

Windsor House 50 Victoria Street London SW1H 0NL Telephone 071-222 7979

Sir Patrick Sheehy
Chairman
B.A.T. INDUSTRIES plc

28th July 1992

To: **Mr. B.D. Bramley (BATCo.)**

B.A.T Industries' Guidelines : July 1992

The attached Guidelines outline the strategic priorities and financial objectives which have been agreed for BATCo. and which should be reflected in your plans for 1993-1997.

1. The guidelines are consistent with B.A.T Industries' own objectives to:
 - (a) Provide an above average return to shareholders through dividends and capital appreciation based on a sustained trend of above-average growth in Earnings Per Share, achieved by developing and expanding the Group's activities in Tobacco and Financial Services;
 - (b) Complete the rapid recovery in profits in 1992-1993.
2. Within the Tobacco sector, the aim will be to maintain the Group as a leading global player, with competitive strengths which provide the ability to establish a leading position in selected elements of the world market.
3. Key elements in the overall strategy are programmes to increase market share, maintain the growth in exports, strengthen the competitive position of International Brands, invest for the medium term in new markets, and improve intra-Group co-operation in marketing and product sourcing.
4. Priorities include an emphasis on increasing productivity, improving profits in activities which are currently operating at low levels of profitability and which are of a size to provide significant leverage, the technical upgrading of products and processes, and opportunities for expanding leaf exports.

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BAT Industries document for Province of British Columbia 26 October 1999

5. Recognising the critical importance of management, specific attention should be given to ensuring that the organisation and quality of management in each business is such that it both operates effectively and has the management resource necessary to realise the potential for future development and expansion.

In the main, the guidelines restate the objectives and priorities agreed previously with the CPC. If clarification is required, Miss Barton should be able to provide this. If there are specific Guidelines which you wish to discuss further, please let me know, preferably well ahead of the plan previews due to be discussed in October.



Patrick Sheehy

Enclosure

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Guidelines for BATCo. : July 1992

General

1. The ~~first~~ priority for BATCo., which should be reflected in the performance criteria for the Number Ones in the operating companies, should be to achieve progressive improvements in the results from the existing Tobacco businesses, concentrating particularly on ~~achieving improved market shares and volume growth~~ (especially in Exports and in International Brands) while also ~~continuing to improve profit margins and asset productivity~~.
2. ~~In addition~~ to its direct role in the management and development of its own businesses, BATCo. will also be ~~responsible for developing coherent strategies for expanding sales of the Group's UK International Brands~~ and, through the Tobacco Strategy Group, for:-
 - (a) formulating and agreeing with the other Tobacco companies, a groupwide R&D programme;
 - (b) the preparation of compendiums on smoking issues;
 - (c) initiating and co-ordinating activities to promote the Group's views on these issues;
 - (d) further developing brand valuation as a tool for monitoring the effectiveness of the Group's strategies in enhancing the value of its brands to be implemented for 1993.
3. BATCo. will work on projects as required by the Tobacco Strategy Group and it will also assist the New Business Development Team of B.A.T Industries in that body's evaluation of proposals to invest in new markets and to make acquisitions or disposals.
4. Diversification (e.g. into Agribusiness) should be kept to a minimum, and pursued only where this is necessary to support the Tobacco business. However, BATCo. may be asked to co-operate in developing financial services businesses in selected territories as part of the overall plan for establishing a worldwide presence in this activity.
5. BATCo. is expected to participate in the process of developing best international practice in respect of its environmental policies. There should be specific plans to ensure compliance with these policies for all BATCo. companies.

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Financial Guidelines

- 6. **Trading Profit** (including share of associates) should grow at ~~12.5%~~ per annum on the 1992 forecast base of £482 million over the period 1993-1997.
- 7. **Cash Flow** is defined as manageable cash flow in accordance with BATCo.'s response to last year's guideline on developing a method of managing and presenting information on a cash flow basis:-

<u>£m</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Manageable Cash Flow	200	292	369	420	476	536

The above figures are based on a re-representation of the BATCo. 1992-1996 plan data. They are the minimum acceptable and should be changed to reflect the 12.5% trading profit growth objective.

