INTERNATIONAL CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

January 8, 1973

LIG- 138364

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

NON-EUROPE EXPORT

1971 ACTUAL	%	1972 PROJECTED	%		1973 BUDGET	%	1974 FORECAST	%
				UNIT SALES			1897	
1829		1740		Cigarette (MM)	1807			
117				Tobacco (M. Lbs.)				
$ 14234	104.9	$ 12463	108.0	NET SALES	$ 13039	104.3	$ 13591	103.5
666	4.9	922	8.0	Promo. Allow.	548	4.3	455	3.5
$ 13568	100.0	$ 11541	100.0	Net Sales after Prom. Allow.	$ 12491	100.0	$ 13136	100.0
				COST OF PRODUCT:				
$ 9209	67.9	$ 7841	67.9	Cost of Sales at Standard	$ 8259	66.1	$ 8813	67.1
				Variances:				
46	.3	96	.8	Expense	-	-	-	
102	.8	48	.5	Volume			-	
19	.1	46	.4	Past Service Cost	45	.3	41	.3
20	.2	-	-	Plant Automation				
$ 9396	69.3	$ 8031	69.6	Total	$ 8304	66.4	$ 8854	67.4
16	.1	46	.4	Distribution Expense	66	.6	69	.5
$ 9412	69.4	$ 8077	70.0	Total	$ 8370	67.0	$ 8923	67.9
$ 4156	30.6	$ 3464	30.0	MANUFACTURING MARGIN	$ 4121	33.0	4213	32.1
1786	13.2	2056	17.8	Selling Expense	2170	17.4	2259	17.2
$ 2370	17.4	$ 1408	12.2	SALES MARGIN	$ 1951	15.6	$ 1954	14.9
11	.1	26	.2	Tech. Research	8	-	9	.1
10	.1	-	-	Mkt. Research	-	-	-	-
197	1.4	271	2.4	Division G & A	307	2.5	330	2.5
158	1.1	138	1.2	Corporate G & A	138	1.1	146	1.1
$ 376	2.7	$ 435	3.8	Total	$ 453	3.6	$ 485	3.7
$ 1994	14.7	$ 973	8.4	PROFIT BEFORE ADVERTISING	$ 1498	12.0	$ 1469	11.2
				Advertising:				
437	3.2	390	3.4	Media	395	3.2	406	3.1
157	1.2	257	2.2	Promotion	406	3.2	406	3.1
72	.5	153	1.3	Market G & A	158	1.2	136	1.0
$ 666	4.9	$ 800	6.9	Total	$ 959	7.6	$ 948	7.2
$ 1328	9.8	$ 173	1.5	OPERATING PROFIT	$ 539	4.4	$ 521	4.0
				Lic. & Royalty Oper.				
				Uncon. Foreign Subs.				
				Other N/O Income				
				Other N/O Expense				
$ 1328		$ 173		CONTRIBUTION TO PROFIT	$ 539		$ 521	

LG 0218643

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

NON-EUROPE LICENSEE

1971 ACTUAL	%	1972 PROJECTED	%		1973 BUDGET	%	1974 FORECAST	%
				UNIT SALES				
				Cigarette (MM)				
				Tobacco (M. Lbs.)				
$ 920	100.0	$ 1195	100.0	NET SALES	$ 843	100.0	$ 886	100.0
				Promo. Allow.				
$ 920	100.0	$ 1195	100.0	Net Sales after Prom. Allow.	$ 843	100.0	$ 886	100.0
				COST OF PRODUCT:				
$ 796	86.5	$ 1033	86.4	Cost of Sales at Standard	$ 718	85.2	$ 757	85.4
				Variances:				
				Expense				
				Volume				
				Past Service Cost				
				Plant Automation				
$ 796	86.5	$ 1033	86.4	Total	$ 718	85.2	$ 757	85.4
				Distribution Expense				
$ 796	86.5	$ 1033	86.4	Total	$ 718	85.2	$ 757	85.4
$ 124	13.5	$ 162	13.6	MANUFACTURING MARGIN	$ 125	14.8	$ 129	14.6
				Selling Expense				
$ 124	13.5	$ 162	13.6	SALES MARGIN	$ 125	14.8	$ 129	14.6
33	3.6	40	3.4	Tech. Research	67	7.9	70	7.9
23	2.5	-	-	Mkt. Research	12	1.4	15	1.7
376	40.9	409	34.2	Division G & A	495	58.8	530	59.8
120	13.0	99	8.3	Corporate G & A	102	12.1	107	12.1
$ 552	60.0	$ 548	45.9	Total	$ 676	80.2	$ 722	81.5
$ (428)	(46.5)	$ (386)	(32.3)	PROFIT BEFORE ADVERTISING	$ (551)	(65.4)	$ (593)	(66.9)
				Advertising:				
$ 90	9.8	$ 294	24.6	Media	$ 365	43.3	397	44.8
12	1.3	-	-	Promotion	-	-	-	-
25	2.7	24	2.0	Market G & A	28	3.3	41	4.6
$ 127	13.8	$ 318	26.6	Total	$ 393	46.6	$ 438	49.4
$ (555)	(60.3)	$ (704)	(58.9)	OPERATING PROFIT	$ (944)	(112.0)	$ (1031)	(116.3)
$ 1384	(	$ 1960		Lic. & Royalty Oper.	$ 1759		$ 1876	
				Uncon. Foreign Subs.				
96		38		Other N/O Income	159		150	
				Other N/O Expense				
$ 925		$ 1294		CONTRIBUTION TO PROFIT	$ 974		$ 995	

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

NON-EUROPE ROYALTY AND TECHNICAL SERVICE INCOME

COMPLEMENT

1972 BUDGETED ________

1972 ACTUAL ________

1973 BUDGETED ________

1971 ACTUAL	1972 PROJECTION		1973 BUDGET	1974 FORECAST
$ 607,313	$ 852,000	Argentina	$ 858,000	$ 968,000
-	10,000	Algeria	6,750	8,000
92,576	118,000	Australia	123,500	147,000
52,476	63,000	Bolivia	63,500	71,000
66,868	79,000	Costa Rica	78,720	88,000
80,000	80,000	Mexico	80,000	80,000
-	5,000	Morocco	31,100	35,000
-	13,000	Peru	10,000	11,000
637,757	502,000	Philippines	468,000	468,000
$ 1,536,990	$1,722,000	Sub-total	$1,719,570	$1,876,000
(153,361)	-	Philippine Reserve	-	-
-	238,000	Reversal of Phil.Res.	39,000	-
$ 1,383,629	$1,960,000	Total	$1,758,570	$1,876,000

NON EUROPE

LG 0218646

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

CONSOLIDATED NON-EUROPE

1971 ACTUAL	%	1972 PROJECTED	%		1973 BUDGET	%	1974 FORECAST	%
				UNIT SALES				
1829		1740		Cigarette (MM)	1807		1897	
117				Tobacco (M. Lbs.)				
$ 15154	104.6	$ 13658	107.2	NET SALES	$ 13882	104.1	$ 14477	103.2
666	4.6	922	7.2	Promo. Allow.	548	4.1	455	3.2
$ 14488	100.0	$ 12736	100.0	Net Sales after Prom. Allow.	$ 13334	100.0	$ 14022	100.0
				COST OF PRODUCT:				
$ 10005	69.1	$ 8874	69.7	Cost of Sales at Standard	$ 8977	67.3	$ 9570	68.2
				Variances:				
46	.3	96	.6	Expense	-	-	-	-
102	.7	48	.4	Volume	-	-	-	-
19	.1	46	.4	Past Service Cost	45	.4	41	.3
20	.2	-	-	Plant Automation	-	-	-	-
$ 10192	70.4	$ 9064	71.1	Total	$ 9022	67.7	$ 9611	68.5
16	.1	46	.4	Distribution Expense	66	.5	69	.5
$ 10208	70.5	$ 9110	71.5	Total	$ 9088	68.2	$ 9680	69.0
$ 4280	29.5	$ 3626	28.5	MANUFACTURING MARGIN	$ 4246	31.8	$ 4342	31.0
1786	12.3	2056	16.2	Selling Expense	2170	16.2	2259	16.1
$ 2494	17.2	$ 1570	12.3	SALES MARGIN	$ 2076	15.6	$ 2083	14.9
44	.3	66	.4	Tech. Research	75	.6	79	.6
33	.2	-	-	Mkt. Research	12	.1	15	.1
573	4.0	680	5.4	Division G & A	802	6.0	860	6.1
278	1.9	237	1.9	Corporate G & A	240	1.8	253	1.8
$ 928	6.4	$ 983	7.7	Total	$ 1129	8.5	$ 1207	8.6
$ 1566	10.8	$ 587	4.6	PROFIT BEFORE ADVERTISING	$ 947	7.1	$ 876	6.3
				Advertising:				
$ 527	3.6	$ 684	5.4	Media	$ 760	5.7	$ 803	5.7
169	1.2	257	2.0	Promotion	406	3.0	406	2.9
97	.7	177	1.4	Market G & A	186	1.4	177	1.3
$ 793	5.5	$ 1118	8.8	Total	$ 1352	10.1	$ 1386	9.9
$ 773	5.3	$ (531)	(4.2)	OPERATING PROFIT	$ (405)	(3.0)	$ (510)	(3.6)
1384		1960		Lic. & Royalty Oper.	1759		1876	
208		(52)		Uncon. Foreign Subs.	(377)		N.A.	
96		38		Other N/O Income	159		150	
				Other N/O Expense				
$ 2461		$ 1415		CONTRIBUTION TO PROFIT	$ 1136		$ 1516	

<u>1973 BUDGET PRESENTATION</u>

<u>NON-EUROPE</u>

<u>NON-EUROPE CONSOLIDATED</u>

The overall development of Unit Sales, Net Sales and Profit Contribution for Non-Europe are as follows:

	1971 Actual	1972 Budget	1972 Projected	1973 Budget
(Millions)				
Export Units	1,829	1,726	1,740	1,807
Licensee Units	3,706	3,989	4,121	4,192
Total Units	5,535	5,715	5,861	5,999
($000)				
Net Sales	15,154	13,136	13,658	13,882
Contribution to Profit	2,461	1,401	1,415	1,136

For 1972 total units of Liggett brands are over budget and over last year. A further increase is budgeted for 1973, with both exports and licensee units showing an upward trend.

Net Sales and Contribution to Profit in 1972 were over budget, but below last year due to decreases in Exports and Brazil.

The 1971-72 comparison of export sales and profits is distorted by heavy strike shipments in late 1971, which correspondingly reduced first quarter 1972 business.

For 1973 we are budgeting an increase in Net Sales but a lower

Profit Contribution due to a non-recurring income item in the 1972 licensee operations and lower profitability in Brazil and Mexico for 1973. The 1973 Net Sales and Profit are also affected by a change in accounting treatment of shipments to Paraguay, Uruguay and Lark-Japan. It has been decided that these shipments should more properly be considered consignments and this changeover will have a one-time effect of reducing 1973 units by 86 million and manufacturing margin by $195,000. In other words, on a basis comparable to 1972, the 1973 export units would be 1,893 billion, total units would be 6,085 billion, Net Sales would be $14,552 million and Profit Contribution approximately $1,335 million.

NON-EUROPE EXPORT

A) 1972 Business Analysis

1) All companies exports to Non-Europe areas through October declined from 1971 as follows:

(in millions)

1971	1972
19,008	18,932

2) The four largest export markets where Liggett does not have any significant position have shown the following total U.S. exports through October:

(in millions)

	1971	1972
Netherlands Antilles	1,327	1,616
Panama	1,464	1,488
Lebanon	1,493	1,617
Hong Kong	3,213	3,554
Total	7,497	8,275

All other Non-Europe export countries decreased 7.4% as follows:

(in millions)

	1971	1972
Other Non-Europe	11,511	10,657

Liggett's business in these Other Non-Europe export countries was as follows:

(in millions)

	1971	1972
Liggett	1,172	1,174

Thus, Liggett has increased its share in the rest of the Non-Europe export areas despite our very heavy pre-longshoremen's strike shipments in August and September, 1971.

3) Leading Competition --

Netherlands Antilles

The leading competitors are:

Kent -- Transit to Colombia

Marlboro -- Transit to Colombia

Winston -- Transit to Venezuela

Panama

The leading competitors are:

Kent -- Transit to Colombia

Marlboro -- Transit to Colombia

Lebanon

The leading competitor is:

Marlboro -- 75% of internal market

Hong Kong

The leading competitors are:

Viceroy -- Leading brand

Winston -- Second rank brand and declining

Kent -- Third rank brand and increasing sharply

The transit markets are so dominated by the brands involved that it has been impossible for Liggett to gain a significant share due to lack of demand in the target areas. In Lebanon and Hong Kong the vast advertising expenditures of our competitors have made it impossible for us to gain a significant foothold.

4) South American Transit --

a) Southern Triangle

Aside from a general decline due to complications caused by the illegal narcotics trade, the following were adversely affected:

Argentina -- This important target market was beset by political and economic problems sharply reducing transit sales. Nevertheless, Liggett retained the leading share.

Paraguay -- High transit taxes all but halted movement to Argentina and Brazil.

B) Positioning Our Brands

Sales distribution among our major brands by area follows:

(in millions of cigt's.)

Area	Brand	1971	Proj. 1972	Budget 1973
North America	LARK	79	64	72
	CHES.	105	79	88
	L & M	60	45	51
	Others	8	8	8
No. South America	LARK	205	210	242
	CHES.	132	108	99
	L & M	94	29	36
	Others	13	9	--
So. South America	L & M	320	166	198
	Others	48	29	35
Japan & Pacific	LARK	125	139	134*
	L & M	50	50	62
	EVE	5	55	52
	Others	11	3	--
*not including 45 consignment				
Southeast Asia	L & M	27	8	20
	CHES.	64	55	65
	Others	--	5	4
Middle East	L & M	145	290	282
	LARK	71	139	169
	Others	23	34	37
TOTALS		1,585	1,525	1,654

Our sales distribution, by brand, is as follows:

(in millions of cigt's.)

