

D R A F T

Guidelines for Amatil : July 1987

General

1. The central objective for Amatil should be the achievement of returns and sustained rates of growth in dividend and earnings per share which compare favourably with other leading businesses in Australia.
2. There should be an aim to position Amatil in Tobacco and in a limited number of other activities of substantial size in leadership positions in growth markets or market segments capable of providing sustained organic growth in sales and profits. In selecting such growth opportunities, Amatil should have regard to B.A.T Industries' preference for developments in Tobacco, Retail, Financial Services and Pulp/Paper. However, it is appreciated that, at least in the short term, Beverages must continue to be the major growth opportunity for Amatil.
3. In evaluating Amatil's strategies and plans, B.A.T Industries will apply the same criteria as are applied to the other businesses within the Group. In particular, it will be important to ensure that each of the businesses within Amatil is operating efficiently and is producing a cash flow which, after covering central overheads, dividends and interest payments, is sufficient to either fund sales growth at real rates of at least 6 per cent per annum or to produce an equivalent cash surplus for investment in other activities.

Financial Guidelines

4. Dividends : Based on the current B.A.T Industries Group shareholding, the minimum dividends expected from Amatil are:-

	<u>Years to 31st October</u>					
	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
A\$m	12.2	14.0	16.2	18.6	21.4	24.6

The guideline dividends recommended for 1988 and subsequent years are based on real growth of 8 per cent per annum with inflation of 6.5 per cent per annum.

5. Returns : It is recommended that Amatil seek an overall historic cost return on net assets (on a B.A.T Industries' basis) of 30 per cent, with no individual division achieving less than 20 per cent. In addition, individual operating division should give priority consideration to the issues of improving sales margins and ensuring positive cash generation (after attributable dividends, interest and taxation costs).

Specific Priorities

6. Amatil's first priority should be to seek improved performance in all the existing businesses. When individual businesses do not meet the requirement of being in leadership positions in growth markets and achieving returns sufficient to give cash self-sufficiency at real rates of growth of at least 6 per cent per annum, action plans should be developed either for improving the performance and position of the businesses or for their divestment.
7. There should be an aim to reposition Amatil in fewer but more substantial operations and as a first stage in this, consideration might be given to divesting the Snack Food and Poultry divisions in order to support further investment in the Beverages division.

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specific Priorities

6. Amatil's first priority should be to seek improved performance in all the existing businesses with particular emphasis on ; returning Tobacco to its position as the major contributor to profits and cash generation ; ~~expanding~~ expanding Beverages ; and improving the returns in the other ~~activities~~ ^{divisions} to levels where they can either continue as sound contributors to Amatil's ongoing business or can be divested to support growth in other activities.

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Specific Priorities

6. Amatil's first priority should be to seek improved performance in all the existing businesses. As all these businesses are at or near market leadership in domestic industries whose growth is limited by a small population, the immediate strategies for existing businesses should centre around:-

- The return of the Tobacco Division to its position as the Group's major contributor providing the main quantum of profits and cash generation for future expansion.
- Continuing growth in Beverages and its expansion as a major contributor to AMATIL growth.
- Development of plans in the other Divisions to provide consistent returns at higher levels as both sound contributors to AMATIL's ongoing business and possible candidates for a transfer of assets to better growth prospects.

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7. Looking longer term, there should be an aim to reposition Amatil in fewer but more substantial operations with growth

8. ~~Looking longer term, value opportunities for repositioning Amatil should be considered, giving particular emphasis to opportunities in activities in which B.A.T Industries is already involved and where it might be possible to take advantage of synergistic benefits.~~

should make 8. ~~Plans should be prepared~~ *Plans for* Priority should also be given to formulating plans for funding these investments, making the maximum use of internal resources, including the proceeds from divestments.

9. For Tobacco, the first priority should be to rebuild market share, particularly in the full-price segment; by ensuring that full use is made of the competitive strengths derived from the new manufacturing facilities and by developing and marketing innovative new products. Progress on achieving market share improvements should, however, be monitored closely to ensure that any short-term adverse impact on profitability does not endanger Amatil's overall financial position and capacity to pay dividends.

10. Priority should be given to consolidating the performance of the domestic tobacco operation before seeking rationalisation in the other Australasian and Pacific Island markets.

11. Efforts should continue to improve efficiencies to achieve and maintain a position as the lowest-cost producer of quality cigarettes.

12. Amatil should make full use of innovative product and process developments available from elsewhere within the B.A.T Industries Group.

13. Amatil should continue to support industry representations to both Federal and State Governments on taxation and smoking issues and should play an active role in opposing the anti-smoking lobby.

14. For the Beverage division, the primary emphasis should be on seeking opportunities for market share improvement in order to strengthen and take full advantage of Amatil's leadership position in the Australian non-alcoholic beverage market. In addition to pursuing organic growth, the potential acquisitions identified in Amatil's Strategy Review should also be kept under consideration. Plans to expand in overseas markets should, initially at least, be restricted to Austria and New Zealand.

15. For Poultry, Amatil should consider how the division's performance (including Associates) can be improved and whether the involvement in this activity should be rationalised. Consideration should also be given to the possible divestment of these businesses.

should also be considered 16. ~~Consideration should also be given to~~ Divestment of the Snack Food activities. However, the immediate priority for the division should be to achieve improved levels of performance through ~~successful implementation~~ *successful implementation* of the planned rationalisation and through improvements in production efficiencies.

17. Within the Communications and Packaging division Amatil should continue to seek investment opportunities in potential high-return and fast-growing markets, particularly in the Communications and Systems areas. Such investments should be resourced out of the division's own cash flow, if necessary through divestment of other businesses such as the Flexibles and related packaging operations. The future of the Cartons operation should similarly be kept under review.

RS/DJA
23rd July 1987

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