

CAC XI : RIO DE JANEIRO

Conference Programme

Introduction

The purpose of the Chairman's Advisory Conference is to provide an opportunity for the Board of B.A.T Industries and the Chief Executives of the major overseas operations to discuss key issues relating to the Group's objectives and strategies.

It is not a decision making meeting but it does have an important role in shaping the thinking that goes into the formal reviews of these objectives and strategies, which are discussed by the B.A.T Industries Board in July.

These reviews will be particularly significant in 1989 since they come at a time when there is a need for a critical review of strategy in the light of the overall situation of the Group following the Farmers' acquisition.

In carrying out the reviews, there will also be a need to assess the likely impact on the Group of significant changes in the economic and political environment which may be triggered by the US Presidential election or which may result from the moves towards a Single European Market and from recent political trends and events in other countries important to the Group, such as Canada, Brazil, Chile and Venezuela.

At the same time, it will also be necessary to take into account possible implications of the developments in RJR/Nabisco and Philip Morris.

Although the overall structure of the programme for CAC XI is similar to that for previous conferences, more emphasis has been placed on providing delegates with the opportunity to discuss specific issues selected as being of particular relevance to the current situation of the Group.

To put these issues into context, it may be helpful to restate the Group's objectives and strategies and the assumptions on which these are based.

B.A.T Industries' Objectives and Strategies

B.A.T Industries aims to provide its shareholders with an above-average return on their investment through dividends and capital growth sustained over the long term.

In order to achieve this, there is an objective to increase earnings per share at a minimum rate of 15% p.a. (11% p.a. in real terms, assuming average inflation of 4% p.a.).

The key assumptions underlying the Group's strategies for achieving these objectives can be summarised as follows:-

1. The Tobacco businesses will continue to operate at levels of profitability such that they will generate a substantial cash surplus for investment in growth.
2. Although the Tobacco businesses can provide some profits growth, the overall growth of the Group will depend on the ability to identify investment opportunities in other businesses which:-
 - (a) can operate in such a way that they can both pay a dividend and support their own growth at rates in line with the objectives for the Group as a whole;

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- (b) have a potential for rapid growth;
 - (c) are positioned to sustain these characteristics over the long term.
3. There is an implicit assumption that there will be sufficient opportunities within Paper/Pulp, Retail and Financial Services for the Group to be able to concentrate its main strategic thrust within these activities.
 4. It has also been agreed that development should be concentrated in the North Atlantic region where the economic and political environment is likely to be favourable and where opportunities for developing profitable growth businesses based on the Group's existing strengths are likely to be more accessible than in the faster growing Pacific Basin region where it would be more difficult for the Group to establish a viable new activity.
 5. The other main concentration of the Group's competitive strengths is in the Tobacco businesses in developing countries, especially in Latin America. Although the immediate economic and political prospects for these countries are uncertain, it is still thought worthwhile to maintain a presence there both for current profits and for their longer term potential.
 6. In some countries where diversification is necessary either to support the Tobacco business or to make the optimum use of blocked funds, investment in the Group's other major activities may not be feasible. In these cases, investment in other activities (e.g. Agribusiness) may be considered. However, in these and other countries where there are investments outside the Group's main interests, the ultimate aim should still be to concentrate resources in the four major activities.

Issues for Discussion

It is suggested that the conference should concentrate on identifying and discussing the major issues which need to be resolved in determining the optimum strategies for each of the Group's main activities, taking into account the contributions required from each if the overall objectives for the Group are to be achieved.

A key factor to be discussed will be the management and financial resources required to pursue these optimum strategies, bearing in mind that there is an aim for the B.A.T Industries' debt:equity ratio to be maintained below 50%. While it is accepted that it may sometimes be necessary to exceed this over a limited period, proposals to do this should include a defined plan to return to 50% within 3 years. In addition, interest cover should be maintained at at least four times.

A draft programme for the conference is attached and the notes which follow indicate the specific issues which it is hoped to cover in each session.

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Item 'A' : Chairman's Introduction

The Chairman will review events and developments since CAC X and will expand on the aims of the current conference.

Item 'B' : Operating Group/Company Reviews

This session will provide delegates with an overview of the activities, current performance and key issues for each of the Group's operations as background to the discussions to be held later in the week. The suggested form and content of these reviews is the subject of a separate note which is attached.

Item 'C' : Group Financial Forecast

The Group budget for 1989 and outline forecasts for the next five years will be summarised and issues arising from these forecasts will be discussed, relating these to the Group's objectives.

