

**PHILIP MORRIS U.S.A.
1994 SECOND REVISED FORECAST
PRICE REALIZATION**

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994 ORIGINAL BUDGET</u>	<u>1994 SECOND REVISED FORECAST</u>
<u>INCREMENTAL PRICE REALIZATION (MILLIONS)</u>							
PRICING CONTRIBUTION TO IFO VS PRIOR YEAR	\$1,043.4	\$1,025.0	\$1,139.7	\$1,136.3	(\$538.8)	(\$897.3)	(\$809.0)
COUPONS / CONSUMER INCENTIVES	\$67.4	\$222.5	\$180.7	\$120.4	\$849.9	(\$970.9)	(\$686.1)
 SUB-TOTAL	 \$976.0	 \$802.5	 \$959.0	 \$1,015.9	 (\$1,388.7)	 \$73.6	 (\$122.9)
MIX IMPACT	(\$57.0)	(\$172.7)	(\$359.7)	(\$347.8)	(\$530.0)	\$201.6	\$389.5
 TOTAL REALIZED PRICING	 \$919.0	 \$629.8	 \$599.3	 \$668.1	 (\$1,918.7)	 \$275.2	 \$266.6
 % OF INCREMENTAL PRICING REALIZED	 88.1%	 61.4%	 52.6%	 58.8%	 N/A	 N/A	 N/A
IFO GROWTH %	16.8%	16.7%	13.5%	8.6%	(45.9%)	9.9%	9.9%
% OF PRICING TO PRIOR YEAR IFO	29.8%	17.5%	14.2%	14.0%	N/A	N/A	N/A

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**CRITICAL
ASSUMPTIONS**

**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
SUMMARY OF CRITICAL ASSUMPTIONS**

**VOLUME AND SHARE ASSUMPTIONS
(UNITS IN BILLIONS)**

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>CHANGE INCR./ (DECR.)</u>	
			<u>VS. 1994 O.B.</u>	<u>VS. 1993 ACT.</u>
• <u>Industry Volume</u>				
Units	478.1	471.0	7.1	16.8
% Change vs. Prior Year	3.6%	2.1%		
• <u>Industry Share of Category</u>				
Premium	66.5%	65.0%	1.5 Pts.	3.3 Pts.
Discount	33.5%	35.0%	(1.5) Pts.	(3.3) Pts.
• <u>PM-USA Volume</u>				
Marlboro	130.2	118.9	11.3	21.7
Other Premium Brands	38.4	36.5	1.9	2.0
Discount	42.6	45.7	(3.1)	(7.2)
Total	211.2	201.1	10.1	16.5
• <u>PM-USA Market Share</u>				
Marlboro	27.2%	25.2%	2.0 Pts.	3.7 Pts.
Other Premium Brands	8.1%	7.8%	0.3 Pts.	0.2 Pts.
Discount	8.9%	9.7%	(0.8) Pts.	(1.9) Pts.
Total	44.2%	42.7%	1.5 Pts.	2.0 Pts.
Share Change vs. Prior Year	2.0 Pts.	0.5 Pts.		
• <u>PM-USA Share of Category</u>				
Premium	53.0%	50.8%	2.2 Pts.	3.3 Pts.
Discount	26.6%	27.7%	(1.1) Pts.	(2.7) Pts.
• <u>Customer Inventory Adjustment</u>				
First	1.8	4.0	(2.2)	(8.2)
Second	3.0	4.0	(1.0)	(1.6)
Third	3.0	4.0	(1.0)	(2.0)
Fourth	3.0	4.0	(1.0)	0.7

PHILIP MORRIS U.S.A.
1994 SECOND REVISED
SUMMARY OF CRITICAL ASSUMPTIONS

FINANCIAL ASSUMPTIONS
(\$ MILLIONS)

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>CHANGE INCR./(DECR.)</u>	
			<u>VS. 1994 O.B.</u>	<u>VS. 1993 ACT.</u>
• <u>Income From Operations</u>				
1994 IFO	\$3,085.0	\$3,085.0	\$ --	\$277.3
Per Thousand	\$14.61	\$15.34	(\$0.73)	\$0.19
• <u>Cash Flow</u>	\$2,236.4	\$2,136.4	\$100.0	(\$6.0)
• <u>Marketing Spending</u>				
Marketing	\$1,516.3	\$1,210.6	\$305.7	(\$555.9)
Sales/Merchandising	1,114.2	1,114.2	--	1.0
Total	<u>\$2,630.5</u>	<u>\$2,324.8</u>	<u>\$305.7</u>	<u>(\$554.9)</u>
• <u>Capital Spending</u>	\$231.6	\$260.3	(\$28.7)	\$5.9
• <u>Price Increases</u>				
Premium	\$ --	\$ --	\$ --	
Discount	\$ --	\$ --	\$ --	
• <u>Discount Allowances Per Thousand</u>				
Basic	\$ --	\$ --	\$ --	
Private Label	\$9.25	\$10.75	(\$1.50)	
AAV	\$8.00	\$9.50	(\$1.50)	

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
SUMMARY OF CRITICAL ASSUMPTIONS

OTHER ASSUMPTIONS

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>CHANGE INCR./(DECR.)</u>	
			<u>VS. 1994 O.B.</u>	<u>VS. 1993 ACT.</u>
• <u>Year-End Headcount</u>				
Salaried	7,871	7,853	18	(395)
Hourly	<u>7,619</u>	<u>7,734</u>	<u>(115)</u>	<u>(1,151)</u>
Total	15,490	15,587	(97)	(1,546)
• <u>Export Production (Billions)</u>	125.8 Billion	113.9 Billion	11.9 Billion	17.5 Billion
• <u>Production Cost / M</u>				
Variable	\$7.43	\$7.44	(\$0.01)	(\$0.05)
Fixed	<u>1.65</u>	<u>1.74</u>	<u>(0.09)</u>	<u>(0.21)</u>
Total	\$9.08	\$9.18	(\$0.10)	(\$0.26)

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UNIT VOLUME

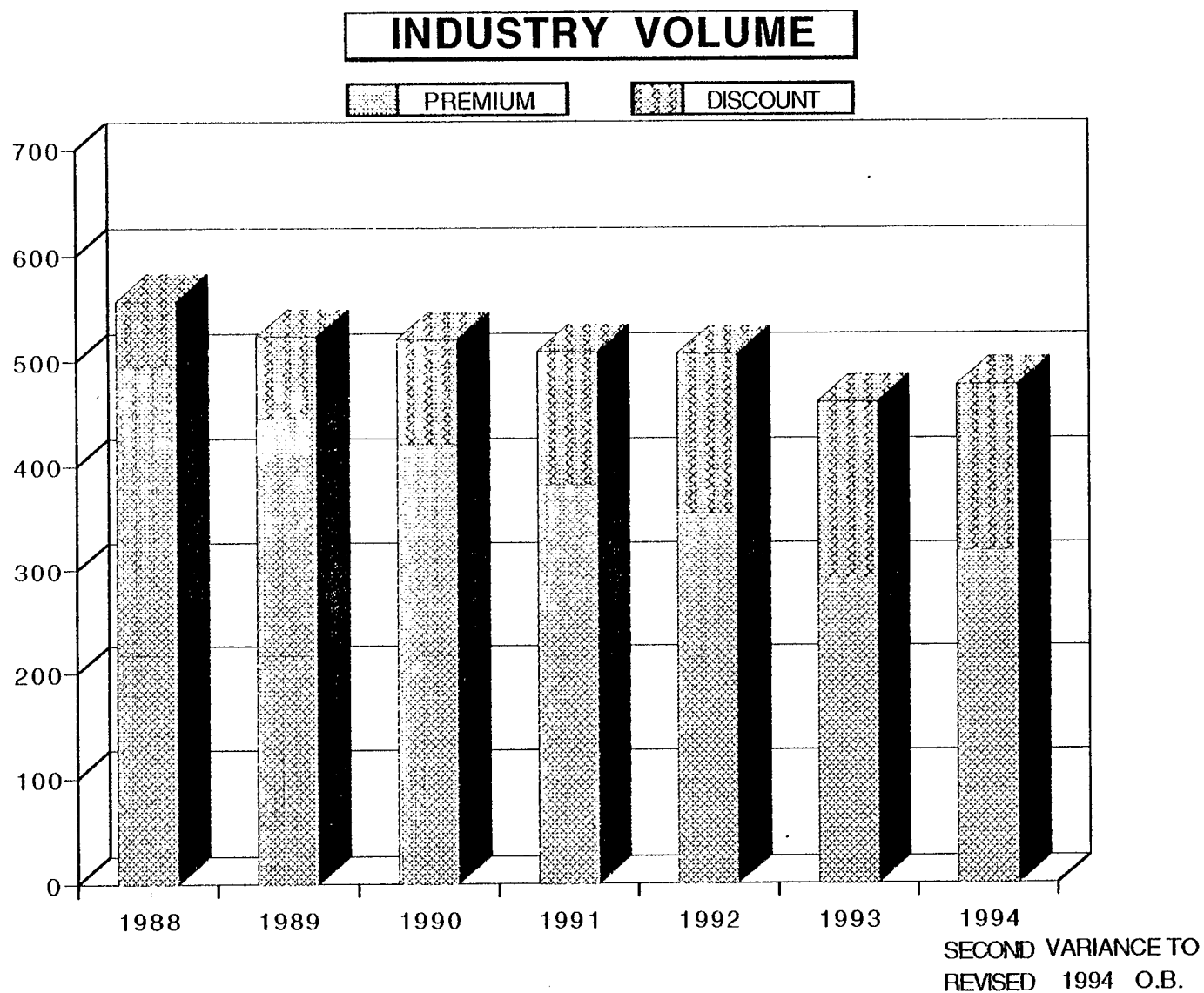
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TENTATIVE WORKING ESTIMATE

**PHILIP MORRIS U.S.A.
INDUSTRY VOLUME**

COMPANY	<u>PREMIUM VOLUME</u>						1994 SECOND REVISED	VARIANCE TO 1994 O. B.	CAG %
	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>			
P.M.	206.3	201.6	194.5	183.1	172.8	144.9	168.6	13.2	(3.31%)
RJR	154.0	124.6	123.6	105.6	95.4	78.9	76.4	(5.2)	(11.03%)
B&W	48.4	41.4	33.2	29.7	26.7	18.3	20.6	1.2	(13.27%)
LORILLARD	45.7	41.4	39.1	36.7	35.3	31.2	34.3	1.3	(4.67%)
AMERICAN	35.1	30.9	25.8	22.1	18.9	15.0	16.0	2.3	(12.27%)
LIGGETT	6.3	5.7	5.2	4.8	4.9	3.3	2.2	(0.8)	(16.08%)
	<u>495.8</u>	<u>445.6</u>	<u>421.4</u>	<u>382.0</u>	<u>354.0</u>	<u>291.6</u>	<u>318.1</u>	<u>12.0</u>	<u>(7.13%)</u>
<u>DISCOUNT VOLUME</u>									
P.M.	13.0	17.9	26.0	37.6	41.5	49.8	42.6	(3.1)	21.87%
RJR	23.2	24.9	30.9	36.1	50.8	62.1	55.9	(3.9)	15.79%
B&W	12.7	18.1	20.6	26.9	33.5	32.2	32.6	(2.2)	17.01%
LORILLARD	--	--	0.7	0.3	1.3	1.5	1.5	0.5	20.99%
AMERICAN	3.7	5.7	9.7	13.7	15.3	16.2	18.7	1.6	31.00%
LIGGETT	9.4	11.4	12.5	12.6	10.6	7.9	8.7	2.2	(1.28%)
	<u>62.0</u>	<u>78.0</u>	<u>100.4</u>	<u>127.2</u>	<u>153.0</u>	<u>169.7</u>	<u>160.0</u>	<u>(4.9)</u>	<u>17.12%</u>
TOTAL	<u>557.8</u>	<u>523.6</u>	<u>521.8</u>	<u>509.2</u>	<u>507.0</u>	<u>461.3</u>	<u>478.1</u>	<u>7.1</u>	<u>(1.80%)</u>

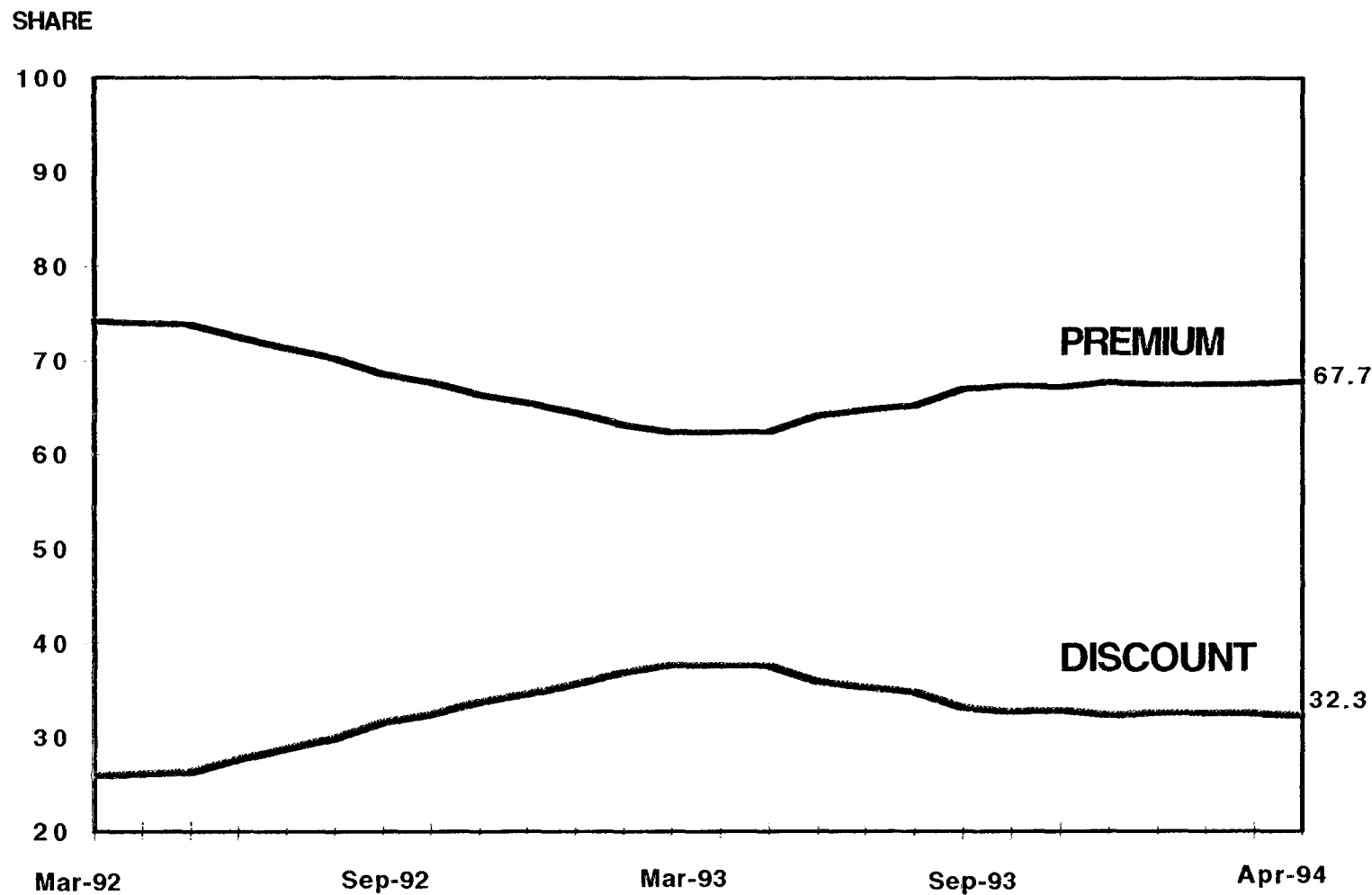
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INDUSTRY VOLUME	557.8	523.6	521.8	509.2	507.0	461.3	478.1	7.1
% CHANGE	(2.14%)	(6.13%)	(0.34%)	(2.41%)	(0.43%)	(9.01%)	3.64%	1.51%
PREMIUM SHARE	88.88%	85.10%	80.76%	75.02%	69.82%	63.21%	66.53%	1.53%
DISCOUNT SHARE	11.12%	14.90%	19.24%	24.98%	30.18%	36.79%	33.47%	(1.53%)

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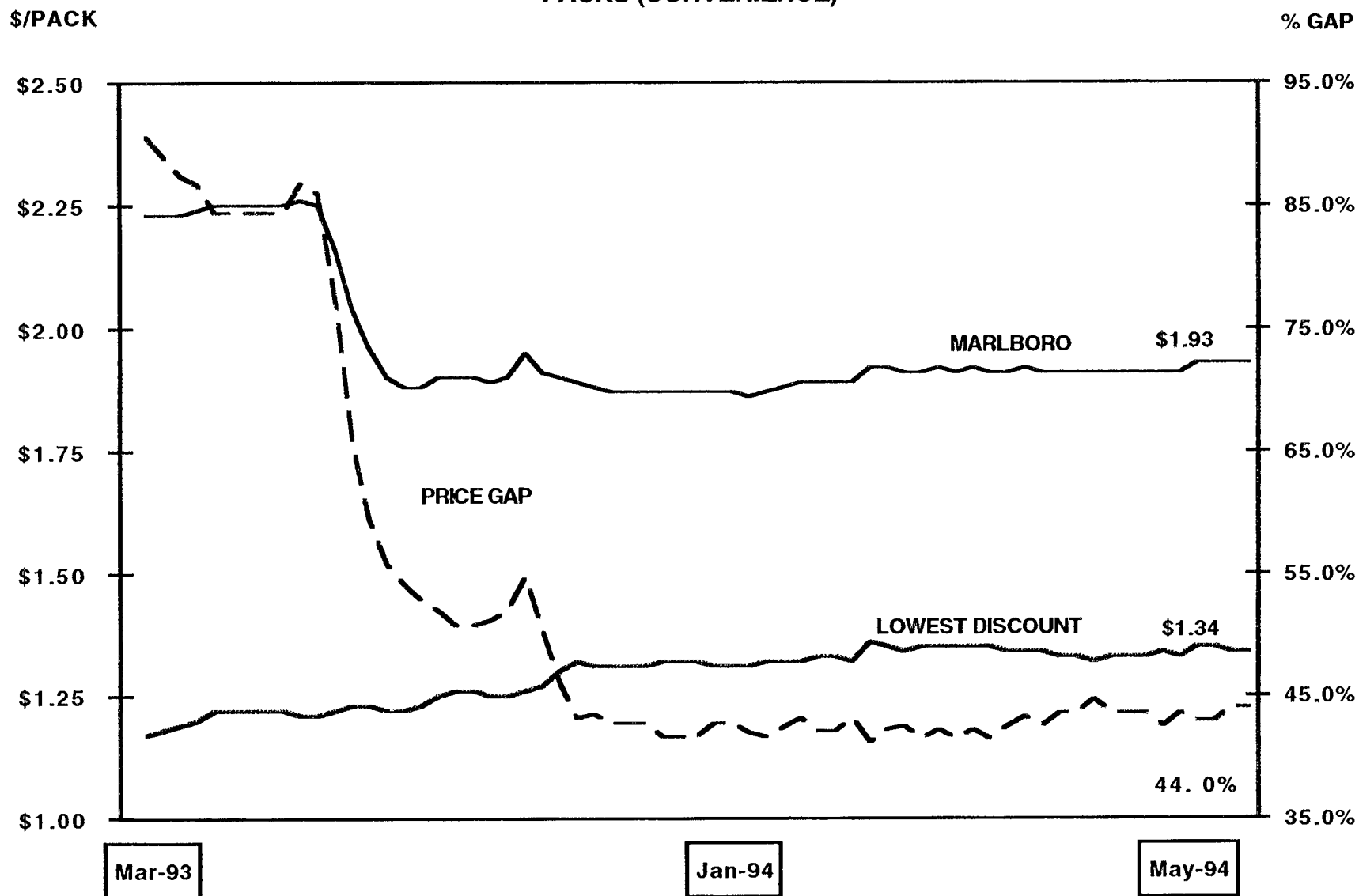
PREMIUM AND DISCOUNT SHARE
MONTHLY SHARE PERFORMANCE
TOTAL U.S.



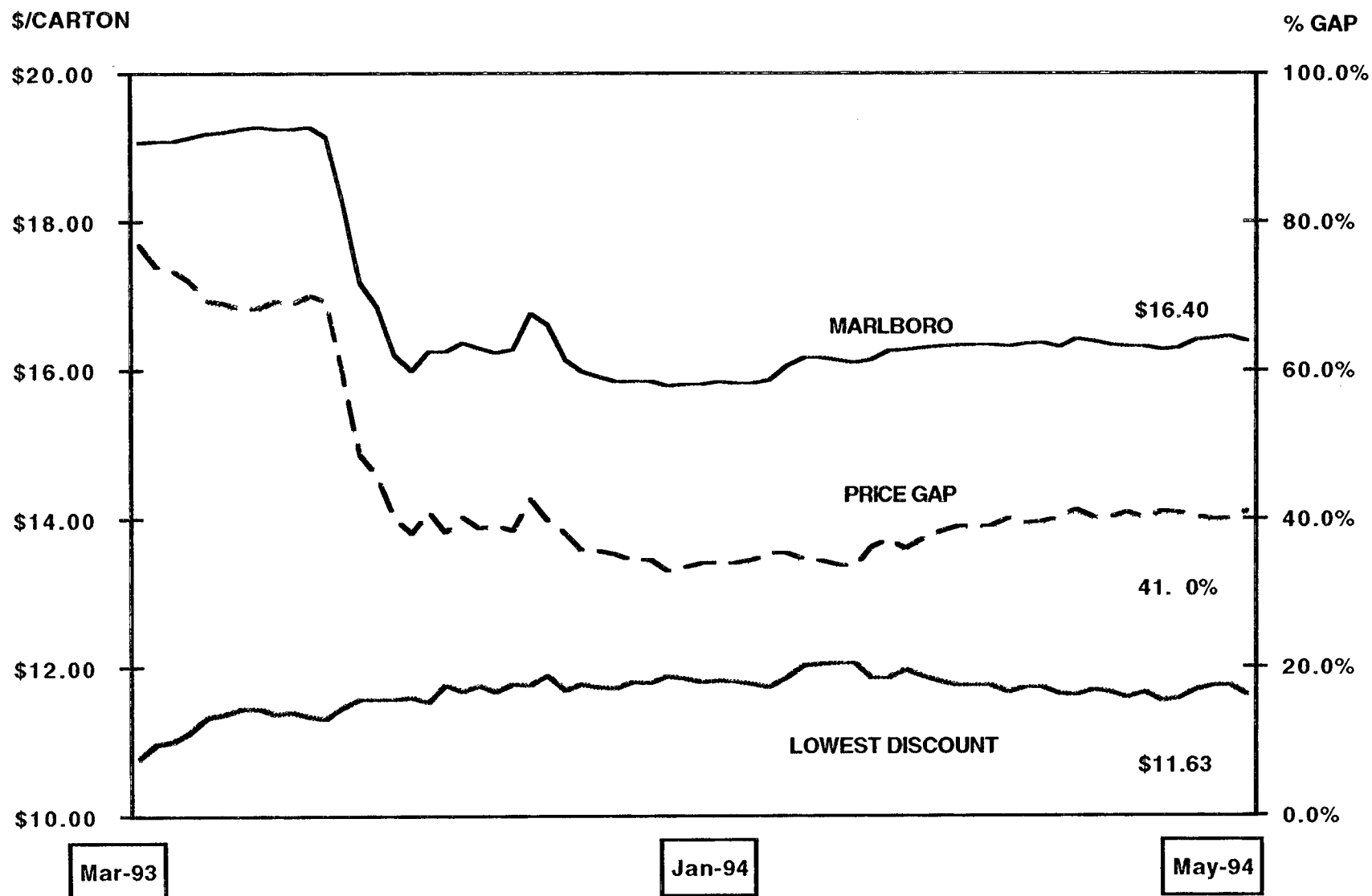
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RETAIL PRICING TRENDS AND GAP PACKS (CONVENIENCE)



Source: Market Decisions 1050 Panel (thru 12/93)
Nielsen Pricing Audit (1/94 thru current)

RETAIL PRICING TRENDS AND GAP
CARTONS (SUPERMARKETS)

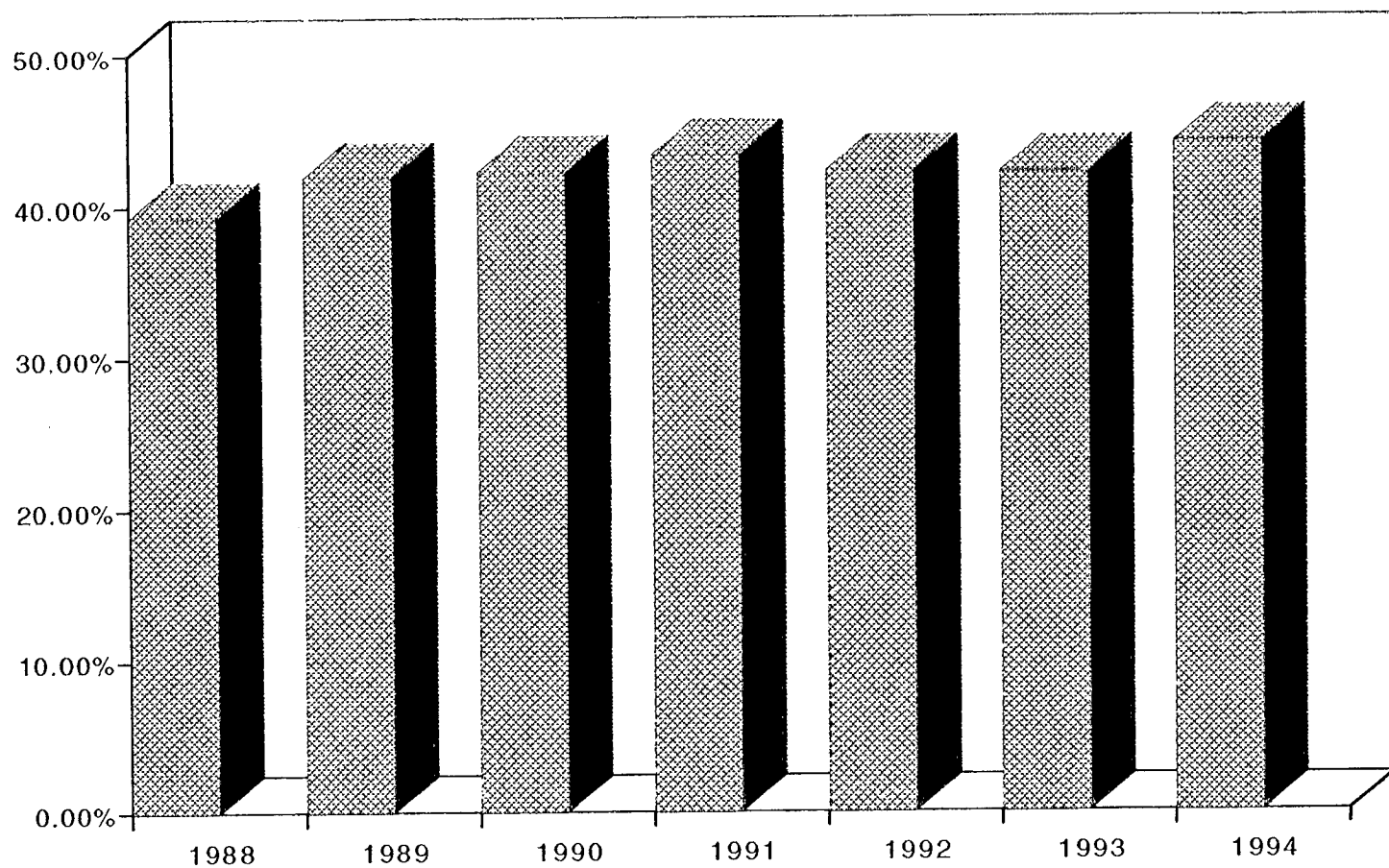
Source: Market Decisions 1050 Panel (thru 12/93)
Nielsen Pricing Audit (1/94 thru current)

WILLIP MORRIS U.S.A.
PERCENTAGE MARKET SHARE BY BRAND

							94	ARIANCE	VERAGE
							ECOND	O 1994	UAL
	988	989	990	991	992	993	REVISED	<u>O.B.</u>	<u>CHANGE</u>
ARLBORO	%	%	%	%	%	%	%	%	
ENSON & HEDGES									25%)
ERIT									24%)
IRGINIA SLIMS									11%)
ARLIAMENT								0.03)	04%)
ANADIAN	-	-	-	-	-			-	
THER								0.04)	05%)
OTAL PREMIUM	%	%	%	%	%	%	%	%	29%)
AMBRIDGE	%	%	%	%	%	%	%	%	
LPINE								0.07)	
UCKS	-	-						0.01)	%
RISTOL	-							0.02)	
LL AMERICAN VALUE								0.14)	%
ASIC	-	-						0.58)	
RIVATE LABEL									
LAYERS 25'S									03%)
OTAL DISCOUNT	%	%	%	%	%	%	%	79) %	%
OTAL MARKET SHARE %	%	%	%	%	%	%	%	%	%

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PM-USA MARKET SHARE



SECOND
REVISED
VARIANCE TO
1994 O.B.

MARKET SHARE	39.31%	41.92%	42.26%	43.34%	42.28%	42.19%	44.17%	1.47%
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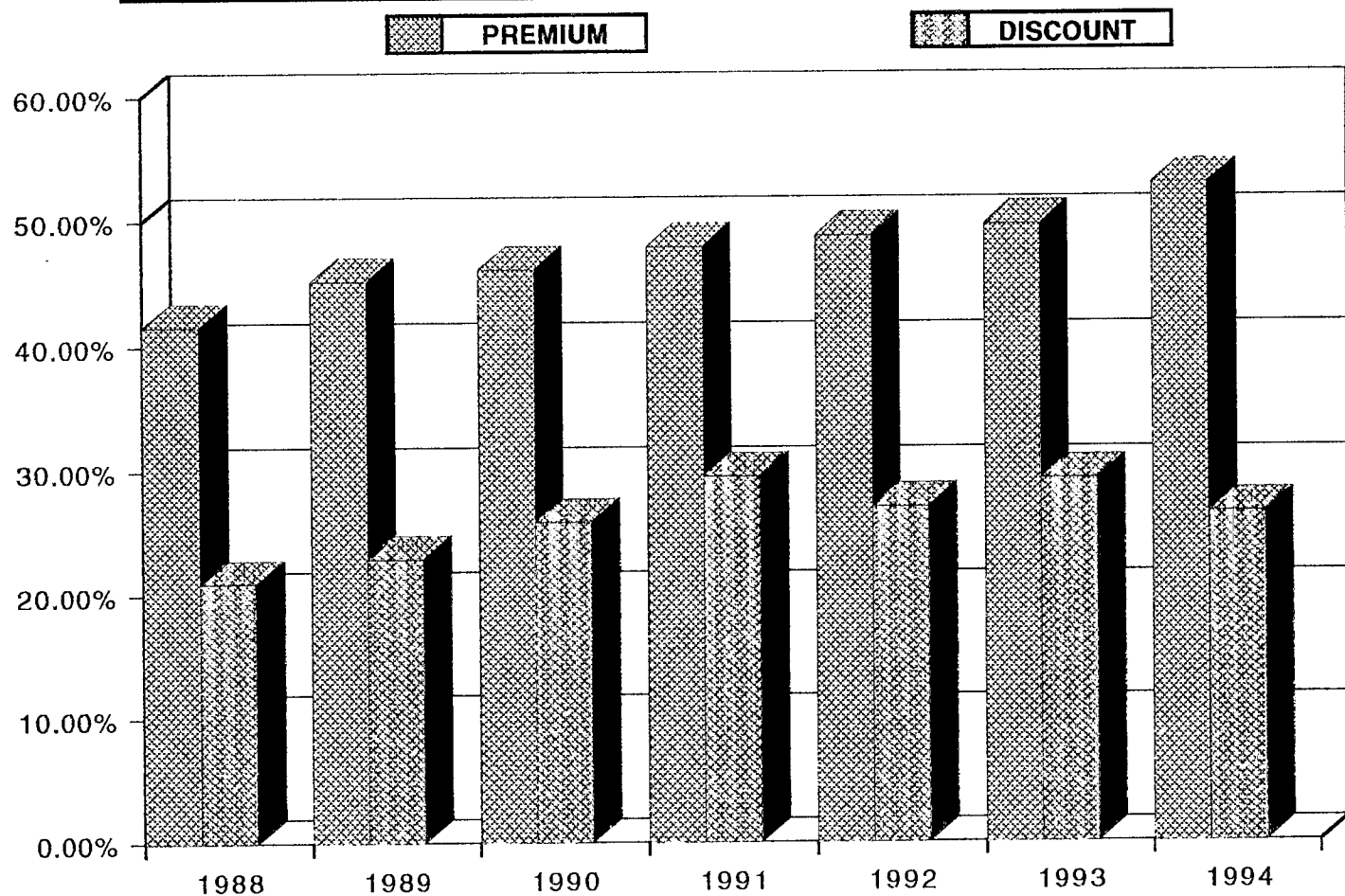
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TENTATIVE WORKING ESTIMATE

**PHILIP MORRIS U.S.A.
SHARE OF CATEGORY BY COMPANY**

COMPANY	PREMIUM %						1994 SECOND REVISED	VARIANCE TO 1994 Q.B.	AVERAGE ANNUAL CHANGE
	1988	1989	1990	1991	1992	1993			
P.M.	41.61 %	45.25 %	46.16 %	47.93 %	48.81 %	49.69 %	53.00 %	2.23 %	1.90%
RJR	31.06	27.96	29.33	27.64	26.95	27.06	24.02	(2.64)	(1.17%)
B&W	9.76	9.29	7.88	7.77	7.54	6.28	6.47	0.13	(0.55%)
LORILLARD	9.22	9.29	9.28	9.61	9.97	10.70	10.79	0.01	0.26%
AMERICAN	7.08	6.93	6.12	5.79	5.34	5.14	5.02	0.54	(0.34%)
LIGGETT	1.27	1.28	1.23	1.26	1.39	1.13	0.70	(0.27)	(0.10%)
	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>		
DISCOUNT %									
P.M.	20.97 %	22.95 %	25.90 %	29.56 %	27.11 %	29.35 %	26.63 %	(1.08) %	0.94%
RJR	37.42	31.92	30.77	28.38	33.18	36.59	34.91	(1.35)	(0.42%)
B&W	20.48	23.21	20.52	21.15	21.91	18.98	20.40	(0.70)	(0.01%)
LORILLARD	--	--	0.70	0.24	0.88	0.88	0.95	0.34	0.16%
AMERICAN	5.97	7.31	9.66	10.77	10.02	9.55	11.67	1.30	0.95%
LIGGETT	15.16	14.61	12.45	9.90	6.90	4.66	5.44	1.49	(1.62%)
	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>		

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PM-USA SHARE OF PREMIUM AND DISCOUNT CATEGORIES



SECOND VARIANCE TO
REVISED 1994 O.B.

