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COMPETITIVE ACTIVITY HIGHLIGHTS - 1994 1st QUARTER

TSG MEETING - MAY 11th, 1994

ENVIRONMENT

- The low purchasing power of consumers, the high inflation level (average 42% per month in the 1st. quarter) and the growth of the DNP segment continued to impact negatively the DP cigarette market.
- Sales mix continued to decrease as a consequence of the growth of price category "A" brands (the lowest price in the DP market), which achieved 43.9% of total volume in 1994 1st. quarter, 11.5 pp above the previous quarter.

Table I : Total Market Performance

	Volume			S.O.M.		
	1st. Qtr 94	4th. Qtr 93	Var %	1st. Qtr 94	4th. Qtr 93	Var pp
Souza Cruz	18.449	25.570	(27.8)	75.0 %	78.8 %	(3.8)
PMM	5.231	5.877	(11.0)	21.2 %	18.1 %	+3.1
Nationals	924	987	(6.4)	3.8 %	3.1 %	+0.7
Total Market	24.604	32.434	(24.1)	100.0 %	100.0 %	-

Table II : 1994 1st. Quarter - S.O.M. Monthly Performance

	January' 94		February' 94		March' 94	
	Volume	S.O.M.	Volume	S.O.M.	Volume	S.O.M.
Souza Cruz	6.298	72.7 %	5.384	74.0 %	6.766	78.1 %
PMM	2.013	23.2 %	1.662	22.9 %	1.556	18.0 %
Nationals	347	4.1 %	233	3.1 %	344	3.9 %

PMM

The high levels of trade loading implemented by Philip Morris in the principal trade channels during the end of 1993 continued in January and February 1994. However, in March' 94, pressured by the reduction in the number of days for tax collection implemented by the Government, Philip Morris reduced significantly its credit terms, eliminating the artificial share portion which was being achieved through this route in previous months.

Philip Morris market share has been increasingly concentrated in four brands :
Marlboro, L&M Lights, Lark and Dallas, as shown in the table below.

Table III : Philip Morris Main Brands - S.O.M. Performance

S.O.M.	1st. Qtr 93	2nd. Qtr 93	3rd. Qtr 93	4th. Qtr 93	1st. Qtr 94	March' 94
Dallas Fam.	-	-	1.9 %	7.7 %	10.5 %	8.9 %
L&M Fam.	4.3 %	4.2 %	3.7 %	3.1 %	3.4 %	3.0 %
Marlboro Fam.	2.6 %	2.2 %	2.1 %	2.0 %	2.4 %	2.1 %
Lark	-	2.4 %	2.9 %	1.4 %	1.3 %	1.1 %
Other	8.4 %	7.7 %	5.9 %	3.9 %	3.6 %	2.9 %

Main Information - 1994 1st. Quarter:

- Philip Morris announced in February' 94 the creation of the "Marlboro Brazilian Team", a sponsorship program focused in five Brazilian car racers: Emerson Fittipaldi / Raul Boesel (Indy), Christian Fittipaldi / Rubens Barrichello (F1) and André Ribeiro (Indy-Lights). The program received large media support during the quarter and aimed at compensating the possible loss of visibility that Marlboro could experience since Ayrton Senna changed from the McLaren to the Williams Team.
- Employees of PM's Curitiba plant (which responds for almost 80% of the production of cigarettes exported) initiated a strike movement as a result of not agreeing with the new salary policy introduced by Government. The strike was avoided through a temporary deal, which established a 11.8% real increase in salaries until the matter is discussed in the Labor Court.
- PM total media expenditure in January/February'94 (March'94 figures are not yet available) was concentrated in L&M Lights (US\$ 894.600), Dallas (US\$ 555.200), Marlboro (US\$ 415.000), and Lark (US\$ 230.500) .
- PM headcount increased by 103 employees in the quarter (124 admissions and 21 dismissals), leading to a total number of employees of 4.655, the higher headcount level since September'92. Of the new employees, 94% were allocated in the industrial area, possibly with the aim to increase production capacity for exports.
- PM increased its cigarette export volume during January/February' 94, reaching 5.2 billion sticks in the period, 108% above the same period last year. Main export markets were C.I.S. (via Belgium) repounding for 81% of the total volume and Paraguay (15%).

- Following the introduction of a Total Quality Program, PM has created a "Quality Assessment Team" in the sales side with the aim to evaluate the efficiency of their sales force in the following subjects:
 - ✓ Client Services
 - ✓ Merchandising
 - ✓ Product Availability
 - ✓ Stock - Out
 - ✓ Shelf Life

NATIONAL Cos.

- A new National company (Cabofriense) was founded in Rio de Janeiro in 1994 1st quarter. It has been reported that the company has two cigarette machines Mollins 686 - Max III , 25 employees operating in one shift, and has the maximum capacity of 54 Million cigarettes per month. Its main objective is to exploit the DNP route through Paraguay, using the brand Towson FF KS.

COMPETITOR ANALYSIS

- At the end of April 1994, Souza Cruz started to work with the Consultant company Booz-Allen, Hamilton, aiming at developing a Competitor Analysis Study. The main objective is to understand Philip Morris Brazil overall strategy, with focus on key cost drivers, PM's strategy by area (sales / distribution, industrial, leaf purchasing etc) and PM Brazil liaisons with other group companies / Headquarters. Souza Cruz joint effort with Booz-Allen will be the basis for developing its own Competitor Intelligence Centre.