	1971		Proj. 1972		Budget 1973	
L & M	696		588		649	
					+ 37	Consignment
					686	
		-15.5%		+16.7%		
LARK	494		562		638	
					+ 47	Consignment
					685	
		+13.8%		+21.9%		
CHESTERFIELD	364		298		300	
		-18.1%		+ 0.7%		
Others	31		77		67	
					+ 1	Consignment
					68	
		+148.4%		-11.7%		

From the above it will be seen that LARK is gaining on L & M as our major international brand. This trend will be strongly reinforced as LARK continues to emerge as the leading imported brand in Japan. With the tripling of retail outlets effective January 1, 1973, LARK sales are expected to, at least, double and, perhaps, even go higher. Present projections still show Ecuador as our leading LARK export market where we have placed all advertising and promotional support on behalf of the brand.

C) P & L Review

The 1972 P & L was adversely affected by excessive pre-longshoremen's strike shipments in August and September, 1971. Most of the stocks were meant for transit markets where unforeseen developments reduced sales drastically. This was particularly true in Panama and Paraguay. It is estimated that, as of the end of February, the markets most affected had excess inventories of 175,000-M.

Not all of these stocks were consumed during 1972 due to aging problems. Taking into consideration the stocks that were consumed, the effect on our overall performance would have been as follows:

(a) Excess stocks shipped 1971 (175 million end of February)
(b) Excess stocks destroyed 1972 (98 million)
(c) Excess stocks consumed 1972 (77 million)
(d) Consignment shipments 1973 (86 million)

Unit Sales:

(in MM)

	Booked Sales	Adjusted Sales		
1971	1,829	1,652	(a)	
1972	1,720	1,797	(c)	(+ 8.8%)
1973	1,807	1,893	(d)	(+ 5.3%)

Market Shares:

1971	-- 6.73%
1972	-- 7.07%
1973	-- 7.13%

Losses resulting from either special allowances or replacement stocks in the markets were as follows:

Puerto Rico	$ 58,000.
Paraguay	63,000.
Panama	311,000.
Chile (Panama)	72,000.
Hong Kong	20,000.
TOTAL	$ 524,000.

In the case of Paraguay, forcing distribution in the internal market of the excess stocks enabled us to capture a substantial market share from Kent which had previously dominated the internal market.

D) Significant Events -- 1972

1) South America --

a) Ecuador

This remained the only important export market (as opposed to transit) in South America. Liggett's market share was as follows:

1972 -- 21.6%

1971 -- 20.0%

Virtually, all available media were used for advertising, but heavy emphasis was given to promotions as well. A LARK money-in-the-pack promotion led to an increase in LARK sales of 25% over the pre-promotion period. It was decided to put all advertising and promotional efforts behind LARK Box.

Financial difficulties due to repressive Government regulations were present all year, but with the assistance of Liggett, our distributor was able to cope with them.

The Area Sales Manager moved his headquarters from Medellin, Colombia to Quito during the year.

2) North America --

a) <u>Puerto Rico</u>

By emphasizing promotions as opposed to media advertising, we continued to slow the rate of decline in this market.

The leading brand continues to be Winston holding in excess of 70% market share. Advertising and promotional expenditures in support of Winston are enormous. Marlboro holds only a 12% market share, but Philip Morris continues to spend huge sums in measured media advertising but still continues to loss ground to Winston. Between the two, the trend is to squeeze out all other brands.

b) <u>Virgin Islands</u>

By giving exclusivity to a single distributor in St. Thomas and working closely with this distributor, we increased our business 20.0%.

3) Middle East --

a) <u>Saudi Arabia</u>

A new distributor with excellent market position (due to Craven A which holds 95% market share in the total internal Saudi market) was appointed at mid-year. Since the appointment, sales have more than doubled. Although much of this increase comes from larger quantities of in-transit sales of LARK 100's going mostly to Turkey, our internal market business started to show significant development for the first time.

b) Through special arrangements we were able to effect shipments, for the first time in a number of years, to three new markets. These are as follows:

Egypt
Iran
Syria

With the openning of these markets, it can be stated that Liggett brands are now available throughout the Middle East.

4) Japan & Pacific --

a) Japan

There were a number of significant developments in this increasingly important market which we believe will be by far the largest export market for Liggett brands within two or three years. Among the more important developments were the following:

(1) LARK King Size was placed in a free import category along with only two other competitive brands, Kent and Salem. By the end of 1972, LARK King Size was firmly established as the leading imported brand in Japan. A decision was made by the Japanese Monopoly Corporation to add LARK 100's to the import list in 1973.

(2) EVE non-menthol has emerged during 1972 as a major brand.

(3) In November, the Japanese Monopoly Corporation announced an increase in retail outlets for LARK (as well as Kent, Salem and Marlboro) from 2,600 to 7,200.

(4) A price increase was finally negotiated with the JMC. Although not the full price which was being asked by the the U.S. exporters, it helped to improve the overall profit picture.

(5) Advertising -- Restrictions on advertising of imported brands continued. Only English language newspapers are allowed. Fortunately, we were able to develop, unofficially, excellent indirect advertising and promotional activities. This included appearances on TV of prominent persons and at special televised events during which our LARK and EVE brands were conspicuously displayed.

In June, the Fuji Grand Prix, in which a LARK racing car was entered, was televised nationally.

Encouraged by our agents, a number of consumer product firms have been introducing products under the EVE name. These include chewing gum, a feminine hygiene spray, ladies shoes, and ladies coats.

E) Objectives -- 1973

1) Sales Volume --

Projected sales volume by major areas is as follows:

Unit Sales (MM)

	1972	1973
North America	197	220
So. South America	197	234
No. South America	359	378
Middle East	465	489
Japan & Pacific	249	248
Southeast Asia	70	91

Beginning in 1973 we are considering shipments to Paraguay, Uruguay and LARK to Japan as consignment.

Expected 1973 shipments on consignment in the first quarter are as follows:

Japan	45,000-M
Paraguay	15,000-M
Uruguay	26,000-M
TOTAL	86,000-M

On a basis comparable to 1972 without the consignment treatment units, net sales and manufacturing margin would appear as follows:

	1972	1973
Units (millions)	1,740	1,893
Net Sales ($000)	$ 12,463	$ 14,552
Manufacturing Margin ($000)	$ 3,464	$ 4,317

2) Marketing --

a) Advertising

Due to our inability to compete in media in many countries (Ecuador is a significant exception) there will be a shift in emphasis to promotions. This is shown by the following:

($000)

	1972	1973
Media	$ 390.	$ 395.
Promotion	$ 257.	$ 406.

This shift away from measured media is prompted by huge expenditures in many markets by Philip Morris followed by Lorillard.

b) LARK

This brand continues to increase in importance particularly in the following:

Ecuador -- All advertising and promotional expenditures will be on behalf of LARK.

Middle East -- LARK has now become our principal transit brand in the Middle East due mostly to Turkey (LARK 100's) and Iran (LARK King). Most of these transit sales are being channeled through Saudi Arabia and Kuwait.

Japan -- LARK is already the leading imported brand in Japan. With an increase in retail outlets effective January 1, 1973 from 2,600 to 7,200, it is expected that LARK will at least double in sales. Every effort will be made to continue promotions and indirect advertising in addition to advertising in English language Japanese newspapers and Newsweek -- Japan.

c) <u>L & M</u>

L & M will continue to be an important brand in the following markets:

South America -- In the Southern Triangle, L & M 100's and L & M Box (both Picture Pack) will continue to be our major brand in the transit markets with Argentina as the target market. If there is a lowering of the transit tax in Paraguay, then Brazil could become a very important target market for this brand as well.

Middle East -- L & M 100's and L & M Box both will continue as the leading brand in many internal markets in the Middle East. In support of the brand image, we are conducting a Pan Arab print campaign supplemented by a newspaper campaign in Egypt with extensive circulation in other Arab countries.

d) <u>EVE</u>

The only international market where any significant sales of EVE are budgeted is Japan where EVE has emerged as a major brand. Although it is still early to tell, the indications are that EVE may take its place among the top five imported brands in Japan. It will be supported by a print and indirect advertising campaign.

e) Manpower

To assist the Area Sales Managers during the course of 1973, we expect to add promoters in several areas. This means that we will have promoters in the following countries:

Paraguay
Puerto Rico
River Plate (Buenos Aires, Argentina)
Saudi Arabia
Persian Gulf (Bahrain)
Afghanistan
Japan

F) Specific Objectives

Japan --

With continued liberation on the part of the Japanese Monopoly Corporation, this market is to receive top priority in all phases of our activities in 1973. Further revaluation of the Yen should lead to acceptance by the JMC of our full export prices of $6.04 and $6.53 per M, respectively with a very favorable impact on our P & L.

Hong Kong --

BAT continues to hold the trademarks for L & M and CHESTERFIELD and Hong Kong Tobacco for LARK. In the case of BAT, we are studing a proposal by which we will appoint another party as our distributor, with possibly a royalty agreement with BAT.

Ecuador --

Specially prepared TV commercials produced in Ecuador should assist us in our efforts to continue gains in market share and preventing further growth of Marlboro. Meanwhile, during 1973, Ecuador is expected to be our biggest export market.

II. LICENSEE OPERATIONS

The overall development of our Non-Europe licensing business is as follows:

	1971 Actual	1972 Budget	1972 Projected	1973 Budget
Units (Millions)	3,706	3,989	4,121	4,192
Royalties ($000)	1,384	1,802	1,960	1,759

Unit Sales in 1972 were 11% over 1971 and 3% over Budget. Royalty income increased 42% over 1971 and was 9% over Budget.

During 1972, we were able to obtain payment of the bulk of the past due royalties from the Philippines attributable to prior years. This enabled us to reverse approximately $238,000 of the reserve created in earlier years for uncollectible Philippine royalties and this, in turn, resulted in an increase in royalty income proportionately greater than the increase in licensed Unit Sales. Because of this non-recurring item, budgeted 1973 royalty income is lower than 1972, even though we are budgeting a further increase in Unit Sales.

The Operating Profit (profit on sales of tobacco and materials to licensees less operating expenses) shows the following development:

Profit ($000)

	1971 Actual	1972 Budget	1972 Projected	1973 Budget
Operating Profit	(555)	(908)	(704)	(944)

1972 Operating Profit is $200,000 better than Budget due to higher than budgeted sales of tobacco and materials which is a reflection of the over-budget cigarette volume of the licensees and also lower operating expenses. The combined effect of over-budget operating profit and higher royalty income produced the following picture of Profit Contribution:

	1971 Actual	1972 Budget	1972 Projected	1973 Budget
Contribution to Profit	925	894	1,294	974

Algeria

Units in MM

1971 Actual	1972 Budget	1972 Projected	1973 Budget
4	23	15	14

During 1972, it was found that demand for Chesterfield non-filter in Algeria was less than originally estimated resulting in a significant shortfall versus budget for this brand. L&M box, on the other hand, met our expectations and plans are now being finalized for the introduction of a Chesterfield filter. Sales were also affected by the renewed importation by the Algerian Monopoly of the imported cigarettes being sold at the same price as the licensed brands. Despite this, our licensed brand sales achieved a 48% share of the American brand business in Algeria during 1972 and our objective is to build this share with Chesterfield filter in 1973.

Argentina

Units in MM

1971 Actual	1972 Budget	1972 Projected	1973 Budget
2,031	2,559	2,646	2,680

During 1972 the continued strong inflationary and devaluation trends in Argentina had an adverse effect on the consuption of foreign made cigarettes with a resulting favorable effect on the locally manufactured international brands. Despite the successful introduction of Kent 100 mm. in mid-1971 and the less successful introduction of Kent 85 and Marlboro 85 and 100 in 1972, we experienced a substantial increase in both units and share of market. 1972 Unit Sales showed a 30% increase over the prior year and share of market increased from 6.8% in 1971 to 8.9% in 1972. Despite restrictions on dividend and royalty remittances, we have been successful in obtaining royalty payments on an essentially current basis.

Australia

Units in MM

1971 Actual	1972 Budget	1972 Projected	1973 Budget
176	238	238	247

Following market testing of a Chesterfield 85 mm. filter box, a national roll-out of this product was initiated in 1972. By the end of the year, the new Chesterfield hard pack supported by a newly developed "Chesterfield Big" advertising campaign, had been successfully introduced in the States of New South Wales, Victoria and Western Australia. These states represent over 70% of the market.In New South Wales the first state where the hard pack was launched, total Chesterfield sales for the 12 months ended November 1972 are 48% over the same period last year. With the new health warning requirement as of January 1st, it is planned to phaze out the soft pack and concentrate all of our efforts on the new presentation.

The release of the hard pack into the States of Queensland, South Australia and Tasmania, is scheduled for 1973 and we anticipate a continued improvement in our share of market. In the states which have already received the new hard pack, Chesterfield now enjoys a 1.5% share versus 8% for Marlboro.

Bolivia

Units in MM

1971 Actual	1972 Budget	1972 Projected	1973 Budget
103	121	126	127

With heavier media advertising in 1972, we achieved a 22% increase in unit volume for L&M and increased our share of the Bolivian market from 15% in 1971 to 17% in 1972. In view of the 60% devaluation of the Bolivian peso in the fourth quarter of 1972, the cost of imported tobacco used in our brands and the cost of the royalty to our licensee has increased dramatically and we anticipate a substantial increase in the retail price of our brands. For this reason we are budgeting essentially no increase in unit volume for 1973. A complete review of the blends supplied by the U. S. has been undertaken in order to minimize the effect of cost increases in the United States and the devaluation of the Bolivian peso.