CATEGORY SHARE								
PREMIUM	41.61%	45.25%	46.16%	47.93%	48.81%	49.69%	53.00%	2.23%
DISCOUNT	20.97%	22.95%	25.90%	29.56%	27.11%	29.35%	26.63%	(1.08%)

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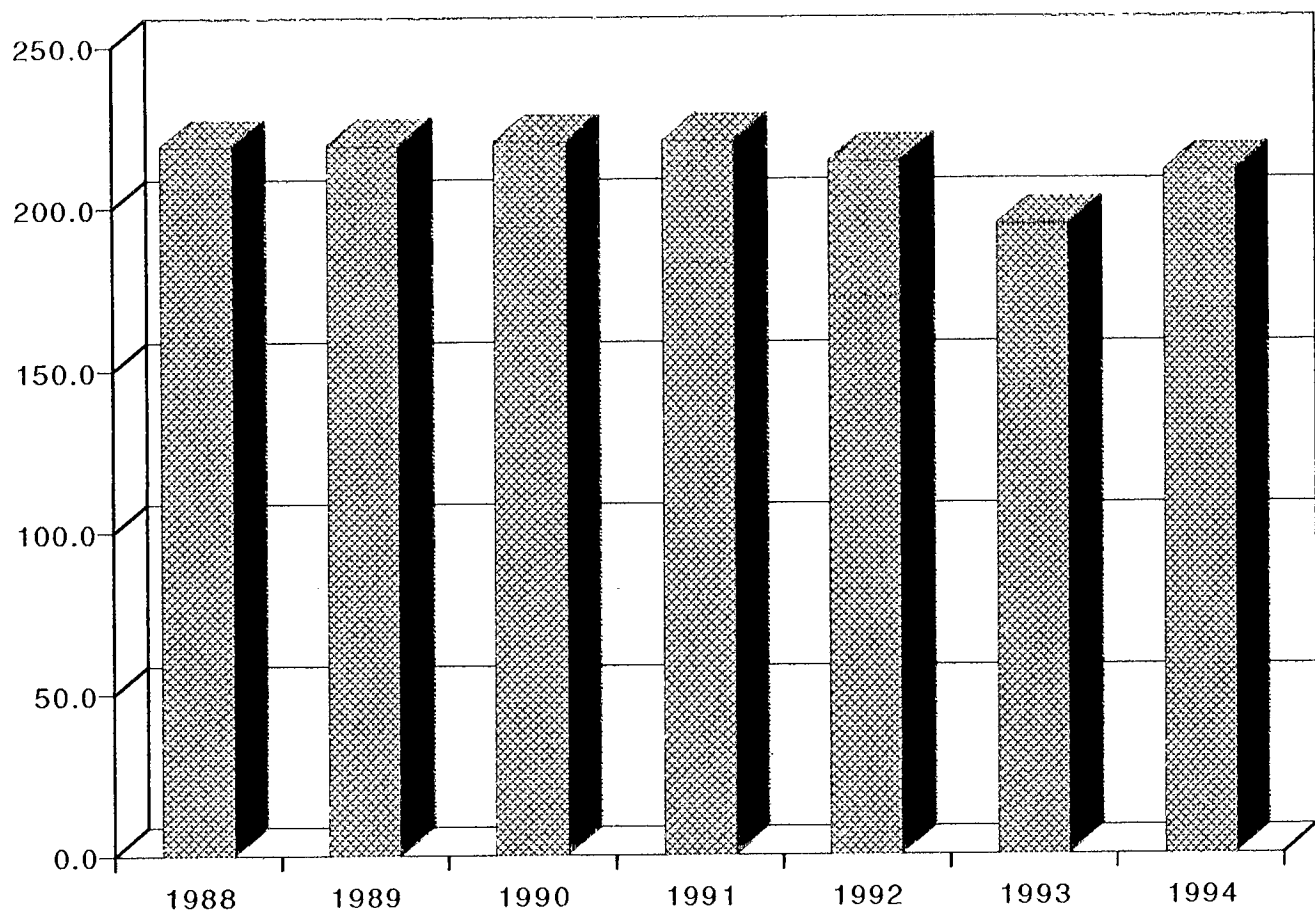
PHILIP MORRIS U.S.A.
VOLUME BY BRAND
(Billions)

	1988	1989	1990	1991	1992	1993	1994 SECOND REVISED	VARIANCE TO 1994 O. B.	CAG %
MARLBORO	138.8	138.0	135.6	131.2	123.9	108.5	130.2	11.3	(1.06%)
BENSON & HEDGES	21.9	20.1	18.5	16.3	15.4	11.4	11.8	0.6	(9.79%)
MERIT	21.4	20.1	18.3	15.7	15.3	10.6	11.3	0.6	(10.10%)
VIRGINIA SLIMS	16.9	16.5	16.0	14.4	13.3	10.4	11.4	0.9	(6.35%)
PARLIAMENT	4.8	4.6	4.3	4.0	3.7	3.0	3.0	(0.1)	(7.53%)
CANADIAN	--	--	--	--	--	0.2	0.1	--	N/A
OTHER	2.5	2.3	1.8	1.5	1.2	0.8	0.8	(0.1)	(17.30%)
TOTAL PREMIUM	<u>206.3</u>	<u>201.6</u>	<u>194.5</u>	<u>183.1</u>	<u>172.8</u>	<u>144.9</u>	<u>168.6</u>	<u>13.2</u>	<u>(3.31%)</u>
CAMBRIDGE	9.8	11.9	13.0	14.1	9.9	8.7	8.7	0.2	(1.96%)
ALPINE	0.5	3.2	3.2	3.0	2.3	1.8	1.7	(0.3)	22.63%
BUCKS	--	--	1.2	2.0	0.9	0.2	0.1	--	(46.27%)
BRISTOL	--	0.2	4.6	8.2	4.9	1.2	0.9	(0.1)	35.10%
ALL AMERICAN VALUE	0.5	0.6	0.8	1.1	1.4	1.1	0.7	(0.7)	5.77%
BASIC	--	--	0.9	4.6	11.4	24.4	22.6	(2.4)	123.85%
PRIVATE LABEL	0.9	1.1	1.7	4.1	10.4	12.2	7.8	0.3	43.32%
PLAYERS 25'S	1.3	0.9	0.6	0.5	0.3	0.2	0.1	(0.1)	(34.79%)
TOTAL DISCOUNT	<u>13.0</u>	<u>17.9</u>	<u>26.0</u>	<u>37.6</u>	<u>41.5</u>	<u>49.8</u>	<u>42.6</u>	<u>(3.1)</u>	<u>21.87%</u>
TOTAL DOMESTIC	<u>219.3</u>	<u>219.5</u>	<u>220.5</u>	<u>220.7</u>	<u>214.3</u>	<u>194.7</u>	<u>211.2</u>	<u>10.1</u>	<u>(0.63%)</u>

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PM-USA VOLUME

PREMIUM DISCOUNT



SECOND VARIANCE TO
REVISED 1994 O.B.

PM-USA VOLUME								
PREMIUM	206.3	201.6	194.5	183.1	172.8	144.9	168.6	13.2
DISCOUNT	13.0	17.9	26.0	37.6	41.5	49.8	42.6	(3.1)
TOTAL	219.3	219.5	220.5	220.7	214.3	194.7	211.2	10.1
%CHANGE	1.72%	0.09%	0.46%	0.09%	(2.90%)	(9.15%)	8.47%	5.02%

PHILIP MORRIS U.S.A.
1994 SECOND REVISED
UNIT VOLUME & MARKET SHARE FORECAST
(Billions of Cigarettes)

	1994 SECOND REVISED		CHANGE VS. 1994 O.B.		CHANGE VS. 1993 ACTUAL		
	VOLUME	MARKET SHARE	VOLUME	MARKET SHARE	VOLUME	% VOLUME	MARKET SHARE
MARLBORO	130.2	27.2%	11.3	2.0 pts.	21.7	20.0%	3.7 pts.
B&H	11.8	2.5%	0.6	0.1 pts.	0.4	3.5%	-- pts.
MERIT	11.3	2.4%	0.6	0.1 pts.	0.7	6.6%	0.1 pts.
VA. SLIMS	11.4	2.4%	0.9	0.2 pts.	1.0	9.6%	0.1 pts.
OTHER PREMIUM	3.9	0.8%	(0.2)	(0.1) pts.	(0.1)	(2.5%)	-- pts.
TOTAL PREMIUM	168.6	35.3%	13.2	2.3 pts.	23.7	16.4%	3.9 pts.
CAMBRIDGE	8.7	1.8%	0.2	-- pts.	--	--	(0.1) pts.
ALPINE	1.7	0.4%	(0.3)	-- pts.	(0.1)	(5.6%)	-- pts.
OTHER BRANDED	1.1	0.2%	(0.2)	(0.1) pts.	(0.5)	(31.3%)	(0.1) pts.
FVB	8.5	1.8%	(0.4)	(0.1) pts.	(4.8)	(36.1%)	(1.1) pts.
BASIC	22.6	4.7%	(2.4)	(0.6) pts.	(1.8)	(7.4%)	(0.6) pts.
TOTAL DISCOUNT	42.6	8.9%	(3.1)	(0.8) pts.	(7.2)	(14.5%)	(1.9) pts.
TOTAL DOMESTIC (1)	211.2	44.2%	10.1	1.5 pts.	16.5	8.5%	2.0 pts.
INDUSTRY VOLUME	478.1		7.1		16.8		
SHARE OF CATEGORY							
PREMIUM		53.0%		2.2 pts.			3.3 pts.
DISCOUNT		26.6%		(1.1) pts.			(2.7) pts.

(1) NOTE: EXCLUDES 1.1 BILLION TAX FREE MILITARY UNITS IN 1994 AND 1.3 BILLION UNITS IN 1993.

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 TENTATIVE WORKING ESTIMATE

**PHILIP MORRIS U.S.A.
 1994 SECOND REVISED
ADJUSTED QUARTERLY UNIT VOLUME AND SHARE**

	<u>1ST</u> <u>QTR.</u>	<u>2ND</u> <u>QTR.</u>	<u>3RD</u> <u>QTR.</u>	<u>4TH</u> <u>QTR.</u>	<u>TOTAL</u> <u>YEAR</u>
<u>PM-USA</u>					
Volume	50.2	55.8	52.9	51.6	210.5
Change vs. 1994 O.B.	2.8	3.8	0.6	2.2	9.4
% Change vs. 1993	13.6%	17.5%	1.5%	1.4%	8.1%
Share	43.7%	44.6%	43.9%	44.0%	44.1%
Share Change vs. 1994 O.B.	1.2 Pts.	2.0 Pts.	1.2 Pts.	1.1 Pts.	1.4 Pts.
Share Change vs. 1993	2.1 Pts.	3.0 Pts.	0.8 Pts.	1.5 Pts.	1.9 Pts.
<u>MARLBORO</u>					
Volume	30.2	35.6	32.7	31.3	129.8
Change vs. 1994 O.B.	2.4	4.9	1.7	1.9	10.9
% Change vs. 1993	33.6%	42.4%	5.5%	4.7%	19.6%
Share	26.2%	28.5%	27.1%	26.7%	27.2%
Share Change vs. 1994 O.B.	1.2 Pts.	3.4 Pts.	1.8 Pts.	1.2 Pts.	2.0 Pts.
Share Change vs. 1993	4.9 Pts.	6.6 Pts.	1.4 Pts.	1.8 Pts.	3.7 Pts.
<u>TOTAL DISCOUNT</u>					
Volume	10.5	10.3	10.7	11.0	42.5
Change vs. 1994 O.B.	--	(1.5)	(1.3)	(0.4)	(3.2)
% Change vs. 1993	(16.7%)	(29.0%)	(3.6%)	(5.2%)	(14.7%)
Share	9.1%	8.3%	8.9%	9.4%	8.9%
Share Change vs. 1994 O.B.	(0.3) Pts.	(1.4) Pts.	(0.9) Pts.	(0.5) Pts.	(0.8) Pts.
Share Change vs. 1993	(2.8) Pts.	(4.4) Pts.	(0.3) Pts.	(0.3) Pts.	(1.9) Pts.

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TM 2RF 211.2 SHIP/RECON
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TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
1994 SECOND REVISED
QUARTERLY SHIPMENT RECONCILIATION

	<u>1ST</u> <u>QTR.</u>	<u>2ND</u> <u>QTR.</u>	<u>3RD</u> <u>QTR.</u>	<u>4TH</u> <u>QTR.</u>	<u>TOTAL</u> <u>YEAR</u>
Actual Shipments	49,692	56,988	52,936	51,603	211,219
Prior Quarter Payback	2,300	1,800	3,000	3,000	10,100
Current Quarter Excess	<u>(1,800)</u>	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,000)</u>	<u>(10,800)</u>
Total Adjusted Units	<u>50,192</u>	<u>55,788</u>	<u>52,936</u>	<u>51,603</u>	<u>210,519</u>

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
QUARTERLY UNIT VOLUME AND SHARE**

73

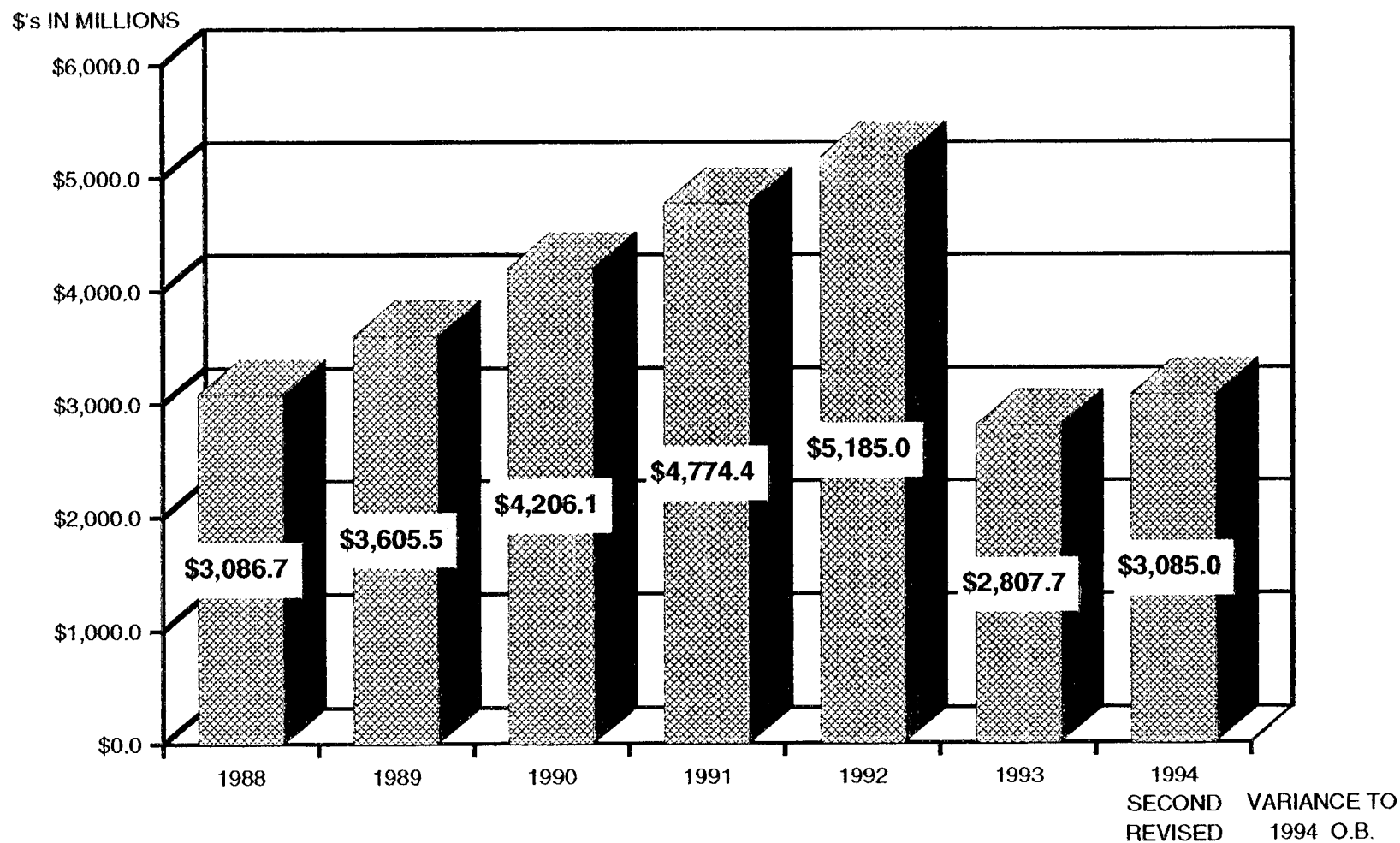
	<u>1ST QTR.</u>	<u>2ND QTR.</u>	<u>3RD QTR.</u>	<u>4TH QTR.</u>	<u>TOTAL YEAR</u>
<u>PM-USA</u>					
Volume	49.7	57.0	52.9	51.6	211.2
Change vs. 1994 O.B.	2.3	5.0	0.6	2.2	10.1
% Change vs. 1993	12.4%	20.0%	1.5%	1.4%	8.5%
Share	43.1%	45.6%	43.9%	44.0%	44.2%
Share Change vs. 1994 O.B.	0.6 Pts.	3.0 Pts.	1.2 Pts.	1.1 Pts.	1.5 Pts.
Share Change vs. 1993	1.5 Pts.	4.0 Pts.	0.8 Pts.	1.5 Pts.	2.0 Pts.
<u>MARLBORO</u>					
Volume	29.9	36.3	32.7	31.3	130.2
Change vs. 1994 O.B.	2.1	5.6	1.7	1.9	11.3
% Change vs. 1993	32.3%	45.2%	5.5%	4.7%	20.0%
Share	25.9%	29.0%	27.1%	26.7%	27.2%
Share Change vs. 1994 O.B.	0.9 Pts.	3.9 Pts.	1.8 Pts.	1.2 Pts.	2.0 Pts.
Share Change vs. 1993	4.6 Pts.	7.1 Pts.	1.4 Pts.	1.8 Pts.	3.7 Pts.
<u>TOTAL DISCOUNT</u>					
Volume	10.4	10.6	10.7	10.9	42.6
Change vs. 1994 O.B.	(0.1)	(1.2)	(1.3)	(0.5)	(3.1)
% Change vs. 1993	(17.5%)	(26.9%)	(3.6%)	(6.0%)	(14.5%)
Share	9.0%	8.5%	8.9%	9.4%	8.9%
Share Change vs. 1994 O.B.	(0.4) Pts.	(1.2) Pts.	(0.9) Pts.	(0.5) Pts.	(0.8) Pts.
Share Change vs. 1993	(2.9) Pts.	(4.2) Pts.	(0.3) Pts.	(0.3) Pts.	(1.9) Pts.

942RF 211.2 qtrvol/shr

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**INCOME
FROM OPERATIONS**

PM-USA INCOME FROM OPERATIONS



% IFO CHANGE	15.1%	16.8%	16.7%	13.5%	8.6%	(45.9%)	9.9%	-
VOLUME	219.3	219.5	220.5	220.7	214.3	194.7	211.2	10.1
IFO PER M	\$14.08	\$16.43	\$19.08	\$21.63	\$24.20	\$14.42	\$14.61	(\$0.73)

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
ANALYSIS OF 1994 IFO CHANGE
(\$ Millions)**

<u>1994 ORIGINAL BUDGET IFO</u>	\$3,085.0	9.9% vs. 1993
VOLUME (211.2 Versus 201.1)	303.9	
MIX (Primarily Higher Marlboro Units)	71.6	
IMP SAVINGS (No Quarterly IMP Versus 4.0 Billion in Each Quarter in O.B.)	20.7	
MARKETING (Primarily Marlboro Adventure Team and Marlboro Country Store)	(305.7)	
CORPORATE AFFAIRS (Primarily Worldwide Scientific and Legal Issues and State Excise Tax Initiatives)	(51.4)	
FIXED (Primarily Higher Allocation to PM-U.S.A. Due to Volume Increase)	(13.5)	
MIX CONTINGENCY (Increased to \$184.2 Versus \$120.5 in Original Budget)	(63.7)	
OTHER (Primarily Favorable Returned Goods, Shipping and Lifo Expense, Partially Offset by Increased R&D and G&A Spending)	38.1	
1994 SECOND REVISED IFO	\$3,085.0	9.9% vs. 1993

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TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
1994 SECOND REVISED
TOTAL YEAR MIX

	1994 2ND REV	1994 ORIG BUD		1994 ORIG BUD	
	TOTAL YEAR	TOTAL YEAR		TOTAL YEAR	MARGIN
MIX ANALYSIS:	UNITS	UNITS	VARIANCE	UNITS	MARGIN/M (1)
					MIX \$
MARLBORO	129,725	118,165	11,560	5,658	33.7590
B&H	11,737	11,133	604	48	31.8145
MERIT	11,287	10,660	627	95	33.2183
VIRGINIA SLIMS	11,376	10,460	916	393	32.4747
PARLIAMENT	3,010	3,105	(95)	(250)	31.2713
OTHER PREMIUM	861	971	(110)	(159)	30.0279
CAMBRIDGE	8,455	8,430	25	(396)	19.9511
ALPINE	1,673	1,985	(312)	(411)	18.2353
BUCKS	158	168	(10)	(19)	18.9486
BRISTOL	890	980	(90)	(139)	19.9433
PLAYERS 25S	165	160	5	(3)	18.0000
PRIV LABEL	7,820	7,864	(44)	(437)	11.7320
AAV	664	1,085	(421)	(475)	12.0698
BASIC	22,301	24,814	(2,513)	(3,753)	22.1425 (2)
PROMOS	1,002	1,000	2	(48)	0.0000
CANADIAN	98	140	(42)	(49)	23.4250
T/F MILITARY	1,105	1,105	0	(55)	30.1148
DOMESTIC MILITARY / OTHER					

VOLUME 10,100 30.0889 (2) \$303,898

- (1) PROMO UNITS HAVE BEEN EXCLUDED FROM MARGIN VALUES.
(2) INCLUDES ORIG BUDGET RESTATEMENT OF \$67.4 FOR BASIC.

TRADE PROGRAM		DAYS
UNITS	REBATE \$/M	DATING

<u>MARCH IMP:</u>				
1994 SECOND REVISED	--	\$ --	--	\$ --
1994 ORIGINAL BUDGET	4.0	\$1.00	14	5.2
				<u><u>\$5.2</u></u>
<u>JUNE IMP:</u>				
1994 SECOND REVISED	--	\$ --	--	\$ --
1994 ORIGINAL BUDGET	4.0	\$1.00	14	5.2
				<u><u>\$5.2</u></u>
<u>SEPTEMBER IMP:</u>				
1994 SECOND REVISED	--	\$ --	--	\$ --
1994 ORIGINAL BUDGET	4.0	\$1.00	14	5.2
				<u><u>\$5.2</u></u>
<u>DECEMBER IMP:</u>				
1994 SECOND REVISED	--	\$ --	--	\$ --
1994 ORIGINAL BUDGET	4.0	\$1.00	14	5.1
				<u><u>\$5.1</u></u>
TOTAL SECOND REVISED				\$ --
TOTAL ORIGINAL BUDGET				20.7
				<u><u>\$20.7</u></u>

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED FORECAST
PRICE SUMMARY
(\$ Millions)

RETURNED GOODS (\$60.0 VS \$65.7)	\$5.7	(1)
PRIVATE LABEL ALLOWANCES	5.7	(2)
MILITARY PRICING	3.2	(3)
LIFO	12.1	(4)
SHIPPING	7.7	(5)
OTHER	6.0	
TOTAL	<u>\$40.4</u>	

- (1) 1.58 BILLION UNITS TOTAL YEAR IN SECOND REVISED FORECAST VERSUS 1.74 BILLION UNITS IN ORIGINAL BUDGET, (AVERAGE MONTH IS 131.4 MILLION UNITS IN 2RF VERSUS 145.0 IN OB).
- (2) SEE NEXT PAGE.
- (3) SEE NEXT PAGE.
- (4) FAVORABLE PRICE FOR FINISHED GOODS AND DIRECT MATERIALS OF \$7.4, STEM AND SCRAP PURCHASE \$6.9, OFFSET BY LEAF PRICE/VOLUME CHANGES OF (\$2.2).
- (5) PRIMARILY DUE TO LOWER THAN ANTICIPATED RATES FOR CONSIGNMENT AND CUSTOMER DELIVERIES, LOWER PUBLIC WAREHOUSE STORAGE AND HANDLING FEES AND DECREASED UTILIZATION OF COLD STORAGE.

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FOLDER: 1993 PR OB
FILE NAME: MIL & ALLOW PRICE NOTES
6/8/94 03:39 PM
TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
1994 SECOND REVISED

PRIVATE LABEL ALLOWANCE CHANGE:

	<u>UNITS</u>	<u>\$/M</u>	
TRADE OFF-INVOICE	7,147	\$1.50	\$10.7
CASH DISCOUNT EFFECT	7,147	(\$0.21)	(1.5)
			<hr/> \$9.2
VOLUME INCENTIVE ALLOWANCE	6,826	(\$0.02)	(0.1)
CREDIT MEMOS			(1.9)
MISC ACCRUAL ADJUSTMENTS / MEET COMP PAYMENT			(1.5)
			<hr/> <hr/> \$5.7

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OLDER: 1993 PR OB	ILIP MORRIS U.S.A.	
FILE NAME: MIL & ALLOW PRICE NOTES	94 SECOND REVISED	
6/08/94 03:39 PM		
ENTATIVE WORKING ESTIMATE		
DOMESTIC MILITARY PRICING:		
	AY-DEC	
AY INCREASE:	U ITS	CE
ASIC	25	
	UN-DEC	
UNE INCREASE:	NITS	CE
ASIC	34	
AV	86	
AMBRIDGE	07	
LPINE	8	
RISTOL	0	

\$1.1

0.3

\$1.6

TOTAL

\$3.1

/F MILITARY PRICING:

↓ UN-DEC
 JUNE INCREASE: UNITS PRICE
AAV 47 \$1.50
BASIC -- \$1.50

TOTAL

\$0.1

PHILIP MORRIS U.S.A.
1994 SECOND REVISED
(\$ Millions)

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>VARIANCE</u>	<u>EXPLANATIONS</u>
MARGIN	\$6,557.5	\$6,120.9	\$436.6	\$303.9 VOLUME (211.2 VS. 201.1) 71.6 MIX (PRIMARILY HIGHER MARLBORO UNITS) 20.7 IMP (NO QUARTERLY IMP VS. 4.0 BILLION IN EACH QUARTER IN O.B.) 40.4 OTHER - PRIMARILY LIFO, SHIPPING, RETURNED GOODS AND FVB ALLOWANCES.
FIXED MANUFACTURING	449.1	435.6	(13.5)	(\$9.0) CHANGE IN PMI ASSESSMENT DUE TO VOLUME (4.5) OTHER
MARKETING	1,516.3	1,210.6	(305.7)	(\$278.1) MARLBORO ADVENTURE TEAM AND MARLBORO COUNTRY STORE 40.8 DISCOUNT BRANDS (36.5) OTHER PREMIUM BRANDS (26.2) OTHER (5.7) PRICE PROMOTION RESERVE
SALES	1,114.2	1,114.2	--	\$32.7 RETAIL MASTERS (7.1) OTHER (25.6) RESERVES
CORPORATE AFFAIRS	120.7	69.3	(51.4)	(\$37.7) WORLDWIDE SCIENTIFIC AND LEGAL ISSUES (9.0) STATE EXCISE TAX INITIATIVES (4.7) OTHER SPENDING
G&A	97.1	94.2	(2.9)	I.S. PROJECTS: CHAIN INVOICING, SECTION OFFICE INVOICING, AP/PURCHASING BUSINESS REQUIREMENT STUDY AND SAP REVIEW.
R&D	79.7	74.1	(5.6)	(\$4.7) SPENDING INCREASES (0.9) ASSESSMENT TO PMI
PMI MARK-UP/OTHER	(88.8)	(82.6)	6.2	PRIMARILY 5% MARK-UP TO PMI ON INCREASED EXPORT VOLUME AND HIGHER ROYALTY INCOME.
MIX CONTINGENCY	184.2	120.5	(63.7)	
TOTAL	<u><u>\$3,085.0</u></u>	<u><u>\$3,085.0</u></u>	<u><u>--</u></u>	
% CHANGE TO 1993 ACTUAL	9.9%	9.9%	--	

PHILIP MORRIS U.S.A.
CONTINGENCY RECONCILIATION
1994 SECOND REVISED VS. ORIGINAL BUDGET
(\$ Millions)

\$273.0	PREVIOUS CONTINGENCY	\$120.5 -- Mix Contingency 116.6 -- Marketing Reserves 25.9 -- Sales Reserves 10.0 -- Bad Debt Reserve
303.9	Volume (211.2 vs 201.1)	
71.6	Mix (Primarily Higher Marlboro Units)	
(278.1)	Marlboro Adventure Team and Marlboro Country Store	
(27.6)	Other Marketing Spending	
(37.7)	Worldwide Scientific and Legal Issues	
(12.6)	Corporate Affairs (Primarily State Excise Tax Initiatives)	
(13.5)	Fixed Manufacturing (Primarily Higher Allocation to PM-USA Due to Volume Increases)	
25.6	Sales Favorables (Flex Fund and Retail Masters)	
7.6	Other	
<u>\$312.2</u>	NEW CONTINGENCY	\$184.2 -- Mix Contingency 51.5 -- Sales Reserves 76.5 -- Marketing Reserves

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
CONTINGENCY
(\$ Millions)

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	<u>SECOND REVISED FORECAST</u>	<u>ORIGINAL BUDGET</u>	<u>INCR./ (DEC.)</u>
<u>MIX CONTINGENCY</u>	\$184.2	\$120.5	\$63.7
<u>MARKETING</u>			
Price Promotion Reserve	66.2	60.5	5.7
J. Morgan Reserve	10.3	10.3	--
1993 Year-End Accruals	--	45.8	(45.8) (1)
Providing Direct Credits in 1994			
TOTAL MARKETING	76.5	116.6	(40.1)
<u>SALES</u>			
Favorable Spending	35.0	--	35.0
1993 Year-End Accruals	16.5	25.9	(9.4) (2)
Providing Direct Credits in 1994			
TOTAL SALES	51.5	25.9	25.6
<u>BAD DEBT RESERVE</u>	--	10.0	(10.0)
TOTAL CONTINGENCY	<u>\$312.2</u>	<u>\$273.0</u>	<u>\$39.2</u>

(1) The \$45.8 million O.B. contingency was reduced to \$27.0 million, primarily due to higher spending for Marlboro Adventure Team. The remaining \$27.0 million is included in the Second Revised Marketing budget as an offset for new spending requests.

(2) The \$25.9 million O.B. contingency was reduced to \$16.5 million, primarily due to higher 1993 Flex Fund payments. The remaining \$16.5 million represents projected credits that will be received during 1994.

