



**QUARTERLY COMPETITOR ACTIVITY
REPORT**

QUARTER ONE 1993

502589903

1. **PHILIP MORRIS**

(a) **Financial**

Philip Morris Companies Inc. results for 1992 were published in January. Profits after tax, at US\$4939 mns, were 17.5% up on the comparable result for 1991. The 20.0% growth expectation was achieved at earnings per share level, because of the share re-purchase scheme. (Earnings per share for 1992 were \$5.45, against the comparable 1991 figure of \$4.54).

Other Key Results (US\$ Mns)

Operating Revenues (Estd NTO)	1991	1992	±%
Domestic Tobacco	9384	9869	5.2
International Tobacco	6836	7527	10.1
Total Tobacco	16220	17396	7.3
Total Operating Revenues	48067	50095	4.2

Operating Income	1991	1992	±%
Domestic Tobacco	4774	5185	8.6
International Tobacco	1694	2018	19.1
Total Tobacco	6468	7203	11.4
Total Operating Income	9910	10960	10.6

Domestic tobacco continues to generate slightly under half of all corporate profit. Despite the good results, PM's share price has fallen acutely since the start of 1993, largely because of analyst concern about downtrading, the increase of Federal Excise Tax by \$2 to \$12/M in January 1993, and speculation about further and radical increases following the inauguration of President Clinton.

First quarter 1993 results were published on 20th April.

(US\$ Mns.)

Operating Revenues (GTO)	1Q92	1Q93	±%
Domestic Tobacco	2440	2543	4.2
International Tobacco	3540	4153	17.3
Total Tobacco	5980	6696	12.0
Total Operating Revenues	14051	15189	8.1

Operating Income	1Q92	1Q93	±%
Domestic Tobacco	1027	1016	-1.1
International Tobacco	572	675	18.0
Total Tobacco	1599	1691	5.8
Total Operating Income	2486	2700	8.6

(b) **Diversified Activities**

PM did not make any major acquisitions in the first quarter, despite rumours in late 1992 of a bid for either Heineken or Fosters brewing interests. Smaller acquisitions were:

Terry's (UK)

Kraft General Foods International through its Jacobs Suchard subsidiary, announced it would acquire the upmarket UK chocolate company from United Biscuits for £220 mns. Terry's UK market share is under 5%. PM spokesmen told the press that the Company aimed to be number one in the European chocolate market.

Cesmege

A Hungarian chocolate company, also acquired by Suchard, from Stollwerck.

Marsa Margarine Sanayi

In April, Jacobs Suchard announced the acquisition of a 50% share in Turkey's largest edible oil company. The price has not been disclosed but Marsa's 1992 sales were \$171 mn. Marsa is a subsidiary of Sabanci Holdings, which is PM's partner in the recently inaugurated cigarette joint venture.

FEMSA

(Late 1992) Philip Morris Inc. bought a 7.9% stake in Fomentos Economicos Mexicanos S.A., a Mexican conglomerate with significant brewing interests, including the brand Dos Equis. The holding was acquired from Citibank for US\$150 mn.

Molsons

(January 1993) Miller announced its intention of taking a 20% holding in Canada's Molson breweries, as well as all of the brewery's US based import operations (Molson Breweries U.S.A. Inc.). The deal is worth US\$270 mn, and was completed in April.

Others

Suchard is currently negotiating to acquire the Hag coffee label from Crippa & Berger (in Italy).

There are continued trade rumours of a Kraft General Foods International takeover of United Biscuits, whose name has also been linked with Cadbury.

(c) **Tobacco Acquisitions**

PMI's tobacco acquisition activities continue to focus on Eastern Europe.

Russia

PMI announced in April 1993 the acquisition of a 47% interest in a joint venture with the Krasnodarsk cigarette factory (planned capacity 25 b.p.a.). This is PMI's third Russian venture: the Samara joint venture is already producing Marlboro and a deal has been made with a plant in St Petersburg (December 1992). Later, Izvestia reported that production in Samara had stopped due to low market demand because of high prices.

Lithuania

PMI announced a joint venture with the Klaipeda Tobacco Company, one of two in Lithuania. PMI will have 65% of Klaipeda, for US\$40 mn. The plant will produce Marlboro and Bond Street and L & M brands, amongst others.

Latvia

PMI made an offer for the Riga factory, but STK won the tender.

Czechoslovakia

PMI increased its share holding in Tabak Kutna Hora (The Czech monopoly) to 77.1% in March 1993, bringing their overall investment to a rumoured \$420 mn, inclusive of acquisition and refurbishment.

Turkey

Philsa (Turkey) the Philip Morris - Sabanci Holding joint venture had the first stage of its plant formally opened by Prime Minister Demirel.

(d) Brand Marketing

The major focus in the quarter was PM (USA)'s defence of its Marlboro brand in the USA, culminating in an announcement on 2/4/93 that it would reduce the price of Marlboro, by couponing/money back offers and similar promotions (but not by list price reduction). This is said to be a result of readings of a test market of such schemes in Portland, Or. The announcement had further negative effects on PM's share price, as it also accompanied a forecast that PM Inc. would not achieve 20% growth in 1993.