Plans for the introduction of Chesterfield filter in the coming year will have to be reviewed in the light of the devaluation.

Costa Rica

Units in MM

1971 Actual	1972 Budget	1972 Projected	1973 Budget
87	93	105	106

All three of our licensed brands, Chesterfield filter, Chesterfield Menthol and L&M King, show an increase in 1972 over the prior year, but the most dramatic growth is in Chesterfield filter which shows a 30% increase in 1972. Market share also increased for the combined brands moving from 5.54% in 1971 to 6.52% in 1972. Increased emphasis is being given to L&M in the top price category in order to maintain and improve our position vis-a-vis Viceroy, which is receiving very heavy support from BAT. A box presentation of L&M is scheduled for introduction in early 1973 and we hope to be the first to market a locally manufactured hard pack cigarette in Costa Rica. With the implementation of this plan, we believe the 1973 budget will prove to be conservative.

Morocco

Units in MM

1971 Actual	1972 Budget	1972 Projected	1973 Budget
-	12	10	62

The two month delay in the start-up of local manufacture of L&M 100 resulted in a shortfall versus 1972 budgeted figures. However, our major brand in Morocco has been the L&M box and the necessary equipment for production of this product was installed in late 1972. With the addition of this second licensed brand, we are projecting a substantial increase in unit volume for 1973 and a 43% share of the American brand market.

We are also making every effort to have the Moroccan Monopoly establish a price differential between the licensed brands and imported U. S. brands. If this can be achieved, a further volume increase should be possible.

Peru

Units in MM

1971 Actual	1972 Budget	1972 Projected	1973 Budget
5	22	21	20

During 1972, locally manufactured Winston which has been made under license in Peru for the past five years, showed a substantial increase in volume, but with a comparable increase in L&M, we maintained our 13% share of the high priced filter market. Kent which was also introduced on a licensee basis in 1972, has not been successful despite very substantial advertising support. Because of uncertainty on the level of support which the licensee will give to L&M in 1973, we are not budgeting an increase over the 1972 unit volume.

Philippines

Units in MM

1971 Actual	1972 Budget	1972 Projected	1973 Budget
1,300	921	960	936

Although 1972 projected sales are approximately 5% over the budget, sales are down substantially from the 1971 level. Our present volume consisting principally of Chesterfield 70 non -filter and L&M 70 mm. filter, is in a market category which has decreased by 55% since 1969 and 19% in the past year. As a share of total market, this Ps. 1.20 category has declined even more rapidly as a result of major growth in the sale of local and international brands at prices in the Ps .60 to Ps. 1.00 range.

Because of the Philippine excise tax structure based on the length of the cigarette and the type of tobacco in the blend, the retail price of king size cigarettes containing foreign tobacco, has been prohibitive. Even 70 mm. cigarettes with foreign tobacco have been priced above the mass market, following devaluation of the peso in 1970 and the resulting 20% price increase to Ps. 1.20 on our brands. In December of 1972 a new tax structure effective January 1, was announced. This new tax rate will be based entirely on the retail selling price category of the cigarettes and will make king size and 100 mm. cigarettes containing imported tobacco competitive with other brands. Based on this new tax structure, early production of a Chesterfield and L&M King Size filter and a Chesterfield 100 mm. Menthol has been planned. These will sell in the same price range as a 70 mm. brand. Under these circumstances, the 1973 unit budget should prove conservative.

LIG- 138397

LG 0218673

During 1972, negotiations were initiated or moved forward in a number of new licensing areas.

In Colombia, the proposed licensing arrangements were adjusted to several new government decrees issued during the year and by year-end, all details of the proposed licensing agreement were essentially completed.

Negotiations with the only cigarette manufacturer in Paraguay were undertaken and full agreement on the feasibility of a licensing arrangement was completed.

Initial contacts for licensing in the Dominican Republic were established.

In Taiwan the economics of the licensed use of the Lark filter by the TTWMB were finalized and agreement in principle for this undertaking was obtained from the Monopoly. A similar arrangement with the Japanese Monopoly has progressed to the point of submission of our proposed detailed licensing agreement. The Japanese government has agreed in principle to the cross-licensing of one manufacturer for each of four foreign countries (U. S., U.K, Germany, Austria), but in each of these cases, the cross-licensee (Philip Morris in the U.S.) has undertaken to manufacture and sell a Japanese Monopoly brand in the home country. We believe that the Lark filter license, which does not involve such an obligation on our part, offers a means of establishing close relations with the Japanese Monopoly in this second largest Free World cigarette market.

Preliminary discussions have been held with the Indonesian subsidiary of Tobacofina for licensing in that market. A draft licensing agreement has also been submitted to Rothmans for the Southern part of Africa.

In Lebanon, where Marlboro enjoys an approximate 50% share of market based on imports, extensive conversations with the Lebanese Monopoly have led to a definite licensing proposal which would enable us to obtain a significant share of this key Middle East market.

Finally, we have reached agreements in principle on most aspects of a licensing arrangement with the only cigarette manufacturer in Liberia.

All of these negotiations will be actively pursued in 1973 and our objective is to conclude agreements at least in Colombia, Paraguay, South Africa and Taiwan during this year.

MEXICO

The Mexican cigarette market reached 42 billion units in 1972, a 4.7% increase over the prior year. The two BAT subsidiaries which hold a 72% share of market in 1971, declined slightly to a 71% share as a result of declines in many of their minor brands largely offset by substantial increases in the leading brands Fiesta, Raleigh and Del Prado. The Philip Morris subsidiary gained two share points to reach a 9.6 share of market. This was due entirely to the continuing phenomenal growth of Baronet and Baronet Menthol, up 48 and 24% respectively over the prior year. The Reynolds subsidiary also increased its market share, principally as a result of a 34% increase in Winston 80 mm.

Tabacalera's two principal brands, Delicados Ovalados and Faros, showed increases over the prior year and Delicados also showed an increase in market share. Bali and Nova continue to decline in the face of the powerful Baronet competion. L&M was essentially even with the prior year, but Eve showed a substantial increase based on the introduction of an 80 mm. version. Lark King Size continued in the Guadalajara test market with satisfactory results.

In addition, Lark 80 mm. was tested with extremely satisfactory results. Other test markets included Delicados 80 mm. filter at Ps. 1.20 and Faros with a cellophane wrapped package which for the first time makes it saleable in the more humid areas of Mexico. Both of these have proven successful.

During 1972, a new General Manager, Mr. Robert Waldron assumed responsibility for the Mexican operation. In late 1972 the Mexican government established a new corporation with the government holding a controlling interest and the minority interest divided equally between the tobacco growers and the leaf export and cigarette companies. This corporation has assumed responsibility for all leaf growing and processing operations in Mexico and the effects of this Mexicanization in terms of higher leaf costs will have to be evaluated carefully in the coming months.

Mexico's original 1973 Budget reflected a volume objective of 7.2 billion units approximately the same size as 1972. This included the launch of Lark (180 million units), while other popular-priced cigarettes were budgeted downward to the same extent. Now, however, with the new consumer prices issued by the Mexican government as of January 1, 1973, it appears that our volume for 1973 will be greatly increased. We have received very favorable new pricing from the government which should benefit our popular-priced non-filter cigarettes. Our expected volume for 1973, therefore, could be around 8 billion units, up 10% from 1972.

At the same time we received the new consumer pricing, we also were advised that we would receive no relief in the form of increased manufacturer's selling prices. We discussed some price relief as we have been forced into tobacco price increases of approximately 45%. So, although our 1973 volume will increase, the second half profits of 1973 will be adversely affected by much higher tobacco costs.

The Mexican government, however, has offered us a substantial subsidy based upon sales if we Mexicanize. By Mexicanize they mean that we must sell off enough of our shares to retain only 40% of the stock of Tabacalera Mexicana. Through this move we would lose operating control of our company. This entire situation is now under study with the Mexican government officials and local stockholders.

All our other operations in Mexico, such as manufacturing, administration, etc. are budgeted to continue operating in the same manner as 1972.

BRAZIL

1972 was characterized by a dramatic increase in the volume of 80 mm. non-filter and filter cigarettes sold by the local Brazilian companies in the lowest price categories. These companies which sell at prices below those permitted to the international companies, doubled their share of the 78 billion unit Brazilian market to approximately 11% in 1972. BAT which dominates the market with a 75% share, also gained approximately one share point.

The growth of the local companies was at the expense of the three intermediate-sized companies, i.e. Reemtsma, Brinkmann and Florida. Florida, with 75% of its business in low priced 70 mm. non-filter and filter cigarettes, was particularly affected by the striking growth of the 80 mm. brands sold at equal or lower prices. Although Florida essentially maintained market share in its size-price categories, it was not permitted to launch brands in the rapidly growing categories reserved for the local companies. This resulted in a loss of two share points.

During 1972, Florida undertook an intensive campaign to inform the government of the monopolistic position of

BAT with 83% of the industry dollar sales and the special price categories reserved for the local companies. As an intermediate measure, Florida launched two new 70 mm. brands on which discounting is permitted during the 60 day introductory period, thus narrowing to some degree the price advantage enjoyed by the local companies.

Our extensive work with the government officials finally brought recognition that changes in the price structure were necessary. As a result, effective January 1, 1973, the pricing advantage enjoyed by the local companies vis-a-vis the international companies will be substantially reduced. This will relieve the pressure on our leading brands, Imperador 70 mm. non-filter, Mistura 70 mm. non-filter and Imperador 70 mm. filter.

During 1972, the demand for Brazilian Virginia and Burley type tobaccos in the world market continues to increase and the longer range outlook is highly encouraging. As a result, we added a second re-drier to our new facilities at Venancio Aires and also began construction of an additional leaf warehouse. Although our leaf sales on a weight basis were lower than 1971, a much higher percentage of these exports were of the high priced grades in 1972 and as a result, our leaf profits increased by 10% over the prior year.

As in Mexico, our Brazilian operation has received very favorable price increases as of January 1st, however, these price increases also reflect a 20% increase in our manufacturer's selling price. This price increase, therefore, paints a far rosier picture for Brazil than budgeted, and we expect that 1973 budgeted units will increase from 4.2 billion units to 4.8 billion.

A change in Management has just been effected, whereby our Manufacturing Director will assume the position of Acting General Manager. We have also hired outstanding candidates for the positions of Marketing Manager and General Products Manager. All indications are that Brazil will enjoy a satisfactory 1973, recuperating from a disastrous 1972. We intend to capitalize on building our business through our established products at new prices, while we test and develop higher-priced items for launch in late 1973.

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

EUROPE EXPORT

1971 ACTUAL	%	1972 PROJECTED	%		1973 BUDGET	%	1974 FORECAST	%
				UNIT SALES				
1701		1705		Cigarette (MM)	1919		2012	
				Tobacco (M. Lbs.)				
$ 10376	102.2	$ 10380	102.1	NET SALES	$ 11670	101.9	$ 12222	102.0
222	2.2	215	2.1	Promo. Allow.	220	1.9	245	2.0
$ 10154	100.0	$ 10165	100.0	Net Sales after Prom. Allow.	$ 11450	100.0	$ 11977	100.0
				COST OF PRODUCT:				
$ 5441	53.6	$ 5541	54.5	Cost of Sales at Standard	$ 6297	55.0	$ 6688	55.8
				Variances:				
125	1.2	82	.8	Expense	-	-		
78	.8	23	.2	Volume		-		
15	.2	37	.4	Past Service Cost	47	.3	43	.4
13	.1			Plant Automation	-	-		
$ 5672	55.9	$ 5683	55.9	Total	$ 6344	55.3	$ 6731	56.2
40	.4	30	.3	Distribution Expense	60	.6	66	.6
$ 5712	56.3	$ 5713	56.2	Total	$ 6404	55.9	$ 6797	56.8
$ 4442	43.7	$ 4452	43.8	MANUFACTURING MARGIN	$ 5046	44.1	5180	43.2
1427	14.1	1573	15.5	Selling Expense	1897	16.6	1962	16.4
$ 3015	29.6	$ 2879	28.3	SALES MARGIN	$ 3149	27.5	3218	26.8
11	.1	6	-	Tech. Research	8	.1	9	.1
11	.1			Mkt. Research	-	-	-	-
182	1.8	222	2.2	Division G & A	326	2.8	343	2.9
146	1.4	113	1.1	Corporate G & A	146	1.3	152	1.2
$ 350	3.4	$ 341	3.3	Total	$ 480	4.2	504	4.2
$ 2665	26.2	$ 2538	25.0	PROFIT BEFORE ADVERTISING	$ 2669	23.3	2714	22.6
				Advertising:				
$ 699	6.9	$ 818	8.0	Media	785	6.8	786	6.5
206	2.0	325	3.2	Promotion	373	3.3	385	3.2
296	2.9	238	2.4	Market G & A	263	2.3	298	2.5
$ 1201	11.8	$ 1381	13.6	Total	$ 1421	12.4	1469	12.2
$ 1464	14.4	$ 1157	11.4	OPERATING PROFIT	$ 1248	10.9	1245	10.4
				Lic. & Royalty Oper.				
				Uncon. Foreign Subs.				
302		281		Other N/O Income	305		300	
				Other N/O Expense				
$ 1766		$ 1438		CONTRIBUTION TO PROFIT	$ 1553		$ 1545	