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
IFO RISK ASSESSMENT
(\$ Millions)**

PROS

PRICING

• \$2.00 OCTOBER 1	\$80.0
• FET PHASE-IN PRICING (3 Price Increases Over Three Month Period)	
- \$0.75 per Pack FET	1,131.0
- \$0.50 per Pack FET	761.0
- \$0.25 per Pack FET	378.0
- \$0.15 per Pack FET	227.0

EXPENSES

• FLEX FUNDS	5.0
• RETAIL MASTERS	5.0

CONS

• OVERTIME LITIGATION	(30.0)
• WHOLESALE MASTERS	(15.0)
• CARTON AND PACK FIXTURES	(5.0)
• OBSOLETE MATERIALS WRITE-OFF	(2.4)
• FACILITIES WRITE-OFF	(1.7)

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TENTATIVE WORKING ESTIMATE
PRICE & ALLOW 94 2R NOTE V2

**PHILIP MORRIS U.S.A.
1994 SECOND REVISED FORECAST
PRICE & ALLOWANCE ASSUMPTIONS**

	<u>PREMIUM</u>	<u>BRANDED DISCOUNT</u>	<u>BASIC</u>	<u>PRIVATE LABEL</u>	<u>AAV</u>
DOMESTIC PRICING					
1994 BASE LIST PRICE	\$55.95	\$42.45	\$42.45	\$42.45	\$42.45
ALLOWANCE ASSUMPTIONS					
OFF INVOICE TRADE DISCOUNT	--	--	--	\$4.25	\$4.25
MARKETING DEVELOPMENT	--	--	--	\$2.50	\$2.50
SEMI-ANNUAL PARTNERSHIP	--	--	--	\$1.25	\$1.25
VOLUME INCENTIVE ALLOWANCE	--	--	--	\$1.00 (1)	--
POINT OF SALE ALLOWANCE	--	--	--	\$0.25	--
TOTAL ALLOWANCES	--	--	--	\$9.25	\$8.00
DOMESTIC MILITARY PRICING					
1994 BASE LIST PRICE (2)	\$54.50	\$31.05	\$30.25	N/A	\$31.05
TAX FREE MILITARY PRICING					
1994 BASE LIST PRICE (2)	\$41.75	\$16.80	\$16.80	N/A	\$16.80

(1) VOLUME INCENTIVE RANGES FROM \$.15 PER M TO \$1.00 PER M DEPENDENT UPON TOTAL ANNUAL PURCHASES.

(2) INCLUDES NEW PRICING INITIATIVES THROUGH JUNE 1, 1994.

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED FORECAST
PRICING ASSUMPTIONS
(\$ PER THOUSAND)**

	<u>PREMIUM</u>	<u>BRANDED DISCOUNT</u>	<u>BASIC</u>	<u>PRIVATE LABEL/ AAV</u>
<u>1994 SECOND REVISED FORECAST</u>				
February 7	\$ --	\$ --	\$ --	\$1.50
<u>1994 ORIGINAL BUDGET</u>	\$ --	\$ --	\$ --	\$ --

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PHILIP MORRIS USA
1994 SECOND REVISED IFO BY QUARTER
(\$ Millions)

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	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL YEAR
1994 ORIGINAL BUDGET IFO	\$768.8	\$792.3	\$783.7	\$740.2	\$3,085.0
VOLUME (211.2 vs. 201.1)	69.7	149.5	18.8	65.9	303.9
MIX	(0.1)	29.2	25.2	17.3	71.6
IMP	5.2	5.2	5.2	5.1	20.7
LIFO/SHIPPING/OTHER PRICING	2.4	9.1	15.2	13.7	40.4
MARKETING/SELLING EXPENSE (A)	(44.7)	(132.5)	(57.2)	(71.3)	(305.7)
CORPORATE AFFAIRS	5.7	(20.8)	(17.2)	(19.1)	(51.4)
FIXED MANUFACTURING	(42.3)	53.7	4.5	(29.4)	(13.5)
OTHER	4.1	2.2	(3.0)	(5.6)	(2.3)
CONTINGENCY(\$184.2 VS.\$120.5 IN O.B.) (B)	--	(30.0)	20.9	(54.6)	(63.7)
1994 UPDATE IFO	<u>\$768.8</u>	<u>\$857.9</u>	<u>\$796.1</u>	<u>\$662.2</u>	<u>\$3,085.0</u>
(A) Marketing Assumptions:					
Total Year Marketing/Selling Expense	\$2,458.6	\$2,630.5	\$2,630.5	\$2,630.5	
Assumed Quarterly Mktg. Spending	\$594.2	\$732.2	\$661.9	\$642.2	
(B) 2ND Revised Mix Contingency	\$ --	\$30.0	\$39.3	\$114.9	\$184.2

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
QUARTERLY VOLUME AND IFO**

<u>VOLUME</u>	<u>1ST QTR.</u>	<u>2ND QTR.</u>	<u>3RD QTR.</u>	<u>4TH QTR.</u>	<u>TOTAL YEAR</u>
Units (Billions)	49.7	57.0	52.9	51.6	211.2
Change vs. 1994 O.B. (Billions)	2.3	5.0	0.6	2.2	10.1
% Change vs. 1993	12.4%	20.0%	1.5%	1.4%	8.5%

INCOME FROM OPERATIONS

Income From Operations (\$ in Millions)	\$768.8	\$857.9	\$796.1	\$662.2	\$3,085.0
Change vs. 1994 O.B. (\$ in Millions)	\$ --	\$65.6	\$12.4	(\$78.0)	\$ --
% Change vs. 1993	(24.5%)	25.0%	29.2%	35.9%	9.9%
IFO Per 1,000	\$15.47	\$15.05	\$15.05	\$12.83	\$14.61

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MOX: PRIORITY: REACTIVITY
TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
1994 SECOND REVISED FORECAST
TOTAL YEAR MIX

MIX ANALYSIS:	94 2ND REV	1993 ACTUAL	VARIANCE	1993 ACTUAL		MARGIN
	TOTAL YEAR	TOTAL YEAR		MIX	TOTAL YEAR	
	UNITS	UNITS		UNITS	MARGIN (1)	MIX \$ (2)
MARLBORO	129,725	107,931	21,794	12,825	39.7912	508,767
B&H	11,737	11,108	629	(294)	37.6430	(5,431)
MERIT	11,287	10,583	704	(175)	39.5324	(6,835)
VIRGINIA SLIMS	11,375	10,375	1,000	138	39.3050	5,311
PARLIAMENT	3,010	2,967	43	(204)	38.3173	(7,831)
OTHER PREMIUM	860	907	(47)	(122)	37.2745	(4,328)
CAMBRIDGE	8,455	8,569	(114)	(826)	23.6734	(19,393)
ALPINE	1,673	1,735	(62)	(206)	21.4029	(4,413)
BUCKS	158	210	(52)	(69)	17.8900	(1,242)
BRISTOL	890	1,194	(304)	(403)	18.8409	(7,513)
PLAYERS 25S	165	182	(17)	(32)	24.8811	(799)
PRIV LABEL	7,820	12,216	(4,396)	(5,411)	7.5349	(40,574)
AAV	664	1,091	(427)	(518)	6.4101	(3,318)
BASIC	22,301	24,280	(1,979)	(3,997)	12.8343	(50,866)
PROMOS	1,002	1,211	(209)	(310)	0.0000	0
CANADIAN	98	184	(86)	(101)	25.0777	(3,202)
T/F MILITARY	1,105	1,291	(186)	(293)	28.1817	(8,265)
SVC/SHIPPING COST DEVIATIONS						15,643
ONE TIME COSTS IN 1993						29,457
TOTAL MIX	212,325	196,034	16,291	0		\$395,167
<u>FORECAST %</u>						
MARLBORO	61.10%	55.06%	21,794	12,825		508,767
OTHER PREMIUM	18.07%	18.43%	2,243	(759)		(22,316)
TOTAL PREMIUM	79.17%	73.48%	24,037	12,066		486,451
FVB	4.00%	6.79%	(4,823)	(5,929)		(43,892)
BASIC	10.50%	12.39%	(1,979)	(3,997)		(50,866)
OTHER DISCOUNT	5.34%	6.07%	(549)	(1,537)		(33,361)
TOTAL DISCOUNT	19.84%	25.24%	(7,351)	(11,463)		(128,119)
PROMOS	0.47%	0.62%	(209)	(310)		0
T/F MILITARY	0.52%	0.66%	(186)	(293)		(8,265)
OTHER						45,100
TOTAL	100.00%	100.00%	16,291	0		395,167
<u>VOLUME</u>						
			16,291		32.6931	\$532,603

(1) PROMO UNITS HAVE BEEN EXCLUDED FROM MARGIN VALUES.

(2) ADJUSTED TO INCLUDE MIX IMPACT OF INDIVIDUAL BRANDS WITHIN EACH BRAND FAMILY.

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED FORECAST
PRICE ANNUALIZATION SUMMARY
(\$ Millions)

PRICING

Premium	(\$1,247.2)	
Branded Discount	(57.5)	
Basic	50.8	
Private Label/AAV	19.9	
Domestic Military	<u>(30.2)</u>	(\$1,264.2)

ALLOWANCE CHANGES

Basic	\$81.9	
Private Label	1.7	
AAV	1.6	
Domestic Military	<u>0.1</u>	\$85.3

OTHER

August, 1993 Buydown	\$210.4	
1994 Basic/Private Label Allowance Reductions	64.7	
Quarterly IMP's	28.4	
Returned Goods	16.9	
Other	<u>49.5</u>	<u>\$369.9</u>
TOTAL		<u><u>(\$809.0)</u></u>

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EE ANNUALIZATION P2R
TENTATIVE WORKING ESTIMATE

	LIP MORRIS U.S.A.					
	4 SECOND REVISED FORE			AST		
	UALIZATION VERSUS 1993 ACTU			L RESULTS		
	RICE/M	OL %	OTAL YR 994 UNITS	ISCOUNT	ILITARY DJUSTMENT	AL
REMIUM						
ARCH 15TH		%		60	7	
UGUST 9TH	\$19.65)	%		60	7	8.8)
UGUST 9TH KS INCR		%		60	7	
OVEMBER 15TH		%		6 60	7	
RANDED DISCOUNT						
ARCH 15TH		%	12	60	3	6
UGUST 9TH	\$13.25)	%	12	60	3	.7)
UGUST 9TH KS INCR	125	%	12	60	3	,
OVEMBER 15TH		%	12	60	3	
LAYERS 25'S						
ARCH 15TH		%		60	0	
UGUST 9TH	\$15.70)	%		60	0	4)
UGUST 9TH KS INCR		%		60	,0000	
OVEMBER 15TH		%		60	0	.
ASIC						
EB 15TH				60	6	0
EB 22ND		%		60	6	
AR 15TH		%		60	6	
AY 11TH		%		60	6	
UG 9TH	\$2.00)	%		60	6	.0)
UGUST 9TH KS INCR	125	%		60	6	
OVEMBER 15TH		%		60	6	
RIVATE LABEL						
EB 15TH		%		60	0	4
EB 22ND		524%		60	0	
AR 15TH		%		60	0	
AY 11TH		%		60	0	
UG 9TH	\$2.00)	%		60	0	.8)
UGUST 9TH KS INCR	125	%		60	0	
OVEMBER 15TH		%		60	0	
AV						
EB 15TH		%		60	1	1
EB 22ND		%		60	1	
AR 15TH		%		60	1	
PR 1ST	\$18.65)	%		60	1	9)
AY 11TH		%		60	1	
UG 9TH	\$2.00)	%		60	1	5)
UGUST 9TH KS INCR		%		60	1	
OVEMBER 15TH		%		60	1	

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PRICE ANNUALIZATION P2R
TENTATIVE WORKING ESTIMATE

DOMESTIC MILITARY

PREMIUM

AUG 9TH	(\$12.75)	61.56%	167.8	0.98750	0.0213	(27.7)
AUGUST 9TH KS INCR	\$1.25	61.56%	167.8	0.98750	0.0213	1.8

BRANDED DISCOUNT

AUG 9TH	(\$9.40)	67.23%	11.2	0.98750	0.0687	(4.8)
AUGUST 9TH KS INCR	\$1.25	67.23%	11.2	0.98750	0.0687	0.2

PLAYERS 25'S

AUG 9TH	(\$10.24)	66.67%	0.2	0.98750	--	--
AUGUST 9TH KS INCR	\$1.25	66.67%	0.2	0.98750	--	--

BASIC

SEP 1ST KS INCR	\$1.25	36.76%	22.3	0.98750	0.0404	0.2
-----------------	--------	--------	------	---------	--------	-----

AAV

SEP 1ST KS INCR	\$1.25	71.43%	0.7	0.98750	0.4819	0.1
-----------------	--------	--------	-----	---------	--------	-----

TAX FREE MILITARY

AAV

APR 5TH	\$2.00	25.74%	0.1	0.98750	1.0000	--
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GRAND TOTAL (1,264.2)

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ALL ANNUAL P2R
TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
1994 SECOND REVISED FORECAST
ANNUALIZATION VERSUS 1993 ACTUAL RESULTS

<u>ALLOWANCES</u>	PRICE/M	VOL %	TOTAL YR 1994 UNITS	DISCOUNT	MILITARY ADJUST	TOTAL
<u>BASIC</u>						
FEB 1ST	(\$3.50)	7.25%	22.3	1.00000	0.9596	(\$5.4)
FEB 8TH	(\$0.25)	7.84%	22.3	1.00000	0.9596	(0.4)
FEB 22ND	(\$1.25)	11.65%	22.3	1.00000	0.9596	(3.1)
APR 1ST	(\$3.75)	23.21%	22.3	1.00000	0.9596	(18.6)
JUL 1ST	\$3.75	52.22%	22.3	1.00000	0.9596	41.9
AUG 9TH	\$5.00	63.08%	22.3	1.00000	0.9596	67.5
<u>PRIVATE LABEL</u>						
FEB 1ST	(\$0.22)	8.40%	7.8	1.00000	1.0000	(\$0.1)
MAR 1ST	(\$1.17)	17.92%	7.8	1.00000	1.0000	(1.6)
APR 1ST	(\$3.66)	28.93%	7.8	1.00000	1.0000	(8.3)
MAY 1ST	(\$0.09)	39.04%	7.8	1.00000	1.0000	(0.3)
JUN 1ST	\$0.08	50.36%	7.8	1.00000	1.0000	0.3
JUL 1ST	\$3.24	62.71%	7.8	1.00000	1.0000	15.9
AUG 9TH	\$5.00	71.68%	7.8	1.00000	1.0000	28.0
AUG 9TH	(\$5.75)	71.68%	7.8	1.00000	1.0000	(32.2)
<u>AAV</u>						
APR 1ST	\$8.15	29.96%	0.7	1.00000	0.5181	\$0.8
MAY 1ST	\$1.25	39.83%	0.7	1.00000	0.5181	0.2
JUL 1ST	\$3.75	60.37%	0.7	1.00000	0.5181	0.8
AUG 9TH	\$5.00	73.69%	0.7	1.00000	0.5181	1.3
AUG 9TH	(\$5.75)	73.69%	0.7	1.00000	0.5181	(1.5)
<u>DOMESTIC MILITARY</u>						
<u>AAV</u>						
SEP 1ST	\$0.50	71.43%	0.7	1.00000	0.4819	\$0.1
2044913197						
GRAND TOTAL						\$85.3

PRICE ANNUAL OTHER
Tentative Working Estimate

11:30 AM 6/8/94

PHILIP MORRIS U.S.A.
1994 SECOND REVISED FORECAST
PRICE ANNUALIZATION OTHER DETAIL
(\$ Millions)

1993 AUGUST BUYDOWN	\$210.4
1994 BASIC/PRIVATE LABEL ALLOWANCE REDUCTIONS	64.7
QUARTERLY IMP'S	28.4
CREDIT MEMOS/ALLOWANCES	25.9
RETURNED GOODS	16.9
1994 DOMESTIC/TAX FREE MILITARY PRICE INCREASES	16.1
OTHER	7.5
TOTAL	<u>\$369.9</u>

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED FORECAST

	TRADE PROGRAM UNITS	REBATE \$/M	DAYS DATING	
<u>MARCH IMP:</u>				
1994	--	\$ --	--	\$ --
1993	10.0	\$1.36 a	30	20.2
				<u>\$20.2</u>
<u>JUNE IMP:</u>				
1994	--	\$ --	--	\$ --
1993	3.0	\$0.92 b	14	3.2
				<u>\$3.2</u>
<u>SEPTEMBER IMP:</u>				
1994	--	\$ --	--	\$ --
1993	4.0	\$0.98 c	18	5.0
				<u>\$5.0</u>
<u>DECEMBER IMP:</u>				
1994	--	\$ --	--	\$ --
1993	--	\$ --	--	--
				<u>\$0.0</u>
			TOTAL 1994	\$ --
			TOTAL 1993	28.4
				<u>\$28.4</u>

NOTES:

- a. Average-Rebate for the First Program was \$1.50 Premium and \$1.00 Branded Discount; Second Program was \$2.00 Premium and \$1.50 Branded Discount.
- b. Average-Rebate was \$1.00 for Premium and \$0.75 for Branded Discount.
- c. Average-Rebate was \$1.00 for Premium and \$0.80 for Branded Discount.

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
(\$ Millions)

	1994 SECOND REVISED	1993 ACTUAL	VARIANCE	EXPLANATIONS
MARGIN	\$6,557.5	\$6,503.7	\$53.8	\$532.6 VOLUME (211.2 VS 194.7) 395.2 MIX (PRIMARYLY DUE TO HIGHER MARLBORO SALES) (809.0) ANNUALIZATION OF 1993 PRICING, PARTIALLY OFFSET BY LOWER RETURNED GOODS AND ELIMINATION OF QUARTERLY IMP'S AND BASIC ALLOWANCES (65.0) LIFO (PRIMARYLY FET ACCOUNTING CHANGE IN 1993)
FIXED MANUFACTURING	449.1	392.5	(56.6)	\$83.4 PRODUCTIVITY (73.9) 1995 HOURLY SEPARATION PROGRAM (30.2) INVENTORY REVALUATION/ASSESSMENTS (10.0) EXTRUDER ASSET SETTLEMENT (15.4) OTHER FIXED ADJUSTMENTS (10.5) INFLATION
MARKETING	1,516.3	2,072.2	555.9	PRIMARYLY DUE TO ELIMINATION OF THE MARLBORO LEADERSHIP PROGRAM AND CONCLUSION OF MARLBORO ADVENTURE TEAM OFFSET BY MARLBORO COUNTRY STORE.
SALES	1,114.2	1,113.2	(1.0)	PRIMARYLY DUE TO LOWER RETAIL MASTERS PAYMENTS OFFSET BY INCREASED WHOLESALE MASTERS AND FLEX FUND PARTICIPATION.
CORPORATE AFFAIRS	120.7	68.2	(52.5)	(\$43.1) WORLDWIDE SCIENTIFIC AND LEGAL ISSUES (8.9) PRODUCTIVITY (2.7) INFLATION 2.2 SPENDING
G&A	97.1	69.2	(27.9)	(\$30.0) ABSORPTION OF IS OPERATING EXPENSE (3.0) 1993 LITIGATION ADJUSTMENT 16.1 CORPORATE, FIXED AND PMI ASSESSMENTS (3.4) PRODUCTIVITY (2.6) SALARIES AND BENEFITS (2.3) IS DEVELOPMENT COSTS (2.7) OTHER
R&D	79.7	82.1	2.4	\$8.5 PRODUCTIVITY (7.2) NEW BUSINESS DEVELOPMENT 2.1 PMI ASSESSMENT (1.0) INFLATION
PMI MARK-UP/OTHER	(88.8)	(101.4)	(12.6)	PRIMARYLY CREDIT INSURANCE FUND
MIX CONTINGENCY	184.2	--	(184.2)	
TOTAL	<u>\$3,085.0</u>	<u>\$2,807.7</u>	<u>\$277.3</u>	
PERCENT CHANGE TO 1993 ACTUAL			9.9%	

PHILIP MORRIS U.S.A.
1994 2ND REVISED VS 1994 ORIGINAL BUDGET
PRODUCTIVITY SAVINGS
(1994 \$'S - MILLIONS)

	1994 2ND REVISED	1994 ORG. BUD	DIFFERENCE
<u>MODERNIZATION/NEW TECHNOLOGY</u>			
Louisville Productivity Project	\$2.3	\$2.3	\$ --
TOTAL MODERNIZATION/NEW TECHNOLOGY	<u>\$2.3</u>	<u>\$2.3</u>	<u>\$ --</u>
<u>ECONOMIES OF SCALE</u>			
Production Overtime/Partial Days	(\$5.0)	\$7.4	(\$12.4)
Processing Plant Performance - Cigarettes	3.4	11.0	(7.6)
Processing Plant Performance - Tobacco	1.1	1.3	(0.2)
Fixed Volume	51.2	11.2	40.0
TOTAL ECONOMIES OF SCALE	<u>\$50.7</u>	<u>\$30.9</u>	<u>\$19.8</u>
<u>OPERATIONS IMPROVEMENTS</u>			
Leaf Yield, Material Waste & Utilization Improvements	\$11.9	\$11.9	\$ --
Manning Reductions	47.7	49.2	(1.5)
Equipment Scheduling	(11.3)	(14.7)	3.4
Purchasing Productivity Initiatives	33.7	25.4	8.3
Fixed Spending	23.6	20.4	3.2
Non-Production Overtime	4.5	6.6	(2.1)
Product Specifications	12.3	16.5	(4.2)
Bermuda Facility	8.6	8.6	--
Other	15.1	8.4	6.7
TOTAL OPERATIONS IMPROVEMENTS	<u>\$146.1</u>	<u>\$132.3</u>	<u>\$13.8</u>
<u>NEW INITIATIVES</u>			
Cabarrus Expansion	(\$2.5)	(\$3.0)	\$0.5
TOTAL NEW INITIATIVES	<u>(\$2.5)</u>	<u>(\$3.0)</u>	<u>\$0.5</u>
TOTAL PRODUCTIVITY SAVINGS	<u>\$196.6</u>	<u>\$162.5</u>	<u>\$34.1</u>

() Denotes Unfavorable

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
MARKETING PRODUCTIVITY NOTES
(\$ Millions)

	<u>1994</u> <u>2ND REV.</u>	<u>1994</u> <u>O.B.</u>	<u>VARIANCE,</u> <u>FAV/(UNFAV)</u>
<u>MEDIA</u>			
• Magazine Negotiations	\$1.3	\$1.3	\$ --
• Outdoor Re-plan	5.0	5.0	--
<u>FULFILLMENT</u>			
• Shipping and Handling	11.8	--	11.8
<u>DIRECT MAIL</u>			
• Third Class Postage	16.0	10.0	6.0
• Creative Control	3.0	3.0	--
<u>PRODUCTION</u>			
• Overtime	0.7	0.7	--
• Finished Comps	2.0	2.0	--
• Outdoor Standardization	1.0	1.0	--
• Development Work	1.0	1.0	--
<u>POS PROMOTION</u>			
• Standardization of POS (Production)	1.5	1.5	--
• Standardization of POS (Purchasing)	2.5	2.5	--
• Better Purchasing Practices/Information	3.0	3.0	--
<u>PROMOTION</u>			
• Better Purchasing Practices/Planning	10.0	10.0	--
• Use of Excess Premiums	4.0	4.0	--
TOTAL	<u>\$62.8</u>	<u>\$45.0</u>	<u>\$17.8</u>

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
SALES PRODUCTIVITY NOTES
(\$ Millions)

	1994 <u>2ND REV.</u>	1994 <u>O.B.</u>	<u>VARIANCE</u> <u>FAV/(UNFAV)</u>
FIXTURE OUTSOURCING	\$ --	\$7.9	(\$7.9) (A)
RETAIL MASTERS AND FLEX FUND	64.9	42.3	22.6 (B)
REDEPLOYMENT/DEPOT & OFFICE CONSOLIDATION	<u>11.0</u>	<u>8.0</u>	<u>3.0</u> (C)
TOTAL	<u>\$75.9</u>	<u>\$58.2</u>	<u>\$17.7</u>

- (A) Fixture outsourcing has been delayed until 1/1/95.
(B) More efficient implementation of Retail Masters Program.
(C) Redeployment ahead of schedule.

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
CORPORATE AFFAIRS PRODUCTIVITY NOTES
(\$ Millions)

	1994 <u>2ND REV.</u>	1994 <u>O.B.</u>	VARIANCE, <u>FAV/(UNFAV)</u>
TOBACCO INSTITUTE	\$9.6	\$11.1	(\$1.5)
LEGAL AND CONSULTANTS EXPENSE	2.0	2.0	--
REDUCTIONS IN TOUR PROGRAM AND REGIONAL OFFICE CLOSINGS	1.4	1.4	--
POLITICAL CONTRIBUTIONS	(3.1)	(3.1)	--
STATE EXCISE TAX INITIATIVES	(10.3)	(1.3)	(9.0)
PUBLIC AFFAIRS	(1.3)	(1.3)	--
OTHER	(3.2)	(3.1)	(0.1)
FET PROGRAM	(2.8)	(2.0)	(0.8)
SMOKERS ACCOMMODATION	<u>(1.2)</u>	<u>--</u>	<u>(1.2)</u>
TOTAL	<u>(\$8.9)</u>	<u>\$3.7</u>	<u>(\$12.6)</u>

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
G & A PRODUCTIVITY NOTES
(\$ Millions)

	<u>1994 2ND REV.</u>	<u>1994 Q.B.</u>	<u>VARIANCE, FAV/(UNFAV)</u>
SALARIES/BENEFITS	\$6.9	\$5.0	\$1.9
CONSULTANTS/PROFESSIONAL SERVICES	(3.4)	1.3	(4.7) (A)
FLEXIBLE BENEFITS PROJECT	(0.7)	(1.6)	0.9
I/S PROJECTS	(3.6)	(1.3)	(2.3) (B)
DEPRECIATION AND MAINTENANCE	(0.7)	(0.7)	--
OTHER	<u>(1.9)</u>	<u>(1.2)</u>	<u>(0.7)</u>
TOTAL	<u>(\$3.4)</u>	<u>\$1.5</u>	<u>(\$4.9)</u>

(A) Includes Bain Performance Management Study and additional I/S contract labor due to early headcount reductions.

(B) Includes the following:

• Purchasing - Business Requirements Study of Purchasing and AP, SAP Review, and Vendor E-Mail	(\$0.5)
• Finance - Primarily Chain Invoicing Rewrite and Automation of Salesmen's Expense and Section Office Checking	(1.4)
• Human Resources - Adding NY to Richmond Payroll, Outsourcing DPS, PC end-user support, and increase in other projects.	<u>(0.4)</u>
Total	<u>(\$2.3)</u>

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
R & D PRODUCTIVITY NOTES
(\$ Millions)

	1994 <u>2ND REV.</u>	1994 <u>O.B.</u>	<u>VARIANCE,</u> <u>FAV/(UNFAV)</u>
COST REDUCTIONS (PRIMARILY SALARIES/BENEFITS)	\$6.0	\$7.5	(\$1.5)
THIRD PARTY RESEARCH ACTIVITIES (CASE WESTERN, LIFE STYLE STUDIES & MEYER FRIEDMAN)	2.2	2.5	(0.3)
BIOLOGICAL TESTING (DELAY IN EXPENDITURES)	0.9	0.9	--
BANDED PAPERS (IGNITION PROPENSITY)	(1.6)	--	(1.6)
OTHER	<u>1.0</u>	<u>1.7</u>	<u>(0.7)</u>
TOTAL	<u>\$8.5</u>	<u>\$12.6</u>	<u>(\$4.1)</u>

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
INCREMENTAL PRODUCTIVITY SAVINGS
(\$ Millions)

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>CHANGE VS. 1994 O.B.</u>
<u>OPERATIONS</u>			
Modernization/New Technology	\$2.3	\$2.3	\$ --
Economies of Scale	50.7	30.9	19.8
Operations Improvements	146.1	132.3	13.8
New Initiatives	(2.5)	(3.0)	0.5
TOTAL OPERATIONS	<u>196.6</u>	<u>162.5</u>	<u>34.1</u>
<u>MARKETING</u>	62.8	45.0	17.8
<u>SALES</u>	75.9	58.2	17.7
<u>CORPORATE AFFAIRS</u>	(8.9)	3.7	(12.6)
<u>GENERAL & ADMINISTRATIVE</u>	(3.4)	1.5	(4.9)
<u>RESEARCH & DEVELOPMENT</u>	8.5	12.6	(4.1)
TOTAL PRODUCTIVITY	<u><u>\$331.5</u></u>	<u><u>\$283.5</u></u>	<u><u>\$48.0</u></u>

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**PRODUCT
CONTRIBUTION**

PHILIP MORRIS U.S.A.
1994 SECOND REVISED
PRODUCT CONTRIBUTION

1994 SECOND REVISED

Sales Units	Operating Revenue		Marginal Contribution		DME		Net Contribution	
MM	\$M	PER M	\$M	PER M	\$M	PER M	\$M	PER M
130,174	6,962.2	53.48	4,398.2	33.79	1,245.8	9.57	3,152.4	24.22
11,774	626.6	53.22	372.7	31.65	100.6	8.54	272.1	23.11
11,317	605.7	53.53	376.8	33.29	99.0	8.75	277.8	24.54
11,376	610.5	53.67	371.0	32.61	112.6	9.90	258.4	22.71
3,014	161.5	53.59	94.6	31.37	28.4	9.42	66.2	21.95
958	54.4	56.64	29.3	30.63	2.2	2.30	27.1	28.33
168,613	9,020.9	53.50	5,642.6	33.46	1,588.6	9.42	4,054.0	24.04
22,561	890.7	39.48	486.3	21.55	184.7	8.19	301.6	13.36
8,486	265.2	31.25	105.9	12.47	29.6	3.49	76.3	8.98
8,653	328.3	37.93	172.5	19.94	79.3	9.16	93.2	10.78
1,004	65.5	38.70	31.0	18.32	15.8	9.33	15.2	8.99
890	35.1	39.51	18.4	20.66	1.8	2.02	16.6	18.64
158	6.3	39.60	3.0	19.19	0.3	1.90	2.7	17.29
165	6.5	39.45	3.2	19.26	0.4	2.42	2.8	16.84
42,607	1,597.6	37.50	820.3	19.25	311.9	7.32	508.4	11.93
211,220	10,618.5	50.27	6,462.9	30.60	1,900.5	9.00	4,562.4	21.60
1,105	42.6	38.54	33.1	29.91	--	--	33.1	29.91
212,325	10,661.1	50.21	6,496.0	30.59	1,900.5	8.95	4,595.5	21.64

184.2 0.87
730.0 3.44
(61.5) (0.29)
449.1 2.12
120.7 0.57
97.1 0.46
79.7 0.38
(88.8) (0.44)
\$3,085.0 \$14.53

\$14.61

BRAND

Marlboro
Benson & Hedges 100's
Merit
Virginia Slims
Parliament
Other Premium

TOTAL PREMIUM

Basic
PL/AAV
Cambridge
Alpine
Bristol
Bucks
Players 25's

TOTAL DISCOUNT

TOTAL DOMESTIC
OVERSEAS MILITARY

TOTAL

Contingency
Indirect Marketing
Life/SVC/Ship Dev
Fixed Manufacturing
Corporate Affairs
General & Admin.
R&D
PMI Mark-Up/Other
INCOME FROM OPER.

INCOME FROM OPER. PER/M DOMESTIC UNITS

VARIANCE VS. 1994 ORIGINAL BUDGET

Sales Units	Operating Revenue		Marginal Contribution		DME		Net Contribution	
MM	\$M	PER M	\$M	PER M	\$M	PER M	\$M	PER M
11,292	640.7	0.31	409.1	0.23	(305.7)	(1.66)	103.4	(1.43)
564	32.1	0.19	18.5	0.05	(18.7)	(1.23)	(0.2)	(1.18)
657	35.4	0.03	22.7	0.07	(3.9)	0.17	18.8	0.24
916	50.9	0.17	31.3	0.14	(11.3)	(0.22)	20.0	(0.08)
(96)	(4.6)	0.18	(2.5)	0.15	(2.8)	(1.19)	(5.3)	(1.04)
(153)	(8.8)	(0.32)	(3.1)	1.43	0.5	0.13	(2.6)	1.56
13,180	745.7	0.26	476.0	0.22	(341.9)	(1.40)	134.1	(1.18)
(2,389)	(108.6)	(0.57)	(63.1)	(0.47)	49.9	1.21	(13.2)	0.74
(463)	(8.5)	0.67	0.5	0.70	9.4	0.87	9.9	1.57
173	5.1	(0.19)	4.3	0.11	7.4	1.06	11.7	1.17
(306)	(11.6)	0.13	(5.2)	0.22	1.3	(0.78)	(3.9)	(0.56)
(90)	(2.9)	0.72	(1.1)	0.72	1.1	0.94	--	1.66
(10)	(0.3)	0.24	(0.2)	0.24	0.1	0.48	(0.1)	0.72
5	0.4	1.24	0.3	1.26	(0.2)	(1.17)	0.1	0.09
(3,080)	(126.4)	(0.24)	(64.5)	(0.12)	69.0	1.02	4.5	0.90
10,100	619.3	0.55	411.5	0.51	(272.9)	(0.91)	138.6	(0.40)
--	(0.1)	(0.07)	(0.2)	(0.20)	--	--	(0.2)	(0.20)
10,100	619.2	0.55	411.3	0.50	(272.9)	(0.90)	138.4	(0.40)

(63.7) (0.27)
(32.8) --
25.3 0.11
(13.5) 0.03
(51.4) (0.23)
(2.9) 0.01
(5.6) (0.01)
6.2 0.03
\$ -- (\$0.73)

(\$0.73)

PHILIP MORRIS U.S.A.
1994 SECOND REVISED
PRODUCT CONTRIBUTION

1994 SECOND REVISED

Sales Units	Operating Revenue		Marginal Contribution		DME		Net Contribution	
MM	\$M	PER M	\$M	PER M	\$M	PER M	\$M	PER M
130,174	6,962.2	53.48	4,398.2	33.79	1,245.8	9.57	3,152.4	24.22
11,774	626.6	53.22	372.7	31.65	100.6	8.54	272.1	23.11
11,317	605.7	53.53	376.8	33.29	99.0	8.75	277.8	24.54
11,376	610.5	53.67	371.0	32.61	112.6	9.90	258.4	22.71
3,014	161.5	53.59	94.6	31.37	28.4	9.42	66.2	21.95
958	54.4	56.64	29.3	30.63	2.2	2.30	27.1	28.33
168,613	9,020.9	53.50	5,642.6	33.46	1,588.6	9.42	4,054.0	24.04
22,561	890.7	39.48	486.3	21.55	184.7	8.19	301.6	13.36
8,486	265.2	31.25	105.9	12.47	29.6	3.49	76.3	8.98
8,653	328.3	37.93	172.5	19.94	79.3	9.16	93.2	10.78
1,094	65.5	38.70	31.0	18.32	15.8	9.33	15.2	8.99
890	35.1	39.51	18.4	20.66	1.8	2.02	16.6	18.64
158	6.3	39.60	3.0	19.19	0.3	1.90	2.7	17.29
165	6.5	39.45	3.2	19.26	0.4	2.42	2.8	16.84
42,607	1,597.6	37.50	820.3	19.25	311.9	7.32	508.4	11.93
211,220	10,618.5	50.27	6,462.9	30.60	1,900.5	9.00	4,562.4	21.60
1,105	42.6	38.54	33.1	29.91	--	--	33.1	29.91
212,325	10,661.1	50.21	6,496.0	30.59	1,900.5	8.95	4,595.5	21.64

184.2	0.87
730.0	3.44
(61.5)	(0.29)
449.1	2.12
120.7	0.57
97.1	0.46
79.7	0.38
(88.8)	(0.44)
<u>\$3,085.0</u>	<u>\$14.53</u>

\$14.61

BRAND

Marlboro
Benson & Hedges 100's
Merit
Virginia Slims
Parliament
Other Premium
TOTAL PREMIUM
Basic
PL/AAV
Cambridge
Alpine
Bristol
Bucks
Players 25's
TOTAL DISCOUNT
TOTAL DOMESTIC
OVERSEAS MILITARY
TOTAL

Contingency
Indirect Marketing
Lifo/SVC/Ship Dev
Fixed Manufacturing
Corporate Affairs
General & Admin.
R&D
PMI Mark-Up/Other
INCOME FROM OPER.

