BRITISH-AMERICAN TOBACCO COMPANY LIMITED

TO:	Peter Brooks David Etchells Iain Milne Peter Murty Simon Smith David Salt Ken Hardman
CC:	David Allvey, Windsor House Regional Directors } Covering note only Graham Burgess }
FROM:	Richard Pilbeam
DATE:	15 April 1994
SUBJECT:	FINANCE KEY AREA PAPER

SECRET

I enclose a copy of the 1994 BATCo Finance Key Area Paper that was fully endorsed by the Board on 14th April.

May I remind you that:-

a) The paper is confidential and should not be sent to operating companies.

b) All company and export market financial guidelines should concentrate on the key issues. Ratios and specific comments should be tailor made for each individual company or market. General Policy Statements should not be included in the guidelines unless particularly relevant. Individual guidelines need not be discussed with me except where you feel guidance is required or where there is a significant change from previous guidelines.

c) I believe you should continue to remind companies of the importance of the Standard Finance Policies and the need to adhere to the existing policies at all times, and remind companies that general coverage in company plans does not constitute specific approval.

A target has been set to achieve one-off reductions in General Administration costs, excluding T&A fees, by 5% in real terms during 1993/4. Where not achieved to date it should be targeted for 1995.

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My covering note on the 1993 Key Area Paper stated:-

"We also need to drive home the key issue of the importance of cash, how it is managed and how we improve our understanding of the dynamics of forecasting and monitoring."

Progress in this area during 1993 was particularly disappointing. The management of cash needs to be re-emphasised and followed up vigorously, along with the need for realistic forecasting in all key areas. Future variable cost trends need particular attention and should be consistent with known tobacco industry developments.

I would also like to draw your attention to Appendices II to VI which highlight many potential areas for improving financial performance and these need to be pursued imaginatively and constructively.

Appendix III highlights those companies that have interest cover in excess of 12 times and are therefore planning to have surplus resources. By the end of this year there should be a strategy developed covering each of these territories to either increase planned dividends or effect a capital reduction.

We also need to ensure that Brand Evaluation has been established for key brands in key markets and base valuations have been formulated against which future brand investment and pricing strategies can be monitored so that over time we are enhancing our brand values. Forthcoming guidelines are probably the best means of communicating this and stating future monitoring procedures.

There will be an opportunity for discussion when we meet on 21 April.

Richard Pilbeam

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