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EUROPE LICENSE

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

EUROPE LICENSEE

1971 ACTUAL	%	1972 PROJECTED	%		1973 BUDGET	%	1974 FORECAST	%
				UNIT SALES				
				Cigarette (MM)				
				Tobacco (M. Lbs.)				
$ 804	100.0	$ 1628	100.0	NET SALES	$ 842	100.0	$ 900	100.0
				Promo. Allow.				
$ 804	100.0	$ 1628	100.0	Net Sales after Prom. Allow.	$ 842	100.0	$ 900	100.0
				COST OF PRODUCT:				
$ 690	85.8	$ 1488	91.4	Cost of Sales at Standard	$ 668	79.3	$ 710	78.9
				Variances:				
				Expense				
				Volume				
				Past Service Cost				
				Plant Automation				
$ 690	85.8	$ 1488	91.4	Total	$ 668	79.3	$ 710	78.9
				Distribution Expense				
$ 690	85.8	$ 1488	91.4	Total	$ 668	79.3	$ 710	78.9
$ 114	14.2	$ 140	8.6	MANUFACTURING MARGIN	$ 174	20.7	$ 190	21.1
				Selling Expense				
$ 114	14.2	$ 140	8.6	SALES MARGIN	$ 174	20.7	$ 190	21.1
$ 49	6.1	$ 63	3.9	Tech. Research	$ 84	10.0	87	9.7
1	.1	-	-	Mkt. Research	-	-	-	-
59	7.4	75	4.6	Division G & A	186	22.1	195	21.7
10	1.2	8	.5	Corporate G & A	19	2.3	20	2.2
$ 119	14.8	$ 146	9.0	Total	$ 289	34.4	$ 302	33.6
$ (5)	(.6)	$ (6)	(.4)	PROFIT BEFORE ADVERTISING	$ (115)	(13.7)	$ (112)	(12.5
				Advertising:				
$ 103	12.9	$ 116	7.1	Media	4	.5	3	.3
50	6.2	130	8.0	Promotion	220	26.2	345	38.3
2	.2	2	.1	Market G & A	5	.5	7	.8
$ 155	19.3	$ 248	15.2	Total	$ 229	27.2	$ 355	39.4
$ (160)	(19.9)	$ (254)	(15.6)	OPERATING PROFIT	$ (344)	(40.9)	$ (467)	(51.9)
166		192		Lic. & Royalty Oper.	363		489	
				Uncon. Foreign Subs.				
				Other N/O Income				
				Other N/O Expense				
$ 6		$ (62)		CONTRIBUTION TO PROFIT	$ 19		$ 22	

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

EUROPE ROYALTY INCOME

COMPLEMENT

1972 BUDGETED ________

1972 ACTUAL ________

1973 BUDGETED ________

1971 ACTUAL	1972 PROJECTION		1973 BUDGET	1974 FORECAST
-	-	Andora	$ 20,000	-
$ 18,641	$ 15,198	Austria	14,000	$ 14,160
7,149	6,513	Belgium	12,000	6,500
15,175	48,406	Germany	145,000	360,624
26,194	24,810	Holland	38,000	25,000
16,243	12,308	Italy	14,000	15,000
68,663	69,425	Switzerland (Laurens)	102,000	68,000
14,343	15,805	Switzerland (U.C.C.)	18,000	-
-	-	Yugoslavia	-	-
$ 166,408	$192,465	Total Europe	$ 363,000	$ 489,284

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

CONSOLIDATED EUROPE

1971 ACTUAL	%	1972 PROJECTED	%		1973 BUDGET	%	1974 FORECAST	%
				UNIT SALES				
1701		1705		Cigarette (MM)	1919		2012	
				Tobacco (M. Lbs.)				
$ 11180	102.0	$ 12008	101.8	NET SALES	$ 12512	101.8	$ 13122	101.
222	2.0	215	1.8	Promo. Allow.	220	1.8	245	1.
$ 10958	100.0	$ 11793	100.0	Net Sales after Prom. Allow.	$ 12292	100.0	$ 12877	100.
				COST OF PRODUCT:				
$ 6131	56.0	$ 7029	59.6	Cost of Sales at Standard	$ 6965	56.7	$ 7398	57
				Variances:				
125	1.1	82	.7	Expense	-	-	-	-
78	.7	23	.2	Volume	-	-	-	-
15	.1	37	.3	Past Service Cost	47	.3	43	-
13	.1	-	-	Plant Automation	-	-	-	-
$ 6362	58.0	$ 7171	60.8	Total	$ 7012	57.0	$ 7441	57.
40	.4	30	.3	Distribution Expense	60	.5	66	.
$ 6402	58.4	$ 7201	61.1	Total	$ 7072	57.5	$ 7507	58.
$ 4556	41.6	$ 4592	38.9	MANUFACTURING MARGIN	5220	42.5	$ 5370	41.
1427	13.0	1573	13.3	Selling Expense	1897	15.5	1962	15.
$ 3129	28.6	$ 3019	25.6	SALES MARGIN	$ 3323	27.0	$ 3408	26.
60	.6	69	.6	Tech. Research	92	.7	96	:
12	.1	-	-	Mkt. Research	-	-	-	
241	2.2	297	2.5	Division G & A	512	4.2	538	4.
156	1.4	121	1.0	Corporate G & A	165	1.3	172	1.
$ 469	4.3	$ 487	4.1	Total	$ 769	6.2	$ 806	6.
$ 2660	24.3	$ 2532	21.5	PROFIT BEFORE ADVERTISING	$ 2554	20.8	$ 2602	20.
				Advertising:				
$ 802	7.3	$ 934	7.9	Media	$ 789	6.4	$ 789	6.
256	2.4	455	3.9	Promotion	593	4.8	730	5.
298	2.7	240	2.0	Market G & A	268	2.2	305	2.
$ 1356	12.4	$ 1629	13.8	Total	$ 1650	13.4	$ 1824	14.
$ 1304	11.9	$ 903	7.7	OPERATING PROFIT	$ 904	7.4	$ 778	6.
166		192		Lic. & Royalty Oper.	363		489	
(2427)		(1721)		Uncon. Foreign Subs.	30		N.A.	
302		281		Other N/O Income	305		300	
				Other N/O Expense				
$ (655)		$ (345)		CONTRIBUTION TO PROFIT	$ 1602		$ 1567	

1972 Non-Operating Losses

Germany	$ (1650)
Switzerland	(100)
Total	$ (1750)

Not reflected in 1972 projection.

LG 0218688

Presentation of the 1972 Projections and the 1973 Budgets to the Board of Cigarette & Tobacco Division

I. U.S. EXPORT OPERATIONS

a. BUSINESS ANALYSIS

The market for international brands and U.S. brands in particular shows continued growth throughout Europe. Of the leading U.S. brands, Philip Morris has the advantage of having commenced to develop European markets for their "Marlboro" brand about 15 years ago. During this period of time, while local European brands grew in importance in individual markets, Philip Morris began to compete with their "Marlboro" brand against these local brands by application of marketing concepts, competitive pricing through local manufacture and by adapting their methods to local requirements.

Philip Morris' major breakthrough in Europe came about through their Export II activities which channeled both their "Marlboro" and "Muratti" brands from Switzerland into Italy. Today, their combined "Marlboro" and "Muratti" Export II volume is 10 billion cigarettes, representing 80% of the total Export II business. This is in addition to the monopolistic share of the Italian market which Philip Morris enjoys today through the normal distribution channels.

Liggett & Myers is the last of the U.S. cigarette manufacturers to tackle the European market on an aggressive, marketing-oriented basis. Liggett, therefore, is late in developing the markets in Europe for our Brands and is faced with cut-throat competition coupled with enormous promotional and advertising expenditures by our U.S. competitors.

Herewith are some comments on the position of the U.S. brands in the major European markets:

Germany

This is the largest European market which is dominated by local German brands which are essentially and basically blends of predominantly Virginia Tobaccos. The only U.S. brands that have made an impact on the German market, in spite of vast expenditures, have been "Marlboro" and "Camel". The total

German market in 1972 is expected to account for 132 billion units. Of this total volume, "Camel" accounts for just under 4 billion units with a market share of 3%. "Marlboro", with tremendous outlays of advertising and promotional monies, should achieve a volume of slightly over 2 billion units with a market share of approximately 1.5%. All other market leaders in Germany are local brands but the continued consumer acceptance of American blends is increasing.

An example of the tremendous expenditures is the 1971 advertising budget of the German Reemtsma Cigaretten Company. During that year, on a volume of 37 billion units, Reemtsma spent a total of DM 42.4 million on measurable media alone. Another 50% probably was spent on promotion, point-of-sale, billboards and other non-measurable media. "Camel", for example, spent a total of DM 8 million in 1971 only for measurable media on a volume of 3 billion 700 thousand units. Adding to this the high cost of promotion, billboards etc., one can have a clear idea of the high cost of marketing cigarettes in Germany and particularly the high cost of breaking into this incredibly and fiercely competitive market where hundreds of new brand introductions are made only to die a short death in spite of vast investments.

Only companies that can afford unlimited investment risk can hope to make a dent on this unique but, potentially, considerably lucrative market. It would be sheer lunacy for a new company to launch a new cigarette in Germany today. More and more, the German cigarette market is being controlled by a handful of large companies who can afford the prohibitive entry fee for new brand introductions.

France

The French market is dominated by S.E.I.T.A., a State Monopoly, and the major market shares are enjoyed by local French brands, mostly black cigarettes, such as "Gauloises". Imported brands represent only 12% of the total French cigarette market.

In the American-blend category is "Peter Stuyvesant" which enjoys the largest share of the imported brands. Although "Peter Stuyvesant" is not an American cigarette, it has been promoted as such, particularly in France where it has been marketed for many years at a substantially lower price. This brand accounts for approximately 800 million cigarettes annually.

Other international King-Size Filter brands in France are:

Brand	Volume (Approx.)
"Winston"	250 million
"Kent"	130 "
"Marlboro"	300 "

Consequently, although the market share for U.S. cigarettes in France is relatively small, it shows considerable growth and potential.

Italy

Total foreign cigarette sales in Italy during 1971 amount to approximately 13 billion cigarettes sold through the Italian Monopoly. To this must be added the 10 billion Philip Morris' brands which flow into Italy via Export II as well as other brands via Export II and through Transit operations. Consequently, Philip Morris represents a virtual monopoly of itself in Italy thanks to an early start and thanks to aggressive measures via Export II as well as via Export I Transit channels.

Apart from "Marlboro" and "Muratti", all other U.S. brands have been declining in Italy particularly due to the restrictive measures by the Monopoly directed toward fostering the distribution of their own brands in order to limit the sale of imported brands, in anticipation of the liberalization expected in 1975. Owing to unofficial arrangements between Philip Morris and the Monopoly, Philip Morris' brands have been least affected by the Monopoly's obstructive tactics with relation to imported brands.

Spain

U.S. brands in Spain represent only approximately 4% of the total cigarette market which, in 1971, consisted of approximately 1.8 billion units.

The high price of U.S. cigarettes in Spain compared to local Spanish Monopoly brands or Canary Islands brands, necessarily limits the purchase of U.S. brands. Nevertheless, the market for U.S. cigarettes is growing in 1972 by over 20%. The No. 1 Non-Filter imported cigarette in Spain is CHESTERFIELD Regular which enjoyed a 76% share of this declining market segment in 1971. The nearest competitor to CHESTERFIELD Regular in 1971 was "Camel Regular" with a 13% share. However, Non-Filter cigarettes are declining in Spain as they are all over the world. The growing segment in Spain is the King-Size Filter which accounts for 68.5% of the imported cigarette market in 1971 but represents approximately 74% in 1972.

By far the leading imported King-Size Filter cigarette in Spain is the "Winston" brand while L&M is considerably behind in 2nd place. Our L&M King-Size has been declining in market share for the past 4 years and its further decline has been accelerated by the negative reception to the Picture Pack.

Three Liggett Brands are among the first six leading imported Filter brands in Spain i.e. L&M, LARK and CHESTERFIELD Filter.

No.3 of the imported Filter brands is "Marlboro", climbing fast due to astronomical expenditures for advertising and promotion, far in excess of sums spent by competition.

Among all the imported Filter brands, LARK shows the most dramatic increase in unit sales as well as market share:

	In-Market Unit Sales	% Share of Imported Filters
1970	39.3 million	4.3%
1971	73.3 "	5.8%
1972 ⊕	105.0 "	7.0%

⊕ (estimated)

CHESTERFIELD Filter also shows substantial growth in the imported Filter segment with a 3.2% share of imported Filters in 1972 compared to 2.2% in 1971. It is expected that we will increase CHESTERFIELD Filter's market share considerably during 1973 because of our planned Pan-European support of this Brand.

United Kingdom

English brands dominate this market of Non-Flavored cigarettes and U.S. brands represent only a very minute share of the total due to limited distribution and non-competitive prices.

With the entry of the U.K. into the Common Market there should be a substantially increased demand for American blends and for King-Size cigarettes in particular. In anticipation of its entry into the Common Market, the U.K. has concentrated on introduction of King-Size Filters. Although the total U.K. market declined by 3% in 1971, the King-Size segment of premium cigarettes which include imported international brands, increased by 20%.

The leading U.S. brand in the U.K. is "Kent" and has been present on the U.K. market for many years with average advertising expenditures of approximately $ 1 million annually.

The No. 2 international brand is "Marlboro", reflecting their position in the U.S. and in other European markets.

CHESTERFIELD Filter Box is No. 3 without advertising support and this position reflects the strength of the "CHESTERFIELD" Brand name and image. If we are successful in concluding an arrangement for local manufacture and total distribution of this Brand, we can achieve a very substantial and important share of the very lucrative U.K. market.

Belgium

The total consumption in Belgium is expected to reach 18 billion units, out of which 1.6 billion units are American Brands.