INCOME FROM OPER. PER/M DOMESTIC UNITS

VARIANCE VS. 1993 ACTUAL

Sales Units	Operating Revenue		Marginal Contribution		DME		Net Contribution	
MM	\$M	PER M	\$M	PER M	\$M	PER M	\$M	PER M
21,703	554.3	(5.60)	103.5	(5.81)	556.4	7.03	659.9	1.22
408	(32.6)	(4.78)	(45.4)	(5.14)	7.0	0.92	(38.4)	(4.22)
734	(26.5)	(6.20)	(41.6)	(6.24)	(1.8)	0.42	(43.4)	(5.82)
955	(15.2)	(6.37)	(36.8)	(6.52)	11.5	2.03	(25.3)	(4.49)
27	(16.8)	(6.11)	(19.1)	(6.70)	(0.8)	(0.19)	(19.9)	(6.89)
(134)	(14.2)	(6.18)	(9.2)	(4.63)	4.9	4.24	(4.3)	(0.39)
23,693	449.0	(5.65)	(48.6)	(5.81)	577.2	5.54	528.6	(0.27)
(1,815)	128.9	8.23	174.7	8.77	(26.3)	(1.69)	148.4	7.08
(4,866)	(86.0)	4.95	6.8	5.05	14.7	(0.17)	21.5	4.88
(89)	(32.3)	(3.32)	(30.4)	(3.27)	64.5	7.29	34.1	4.02
(72)	(7.5)	(2.62)	(6.2)	(2.70)	11.0	5.84	4.8	3.14
(304)	(9.6)	2.09	(4.1)	1.83	(5.5)	(5.10)	(9.6)	(3.27)
(52)	(1.6)	1.96	(0.8)	1.30	(0.6)	(3.40)	(1.4)	(2.10)
(17)	(1.6)	(5.28)	(1.3)	(5.60)	0.1	0.26	(1.2)	(5.34)
(7,215)	(9.7)	5.24	138.7	5.57	57.9	0.11	196.6	5.68
16,478	439.3	(2.00)	90.1	(2.12)	635.1	4.02	725.2	1.90
(187)	(5.0)	1.59	(3.2)	1.72	3.1	2.42	(0.1)	4.14
16,291	434.3	(1.96)	86.9	(2.11)	638.2	4.02	725.1	1.91

(184.2)	(0.87)
(83.3)	(0.14)
(33.1)	(0.19)
(56.6)	(0.12)
(52.5)	(0.22)
(27.9)	(0.11)
2.4	0.04
(12.6)	(0.08)
<u>\$277.3</u>	<u>\$0.22</u>

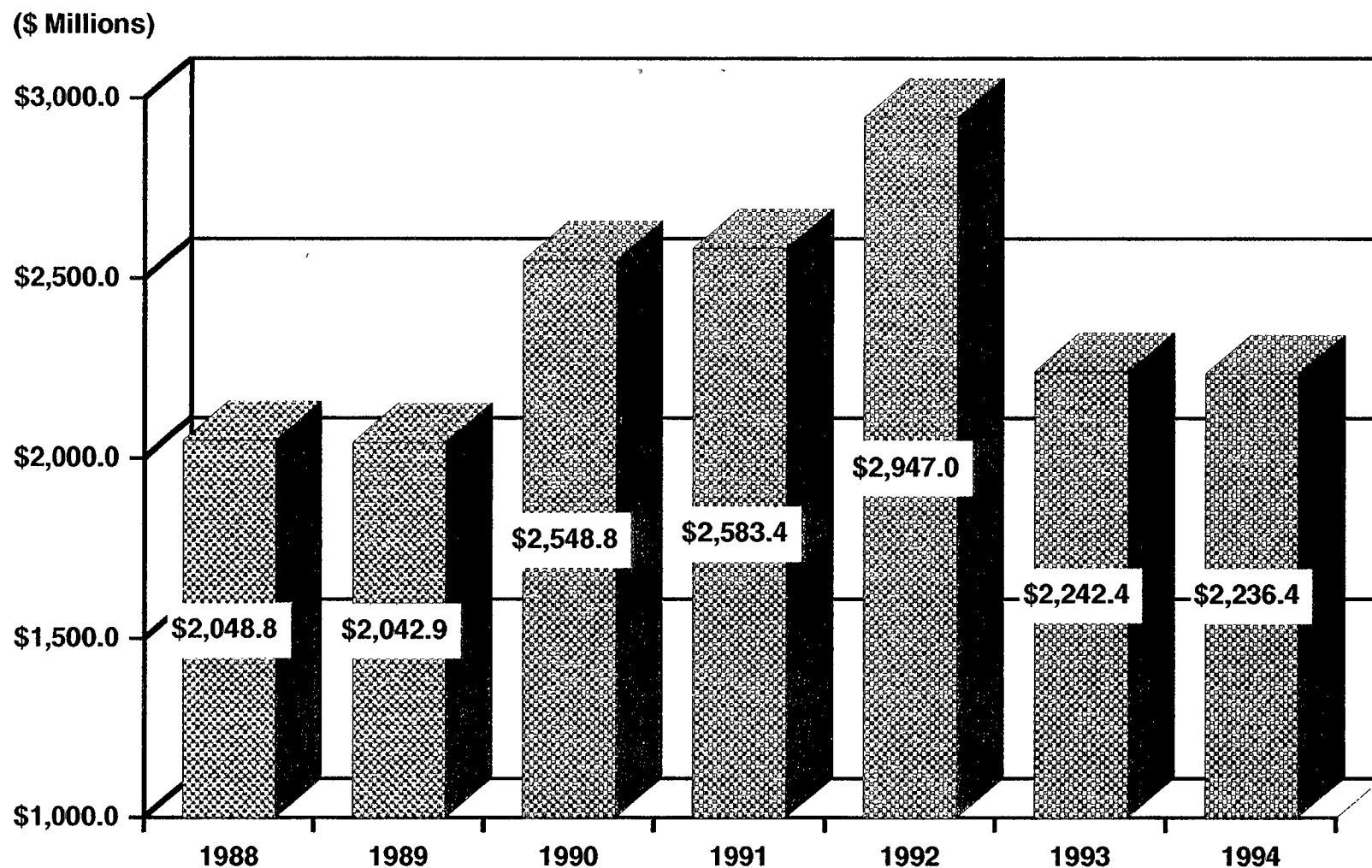
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**CASH FLOW/
BALANCE SHEET**

PM-USA CASH FLOW



Note: 1994 Second Revised Cash Flow is \$100 million more than 1994 O. B. Cash Flow.

**SECOND
REVISED**

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
BALANCE SHEET ACCOUNT ASSUMPTIONS**

	1994 SECOND REVISED	CHANGE VS. 1994 O.B.	CHANGE VS. 1993 ACTUAL
<u>ACCOUNTS RECEIVABLE</u>			
EPP %	78%	--	--
Units In Receivables (Billions)	1.7	Down .5 Bil.	Down .5 Bil.
<u>FINISHED GOODS</u>			
Billion Units	16.0	--	Down 1.3 Bil.
<u>LEAF INVENTORY DURATIONS</u>			
Bright - Domestic	22.4 Months	--	Down 7.7 Months
- Offshore	20.9 Months	Down 2.0 Months	Down 10.0 Months
Burley - Domestic	23.5 Months	--	Down 1.7 Months
- Offshore	21.7 Months	--	Down 6.8 Months
Oriental	21.8 Months	--	Down 6.6 Months
<u>DIRECT MATERIALS DURATIONS</u>	23.7 Days	--	Down .9 Days
<u>OPERATING SUPPLIES DURATIONS</u>	14.2 Months	--	Down 1.2 Months
<u>CAPITAL SPENDING</u>	\$231.6	Down \$28.7 million	Up \$5.9 million

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED VS. ORIGINAL BUDGET
CASH FLOW
(\$ Millions)

		<u>EXPLANATION</u>
<u>1994 ORIGINAL BUDGET CASH FLOW</u>	\$2,136.4	
Accounts Receivable	22.6	Lower December units due to elimination of IMP
Leaf Inventory	36.6	Primarily due to higher 1994 unit volume, combined with favorable domestic burley and oriental prices and ULT processing costs
LIFO	(27.4)	Primarily due to favorable burley prices and ULT processing costs
Capital	28.7	Primarily timing of New Business Development project and Capacity Consolidation project
Accounts Payable & Accrued Liabilities	84.0	Primarily due to Marlboro Country Store and Wholesale Masters
Income Taxes Payable	(30.8)	State income taxes - (\$25.2); Deferred taxes - (\$5.6)
Other	<u>(13.7)</u>	
<u>1994 SECOND REVISED CASH FLOW</u>	<u>\$2,236.4</u>	
<u>CHANGE VS. ORIGINAL BUDGET</u>	<u>\$100.0</u>	

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
CASH FLOW RISK ASSESSMENT
(\$Millions)**

PROS

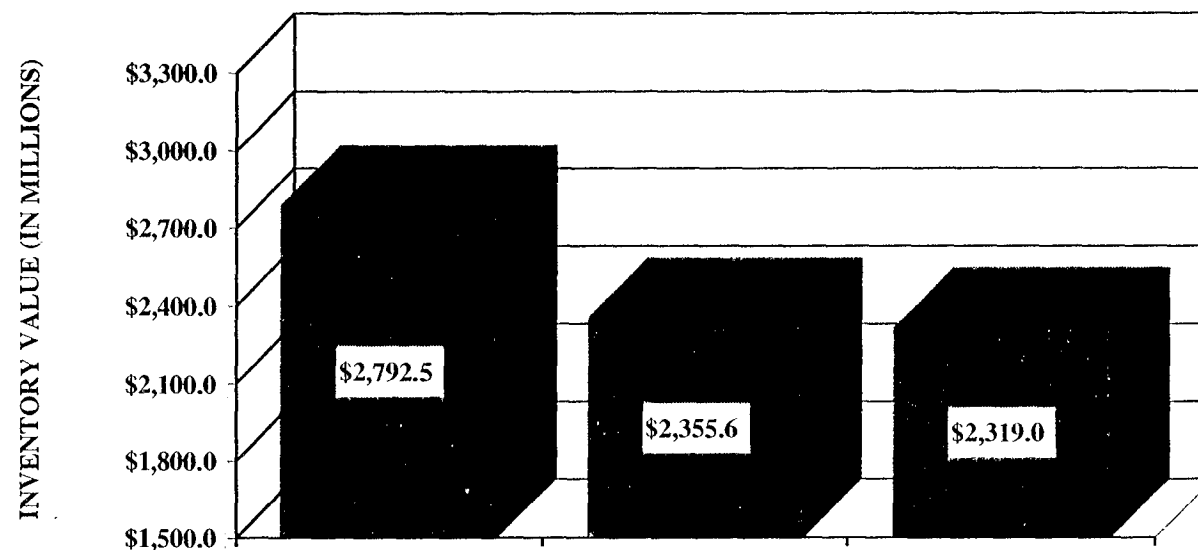
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|-----------------------|-------|--|
| • Leaf Financing | \$260 | Assumes financing for all 1994 burley crop purchases |
| • Accrued Liabilities | \$50 | Higher year end accruals due to timing of marketing programs |
| • Capital | \$20 | Timing of spending |

CONS

- | | | |
|-----------------------|--------|--|
| • Accounts Receivable | (\$52) | One billion unit increase due to timing of shipments |
| • Leaf Inventory | (\$50) | Acceleration of 1995 purchases to take advantage of buying opportunities |
| • Finished Goods | (\$9) | One billion unit increase due to timing of shipments |

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
YEAR END LEAF INVENTORIES**



DURATION : MONTHS (12/31)		1993 ACTUAL	1994 ORIGINAL BUDGET	1994 SECOND REVISED
DOMESTIC BRIGHT	- POLICY	23.4	23.4	23.4
	- ACTUAL	30.1	22.4	22.4
DOMESTIC BURLEY	- POLICY	24.8	24.8	24.8
	- ACTUAL	25.2	23.5	23.5
ORIENTAL	- POLICY	22.1	22.1	22.1
	- ACTUAL	28.4	21.8	21.8
OFFSHORE BRIGHT	- POLICY	18.0	18.0	18.0
	- ACTUAL	30.9	22.9	20.9
OFFSHORE BURLEY	- POLICY	18.0	18.0	18.0
	- ACTUAL	28.5	21.7	21.7

NOTE: DURATIONS CALCULATED ON A LEAF YEAR BASIS

PROJECT DESCRIPTIONS

Cabarrus Manufacturing Expansion

The \$118.9 million reflects continuation of work on the building, existing Primary modifications, and make/pack equipment purchases. We are purchasing six (6) Protos 2/Focke 700 modules for this capacity increase. Production startup remains on schedule for 4th Quarter 1994. Once current plans are complete, Cabarrus incremental capacity will be 21 billion units, bringing total capacity to 106 billion. The project includes capitalized interest.

Capacity Consolidation

This \$12.5 million funds the first year of a three year effort to prepare for a three plant manufacturing scenario, which will eliminate the need for the Stockton Street factory by January 1, 1996. To support this initiative, improvements to Primary flexibility will be made, including the installation of non-DBC silos and conveying equipment, re-feed lines for IS and ET, total casing, equipment and ripper shorts add back. Relocating existing equipment and purchasing new equipment will prepare the Plug Room and Cigarette Manufacturing for the production of Parliament brands. This project will also appropriate funds for the modernization of Bay 5, which will replace 24 modules currently operating in Bay 5 at 5000 CPM with 16 modules operating at 8000 CPM. This project provides labor savings of approximately 196 positions, reduces annual parts usage, avoids machine care costs, improves flexibility, and provides the opportunity to provide Mark 9 makers to PMI. Reduced spending in 1994 is primarily due to timing of the expenditures. Total spending for this project through 1996 is projected to be \$73.4 million, and the project has a preliminary ROI of 38.5%.

M/C Primary Projects

The \$6.8 million essentially completes the projects to modernize M/C Primary Processing. Areas of completion during 1994 are the Direct Cylinder Conditioning, Preblend, and Capacity Increase projects.

MSI Initiatives

The \$3.1 million for Manufacturing Systems Integration (MSI) Initiatives includes the completion of Factory Scheduling and IMPACT (SAP for Operations and Finance), as well as the following projects: MAST (Maintenance Management, Stockroom Management, and Troublecall Systems), Direct Materials Warehouse Management Software for Richmond and Louisville, and Input Technologies for Richmond and Louisville (electronic data interchange, advance ship notice and radio frequency bar coding). The reduced spending in 1994 is due to lower software costs on the Direct Materials Warehouse project and timing of the other projects.

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PROJECT DESCRIPTIONS

Parliament Round Corner

The \$4.3 million will provide machinery capability to run Parliament cigarettes in a round corner pack for Japan. Total spending through 1996 is projected to be \$14.8 million, which will provide 3 packers. The other 5 packers to be used will come from previously appropriated equipment.

Pack Insert Capability

The \$2.5 million will begin the purchase and installation of Minnesota Automation coupon applicators on carton-wrappers running domestic brands. The carton-wrappers will be pre-staged to accommodate these coupon applicators (to be installed as needed) including G.D. 4350's, C-600's, Focke's, and SASIB Delta carton-wrappers. The preliminary project scope will allow for machine movements as coupon programs deem necessary. The 1994 spending reduction is due to timing of expenditures. Total spending through 1995 is projected to be \$10.2 million.

Merchandising Fixtures (OPM's)

The \$20 million will fund Sales plans to continue replacing old overhead pack merchandisers (OPM's) and installing new ones, needed to implement the Retail Masters program and ensure our presence in retail outlets.

Marketing/Sales Systems

The \$12.0 million constitutes a series of systems projects, including Demand Forecasting (product demand by public warehouse for Market Research), Promotion Planning (promotion development and tracking management system), Retail Direct Marketing (micro-merchandising system for Retail Direct Marketing), Genesis (Distribution and Inventory systems initiative), and Direct Marketing (decision support for Sales and Marketing).

New Business Development

The \$9.0 million completes phase I of an R&D effort to develop a new product, as well as providing pre-funding for the commercialization of this product. Spending reductions in 1994 primarily reflect that the capacity for initial commercialization does not require purchasing land or constructing a new facility. Total spending for this project through 1997 is projected to be \$84.1 million, which includes development work and 8 billion unit capacity.

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Tentative Working Estimate
94r20hr.xls

OTHER
1994 Second Revised Forecast vs 1994 Original Budget
(\$ in Millions)

	1994 Second Revised	1994 Original Budget	(Increase)/ Decrease
Emergency Control Center - HR	\$2.1	\$2.5	\$0.4
Upgrade F/G Conveyor - M/C	2.1	0.6	(1.5)
Moving Orifice Device Prototype - R&D	2.0	--	(2.0)
Automatic Case Packing & Handling - Lvl	1.3	2.5	1.2
Bay 5 Cut Filler Storage - M/C	1.2	1.3	0.1
Dist/Sect Office Network Upgrade - Sales	1.0	1.0	--
Automatic Cigarette Handling - Lvl	0.9	3.5	2.6
Cabarrus Network Upgrade	0.8	1.1	0.3
Mfg Filters to RTD - M/C	0.5	1.0	0.5
Building 30 Expansion - Sales	--	1.5	1.5
Project Steed - MTS	--	1.5	1.5
"E" Level Projects	20.7	18.2	(2.5)
Forecast Deviation	--	(6.7)	(6.7)
All Other Projects (< \$1 Million in 1994 - OB or	9.8	6.4	(3.4)
Total Other From Regular Page	\$42.4	\$34.4	(\$8.0)

**MANUFACTURING CENTER
PRIMARY PROJECTS**

	1994 Second Revised	1994 Original Budget	(Increase)/ Decrease
Primary Mod. - 140 Billion	\$0.2	\$0.2	--
Primary Mod. - Repl/Upgr/Preblend	4.1	4.1	--
Vacuum Conditioner Upgrade/DCC	1.8	1.8	--
Flavor Room Upgrade	0.5	0.5	--
Emissions Controls	0.2	0.2	--
TOTAL PRIMARY PROJECTS	\$6.8	\$6.8	--

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED VS. 1994 ORIGINAL BUDGET
CAPITAL SPENDING
(\$ in Millions)

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>(INCREASE)/ DECREASE</u>
CABARRUS MANUFACTURING EXPANSION	\$118.9	\$118.5	(\$0.4)
CAPACITY CONSOLIDATION	12.5	20.4	7.9
M/C PRIMARY PROJECTS	6.8	6.8	--
MSI INITIATIVES	3.1	8.5	5.4
PARLIAMENT ROUND CORNER	4.3	--	(4.3)
PACK INSERT CAPABILITY	2.5	12.0	9.5
MERCHANDISING FIXTURES	20.0	20.0	--
MARKETING/SALES SYSTEMS	12.0	12.7	0.7
OTHER	<u>42.4</u>	<u>34.4</u>	<u>(8.0)</u>
TOTAL PM U.S.A.	<u>\$222.5</u>	<u>\$233.3</u>	<u>\$10.8</u>
NEW BUSINESS DEVELOPMENT	9.1	27.0	17.9

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NOTE-1994 2RF VS 1994 OB
TENTATIVE WORKING ESTIMATE

BALANCE SHEET
CHANGES IN ASSETS AND LIABILITIES
1994 SECOND REVISED VS. 1994 O.B.

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1

INCREASE/ (DECREASE)	CHANGE IN ASSETS	1994 SECOND REV.	1994 O.B.
(\$22.6)	RECEIVABLES		
	UNITS (billions)	1.7	2.2
	EPP%	78%	78%
	PRICE/M	\$52.25	\$52.25
	PROGRAM UNITS (billions)	--	--
	TOTAL PM USA DEC. VOLUME (billions)	17.3	20.7
(36.6)	Leaf - primarily due to higher 1994 unit volume coupled with favorable domestic burley and oriental prices and ULT processing costs		
(2.0)	Other Inventories-Raw Materials (\$1.0), Operating Supplies (\$1.0)		
27.4	LIFO		
	8.8 Leaf		
	5.5 domestic burley prices		
	3.3 offshore burley volume		
	5.7 Domestic finished goods variable deviations		
	2.6 International finished goods cost and deviations		
	2.6 Materials variable deviations		
	3.8 ULT stemming and extruding savings-new negotiated contract		
	3.9 Other		
10.8	Prepaid Expenses		
	10.8 Deferred taxes - primarily addition of non-pension benefits for 1994 Separation Programs and addition to short-term strategic reserve (from long-term) due to earlier equipment moves and retraining activities (1995 vs. 1996.)		
(34.0)	Property, plant & equipment		
	(28.7) Reduction in capital spending due to timing of New Business Development project and Capacity Consolidation project		
	(9.2) Additional disposals, primarily faster write off of 20th St. and LPF		
	3.9 Change in depreciation forecast.		
20.8	Other Long Term Assets		
	21.2 Deferred taxes - Addition of non-pension benefits for 1994 Separation Programs and retirement allocation from PMM.		
	(0.4) Other		
<u>(\$36.2)</u>	TOTAL CHANGES IN ASSETS		

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BALANCE SHEET
CHANGES IN ASSETS AND LIABILITIES
1994 SECOND REVISED VS. 1994 O.B.
(continued)

CHANGE IN LIABILITIES

2.0	Accounts payable & accrued liabilities
	Increase in marketing accruals-primarily Marlboro Country Store and Wholesale Masters
	13.8 Non-pension benefits related to the 1994 Separation Programs-Richmond
	Hourly and Field Sales Force.
	.7 Net increase in current portion of Strategic Reserves accrual (from long-term) due to
	revised projection of equipment movements and retraining activities occurring in
	1995 vs. 1996.
	.5 Other
24.9)	State income taxes payable - higher estimated payments based on higher taxable income.
.5	Other Liabilities
	6) Reclassification of long-term strategic reserve to short-term due to change in
	projected timing of spending (I.e. 1995 vs. 1996)
	Non-pension benefits related to the 1994 Separation Programs-Richmond
	Hourly and Field Sales Force.
\$71.6	TOTAL CHANGES IN LIABILITIES

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TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
1994 SECOND REVISED
BALANCE SHEET
(\$ in Millions)

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>VARIANCE INC/(DEC)</u>
<u>ASSETS:</u>			
CASH	\$3.1	\$3.1	--
RECEIVABLES	102.1	124.7	(22.6)
INVENTORIES:			
LEAF	2,319.0	2,355.6	(36.6)
FINISHED GOODS	195.8	195.8	--
OTHER INVENTORIES	188.5	190.5	(2.0)
LIFO RESERVE	(854.1)	(881.5)	27.4
TOTAL INVENTORIES	\$1,849.2	\$1,860.4	(\$11.2)
PREPAID EXPENSES	522.2	511.4	10.8
TOTAL CURRENT ASSETS	\$2,476.6	\$2,499.6	(\$23.0)
PROPERTY, PLANT & EQUIPMENT (NET)	1,705.6	1,739.6	(34.0)
OTHER LONG TERM ASSETS	388.5	367.7	20.8
TOTAL P.M. U.S.A. ASSETS	\$4,570.7	\$4,606.9	(\$36.2)
<u>LIABILITIES:</u>			
CURRENT PORTION OF LONG TERM DEBT	\$1.3	\$1.3	--
ACCOUNTS PAYABLE & ACCRUED LIABILITIES	1,314.0	1,222.0	92.0
FEDERAL & STATE INCOME TAXES	59.6	84.5	(24.9)
TOTAL CURRENT LIABILITIES	\$1,374.9	\$1,307.8	\$67.1
LONG TERM DEBT	308.0	308.0	--
OTHER LIABILITIES	1,001.2	996.7	4.5
TOTAL P.M. U.S.A. LIABILITIES	\$2,684.1	\$2,612.5	\$71.6
NET ASSETS INVESTED IN THE BUSINESS	\$1,886.6	\$1,994.4	(\$107.8)
TOTAL LIABILITIES AND EQUITY	\$4,570.7	\$4,606.9	(\$36.2)

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HEADCOUNT

PHILIP MORRIS U. S. A.
1994 SECOND REVISED
HEADCOUNT DETAIL

	1991 <u>ACTUAL</u>	1992 <u>ACTUAL</u>	1993 <u>ACTUAL</u>	1994 <u>SECOND REVISED</u>	CHANGE VS. ORIGINAL <u>BUDGET</u>
SALARIED					
OPERATIONS	3,282	2,985	2,661	2,516	12
G&A /R&D	2,194	2,081	1,849	1,797	30*
MARKETING/SALES (1)	4,523	4,038	3,756	3,558	--
TOTAL SALARY	9,999	9,104	8,266	7,871	18*
HOURLY	10,202	9,908	8,770	7,619	115
TOTAL SALARIED AND HOURLY	<u>20,201</u>	<u>19,012</u>	<u>17,036</u>	<u>15,490</u>	<u>97</u>
SALARIED PRODUCTIVITY					
OPERATIONS / BILLION PRODUCTION	10.0	9.0	8.6	7.7	
MARKETING AND SALES / BILLION SALES	20.3	18.7	19.2	16.9	
TOTAL SALARY / BILLION SALES	40.1	37.3	37.4	33.2	
HOURLY PRODUCTIVITY					
CUMULATIVE SAVING IN 1994 \$ (THOUSAND)		\$19,417	\$94,575	\$170,592	
HOURLY WORKERS PER BILLION PRODUCTION	31.1	29.7	28.5	23.4	

(1) INCLUDES PART-TIME

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942NDTW&CW
TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
TOTAL HOURLY

12:17 PM

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994 SECOND REVISED</u>	<u>VARIANCE VS ORIG.BUD.</u>
TOBACCO WORKERS	8,770	8,521	7,430	6,333	107
CRAFT WORKERS	1,432	1,387	1,340	1,286	8
TOTAL	<u>10,202</u>	<u>9,908</u>	<u>8,770</u>	<u>7,619</u>	<u>115</u>

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942NDTWHUNT
TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
TOBACCO WORKERS

6/9/94
12:19 PM

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994 SECOND REVISED</u>	<u>VARIANCE VS ORIG.BUD.</u>
MFG. CTR.	3,066	2,962	2,821	2,633	107
STOCKTON STREET	1,992	1,769	1,556	833	75
LOUISVILLE	1,754	1,690	1,373	1,327	142*
CABARRUS	948	926	912	892	-
20TH STREET 1X5	-	148	-	-	-
PMF	76	-	-	-	-
TOTAL CIGT. PLANTS	<u>7,836</u>	<u>7,495</u>	<u>6,662</u>	<u>5,685</u>	<u>40</u>
PROCESSING PLANTS	852	945	684	569	65
MFG. TECHNICAL SUPPORT	1	1	1	1	-
OTHER	81	80	83	78	2
TOTAL	<u>8,770</u>	<u>8,521</u>	<u>7,430</u>	<u>6,333</u>	<u>107</u>

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942NDTWHUNT
TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
TOBACCO WORKERS

6/9/94
12:19 PM

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994 SECOND REVISED</u>	<u>VARIANCE VS ORIG.BUD.</u>
PROCESSING PLANTS:					
CAB ET	64	64	64	61	-
PARK 500	242	237	233	180	55
BL PLANT	104	103	99	75	-
20TH ST.	72	59	1	-	-
LMCP	60	59	49	52	-
LSPP	47	47	40	40	-
BERMUDA 100	17	37	36	-	-
M/C ET	79	79	78	75	6
M/C EXP. BAGGING	-	-	-	-	-
WESTAB EXP. BAGGING	17	15	15	12	3
DMCP	-	-	-	-	-
FLAVOR CTR.	8	8	8	8	-
LPF	142	237	61	66	1
TOTAL	<u>852</u>	<u>945</u>	<u>684</u>	<u>569</u>	<u>65</u>

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942NDTWHUNT
TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
TOBACCO WORKERS

6/9/94
12:19 PM

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994 SECOND REVISED</u>	<u>VARIANCE VS ORIG.BUD.</u>
OTHER:					
CAB - LEAF	12	13	13	13	-
LVL - LEAF	16	15	16	16	-
TQAF - LEAF	11	9	9	9	-
LEAF - MAURY/P500	24	24	24	22	2
R&D	6	6	6	6	-
QA	-	-	-	-	-
HR	1	1	1	1	-
DISTRIBUTION	11	12	14	11	-
TOTAL	<u>81</u>	<u>80</u>	<u>83</u>	<u>78</u>	<u>2</u>

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942NDCWHUNT
TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
CRAFT WORKERS

6/9/94
12:18 PM

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994 SECOND REVISED</u>	<u>VARIANCE VS ORIG.BUD.</u>
MFG. CTR.	256	255	252	252	3
STOCKTON STREET	89	90	88	77	3
LOUISVILLE	444	423	420	408	7*
CABARRUS	261	258	275	283	-
PMF	12	-	-	-	-
TOTAL CIGT. PLANTS	<u>1,062</u>	<u>1,026</u>	<u>1,035</u>	<u>1,020</u>	<u>1*</u>
PROCESSING PLANTS	236	241	208	168	7
MFG. TECHNICAL SUPPORT	100	97	74	75	2
COLONIAL HEIGHTS PKG.	10	-	-	-	-
OTHER(R&D)	24	23	23	23	-
TOTAL	<u>1,432</u>	<u>1,387</u>	<u>1,340</u>	<u>1,286</u>	<u>8</u>

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942NDCWHUNT
TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
CRAFT WORKERS

6/9/94
12:18 PM

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994 SECOND REVISED</u>	<u>VARIANCE VS ORIG.BUD.</u>
PROCESSING PLANTS:					
CAB ET	9	10	9	10	-
PARK 500	113	113	122	108	5
BL PLANT	28	24	24	21	3
20TH ST.	27	27	15	-	-
LMCP	14	13	13	13	-
LSPP	2	2	2	2	-
BERMUDA 100	8	18	1	-	-
LPF	35	34	22	14	1*
TOTAL	<u>236</u>	<u>241</u>	<u>208</u>	<u>168</u>	<u>7</u>

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PHILIP MORRIS U.S.A.
GENERAL AND ADMINISTRATIVE BUDGETED HEADCOUNT

	1991 ACTUAL	1992 ACTUAL	1993 ACTUAL	1994 SECOND REVISED	VARIANCE TO ORIGINAL BUDGET
NEW YORK EXECUTIVE	22	17	16	17	--
FINANCE	374	358	337	330	--
INFORMATION SERVICES	514	514	443	406	--
NEW YORK PURCHASING	23	23	23	28	(5)
HUMAN RESOURCES	505	464	425	411	1
TOTAL G & A	1,438	1,376	1,244	1,192	(4)
CORPORATE AND WORLDWIDE AFFAIRS	101	91	83	97	(16)
RESEARCH & DEVELOPMENT	655	614	522	508	(10)
GRAND TOTAL	2,194	2,081	1,849	1,797	(30)

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SALARIED HEADCOUNT CHANGES
 BUDGETED POSITIONS
 OPERATIONS

SALARIED HEADCOUNT CHANGES
 BUDGETED POSITIONS
 GENERAL AND ADMINISTRATIVE

=	3,278		989	=		
		Manufacturing Center				
2)		Lockton Street				inance (Administrative Assistant, Director of Administration,
4		Louisville-Reorganization				Project Administrator, Bermuda Project Accountant)
		abarrus		3)		S - Programmers for PM Asia
1)		Processing Plants		6		/R
4)		Bermuda		16)		ther
2		ella				
		Engineering	990	=	14	
9)		Manufacturing Other				
66)		ther			23)	US (Supply Chain, Cabarrus Expansion, Louisville Plant
						Modernization)
=	3,239				5)	Finance (New York Financial Analysts & Accounts Payable,
						abarrus Expansion Project Accountant)
11)		Supply Chain				New York Executive (Beane, Resnik & 2 Secretaries)
7)		abarrus Expansion			1)	ther
5		ther				
			991	=		
=	3,282					
					8	Human Resources (Security 20, Executive Support 12, Other 6)
97		Manufacturing 72, Engineering 35, Manufacturing Services			5	Finance
		6, Leaf 9, Other 135			27	Information Services
						Corporate Affairs
=	2,985				1	ther
70		Manufacturing 266, Manufacturing Tech Support 146, Other (42)	992	=		
=	2,715				2	inance
					6	Information Services
99		Lockton St. 67, Processing 69 (Includes Bermuda 42),			9	Human Resources
		Commitment 48, Manufacturing Tech Support 15				Corporate Affairs
					20)	ther
=	2,516					
			993	=		
()--INCREASE					8)	Corporate Affairs / Worldwide Regulatory
					3)	New York Executive & New York Purchasing
					8	Finance
					2	Information Services
					4	Human Resources
68 6770			994	=		
			()--INCREASE			

