

DIRECTORS' INCENTIVE SCHEME

1990 Performance against Strategic Criteria

1. Leadership

The objective is to have a high and increasing proportion of the Group's businesses in leadership positions and capable of organic growth.

1.1 Tobacco

Specific targets for Tobacco were to achieve improvements in market share (taking into account quality) and margins.

(a) Market Share

The Group's share of the Free World market increased slightly in 1990, despite the change in Spain (Tabacanaria 4.6 billion in 1989, Nil in 1990) and the reduced loading by Brown & Williamson (-2.5 billion).

	<u>1989</u>	<u>1990</u>
Free World Total (billions)	2897	2913
BAT (billions)	525.7	529.4
Group Share (%)	18.15	18.17

Excluding Tabacanaria and adjusting for the reduced loading in Brown & Williamson, the share would have increased from 17.99% to 18.28%.

The quality of the share in domestic markets might be questioned with losses in the USA (especially full revenue and even after adjusting for the load change), West Germany, Australia, Hong Kong and Malaysia, offsetting gains in Brazil, Canada, India, Venezuela and Nigeria.

However, there was a gain in International Filter Brands:-

	<u>1989</u>	<u>1990</u>
Total IFB Market (billions)	481	519
BAT (billions)	84.2	91.6
Group Share (%)	17.51	17.65

The share of the 'Communist' market also increased:-

	<u>1989</u>	<u>1990</u>
Total Market (billions)	2416	2458
BAT (billions)	17.5	23.6
Group Share (%)	0.72	0.96

(b) Margins

Brazil made a small profit in 1990 compared with a loss in 1989 but elsewhere Tobacco margins were lower in 1990 than in 1989:-

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	<u>Net T/O</u>	<u>Profit</u>	<u>Margin</u>	<u>Net T/O</u>	<u>Profit</u>	<u>Margin</u>
	<u>(£m)</u>	<u>(£m)</u>	<u>(%)</u>	<u>(£m)</u>	<u>(£m)</u>	<u>(%)</u>
BATCo.	1548	333	21.5	2106	402	19.1
B & W	1456	466	32.0	1594	477	29.9
BATCF	367	61	16.6	465	66	14.2
Souza Cruz	186	(15)	-	340	18	5.3
TOTAL	<u>3557</u>	<u>845</u>	<u>23.8</u>	<u>4505</u>	<u>963</u>	<u>21.3</u>

Note : At constant 1989 (average) exchange rates.

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1.2 Financial Services

The objective is to achieve above industry average performance on four criteria (Growth, Expense Ratios, Underwriting and Investment Performance). It is difficult to obtain comparable industry data and very few comparisons are given in the Operating Group plans.

Figures quoted below are for the actual performance in 1990 compared with Budget (B) 1989 and Industry averages (I) obtained by Planning Department where these are available.

(a) Growth CIC/Premiums

AD : GIC + 9% (B + 14.7% 1989 + 17%)
: Premiums -0.5% (I + 10.9) Individual Life/Pensions)

ESH : Gen + 5.6% (B + 12.1% 1989 + 13.7% I + 0.6%)
: Life - 3.6% (B + 3.6% 1989 + 41.7% I - 3.9%)
But Annual Premiums + 43.3% (I - 9.5%)

Farmers: Gen + 9.2% (B + 10.2% 1989 + 7.5% I + 4.5%)
: Life - 7.3% (B - 1.5% 1989 - 15.9%)

(b) Expense Ratios

AD : 153% (B 148% 1989 150%)

ESH : 18.3% (B 16.3% 1989 15.2%)

Farmers: 26.9% (B 26.1% 1989 26.7% I 26.1%)

(c) Underwriting Loss

AD : N/A

ESH : £423m (B £180m 1989 £145m)
As % premiums 28.3% (I 18.3%)

Farmers: \$935m (B \$565m 1989 \$800m)

(d) Investment Performance (Compared with industry averages)

AD : 6/10 measures above average (1989 3/10)

ESH : Life Fund 'average'
: Shareholders' Fund)
: Pension Funds) Above average
: Unitised Funds)

Farmers: No assessments given.

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2. Strategic Priorities

Specific key actions were identified as being particularly important to the strategic development of the Group.

The performance in implementing these key actions is summarised below.

2.1 GHQ

- (a) Demerger of Argos and Wiggins Teape : Completed.
- (b) Re-organisation and reallocation of responsibilities within B.A.T Industries : Completed.
- (c) Financial Services Strategy Review Team : Set up.
- (d) B.A.T Industries' Share Repurchases : Implemented.
- (e) Agree strategies to give 10% p.a. real EPS growth : Group Financial Forecast/Strategy Review met objective.
- (f) Agree plans for Tobacco in Europe : Plans agreed Dec 1990.
- (g) Agree strategies for Financial Services in Europe : Project still in progress.