The Tabacofina Group holds 39% of the total market, followed by Gosset 21%, Cinta (Reemtsma) 11% and Odon Warland (BAT) 10%.

Leading brands are Belga Filter (Tabacofina) with 23% and St. Michel Non-Filter with 15% of the total market.

With reference to the competitive brands on sale, Peter Stuyvesant is expected to reach 550 million units or 3%, with Kent second selling 350 million, or 2%.

Our CHESTERFIELD brands are expected to reach a volume of 26 million units, which represents 1.6% of the U.S. segment or 0.14% of the total consumption figure.

We have implemented a strong CHESTERFIELD promotion for 1973 which will certainly increase our market share.

Holland

So-called "Top-American" blends represent the most buoyant segment of the Dutch market. These are the U.S. brands such as "Camel" and "CHESTERFIELD". Approximately 80% of the Dutch cigarette market consists of 25 cigarettes per pack. "Camel" Regular and Filter, have accumulated a substantial share (approximately 5.5%) of this important segment by adapting to this 25-pack trend.

Our CHESTERFIELD Brand, lacking any promotional activity in the past years due to our stale-mate with our Licensee, has only maintained its market share behind "Camel". The fact that CHESTERFIELD did not suffer a greater loss in market share due to lack of any promotional activity, is evidence of its inherent strength. In 1973 we will switch to the 25-pack for both CHESTERFIELD Regular and Filter and this will be supported by advertising and promotion. These steps surely will help to recover the lost ground since 1968 when the CHESTERFIELD Brand had its most dramatic decline in this market.

Switzerland

The leading international brands in Switzerland belong to Philip Morris with "Marlboro" and "Muratti". As in Holland, our Brands have not had any promotional activity in Switzerland for many years due to our licensing problems which now have been resolved.

"Camel Filter" also is an important factor in the Swiss market with important advertising support.

We have a sound base for L&M in Switzerland which we hope to augment in 1973 with some advertising support. However, our main effort in Switzerland will be to promote CHESTERFIELD Filter in its Pan-European image, in order to capitalize on the important efforts which will be given to this Brand in Germany and other surrounding markets.

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International brands, thus far, have a much lesser influence in Northern markets such as Sweden and Denmark. The Swedish market consists mostly of "Moderate-Sized" cigarettes which have a price advantage due to the cigarette tax structure. However, American brands continue to grow in acceptance.

One over-all trend is evident throughout Europe — that is the trend toward lighter, low-nicotine cigarettes. Such new introductions have encountered considerable success in Sweden, the U.K. and Germany. The Liggett Brand which fits best into this category is our LARK Brand which already is making substantial strides on the Spanish market and is expected to encounter success in Italy where it will be introduced in 1973.

b. POSITION OF OUR BRANDS

A. Spain

	Shipments 1972	841 mio units	
1.	vs Shipments 1971	686 mio units	+ 22.6%
2.	vs Original Budget 1972	719 mio units	+ 17.0%
3.	vs Revised Budget 1972	841 mio units	100%

Shipments to Spain show a remarkable increase of 155 million units or 22.6%.

B. Canary Islands

	Shipments 1972	316 mio units	
1.	vs Shipments 1971	296 mio units	+ 6.8%
2.	vs Original Budget 1972	347 mio units	- 9.0%
3.	vs Revised Budget 1972	361 mio units	- 12.5%

Also our second important market has contributed to our overall increase with an additional 20 million units or +6.8%.

C. Bond

		Shipments 1972	516 mio units	
1.	vs:	Shipments 1971	657 mio units	- 21.5 %
2.	vs.	Original Budget 1972	640 mio units	- 19.4 %
3.	vs.	Revised Budget 1972	591 mio units	- 12.7 %

Shortfalls in this area as compared to 1971 shipments amount to 141 million units or a drop of -21.5%. The original Budget was not reached by 19.4% and the Revised Budget by 12.7% It is particularly in the Central Bond area and in the Special Bond section where shipments have remained below expectations. Whereas corrective measures in the Central Bond area are indicated (change of Agent in Holland, more aggressiveness by our German Bond Agent), the very high year-end stocks in the Special Bond trade (buffer stocks to cover the longshoremen's strike period) were not taken into consideration when these Budgets were fixed. It may be remembered that shipments in the Special Bond area in 1970 amounted to 177 million and in 1971 to 336 million.

D. Market Highlights

Under this heading a comparison 1971 vs 1972 per country and positive vs negative is given:

1. Northern Europe Domestic (based on In-Market Sales)

Positive		Negative	
Denmark .	+ 50%		
United Kingdom	+ 40%		
Iceland	+ 30%		
Norway	+ 45%		
Sweden	+ 2%		

The L&M Picture Pack version was well accepted by the Northern European consumer, in contrast to the Southern areas, and contributed to the positive picture above.

2. Northern Europe Bond (shipments)

Positive		Negative	
United Kingdom	+ 190%	Denmark	- 37%
Finland	+ 40%	Iceland	- 20%
Poland	+ 90%	Norway	- 10%
Ireland	+ 30%		
Sweden	+ 170%		

The Bond development in the Northern European section is more than satisfying. The results achieved also show an improved situation in terms of market share obtained.

3. Central Europe Domestic (In-Market Sales)

Positive		Negative	
		France	- 9%
		Italy	- 13%

Sales in France have not yet recovered from the price increase which took place in that market.

Our continued difficulties with the Italian Monopoly as well as the lack of aggressiveness by our Promotional Organization have contributed to this disappointing result, but current measures are expected to resolve this situation.

4. Central Europe Bond (shipments)

Positive		Negative	
Belgium	+ 15%	Germany	- 30%
France	+ 3%	Italy	- 45%
		Netherlands	- 30%

Whereas corrective measures have been taken in Holland through the change of Agency from Van Herwaarden to Pieter Beets N.V., the German Bonded trade market is presently being analyzed and corrective measures will be taken.

5. Southern Europe Domestic (shipments)

Positive		Negative	
Portugal	+ 10%	Ceuta	- 7%

Whereas Portugal does not require any special comments, the Ceuta/Melilla market demands immediate action. The Ceuta Monopoly being controlled by a Spanish individual, the cigarette brands on sale on this market do not reflect a consumer demand.

6. Special Bond (shipments)

Positive		Negative	
Portugal	+ 15%	Eastern Europe	- 63%
Yugoslavia	+ 40%	Morocco	- 60%
		Spain	- 11%
		Ceuta	- 24%
		Switzerland	- 37%

Our aggressiveness in the Portuguese Bond market has resulted in true plus volume. Shipments to Yugoslavia have increased 40%

The Eastern European picture can hardly be influenced by our office. The placement of orders depends on political decisions and the availability of foreign currency. The biggest losses were registered in the Moroccan Export area with final destination Spain. The drop in sales registered for CHESTERFIELD Regular was not recuperated by L&M, the Picture Pack not having created any plus volume.

Comments on Market Shares for Liggett Brands

Market share for our Brands in Europe are conditioned to a marked degree by the position of our Brands in the U.S. This is especially true in the Bond or Duty-Free areas, where the demand is a reflection of the domestic U.S. situation. Consequently, the development of our market share in Europe has been a slow and agonizing process, further complicated by the fact that we can not match the vast expenditures of our competitors for advertising and promotion.

Nevertheless, progress has been made in various sectors with various Brands.

L&M

The change to the Picture Pack at the start of 1972 had an adverse effect on our market share for this Brand in the Southern European markets due to the consumer rejection of the new U.S. pack. In the Northern markets such as the U.K., Norway and Sweden as well as Finland Bond, the Picture Pack has been received with enthusiasm and has resulted in a small increase in share of market.
As a consequence, steps have been taken to revert to the Traditional red-and-white L&M pack in the Southern European markets, while retaining the Picture Pack in the North.

Although the change to the L&M Picture Pack in Spain in 1972 has resulted in a loss of market share — a downward trend which has characterized this Brand during the past four years — our unit in-market sales volume has increased in the past two years compared to previous years:

In-Market Sales	1969	1970	1971	1972
Units (.000)	162,472	188,184	214,565	223,000

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However, the increase in unit volume in the market has not kept pace with the growth of the imported Filter segment. This is due in great part to the negative consumer reaction to the Picture Pack plus the tremendous investment in advertising and promotional expenditures by competitive brands. Whereas brands such as "Marlboro" and "Winston" can concentrate all their marketing efforts behind a single brand, we are forced to apportion our efforts behind our three major Brands (L&M, CHESTERFIELD and LARK) which are among the first six imported Filter brands in Spain.

CHESTERFIELD Regular

Although the Non-Filter market has been declining rapidly throughout the world as well as in Europe, we have maintained our market shares with CHESTERFIELD Regular and King-Size Non-Filter.

In Spain, for example, CHESTERFIELD Regular's unit volume increased and market share maintained, despite substantial competitive expenditures. The Non-Filter share of the total imported cigarette market in Spain has decreased from 29.1% in 1970, to 24.6% in 1971 and to an estimated 20% in 1972. In spite of this market downward trend, we have retained an approximate 75% of the imported Non-Filter segment with CHESTERFIELD Regular.

CHESTERFIELD Filter

The name "CHESTERFIELD" in Europe enjoys considerable prestige as a top-class, quality cigarette although no concerted efforts have been made in Europe with this Brand. Unlike the L&M Brand, the name "CHESTERFIELD" has a defined image in Europe from the post-war era. With the continued growth of Filter cigarettes, emphasis will be placed in 1973 on the aggressive promotion of CHESTERFIELD Filter in Europe.

CHESTERFIELD Filter will be launched in Germany in 1973, after concept and consumer testing, and subsequently will be re-launched in other European markets to create a radial effect which will firmly establish the Brand Europe-wise.

In Spain, however, CHESTERFIELD Filter has shown substantial growth:

In-Market Sales	1969	1970	1971	1972
Units (.000)	16,540	16,923	40,278	49,000

In 1970, CHESTERFIELD Filter's market share in Spain of the imported Filter segment was 2.2% compared to its current share of approximately 3.2%.

CHESTERFIELD Filter also enjoys a good share of the imported Filter cigarette market in the U.K., where it is No. 3 of imported U.S. brands. To make CHESTERFIELD Filter a real factor in the U.K., wide distribution coupled with aggressive advertising and promotion are needed. It is expected that both these essential ingredients will be added in 1973 which, with the sound base the Brand already enjoys, will permit CHESTERFIELD Filter to compete with leading U.K. brands and will provide dramatically increased volume.

LARK

This Brand has been promoted in Europe only in Spain and only in recent years. It's potential in Europe is very great, particularly in Italy where it will be launched in 1973.

The dramatic growth of LARK in Spain is evident in the following in-market comparative figures:

In-Market Sales	1969	1970	1971	1972
Units (.000)	22,630	39,280	73,350	105,000

LARK's share of the imported Filter segment in Spain has grown from 4.3% in 1970 to 5.8% in 1971 and to an approximate 7% in 1972.

It also has an enormous potential in the U.K. once our distribution problems have been resolved, as well as in Sweden due to the health-conscious orientation of this market.

LARK has an important potential in Europe because of the marked trend in all European markets to light cigarettes and because of the growing emphasis in Europe on the health aspect of cigarette smoking.

EVE

EVE was launched in Germany in May 1972 and immediately achieved a 0.5% share of this ferociously aggressive market. Hundreds of new brands were launched in Germany with vast financial expenditures during the past three years but only 3 of these new brands have achieved even a 1% market share.

Considering that EVE is a feminine cigarette launched with less financial support than competitive brands, the success of EVE in Germany can be considered a real triumph. Plans for its support in 1973 promise further dramatic growth.

EVE also was launched in Spain during 1972 with token advertising and sold as a premium cigarette. It now is the No. 2 seller in long-size imported cigarettes with an approximate 20% share of the 100mm imported segment.

During 1973, EVE also will be launched in France and will be market-tested in the German part of Switzerland in order to capitalize on the advertising overflow from Germany.

Advertising and Promotion

A. An excellent TV campaign was developed for L&M in Spain during 1972, using a successfully pre-tested theme of L&M as the "Get-away-from-it-all" taste. The commercials also will be used in other Liggett Non-European markets where TV or cinema advertising are permitted.

B. In Germany, the U.S. EVE advertising was pre-tested and improved, contributing to the successful introduction of the Brand. Point-of-sale material mirrored the print campaign, to make a unified impact on the consumer.

C. A new LARK TV commercial for Spain, using a scientific approach, was designed to foster the dramatic growth of the Brand and also to combat aggressive activity by other charcoal-filter competition.

c. P & L REVIEW

A. Units

1. At the end of 1971, substantial shipments were made to Europe prior to the longshoremen's strike which paralyzed East Coast shipping for several months. Due to the uncertain duration of the strike, sufficient inventory was shipped to last through the first quarter of 1972.

Consequently, although total Export volume for 1972 is only slightly in excess of 1971, the 1972 results actually reflect a substantial increase.

2. Export shipments in all areas have increased during 1972 reflecting increasing acceptance for our Brands, with the exception of the Special Bond or Transit area. Transit business, by its very nature, is an unpredictable business affected by a variety of factors beyond our control. Factors such as inclement weather conditions, increased surveillance, lack of aggressive Transit activity in general during 1972 contributed to the short-fall in our Transit sales during the past year.

3. On the other hand, Export shipments to Spain increased by 155 million cigarettes in 1972 compared to 1971 (686 million shipped in 1971 vs. 841 million in 1972) - an increase of 22.6%.

4. Exports to the Canaries increased by 6.8% (from 296 million in 1971 to 316 million in 1972).

5. As stated above, the short-fall resulted in the Bond/Transit area where we experienced a decrease of 22.4% in 1972 compared to 1971, owing to factors beyond our control.

