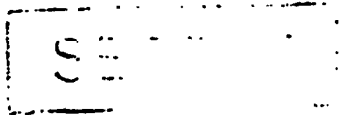


Guidelines for BATIG : July 1989



General

1. BATIG is responsible for the management and development of the Group's Tobacco interests in Germany and for developing and managing other activities in accordance with objectives and strategies agreed with B.A.T Industries.

Financial Guidelines

2. Returns : The target for the Tobacco interests will be to achieve a minimum historic cost return of 35% by 1994.
3. For Retailing, the target will be 15% by 1992, rising to 18% by 1994 (corresponding to a GCA return of around 15%). Refurbished stores should achieve RONAs net of apportioned Head Office costs in excess of 18% within 4 years of re-opening and should average 18% over the refurbishment lifespan.

Consideration should be given to separating property management from store management for the purpose of planning, assigning notional rental costs to stores which are owned to allow comparisons to be made between owned and rented stores. These analyses should be included in the Company Plan and in the Galeria Strategy Review.

4. For the Plastics division, the target returns will be 15% by 1992 and 20% by 1994 (approximately 16% GCA). New factories should achieve returns, net of any incremental Head Office costs, in excess of 20% within 4 years of coming on-stream, averaging at least 20% over the lifetime of the factory.
5. Dividends : The dividends (gross of 15% withholding tax) should be:-

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
DM(million)	125	135	155	175	195	215

The proposed guidelines correspond to a distribution of approximately 90% of BATIG's profit after tax on a German accounting basis.

6. Debt/Equity Ratio : The gross debt/equity guideline reflects the forecasts in the 1989-1993 Company Plan:-

<u>(X)</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Debt/Equity	13	13	13	11	9	7

This gross guideline excludes SAFE funds.

Specific Priorities

7. For Tobacco, the first priority should be to reverse the market share decline in Germany, concentrating on the full-price segment of the market.
8. There should be continuing emphasis on the achievement of timely price increases and on maintaining contacts with Government in order to influence Tax policies on cigarettes.

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9. In view of the continuing danger that a price-war may develop in the future, BATIG should have contingency plans for appropriate counter-strategies.
10. Marketing expenditure should continue to be tightly controlled. However, although all expenditure should be rigorously justified, this should not detract from the need to give adequate support to EB. Similarly, although the success of a test market should be proved before committing to a major launch, there must also be adequate support both for the test and for the ultimate launch.
11. Export sales should continue to be pursued in accordance with guidelines agreed through the Tobacco Strategy Review Team.
12. The BATIG plan should reflect the implications for BATCF of the initiatives to establish a Single European Market by 1992 and BATIG should also co-operate with BATCo. in the implementation of recommendations from their report on action which should be taken to optimise the Group's position in Europe.
13. BATIG should continue to aim to be the lowest-cost producer in Europe of quality cigarettes and should co-operate with BATCo. in the joint project to optimise manufacturing throughout Europe.
14. For Retailing, BATIG should carry out a rigorous re-evaluation of the prospects for the Galeria concept and the Horten Extra stores, to establish whether there are realistic prospects for achieving levels of performance which are adequate to meet the Group's criteria.
15. If it is not possible to formulate plans leading to a return of at least 15% by 1992, divestment of the whole or part of Horten should be considered as an alternative option.
16. For Eurotec, the agreed strategy is to move towards divestment of the business in a way which will maximise shareholder value.
17. The immediate priority should be to improve the performance of the current business and to strengthen management in order to improve the longer term prospects in an environment which is expected to become more competitive.

RS/DJA  
17th July 1989

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