Price reductions by PM were also noted in Brazil and Costa Rica, where the PM subsidiary initiated a price war by reducing the price of its leading brand, DERBY, by 37% and the price of Marlboro by a similar percentage.

PM introduced L & M at very low price in Spain in the wake of an price increase in January. L&M was launched at a price of Ptas 160 per pack, in two versions (Lights and Full Flavour), undercutting the previous best value USIB's (Lucky Strike/Chesterfield) by 30 Ptas, at a price only Ptas 10 above Fortuna.

In terms of product innovation. PM have recently been trying an oval HL pack ("pocket pack") (4-6-6-4 formation) for Philip Morris Superlights, in France. (This will now be extended to Switzerland). In March a new version of L & M, Artgerecht, was launched in Germany: in limited distribution, the brand features a leopard design filter. Market impact has been minimal.

PM appear to have been relaxing Marlboro communication guidelines both in the new BST UK Campaign, and in the Dutch "Name of flavour/colour of flavour" campaign.

(e) **Trade Marketing**

PM (USA) are giving heavy emphasis to their Retail Masters key retailer programme.

In Latin America, BATCo. companies are reporting increased PMI - KGFI co-operation on distribution.

(f) **People**

Mr. Geoffrey Bible, VP of PM International, was appointed executive VP worldwide tobacco. This unifies PM's tobacco operations, US domestic and international, under a single executive.

Mr. James Morgan was promoted to Senior Vice President of Marketing; all brand groups will report to him.

2. **RJ REYNOLDS**

(a) **Financial**

RJR published their 1992 results. Profits after tax were US\$ 753 mn, up by over 280% from 1991's comparable result of \$195 mn.

Other Key Results (US\$ Mns)

Operating Revenues (Estd NTO)	1991	1992	±%
Domestic Tobacco	5861	6165	5.2
International Tobacco	2679	2862	6.8
Total Tobacco	8540	9027	5.7
Total Operating Revenues	14984	15734	5.0

Operating Income	1991	1992	±%
Domestic Tobacco	2226	2112	-5.1
International Tobacco	500	575	15.0
Total Tobacco	2726	2687	-1.4
Total Operating Income	3646	3634	-0.3

RJR tobacco operating income declined, and the RJR share price declined.

The main focus of interest in RJR's activities during the first quarter was the possibility of a scheme to float off a part of RJR's non tobacco interests. The motive of this seems to be stockholder (especially KKR) dissatisfaction with RJR's progress, and a wish to find a mechanism to raise further funds pay down the debt mountain (currently about US\$14 bn) that resulted from the 1989 LBO. The scheme would initially have sold shares equal to 25% of Nabisco section of RJR, and this would have raised about US\$ 1.5 bn. In a second phase, further separation of food and tobacco interests would have proceeded.

The creation of a new stock, "RN - Nabisco", would have freed the share price to some degree from "the taint of tobacco". It seems unlikely the scheme will proceed in the wake of (a) personnel changes at RJR and (b) the PM announcements. It is possible that PM's price reduction announcement was timed to damage the scheme: it also coincided with RJR's AGM on 2nd April.

Extra Note: RJR announced on 13th April that the scheme would proceed but would be limited to 25% of RN Nabisco, with the balance of RN Nabisco shares (75%) being held by RN Reynolds. RJR Nabisco stock will become RN Reynolds stock. A tobacco dividend of 32 c per share - the first dividend since the LBO in 1989 - was cancelled.

RJR's first quarter 1993 profits after tax were US\$164 mn. compared to a loss of US\$15 mn. in the same period last year

Operating Profits (US\$m.)	1Q92	1Q93	±%
Domestic Tobacco	512	500	-2.3
International Tobacco	139	159	+14.4
Total Tobacco	651	659	+1.2

(b) **Diversified Activities**

RJR are said to be interested in acquiring a holding in Royal Brands SA. This is (what used to be) the Nabisco business in Spain and Portugal, acquired to Tabacalera SA in 1987 and 1989. RJR are said to have bid £95 mn for 50% of RB, but Tabacalera aim to sell the company entirely. (Initial agreement on a £190 mn. bid was announced by Tabacalera on 28th April: the deal is subject to Spanish government approval).

(c) **Tobacco Acquisition**

No new acquisitions were reported.

RJR Espana, a joint venture modelled on BAT España and PM España, became operational, with a 50% holding by RJR.

RJR announced that they planned to enter the Indian market. ITC report that government approval, denied in 1992, has now been granted.

They are also lobbying for the abolition of the Czech monopoly, so that they can compete with Philip Morris.

(d) **Brand Marketing**

RJR were active in the Middle East: Agreement has been reached with Iran to produce Winston under the Bistoon name.

RJR are being aggressive with price in Europe: Winston was dropped in price in Finland, being deployed as a "value-priced" brand, and in France its price was reduced to the 10 FF level in January. This realignment of Winston at non-premium price level is not universal: in Spain, RJR will be using Gold Coast and Magna as its low price brands.

RJR have introduced a new advertising campaign for Winston in the USA. In Europe, they introduced a new Taste of Adventure campaign for Camel, based on adventure cinema themes. The campaign has a 1940's feel.