6. Nevertheless, the 1972 Export volume of 1705 million compares favorably with the 1971 actual exports of 1701 million, especially because 1971 results were inflated by emergency shipments.

B. Contribution to Profit

In 1972, the contribution to profit of $1438 thousand compared unfavorably with the 1971 profit of $1766 thousand. The unfavorable deviation of ($328) thousand can be analyzed as follows:

1. Manufacturing Margin in 1972 was slightly above 1971 by $10 thousand, primarily due to additional volume of 4 million units.

2. Selling Expenses in 1972 exceeded 1971 by $(146) thousand primarily due to Liggett S.A./N.V. expenses exceeding 1971 by $(156) thousand due to additional sales staff.

3. G & A Expenses were slightly below 1971 by $ 9 thousand.

4. Total Advertising Expenses were above 1971 by $(180) due primarily to an increase in Spain of $(85) thousand and France of $(135) thousand. Deviation in France was due to total advertising expenses in 1972 paid in New York, whereas only part was paid in New York in 1971 and the remaining balance in 1971 being paid by Eilebrecht, Germany.

5. Liggett S.A. /N.V. in 1972 was below 1971 by $(21) thousand.

Recap

1.	Manufacturing Margin	$ 10	thousand
2.	Selling Expenses	(146)	"
3.	G&A Expenses	9	"
4.	Total Advertising Expenses	(180)	"
5.	Liggett S.A./N.V. Profit	(21)	"
	TOTAL	($328)	"

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d. SIGNIFICANT EVENTS IN 1972

A. Reorganization of the Brussels headquarters was completed, as shown on the attached Organization Chart. (See attachment "A".) The Brussels headquarters was strengthened with addition of a new Sales Manager with substantial cigarette experience in European Tax-Paid and Bond markets.

In addition, a Manager of our expanded European Licensing Operations was appointed and a new Administrative Manager with Marketing Services functions has joined our Brussels Staff headquarters.

B. A new Representative in France, specializing only in the Tobacco field, was appointed and we are certain that this appointment will provide an important stimulus to our sales in France in 1973.

C. Closer relationships were established during 1972 with the Spanish, Italian and French Monopolies which will assure important support for our Brands in the future.

D. New price structures have been developed for our shipments to the Canary Islands that are tied into additional volume. This will mean greater profitability for Liggett on our Canary Islands business in the future since our Agent's profit will depend on additional volume over and above the Budgeted Forecast.

E. Important break-through in many Transit areas have been made, particularly for Turkey and Italy. We are working on other important Transit possibilities which give promise of substantial and regular volume.

F. A new Bond Agent was appointed in Holland to stimulate our Bond and Transit sales in that market.

e. OBJECTIVES FOR 1973

A. General

1. During 1973, it is our intention to switch over to the L&M Traditional red-and-white pack in Southern Europe and to repair the adverse effects created by the consumer rejection of the Picture Pack.

2. A Pan-European effort will be concentrated on CHESTERFIELD Filter in an up-dated white pack, eliminating the unsuccessful red-and-plum pack that has hindered our progress.

3. In Spain, efforts will be made to revitalize our L&M Brand once we have reverted to the more acceptable Traditional pack. At the same time, we will increase our support of LARK in view of its constant and dramatic increase in market share.

4. Aggressive activity will be made to increase our Bond sales in the Central and Southern areas as well as to further support our continued increase in Northern Bond areas.

5. Steps will be taken to enlarge our market for CHESTERFIELD Filter in the U.K., through local manufacture and distribution via a licensing arrangement for this Brand.

6. New and additional avenues of the ever-changing Transit business will be developed.

B. Specific Brand Objectives

1. CHESTERFIELD

Regular-Size + King-Size

To maintain our very high market share in the decreasing Non-Filter category.

Filter

To discontinue the "Plum-pack" and switch to a new, up-dated white pack.

2. L&M

Switch from L&M Picture Pack to the L&M Traditional pack in the entire Southern European area.
(Decision re: Northern Europe to be delayed until
(a) Government ruling in Sweden and (b) the U.S. Domestic decision is known.)

3. LARK

Brand position to be improved in all those markets
(a) where emphasis is being put on the health controversy or
(b) in which a potential for charcoal Filter cigarettes exists.

4. EVE

To extend the introduction of EVE to include all major European Domestic markets.

C. Bond Market Objectives

1. Review all contracts with Exclusive or Non-Exclusive Agents, and submit recommendations for change where indicated.
2. Review all compensation arrangements with Exclusive or Non-Exclusive Agents and direct customers, bringing them in line with competitive levels.
3. To improve our coöperation with the Weitnauer organization, to take advantage of their services where and when required.
4. To enlarge our sphere of activity in the Special Transit trade, and coördinate it with our endeavours in priority Domestic markets.
5. To develop and recommend a Europe-wide Bond promotion to Management, International.
6. To change our sales philosophy from selling to Agents to selling through Agents.

LIG- 130.

D. Staff

1. To evaluate the individual performance on all levels, and work out and implement training programs where indicated.

2. To evaluate the performance of Agent's staff for promotion of Liggett Brands and where indicated recommend/impose changes.

E. Individual Market Objectives

For all Domestic and Bond markets, individual market objective sheets to be established, for monthly review and adaptation.

II. LICENSEE OPERATIONS - EUROPE

Germany

Undoubtedly, the major development in Europe in 1972 is the conclusion of a Licensing Agreement with Martin Brinkmann AG Cigarette for the manufacture, distribution and promotion of EVE and CHESTERFIELD Filter, as well as Eilebrecht Brands such as DIMITRINO, BOTSCHAFTER, SHEFFIELD and BALI. The positive significance of this event is impossible to be measured but can be summed up as follows:

1. It will immediately eliminate the heavy financial losses over the past several years of the Eilebrecht Operation, which now is in the process of liquidation. The immediate effect will be a positive one on our Consolidated European P&L and on the Consolidated Company as well.

2. In the fiercely competitive German market, it is impossible to launch a new brand without the investment of millions of dollars only in advertising and promotion, even without considering the manufacturing, selling, distribution and other costs. Hundreds of new German brands have been launched in the past three years with enormous outlays for advertising and promotion but without success. Only three new brands have achieved even a 1% market share. With our new Licensing arrangement in Germany, we will avoid the tremendous risk capital required if we were to continue on our own but will have a far greater chance of conquering the lucrative German market without any financial investment on our part.

3. Martin Brinkmann AG Cigarette, one of the leaders of the Tobacco industry in Germany, and part of a giant European Group of Companies, represents the ideal solution for the launch of CHESTERFIELD Filter because of its powerful organization in Germany. The enormous risk capital for such introduction will be borne by the Licensee for CHESTERFIELD Filter as well as the continued support and growth of EVE, with the promise of substantial Royalty income in the future that will represent net profit without capital risk or investment.

Switzerland

1. A new Licensing Arrangement also was concluded with Ed. Laurens s.a. (Extension Suisse), in Switzerland, also part of the new and powerful Rothman's International Group, assuring more aggressive advertising and promotion of our Brands (CHESTERFIELD Regular and Filter, L&M and LARK), entirely at the Licensee's expense. This Agreement is similar to those concluded in Germany.

2. The Swiss Licensee will test-market EVE in the German part of Switzerland to capitalize on the advertising overflow and the success of EVE in Germany.

Benelux

A new Licensing Arrangement was concluded with Sigarettenfabriek Ed. Laurens n.v., The Hague, also part of the Rothman's International Group, under the same advantageous terms as in Germany and Switzerland, without any financial investment on our part but with substantial advertising and promotional expenditures required by the Licensee at their expense.

Yugoslavia

1. A Licensing Agreement was concluded for the manufacture and sale of CHESTERFIELD 100mm cigarette in Yugoslavia.

2. Since our Licensee, DUKONS (Duvanski Kombinat - Novi Sad) has firm commercial relations with the U.S.S.R., we anticipate substantial Royalty revenue from sales by our Licensee to the vast Russian market, thus paving the way to development of this lucrative and untapped market for our Brands.

Andorra

1. A potentially lucrative Licensing Agreement was concluded with Industries Montanya, S.A. (I.M.S.A.), Mr. H. CIERCO, for the manufacture and sale of our Brands in Andorra.

2. In addition to Royalty revenue, we have sold obsolete machinery from our liquidated Eilebrecht plant to Andorra and also will realize profits from the sale of Leaf Tobaccos.

3. Start-up of this Operation is significant for two reasons:

   A. Our Brands will be the only U.S. cigarettes available in Andorra on a constant basis, since all other U.S. brands are imported sporadically on a restricted License basis.

   B. The Andorran market is important mostly because of the heavy French and Spanish tourist traffic so that the sale of our Brands in Andorra will help to stimulate our business in France and in Spain.

III. SUBSIDIARIES - EILEBRECHT AND U.C.C.

1. As indicated earlier, Eilebrecht is in the process of liquidation. Under our new arrangements with Brinkmann, the German market will generate a profit as contrasted with the heavy losses that have characterized this Operation since its acquisition.

2. The same holds true for Switzerland where U.C.C. will cease to function. The sale of the U.C.C. factory and assets will have a favorable impact on our Consolidated European Operation. The former stale-mate of an existing Licensee manufacturing Liggett Brands, plus a Liggett U.C.C. factory manufacturing weak local brands, thus will be eliminated through our sounder working arrangement with Laurens, Switzerland.

3. Laurens will manufacture, distribute, advertise and promote Liggett Brands and also will manufacture and supply our Brands as a sub-contractor for our EFTA, Export I and Export II business.

4. Similarly, Laurens, The Hague, will sub-contract the supply of our Brands for the Common Market countries i.e. France and Italy.

5. Whereas our Exports from Eilebrecht and U.C.C. generated a loss in the past, our Exports under the sub-contracting arrangements with Laurens, Switzerland and The Hague, will generate a profit whereby our Export merchandise will be supplied to us at Cost plus 5%.

6. As of March 1972, we took over the responsibility for Export II sales from Laurens with positive results. In 10 months, our efforts produced Export II sales of approximately 24 million compared to the 1972 Forecast for the entire year of 3.9 million. In 1973, with strengthened support, it is expected that our Export II volume will exceed 50 million cigarettes and will generate a profit. This business is so important to stimulate our share of the large Italian market, particularly in anticipation of liberalization expected in 1975 when the Italian Monopoly will no longer have a monopolistic character.

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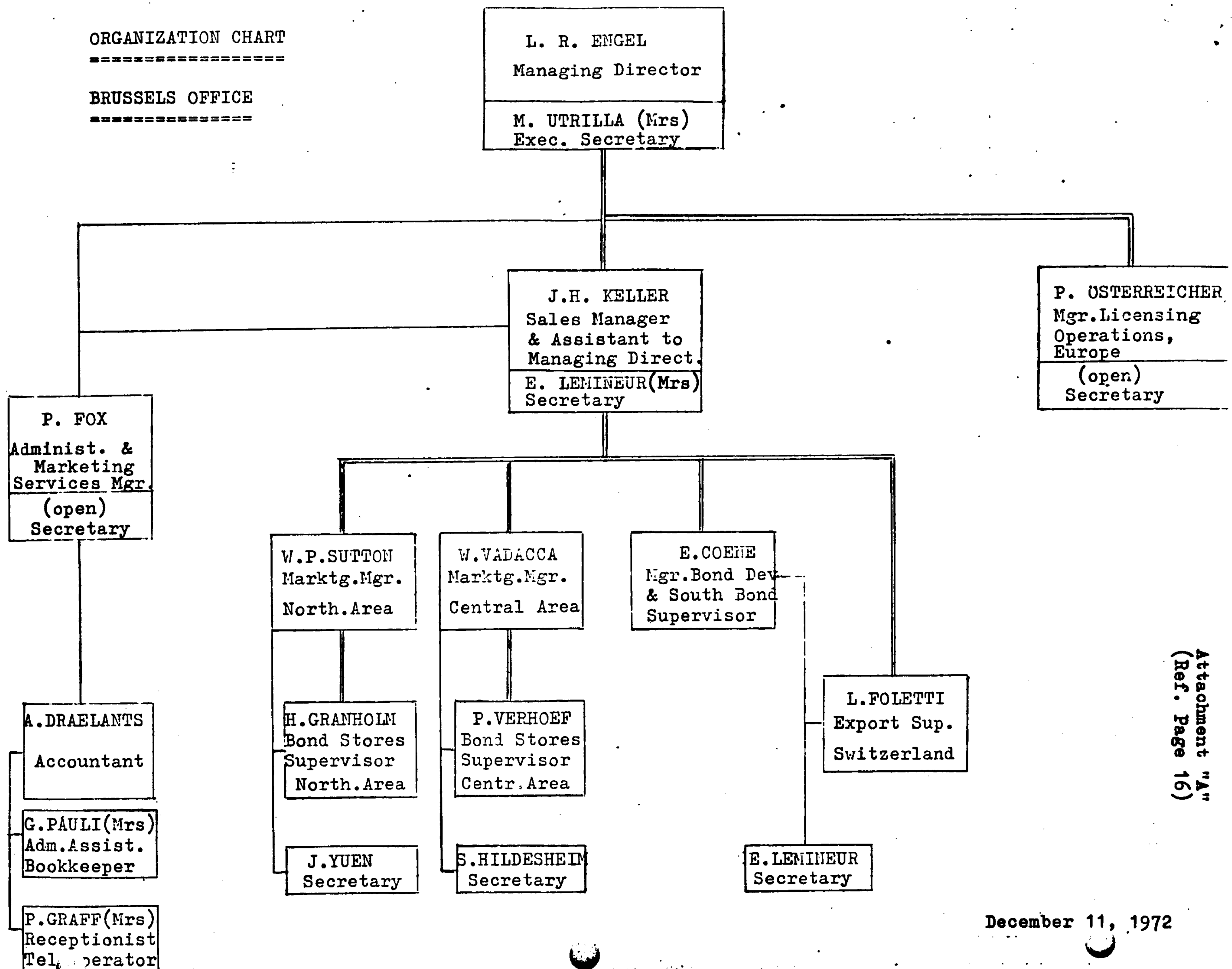
+ Attachment "A"