SALARIED HEADCOUNT CHANGES
BUDGETED POSITIONS
SALES AND MARKETING

1989 = 4,068

(45) Part-Time Personnel
(13) Other
(50) Field Force
(32) Marketing:
(8) POS Warehouse

1990 = 4,216

(322) Part-Time Personnel
8 Other
7 NYO Sales

1991 = 4,523

(45) Field Force
369 Part-Time Personnel
11 Marketing
146 Other
4 NYO Sales

1992 = 4,038

(92) Part-Time Personnel
(136) Other
34 Field Force

1993 = 4,232

133 Part-Time
541 Sales reps (increased calls) 342, Merchandising reps(outsourcing of fixture installations) 261, Accounts managers (sales reps no longer have account responsibility (76), Other 14

1994 = 3,558

() = INCREASE

SALARIED HEADCOUNT CHANGES
BUDGETED POSITIONS
RESEARCH AND DEVELOPMENT

1989 = 655

(6) R&D - Product Development
10 Other

1990 = 651

(4) Other

1991 = 655

52 Reduction due to restructuring
(11) Other

1992 = 614

88 Reduction due to restructuring (VSP)
5 Other

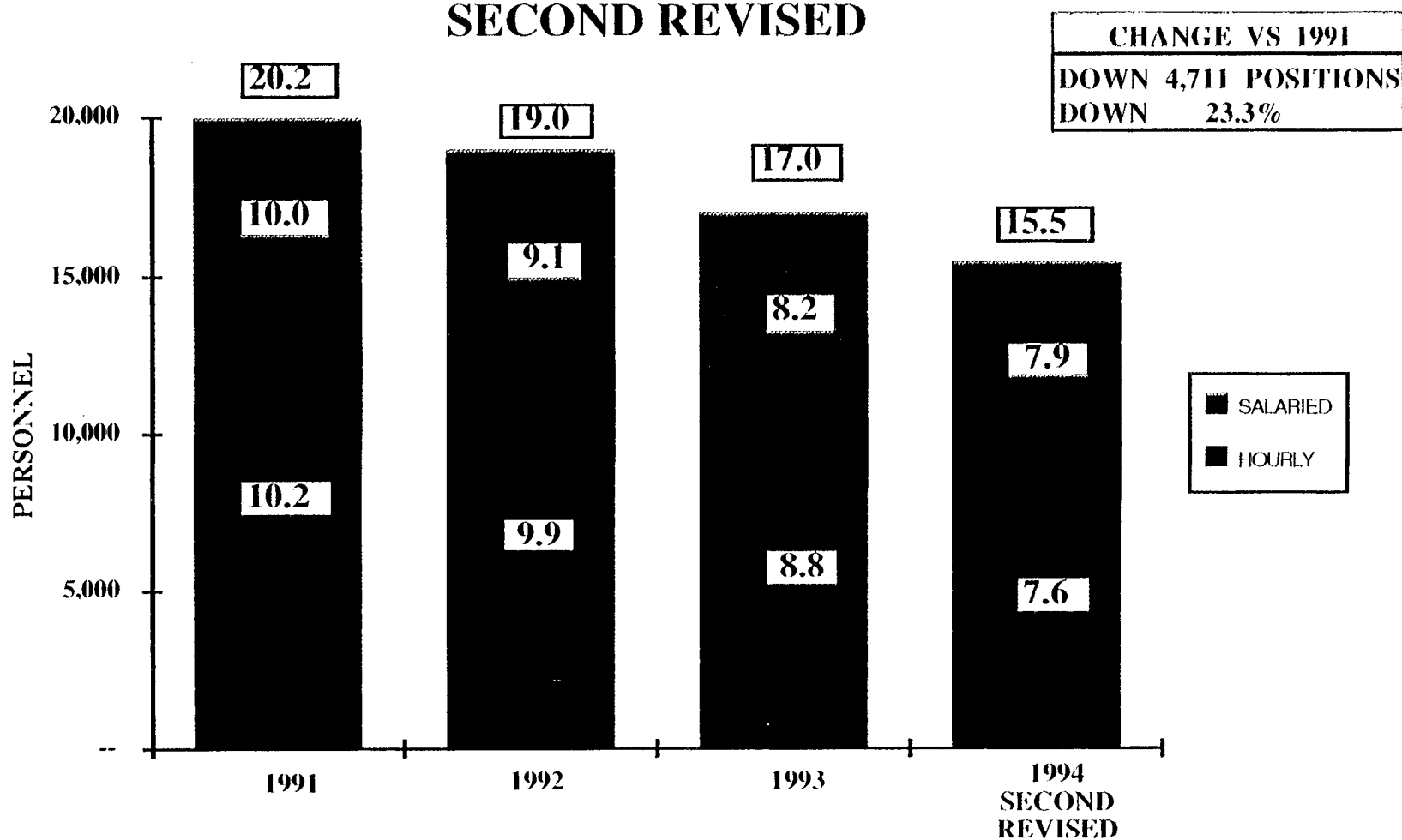
1993 = 521

27 Reduction due to restructuring
(14) New Business Development

1994 = 508

() = INCREASE

TOTAL PM-USA HEADCOUNT SECOND REVISED



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PHILIP MORRIS U. S. A.
1994 SECOND REVISED VS. ORIGINAL BUDGET
HEADCOUNT EXPLANATIONS

CHANGE
1994 2RF VS.
1994 OB

SALARY

CORPORATE AND WORLDWIDE
AFFAIRS

(16) WORLDWIDE REGULATORY (OVERSEAS POSITIONS) - (5), NEW SCIENTIFIC
AND LEGAL ISSUES GROUP - (11).

GENERAL AND ADMINISTRATIVE

NEW YORK PURCHASING (5) ADDITIONAL STAFFING DUE TO INCREASE IN NUMBER AND COMPLEXITY OF
MARKETING PROMOTIONS.

HUMAN RESOURCES 1 VICE PRESIDENT RETIRING

OPERATIONS

12 ADDITIONAL COMMITMENT

RESEARCH & DEVELOPMENT

(10) NEW BUSINESS DEVELOPMENT

TOTAL SALARIED

(18)

HOURLY

MANUFACTURING CENTER 110 PRIMARILY NEGOTIATED MANNING CONCESSIONS

STOCKTON STREET 78 PRIMARILY NEGOTIATED MANNING CONCESSIONS

LOUISVILLE (149) DELAY IN VSP

PARK 500 60 LINE ONE SHUTDOWN

OTHER 16

TOTAL HOURLY

115

() = INCREASE

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
HEADCOUNT RESTATEMENTS**

SALARY RESTATEMENTS

<u>FUNCTION</u>	<u>1994 OB RESTATED</u>	<u>1994 OB PRESENTED</u>	<u>EXPLANATION OF CHANGE</u>
Marketing	150	149	1 TRANSFER FROM CORP AFFAIRS
Sales	3,148	3,153	(6) MERCHANDISING AUDIT GROUP TO FINANCE 1 TRANSFER FROM OPERATIONS TO OVERSEE OFFSITE WAREHOUSE OPERATIONS
Finance	330	324	6 MERCHANDISING AUDIT GROUP FROM SALES
Operations	2,528	2,534	(1) TRANSFER TO R&D (CONSOLATIONS OF PROCESSING MODELING ACTIVITIES) (1) PURCHASING TO PM PRODUCTS (3) LEAF TO PM PRODUCTS (1) TRANSFER TO SALES TO OVERSEE OFFSITE WAREHOUSE OPERATIONS
R&D	498	497	1 TRANSFER FROM OPERATIONS (CONSOLATIONS OF PROCESSING MODELING ACTIVITIES)
Corporate & Worldwide Regulatory Affairs	81	82	(1) TRANSFER TO MARKETING

HOURLY RESTATEMENTS IN ORIGINAL BUDGET

VARIABLE SEASONAL PERSONAL IN THE ORIENTAL OPERATION	53
LOUISVILLE TOBACCO WORKERS	(199)
TOTAL	<u>(146)</u>

() = DECREASE

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
SALARIED AND HOURLY HEADCOUNT

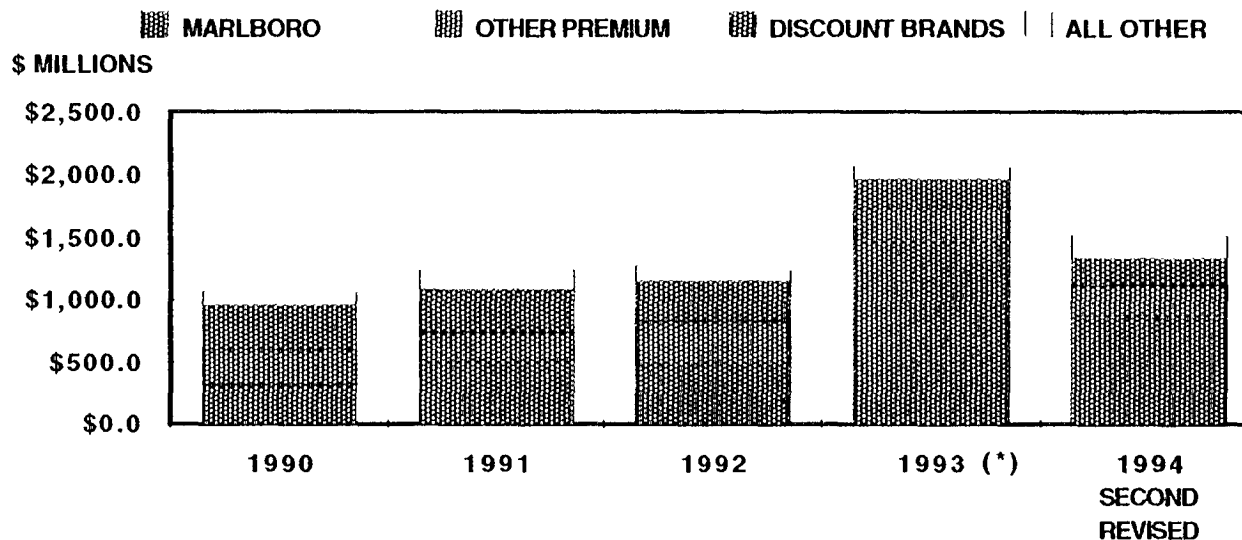
	1994 SECOND REVISED	CHANGE VS. ORIGINAL BUDGET	CHANGE VS. YEAR - END 1993 DECREASE/(INCREASE)	ACTUAL APRIL
<u>MARKETING</u>	150	--	(6)	148
<u>SALES</u>				
SALES FORCE AND ADMINISTRATIVE	3,148	--	373	3,334
SALES - PART TIME (FTE)	260	--	(169)	61
TOTAL SALES	3,408	--	204	3,395
<u>CORPORATE AND WORLDWIDE AFFAIRS</u>	97	(16)	(14)	84
<u>GENERAL AND ADMINISTRATIVE</u>				
NEW YORK EXECUTIVE	17	--	(1)	17
FINANCE	330	--	7	325
INFORMATION SERVICES	406	--	37	397
NEW YORK PURCHASING	28	(5)	(5)	24
HUMAN RESOURCES	411	1	14	405
TOTAL G&A	1,192	(4)	52	1,168
<u>OPERATIONS</u>	2,516	12	145	2,581
<u>RESEARCH & DEVELOPMENT</u>	508	(10)	14	522
 TOTAL PM USA SALARIED PERSONNEL	 7,871	 (18)	 395	 7,898
 TOTAL PM USA HOURLY PERSONNEL	 7,619	 115	 1,151	 8,676
 GRAND TOTAL SALARIED AND HOURLY PERSONNEL	 15,490	 97	 1,546	 16,574

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MARKETING

PHILIP MORRIS U.S.A. FIVE YEAR MARKETING SPENDING



						VARIANCE VS. 1994 OB
MARLBORO	\$311.9	\$511.9	\$488.1	\$1,480.2	\$864.3	\$294.3
OTHER PREMIUM	\$289.6	\$232.0	\$344.2	\$261.5	\$253.3	\$36.5
DISCOUNT BRANDS	\$352.1	\$338.0	\$319.4	\$222.7	\$217.7	(\$40.8)
ALL OTHER (**)	\$116.7	\$160.1	\$128.0	\$107.8	\$181.0	\$15.7
TOTAL	\$1,070.3	\$1,242.0	\$1,279.7	\$2,072.2	\$1,516.3	\$305.7
% CHANGE	31.3%	16.0%	3.0%	61.9%	(26.8%)	25.3%

(*) INCLUDES MARLBORO LEADERSHIP PROGRAM - \$519.7 MILLION

(**) 1994 2ND REV INCLUDES A \$66.2 MILLION PRICE PROMOTION RESERVE

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1994 SECOND REVISED
MARKETING SPENDING
(\$ MILLIONS)

	1994 SECOND <u>REVISED</u>	1994 ORIGINAL <u>BUDGET</u>	VARIANCE <u>FAV/(UNFAV)</u>	<u>EXPLANATIONS</u>
MARLBORO	\$864.3	\$570.0	(\$294.3)	(\$128.1) ADVENTURE TEAM (150.0) COUNTRY STORE (16.2) OTHER PROMOTIONS
PREMIUM	253.3	216.8	(\$36.5)	(21.8) 3Q & 4Q ADVERTISING - B&H (5.7) 4Q MEDIA - MERIT / VS / PARL (9.0) PROMOTIONS
DISCOUNT	217.7	258.5	\$40.8	33.2 BASIC PRICE RESERVE 7.6 COUPON CREDITS / OTHER
OTHER MARKETING	181.0	165.3	(\$15.7)	(5.7) PRICE PROMO RESERVE (10.0) NEW PROD / RESEARCH / OTHER
TOTAL MARKETING	<u>\$1,516.3</u>	<u>\$1,210.6</u>	<u>(\$305.7)</u>	

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1994 SECOND REVISED
MARKETING SPENDING
(\$ MILLIONS)

	1994 SECOND <u>REVISED</u>	1994 ORIGINAL <u>BUDGET</u>	VARIANCE <u>FAV/(UNFAV)</u>
MARLBORO	\$864.3	\$570.0	(\$294.3)
BENSON & HEDGES	\$72.1	\$53.5	(\$18.6)
MERIT	73.0	68.8	(4.2)
VIRGINIA SLIMS	86.5	76.0	(10.5)
PARLIAMENT	21.7	18.5	(3.2)
SUBTOTAL- PREMIUM	\$253.3	\$216.8	(\$36.5)
CAMBRIDGE	\$59.1	\$63.9	4.8
ALPINE	12.0	13.0	1.0
BASIC	136.0	171.0	35.0
FVB	10.6	10.6	--
SUBTOTAL- DISCOUNT	\$217.7	\$258.5	\$40.8
TOTAL BRAND SPENDING	\$1,335.3	\$1,045.3	(\$290.0)
NEW PRODUCTS	\$10.0	\$5.0	(5.0)
DIRECT MKTG- DATABASE	17.5	17.5	--
MARKETING SERVICES	19.7	18.1	(1.6)
RESEARCH	28.3	24.8	(3.5)
ADMINISTRATION	24.7	24.1	(0.6)
I.S. DEVELOP/SUPPORT	5.0	5.0	--
PRICE PROMO RESERVE	66.2	60.5	(5.7)
J. MORGAN RESERVE	9.6	10.3	0.7
TOTAL MARKETING	\$1,516.3	\$1,210.6	(\$305.7)

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**1994 SECOND REVISED
BRAND SPENDING BY MAJOR AREA**

	<u>ADVERT</u>	<u>EVENTS</u>	<u>RETAIL PROMOS</u>	<u>COUPONS</u>	<u>DIRECT MKTG</u>	<u>POS MATL</u>	<u>OTHER</u>	<u>TOTAL</u>	1994 <u>O.B.</u>
MARLBORO	\$136.6	\$31.4	\$603.9	(\$4.0)	\$68.7	\$25.2	\$2.5	\$864.3	\$570.0
BENSON & HEDGES	\$39.6	\$0.6	\$7.3	(\$2.5)	\$25.0	\$1.0	\$1.1	\$72.1	\$53.5
MERIT	29.2	1.9	11.6	4.6	23.0	1.7	1.0	73.0	68.8
VIRGINIA SLIMS	31.8	10.4	12.2	6.5	23.2	1.4	1.0	86.5	76.0
PARLIAMENT	<u>12.0</u>	<u>2.4</u>	<u>2.6</u>	<u>0.3</u>	<u>3.9</u>	<u>0.4</u>	<u>0.1</u>	<u>21.7</u>	<u>18.5</u>
TOTAL PREMIUM	\$112.6	\$15.3	\$33.7	\$8.9	\$75.1	\$4.5	\$3.2	\$253.3	\$216.8
CAMBRIDGE	\$4.2	\$0.0	\$39.0	\$1.4	\$12.6	\$1.9	\$0.0	\$59.1	\$63.9
ALPINE	2.2	0.0	1.7	4.8	3.3	0.0	0.0	12.0	13.0
BASIC	33.9	0.0	82.5	5.7	6.6	4.0	3.3	136.0	171.0
FVB	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>10.6</u>	<u>10.6</u>	<u>10.6</u>
TOTAL DISCOUNT	\$40.3	\$0.0	\$123.2	\$11.9	\$22.5	\$5.9	\$13.9	\$217.7	\$258.5
TOTAL BRAND	\$289.5	\$46.7	\$760.8	\$16.8	\$166.3	\$35.6	\$19.6	\$1,335.3	\$1,045.3
1994 O.B.	\$270.0	\$46.6	\$437.6	\$96.4	\$125.1	\$45.4	\$24.2	\$1,045.3	

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1994 SECOND REVISED
BRAND SPENDING
(\$ MILLIONS)

	<u>1ST</u> <u>HALF</u>	<u>2ND</u> <u>HALF (*)</u>	<u>TOTAL</u> <u>YEAR</u>
<u>ADVERTISING</u>			
MARLBORO	\$73.7	\$62.9	\$136.6
PREMIUM	51.3	61.3	112.6
DISCOUNT	19.7	20.6	40.3
SUBTOTAL- ADVERTISING	144.7	144.8	289.5
<u>EVENTS</u>			
MARLBORO	13.5	17.9	31.4
PREMIUM	5.6	9.7	15.3
SUBTOTAL- EVENTS	19.1	27.6	46.7
<u>RETAIL PROMOTIONS</u>			
<u>INCENTIVES</u>			
MARLBORO	231.1	336.0	567.1
PREMIUM	17.9	11.1	29.0
DISCOUNT	22.4	35.6	58.0
<u>PRODUCT</u>			
MARLBORO	20.1	16.7	36.8
PREMIUM	2.6	--	2.6
DISCOUNT	17.4	26.9	44.3
<u>PRICE</u>			
PREMIUM	--	2.1	2.1
DISCOUNT	11.2	9.7	20.9
SUBTOTAL- RETAIL	\$322.7	\$438.1	\$760.8

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1994 SECOND REVISED
BRAND SPENDING
(\$ MILLIONS)

	<u>1ST HALF</u>	<u>2ND HALF (*)</u>	<u>TOTAL YEAR</u>
<u>COUPONING</u>			
MARLBORO	--	(\$4.0)	(\$4.0)
PREMIUM	6.3	2.6	8.9
DISCOUNT	12.8	(0.9)	11.9
SUBTOTAL- COUPONING	<u>\$19.1</u>	<u>(\$2.3)</u>	<u>\$16.8</u>
<u>DIRECT MAIL</u>			
MARLBORO	41.0	27.7	68.7
PREMIUM	36.6	38.5	75.1
DISCOUNT	10.9	11.6	22.5
SUBTOTAL- DIRECT	<u>88.5</u>	<u>77.8</u>	<u>166.3</u>
<u>POS / OTHER</u>			
MARLBORO	15.1	12.6	27.7
PREMIUM	3.5	4.2	7.7
DISCOUNT	11.5	8.3	19.8
SUBTOTAL- POS	<u>30.1</u>	<u>25.1</u>	<u>55.2</u>
<u>BRAND SPENDING</u>			
MARLBORO	394.5	469.8	864.3
PREMIUM	123.8	129.5	253.3
DISCOUNT	105.9	111.8	217.7
TOTAL BRAND SPENDING	<u><u>\$624.2</u></u>	<u><u>\$711.1</u></u>	<u><u>\$1,335.3</u></u>

(*) 2ND HALF SPENDING IS NET OF PRIOR YEAR CREDITS- MARLBORO- \$10 MM
 PREMIUM- \$7 MM, DISCOUNT- \$10 MM

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MARLBORO

	<u>FIRST HALF 1994</u>		<u>SECOND HALF 1994</u>	
	<u>\$(MM)</u>	<u>ACTIVITY</u>	<u>\$(MM)</u>	<u>ACTIVITY</u>
ADVERTISING				
MEDIA: PRINT	\$26.4	6 MONTHS	\$19.6	6 MONTHS
MEDIA: OUTDOOR	27.2	6 MONTHS	27.3	6 MONTHS
MEDIA: STADIA	3.8	6 MONTHS	3.8	6 MONTHS
MEDIA: PRODUCTION	16.4	6 MONTHS	12.1	6 MONTHS
TOTAL ADVERTISING	\$73.7		\$62.9	
EVENTS	\$13.5	3 MONTHS	\$17.9	4 MONTHS
RETAIL PROMOTIONS				
PRICE	\$0.0	N/A	\$0.0	N/A
PRODUCT	20.1	4 MONTHS	16.7	2 MONTHS
INCENTIVE	231.1	6 MONTHS	336.0	6 MONTHS
TOTAL RETAIL PROMOTIONS	\$251.3		\$352.6	
COUPONING				
PRIOR YEAR CREDITS			(\$4.0)	
TOTAL COUPONING	\$0.0		(\$4.0)	
DIRECT MAIL	\$41.0	5 MONTHS	\$27.8	6 MONTHS
POS & ARTWORK	\$12.7	6 MONTHS	\$12.5	6 MONTHS
OTHER	\$6.1	6 MONTHS	\$6.1	6 MONTHS
MADDEN/KELLY/PROMO CODES	(3.7)		(6.0)	
TOTAL OTHER	\$2.4		\$0.1	
TOTAL BRAND SPENDING	\$394.5		\$469.8	
COMBINED TOTAL	\$864.3			

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**1994 SECOND REVISED
PREMIUM BRAND SPENDING
(\$ MILLIONS)**

	<u>1ST HALF</u>	<u>2ND HALF (*)</u>	<u>TOTAL YEAR</u>
<u>ADVERTISING</u>			
BENSON & HEDGES	\$15.4	\$24.2	\$39.6
MERIT	15.5	13.7	29.2
VIRGINIA SLIMS	14.7	17.1	31.8
PARLIAMENT	5.7	6.3	12.0
SUBTOTAL- ADVERTISING	51.3	61.3	112.6
<u>EVENTS</u>			
BENSON & HEDGES	--	0.6	0.6
MERIT	--	1.9	1.9
VIRGINIA SLIMS	4.2	6.2	10.4
PARLIAMENT	1.4	1.0	2.4
SUBTOTAL- EVENTS	5.6	9.7	15.3
<u>RETAIL PROMOTIONS</u>			
<u>INCENTIVES</u>			
BENSON & HEDGES	2.0	0.9	2.9
MERIT	6.8	4.8	11.6
VIRGINIA SLIMS	8.1	4.1	12.2
PARLIAMENT	1.0	1.3	2.3
<u>PRODUCT</u>			
BENSON & HEDGES	2.3	--	2.3
PARLIAMENT	0.3	--	0.3
<u>PRICE</u>			
BENSON & HEDGES	--	2.1	2.1
SUBTOTAL- RETAIL	\$20.5	\$13.2	\$33.7

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**1994 SECOND REVISED
PREMIUM BRAND SPENDING
(\$ MILLIONS)**

	1ST HALF	2ND HALF (*)	TOTAL YEAR
<u>COUPONING- MEDIA</u>			
BENSON & HEDGES	\$0.4	(\$2.9)	(\$2.5)
MERIT	3.7	0.9	4.6
VIRGINIA SLIMS	2.2	4.3	6.5
PARLIAMENT	--	0.3	0.3
SUBTOTAL- COUPONING	6.3	2.6	8.9
<u>DIRECT MAIL</u>			
BENSON & HEDGES	10.8	14.2	25.0
MERIT	9.8	13.2	23.0
VIRGINIA SLIMS	13.1	10.1	23.2
PARLIAMENT	2.9	1.0	3.9
SUBTOTAL- DIRECT	36.6	38.5	75.1
<u>POS / OTHER</u>			
BENSON & HEDGES	1.5	0.6	2.1
MERIT	1.1	1.6	2.7
VIRGINIA SLIMS	0.7	1.7	2.4
PARLIAMENT	0.2	0.3	0.5
SUBTOTAL- POS	3.5	4.2	7.7
<u>BRAND SPENDING</u>			
BENSON & HEDGES	32.4	39.7	72.1
MERIT	36.9	36.1	73.0
VIRGINIA SLIMS	43.0	43.5	86.5
PARLIAMENT	11.5	10.2	21.7
TOTAL PREMIUM BRANDS	\$123.8	\$129.5	\$253.3

(*) 2ND HALF SPENDING IS NET OF PRIOR YEAR COUPON CREDITS- B&H-
\$4 MM, MERIT- \$1 MM, V SLIMS- \$2 MM

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BENSON & HEDGES

	<u>FIRST HALF 1994</u>		<u>SECOND HALF 1994</u>	
	<u>\$(MM)</u>	<u>ACTIVITY</u>	<u>\$(MM)</u>	<u>ACTIVITY</u>
ADVERTISING				
PRINT MEDIA	10.9	3 MONTHS	13.3	6 MONTHS
OOH	2.5	5 MONTHS	8.8	5 MONTHS
PRODUCTION	2.0		2.1	
TOTAL ADVERTISING	15.4	5 MONTHS	24.2	6 MONTHS
EVENTS	0.0		0.6	
RETAIL PROMOTIONS				
PRICE	0.0		2.1	3 MONTHS
PRODUCT	2.3	2 MONTHS	0.0	
INCENTIVE	2.0	2 MONTHS	0.9	1 MONTH
TOTAL RETAIL PROMOTIONS	4.3	2 MONTHS	3.0	3 MONTHS
COUPONING				
FSI	0.4	1 MONTH		
CATALINA	0.0		1.1	2 MONTHS
PRIOR YR CREDITS	0.0		(4.0)	
TOTAL COUPONING	0.4	1 MONTH	(2.9)	2 MONTHS
DIRECT MAIL	10.8	3 MONTHS	14.2	3 MONTHS
POS/OTHER	1.5		0.6	
TOTAL BRAND SPENDING	32.4		39.7	
COMBINED TOTAL	72.1			

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MERIT

	<u>FIRST HALF 1994</u>		<u>SECOND HALF 1994</u>	
	<u>\$(MM)</u>	<u>ACTIVITY</u>	<u>\$(MM)</u>	<u>ACTIVITY</u>
PRINT MEDIA	10.1	6 MONTHS	9.7	5 MONTHS
OOH	3.9	4 MONTHS	2.5	4 MONTHS
PRODUCTION	1.5		1.5	
TOTAL ADVERTISING	15.5	6 MONTHS	13.7	5 MONTHS
EVENTS	0.0		1.9	2 MONTHS
RETAIL PROMOTIONS				
PRICE	0.0		0.0	
PRODUCT	0.0		0.0	
INCENTIVE	6.8	4 MONTHS	4.8	4 MONTHS
TOTAL RETAIL PROMOTIONS	6.8	4 MONTHS	4.8	4 MONTHS
COUPONING				
FSI	3.2	3 MONTHS	1.9	2 MONTHS
CATALINA	0.5	2 MONTHS	0.0	
PRIOR YEAR CREDITS			(1.0)	
TOTAL COUPONING	3.7	3 MONTHS	0.9	2 MONTHS
DIRECT MAIL	9.8	2 MONTHS	13.2	5 MONTHS
POS/OTHER	1.1		1.6	
TOTAL BRAND SPENDING	36.9		36.1	
COMBINED TOTAL	73.0			

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VIRGINIA SLIMS

	<u>FIRST HALF 1994</u>		<u>SECOND HALF 1994</u>	
	<u>\$(MM)</u>	<u>ACTIVITY</u>	<u>\$(MM)</u>	<u>ACTIVITY</u>
PRINT MEDIA	8.4	6 MONTHS	10.1	6 MONTHS
OOH	3.8	2 MONTHS	4.5	2 MONTHS
PRODUCTION	2.5		2.5	
TOTAL ADVERTISING	14.7	6 MONTHS	17.1	6 MONTHS
EVENTS	4.2		6.2	
RETAIL PROMOTIONS				
PRICE	0.0		0.0	
PRODUCT	0.0		0.0	
INCENTIVE	8.1	4 MONTHS	4.1	3 MONTHS
TOTAL RETAIL PROMOTIONS	8.1	4 MONTHS	4.1	3 MONTHS
COUPONING				
FSI	1.8	4 MONTHS	5.8	3 MONTHS
CATALINA	0.4	2 MONTHS	0.5	2 MONTHS
PRIOR YR CREDITS			(2.0)	
TOTAL COUPONING	2.2	3 MONTHS	4.3	4 MONTHS
DIRECT MAIL	13.1	3 MONTHS	10.1	4 MONTHS
POS/OTHER	0.7		1.7	
TOTAL BRAND SPENDING	43.0		43.5	
COMBINED TOTAL	86.5			

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PARLIAMENT

	<u>FIRST HALF 1994</u>		<u>SECOND HALF 1994</u>	
	<u>\$(MM)</u>	<u>ACTIVITY</u>	<u>\$(MM)</u>	<u>ACTIVITY</u>
PRINT MEDIA	1.7	5 MONTHS	3.5	6 MONTHS
OOH	2.8	4 MONTHS	2.1	3 MONTHS
PRODUCTION	1.2		0.7	
TOTAL ADVERTISING	5.7		6.3	
EVENTS	1.4	3 MONTHS	1.0	2 MONTHS
RETAIL PROMOTIONS				
PRICE				
PRODUCT	0.3	1 MONTH		
INCENTIVE	1.0	3 MONTHS	1.3	2 MONTHS
TOTAL RETAIL PROMOTIONS	1.3		1.3	
COUPONING				
FSI			0.3	1 MONTH
TOTAL COUPONING	0.0		0.3	
DIRECT MAIL	2.9	3 MONTHS	1.1	2 MONTHS
MERCH PAYMENTS	0.0		0.0	
POS/OTHER	0.2		0.3	
TOTAL BRAND SPENDING	11.5		10.2	
COMBINED TOTAL	21.7			

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1994 SECOND REVISED
DISCOUNT BRAND SPENDING
 (\$ MILLIONS)

	1ST <u>HALF</u>	2ND <u>HALF (*)</u>	TOTAL <u>YEAR</u>
<u>ADVERTISING</u>			
CAMBRIDGE	\$1.1	\$3.1	\$4.2
ALPINE	1.2	1.0	2.2
BASIC	17.4	16.5	33.9
SUBTOTAL- ADVERTISING	19.7	20.6	40.3
<u>RETAIL PROMOTIONS</u>			
<u>INCENTIVES</u>			
CAMBRIDGE	5.6	12.9	18.5
ALPINE	--	0.6	0.6
BASIC	16.8	22.1	38.9
<u>PRODUCT</u>			
CAMBRIDGE	10.0	10.5	20.5
ALPINE	0.5	0.6	1.1
BASIC	6.9	15.8	22.7
<u>PRICE</u>			
BASIC	11.2	9.7	20.9
SUBTOTAL- RETAIL	51.0	72.2	123.2
<u>COUPONING</u>			
CAMBRIDGE	5.0	(3.6)	1.4
ALPINE	3.0	1.8	4.8
BASIC	4.8	0.9	5.7
SUBTOTAL- COUPONING	\$12.8	(\$0.9)	\$11.9

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1994 SECOND REVISED
DISCOUNT BRAND SPENDING
(\$ MILLIONS)

	1ST <u>HALF</u>	2ND <u>HALF (*)</u>	TOTAL <u>YEAR</u>
<u>DIRECT MAIL</u>			
CAMBRIDGE	\$5.0	\$7.6	\$12.6
ALPINE	1.9	1.4	3.3
BASIC	4.0	2.6	6.6
SUBTOTAL- DIRECT	<u>10.9</u>	<u>11.6</u>	<u>22.5</u>
<u>POS / OTHER</u>			
CAMBRIDGE	0.9	1.0	1.9
BASIC	5.3	2.0	7.3
FVB	5.3	5.3	10.6
SUBTOTAL- POS	<u>11.5</u>	<u>8.3</u>	<u>19.8</u>
<u>BRAND SPENDING</u>			
CAMBRIDGE	27.6	31.5	59.1
ALPINE	6.6	5.4	12.0
BASIC	66.4	69.6	136.0
FVB	5.3	5.3	10.6
TOTAL DISCOUNT BRANDS	<u>\$105.9</u>	<u>\$111.8</u>	<u>\$217.7</u>

