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B.A.T Industries p.l.c.
Tobacco Budget and Forecast 1993-1997

Volume increases by an average of ~~4%~~ p.a. with **exports** increasing by ~~11%~~ p.a. and **domestic** by ~~2%~~ p.a. In exports Brazil are projecting growth of ~~26%~~ p.a. with BATCo, B&W and BATCF showing increases of ~~9-10%~~ p.a. but Imasco forecast a decline of ~~2%~~ p.a. In domestic all operating groups are showing increases of ~~2%~~ p.a. except BATCF - growth of ~~3%~~ p.a. and Imasco - decrease of ~~2%~~ p.a.

Gross turnover increases by ~~6%~~ p.a. and **net turnover** shows a slightly higher rate of growth at ~~8%~~ p.a. Only B&W are showing a higher rate of growth in gross turnover compared to net (~~10% versus 9%~~) - reflecting higher growth in international sales. The objective was for growth of ~~10%~~ p.a. in net turnover for subsidiaries and associates (excluding Brazil) - the forecast shows growth of only ~~8%~~ p.a. over the plan period.

Trading profit increases by an average of ~~12%~~ p.a. compared to the objective of growth of ~~10%~~ p.a. However this includes growth of ~~16%~~ in 1994 and ~~13%~~ in 1995 but only ~~10%~~ in 1993, 1996 and 1997 - the decline in the latter years is principally due to growth at B&W dropping to ~~7%~~ in the last two years. Over the plan period BATCo are showing growth of ~~16%~~ p.a., BATCF and Brazil ~~15%~~ p.a., B&W ~~9%~~ p.a. and Imasco ~~6%~~ p.a. The negative amounts included under Other principally comprise the adjustment to bring BATCo's fixed US\$ rate of 1.49 to the average rate of 1.765.

Compared with the preview, average growth rates are as follows:-

	<u>Plan</u>	<u>Preview</u>
Volume - domestic	2%	2%
- export	11%	11%
Turnover - gross	6%	7%
- net	8%	8%
Trading profit	12%	11%

The higher growth in trading profit reflects higher contributions from B&W and BATCo.

The latest estimate for 1992 shows a trading profit of ~~£1,311m~~, an increase of ~~£25m~~ on the plan figure. This is mainly due to higher profits from BATCo (~~+£11m~~) and a ~~£10m~~ credit re the unrealised profit in stock provision.

Key sensitivities:

- (i) In general the plans project increases in market share which are demanding given the performance over recent years and the increasing level of competition in domestic and international markets.
 - The US and certain of the BATCo domestic markets have seen a trend of increasing competition and downtrading

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- Tobacco performance, especially volume growth, continues to be heavily affected by exports and export markets are highly competitive, especially in Eastern Europe, and potentially volatile.
- (ii) B&W and BATCo remain key contributors to Group trading profit. Together they account for over 75% of the tobacco trading profit in the plan and 54% and 47% of continuing operations trading profit in 1992 and 1997 respectively.
 - Profit growth in B&W is heavily dependant on increasing VFM profitability (volumes and margins) with a recovery in Viceroy and Raleigh Extra key to this projection. In addition market share is maintained in the full revenue segment while overall B&W's market share increases. This forecast is aggressive and especially sensitive to a situation of more aggressive pricing and worse sales mix.
 - A significant feature of the BATCo plan is the dependence on UK export sales (especially to the Far East) where the contribution to BATCo pre-tax profit grows from 28% in 1992 to 45% in 1997.

In addition Souza Cruz account for over 10% of tobacco profit in the plan: these projections are subject to the usual uncertainties of the Brazilian environment and under the new accounting system trading profit will more accurately reflect changes in real profitability.

- (iii) Exchange rates - the key rates used in the plan and the sensitivity of trading profit to movements in each of these currencies are as follows:-

	Rate for 1991	Rate for 1992 onwards	Exchange sensitivity	Effect on profit	
				1993 £m	1997 £m
US\$	1.769	1.765	1 cent	8 ✓	11 ✓
DM	2.925	2.752	10 pf	4 ✓	6 ✓
CAN\$	2.027	2.130	10 cent	4 ✓	5 ✓

If the recent changes in exchange rates were to be sustained, they would have a significant effect on the tobacco trading profit. For example, using the 1992 closing rates (e.g. US\$ 1.514) rather than 1992 average rates (US\$ 1.765) would increase trading profit by £226m in 1993 and by £350m in 1997.

