

D R A F T

PDL

Guidelines for BATIG : July 1987

General

1. BATIG has the responsibility for managing and developing the Group's Tobacco interests in Germany and for using this as a base for developing other growth activities where BATIG can achieve a leadership position in substantial growth markets or market segments, preferably in Financial Services, Retailing and Paper/Pulp.
2. The current priorities for BATIG are:-
 - (a) To maintain and, if possible improve, the profitability and cash flow from Tobacco.
 - (b) To improve the performance and to resolve the uncertainties regarding the future of the Retailing operations.
 - (c) To consolidate the new Europlast division.
3. Subsequent to this, it will be necessary to agree new plans for Retailing and for Europlast and to consider alternative options for the development of BATIG, including possible opportunities for developing a Financial Services activity.

Financial Guidelines

4. Returns : BATIG as a whole should aim to achieve a RONA of 15% and there should be a similar target for each of the individual divisions.

For Horten, there should be an alternative Guideline to produce a net cash flow of DM85m each year, after tax but before dividends.

5. Dividends : Dividends ^(including clearing partnership payments) expected from BATIG (gross of 15% Withholding Tax) are:-

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
DMm	75	85	95	105	115	130

6. Debt/Equity : The BATIG debt/equity ratio should be maintained at 50% or below, as measured on UK accounting conventions.

Specific Priorities

7. For Tobacco, the first priority should continue to be to establish a plan for achieving and maintaining acceptable returns and cash flow. There should also be emphasis on:-
 - (a) The optimum strategic positioning of BATIG brands, in preparation for possible changes in the structure of the market.
 - (b) The achievement of timely price increases.
 - (c) Options for reducing marketing expenditure by rigorous analysis of the effectiveness of the support given to existing brands including HB.
 - (d) The implementation of manufacturing rationalisation.

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8. There should also be continuing emphasis on maintaining contacts with Government and on attempting to influence tax policies for Tobacco.
9. There should be continuing emphasis on maintaining or improving the market share of the full-priced sector of the market and on reversing the decline relative to Marlboro through HB, through expanding the shares for Prince Denmark, Barclay and Benson & Hedges and through the introduction of innovative new brands such as the Ultra Slims.
10. Export sales should continue to be pursued but only where it can be shown that acceptable levels of profitability can be achieved.
11. For Retailing, the detailed plan for the restructuring of the Horten business should be agreed with the CPC by end 1987, for implementation in 1988.
12. For Europlast, BATIG should prepare ~~a strategic review~~ outlining the main characteristics of the business, showing why it is believed that this activity is an attractive growth opportunity for BATIG and proposing plans for its development.
13. ~~However, in preparing these plans for the development of the activity, it will also need to be borne in mind that it will be necessary to retain flexibility to be able to divest the business at some future date if this is required in order to provide resources for investment in one of the Group's major growth activities.~~

plans based on the strategies agreed with the CPC following discussion of the review,

RS/DJA
20th July 1987

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