On 26th April, RJR announced its response to the USA PM price reduction plans: it will discount Winston, temporarily, until end June 1993 and conduct 'increased promotional activity' for Camel.

(e) **Trade Marketing**

NTR

(f) **People**

RJR's Chairman and CEO, Mr Louis V Gerstner Jr, resigned in March, to take over at IBM following the departure of Mr. John Akers.

Mr Karl von der Heyden (Finance Director) and Mr Laurence Ricciardi (General Counsel) were appointed co-chairman and co-Ceos. This has every appearance of an interim solution, not least because both men retain all their existing functional responsibilities.

At RJR Germany, Mr Hans Joachim Weder replaced Mr Peter Barton as Chairman in December 1992. Mr Barton is being transferred to be VP sales for Europe, Africa and the Middle East.

3. **ROTHMANS/REMBRANDT**

Financials

Rothmans financial year ends 31st March. Results for 1992 should be available in the second quarter 1993.

Non Tobacco Activities

NTR

Tobacco Acquisitions

Rothmans announced a joint venture with the Nevo Tobacco Factory in St Petersburg, Rothmans have a holding of 75%, and are paying US\$ 55 mn. A new plant should come on stream in 1995, with a capacity of 20 bn. This is Rothmans first direct investment in the former Soviet bloc.

There was no further news of Rothmans' reported 20% interest in the Zagreb factory in Croatia.

In the Far East, a joint venture is planned with the Ban Thanh Cigarette factory in Ho Chi Minh City, Vietnam.

Ongoing Tobacco Activities

The major event of the quarter was Rothmans' announcement of a restructuring of its Far East operations.

The new company - Rothmans of Pall Mall Ltd - will be incorporated in Bermuda and run from Hong Kong. It will hold the interests currently in:-

Rothmans of Pall Mall (Malaysia) Berhad.
Rothmans Industries (Singapore).

Both of these are 50% publicly owned. In addition, it will hold smaller Rothmans subsidiaries in Japan, China, Hong Kong, South Korea and Taiwan.

Rothmans International will own 50% of the shares in the new company - the balance will be held by Malaysia shareholders (39%) and Singapore shareholders (10%).

The reorganisation is being sold to shareholders by Rothmans as "constructive reconstruction", to enable it to attack Far Eastern opportunity markets in a more coherent way. It is looked at by analysts as a way of unlocking the cash in the existing public companies. The reorganisation is also consistent with Rothmans International's ongoing restructuring of the group around four regional Chief executives - in this case, the Asia Pacific region.

The Australian and Philippines interests are not being included. Both are problematic at present. Rothman's Australian subsidiary gave a profit warning of a 15% decline for 1992, in February; Alhambra Industries (Philippines) is being closed this year, and Sterling Tobacco, the second Rothmans operation in the Philippines, is being "reviewed".

In Europe, Rothmans consolidating its operations, closing the Turnhout and Liege plants in Belgium, and restructuring Brinkmann Tabaks Vertrieb, its Germany RYO subsidiary.

Rothmans has set up a new subsidiary, Rothmans International Tobacco Products (RITP), to be responsible for production, sales and marketing of non cigarette brands. One main task is to attack the UK shag market; RITP's first launch is Cutter's Choice. The company is based in Amsterdam.

Rothmans' planned plant in Nigeria seems unlikely to be finished this year: Mr C Murphy has been appointed Marketing Director.

4. REEMSTMA

NTR

5. JTI

JTI appears to be headed for privatisation. Two-thirds of a million shares will be released to the market by the Ministry of Finance in Financial year 1993-4. (The Japanese financial year is April-March). This flotation is the maximum legally permitted, without changing the law. The floatation had been planned earlier for financial 1991-2, but was postponed because of the Tokyo stock market's poor performance. A listing on the Tokyo Stock Exchange is expected in 1993, with an auction to establish the actual price (probably after JTI's 1992-3 results are available).

JTI continues to attempt to expand exports aggressively: they announced plans to sell 5 bn to Iran in 1993, announced plans to set up in India as an offshore base for export manufacture, and are increasing the number of export markets. (33 in 1991, 42 in 1992). Hitherto JTI's presence in India has been limited to a technical services agreement with the Philip Morris associated company.

6. SEITA

Financial

Seita announced its 1992 results with profits of FF 341 mn (£40 mn), up by 122% on 1991's comparable result. Seita had, however, predicted a FF 590 mn profit at the half year, announced in November 1992.

Privatisation

The run-up to the victory by the RPR/UDF in the French elections, increased speculation that Seita might be privatised: a formal denial was issued by Mr. M Malvy, the Budget Minister in January 1993.

7. **TABACALERA S.A.**

Financial

Tabacalera S.A. reported consolidated group results of Ptas 18998 mn (£105.9 mn), 13.4% down on 1991.

The tobacco business profits actually rose by 3.5% but increased losses by diversified businesses, particularly Elosua S.A., reduced these.

Tabacalera board is expected to approve the disposal of the largest diversified business (Royal Brands).

8. **MONOPOLI DI STATO**

NTR