- 8. BATCo. should continue to seek opportunities to **maximise UK cash flow**, utilising local borrowings where necessary. With the exception of measures to meet this objective, it would be the expectation that the debt/equity ratio would decline.
- 9. The minimum **dividends** expected from BATCo. are:-

<u>£m</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Dividends	248	279	314	353	397	447

The progression of 12.5% is in line with the growth of trading profit.

- 10. BATCo. should aim to achieve a **historic cost return** of at least 40% for the operating Group as a whole with each individual business achieving at least 25%.

Specific Priorities

- 11. **Management** : There should be ~~specific plans to upgrade management effectiveness~~ and capability, through improved organisation structures, clearer definitions of responsibility, rigorous appraisal of the quality of existing managers and enhanced development and recruitment. Benchmarking should be applied rigorously to raise standards of recruitment and promotion, and should include the general managers in each territory.

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12. **Quality** : There should be continuing emphasis on the need to achieve and maintain smoking quality superior to competitors and to maintain overall quality at a level such that it constitutes a competitive advantage. ~~A more measurable indicator of progress in smoking quality must be developed~~ and progress measured against it. Where this requires increased use of imported leaf, action should be taken to negotiate any necessary relaxation in import regulations and to implement the required change.
13. **Volume Growth** : BATCo. should give priority to developing plans for accelerate volume growth, concentrating particularly on UK International Brands and licenced US brands in existing and new markets, aiming to achieve a minimum of ~~5% per annum increase in volume~~.
14. **Exports** : There should be continuing pressure to increase the penetration of export markets, particularly those accessed by FESU. New export markets in Thailand, Korea, Central and Eastern Europe, and South America, should also be developed.
15. **International Brands** : The marketing initiatives and support for the key UK and US International Brands should be co-ordinated in order to accelerate their growth to 17.5% of world IFB (excluding domestic markets) by 1997.
16. **Alternative Brands** : The vulnerability in markets and market segments which are dependent on one brand (for example, China and State Express 555) should be reduced by promoting an alternative while still limiting the total portfolio of brands to avoid dissipating effort.
17. **Existing Markets** : Emphasis should also be given to the plans for regaining market share where this has recently been lost, particularly in Venezuela and Argentina, and to increasing market share in Europe, taking full advantage of opportunities arising from the European Single Market. ~~Turnaround in profitability should be achieved in Australia, Malaysia, Argentina, Venezuela and West Africa.~~
18. **Profitability/UK Income** : There should be continuing emphasis on the need to improve profitability and to increase UK income, considering opportunities to increase cost-effectiveness by simplified organisation structures; options for changes in product sourcing; and the repatriation of surplus funds held overseas (being prepared to incur local borrowings if the net effect can be shown to be advantageous).
19. **Production Costs** : There should be specific plans for each business to be the lowest-cost producer of quality cigarettes for its market.

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20. **Asset Productivity** : Tight controls on capital expenditure and leaf durations should be established, bearing in mind the need to maintain high standards of manufacturing efficiency and product quality.
21. **Production Capacity** : BATCo. should also have a plan to ensure that there is sufficient production capacity in the right locations to meet the sales forecasts to 1997. The plan for BATUKE must also take into account the ~~need to have a capability for producing US brands at Southampton and to have contingency plans for reacting to demand levels 15% in excess of the sales forecasts~~ in the plans. Factories should be closed in markets served by more than one factory, and investment should be made in existing factories to achieve economies of scale, modernisation, cost effectiveness and cost reduction. ~~Regular updates of progress on Project Test should be made against pre-set milestones~~
22. **Leaf** : BATCo. will participate in the team to be formed to plan and implement the establishment of the Group as a leading supplier of Leaf to the world market by the year 2000.
23. **Diversified Activities** : Except where diversification is required to support the Tobacco business or where it is part of the plans to establish financial services activities in new territories, the aim should be to reduce the level of non-Tobacco activities.
24. **India** : There should be a continuing objective to exercise ~~greater control over the strategies of FTC and/or to exchange the Group's interests in their diversified activities for increased equity in their Tobacco business~~

HCB/djs
28th July 1992

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