Item 'D' : Analysis of Strategic Issues

The main strategic issues for the Group will be outlined with particular emphasis on the contributions required from each activity in order to achieve the overall objectives for B.A.T Industries.

Item 'E' : Manager Development

A first issue to be discussed will be the extent to which business development is being or is in danger of being inhibited by limitations in the availability of managers with the necessary levels of ability and experience.

Following on from this, delegates will be asked to consider the extent to which any problems which are identified can be related to specific weaknesses in recruitment, development or the ability to retain and motivate the best people.

Specific issues to be considered will be the proportion of senior posts which it has been necessary to fill from outside and the apparent limitation in the Group's ability to recruit and retain outstanding people.

Item 'F' : Tobacco

Delegates will be asked to consider the prospects for the Tobacco industry and to discuss the optimum long term positioning for the Group's businesses within the industry, bearing in mind the objective to maintain its ability to generate cash and to grow profits on a continuing basis.

Issues to be considered will include likely developments in attitudes to smoking, developments in taxation and excise credits, the possible impact of recent developments in RJR/Nabisco and Philip Morris, opportunities presented by the opening of monopoly markets and the impact of the European Single Market initiative.

Specific consideration should be given to the action which needs to be taken within the next 2-3 years in order to position the Group's businesses for the longer term. Also, to the shorter term implications for profits and cash flow of following the strategies which are proposed.

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Item 'C' : Financial Services

Delegates will be asked to review the prospects for the Group's existing Financial Services activities in the context of the prospects for the relevant sectors of the markets in UK/Europe and North America, taking into account actual and prospective changes in the regulatory environment. Specific issues to be discussed will be:-

- (a) The extent to which the businesses are able both to fund their own expansion and development and to provide surplus funds which can be made available for investment in other activities.
- (b) The extent to which expansion, changes or extensions to the range of activities will be required in order to maintain the viability of the existing activities, taking into account expected changes in the competitive environment.
- (c) Opportunities for expansion into new markets (e.g. in Europe) and the levels of investment which would be required to pursue these developments.
- (d) Opportunities to expand into new activities.

Item 'E' : Retail

The results to date of Project Exchange will be discussed. This project was set up following CAC X to review current practice, to share experience and to upgrade the application of Information Technology, Consumer Research and Training within the Group's Retail businesses.

The delegates from BATUS, BATIG and Imasco will be asked to review the current position, prospects and objectives for their respective Retail businesses.

Specific issues to be discussed will be the Group's record in retailing, the ability to add value to its retail businesses, the prospects for the market sectors in which they are operating, the prospects for using the existing businesses as a base for sustained, long term, profitable growth, the levels of investment that would be required for this and the degree of risk that would be involved in making these investments.

Item 'J' : Paper/Pulp

A key strategic issue for Appleton and for Wiggins Teape is the need for business renewal in order to be able to continue to achieve the combination of high rates of growth and high returns which the Carbonless business has been shown to be capable of. The delegates from Wiggins Teape and BATUS will be asked to discuss the options for business renewal and the levels of investment that would be required to reposition the businesses in such a way that they have good prospects for meeting the Group's requirement.

The delegates from BATUS and Souza Cruz will also be asked to discuss the contribution which they see the Paper activities making to the overall development of their respective Operating Groups.

For Pulp, the delegates from Souza Cruz, Wiggins Teape and BATCo., will be asked to outline the existing and potential levels of investment in Pulp making and forestry and to consider whether this can be justified in its own right or, if not, whether it should be justified on the basis of the need to secure Pulp supplies for the Group's Paper activities.

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Item 'K' : Conference Overview

Following discussion of the issues relating to each of the Group's major activities, there will be an opportunity to consider the implications for the Group as a whole.

Key factors to be taken into account in this overview are likely to include:-

- (a) The implications for cash and profits of taking action to position the Tobacco activities for the long term.
- (b) The additional investment required to position the Group's other activities in such a way that they can meet the criteria for maintaining acceptable levels of profitability.
- (c) The identification, quantification and approximate ranking of opportunities for investments which are capable of providing long term profits growth at acceptable rates of return.
- (d) The options open to the Group and the implications of trying to reconcile any mismatch between the availability of resources and the levels of investment required to pursue the development opportunities which have been identified.

Alternatively, if the opportunities identified are insufficient to meet the Group's overall targets for growth, it may be necessary to consider how additional growth might be achieved.

Item 'L' : Chairman's Summing Up

In the final session, the Chairman will summarise the main conclusions from the conference and will comment on the implications for the future.

RS/DJA
20th December 1988

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