therefore, that this conference can take us some way towards resolving it. To focus our thinking, I suggest that we should aim to be in a better position by the end of the week to answer the following six questions (SLIDE III):-

1. How can we grow our Tobacco profits?
  - What action do we need to take to secure or improve on the forecasts for this activity?
2. How can we grow our Financial Services businesses?
  - What should be our strategic priorities?
3. Do we see realistic options for growing Retail?
  - Can we add value to this activity and can we identify opportunities for sustained profitable growth?
4. How can we renew our Paper business?
  - Can we identify opportunities for repositioning this business for the time when Carbonless begins to plateau?
5. Do we have a sufficient management resource in terms of competence and style - and if not how do we develop this?
6. How can we ensure that we add value to our businesses through the Operating Groups?

If we can go away from here with a clearer view of the answers to these questions, this will be a valuable contribution to formulating the new strategies needed to take us into the 1990's.

Let us start then by reviewing our current position and prospects, beginning with the situation here in Brazil, described by Peter Rombaut.

RS/DJA

29th April 1989

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