December 11, 1972
LRE:mua

ORGANIZATION CHART

BRUSSELS OFFICE



Attachment "A"
(Ref. Page 16)

December 11, 1972

LG 0218712

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

CONSOLIDATED EXPORT

1971 ACTUAL	%	1972 PROJECTED	%		1973 BUDGET	%	1974 FORECAST	%
				UNIT SALES				
3530		3445		Cigarette (MM)	3726		3909	
117				Tobacco (M. Lbs.)				
$ 24610	103.7	$ 22843	105.2	NET SALES	$ 24709	103.2	$ 25813	102.8
888	3.7	1137	5.2	Promo. Allow.	768	3.2	700	2.8
$ 23722	100.0	$ 21706	100.0	Net Sales after Prom. Allow.	$ 23941	100.0	$ 25113	100.0
				COST OF PRODUCT:				
$ 14650	61.8	$ 13382	61.7	Cost of Sales at Standard	$ 14556	60.8	$ 15501	61.7
				Variances:				
171	.7	178	.8	Expense	-	-	-	-
180	.8	71	.3	Volume	-	-	-	-
34	.1	83	.4	Past Service Cost	92	.4	84	.3
33	.1			Plant Automation	-	-	-	-
$ 15068	63.5	$ 13714	63.2	Total	$ 14648	61.2	$ 15585	62.0
56	.3	76	.3	Distribution Expense	126	.5	135	.6
$ 15124	63.8	$ 13790	63.5	Total	$ 14774	61.7	$ 15720	62.6
$ 8598	36.2	$ 7916	36.5	MANUFACTURING MARGIN	9167	38.3	9393	37.4
3213	13.5	3629	16.7	Selling Expense	4067	17.0	4221	16.8
$ 5385	22.7	$ 4287	19.8	SALES MARGIN	$ 5100	21.3	$ 5172	20.6
22	.1	32	.1	Tech. Research	16	.1	18	.1
21	.1	-	-	Mkt. Research	-	-	-	-
379	1.6	493	2.3	Division G & A	633	2.6	673	2.6
304	1.3	251	1.2	Corporate G & A	284	1.2	298	1.2
$ 726	3.1	$ 776	3.6	Total	$ 933	3.9	$ 989	3.9
$ 4659	19.6	$ 3511	16.2	PROFIT BEFORE ADVERTISING	$ 4167	17.4	$ 4183	16.7
				Advertising:				
1136	4.8	1208	5.6	Media	1180	4.9	1192	4.7
363	1.5	582	2.7	Promotion	779	3.3	791	3.2
368	1.6	391	1.8	Market G & A	421	1.7	434	1.8
$ 1867	7.9	$ 2181	10.1	Total	$ 2380	9.9	$ 2417	9.7
$ 2792	11.7	$ 1330	6.1	OPERATING PROFIT	$ 1787	7.5	$ 1766	7.0
				Lic. & Royalty Oper.				
				Uncon. Foreign Subs.				
302		281-		Other N/O Income	305		300	
				Other N/O Expense				
$ 3094		$ 1611		CONTRIBUTION TO PROFIT	$ 2092		$ 2066	

LG 0218714

LICENSEE

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

CONSOLIDATED LICENSEE

1971 ACTUAL	%	1972 PROJECTED	%		1973 BUDGET	%	1974 FORECAST	%
				UNIT SALES				
				Cigarette (MM)				
				Tobacco (M. Lbs.)				
$ 1724	100.0	$ 2823	100.0	NET SALES	$ 1685	100.0	$ 1786	100.0
				Promo. Allow.				
$ 1724	100.0	$ 2823	100.0	Net Sales after Prom. Allow.	$ 1685	100.0	$ 1786	100.0
				COST OF PRODUCT:				
$ 1486	86.2	$ 2521	89.3	Cost of Sales at Standard	$ 1386	82.3	$ 1467	82.1
				Variances:				
				Expense				
				Volume				
				Past Service Cost				
				Plant Automation				
$ 1486	86.2	$ 2521	89.3	Total	$ 1386	82.3	$ 1467	82.1
				Distribution Expense				
$ 1486	86.2	$ 2521	89.3	Total	$ 1386	82.3	$ 1467	82.1
238	13.8	302	10.7	MANUFACTURING MARGIN	299	17.7	319	17.9
				Selling Expense				
$ 238	13.8	$ 302	10.7	SALES MARGIN	$ 299	17.7	$ 319	17.9
82	4.8	103	3.7	Tech. Research	151	9.0	157	8.8
24	1.4	-	-	Mkt. Research	12	.7	15	.8
435	25.2	484	17.1	Division G & A	681	40.3	725	40.6
130	7.5	107	3.8	Corporate G & A	121	7.2	127	7.1
$ 671	38.9	$ 694	24.6	Total	$ 965	57.2	$ 1024	57.3
$ (433)	(25.1)	$ (392)	(13.9)	PROFIT BEFORE ADVERTISING	$ (666)	(39.5)	$ (705)	(39.4)
				Advertising:				
193	11.2	410	14.5	Media	369	21.8	400	22.4
62	3.6	130	4.6	Promotion	220	13.1	345	19.3
27	1.6	26	.9	Market G & A	33	2.0	48	2.7
$ 282	16.4	$ 566	20.0	Total	$ 622	36.9	$ 793	44.4
$ (715)	(41.5)	$ (958)	(33.9)	OPERATING PROFIT	$ (1288)	(76.4)	$ (1498)	(83.8)
1550		2152		Lic. & Royalty Oper.	2122		2365	
				Uncon. Foreign Subs.				
96		38		Other N/O Income	159		150	
				Other N/O Expense				
$ 931		$ 1232		CONTRIBUTION TO PROFIT	$ 993		$ 1017	

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LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

CONSOLIDATED DIVISION

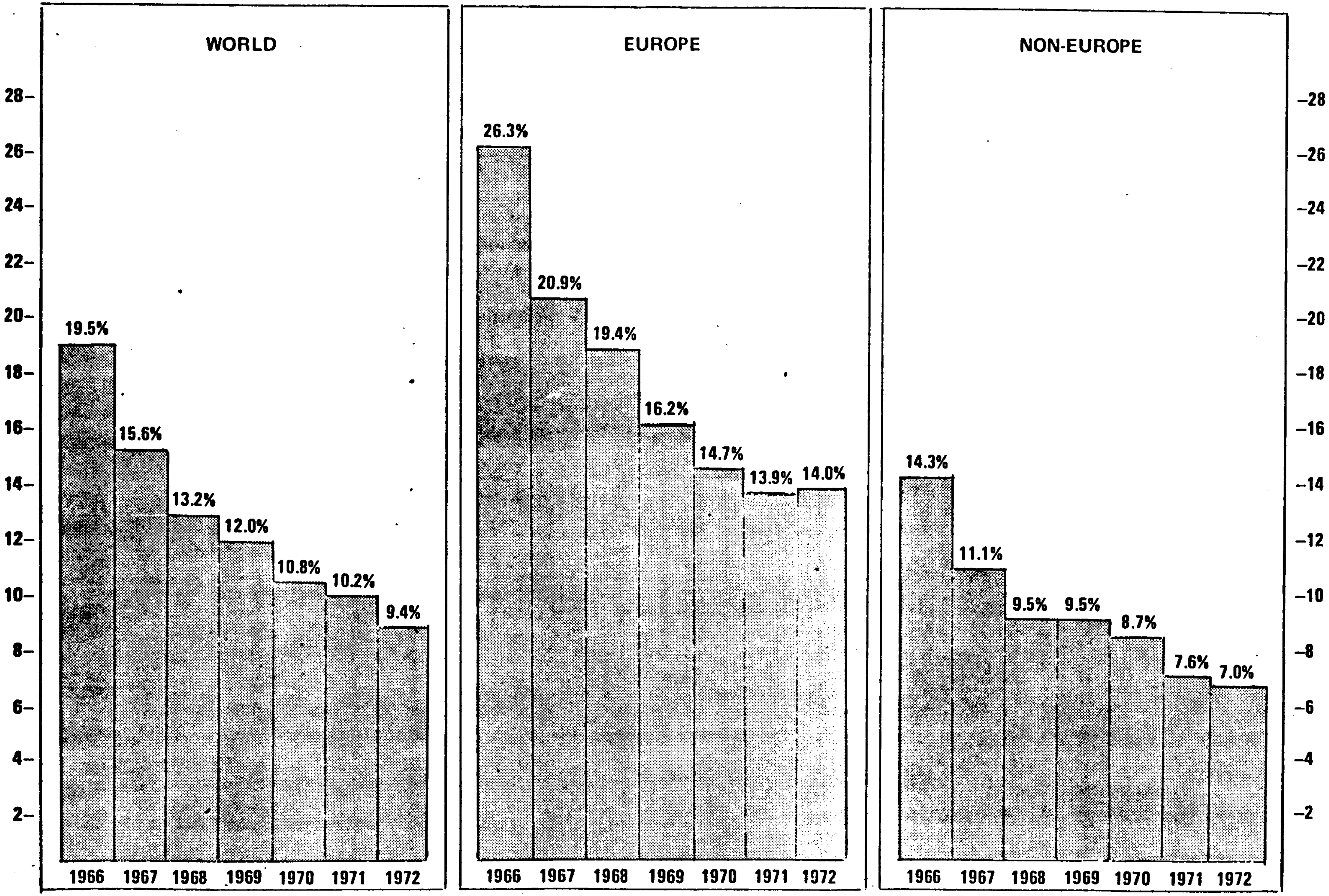
Domestic M.M. ~~28.7~~ 27.2

1971 ACTUAL	%	1972 PROJECTED	%		1973 BUDGET	%	1974 FORECAST	%
				UNIT SALES				
3530		3445		Cigarette (MM)	3726		3909	
117				Tobacco (M. Lbs.)				
$ 26334	103.5	$ 25666	104.6	NET SALES	$ 26394	103.0	$ 27599	102.
888	3.5	1137	4.6	Promo. Allow.	768	3.0	700	2
$ 25446	100.0	$ 24529	100.0	Net Sales after Prom. Allow.	$ 25626	100.0	$ 26899	100
				COST OF PRODUCT:				
$ 16136	63.4	$ 15903	64.9	Cost of Sales at Standard	$ 15942	62.2	$ 16968	63
				Variances:				
171	.7	178	.7	Expense	-	-	-	-
180	.8	71	.3	Volume	-	-	-	-
34	.1	83	.3	Past Service Cost	92	.4	84	
33	.1			Plant Automation			-	-
$ 16554	65.1	$ 16235	66.2	Total	$ 16034	62.6	$ 17052	63
56	.2	76	.3	Distribution Expense	126	.5	135	
$ 16610	65.3	$ 16311	66.5	Total	$ 16160	63.1	$ 17187	63
$ 8836	34.7	$ 8218	33.5	MANUFACTURING MARGIN	9466	36.9	9712	36
$ 3213	12.6	3629	14.8	Selling Expense	4067	15.8	4221	15
$ 5623	22.1	$ 4589	18.7	SALES MARGIN	$ 5399	21.1	$ 5491	20
$ 104	.4	135	.6	Tech. Research	167	.7	175	
45	.2	-	-	Mkt. Research	12	-	15	
814	3.2	977	4.0	Division G & A	1314	5.1	1398	5
434	1.7	358	1.4	Corporate G & A	405	1.6	425	1
$ 1397	5.5	$ 1470	6.0	Total	$ 1898	7.4	$ 2013	7
$ 4226	16.6	$ 3119	12.7	PROFIT BEFORE ADVERTISING	3501	13.7	3478	12
				Advertising:				
$ 1329	5.1	$ 1618	6.6	Media	$ 1549	6.0	$ 1592	5
425	1.7	712	2.9	Promotion	999	3.9	1136	4
395	1.6	417	1.7	Market G & A	454	1.8	482	1
$ 2149	8.4	$ 2747	11.2	Total	$ 3002	11.7	$ 3210	11
$ 2077	8.2	$ 372	1.5	OPERATING PROFIT	499	2.0	$ 268	1
1550		2152		Lic. & Royalty Oper.	2122		2365	
(2219)		(1773)		Uncon. Foreign Subs.	(347)		N.A.	
398		319		Other N/O Income	464		450	
				Other N/O Expense				
$ 1806		$ 1070		CONTRIBUTION TO PROFIT	$ 2738		$ 3083	

1972 Non-Operating Losses	
Germany	$ (1650)
Switzerland	(100)
Total	$ (1750)

Not reflected in 1972 projection.

LIGGETT & MYERS MARKET SHARE OF U.S. CIGARETTE EXPORTS 1966—1972*



*1972 is 10 months actual and 2 months estimated.

