

1991 STRATEGIC CRITERIA

Introduction

The performance in 1991 will be measured in terms of the degree of success achieved in agreeing and implementing strategies designed to meet the Group's overall objective to satisfy shareholders through above-average financial performance, based on re-establishing leadership in the Tobacco market worldwide and on building up a leadership position in selected segments of the Financial Services market.

The criteria have been divided into those where the initiative lies with GHQ and those where the responsibility in GHQ is to ensure that agreed strategies are implemented within the Operations.

Wherever possible, the criteria have been expressed in a form where performance can be measured, preferably quantitatively or, where this is not possible, against defined qualitative objectives for 'milestone' achievements (e.g. the completion of a defined plan, report or study).

There will also be an aim to increase the number of criteria where performance can be measured, or at least assessed, objectively (e.g. by adopting objective measurement criteria and associated targets for achievement in such areas as smoking quality, investment performance, public perception, staff turnover, etc.).

1. Overall Objectives and Strategy (GHQ)

1.1 Leadership and Growth Potential

A key objective for B.A.T Industries is to have a high and increasing proportion of the Group's businesses in leadership positions in growth markets or market segments.

Each of the Group's operations will be assessed against the two criteria of leadership and growth potential.

2. Detailed Strategies (GHQ)

The following previously agreed strategies and objectives will be implemented directly by GHQ or will be co-ordinated through the Tobacco or Financial Services Strategy Review Teams.

2.1 Tobacco

(a) Increase volumes and market shares:-

- Worldwide (Budget Volume +4%)
- International Brands (Budget Volume +13.3%)

Note : The quality of the market share and the ability to maintain share in the more profitable markets will also be taken into account.

- (b) Improve margins, taking into account quality in the 20 most significant markets.
- (c) Implement plans for investing in Hungary, Poland, Mexico and at least one other new market.

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- (d) Agree optimum organisation for the China market.
- (e) Agree plans to optimise product sourcing.
- (f) Agree a co-ordinated Group plan for upgrading and expanding manufacturing capacity.
- (g) Improve interchange of Marketing/Technical expertise (including Marketing Seminar November 1991).
- (h) Increase inter-company transfers of personnel.
- (i) Agree plans to upgrade and improve Groupwide training and management development.
- (j) Agree plans to improve recruitment.

2.2 Financial Services

Achieve improved performance relative to relevant industry measures for:-

- (a) - Risk Management
 - Underwriting
 - Expense Ratios
 - Solvency Margins (Life and General)
 - Assets under Management
 - Investment Performance
- (b) Agree plans to further develop the Group's distribution channel capability for both Life and General insurance products in the UK.
- (c) Identify the elements of a long term strategy for Continental Europe and pursue specific current opportunities.
- (d) Improve inter-company co-operation in Information Technology.
- (e) Agree measures to minimise the impact of the large fluctuations in the reported results of the UK General Insurance business.
- (f) Agree and implement an improved Groupwide training and management development programme for the Financial Service subsidiaries.
- (g) Develop the range of opportunities for further collaboration between BAT's Financial Service subsidiaries.

2.3 Other Activities

- (a) Reduce the proportion of assets in activities outside Tobacco and Financial Services.

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3. Supporting Activities (GHO)

3.1 Public Perception

- (a) Improve the Group's standing in its major constituencies.) Note: To be
) assessed
) qualitatively
) by the EAAC.

3.2 Environmental Policy

- (a) Ensure compliance with agreed environmental policy.) Note: Board
) Review due in
) October.
- (b) Update the policy in line with best international practices.

3.3 Technology (including I.T.)

- (a) Review performance relative to competitors and agree specific plans to upgrade this.) Note: Board
) Review due in
) October.

