

General

1. The Guidelines for Allied Dunbar reflect the expectation that the Company should be able to achieve sustained rapid rates of growth in turnover and profits by building on the existing strengths of the Company.
2. In addition to pursuing growth in its existing activities in the UK, Allied Dunbar should also seek opportunities to extend the range of its activities both in the UK and Continental Europe by establishing leadership positions in new markets or market segments through greenfields expansion or, where appropriate, acquisition or joint ventures.
3. Although the first aim should be to seek investment opportunities which can be funded from Allied Dunbar's own resources, B.A.T Industries will also be willing to consider projects requiring additional funding.
4. Allied Dunbar should also contribute to the overall development of the Group's activities in Financial Services through participation in the BAT Financial Services Board and Project Teams set up at the Centre, and by co-operating with other Group companies where appropriate.
5. A high priority should be given to ensuring that the management strength of the Company is sufficient both to support the existing activities and to develop and implement plans for expansion.

Financial Guidelines

6. Returns : The return target established for Allied Dunbar will be reviewed during the year. In the meantime, Allied Dunbar should continue to aim for the annual increase in the value of B.A.T Industries' attributable share of the embedded value of the business together with net dividends paid to B.A.T Industries, to be 25% of the opening value of the attributable embedded value. B.A.T Industries' attributable share should reflect the net liability in respect of outstanding shares and share options.
7. Additionally, Allied Dunbar should seek to achieve at least the increases in Financial Surplus indicated in the 1989-1993 Plan.
8. Gross Initial Commissions : Allied Dunbar's aim should be to continue to achieve growth of at least 10% p.a. in gross initial commissions after eliminating the effects of inflation.
9. In view of the changing mix of business, with an increasing proportion of products with lower profitability, Allied Dunbar should establish with B.A.T Industries an appropriate p.v.p. (present value of profits) guideline for use in the 1990-1994 Company Plan.
10. Dividends : Dividends per share should increase in line with the growth in earnings per share, at a minimum of 10% p.a. in real terms. The minimum net dividends expected from Allied Dunbar are therefore:-

<u>£ million</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Net Dividends	51.9	61.3	71.4	82.3	94.8	109.2

In addition, the benefit of Advanced Corporation Tax attaching to franked investment income should be passed up to the maximum extent possible.

11. The Guideline dividend payments will be reviewed in terms of their comparability with the base and rate of dividends paid by major competitor Life offices.

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12. Resource : Allied Dunbar should, where possible, lend its spare financial resources to B.A.T Industries, on an arm's length basis. Work to quantify the extent of such resources and to identify their optimum utilisation should be completed by the end of 1989.

Specific Priorities

13. The first priority should be to ensure that, through focussing on increasing the sales of the Company's core products and by building on the strengths of the direct salesforce, Allied Dunbar achieves at least the turnover and profits projections outlined in the 1989-1993 Plan.
14. The rate of new business growth should be supported both by extending the size of the salesforce and also through improvements in their productivity, for example, by raising the quality of new recruits and improving retention rates, performance levels, training and management development. Allied Dunbar should also continue to support interaction between Associates in order to take full advantage of specialised skills within the Company.
15. Allied Dunbar should continue to develop and strengthen its other distribution channels, including extending the number of Appointed Representative Introdurers and supporting production from independents by higher service standards.
16. Allied Dunbar should seek a sustained improvement in the control of expenses such that, in terms of the expenses-to-production ratio, the Company continues to improve its competitive position.
17. At the same time as improving expense control, Allied Dunbar should continue to invest in maintaining industry-leading standards of service through the innovative and efficient use of technology both in order to support existing activities and to promote new services. Plans should also be developed regarding the most appropriate shape of, and location for, Allied Dunbar's operating centres in order to avoid constraining the business' longer-term capacity expansion.
18. Allied Dunbar should maintain a comprehensive, innovative and competitive product range, with an acceptable level of profitability being achieved on each product.
19. Developments in the residential mortgage market should be monitored in order to ensure that Allied Dunbar can continue to achieve sustained, rapid and profitable growth in this sector.
20. The proposed geographic development of the Financial Management Advisory Department should be implemented.
21. Allied Dunbar should implement the plans for launching the investment in Spain and ensure that the business is suitably positioned for rapid and profitable growth.
22. Developments in other financial service markets in Continental Europe should continue to be monitored with a view to identifying further opportunities for profitable investment, particularly in Germany, France and Italy.
23. Allied Dunbar should ensure that the investment performance of the funds under its management compare favourably with that of major competitors, at least meeting the performance objectives identified in the 1989-1993 Plan.

GJB/DJA
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