2.2 BATCo

- (a) Agree proposals for re-organisation and relocation : Agreed.
- (b) Agree proposals for India restructuring : Plan agreed including Tribeni transfer in 1991.
- (c) Agree proposals for becoming re-established in Mexico : Agreed.
- (d) Increase share in UKIB and increase volume by 5% p.a. : Share + 0.6%
Volume + 7.3%

2.3 BATIG/BATCF

- (a) Divest Horten and Eurotec within Plan B parameters : Divestments completed but at prices below Plan B.
- (b) Agree plan to maintain market share in unified Germany : Plan agreed, implementation in East Germany started successfully.
- (c) Agree plan for expanding sales in Eastern Europe : Plan agreed. 1990 volume up 25%.
- (d) Agree plans for resiting HQ and R&D : To be agreed in 1991.
- (e) Close down BATIG within budget : Planned reduction achieved successfully.

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2.4 **BATUS/Brown & Williamson**

- (a) Divest Retail within Plan 'B' parameters : Divestment proceeds, met Plan B forecasts.
- (b) Close down BATUS within budget : Achieved.
- (c) Implement plans to participate in 3rd Price Point segment : Successful launch of Raleigh Extra.
- (d) Agree revised strategies/priorities for overseas markets : In progress.
- (e) Agree phased plan for de-loading : Plan agreed.
- (f) Implement Macon expansion programme : Programme on schedule.
- (g) Strengthen quality of senior marketing management : (Chairman to comment)
- (h) Achieve 10% increase USIB (Barclay 40%) : Export/Contract + 16%
: Barclay no net gain.

2.5 **Souza Cruz**

- (a) Agree revised strategy for increasing dividend remittances : Strategy agreed.
- (b) Agree plans for improved productivity Leaf and Pirahy : Leaf implementing
: Booz Allen & Hamilton recommendations.
Pirahy strategy revised
- (c) Agree plans to close cost/price gap : Plans agreed.
- (d) Reassess future for Fruit Juice : Divestment plans agreed
- (e) Divest Bioplanta : Being implemented.
- (f) Identify successor to P.J. Rombaut : Agreed.

2.6 **Eagle Star**

Agree plans for:-

- (a) Information Technology : Agreed.
- (b) Expense Control : Agreed.
- (c) UK Life Business : Being progressed.
- (d) International Division : Agreed.
- (e) Large case Commercial/Employers Liability Account : Agreed.
- (f) Australian and other non-strategic businesses : Agreed.
- (g) Reinsurance : Being progressed.
- (h) Leadership of personal lines general business : Mr. Bishop appointed to head all general business.
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2.7 Allied Dunbar

Agree strategies for:-

- (a) Counteracting the new Life Office Tax regime : Agreed.
- (b) Improving productivity of AD Associates : Agreed.
- (c) Distribution in the long term : In progress.
- (d) Developing the business in Spain : In progress.

2.8 Farmers

- (a) Agree strategic priorities : Agreed.
- (b) Develop and implement IT plans : Plan agreed. Implementation in progress.
- (c) Develop plans to deal with consumer/regulatory demands : In progress.
- (d) Agree strategy to develop Farmers franchise : In progress.

2.9 Imasco

- (a) Agree divestment of:-
 - Peoples Drug : Implemented.
 - Hardee's : Agreed in principle.
- (b) Agree priorities for cash : In progress.
- (c) Agree strategies for Imasco shareholding in CT and strengthen influence on CT : In progress.
- (d) Agree long term strategy Imasco and CT : In progress.

3. Technology and Environmental Policy

3.1 Technology

- (a) For Tobacco:-
 - Product Quality) In progress but no
 - Production Cost) formal review 1990
 - Product/Process Innovation) (next review due
 - Use of IT) October 1991).
- (b) For Financial Services:-
 - Use of IT : as for 3.1 (a).

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3.2 Environmental Policy

To be assessed subjectively

: Formal policy established. Conformity to be reviewed October 1991.

4. Group External Perception Objectives

Standing in communities in which we operate

: See note by Mr. Prideaux attached.

5. Management Development Objectives

5.1 Subjective assessment of:-

(a) Evidence Operating Groups/GRQ are attracting best young talent)

(b) Depth and quality of succession)

(c) Are exceptional people identified early:-)

- who are they)
- are appropriate development plans in place)

(d) Have significant career moves for key people been planned and made)

5.2 To have Operating Group Boards of high calibre, and recognised externally as such. Also, with a good age range)

Mr. Crosby

will

comment

RS/DJA
18th February 1991

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