3.4 Management Development

- (a) To have the Boards and Management of each Operating Group of high calibre, recognised as such within their industry and, where appropriate, by the wider industrial and financial community; and of a mix of ages to ensure a depth of management succession options

Performance will need to be assessed subjectively by the Chairman and non-executive directors, but indicators would be:-

- (i) that B.A.T Industries and the Operating Groups have clear views of the forward organisations appropriate to their business objectives, and of the managerial requirements in those organisations.
- (ii) that the depth and quality of both current management and successors can be demonstrated.
- (iii) that high ability people are being attracted to all vacancies.
- (iv) that exceptional people are identified, and that their development is planned and monitored at Operating Group board level, and overseen by B.A.T Industries.
- (b) Agree improved arrangements for training and development : Note : Project due for completion in 1991.
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4. Detailed Strategies (Operations)

In addition to ensuring that the Operations play a full part in supporting the overall strategies described in Section 2 above, GHQ will also be responsible for ensuring that the following specific strategies or key actions are implemented within the Operations.

4.1 **BATCo.**

- (a) Agree plans for increasing UK income.
- (b) Agree plans for expanding Southampton.
- (c) Review relative levels of marketing spend on Benson & Hedges/SE555/PGL/JPS. Either confirm spend or agree modifications.
- (d) Agree plans for reduced costs, improved productivity and increased exports of Leaf.
- (e) Simplify the planning systems.
- (f) Complete the BATCo. and BATUKZ relocations and re-organisations.

4.2 **BATCF**

- (a) Agree plans for expanding production facilities, for reducing product costs and for sourcing from overseas plants where this is more economic.
- (b) Agree by mid-1991, definitive plans for Head Office/R&D relocation.
- (c) Review options for Diversa subsequent to completion of clinical trials. Agree new strategy.
- (d) Agree re-allocation of SAFE Funds.

4.3 **Brown & Williamson**

- (a) Review the effectiveness of Kool promotions. Either confirm plans or agree modifications.
- (b) Reduce trade loading by 1 billion.
- (c) Implement changes to increase the effectiveness of the International Division.
- (d) Agree plans for reducing Common Costs.

4.4 **Souza Cruz**

- (a) Review radical options for improving the profitability of domestic cigarette sales. Agree modified plans.
- (b) Prepare plans to meet the challenges of the new Consumer Protection and Anti-Trust legislation.
- (c) Improve smoking quality (reduce irritation).
- (d) Improve cigarette exports within agreed profitability parameters.
- (e) Implement plans for upgrading and expanding production.
- (f) Agree and implement plans for putting Tabaco on a sounder basis and for integrating the Leaf operations.
- (g) Implement recommendations to improve Leaf productivity.
- (h) Agree/implement plans for rationalising Pirahy.
- (i) Implement the divestment of Fruit Juice.
- (j) Complete the divestment of Bioplanta.
- (k) Implement divestment of the Polo shareholding.
- (l) Agree non-cash method for funding new Aracruz investment.
- (m) Complete management and Board re-organisation.

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- 4.5 Allied Dunbar
(Provisional, awaiting agreed 1991 Allied Dunbar objectives)
- (a) Appoint new Chief Executive Officer.
 - (b) Achieve improved rates of retention for Kestrels and above.
 - (c) Implement planned new product initiatives.
 - (d) Implement agreed I.T. improvements.
 - (e) Agree plans for any additional funding required to support development.
 - (f) Agree plans for new measures to reduce expense levels.
 - (g) Agree longer term plans for extending distribution.

- 4.6 Eagle Star
- (a) Concentrate fully on improving UK General performance.
 - (b) Agree plans to improve profitability through products/distribution.
 - (c) Implement plans to reduce expense levels.
 - (d) Implement plans for rationalising International General operations.
 - (e) Rebuild solvency ratios in General and Life Funds.
 - (f) Improve underwriting skills at all relevant levels.
 - (g) Establish effective company-wide risk management.

- 4.7 Farmers
- (a) Implement planned phases of BPS improvements.
 - (b) Agree plans to improve the premium/surplus ratio.
 - (c) Agree plans to consolidate Life operations' management.
 - (d) Agree plans for expansion by acquisition.

- 4.8 Inasco
- Within the plan for Inasco, ensure that there are:-
- (a) Revised objectives in line with BAT's own.
 - (b) Agreed plans for Inasco's strategic/financial development.
 - (c) Agreed plans for CT Financial.
 - (d) Firm plans to divest Hardee's.
 - (e) Firm plans to dispose of remaining Genstar activities.

RS/DJA
12th March 1991

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