(*) 2ND HALF SPENDING IS NET OF PRIOR YEAR CREDITS- CAMBRIDGE-
\$5 MM, ALPINE \$1 MM, BASIC \$4 MM

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CAMBRIDGE

	<u>FIRST HALF 1994</u>		<u>SECOND HALF 1994</u>	
	<u>\$(MM)</u>	<u>ACTIVITY</u>	<u>\$(MM)</u>	<u>ACTIVITY</u>
PRINT MEDIA	0.9	3 MONTHS	2.3	1 MONTH
OOH				
PRODUCTION	0.2		0.8	
TOTAL ADVERTISING	1.1		3.1	
RETAIL PROMOTIONS				
PRICE				
PRODUCT	10.0	4 MONTHS	10.5	6 MONTHS
INCENTIVE	5.6	1 MONTH	12.9	3 MONTHS
TOTAL RETAIL PROMOTIONS	15.6		23.4	
COUPONING				
FSI	5.0	3 MONTHS	1.4	2 MONTHS
PRIOR YR CREDITS			(5.0)	
TOTAL COUPONING	5.0		(3.6)	
DIRECT MAIL	5.1	3 MONTHS	7.6	2 MONTHS
MERCH PAYMENTS	0.0		0.0	
POS/OTHER	0.9		0.9	
SUB TOTAL	27.6		31.5	
TOTAL BRAND SPENDING	27.6		31.5	
COMBINED TOTAL	59.1			

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ALPINE

	<u>FIRST HALF 1994</u>		<u>SECOND HALF 1994</u>	
	<u>\$(MM)</u>	<u>ACTIVITY</u>	<u>\$(MM)</u>	<u>ACTIVITY</u>
PRINT MEDIA	1.1	6 MONTHS	0.8	5 MONTHS
OOH				
PRODUCTION	0.1		0.2	
TOTAL ADVERTISING	1.2		1.0	
RETAIL PROMOTIONS				
PRICE				
PRODUCT	0.5	2 MONTHS	0.6	1 MONTH
INCENTIVE			0.6	1 MONTH
TOTAL RETAIL PROMOTIONS	0.5		1.2	
COUPONING			0.0	
FSI	3.0	6 MONTHS	2.8	5 MONTHS
PRIOR YR CREDITS			(1.0)	
TOTAL COUPONING	3.0		1.8	
DIRECT MAIL	1.9	3 MONTHS	1.4	3 MONTHS
MERCH PAYMENTS	0.0		0.0	
POS/OTHER	0.0		0.0	
SUB TOTAL	6.6		5.4	
TOTAL BRAND SPENDING	6.6		5.4	
COMBINED TOTAL	12.0			

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BASIC

	<u>FIRST HALF 1994</u>		<u>SECOND HALF 1994</u>	
	<u>\$(MM)</u>	<u>ACTIVITY</u>	<u>\$(MM)</u>	<u>ACTIVITY</u>
ADVERTISING				
PRINT MEDIA	8.3	4 MONTHS	6.2	3 MONTHS
OOH	6.1	2 MONTHS	9.3	3 MONTHS
PRODUCTION	3.0		1.0	
TOTAL ADVERTISING	17.4	4 MONTHS	16.5	3 MONTHS
RETAIL PROMOTIONS				
PRICE	11.2	5 MONTHS	9.7	5 MONTHS
PRODUCT	6.9	3 MONTHS	15.9	3 MONTHS
INCENTIVE	16.8	3 MONTHS	22.1	4 MONTH
TOTAL RETAIL PROMOTIONS	34.9	5 MONTHS	47.7	3 MONTHS
COUPONING				
FSI	4.8	2 MONTHS	4.8	2 MONTHS
PRIOR YR CREDITS			(4.0)	
TOTAL COUPONING	4.8	2 MONTHS	0.8	2 MONTHS
DIRECT MAIL	4.0	2 MONTHS	2.6	1 MONTH
POS	2.0		2.0	
MERCH/PACK DESIGN	3.3		0.0	
TOTAL BRAND SPENDING	66.4		69.6	
COMBINED TOTAL	136.0			

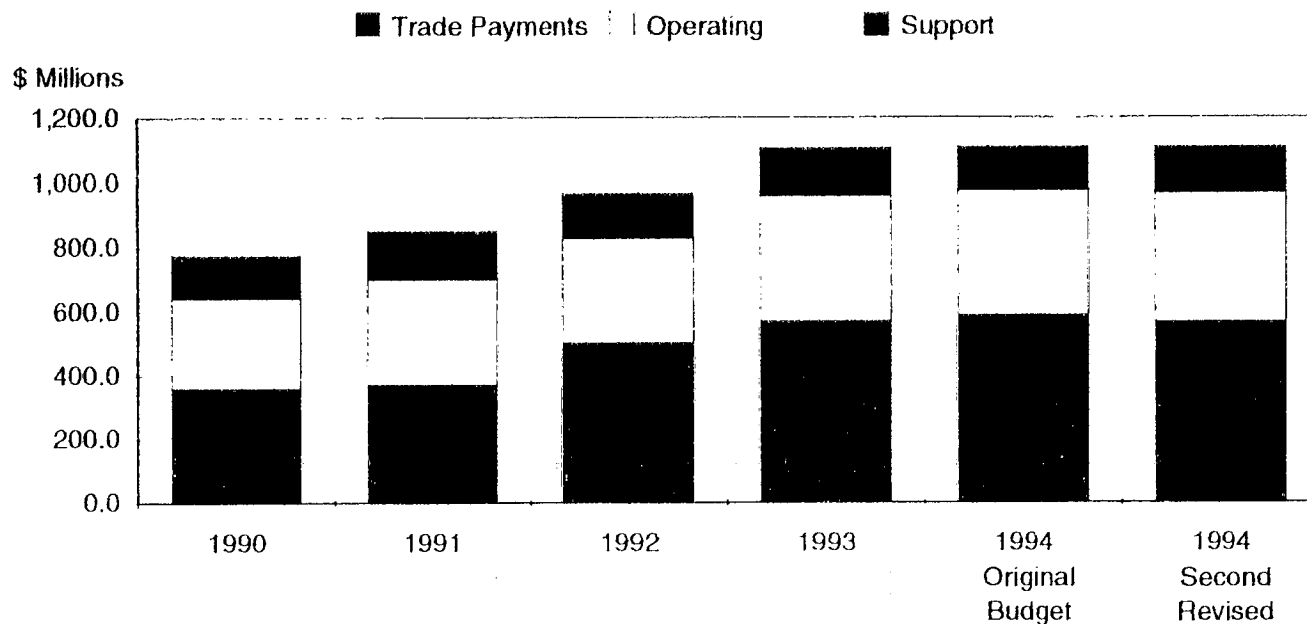
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SALES

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TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A. 1994 SECOND REVISED SALES SPENDING



							CHANGE VS 1994 OB
SALES MIX:							
Trade Payments	\$363.1	\$374.4	\$506.5	\$575.2	\$592.0	\$569.4	\$22.6
Operating	\$280.2	\$326.7	\$322.4	\$384.4	\$383.8	\$399.1	(\$15.3)
Support	\$140.3	\$158.0	\$146.3	\$153.6	\$138.4	\$145.7	(\$7.3)
Total	\$783.6	\$859.1	\$975.2	\$1,113.2	\$1,114.2	\$1,114.2	\$0.0
% Change	7.2%	9.6%	13.5%	14.2%	0.1%	0.0%	

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TENTATIVE WORKING ESTIMATE

**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
OTHER SPENDING VARIANCE RECONCILIATION
(\$ Millions)**

Field Operating Sal & Benefits (primarily severance)	3.0
Travel/Meetings/Communications	0.3
Auto Sale-Leaseback Accounting Treatment	(2.0)
Sales Information	(1.5)
Outside Recruiting Fees for FSF	(1.0)
National Meeting	(0.5)
Private Label POS Fund Now Off-invoice	2.3
Total Other Spending	<u>\$0.6</u>

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
ANALYSIS OF 1994 SALES CHANGE
(\$ Millions)**

1994 ORIGINAL BUDGET	\$1,114.2
TIMING OF RETAIL MASTERS CONTRACTS	32.7
Timing of Retail Masters Contracts	
FLEX FUNDS	12.5
Increase Participation from 75% to 90% - (\$2.1)	
Timing of Retail Masters Contracts - \$14.6	
FSF REDEPLOYMENT	3.0
Redeployment is Ahead of Schedule	
MERCHANDISING MATERIALS	(6.8)
Primarily Wal-mart and Region Requirements	
DELAYED ROLLOUT OF FIXTURE OUTSOURCING	(7.9)
Testing in Region 4 before National Rollout	
SALES INCENTIVE PROGRAM	(8.5)
Reflects Domestic Volume Increase	
OTHER SPENDING	0.6
RESERVE (\$51.5 IN 2ND REV VS \$25.9 IN OB)	(25.6)
Retail Masters - \$8.0	
Flex Funds - \$14.6	
Redeployment - \$3.0	

1994 SECOND REVISED**\$1,114.2**

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
TRADE PAYMENTS
(\$ Millions)

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>F/(U) VARIANCE VS.OB</u>	<u>VARIANCE VS. 1994 OB EXPLANATIONS</u>
MERCHANDISING CONTRACTS	\$326.5	\$359.2	\$32.7	TIMING OF RETAIL MASTERS CONTRACTS
FLEX FUND	69.4	81.9	\$12.5	(\$2.1) INCREASE IN FLEX FUND PARTICIPATION FROM 75% TO 90% \$14.6 TIMING OF RETAIL MASTERS CONTRACTS
WHOLESALE MASTERS	105.4	105.4	---	
MILITARY COUPONS/ ALLOWANCE	26.5	26.5	---	
RESERVE	41.6	19.0	(\$22.6)	\$8.0 RETAIL MASTERS \$14.6 FLEX FUNDS
TOTAL	<u>\$569.4</u>	<u>\$592.0</u>	<u>\$22.6</u>	

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
OPERATING
(\$ Millions)

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>F/(U) VARIANCE VS. OB</u>	<u>VARIANCE VS. 1994 OB EXPLANATIONS</u>
SALARIES/BENEFITS INCENTIVE PROGRAM	\$221.8	\$205.4	(\$16.4)	(\$13.9) DELAYED ROLLOUT OF FIXTURE OUTSOURCING (\$8.5) SALES INCENTIVE PROGRAM \$3.0 REDPLOYMENT AHEAD OF SCHEDULE \$3.0 OTHER
CONTRACT FIXTURE INSTALLERS	2.3	12.0	\$9.7	FUNDING FOR REGION 4 TEST VS NATIONAL ROLLOUT
TRAVEL/MEETINGS/ COMMUNICATIONS	17.1	17.4	\$0.3	LOWER TRAVEL REQUIREMENTS
AUTO EXPENSE	26.6	24.6	(\$2.0)	CHANGE IN ACCOUNTING TREATMENT FOR ALLOWANCES
COMPUTER SUPPORT	50.0	48.5	(\$1.5)	MILITARY INTO SPACE AND SFA
RELOCATION	5.5	5.5	---	
EXPENSE WITH OTHERS	3.0	3.0	---	
OFFICE/DEPOT RENT	10.1	8.7	(\$1.4)	DELAYED ROLLOUT OF FIXTURE OUTSOURCING
ALL OTHER	8.5	7.5	(\$1.0)	RECRUITING FEES FOR SENIOR ACCOUNT MANAGERS
SUBTOTAL FIELD FORCE	<u>\$344.9</u>	<u>\$332.6</u>	<u>(\$12.3)</u>	
SALES ADMINISTRATION AND CUSTOMER SERVICE	\$44.3	\$44.3	---	
RESERVE	\$9.9	\$6.9	(\$3.0)	
TOTAL OPERATING	<u><u>\$399.1</u></u>	<u><u>\$383.8</u></u>	<u><u>(\$15.3)</u></u>	

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
SALES SUPPORT
(\$ Millions)

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>F/(U) VARIANCE VS. OB</u>	<u>VARIANCE VS. 1994 OB EXPLANATIONS</u>
MERCHANDISING MATERIALS	\$69.0	\$62.2	(\$6.8)	ADDITIONAL FIXTURE REQUIREMENTS FOR WAL-MART AND REGIONAL REQUIREMENTS
KEARNY/PM EXPRESS	44.0	44.0	---	
TRAINING	10.7	10.2	(\$0.5)	NATIONAL MEETING
TRADE PROGRAMS	9.0	9.0	---	
SELLING EXPENSE	7.9	7.9	---	
TRADE DEVELOPMENT AND OTHER MILITARY	5.1	5.1	---	
TOTAL	<u>\$145.7</u>	<u>\$138.4</u>	<u>(\$7.3)</u>	

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OPERATIONS

working estimate		LIP MORRIS U.S.A.	8/14/94
		994 SECOND REVISED PRODUCTIVITY SAVINGS VS 1994 ORIGINAL BUDGET	
VARIABLE	PRODUCTIVITY:		
.4)	REDUCTION OVERTIME	PARTIAL DAYS	
\$.4)		Production Overtime (19.0 Billion vs. 0.0 Billion units In 1994 O.B.)	
\$.6)	PROCESSING PLANT PERFORMANCE - CIGARETTES		
.6)		Park 500 - Line one shutdown effective July 1st.	
.2)	PROCESSING PLANT PERFORMANCE-TOBACCO		
\$.2)		Westlab - \$.2) Decreased volume.	
.5)	MANUFACTURING REDUCTIONS		
		6.4 Favorable due to 175 manning concessions (126 @ MC., 49 @ Stockton) offset by \$.1.2) delay of one month,	
		(4.9) manning in Louisville for increased production requirements (149 positions), (\$.1.5) timing of attrition and	
		increased LOA/absenteeism in Richmond, and (\$.3) Other.	
4	IMPLEMENT SCHEDULING		
		primarily due to increased output/day at Louisville.(276.0/day vs. 263.2/day)	
.2	CHANGING PRODUCTIVITY INITIATIVES		
8.5		Materials (\$3.0 Tow Synergy, \$1.4 Mobil Synergy, \$1.1 Next Japan (Embossing Method),	
		\$1.0 Folding Carton Optimization, \$2.0 Other).	
		Machine Parts (\$2.0 Commitment and \$.3) Omnibus Contracts).	
.3)	PRODUCTION OVERTIME		
\$.7)		Increased shutdown cost due to weekend production at M/C.	
7)		Increased 12 houring at Stockton Street.	
.		Other	
.2)	DUTY SPECIFICATION		
		(2.5) Merit Lts. charcoal filter purchased from Filtrona vs manufactured by P.M.,	
		(1.2) Delay implementation of 11 point board, \$.5) Other	

OTHER

\$3.9	ULT Contract Negotiations
	Miscellaneous Variable Spending
0.6	Strategic Supplier Alliance - Brazilian Leaf
0.4	Repair Parts Usage

\$3.0) TOTAL VARIABLE PRODUCTIVITY

PHILIP MORRIS U.S.A.

6/14/94

1994 SECOND REVISED PRODUCTIVITY SAVINGS VS 1994 ORIGINAL BUDGET

FIXED PRODUCTIVITY:

(\$4.0) PRODUCTION OVERTIME/PARTIAL DAYS

(\$4.0) -- Production Overtime (19.0 Billion vs. 0.0 Billion units in 1994 O.B.)

\$40.0 FIXED VOLUME

337.8 Billion in 1994 2nd Rev. vs. 314.8 Billion in 1994 O.B.

(\$1.9) PURCHASING PRODUCTIVITY INITIATIVES

(\$1.9) -- Requirements for optimization (Purchasing).

\$3.2 FIXED SPENDING

\$.9 Salaries and Benefits, \$.7 Hourly Wages and Benefits, \$1.0 Consultant's - Mast Project,
\$(1.3) Contaminated cigarettes at the Manufacturing Center, \$(.9) Central Production Planning System Expense, \$2.8 Other

(\$0.8) NON PRODUCTION OVERTIME

(\$0.5) -- Temporary I.A.M. coverage at the WC. (Offset in Hourly wages and Benefits)
(0.3) -- Other

\$0.1 OTHER

0.1 -- Miscellaneous Fixed Spending

\$0.5 NEW INITIATIVES

Cabarrus Expansion - \$.5 Due to reduced purchased services (Mainly technical reps.)

\$37.1 TOTAL FIXED PRODUCTIVITY

VARIABLE ECONOMICS:

\$3.1 Leaf Prices
2.9 Direct Material Prices
2.3 Labor Rate/Employee Benefits
.7 Machine Parts Prices
\$9.0

FIXED ECONOMICS:

(\$5.4) Salaried Rate

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PHILIP MORRIS U.S.A.

6/14/94

1994 SECOND REVISED PRODUCTIVITY SAVINGS VS 1994 ORIGINAL BUDGET

BRAND MIX:

(\$3.8) \$3.2 Increase in L&M Russia, \$1.3 Increase in Bond Street, (\$3.8) Increase in Next, (\$1.9) Increase in Marlboro,
(\$0.5) Increase in Merit, (\$2.1) Other

NON-RECURRING 1994 EXPENSES

\$13.5	Delay of Louisville VSP
(10.0)	Extruder Cancellation
(5.0)	Cabarrus Property Tax
(1.4)	March on Washington
2.3	Other
<u>(\$0.6)</u>	

LIFO

\$8.3	Finished Goods - Favorable Price
2.6	ODM - Favorable Price
9.2	Leaf Price/Volume Changes
<u>\$20.1</u>	

VARIABLE INVENTORY REVALUATION/ASSESSMENTS

\$1.1	Inventory Revaluation
(5.9)	Assessments to P. M. Products
<u>(\$4.8)</u>	

FIXED INVENTORY REVALUATION/ASSESSMENTS

(\$1.4)	Inventory Revaluation
(3.2)	Assessments to P. M. Products
(40.0)	Volume
<u>(\$44.6)</u>	

OTHER

(\$200.1) Primarily Higher Cost of Sales Due to Volume of 211.2 vs 201.1.

() Denotes unfavorable deviation

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
VARIABLE, FIXED AND LIFO EXPENSE**

	VARIABLE		FIXED		TOTAL	
	COST/M	VALUE	COST/M	VALUE	COST/M	VALUE
<u>1994 ORIGINAL BUDGET</u>						
	\$7.44		\$1.74		\$9.18	
PRODUCTIVITY	(0.01)	(\$3.0)	0.11	\$37.1	0.10	\$34.1
ECONOMICS	0.03	9.0	(0.02)	(5.4)	0.01	3.6
BRAND MIX	(0.01)	(3.8)	--	--	(0.01)	(3.8)
<u>1994 SECOND REVISED - MANUFACTURING</u>	\$7.43	\$2.2	\$1.65	\$31.7	\$9.08	\$33.9
NON-RECURRING 1994 EXPENSES		--		(0.6)		(0.6)
LIFO		20.1		--		20.1
INV. REVAL./ASSESSMENTS		(4.8)		(44.6)		(49.4)
OTHER - Primarily Higher Cost of Sales Due to Volume Increase (211.2 vs. 201.1)		(200.1)		--		(200.1)
TOTAL P&L IMPACT		<u>(\$182.6)</u>		<u>(\$13.5)</u>		<u>(\$196.1)</u>

1994 SECOND REVISED PRODUCTIVITY SAVINGS
(1994 Dollars)

\$2.3 LOUISVILLE PRODUCTIVITY PROJECT

\$2.3 -- 69 Hourly Positions (39 Focke Case Packers, 24 Comflex, 6 Central Vac.)

(\$5.0) PRODUCTION OVERTIME/PARTIAL DAYS

(\$10.7) -- Production Overtime (19.0 Billion units in 1994 vs. 1.0 Billion units in 1993)
5.7 -- Partial Day Operations (None in 1994 vs. 27.2 Billion units curtailed in 1993)

\$3.4 PROCESSING PLANT PERFORMANCE - CIGARETTES

\$1.3 -- Park 500 - \$2.0 Yield, \$0.7 Waste, (\$1.4) Fixed spending.
2.1 -- LSPP - \$.9 Fixed Volume, \$0.6 Spending, \$0.6 Output/Hour.
0.5 -- ET: \$1.4 MC [\$1.3 Fixed Volume, \$.1 Other] ; (\$.9) CAB [(\$.9) Yield]
0.1 -- Flavor Center - Waste (\$1), Volume \$.2
(0.3) -- BL - \$(1.2) Fixed Volume (42.4 Million lbs. vs. 45.7 Million lbs.), (\$0.4) Output/Hour, \$0.8 Manning, \$.5 Fixed Spending.
(0.3) -- LPF-Oriental - \$0.3 Fixed Volume (74.4 vs 71.2), (\$0.6) Primarily absorption of additional facility cost due to Stemmy closing.

\$1.1 PROCESSING PLANT PERFORMANCE - TOBACCO

\$1.1 -- Westab - \$.9 Volume, \$.2 Other.

\$51.2 FIXED VOLUME SAVINGS

337.8 Billion in 1994 vs. 308.4 Billion in 1993

\$11.9 LEAF YIELD, MATERIAL WASTE & FACTORY UTILIZATION

	<u>TOTAL</u>	
Leaf Yield	<u>\$4.8</u>	93.5 % in 1994 vs. 93.2% in 1993 -- Improvement due to ATM at WC & Stk. St.
Material Waste	0.5	4.2% in 1994 vs. 4.5% in 1993 -- Reduction in Rejects at WC (0.3%) & STK. St. (0.1%), CAB (.2%).
Factory Utilization	<u>6.6</u>	73.0% in 1994 vs. 73.3% in 1993 -- Includes an unfavorable composite impact of 1.4% for disruption in the Richmond Factories.
TOTAL	<u>\$11.9</u>	

\$47.7 MANNING REDUCTIONS

877 Variable Hourly People (Excludes Louisville Productivity Project - 69 people, Processing Plants - 157 People, and Fixed - 38 People).
The \$47.7 also includes annualization from 1993 reductions.

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1994 SECOND REVISED PRODUCTIVITY SAVINGS
(1994 Dollars)

(\$11.3) EQUIPMENT SCHEDULING

Impact of diseconomies associated with scaling down operations at Stockton Street and Louisville (6.0 less packers @ Stk. St., 5.0 packers at Louisville). This is more than offset by the reduction in manning and elimination of partial production days.

\$33.7 PURCHASING PRODUCTIVITY INITIATIVES

\$25.1 -- Materials (\$12.7 Vendor Consolidation, \$5.0 Folding Carton Optimization, \$1.1 Next Japan (Embossing Method), \$1.0 Westvaco SBS, \$5.3 Other/Annualization).
3.5 -- Machine Parts (\$2.0 Commitment, \$0.8 OEM Cost Reductions, \$0.2 Omnibus Contracts, \$0.5 Alternate Sourcing).
5.1 -- Omnibus Contracts

\$23.6 FIXED SPENDING

\$13.6 Tobacco/cigarette write-offs in 1993, \$10.4 Salary/Benefits,
(\$1.3) Contaminated cigarettes at the Manufacturing Center in 1994, (\$0.9) Central Production Planning System Expense, \$1.8 Other.

\$4.5 NON PRODUCTION OVERTIME

\$5.6 -- Reduced twelve houring at Stockton St., Louisville and the Manufacturing Center.
(1.1) -- Twelve houring for self relief training at Cabarrus.
(0.5) -- Temporary I.A.M. coverage at the M/C. (Offset in Hourly Wages and Benefits).
0.5 -- Other

\$12.3 PRODUCT SPECIFICATION

\$12.0 -- Leaf - \$16.0 RU/BL Reformulation to respond to Import Limitation, (\$1.7) Brice/Cambridge Formula Change - Increase in ET with no decrease in target weight, (\$1.5) Mixing of IS and BBO in Louisville offset by LSPP productivity, (\$0.8) Other
0.3 -- Material Spec. - \$2.1 Change from 12 pt. to 11 pt. board on cartons, (\$2.5) Merit Lts. charcoal filter purchased from Filtrona vs manufactured by P. M., \$0.7 Other.

\$8.6 BERMUDA FACILITY

Facility shutdown in September, 1993. Total 1993 spending was \$8.9 million -- \$0.3 in 1994 is mothball expenses.

\$15.1 OTHER

\$6.0 -- Repair Parts Usage
4.6 -- Miscellaneous Variable Spending
3.9 -- ULT Contract Negotiations
0.6 -- Strategic Supplier Alliance - Brazilian Leaf

(\$2.5) NEW INITIATIVES

Cabarrus Expansion - (\$1.7) Additional training expenses (\$2.0 Total), (\$0.7) start-up utility cost, and (\$0.1) Other.

\$196.6

TOTAL PRODUCTIVITY SAVINGS

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1994 ORIGINAL BUDGET PRODUCTIVITY SAVINGS
(1994 Dollars)

\$2.3 LOUISVILLE PRODUCTIVITY PROJECT

\$2.3 - 69 Hourly Positions (39 Focke Case Packers, 24 Comflex, 6 Central Vac.)

\$7.4 PRODUCTION OVERTIME/PARTIAL DAYS

\$1.7 - Production Overtime (None in 1994 vs. 1.0 Billion units in 1993)
5.7 - Partial Day Operations (None in 1994 vs. 27.2 Billion units curtailed in 1993)

\$11.0 PROCESSING PLANT PERFORMANCE - CIGARETTES

\$9.0 - Park 500 - \$8.6 Fixed Volume (155.1 Million lbs. vs 136.4 Million lbs.), \$2.0 Yield, \$0.8 Output/Hour, \$0.7 Waste, (\$3.1) Fixed spending.
1.9 - LSPP - \$9 Fixed Volume, \$0.4 Spending, \$0.6 Output/Hour.
0.4 - LMCP - \$0.2 Fixed Volume, \$0.2 Spending.
0.9 - ET: \$1.4 MC (\$1.3 Fixed Volume, \$.1 Other); (\$.5) CAB [(\$.9) Yield, \$.4 Other]
(0.1) - Flavor Center - Waste (\$.1)
(0.7) - BL - \$(1.2) Fixed Volume (42.4 Million lbs. vs. 45.7 Million lbs.), \$0.3 Output/Hour, \$0.2 Yield.
(0.4) - LPF-Oriental - \$0.2 Fixed Volume (73.1 vs 71.2), (\$0.6) Primarily absorption of additional facility cost due to Stemmy closing.

\$1.3 PROCESSING PLANT PERFORMANCE - TOBACCO

\$1.3 - Westab - \$1.1 Volume, \$.2 Other

\$11.2 FIXED VOLUME SAVINGS

314.8 Billion in 1994 vs. 308.4 Billion in 1993

\$11.9 LEAF YIELD, MATERIAL WASTE & FACTORY UTILIZATION

	<u>TOTAL</u>	
Leaf Yield	\$4.8	93.5 % in 1994 vs. 93.2% in 1993 -- Improvement due to ATM at M/C & Stk. St.
Material Waste	0.5	4.4% in 1994 vs. 4.5% in 1993 -- Reduction in Rejects at M/C (0.1%) & LVL (0.1%), CAB (.1%).
Factory Utilization	6.6	73.0% in 1994 vs. 73.3% in 1993 -- Includes an unfavorable composite impact of 1.4% for disruption in the Richmond Factories.
TOTAL	<u>\$11.9</u>	

\$49.2 MANNING REDUCTIONS

842 Variable Hourly People (Excludes Louisville Productivity Project - 69 people, Processing Plants - 85 People, and Fixed - 34 People).
The \$49.2 also includes annualization from 1993 reductions.

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1994 ORIGINAL BUDGET PRODUCTIVITY SAVINGS
(1994 Dollars)

(\$14.7) EQUIPMENT SCHEDULING

Impact of diseconomies associated with scaling down operations at Stockton Street and Louisville (6.0 less packers @ Stk. St., 7.0 packers at Louisville). This is more than offset by the reduction in manning and elimination of partial production days.

\$25.4 PURCHASING PRODUCTIVITY INITIATIVES

\$18.5 -- Materials (\$8.3 Vendor Consolidation, \$4.0 Folding Carton Optimization, \$1.0 Westvaco SBS, \$5.2 Other/Annualization).
1.8 -- Machine Parts (\$0.8 OEM Cost Reductions, \$0.5 Omnibus Contracts, \$0.5 Alternate Sourcing).
5.1 -- Omnibus Contracts

\$20.4 FIXED SPENDING

\$13.6 Tobacco/cigarette write-offs in 1993, \$9.3 Salary/Benefits, (\$2.4) Depreciation, Insurance, and Taxes, (\$1.1) Other.

\$6.6 NON PRODUCTION OVERTIME

\$6.3 -- Reduced twelve houring at Stockton St., Louisville and the Manufacturing Center.
1.4 -- Reduced weekend maintenance and machine cleaning at Louisville.
(1.1) -- Twelve houring for self relief training at Cabarrus.

\$16.5 PRODUCT SPECIFICATION

\$12.0 -- Leaf - \$16.0 RL/BL Reformulation to respond to Import Limitation, (\$1.7) Brica/Cambridge Formula Change - Increase in ET with no decrease in target weight, (\$1.5) Mixing of IS and BBO in Louisville offset by LSPP productivity, (\$1.8) Other
4.6 -- Material Spec. - \$3.3 Change from 12 pt. to 11 pt. board on cartons, \$1.3 Other.

\$8.6 BERMUDA FACILITY

Facility shutdown in September, 1993. Total 1993 spending was \$8.9 million -- \$0.3 in 1994 is mothball expenses.

\$8.4 OTHER

\$5.6 -- Repair Parts Usage
2.8 -- Miscellaneous Variable Spending

(\$3.0) NEW INITIATIVES

Cabarrus Expansion - (\$1.7) Additional training expenses (\$2.0 Total), (\$0.7) start-up utility cost, and (\$0.6) Other.

\$162.5 TOTAL PRODUCTIVITY SAVINGS

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1994 SECOND REVISED PRODUCTIVITY SAVINGS VERSUS 1994 ORIGINAL BUDGET
(1994 Dollars)

(\$12.4) PRODUCTION OVERTIME/PARTIAL DAYS

(\$12.4) -- Production Overtime (19.0 Billion vs. 0.0 Billion units in 1994 O.B.)

(\$7.6) PROCESSING PLANT PERFORMANCE - CIGARETTES

(\$7.6) -- Park 500 - Line one shutdown effective July 1st.

(\$0.2) PROCESSING PLANT PERFORMANCE - TOBACCO

(\$0.2) -- Westab - \$(.2) Decreased volume.

\$40.0 FIXED VOLUME

337.8 Billion in 1994 2nd Rev. vs. 314.8 Billion in 1994 O.B.

(\$1.5) MANNING REDUCTIONS

\$6.4 Favorable due to 175 manning concessions (126 @ MC., 49 @ Stockton) offset by (\$1.2) delay of one month, \$(4.9) manning in Louisville for increased production requirements (149 positions), (\$1.5) timing of attrition, and decreased LOA/absenteeism in Richmond, and (\$3) Other.

\$3.4 EQUIPMENT SCHEDULING

Primarily due to increased output/day at Louisville.(276.0/day vs. 263.2/day)

\$8.3 PURCHASING PRODUCTIVITY INITIATIVES

\$8.5 -- Materials (\$3.0 Tow Synergy, \$1.4 Mobil Synergy, \$1.1 Next Japan (Embossing Method), \$1.0 Folding Carton Optimization, \$2.0 Other).
1.7 -- Machine Parts (\$2.0 Commitment and \$(.3) Omnibus Contracts).
(1.9) -- Requirements for optimization (Purchasing).

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1994 SECOND REVISED PRODUCTIVITY SAVINGS VERSUS 1994 ORIGINAL BUDGET
(1994 Dollars)

\$3.2 FIXED SPENDING

\$0.9 Salaries and Benefits, \$0.7 Hourly Wages and Benefits, \$1.0 Consultant's - Mast Project,
\$(1.3) Contaminated cigarettes at the Manufacturing Center, \$(0.9) Central Production Planning System Expense, \$2.8 Other

(\$2.1) NON PRODUCTION OVERTIME

(\$0.7) -- Increased shutdown cost due to weekend production at M/C.
(0.7) -- Increased 12 houring at Stockton Street.
(0.5) -- Temporary I.A.M. coverage at the M/C. (Offset in Hourly wages and Benefits)
(0.2) -- Other

(\$4.2) PRODUCT SPECIFICATION

\$(2.5) Ment Lts. charcoal filter purchased from Filtrona vs manufactured by P.M.,
\$(1.2) Delay Implementation of 11 point board, \$(0.5) Other

\$6.7 OTHER

\$3.9 -- ULT Contract Negotiations
1.8 -- Miscellaneous Variable Spending
0.6 -- Strategic Supplier Alliance - Brazilian Leaf
0.4 -- Repair Parts Usage

\$0.5 NEW INITIATIVES

Cabarrus Expansion - \$0.5 Due to reduced purchased services (Mainly technical reps.)

