

**AMERICA - PACIFIC
MONTHLY REPORT**

May, 1996

1. Key Performance Indicators

USA Industry	May	vs Last Year	YTD	vs Last Year
Shipments (bn)	43.0	-3.6	196.4	+2.7
Premium Segment Share	71.6%	+2.0	71.2%	+1.7
A-P Market Shares (%)				
USA - Premium	7.79	+0.32	7.56	-0.12
VFM	10.23	-0.12	10.09	-0.47
Total	18.02	+0.20	17.65	-0.59
Strategic Brands	13.22	+0.37	12.77	+0.05
Japan	5.56	+0.30	5.46	+0.24
Korea	0.90	+0.20	0.70	-

Shipments (bn)	May	vs Budget	YTD	vs Budget	vs Last Year
By Market:		Fav(Unfav)		Fav(Unfav)	Fav(Unfav)
USA - Premium	3.3	0.2	14.9	(0.2)	-
VFM	4.4	0.5	19.8	1.2	(0.7)
Total	7.7	0.6	34.7	1.1	(0.7)
Japan (ex. Carlton)	1.7	-	8.0	-	0.8
Korea	0.1	-	0.3	-	0.2
Other	0.1	0.1	0.4	-	-
Total A-P Managed	9.6	0.7	43.4	1.1	0.3
By Brand:					
GPC	2.6	-	11.4	(0.6)	(0.1)
Kool	2.0	0.3	7.8	(0.4)	0.3
Kent - Japan	1.0	-	5.4	0.4	0.7
- Other	0.0	-	0.1	(0.1)	-
Misty	0.6	-	2.8	-	0.4
Carlton (ex. Japan)	0.6	-	2.5	(0.2)	(0.1)
Lucky Strike - Japan	0.3	-	1.7	(0.1)	(0.1)
- Other	0.1	-	0.5	-	-
Private Label	0.5	-	2.2	-	(0.1)
Pall Mall	0.5	-	2.1	-	(0.1)
Capri/Finesse	0.4	(0.1)	1.7	-	0.2
Viceroy	0.3	-	1.5	0.1	(0.1)
Montclair	0.4	0.4	1.7	1.7	(0.5)
All Others	0.4	-	2.0	0.1	(0.2)
Total Cigarettes	9.6	0.7	43.4	1.1	0.3

Business Indicators	Next Quarter End YTD		Full Year	
	Forecast	vs Budget	Forecast	vs Budget
Trading Profit (\$ mil)	511.6	33.5	1,010.0 *	9.2
Op. Cash Flow (\$ mil)			841.0	15.2
Yen - % of year hedged			92%	4%
- avg. contract rate			94.4	(0.4)
Volume produced for other regions (bns)	13.8	(4.1)	36.6	(2.7)
Avg. Variable Cost/M (Macon)	-	-	8.87	
CPMH (M)	30.0	(3.4)	32.7	(1.8)

* QPR basis, less Levant and Israel.

2. Performance Highlights

(i) May Year to Date

USA Industry shipments increased 1.37% versus last year as a result of two additional billing days plus trade inventory rationalization in 1995. America-Pacific shipments of 34.7 billion were down 1.9% compared to last year. Market share was down .59 share points to 17.65%, due primarily to volume declines in non-priority brands offsetting trend improvements in priority brands.

Kool market share was 3.67%, flat versus last year with an increase in shipments of 1.14%. Share of segment increased .59 share points due to a summer promotion.

GPC share of 5.76% was down .15 share points. GPC share should improve due to an increase in discounting initiated to maintain a competitive net price position.

Misty's share of 1.43% was up .21 share points. Misty's growth is attributable to increase in demand, May promotional activity, and lower sales in 1995 due to the integration of ATCo activities. Capri also increased share by .04 share points to achieve .65% market share.

Carlton's share of 1.27% was down .04 share points. Carlton merchandise catalog began this month offering non-branded household items for UPC labels. Pall Mall and Viceroy's market shares were down .05 and .08 share points, respectively.

Operations: Labor negotiations began in Macon with the Tobacco Workers for economic issues in the last three years of a seven year contract.

Japan Industry shipments increased 2.5% versus last year and international brands were up 10.4%, led by Marlboro, Salem, and Philip Morris.

America-Pacific market share grew .24 share points to 5.46%. Kent continues to lead B&W growth, growing 8% from the introduction of Kent 1 100's (.4% market share). Kent Super Lights King Size and 100's began promoting the change from 6mg to 5mg. Lucky Strike sales have increased by 1.28%. Sales of Kool and Capri continue to demonstrate solid growth.

