

Guidelines for Wiggins Teape : July 1989.

General

1. The overall objective for Wiggins Teape should be to achieve sustained profitable growth in UK/Europe by building on the skills and expertise in Printings and Writings, Eucalyptus Pulp and Distribution.
2. Wiggins Teape should aim to position its businesses in leadership positions in growth markets. It should also ensure that each business is operating efficiently and achieving returns sufficient to pay a dividend and support self-funded profits growth of 15% p.a. or to generate a cash surplus for investment in other activities. Where it is not feasible to achieve the required position or performance, plans should be developed either to reposition the business or for its divestment.
3. In addition to planning for the continuing development of its existing activities, Wiggins Teape, in conjunction with B.A.T Industries, should also consider options for becoming established in new activities or new markets which can provide the basis for sustained rapid rates of profitable growth in the longer term when the growth and profitability of Carbonless is expected to plateau.
4. The 'base-case' 1990-1994 Plan for Wiggins Teape should show an improved cash flow compared with the plan for 1989-1993 and a high priority should be given to developing strategic options for longer term development including options for repositioning the business without net investment.
5. The further evaluation of project Torbay should be completed and appropriate recommendations made to the CPC.

Financial Guidelines

6. Returns : Wiggins Teape should aim to achieve a RONA of 25% on an historic cost basis with no individual business achieving less than 20% in the short term. In the longer term, all businesses should be capable of achieving 25% RONA with earnings growth of 15% p.a. while making a meaningful contribution to Wiggins Teape's dividend.
7. Dividends : The minimum dividends expected from Wiggins Teape are:-

| | <u>1989</u> | <u>1990</u> | <u>1991</u> | <u>1992</u> | <u>1993</u> | <u>1994</u> |
|----|-------------|-------------|-------------|-------------|-------------|-------------|
| £m | 41 | 42 | 47 | 52 | 62 | 74 |

8. Debt/Equity : Pending a decision on capital investment strategy, the guideline levels shown below are provisionally based on those agreed last year, which were derived from the forecasts in the 1988-1992 Plans.

| | <u>1989</u> | <u>1990</u> | <u>1991</u> | <u>1992</u> | <u>1993</u> | <u>1994</u> |
|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
| D/E Ratio (%) | 25 | 15 | 6 | - | - | - |

It is appreciated that some relaxation of this guideline may be necessary in planning to achieve the profits required to meet the guideline for dividends growth.

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Specific Priorities

9. For Carbonless, the first priority must be to maintain acceptable levels of profitability in a period when margins are expected to be under pressure. Subject to this over-riding requirement, opportunities should continue to be sought to build on the existing strengths of the business to maintain and, if possible, extend the Group's position of European market leadership, particularly in the premium-priced sector.
10. There should be continuing emphasis on securing and retaining a position as the lowest-cost producer in the industry.
11. In considering possible capacity expansions, Wiggins Teape should be rigorous in evaluating alternative options for meeting increased demand (e.g. by considering increased purchases from outside suppliers or the acquisition of new capacity as alternatives to 'greenfields' expansion) and should also ensure that the profitability of new business is adequate to justify, on an incremental basis, any investments which are proposed.
12. Particular attention should be paid to health and safety and environmental aspects of products and processes in Carbonless (and also in Wiggins Teape's other activities), ensuring that the relevant regulatory requirements are met and also considering opportunities for using the ability significantly to exceed these as a positive selling point.
13. For Thermal Papers, a first requirement is the preparation of plans for this product group in a form where it can be evaluated as if it were a separate activity. The plans should also reflect the expectation that the rates of growth for this product will be influenced by technological developments in the applications into which it is being sold. Thought should therefore be given to ways of reducing risk, including consideration of alternative uses for manufacturing equipment in the event that, in the longer term, demand growth is not sustained, (e.g. due to the increased importance of fax machines using plain paper).
14. In Fine Papers, Wiggins Teape should continue to exploit opportunities in the high value-added segment of the UK market and should continue to consider ways for extending market share in Continental Europe.
15. In Merchanting, the overall objective is to support the manufacturing operations but the business must also be self-supporting in cash terms. Returns to date have not been satisfactory and a first priority must be to improve the profitability in this activity so that the Group's criteria for cash flow can be met.
16. For CEASA, plans should be developed to maintain adequate profits and cash flow from the business, taking into account the expected fall in pulp prices. There should also be specific plans for ensuring an adequate supply of wood to the mill.
17. For Soporeal, Wiggins Teape should aim to maintain its influence in the running of the company and in the implementation of the agreed project to install Paper making capacity.
18. Consideration should be given to the incorporation of WT Stationary into another division of the company.
19. There should be continuing efforts to reduce the overheads and to concentrate support services within the operations themselves. There should be specific plans to improve the cost-effectiveness of Wiggins Teape's central services.

RS/DJA
20th July 1989

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