\$34.1 **TOTAL PRODUCTIVITY SAVINGS**

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PHILIP MORRIS U.S.A.
1994 2ND REVISED VS 1994 ORIGINAL BUDGET
PRODUCTIVITY SAVINGS
(1994 \$'S - MILLIONS)

	1994 2ND REVISED	1994 ORG. BUD	DIFFERENCE
<u>MODERNIZATION/NEW TECHNOLOGY</u>			
Louisville Productivity Project	\$2.3	\$2.3	\$ --
TOTAL MODERNIZATION/NEW TECHNOLOGY	<u>\$2.3</u>	<u>\$2.3</u>	<u>\$ --</u>
<u>ECONOMIES OF SCALE</u>			
Production Overtime/Partial Days	(\$5.0)	\$7.4	(\$12.4)
Processing Plant Performance - Cigarettes	3.4	11.0	(7.6)
Processing Plant Performance - Tobacco	1.1	1.3	(0.2)
Fixed Volume	51.2	11.2	40.0
TOTAL ECONOMIES OF SCALE	<u>\$50.7</u>	<u>\$30.9</u>	<u>\$19.8</u>
<u>OPERATIONS IMPROVEMENTS</u>			
Leaf Yield, Material Waste & Utilization Improvements	\$11.9	\$11.9	\$ --
Manning Reductions	47.7	49.2	(1.5)
Equipment Scheduling	(11.3)	(14.7)	3.4
Purchasing Productivity Initiatives	33.7	25.4	8.3
Fixed Spending	23.6	20.4	3.2
Non-Production Overtime	4.5	6.6	(2.1)
Product Specifications	12.3	16.5	(4.2)
Bermuda Facility	8.6	8.6	--
Other	15.1	8.4	6.7
TOTAL OPERATIONS IMPROVEMENTS	<u>\$146.1</u>	<u>\$132.3</u>	<u>\$13.8</u>
<u>NEW INITIATIVES</u>			
Cabarrus Expansion	(\$2.5)	(\$3.0)	\$0.5
TOTAL NEW INITIATIVES	<u>(\$2.5)</u>	<u>(\$3.0)</u>	<u>\$0.5</u>
TOTAL PRODUCTIVITY SAVINGS	<u>\$196.6</u>	<u>\$162.5</u>	<u>\$34.1</u>

() Denotes Unfavorable

PHILIP MORRIS USA-MANUFACTURING
1994 SECOND REVISED VERSUS 1994 ORIGINAL BUDGET
ECONOMICS NOTES
(\$'s - Millions)

\$3.1 LEAF PRICES

\$2.7 Refund On Import Fees

2.2 DBC Burley - Favorable floor prices on 1993 and 1994 crops

(1.7) RLD - Forecast purchase of 18.4M Lbs. of high cost DBRST to satisfy future production plans;
Acceleration of domestic stem grade DBUST pool purchase to 12/93 from 12/94

(0.1) Other

2.9 DIRECT MATERIALS PRICES

\$3.0 Volume and Tandem runs

0.9 Purchased Filter Rods Price decrease

0.8 Licorice Price decrease

0.7 Foil Price decrease

(2.5) Merit Labels (due to transfer from Alford)

0.7 MACHINE PARTS PRICES

No price increase for Hauni and GD

(3.1) LABOR RATE/BENEFITS

Salary rate offset by decreased hourly Cost of Living Adjustment (COLA) due to lower Consumer Price Index

\$3.6 TOTAL ECONOMICS

() Denotes Unfavorable

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PHILIP MORRIS USA-MANUFACTURING
1994 SECOND REVISED VERSUS 1994 ORIGINAL BUDGET
ECONOMICS
(\$'s - Millions)

LEAF PRICES	\$3.1
DIRECT MATERIALS PRICES	2.9
MACHINE PARTS PRICES	0.7
LABOR RATE / EMPLOYEE BENEFITS	<u>(3.1)</u>
TOTAL ECONOMICS	<u><u>\$3.6</u></u>

() Denotes Unfavorable

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2R COST/M CAGR
TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
1994 SECOND REVISED
COST/M COMPOUND ANNUAL GROWTH RATES
(1988 - 1994)

	1994 COST/M	1988 COST/M	CHANGE	COMPOUND ANNUAL GROWTH RATE
<u>VARIABLE</u>				
Leaf and Casing	\$3.96	\$3.78	\$0.18	0.8%
Tow & Additives	0.60	0.49	0.11	3.4%
Wrapping	1.49	1.47	0.02	0.2%
Conversion	1.38	1.36	0.02	0.3%
TOTAL VARIABLE	\$7.43	\$7.10	\$0.33	0.8%
<u>FIXED</u>				
Cigarettes Plants	\$1.17	\$1.17	\$ --	--
Other Fixed	0.48	0.52	(0.04)	(1.4%)
TOTAL FIXED	\$1.65	\$1.69	(\$0.04)	(0.5%)
TOTAL PM - USA	\$9.08	\$8.79	\$0.29	0.5%
<u>CPIW</u>				2.0%

() DENOTES DECREASE IN COST/M

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CAGR 2NDREV 94 NOTES
TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
1994 SECOND REVISED
COMPOUND ANNUAL GROWTH RATES (1988-1994)

<u>VARIABLE</u>	<u>INFLATION</u>	<u>OPERATIONS IMPROVEMENTS</u>	<u>PRODUCT MIX</u>	<u>TOTAL</u>
LEAF & CASING	(3.0%)	1.8%	0.4%	(0.8%)
TOW & ADDITIVES	(3.6%)	2.4%	(2.2%)	(3.4%)
WRAPPING MATERIALS	(2.9%)	2.4%	0.3%	(0.2%)
CONVERSION	(6.2%)	5.9%	--	(0.3%)
TOTAL VARIABLE	(3.6%)	2.7%	0.1%	(0.8%)
<u>FIXED</u>	<u>INFLATION</u>	<u>SPENDING</u>	<u>VOLUME</u>	<u>TOTAL</u>
CIGARETTE PLANTS	(4.5%)	2.3%	2.2%	--
OTHER FIXED	(4.5%)	3.7%	2.2%	1.4%
TOTAL FIXED	(4.5%)	2.8%	2.2%	0.5%
TOTAL P.M. U.S.A.	(3.8%)	2.7%	0.6%	(0.5%)

() DENOTES UNFAVORABLE

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COST/M COMPOUND ANNUAL GROWTH RATES (1988 - 1994)

VARIABLE

Operations Improvements:

- Leaf and Casing -- Yield 93.5% vs. 91.0% in '88 = 2.7% Improvement; (Improvements Include Processing Plants and Leaf Formula/Specification Changes)
- Tow & Additives -- Waste 6.8% vs. 9.5% in '88 = 28.4% Improvement; Rejects 3.1% vs. 4.4% in '88 = 29.5% Improvement.
- Wrapping -- Waste 3.3% vs. 5.1% in '88 = 35.3% Improvement; Composite Material Waste 4.2% vs. 6.2% in '88 = 32.3% Improvement. (Improvements include Purchasing Productivity Initiatives and Materials Specification changes of \$86.9 million).
- Conversion -- Factory Utilization 73.0% vs. 66.4% in '88 = 9.9% Improvement; Machine Speed 6,529 CPM vs. 5,491 CPM = 1,038 CPM Increase; Improvement due to Cigarette Plants Variable Hourly Headcount Reduction - 2,360.

Product Mix

- Leaf and Casing -- Favorable due to increase in Generic Brands Production (9.4% of total vs. 4.5% in '88). Generics use less expensive Leaf Grades.
- Tow & Additives -- Unfavorable due to Increase in Charcoal Production (9.6% of Total Production in 1994 vs. 8.8% in '88). Charcoal is more expensive than White Tow in non-charcoal brands. Also New Brands with more expensive Unique Purchased Filter (Merit Ultima and Next).
- Wrapping -- Favorable due to Increase in Generic Brands Production (9.4% of total 1994 vs. 4.5% in '88). Generics use less expensive Cigarette Paper.

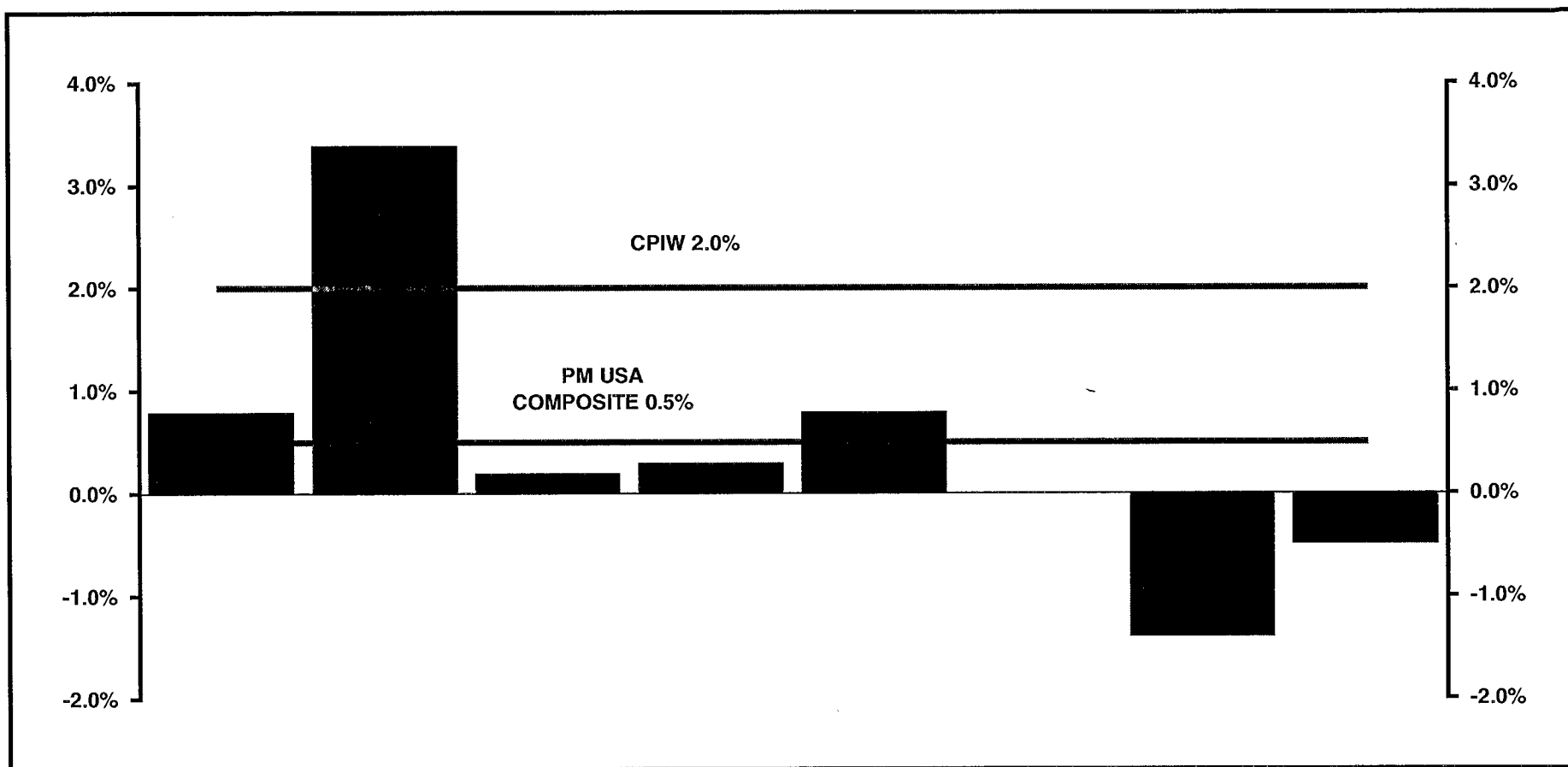
FIXED

SPENDING: (1988 \$'S -Millions)

- Cigarettes Plants -- Primarily due to Salaried and Hourly Headcount reductions, eliminations of Salaried Overtime, reductions in Purchased Services, and Cost Reduction Programs
- Other Fixed -- Primarily due to Salaried and Hourly Headcount reductions, eliminations of Salaried Overtime, reductions in Purchased Services, reduction in York Rebuild Activity, and Other Cost Reduction Programs.
- Volume: -- 337.8 Billion in 1994 versus 295.6 Billion in '88 = 42.2 Billion increase.

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PHILIP MORRIS USA
1994 SECOND REVISED
COST/M COMPOUND ANNUAL GROWTH RATES 1988 - 1994



LEAF & CASING	T&A	WRAPPING	CONV.	COMPOSITE VARIABLE	CIGT. PLANTS	OTHER FIXED	COMPOSITE FIXED
0.8%	3.4%	0.2%	0.3%	0.8%	--	(1.4%)	(0.5%)

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G&A/
CORPORATE AFFAIRS

**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
GENERAL AND ADMINISTRATIVE**
(\$ In Millions)

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>VARIANCE (INCREASE)/ DECREASE</u>
NEW YORK EXECUTIVE	\$8.3	\$7.9	(\$0.4)
NEW YORK PURCHASING	3.4	2.1	(1.3)
FINANCE	36.8	34.8	(2.0)
INFORMATION SERVICES (A)	49.5	48.6	(0.9)
HUMAN RESOURCES	60.6	60.3	(0.3)
INCENTIVE COMPENSATION	<u>11.9</u>	<u>13.2</u>	<u>1.3</u>
TOTAL INCURRED	\$170.5	\$166.9	(\$3.6)
<u>ASSESSMENTS:</u>			
FROM CORPORATE	15.1	15.4	0.3
FROM HUMAN RESOURCES TO FIXED	(52.8)	(52.6)	0.2
TO PMPI	<u>(35.7)</u>	<u>(35.5)</u>	<u>0.2</u>
TOTAL G & A	<u>\$97.1</u>	<u>\$94.2</u>	<u>(\$2.9)</u>

(A) Information Services spending excludes assessments to other G&A functions.

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6-9-84 2:43 PM NOTE-NYE
TENTATIVE WORKING ESTIMATE

NEW YORK EXECUTIVE
1994 SECOND REVISED
SPENDING SUMMARY
(\$'s in 000's)

	SECOND REVISED	ORIGINAL BUDGET	VARIANCE	EXPLANATION
HEAD COUNT	17	17	--	
SALARIES AND BENEFITS	\$3,037	\$3,497	\$460	Salary continuation- OB & favorable benefits.
CONSULTING AND PROFESSIONAL SERVICES	2,722	1,723	(999)	Bain study and Kelly investigation.
TEMPORARY HELP	12	13	1	
TRAVEL AND TRAINING	408	281	(127)	Additional executive travel.
DEPRECIATION AND INSURANCE	173	203	30	
MISC EQUIPMENT PURCHASES AND RENTALS	30	27	(3)	
IS SERVICES	1,143	1,143	--	
VISUAL PRESENTATIONS	156	156	--	
HOTEL REGISTRATION FEES	697	697	--	
MISC CREDITS	(175)	--	175	
OTHER	128	126	(2)	
TOTAL NEW YORK EXECUTIVE	\$8,331	\$7,866	(\$465)	

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
NEW YORK EXECUTIVE
(\$ In Millions)**

TOTAL 1994 ORIGINAL BUDGET	\$7.9
<u>MAJOR CHANGES VS. 1994 ORIGINAL BUDGET - (INCREASE) / DECREASE</u>	
CONSULTING AND PROFESSIONAL SERVICES (INCLUDES BAIN PERFORMANCE MANAGEMENT STUDY)	(\$1.0)
OTHER	<u>0.6</u>
NET CHANGE	(0.4)
TOTAL 1994 SECOND REVISED	\$8.3

6-9-94 1:07 PM NOTE-NYP
TENTATIVE WORKING ESTIMATE

NEW YORK PURCHASING
1994 SECOND REVISED
SPENDING SUMMARY
(\$'s in 000's)

	<u>SECOND REVISED</u>	<u>ORIGINAL BUDGET</u>	<u>VARIANCE</u>	<u>EXPLANATION</u>
HEAD COUNT	28	23	(5)	5 additional positions.
SALARIES AND BENEFITS	\$2,337	\$1,799	(\$538)	5 additional positions, includes \$100 salaries adjustment.
CONSULTING AND PROFESSIONAL SERVICES	100	10	(90)	Industry evaluation.
TEMPORARY HELP	175	88	(87)	Country Store/Adventure Team processing.
TRAVEL AND TRAINING	213	153	(60)	Due to additional head counts.
MISC EQUIPMENT PURCHASES AND RENTALS	28	7	(21)	
IS SERVICES	500	--	(500)	SAP review, Purchasing/AP review, E-Mail.
OTHER	35	30	(5)	
TOTAL NEW YORK PURCHASING	<u>\$3,388</u>	<u>\$2,087</u>	<u>(\$1,301)</u>	

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
NEW YORK PURCHASING
(\$ In Millions)**

TOTAL 1994 ORIGINAL BUDGET	\$2.1
<u>MAJOR CHANGES VS. 1994 ORIGINAL BUDGET - (INCREASE) / DECREASE</u>	
SALARIES, BENEFITS, AND TRAVEL (5 ADDITIONAL POSITIONS)	(\$0.6)
IS PROJECT EXPENSE (BUSINESS REQUIREMENTS STUDY OF PURCHASING AND AP, SAP REVIEW, AND VENDOR E-MAIL)	(0.5)
OTHER	<u>(0.2)</u>
NET CHANGE	(1.3)
TOTAL 1994 SECOND REVISED	\$3.4

6-9-94 1:07 PM NOTE-FIN
TENTATIVE WORKING ESTIMATE

FINANCE
1994 SECOND REVISED
SPENDING SUMMARY
(\$'s in 000's)

	SECOND REVISED	ORIGINAL BUDGET	VARIANCE	EXPLANATION
<u>CONTROLLERS</u>				
HEAD COUNT	220	220	--	
SALARIES AND BENEFITS	\$15,629	\$15,394	(\$235)	Includes \$470 salaries adjustment.
CONSULTING AND PROFESSIONAL SERVICES	380	260	(120)	Bain and C&L studies.
TEMPORARY AND PART-TIME HELP	231	138	(93)	Partially off-set to Mail Services.
PURCH SERVICES AND MISC EQUIPMENT	455	460	5	
TRAVEL AND TRAINING	428	427	(1)	
RELOCATION	100	95	(5)	
DEPRECIATION, INSURANCE, AND TAXES	724	721	(3)	
IS SERVICES	3,381	2,881	(500)	Increased project costs.
POSTAGE AND MAIL SERVICES	655	722	67	Off-set to Temporary Labor.
UTILITIES	251	251	--	
COST TRANSFER	(387)	(387)	--	
OTHER	362	363	1	
TOTAL CONTROLLERS	22,209	21,325	(884)	
<u>NEW YORK FINANCE</u>				
HEAD COUNT	110	110	--	
SALARIES AND BENEFITS	\$9,588	\$9,418	(\$170)	Includes \$230 salaries adjustment.
TEMPORARY AND PART-TIME HELP	161	152	(9)	
PURCH SERVICES	47	78	31	
RENTALS & MISC EQUIPMENT PURCHASES	217	121	(96)	New PC Leases and software.
TRAVEL AND TRAINING	1,320	1,335	15	
RELOCATION	459	459	--	
DEPRECIATION, INSURANCE, AND TAXES	342	369	27	
IS SERVICES	2,227	1,315	(912)	Increased project costs.
CREDIT REFERENCE FEES	109	71	(38)	
OTHER	135	133	(2)	
TOTAL NEW YORK FINANCE	14,605	13,451	(1,154)	
CONTROLLERS	\$22,209	\$21,325	(\$884)	
NEW YORK FINANCE	14,605	13,451	(1,154)	
TOTAL FINANCE	36,814	34,776	(2,038)	

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
FINANCE
(\$ In Millions)**

TOTAL 1994 ORIGINAL BUDGET **\$34.8**

MAJOR CHANGES VS. 1994 ORIGINAL BUDGET - (INCREASE) / DECREASE

IS PROJECT EXPENSE (PRIMARILY CHAIN INVOICING (\$1.4)
REWRITE AND AUTOMATION OF SALESMEN'S EXPENSE
AND SECTION OFFICE CHECKING)

OTHER (0.6)

NET CHANGE (2.0)

TOTAL 1994 SECOND REVISED	\$36.8
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6-9-94 1:07 PM NOTE-1S
TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
1994 SECOND REVISED
INFORMATION SERVICES
(\$'s IN Millions)

	1994 SECOND REVISED	1994 ORIGINAL BUDGET	VARIANCE FAV/(UNFAV)	EXPLANATION
SALARIES AND BENEFITS	\$35.1	\$38.0	\$2.9	Primarily due to early headcount reductions, includes \$900 salaries adjustment.
PROFESSIONAL SERVICES	25.1	21.4	(3.7)	Primarily due to early headcount reductions.
RENTALS	13.8	13.9	0.1	Cancellation of software leases.
DEPREC/AMORT/LOSS ON DISP	8.9	8.6	(0.3)	Primarily due to asset write-offs (net of depreciation).
PURCHASED SERVICES & MISC. EQUIPMENT	12.2	12.0	(0.2)	Outsourcing of data services.
TRAVEL & TRAINING	3.6	3.9	0.3	Primarily due to early headcount reductions.
DATA TRANSMISSIONS	2.7	2.9	0.2	Cancellation of projects and cost reductions.
OTHER	3.6	3.2	(0.4)	
TOTAL I/S SERVICES	105.0	103.9	(1.1)	
<u>CHARGEOUT TO G & A FUNCTIONS</u>				
FINANCE	5.6	4.2	(1.4)	Chain Invoicing, Automation of Salesmen's Expense and Section Office Checking.
HUMAN RESOURCES	1.8	1.4	(0.4)	Various projects.
PLANNING	1.6	1.1	(0.5)	Business Requirements Study of Purchasing and AP, SAP Review, and Vendor E-MAIL.
SUB-TOTAL	96.0	97.2	1.2	
<u>CHARGEOUT TO NON - G & A FUNCTIONS</u>				
SALES	16.3	18.4	2.1	Cancellation of Customer Service/Distribution projects.
MARKETING	5.3	5.3	--	
OPERATIONS	20.7	20.7	--	
CORPORATE AFFAIRS	0.9	0.9	--	
PMI & PMMC	3.3	3.3	--	
TOTAL INFORMATION SERVICES	\$49.5	\$48.6	(\$0.9)	

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
INFORMATION SERVICES
(\$ In Millions)**

TOTAL 1994 ORIGINAL BUDGET \$48.6

MAJOR CHANGES VS. 1994 ORIGINAL BUDGET - (INCREASE) / DECREASE

SALARIES AND BENEFITS (EARLY HEADCOUNT REDUCTIONS) \$2.9

PROFESSIONAL SERVICES (ADDITIONAL CONTRACT LABOR DUE TO
EARLY HEADCOUNT REDUCTIONS) (3.7)

OTHER (0.1)

NET CHANGE (0.9)

TOTAL 1994 SECOND REVISED	\$49.5
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6-9-94 1:08 PM NOTE:HRT
TENTATIVE WORKING ESTIMATE

HUMAN RESOURCES
1994 SECOND REVISED
SPENDING SUMMARY
(\$'s in 000's)

	SECOND REVISED	ORIGINAL BUDGET	VARIANCE	EXPLANATION
HEAD COUNT	411	412	1	New York HR Management.
SALARIES AND BENEFITS	\$33,047	\$32,513	(\$534)	Includes \$900 salaries adjustment.
CONSULTING AND PROFESSIONAL SERVICES	1,728	2,593	865	Primarily FLEX benefits project.
TEMPORARY AND PART-TIME HELP	750	679	(71)	(20) additional Cab medical for OT production. (32) additional sales training temporary help.
PURCHASED SERVICES	8,337	7,887	(450)	Includes Dec 1993 security fees not accrued, paid in 1994.
TRAVEL AND TRAINING	2,684	2,657	(27)	
RELOCATION	467	377	(90)	Relocation for 2 vacant positions.
DEPRECIATION, RENTALS, INS, AND TAXES	4,813	5,133	320	Due to 1993 year end asset disposals.
MISC EQUIPMENT PURCHASES	394	266	(128)	Software purchases and security upgrade.
IS SERVICES	1,811	1,391	(420)	NY on Ric payroll, outsourcing DPS, PC end-user support, and increased project costs.
PRINTING, POSTAGE, AND MAIL SERVICES	1,094	1,347	253	Primarily FLEX benefits project.
UTILITIES	565	551	(14)	
OPERATING SUPPLIES	819	825	6	
INCENTIVE COMP	11,902	13,202	1,300	Primarily 1993 expense adjustment.
SERVICE AWARDS	625	625	--	
TRAVEL CREDITS	(735)	(475)	260	Sales Force automation travel.
CAFE SUBSIDY	1,734	1,736	2	
OTHER	2,445	2,223	(222)	
TOTAL HUMAN RESOURCES	72,480	73,530	1,050	

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6-9-94 1:08 PM NOTE-HRR
TENTATIVE WORKING ESTIMATE

HUMAN RESOURCES - RICHMOND
1994 SECOND REVISED
STRATEGIC BUSINESS FUNCTION SUMMARY
(\$'s IN 000's)

	1994 SECOND REVISED		1994 ORIGINAL BUDGET		VARIANCE FAV/(UNFAV)	
	H/C	AMOUNT	H/C	AMOUNT	H/C	AMOUNT
<u>HR CORE FUNCTIONS</u>						
HUMAN RESOURCES MANAGEMENT	7	\$1,251	6	\$1,170	(1)	(\$81)
BENEFITS (Richmond)	20	3,056	20	3,766	--	710
MFG TRAINING DEVELOPMENT	30	4,363	30	4,344	--	(19)
EIS AND RECORDS MANAGEMENT	22	1,558	22	1,719	--	161
SUB-TOTAL CORE FUNCTIONS	79	10,228	78	10,999	(1)	771
<u>HR OPERATIONS</u>						
RICHMOND	92	8,205	93	8,229	1	24
LOUISVILLE	45	5,242	45	5,445	--	203
CABARRUS	45	5,099	44	5,078	(1)	(21)
SUB-TOTAL HR OPERATIONS	182	18,546	182	18,752	--	206
<u>INDUSTRIAL RELATIONS</u>						
COMMUNICATIONS & TRAINING SERVICES	7	807	7	752	--	(55)
OCCUPATIONAL HEALTH SERVICES	23	2,108	23	2,133	--	25
LABOR RELATIONS	15	1,317	15	1,298	--	(19)
LABOR RELATIONS PLANNING & ANALYSIS	4	690	5	610	1	(80)
SECURITY	6	5,181	6	4,713	--	(468)
EMPLOYEE & ENVIRONMENTAL PROTECTION	12	1,116	12	1,108	--	(8)
FOOD SERVICES	2	2,130	2	2,156	--	26
TRAVEL AND BUILDING ADMINISTRATION	16	876	16	1,060	--	184
SUB-TOTAL INDUSTRIAL RELATIONS	85	14,225	86	13,830	1	(395)
TOTAL STRATEGIC FUNCTIONS	346	42,999	346	43,581	--	582
DEPRECIATION, INSURANCE & TAXES		4,344		4,650		306
TOTAL HUMAN RESOURCES - RICHMOND	346	\$47,343	346	\$48,231	--	\$888

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6-9-94 1:08 PM NOTE-HRN
TENTATIVE WORKING ESTIMATE

HUMAN RESOURCES - NEW YORK
1994 SECOND REVISED
STRATEGIC BUSINESS FUNCTION SUMMARY
(\$'s IN 000's)

	1994 SECOND REVISED		1994 ORIGINAL BUDGET		VARIANCE FAV(UNFAV)	
	H/C	AMOUNT	H/C	AMOUNT	H/C	AMOUNT
<u>HR MANAGEMENT</u>	5	\$2,102	6	\$1,907	1	(\$195)
<u>HR PLANNING & DEVELOPMENT</u>						
DIVERSITY MANAGEMENT	3	391	3	362	--	(29)
COMPENSATION	4	442	4	433	--	(9)
FIELD SALES DEVELOPMENT	6	875	6	876	--	1
HR HEADQUARTERS	11	1,860	10	1,804	(1)	(56)
ORGANIZATION & MGT DEVELOPMENT	10	2,779	10	2,738	--	(41)
INCENTIVE COMPENSATION		11,902		13,202		1,300
SUB-TOTAL PLANNING & DEVELOPMENT	34	18,249	33	19,415	(1)	1,166
<u>HR SALES</u>						
HR SALES	11	1,384	12	1,504	1	120
SALES TRAINING	15	1,591	15	1,591	--	--
SUB-TOTAL HR SALES	26	2,975	27	3,095	1	120
<u>IS SERVICES</u>		1,811		1,391		(420)
SUB-TOTAL NEW YORK	65	25,137	66	25,808	1	1,286
FORECASTED DEVIATIONS		--		(509)		(509)
SUB-TOTAL HUMAN RESOURCES - NEW YORK	65	\$25,137	66	\$25,299	1	\$162

<u>TOTAL HUMAN RESOURCES RECAP</u>						
TOTAL HUMAN RESOURCES - RICHMOND	346	\$47,343	346	\$48,231	0	\$888
TOTAL HUMAN RESOURCES - NEW YORK	65	25,137	66	25,299	1	162
TOTAL	411	\$72,480	412	\$73,530	1	\$1,050

ASSESSMENT TO PMI (INCLUDED IN G&A ASSESSMENT)

\$6,890

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6-9-94 1:09 PM NOTE-FIX
TENTATIVE WORKING ESTIMATE

HUMAN RESOURCES ASSESSMENT TO FIXED MANUFACTURING
1994 SECOND REVISED
(\$'s IN 000's)

HUMAN RESOURCES - RICHMOND	\$47,344
I.S. SERVICES (060-130-800)	1,811
P11 (DIVERSITY MANAGEMENT)	391
P13 (COMPENSATION)	442
P30 (ORGANIZATION & MANAGEMENT DEVELOPMENT)	1,427
P31 (MBA DEVELOPMENT PROGRAM)	<u>1,352</u>
 TOTAL H.R. ASSESSMENT TO FIXED MANUFACTURING	 <u><u>\$52,767</u></u>
 ALLOCATION TO PMI 34.95%	 <u><u>(18,442)</u></u>
 HR COST INCLUDED IN FIXED COST	 <u><u>\$34,325</u></u>

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
HUMAN RESOURCES
(\$ In Millions)**

TOTAL 1994 ORIGINAL BUDGET **\$73.5**

MAJOR CHANGES VS. 1994 ORIGINAL BUDGET - (INCREASE) / DECREASE

POSTPONEMENT OF FLEX BENEFITS PROJECT 0.9

OTHER 0.1

NET CHANGE 1.0

TOTAL 1994 SECOND REVISED	\$72.5
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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
CORPORATE AND WORLDWIDE AFFAIRS
(\$ In Millions)**

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>VARIANCE (INCREASE)/ DECREASE</u>
CORPORATE AFFAIRS	\$71.4	\$58.8	(\$12.6)
WORLDWIDE REGULATORY AFFAIRS	\$9.5	\$8.0	(1.5)
WORLDWIDE SCIENTIFIC & LEGAL	<u>66.3</u>	<u>5.4</u>	<u>(60.9)</u>
TOTAL INCURRED	\$147.2	\$72.2	(\$75.0)
<u>ASSESSMENTS:</u>			
TO PMPI FOR WORLDWIDE AFFAIRS	<u>(26.5)</u>	<u>(2.9)</u>	<u>23.6</u>
TOTAL CORPORATE AND WORLDWIDE AFFAIRS	<u><u>\$120.7</u></u>	<u><u>\$69.3</u></u>	<u><u>(\$51.4)</u></u>

6-9-94 3:00 PM NOTE-CA
TENTATIVE WORKING ESTIMATE

CORPORATE AFFAIRS
1994 SECOND REVISED
PROJECT SPENDING
(\$'s in 000's)

	<u>SECOND REVISED</u>	<u>ORIGINAL BUDGET</u>	<u>VARIANCE</u>	<u>EXPLANATION</u>
HEAD COUNT	75	75	--	
ADMINISTRATION	\$10,046	\$9,946	(100)	Salaries adjustment.
INDUSTRY ORGANIZATIONS	9,800	8,300	(1,500)	Additional Tobacco Institute funding, (\$3,000 X 50% - PM estimated share).
STATE INITIATIVES	10,973	2,000	(8,973)	State excise tax initiatives (CA, AR, and CO).
FET PROGRAM	2,798	1,998	(800)	Ongoing grassroots activities.
ACCOMODATION PROGRAM	4,300	3,100	(1,200)	Benson & Hedges 1-800 # expansion.
PUBLIC AFFAIRS	7,501	7,438	(63)	
GOVERNMENT AFFAIRS	14,533	14,533	--	
MEDIA AFFAIRS	4,780	4,780	--	
EDITORIAL SERVICES	2,521	2,521	--	
COMMUNITY RELATIONS	4,197	4,197	--	
TOTAL CORPORATE AFFAIRS	<u>\$71,449</u>	<u>\$58,813</u>	<u>(\$12,636)</u>	

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
CORPORATE AFFAIRS
(\$ In Millions)**

TOTAL 1994 ORIGINAL BUDGET	\$58.8
<u>MAJOR CHANGES VS. 1994 ORIGINAL BUDGET - (INCREASE) / DECREASE</u>	
STATE EXCISE TAX INITIATIVES (CA, AR, AND CO)	(\$9.0)
ADDITIONAL TOBACCO INSTITUTE FUNDING	(1.5)
ACCOMODATION PROGRAM	(1.2)
FET PROGRAM	(0.8)
OTHER	<u>(0.1)</u>
NET CHANGE	(12.6)

TOTAL 1994 SECOND REVISED

\$71.4

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6-9-94 1:09 PM NOTE-WWR
TENTATIVE WORKING ESTIMATE

WORLDWIDE REGULATORY AFFAIRS
1994 SECOND REVISED
SPENDING SUMMARY
(\$'s in 000's)

	<u>SECOND REVISED</u>	<u>ORIGINAL BUDGET</u>	<u>VARIANCE</u>	<u>EXPLANATION</u>
HEAD COUNT	11	6	(5)	5 additional positions.
SALARIES AND BENEFITS	\$1,318	\$944	(\$374)	5 additional positions.
CONSULTING AND PROFESIONAL SERVICES	6,275	5,205	(1,070)	State OSHA work.
TRAVEL	364	364	--	
SPONSORSHIPS	1,410	1,410	--	
OTHER	79	79	--	
TOTAL WORLDWIDE REGULATORY	<u>9,446</u>	<u>8,002</u>	<u>(1,444)</u>	