To explain that this is not just a

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BAT INDUSTRIES GROUP - TOBACCO BUDGET AND FORECAST 1993 - 1997

ANALYSIS OF CIGARETTE VOLUME, TURNOVER AND PROFIT

	1991 Actual	1992 Plan	1993 Budget	1994 Forecast	1995 Forecast	1996 Forecast	1997 Forecast	Average Growth 1993-1997
VOLUME (bns)								
Subsidiaries	358.4 ✓	348.6 ✓	362.2 ✓	367.6 ✓	373.2 ✓	378.7 ✓	383.2 ✓	2%
Associates	95.5 ✓	93.1 ✓	91.1 ✓	93.3 ✓	95.4 ✓	96.7 ✓	97.7 ✓	1%
Total Domestic	453.9 ✓	441.7 ✓	453.3 ✓	460.9 ✓	468.6 ✓	475.4 ✓	480.9 ✓	2%
Subsidiaries	100.5 ✓	123.6 ✓	144.1 ✓	161.4 ✓	177.6 ✓	193.9 ✓	212.0 ✓	11%
Associates	7.1 ✓	5.9 ✓	6.8 ✓	7.0 ✓	7.4 ✓	7.8 ✓	8.4 ✓	7%
Total Export	107.6 ✓	129.5 ✓	150.9 ✓	168.4 ✓	185.0 ✓	201.7 ✓	220.4 ✓	11%
Millions	661.5 ✓	671.2 ✓	604.2 ✓	629.3 ✓	663.6 ✓	677.1 ✓	701.3 ✓	4% ✓
GROSS TURNOVER								
B & W	1,770 ✓	2,009 ✓	2,366 ✓	2,537 ✓	2,782 ✓	2,952 ✓	3,195 ✓	10%
BATCo	4,579 ✓	5,068 ✓	5,447 ✓	5,655 ✓	6,038 ✓	6,352 ✓	6,780 ✓	6%
BATCF	1,966 ✓	2,091 ✓	2,242 ✓	2,455 ✓	2,599 ✓	2,749 ✓	2,925 ✓	7%
Brazil	1,998 ✓	2,153 ✓	2,362 ✓	2,478 ✓	2,588 ✓	2,701 ✓	2,824 ✓	6%
Imasco	589 ✓	591 ✓	598 ✓	600 ✓	599 ✓	598 ✓	596 ✓	0%
Other	(8) ✓	(1) ✓	(1) ✓	0 ✓	(1) ✓	0 ✓	(1) ✓	n/m
	10,894 ✓	11,911 ✓	13,014 ✓	13,725 ✓	14,605 ✓	15,352 ✓	16,319 ✓	6%
NET TURNOVER								
B & W	1,448 ✓	1,662 ✓	1,901 ✓	2,066 ✓	2,232 ✓	2,397 ✓	2,566 ✓	9%
BATCo	2,094 ✓	2,354 ✓	2,589 ✓	2,774 ✓	2,986 ✓	3,198 ✓	3,438 ✓	8%
BATCF	479 ✓	531 ✓	593 ✓	648 ✓	690 ✓	731 ✓	790 ✓	8%
Brazil	607 ✓	670 ✓	724 ✓	775 ✓	828 ✓	882 ✓	944 ✓	7%
Imasco	208 ✓	206 ✓	217 ✓	225 ✓	232 ✓	238 ✓	244 ✓	3%
Other	8 ✓	0 ✓	1 ✓	0 ✓	0 ✓	1 ✓	0 ✓	n/m
	4,844 ✓	5,423 ✓	6,025 ✓	6,488 ✓	6,968 ✓	7,447 ✓	7,982 ✓	8%
TRADING PROFIT								
B & W	464 ✓	499 ✓	550 ✓	612 ✓	672 ✓	722 ✓	775 ✓	9%
BATCo	405 ✓	488 ✓	597 ✓	711 ✓	820 ✓	921 ✓	1,028 ✓	16%
BATCF	77 ✓	80 ✓	97 ✓	110 ✓	123 ✓	140 ✓	159 ✓	15%
Brazil	57 ✓	135 ✓	147 ✓	178 ✓	217 ✓	242 ✓	273 ✓	15%
Imasco	76 ✓	76 ✓	81 ✓	86 ✓	92 ✓	97 ✓	102 ✓	6%
Other	(18) ✓	8 ✓	(60) ✓	(61) ✓	(89) ✓	(78) ✓	(89) ✓	n/m
	1,061 ✓	1,286 ✓	1,412 ✓	1,636 ✓	1,855 ✓	2,044 ✓	2,248 ✓	12%

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