Korea Industry shipments were up 23.8% in anticipation of a price increase in July. Import volumes grew 13.6%. America-Pacific in-market volume of 347 million was up 33.8%.

The relaunch of Kent 1 continued in May utilizing retailer gift with purchase and display lottery programs with retailers to encourage distribution and visibility. Almost 3,000 stores were added to the telesales system with over 500 of those stores registering as new customers. The test of the merchandising catalog program, which awards points to retailers based on volume growth, continued successfully. The test will run through September.

(ii) Next Quarter End and Annual Estimate

Trading profit in the first half is expected to be favorable to budget by \$33.5 million, due mainly to unbudgeted sales of Montclair and the timing of marketing expenditures. Annual trading profit is expected to be \$9.2 million above budget due to favorable U.S. pricing and unbudgeted sales of Montclair, partially offset by increasing legal expenses and the effect of lower volumes in markets managed by other regions.

3. Key Issues

USA Philip Morris share was up .96 share points to 47.31%. Marlboro continues to grow with an increase of 1.53 share points versus last year. Basic is growing as the VFM segment consolidates under pressure from Marlboro. Philip Morris has begun promoting Parliament Menthol Lights.

RJR is down .54 share points to 24.98%, despite growth in Doral and Camel. RJR has begun extensive use of distributor assembled and mailed displays to increase Doral's distribution. Also, Doral is inviting consumers to join "Doral & Co.", a direct mail program. Doral surged recently to the third largest selling brand position (after Marlboro and Newport) and its aggressive discounting is showing no signs of abeyance. Camel has grown .4 share points to 4.5%, while Winston has fallen to the number five position losing .21 share points to 5.4%. On-going buy down programs of \$3/carton for Winston, Salem, and Camel have begun at retail.

The Eclipse test market began June 3, in Chattanooga, Tennessee. The product is a significantly different smoking experience and testing indicates smoking quality varies in the beginning, middle and end of the cigarette. The middle puffs were found not to be objectionable, but they had little tobacco taste/satisfaction. Menthol was OK at first but gone halfway through. RJR has modest initial share objectives (1%) for this niche brand. Eclipse is essentially the same as Hi-Q, which is in test in Germany.

Lorillard share increased .55 share points to 8.34% on the strength of Newport, which has grown to number two in the market. Newport continues to discount \$4/carton through most of the US, outside the Northeast in which they have most strength. Newport has begun a merchandise catalog continuity program.

Liggett has declined to a market share of 1.7% (74% VFM, 26% full revenue).

CORA: Nine states are now seeking to recover the public health care cost allegedly due to smoked related illnesses.

The court of appeals reversed class action status in the Castano suit, a true victory for the industry. However, plaintiffs' counsel have begun to file class actions in state courts. It is unclear how large a problem these class actions will become and how significant a "chilling" effect the Castano decision will have on them.

Despite Philip Morris' unilateral proposals, it is unlikely that a legislative compromise will be reached in 1996 regarding the FDA. However, some speculation continues that the final FDA rule will be published prior to the election. If issued, the industry would raise a court challenge.

Japan PMI share (excluding Marlboro licensed to JT) was up .38 share points to 13.1%. Share continues to benefit from Philip Morris Super Lights 100's and Virginia Slims Ultra Lights (¥250). Also, Parliament continues to demonstrate strength on both King Size and 100's styles of Parliament Lights. In May, Virginia Slims Ultra Lights Menthol was introduced with a low sidestream product attribute. Initial samples indicate that the smoke reduction is not as effective as Salem Pianissimo.

RJR sales increased 25.6% to achieve a 2.3% market share, with growth driven by Salem Pianissimo. In August, RJR will introduce Premier Pianissimo (1 mg, ¥250), likely to feature low sidestream. Sales of Winston continue to show steady growth with Winston 1 100's. Camel sales are flat and Vantage continues to decline.

JTI market share declined to 78.3%. Marlboro is growing at a 35.3% annual rate. Cabin continues to grow due to the introduction of Cabin Ultra Mild, and Mild Seven grew slightly with Mild Seven Extra Lights.

The Ministry of Finance announced that the next stock offering of JT will take place by the end of June. Upon this announcement the stock fell 5% to a 1996 low.

Korea JTI volumes were down 30.9% due to retail pressures from KT&GC.