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
WORLDWIDE REGULATORY AFFAIRS
(\$ In Millions)**

TOTAL 1994 ORIGINAL BUDGET \$8.0

MAJOR CHANGES VS. 1994 ORIGINAL BUDGET - (INCREASE) / DECREASE

STATE OSHA WORK (\$1.1)

SALARIES AND BENEFITS (5 ADDITIONAL POSITIONS) (0.4)

NET CHANGE (1.5)

TOTAL 1994 SECOND REVISED	\$9.5
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6-9-94 1:10 PM NOTE-WWL
TENTATIVE WORKING ESTIMATE

WORLDWIDE SCIENTIFIC AND LEGAL ISSUES
1994 SECOND REVISED
(\$'s IN 000's)

EXP. CODE	EXPENSE ELEMENT	1994 SECOND REVISED	MAJOR COMPONENTS OF 1994 SECOND REVISED FORECAST
001	SALARIED HEADCOUNT	11	2 VICE PRESIDENT LEVELS, 2 DIRECTORS, 1 MANAGER, 3 ANALYSTS, 3 SECRETARIES
010	SALARIES	\$472.6	
018	SALARIED OVERTIME	37.0	OVERTIME FOR 3 SECRETARIES
020	SALARIED BENEFITS	207.6	
030	TRAVEL	476.0	6 PEOPLE TRAVELLING DOMESTICALLY 4 TIMES/MO. AT \$1000 EA. JUNE - DECEMBER 4 PEOPLE TRAVELLING INTERNATIONALLY ONCE A MONTH @ \$10,000 JUNE - DECEMBER TEMPORARY LIVING COSTS FOR 2 PEOPLE @ \$10,000/MO. JUNE - DECEMBER
035	MEALS/ENTERTAINMENT	84.0	SEE EXPLANATION FOR 030 TRAVEL
041	TELEPHONE	14.0	CELLULAR PHONES - \$2000.00/MO. JUNE - DECEMBER
044	DATA TRANSMISSION	105.0	LEXUS CHARGES - TIMESHARING \$15,000/MO. JUNE - DECEMBER
053	STATIONARY / SUPPLIES	10.5	DEPARTMENT START-UP NEEDS - \$1500.00/MO. JUNE - DECEMBER
165	RELOCATION	400.0	2 INTERNATIONAL MOVES @ \$150,000, 1 DOMESTIC MOVE @ \$100,000
409	PRESENTATION / STAGING	2,100.0	COSTS INVOLVED IN TEMPORARY OFFICE SETUP/HOTEL ARRANGEMENTS DURING HEARINGS 1 EVENT PER MONTH @ \$300,000 EA. JUNE - DECEMBER
411	SEMINARS / CONFERENCES	200.0	1 INTERNATIONAL CONFERENCE
454	SPONSORSHIPS (501C4)	10,000.0	NATIONAL SMOKERS ALLIANCE \$5.4M RESTATED FROM CORPORATE AFFAIRS
472	PROFESSIONAL SERVICES	5,000.0	BURSON MARSTELLAR - PUBLIC RELATIONS - \$2,500,000 REUTERS TELEVISION - PRODUCTION & DISTRIBUTION OF VIDEO MATERIALS- \$1,500,000 INTERNATIONAL COMMUNICATIONS - \$1,000,000
541	MAIL SERVICE	70.0	DOMESTIC & INTERNATIONAL SERVICES
652	MISC. EQUIPMENT PURCHASES	47.0	20 ENCRYPTED FAX MACHINES @ \$1,600 EA., 3 P.C.'S, 5 PRINTERS, SOFTWARE
857	PUBLICATIONS	100.0	LEGAL & SCIENTIFIC JOURNALS
881	ADVERTISING	23,000.0	YOUNG & RUBICAM CREATIVE, PRODUCTION AND PLACEMENT @ 1,500,000/MO. JUNE - DECEMBER YOUTH ANTI-SMOKING CAMPAIGN \$10,000,000
	SUB-TOTAL	42,323.7	
	DEPREC., INSURANCE & TAXES	0.0	
	TOTAL	42,323.7	
		24,000.0	LEGAL FEES
	TOTAL INCURRED	\$66,323.7	

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
WORLDWIDE SCIENTIFIC AND LEGAL ISSUES
(\$ In Millions)

TOTAL 1994 ORIGINAL BUDGET		\$5.4
<u>MAJOR CHANGES VS. 1994 ORIGINAL BUDGET - (INCREASE) / DECREASE</u>		
LEGAL FEES	(\$24.0)	
ADVERTISING	(23.0)	
PROFESSIONAL SERVICES	(5.0)	
SPONSORSHIPS	(4.6)	
OTHER	<u>(4.3)</u>	
NET CHANGE		(60.9)

TOTAL 1994 SECOND REVISED	\$66.3
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R&D

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RESEARCH AND DEVELOPMENT
ASSESSMENT TO INTERNATIONAL EXPLANATION
1994 SECOND REVISED

	1994 SECOND REVISED	1994 ORIGINAL BUDGET	VARIANCE (INCREASE/ DECREASE)
<u>AVAILABLE PROFIT USED FOR R&D ALLOCATION</u>			
PMUSA	\$6,106.3	\$5,502.4	(\$603.9)
PM PRODUCTS	4,537.6	4,632.0	\$94.4
FTR	707.2	686.0	(\$21.2)
TOTAL	<u>\$11,351.1</u>	<u>\$10,820.4</u>	<u>(\$530.7)</u>
<u>EXPENSES TO BE ALLOCATED</u>			
RESEARCH & DEVELOPMENT - RICHMOND	\$94.7	\$90.6	(\$4.1)
NEW BUSINESS DEVELOPMENT	14.6	14.0	(0.6)
FTR TOTAL R & D SPENDING	29.2	29.7	0.5
PMUSA SPECIFIC CHARGES (CTR)	<u>(11.3)</u>	<u>(11.6)</u>	<u>(0.3)</u>
TOTAL R&D EXPENSES TO BE ALLOCATED	<u>\$127.2</u>	<u>\$122.7</u>	<u>(\$4.5)</u>
<u>ALLOCATION CALCULATION</u>			
TOTAL R&D EXPENSES TO BE ALLOCATED	\$127.2	\$122.7	
1994 SECOND REVISED PROFIT - MM DOLLARS	<u>\$11,351.1</u>	<u>\$10,820.4</u>	
COST PER MM DOLLARS OF PROFIT	<u>\$0.0112</u>	<u>\$0.0113</u>	
<u>PMUSA'S ALLOCATION OF R&D EXPENSES</u>			
PROFIT X COST PER MM DOLLARS OF PROFIT	\$68.4	\$62.5	(\$5.9)
PLUS EXPENSES EXCL FROM ALLOCATED ABOVE:			
COUNCIL FOR TOBACCO RESEARCH(CTR)	11.3	11.6	0.3
PMUSA NET R&D EXPENSE	<u>\$79.7</u>	<u>\$74.1</u>	<u>(\$5.6)</u>
<u>PMI'S ALLOCATION OF PMUSA'S INCURRED EXPENSES</u>			
PMUSA R&D INCURRED FORECAST	\$109.3	\$104.6	(\$4.7)
PMUSA'S PORTION	<u>(79.7)</u>	<u>(74.1)</u>	<u>(5.6)</u>
PMI'S ALLOCATION	<u>\$29.6</u>	<u>\$30.5</u>	<u>(\$0.9)</u>

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
RESEARCH AND DEVELOPMENT
(\$ IN MILLIONS)**

	<u>1994 SECOND REVISED</u>	<u>1994 ORIGINAL BUDGET</u>	<u>VARIANCE (INCREASE)/ DECREASE</u>
CONTROLLABLE R&D	\$79.4	\$75.3	(\$4.1)
NON-CONTROLLABLE R&D			
COUNCIL FOR TOBACCO RESEARCH	\$11.3	\$11.6	\$0.3
CENTER FOR INDOOR AIR RESEARCH	3.0	2.7	(0.3)
CASE WESTERN RESEARCH GRANT	1.0	1.0	--
TOTAL NON-CONTROLLABLE	<u>\$15.3</u>	<u>\$15.3</u>	<u>--</u>
TOTAL INCURRED R&D	<u>\$94.7</u>	<u>\$90.6</u>	<u>(\$4.1)</u>
NEW BUSINESS DEVELOPMENT INCURRED	\$14.6	\$14.0	(\$0.6)
TOTAL INCURRED	<u>\$109.3</u>	<u>\$104.6</u>	<u>(\$4.7)</u>
ASSESSMENT TO INTERNATIONAL	\$29.6	\$30.5	(\$0.9)
TOTAL	<u><u>\$79.7</u></u>	<u><u>\$74.1</u></u>	<u><u>(\$5.6)</u></u>

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RESEARCH & DEVELOPMENT
1994 SECOND REVISED
SPENDING SUMMARY
(\$'s in 000's)

6/9/94 2:28 PM

RESEARCH & DEVELOPMENT	SECOND REVISED	ORIGINAL BUDGET	VARIANCE (INCREASE)/ DECREASE	EXPLANATION
HEAD COUNT	449	449	--	
SALARIES AND BENEFITS	\$38,159	\$36,696	(\$1,463)	
WAGES AND BENEFITS	2,224	2,261	37	
CONSULTING AND PROFESSIONAL SERVICES	17,526	17,097	(429)	CONTINUOUS IMPROVEMENT - (\$232)
CONTRIBUTION	15,405	15,423	18	CIAR - (\$300), CTR - \$318
EXPER MATERIALS & OPR SUPPLIES	5,561	4,988	(573)	
PURCH SERVICES AND MISC EQUIPMENT	6,893	4,926	(1,967)	BANDED PAPER - (\$1585)
TRAVEL	1,428	1,282	(146)	
EXPER DESIGN & MACH IMPROVEMENT	1,020	1,168	148	
DEPRECIATION, INSURANCE, AND TAXES	8,627	9,079	452	FAVORABLE DEPRECIATION RESULTING FROM ASSET DISPOSAL
RENTALS	271	218	(53)	
POSTAGE/MAIL SERVICE	1,124	1,172	48	
UTILITIES	1,369	1,369	--	
PROJECT COST TRANSFER	(6,136)	(5,653)	483	ADDITIONAL BILLING TO PM PRODUCTS
OTHER	1,229	574	(655)	COST TRANSFER FOR CAST LEAF STUDY BY INBIFO - (\$265)
TOTAL RESEARCH & DEVELOPMENT	94,700	90,600	(4,100)	

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RESEARCH AND DEVELOPMENT
1994 SECOND REVISED
(\$ in Millions)

1994 ORIGINAL BUDGET \$90.6

MAJOR CHANGES VS. 1994 ORIGINAL BUDGET - (INCREASE)/DECREASE

BANDED PAPERS (IGNITION PROPENSITY) (\$1.6)

SALARIES AND BENEFITS (1.5)

CIAR (FUNDING FOR EXTENSION OF STUDY) (0.3)

CONTINUOUS IMPROVEMENT PROGRAM (0.2)

OTHER (0.5)

SUB TOTAL RESEARCH & DEVELOPMENT (4.1)

1994 SECOND REVISED INCURRED	\$94.7
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PM NOTE-NBD
TENTATIVE WORKING ESTIMATE

NEW BUSINESS DEVELOPMENT
1994 SECOND REVISED
SPENDING SUMMARY
(\$'s in 000's)

6/9/94 2:59 PM

	SECOND REVISED	ORIGINAL BUDGET	VARIANCE (INCREASE)/ DECREASE	EXPLANATION
<u>NEW BUSINESS DEVELOPMENT</u>				
HEAD COUNT	59	49	(10)	ADDITIONAL MANNING REQUIREMENT
SALARIES AND BENEFITS	\$5,001	\$4,659	(\$342)	ADDITIONAL MANNING REQUIREMENT
CONSULTING AND PROFESSIONAL SERVICES	2,134	2,487	353	
EXPER MATERIALS & OPR SUPPLIES	1,803	1,617	(186)	
PURCH SERVICES AND MISC EQUIPMENT	1,098	1,015	(83)	
TRAVEL	548	490	(58)	
EXPER DESIGN & MACH IMPROVEMENT	2,283	1,162	(1,121)	DESIGN CHANGES TO THE PRODUCT
DEPRECIATION, INSURANCE, AND TAXES	752	1,125	373	
RENTALS	419	436	17	
ADVERTISING	150	500	350	
UTILITIES	196	203	7	
OTHER	216	306	90	
TOTAL NEW BUSINESS DEVELOPMENT	14,600	14,000	(600)	

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NEW BUSINESS DEVELOPMENT
1994 SECOND REVISED
(\$ in Millions)

1994 ORIGINAL BUDGET \$14.0

MAJOR CHANGES VS. 1994 ORIGINAL BUDGET - (INCREASE)/DECREASE

SALARIES AND BENEFITS (PRIMARILY TEN ADDITIONAL HEADCOUNT) (0.3)

OTHER (0.3)

SUB TOTAL NEW BUSINESS DEVELOPMENT (0.6)

1994 SECOND REVISED INCURRED

\$14.6

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RESTRUCTURING

PHILIP MORRIS U.S.A.
SEVERANCE ACCRUAL
 (\$ Millions)

	<u>COSTS</u>	<u>1996 \$ SAVINGS</u>	<u>HEADCOUNT</u>
<u>1993 SEPARATIONS</u>			
Salaried Outplacements Pre-VSP	\$3.7	\$3.3	37
Salaried Outplacements Post-VSP	5.0	4.4	50
Stemmerly Layoff	4.0	9.0	166
20th Street	1.4	2.0	26
	<u>\$14.1</u>	<u>\$18.7</u>	<u>279</u>
<u>OPERATIONS</u>			
Bermuda	\$3.1	\$3.5	34
Capacity Consolidation	144.5	207.9	2,566
Richmond Hourly	2.5	2.9	43
BL Plant	1.8	1.7	26
Operations Commitment	6.4	7.0	64
Park 500	6.8	7.5	112
	<u>\$165.1</u>	<u>\$230.5</u>	<u>2,845</u>
<u>SALES FORCE REDUCTION</u>			
Retail Merchandisers	\$9.8		251
Retail Merchandising Managers	0.4		6
Part-Timers	0.1		100
Outplacement Services	0.1		--
	<u>\$10.4</u>	<u>\$13.8</u>	<u>357</u>
<u>G&A/R&D REDUCTIONS</u>			
Data Center	\$3.3	\$1.6	50
Other I.S.	1.0	1.0	12
Finance	0.5	0.5	12
R&D	2.7	2.9	27
	<u>\$7.5</u>	<u>\$6.0</u>	<u>101</u>

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
1993 SEVERANCE ACCRUAL
(\$ MILLIONS)**

<u>PROGRAM</u>	<u>SECOND REVISED</u>			<u>VARIANCE VS. ORIGINAL BUDGET</u>		
	<u>SAVINGS</u>			<u>INC./(DEC.)</u>		
	<u>COSTS</u>	<u>1996 \$</u>	<u>HEADCOUNT</u>	<u>COSTS</u>	<u>1996 \$</u>	<u>HEADCOUNT</u>
1993 SEPARATIONS	\$14.1	\$18.7	279	\$ --	\$ --	--
OPERATIONS (1)	165.1	230.5	2,845	--	--	--
SALES FORCE REDUCTION	10.4	13.8	357	--	--	--
G&A/R&D REDUCTIONS	<u>7.5</u>	<u>6.0</u>	<u>101</u>	<u>--</u>	<u>--</u>	<u>--</u>
TOTAL	<u>\$197.1</u>	<u>\$269.0</u>	<u>3,582</u>	<u>\$ --</u>	<u>\$ --</u>	<u>--</u>

(1) Includes capacity consolidation and other headcount reduction commitments.

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AT&T

RESTRUCTURING

(\$ In Millions)

	<u>COSTS</u>	<u>1996 \$ SAVINGS</u>	<u>HEADCOUNT</u>
<u>1993 VOLUNTARY SEPARATIONS</u>			
Salaried VSP	\$64.3	\$42.2	483
Louisville Hourly	15.3	14.9	240
	<u>\$79.6</u>	<u>\$57.1</u>	<u>723</u>
 <u>FACILITIES</u>			
20th Street	\$3.3	\$4.5	
Cabarrus	22.5	1.3	
Bermuda	92.1	5.1	
Stockton Street	14.1	1.7	
	<u>\$132.0</u>	<u>\$12.6</u>	

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
1993 RESTRUCTURING
(\$ MILLIONS)**

<u>PROGRAM</u>	<u>SECOND REVISED</u>			<u>VARIANCE VS. ORIGINAL BUDGET INC./(DEC.)</u>		
	<u>COSTS</u>	<u>SAVINGS</u>		<u>COSTS</u>	<u>SAVINGS</u>	
		<u>1996 \$</u>	<u>HEADCOUNT</u>		<u>1996 \$</u>	<u>HEADCOUNT</u>
1993 VOLUNTARY SEPARATION PROGRAMS (A)	\$79.6	\$57.1	723	\$2.9	\$2.5	40
CAPACITY CONSOLIDATION (B)	49.3	--	--	--	--	--
TOBACCO INSTITUTE	1.3	1.1	--	--	--	--
FACILITIES	132.0	12.6	--	--	--	--
TOTAL	\$262.2 (C)	\$70.8	723	\$2.9	\$2.5	40

(A) Louisville Hourly VSP cost and savings increased by 40 positions to reflect actual acceptance.

(B) All savings and headcount reductions are included in the Severance Accrual. Represents disruption for training and equipment relocation.

(C) Excludes \$57.1 million of curtailment credits.

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**PHILIP MORRIS U.S.A.
1994 SECOND REVISED
1994 ADDITIONAL DOWNSIZING PROVISIONS
(\$ MILLIONS)**

<u>PROGRAM</u>	<u>SECOND REVISED</u>			<u>VARIANCE VS. ORIGINAL BUDGET</u>		
	<u>SAVINGS</u>			<u>INC./(DEC.)</u>		
	<u>COSTS</u>	<u>1996 \$</u>	<u>HEADCOUNT</u>	<u>COSTS</u>	<u>1996 \$</u>	<u>HEADCOUNT</u>
HOURLY RETIREMENT PROGRAM (A)	\$73.9	\$17.7	418	(\$13.5)	\$ --	(149) (B)
SALES FORCE VSP	10.2	2.9	70	--	--	--
SALES FORCE REDEPLOYMENT	9.5	8.3	218	--	--	--
TOTAL	<u>\$93.6</u>	<u>\$28.9</u>	<u>706</u>	<u>(\$13.5)</u>	<u>\$ --</u>	<u>(149)</u>

(A) The cost of this voluntary separation program versus a severance program was paid for by manning concessions.

(B) Represents the Louisville Hourly Retirement Program delayed until 1995.

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PMI ALLOCATION

6/14/94 6:07 PM PM 2nd INTL total yearly
TENTATIVE WORKING ESTIMATE

**1994 SECOND REVISED
INTERNATIONAL ASSESSMENTS & DIRECT BILLING SUMMARY**
(\$ Millions)

	1994 PREL. SECOND REVISED	1994 FINAL O.B.	VARIANCE INC./DECR.
<u>FIXED MANUFACTURING</u>			
Cigarette Allocation	\$260.9	\$264.0	(\$3.1)
Direct Billings (Primarily Packaging Materials and York Rebuilds)	7.1	4.7	2.4
5% Mark-up (5% of Cigarette Allocations and Direct Billings + 5% Mark-up for ODM-\$0.9).	14.3	14.4	(0.1)
TOTAL FIXED	\$282.3	\$283.1	(\$0.8)
<u>GENERAL & ADMINISTRATIVE</u>			
Assessment	\$35.7	\$35.5	\$0.2
Direct Billings (Primarily I.S. Projects for PMPI)	2.3	2.4	(0.1)
5% Mark-up	1.8	1.9	(0.1)
TOTAL GENERAL & ADMINISTRATIVE	\$39.8	\$39.8	\$0.0
<u>WORLDWIDE REGULATORY AFFAIRS</u>			
Assessment- Note: Prior to 1994 this was part of Corp. assessment to Intl.	\$26.5	\$2.9	\$23.6
5% Mark-up	1.3	0.1	1.2
TOTAL WORLDWIDE REGULATORY AFFAIRS	\$27.8	\$3.0	\$24.8
<u>RESEARCH & DEVELOPMENT</u>			
Assessment	\$29.6	\$30.5	(\$0.9)
Direct Billings	6.7	5.6	1.1
TOTAL RESEARCH & DEVELOPMENT	\$36.3	\$36.1	\$0.2
<u>LIFO</u>			
Lifo Adjustment	(\$12.3)	(\$0.7)	(\$11.6)
5% Mark-up	(0.6)	0.0	(0.6)
TOTAL LIFO	(\$12.9)	(\$0.7)	(\$12.2)
<u>EXPORT CIGARETTE PRODUCTION</u>			
Standard Variable Cost	\$1,040.1	\$935.6	\$104.5
SVC Deviation (International's Portion of Materials Purchasing Productivity Initiatives)	(20.8)	(18.9)	(1.9)
5% Mark-up	50.9	45.8	5.1
TOTAL EXPORT CIGARETTE	\$1,070.2	\$962.5	\$107.7
<u>PURCHASED DUTY FREE CIGARETTES*</u>			
Cigarettes	\$73.6	\$87.7	(\$14.1)
5% Mark-up	3.7	4.4	(0.7)
TOTAL PURCHASED DUTY FREE CIGARETTES	\$77.3	\$92.1	(\$14.8)
<u>EXPORT TOBACCO</u>			
Standard Variable Cost	\$244.1	\$251.7	(\$7.6)
Variable Deviation	1.3	0.0	1.3
Fixed Costs for Tobacco Processing	8.0	8.0	0.0
Purchased Duty Free *	5.8	7.1	(1.3)
5% Mark-up	13.0	13.3	(0.3)
TOTAL EXPORT TOBACCO	\$272.2	\$280.1	(\$7.9)
GRAND TOTAL	\$1,793.0	\$1,696.0	\$97.0

* Canadian cigarettes and tobacco purchased and resold to PMI.

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED FORECAST
FIXED COSTS ALLOCATION TO PMI
(\$ IN MILLIONS)

INCURRED FIXED COSTS

Total Incurred Fixed Manufacturing Costs	\$658.7
Plus: HR Assessment to Fixed Costs	52.8
Less: Samples charged to Marketing	(3.0)
Total Incurred Fixed Costs	\$708.5

CIGARETTE ASSESSMENT TO PMI

Total Incurred Fixed Costs	\$708.5
Add: Product Services/Promo & Merch. Svcs. charged to Sales	27.8
 New Products Development Expenses charged to Marketing	 1.6
Less: Domestic Rework Cost Center (#125)	(2.1)
Export Rework Cost Centers (#124 & #126)	(5.4)
Tobacco Assessment	(6.7)
Production Overtime	(4.0)
Total Incurred Fixed Costs For PMI	\$719.7
Assessment Factor	37.24%
 Add: Export Rework Cost Center (#126)	 5.4
Bond Street and L&M cigarettes adjustment	(16.5)
Production Overtime	4.0
Direct Billings	7.1
TOTAL CIGARETTE ASSESSMENT TO PMI	\$268.0

TOBACCO ASSESSMENT TO PMI

Total Incurred Fixed Costs	\$708.5
Add: Product Services/Promo & Merch. Svcs. charged to Sales	27.8
New Products Development Expenses charged to Marketing	1.6
Less: Domestic Rework Cost Center (#125)	(2.1)
Export Rework Cost Centers (#124 & #126)	(5.4)
Production Overtime	(4.0)
Total Incurred Fixed Costs For PMI	\$725.4
Assessment Factor	0.924%
Total Tobacco Assessment to PMI	\$6.7

COMMENTS

- Represents HR support provided to Fixed Manufacturing Operations.
- Represents the fixed costs related to sample cigarettes that are charged to Marketing.
- Represents cost centers that were part of Mfg. Svcs. prior to the 7/1/93 reorganization moving them to Sales (incl. F/G Warehousing, Transportation, Customer Service, Commercial Dev.)
- Represents new brands development costs incurred by Engineering & the Plants, but costs are transfer to Marketing.
- Excluded from Assessment because USA absorbs all the costs.
- Excluded from assessment because all expenses are charged to PMI.
- Excluded to recognize portion of incurred costs assessed for Tobacco processing below
- Excluded from assessment because all expenses are charged to PMI.
- Assessment percent is based on PMI's percentage of total production (125.8 billion of 337.8 billion units.)
- Credit for no fixed cost allocated to 11.9 billion units of valued products for PMI.
- Primarily packaging graphics and rebuilds.
- Explanations same as noted above for cigarette assessment.
- Assessment percent is based on a historical factor of Fixed Support functions' efforts developed to Export Processed Tobacco products.

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TENTATIVE WORKING ESTIMATE

PHILIP MORRIS U.S.A.
1994 SECOND REVISED
G&A ASSESSMENT TO PMI
(\$'s IN MILLIONS)

6-8-94 6:24 PM NOTE-GA/PMI

G&A

INCURRED COSTS:

New York Executive	\$8.3
New York Purchasing	3.4
Finance	36.8
Information Services	49.5
Human Resources	72.5

Less: • Information Services Operations costs
related to Sales and Marketing (15.5) • Excluded from Assessment because USA absorbs all the costs.

• Human Resources Assessment to Fixed (52.8) • Represents HR support provided to Fixed Manufacturing Operations.

Total Incurred Costs \$102.2

G&A ASSESSMENT TO PMI:

Total Incurred Costs \$102.2

Assessment Factor 34.95% • Assessment percent is based on PMI's percentage of total production.

TOTAL G&A ASSESSMENT TO PMI \$35.7

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TENTATIVE WORKING ESTIMATE

6-9-94 1:11 PM NOTE-WW/PMI

**PHILIP MORRIS U.S.A.
WORLDWIDE REGULATORY AFFAIRS
ASSESSMENT TO PMI
1994 SECOND REVISED
(\$'S IN MILLIONS)**

INCURRED COSTS	\$75.8
ASSESSMENT FACTOR	<u>34.95%</u>
TOTAL WORLDWIDE REGULATORY AFFAIRS ASSESSMENT TO PMI	<u>\$26.5</u>

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R & D ASSESSMENT ALLOCATION
1994 SECOND REVISED - PRELIM

1994 AVAILABLE PROFIT		
	\$	%
PMUSA	\$ 6,106.3	53.8%
PM PRODUCTS	4,537.6	40.0%
FTR	707.2	6.2%
TOTAL WORLDWIDE	\$ 11,351.1	100.0%

COMMENTS

THE R&D ALLOCATION IS BASED ON THE AVAILABLE PROFIT OF THE RESPECTIVE OPERATING COMPANY.

ALLOCATION CALCULATION

PMUSA R & D SPENDING	\$ 94.7
NEW BUSINESS DEVELOPMENT	\$ 14.6
PMI SPECIAL TEST CHARGES	6.7
PM PRODUCTS R & D COST CENTERS	4.5
FTR TOTAL R & D SPENDING	29.2
FTR S & T PATENTS	0.9
TOTAL R & D COSTS	\$ 150.6

R&D RICHMOND.

TEST PERFORMED IN RICHMOND BY PMUSA AT THE REQUEST OF PMI.
PM PRODUCTS' OPERATIONS (QZ COST CENTERS) IN RICHMOND.
R&D NEUCHATEL, SWITZERLAND.
PATENTS GROUP - NEUCHATEL.

LESS: PMI SPECIAL TEST CHARGES	(6.7)
PM PRODUCTS R & D COST CENTERS	(4.5)
PMUSA SPECIFIC CHARGES (CTR)	(11.3)
S & T - PATENTS COST TO PMPI	(.8)
S & T - PATENTS TO FTR	(.1)
TOTAL R & D COSTS TO BE ALLOCATED	\$ 127.2

THESE SPECIFIC COSTS ARE ABSORB BY THE OPERATING COMPANY NOTED IN THE DESCRIPTION IN THEIR ENTIRETY.

ALLOCATION BY LEGAL ENTITY			
PMUSA	\$ 127.2	53.8%	\$ 68.4
PM PRODUCTS	\$ 127.2	40.0%	\$ 50.9
FTR	\$ 127.2	6.2%	\$ 7.9
TOTAL R & D COSTS TO BE ALLOCATED			\$ 127.2

RECAP OF EXPENSE BY LEGAL ENTITY

	ALLOC. R&D EXP.	SPECIFIC BILLINGS	S & T	TOTAL R&D
PMUSA	\$ 68.4	\$ 11.3		\$ 79.7
PM PRODUCTS	\$ 50.9	11.2	0.8	62.9
FTR	\$ 7.9		0.1	8.0
	\$ 127.2	\$ 22.5	\$ 0.9	\$ 150.6

PMUSA ASSESSMENT ALLOCATION	94.0B
TOTAL PMUSA INCURRED R & D COSTS	\$ 109.3
PMUSA R & D PORTION	79.7
ASSESSMENT TO PMI	\$ 29.6

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PHILIP MORRIS U. S. A.
1994 SECOND REVISED
CHARGES TO PHILIP MORRIS INTERNATIONAL

	<u>1994 SECOND REVISED</u>		<u>CHANGE VS. 1994 O.B.</u> <u>INCREASE/(DECREASE)</u>	
	<u>\$ Millions</u>	<u>\$ Per M</u>	<u>\$ Millions</u>	<u>\$ Per M</u>
<u>Cigarettes</u>				
Fixed	\$282.3	\$2.24	(\$0.8)	(\$0.25)
Variable	1,070.2 (A)	8.51	107.7	0.06
Sub-Total	<u>\$1,352.5</u>	<u>\$10.75</u>	<u>\$106.9</u>	<u>(\$0.19)</u>
Tobacco	272.2		(7.9)	
LIFO	(12.9)		(12.2)	
Purchased Duty Free Cigarettes	77.3		(14.8)	
Research & Development	36.3		0.2	
General & Administrative	39.8		--	
Worldwide Regulatory	<u>27.8</u>		<u>24.8</u>	
Total	<u><u>\$1,793.0</u></u>		<u><u>\$97.0</u></u> (B)	

(A) Includes \$8.11/m manufacturing costs (net of special pricing on 11.9 billion units) and \$0.40/m markup (125.8 billion units).

(B) Increase due to higher export production (125.8 vs. 113.9 billion units).

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**PHILIP MORRIS U. S. A.
1994 SECOND REVISED
FIXED COST PER THOUSAND**

	<u>1994 SECOND REVISED</u>		<u>CHANGE VS. 1994 O.B. INCREASE/(DECREASE)</u>	
	<u>\$ MILLIONS</u>	<u>\$ PER M</u>	<u>\$ MILLIONS</u>	<u>\$ PER M</u>
FIXED MFG. COSTS	\$208.8	\$1.65	\$10.9	(0.09)
<u>ADDITIONS</u>				
HUMAN RESOURCES ASSESSMENT	19.7	0.16	0.7	(0.01)
DISTRIBUTION SERVICES	10.4	0.08	4.7	0.03
PMI PRODUCT DEVELOPMENT	0.6	--	(2.6)	(0.03)
OTHER	21.4 (A)	0.17	(16.8)	(0.16)
DIRECT BILLINGS (PRIMARILY PACKAGING GRAPHICS AND REBUILDS)	7.1	0.06	2.4	0.02
5% MARKUP (Plus 5% markup for ODM-\$0.9)	<u>14.3</u>	<u>0.12</u>	<u>(0.1)</u>	<u>(0.01)</u>
FIXED COSTS BEFORE PMI ADJUSTMENTS	<u>\$282.3</u>	<u>\$2.24</u>	<u>(\$0.8)</u>	<u>(\$0.25)</u>
<u>PMI ADJUSTMENTS</u>				
5% MARKUP VARIABLE CONVERSION COSTS	10.2 est.	0.08	0.6 est.	--
TOTAL FME FOR EXPORT	<u><u>\$292.5</u></u>	<u><u>\$2.32</u></u>	<u><u>(\$0.2)</u></u>	<u><u>(\$0.25)</u></u>

(A) Expense related to 1994 hourly separation program - \$25.8, export rework expense - \$5.4, credit for Valued Products - (\$16.5), samples credit and other adjustments.

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PHILIP MORRIS U.S.A.
1994 SECOND REVISED
1994 ADDITIONAL DOWNSIZING PROVISIONS
(\$ MILLIONS)

<u>PROGRAM</u>	<u>SECOND REVISED</u>			<u>VARIANCE VS. ORIGINAL BUDGET</u>		
	<u>SAVINGS</u>			<u>INC./(DEC.)</u>		
	<u>COSTS</u>	<u>1996 \$</u>	<u>HEADCOUNT</u>	<u>COSTS</u>	<u>1996 \$</u>	<u>HEADCOUNT</u>
HOURLY RETIREMENT PROGRAM (A)	\$73.9	\$17.7	418	(\$13.5)	\$ --	(149) (B)
SALES FORCE VSP	10.2	2.9	70	--	--	--
SALES FORCE REDEPLOYMENT	9.5	8.3	218	--	--	--
TOTAL	<u>\$93.6</u>	<u>\$28.9</u>	<u>706</u>	<u>(\$13.5)</u>	<u>\$ --</u>	<u>(149)</u>

(A) The cost of this voluntary separation program versus a severance program was paid for by manning concessions.

(B) Represents the Louisville Hourly Retirement Program delayed until 1995.