

Guidelines for BATUS : July 1989

General

1. BATUS is responsible for managing and developing the Group's Tobacco, Retailing, Paper and Financial Services subsidiaries in the USA, optimising the performance of the activities and achieving sustained, profitable growth.
2. In view of the importance of the Group's interests in America, there should be particular emphasis in BATUS, which should be dealt with as a specific issue in the Plans, in ensuring that the management and systems are of a standard to provide the ability to add value to the individual businesses, to maintain adequate controls and to provide accurate information and forecasts to B.A.T Industries.
3. A high priority should be given to developing strategies and plans for Farmers and to ensuring that the company is fully integrated into the BATUS management and control systems.

Financial Guidelines

4. Returns : BATUS should aim to achieve an historic cost RONA on a UK accounting basis of at least 25% (equivalent to 18-20% on a CCA basis) on an asset base including receivables. Individual businesses should achieve a minimum return of 20%, calculated on the same basis.

The purpose of this objective is to ensure that each business generates enough cash to be able to pay a dividend and to fund profitable growth. Each separate retailing business should be measured against this fundamental criterion and consideration should be given to setting separate objectives for the returns required from the property component of the total investment in retailing, distinguishing these objectives from those for the returns expected from the trading activities of the businesses.

5. Dividends : The minimum dividends expected from BATUS (gross of 5% withholding tax) are:-

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
\$ million	-	320	370	425	490	560

It should be noted that the 1989 dividend was waived as part of the Farmers funding arrangements. However, the dividends requirement for the subsequent years have been increased compared with last year's Guideline.

6. Debt/Equity : The proposed guideline is based on the BATUS plan for 1989-1993:-

<u>(UK Accounting)</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Gross D/E (X)	205	165	130	100	80	65
Net D/E (X)	200	160	125	90	60	35

These levels may be reduced as a result of the current asset productivity review.

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Specific Priorities

7. Tobacco : It is particularly important that BATUS should achieve the profits, returns and cash flow from the Tobacco business forecast in the 1989-1993 plan. This requirement should be reflected in the plans for 1990-1994.
8. There should be continuing emphasis on reversing the adverse trend in the share of the market for full-priced brands, through initiatives to rebuild the market share for Kool, through building on the success achieved with Capri and through pursuing other innovative developments.
9. There should be specific plans for developing the optimum range and positioning of brands in the WPM segment of the market.
10. There should be clear objectives and strategies for each of the major overseas markets being targeted by BWIT with particular emphasis on the plans to optimise the penetration of the major Asian markets. There should also be specific plans for improving the profitability of the export business.
11. There should be continuing emphasis on the need to achieve competitive advantage both through product quality and through being the lowest cost producer of quality cigarettes.
12. BATUS should participate fully in the work of the Tobacco Strategy Review Team and should contribute with the other Tobacco operations in the formulation and implementation of a Group-wide R&D programme.
13. For Paper : the immediate aim must be to achieve the results currently forecast for the Carbonless activities, moderating and if possible reversing the adverse trend in market share experienced in 1987-1988.
14. There should be continuing emphasis on ensuring that Appleton has a competitive advantage in the market through quality, by being the lowest-cost producer and by concentrating on providing superior service in the market.
15. In view of the increasingly competitive market conditions, it will be necessary to be particularly rigorous when considering justifications for increased capacity.
16. The plans for Thermals should be shown separately and should include specific provisions for improving the profitability of the activity. Consideration should also be given to action necessary to ensure that Appleton has the capability to compete both with the leading Japanese companies in the field and with other companies who have links with the Japanese.
17. In view of the uncertainties about the way in which technical developments in the customer industries (i.e. the development and sale of plain paper facsimile machines) may affect the demand for Thermal papers, it will be necessary to have contingency plans for alternative uses for the relevant manufacturing facilities.

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18. There should be continuing emphasis on the health and safety and environmental aspects of Carbonless and Thermal products and processes, ensuring that they meet the relevant regulatory requirements and also considering whether any capability that can be developed significantly to exceed these requirements might be used as a positive selling point.
19. Although the main emphasis in Paper should be to optimise the performance and positioning of the existing activities, Appleton should also aim to build-up the management strength of the business to provide the capability to formulate viable options for business renewal strategies, aiming to present proposals for these during the first half of 1990.
20. In Retailing, a first priority for BATUS should be to strengthen the management resource at the Centre, in order to be able to add more value to the individual businesses within BATUS.
21. A priority concern for the businesses themselves must be to develop plans to reach and maintain a situation where they earn returns and generate cash sufficient to pay a dividend to BATUS and to support self-funded profits growth of 15% p.a. Proposals for capital investment should be subject to rigorous examination to ensure that refurbishments and other investments can be justified financially. There should also be particular emphasis on actions to increase gross margins and store-for-store growth.
22. For Saks and Marshall Field's, the priorities will be the successful implementation of the plans already agreed for refurbishment and for actions to improve the profitability of the businesses. Further consideration should also be given to ways in which the expansion of the businesses might be accelerated, bearing in mind the need to avoid any dilution of the Saks image and the difficulties in building on Marshall Field's reputation outside the region around Chicago.
23. For Ivey's and Breuners, the first priority must be to achieve the turnaround planned in 1989 and to formulate plans for the longer term development of the companies. Alternative plans for the divestment of these businesses should also be considered.
24. For Farmers, the priority must be to develop a first five year plan which can then be developed further during 1990.

RS/DJA  
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