

B.A.T INDUSTRIES' GUIDELINES : OCTOBER 1980

IMPLICATIONS FOR GROUP HEADQUARTERS

1. Guidelines to Operating Groups specify financial requirements, strategic thrusts and Group policies that the Board of B.A.T Industries wishes to see reflected in their Plans. The purpose of this paper is to indicate where these Guidelines may lead to a requirement for action by Group Headquarters itself.
2. Dividends: The table shows the implications for B.A.T Industries of the Operating Groups declaring dividends in accordance with the Guidelines.

Dividend Declarations £m	1981	1982	1983	1984	1985
B.A.T Co.	79	86	98	108	119
BATUS (at \$2.42 rate)	40	49	53	63	68
Wiggins Teape	4	13	20	25	30
MPI	8	8	9	10	11
B.A.T Stores	10	12	14	16	19
B.A.C.	3	4	4	5	6
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TOTAL	144	172	198	227	253
B.A.T Industries' Requirement	126	138	152	167	184
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Surplus	18	34	46	60	69

The figures shown for the B.A.T Industries' Requirement are taken from the September Cash Availability and Dividend Policy paper, but excluding the 'cushion' of 20%. The figure for 1983 also excludes the £40m due in respect of Mac Markets (referred to in B.A.T Stores Guidelines, paragraph 4).

If the Board agrees to dividend payments lower than those shown above, Group HQ will need to recommend ways in which the B.A.T Industries' Requirement can be met or adjusted.

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3. Debt:Equity: The debt:equity requirements included in the Guidelines to the Operating Groups are summarised below.

Ratio %	1981	1982	1983	1984	1985
B.A.T Co.	18	15	15	15	15
BATUS (UK Basis)	57	50	50	50	50
Wiggins Teape	100	90	80	70	65
MPI	60	60	60	60	60
B.A.T Stores	12	12	12	12	12
B.A.C.	50	50	50	50	50

In addition, there is a requirement for B.A.T Co. to reduce its debt:equity ratio in Europe to 55% by 1982.

If the Operating Groups stay within their Guidelines, the resulting debt:equity ratio for the Group would be about 47% in 1981 and 40% in 1982, with an implied ratio of 55% in 1982 in the convertible currency areas. It is not yet practicable to project the Group's debt:equity ratio beyond 1982.

The sensitivity to variations from these guideline figures is indicated in the following table, which shows the approximate change in percentage points in each Operating Group ratio which would result in a change of one percentage point in the ratio for the Group as a whole.

B.A.T Co.	2
BATUS (UK basis)	5
Wiggins Teape	20
MPI	20
B.A.T. Stores	20
B.A.C.	40

Thus, for example, if B.A.T Co. achieved a debt:equity ratio of 16% rather than 18% in 1981, the overall Group ratio would be 46% instead of 47%.

4. Investment Strategy: Group HQ will need to review the Operating Group Plans to see whether, taken together, they meet the requirements agreed by the Board which were outlined in the Investment Strategy paper presented in September. Based on this review, recommendations may need to be made for further action to be initiated within Group HQ itself.

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