LG 0218719

U.S. EXPORT SALES
INDUSTRY VERSUS LIGGETT

(In millions of units)

	1970				1972*			
	USDC		Liggett & Myers		USDC		Liggett & Myers	
	Units	%	*Units*	%	*Units*	%	*Units*	%
Europe	10639	32.9	1561	44.6	11750	33.6	1645	49.9
Puerto Rico, Netherland Antilles, Panama, Hong Kong, Lebanon	9375	28.9	553	15.8	11297	32.3	251	7.6
Paraguay, Uruguay, Argentina, Colombia	3102	9.6	611	17.5	672	1.9	150	4.5
Rest of World	9278	28.6	771	22.1	11261	32.2	1253	38.0
Total World	32394	100.0	3496	100.0	34980	100.0	3299	100.0

	1970			1972*		
	USDC	L&M	L&M % of USDC Shipments	USDC	L&M	L&M % of USDC Shipments
Europe	10639	1561	14.7	11750	1645	14.0
Puerto Rico, Netherland Antilles, Panama, Hong Kong, Lebanon	9375	553	5.9	11297	251	2.2
Paraguay, Uruguay, Argentina, Colombia	3102	611	19.7	672	150	22.3
Rest of World	9278	771	8.3	11261	1253	11.1
Total World	32394	3496	10.8	34980	3299	9.4

*1972 is 10 months actual and 2 months estimated.

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LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

INTERNATIONAL DIVISION

COST CENTER SUMMARY FOR 1973 BUDGET

COMPLEMENT

1972 BUDGETED ________

1972 ACTUAL ________

1973 BUDGETED ________

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
		PROMOTION ALLOWANCE			
$ 222,032	$ 215,100	856	Europe Exp.	$ 220,237	$ 245,000
666,319	922,000	859	Non-Europe Exp.	547,724	455,000
$ 888,351	$1,137,100	Total		$ 767,961	$ 700,000
		DISTRIBUTION			
$ 25,051	$ 14.436	856	Europe Exp.	$ 15,000	$ 20,000
-	30,994	859	Non-Europe Exp.	23,000	25,000
31,669	30,660	890	Dist. Overhead	88,489	89,765
$ 56,720	$ 76,090	Total		$ 126,489	$ 134,765
		SELLING EXPENSES			
$ 144,938	$ 161,457	851	Customer Services	$ 155,978	$ 164,000
1,249,933	1,391,799	856	Europe Exp.	1,672,653	1,723,000
1,585,373	1,873,134	859	Non-Europe Exp.	1,959,127	2,030,000
232,602	203,316	890	Freight to Pier	279,485	304,092
$3,212,846	$3,629,706	Total		$4,067,243	$ 4,221,092
		MARKET RESEARCH			
$ 28,073	-	852	Market G & A	-	-
15,891	-	854	Lic. Non-Eur.	$ 12,000	$ 15,000
1,226	-	856	Europe Exp.	-	-
$ 45,190	-	Total		$ 12,000	$ 15,000
		DIVISION G & A			
$ 10,729	$ 27,499	853	Lic. Europe	$ 35,300	$ 43,000
67,984	41,914	854	Lic. Non-Eur.	160,878	182,000
194,667	191,075	858	Durham	214,202	212,000
541,449	716,550	916	Div. G & A	903,878	961,000
$ 814,829	$ 977,038	Total		$1,314,258	$ 1,398,000

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LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

INTERNATIONAL DIVISION

COST CENTER SUMMARY FOR 1973 BUDGET

COMPLIMENT

1972 BUDGETED ________

1972 ACTUAL ________

1973 BUDGETED ________

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
		ADVERTISING			
			MEDIA		
$ 60,975	$ 85,000	852	Marketing G & A	$ 70,000	$ 75,000
101,445	114,684	853	Lic. Europe	-	-
73,503	272,534	854	Lic. Non-Europe	348,212	378,000
415,119	357,253	857	Non-Europe Exp.	359,808	380,000
678,030	788,912	855	Europe Export	759,630	759,000
-	-	859	Non-Europe Exp.	11,000	-
$1,329,072	$1,618,383	Total		$1,548,650	$1,592,000
		PROMOTION			
$ 50,159	$ 130,000	853	Lic. Europe	$ 219,500	$ 345,000
12,129	-	854	Lic. Non-Europe	-	-
204,571	325,000	855	Europe Export	372,965	385,000
158,110	257,492	857	Non-Europe Exp.	406,160	406,000
$ 424,969	$ 712,492	Total		$ 998,625	$1,136,000
		MARKET G & A			
$ 90,280	$ 92,279	852	Market G & A	$ 110,468	$ 162,000
265,509	208,000	856	Europe Export	224,004	240,000
39,687	117,000	859	Non-Europe Exp.	120,000	80,000
$ 395,476	$ 417,279	Total		$ 454,472	$ 482,000

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

COST CENTER 851 - INT'L CUSTOMER SERVICES

COMPLEMENT

1972 BUDGETED 15

1972 ACTUAL 13

1973 BUDGETED 13

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
			SELLING		
$ 143,372	$ 148,607	701	Salaries	$ 148,308	$ 158,000
41	150	719	Overtime	150	500
-	2,000	720	Supplies	2,000	2,000
445	7,100	730	Travel & Enter.	2,000	2,500
-	2,800	743	Relocation	2,500	-
1,080	800	794	Incidentals	1,020	1,000
$ 144,938	$ 161,457	TOTAL	COST CENTER	$ 155,978	$ 164,000

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

COST CENTER 852 - INTERNATIONAL MARKETING SERVICES

COMPLEMENT

1972 BUDGETED 5

1972 ACTUAL 4

1973 BUDGETED 4

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
			MARKET RESEARCH		
$ 28,073	-	776	Mkt/Res & Dev.	$ -	$ -
			ADVERTISING		
		Media			
60,975	$ 85,000	750	Contract Adv.	70,000	75,000
		Promotion			
105	-	757	POS	-	-
			MARKETING G & A		
-	-		Artwork Prod.	21,000	25,000
73,170	79,209	701	Salaries/Fringes	73,260	113,000
-	150	720	Supplies	200	1,000
5,433	2,500	730	Travel/Enter.	3,000	8,000
750	-	742	Employee Train.	1,000	1,000
481	-	743	Relocation	-	-
-	2,250	746	Professional Fees	2,000	2,000
10,280	7,985	758	POS	10,008	12,000
166	185	794	Incidentals	-	-
90,280	92,279			110,468	162,000
$ 179,433	$ 177,279	TOTAL	COST CENTER	$ 180,468	$ 237,000

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LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

COST CENTER 853 - LICENSEE OPERATION EUROPE

COMPLEMENT

1972 BUDGETED 0

1972 ACTUAL 0

1973 BUDGETED 0

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
			DIVISION G & A		
-	$ 5,000	746	Professional Fees	$ 3,000	$ 4,000
-	2,000	759	Financial Exp.	2,000	3,000
$ 10,729	20,449	772	Spec Mkt/Sell Exp	30,000	35,000
-	50	785	Freight	300	1,000
$ 10,729	$ 27,499		Total	$ 35,300	$ 43,000
			ADVERTISING		
		Media			
98,854	98,765	750-07	Radio		
2,591	10,837	750-12	Print		
-	5,082	750-21	Production		
101,445	114,684		Total		
		Promotion			
50,159	130,000	769	Sales promotion	219,500	345,000
$ 162,333	$ 272,183	TOTAL	COST CENTER	$ 254,800	$ 388,000

LIG- 138450

LG 0218726

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

COST CENTER 854 - LICENSEE OPERATION NON - EUROPE

COMPLEMENT

1972 BUDGETED ________

1972 ACTUAL ________

1973 BUDGETED ________

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
			DIVISION G & A		
$ 76,956	$ 101,027	701	Salaries	$ 151,887	$ 163,000
-	13,500	730	Travel	25,800	35,000
-	-	743	Relocation	10,000	10,000
25,372	8,043	746	Professional Fees	13,800	14,000
39,839	(15,434)	759	Financial Exp.	39,760	42,000
-	1,500	772	Spec Mkt/Sell Exp	2,000	2,000
-	135	785	Freight	300	1,000
(74,183)	(66,857)	796	Billing Services	(82,669)	(85,000)
67,984	$ 41,914		Total	160,878	182,000
			MARKET RESEARCH		
15,891	-	776-12	Int'l Research	12,000	15,000
			ADVERTISING		
		Media			
73,503	272,534	750	Contract Adv.	348,212	378,000
		Non-Media			
2,934	-	757	POS		
9,195	-	772	Spec Mkt/Sell Exp		
12,129	-		Total		
$ 169,507	$ 314,448	TOTAL	COST CENTER	$ 521,090	$ 575,000

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

COST CENTER 855 - EUROPE EXPORT SALES
ADVERTISING EXPENSES

COMPLEMENT

1972 BUDGETED 0

1972 ACTUAL 0

1973 BUDGETED 0

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
			ADVERTISING		
		Media			
$ 678,030	$ 788,912	750	Contract Adv.	$ 659,630	$ 659,000
-	-		Tactical Fund	100,000	100,000
678,030	$ 788,912		Total Media	759,630	$ 759,000
		Non-Media			
7,596	13,264	749	Samples	13,750	14,000
68,294	65,790	757	Displays	72,850	73,000
70,000	161,795	750-01	Other Non-Media	175,000	180,000
5,010	34.544	765	Novelties	38,500	39,000
53,671	49,607	769	Sales Promotion	72,865	79,000
204,571	325,000		Total Non-Media	372,965	385,000
$ 882,601	$1,113,912	TOTAL	COST CENTER	$1,132,595	$1,144,000

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

COST CENTER 856 - EUROPE EXPORT SALES

COMPLEMENT

1972 BUDGETED 17

1972 ACTUAL 16

1973 BUDGETED 17

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
			SELLING EXPENSES		
$ 934	-	701	Salaries	-	-
4,702	$ 115	730	Travel	-	-
297	950	746	Professional Fees	$ 1,000	$ 2,000
5,306	9,108	752	Free Goods	12,504	13,000
5,495	8,000	759	Financial Exp.	8,400	9,000
109,762	265,000	767	Selling Ex. N. V.	343,004	325,000
1,090,211	1,067,406	768-01	Comm. to Dist.	1,238,495	1,294,000
-	410	778	Trade Relations	500	1,000
2,896	125	758	Pt. of Sale Dist.	250	1,000
5,111	685	781	Loss on Replace.	1,000	2,000
20,347	25,000	785	Freight	35,500	45,000
3,628	-	738	Donations	-	
1,013	-	772	Spec Mkt/Sell Exp.	32,000	32,000
231	-	794	Incidentals	-	-
-	15,000	743	Relocation	-	-
1,249,933	1,391,799	TOTAL	SELLING EXPENSES	1,672,653	1,723,000
			MARKETING G & A		
265,509	208,000	767-31	Marketing	224,004	240,000
			DISTRIBUTION EXPENSE		
25,051	14,436	784	Warehouse Exp.	15,000	20,000
			SALES DEDUCTIONS		
222,032	215,100	754	Promotion Allow.	220,237	245,000
			MARKET RESEARCH & DIVISION		
1,226	-	776-12	International	-	-
$1,763,751	$1,829,335	TOTAL	COST CENTER	$2,131,894	$ 2,228,000

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LG 0218729

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

COST CENTER 857 - NON-EUROPE EXPORT SALES
ADVERTISING EXPENSES

COMPLEMENT

1972 BUDGETED 0
1972 ACTUAL 0
1973 BUDGETED 0

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
			ADVERTISING		
		Media			
$ 415,119	$ 357,253	750	Contract Adv.	$ 359,808	$ 380,000
		Non-Media			
8,875	6,341	747	Coupons	-	-
21,724	20,483	749	Samples	46,300	47,000
14,884	31,562	757	Displays	49,500	49,000
-	19,088	751-01	Other Non-Media	10,000	10,000
11,911	21,250	765	Novelties	26,800	27,000
100,716	158,768	769	Sales Promotion	273,560	273,000
158,110	257,492	Total	Non-Media	406,160	406,000
$ 573,229	$ 614,745	TOTAL	COST CENTER	$ 765,968	$ 786,000

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

COST CENTER 858 - LICENSEE DURHAM OPERATIONS

COMPLEMENT

1972 BUDGETED 6

1972 ACTUAL 6

1973 BUDGETED 6

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
			DIVISION G & A		
$ 104,053	$ 124,805	701	Salaries	$ 131,322	$ 139,000
-	50	719	Overtime	50	100
1,439.	500	720	Supplies	800	900
4,818	5,218	722	Telephone&Telegraph	6,000	7,000
6,238	8,020	727	Experimantal Mat.	9,600	10,000
29,485	19,472	728	Transfer Costs	21,000	23,000
47,602	32,200	730	Travel & Enter.	44,400	30,000
218	150	736	Dues & Subsrip.	300	500
302	-	742	Employee Training	-	-
-	315	746	Professional Fees	325	500
94	180	749	Samples	180	300
-	46	757	POS	50	200
-	25	759	Financial Exp.	75	300
330	94	785	Freight	100	200
88	-	794	Incidentals	-	-
$ 194,667	$ 191,075	TOTAL	COST CENTER	$ 214,202	$ 212,000

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

COST CENTER 859 - NON-EUROPE EXPORT SALES

COMPLEMENT

1972 BUDGETED 13

1972 ACTUAL 11

1973 BUDGETED 11

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
			SELLING EXPENSES		
$ 219,575	$ 240,654	701	Salaries	$ 241,338	$ 242,000
13,799	26,500	716	Incentives	48,750	50,000
97	150	719	Overtime	200	1,000
989	5,060	720	Supplies	5,100	5,000
(60)	13	722	Telephone & Telegraph	-	-
1,063	7,096	725	Outside Services	8,760	9,000
152,395	155,021	730	Travel	156,000	160,000
11,466	14,768	731	Auto Expenses	20,250	22,000
68	575	736	Dues & Subscrip.	600	1,000
21,037	11,614	743	Relocation	20,000	10,000
9,900	13,200	744	Emp. Liv. Allow.	17,600	18,000
9,642	7,680	746	Professional Fees	8,004	8,000
16,944	74,219	752	Free Goods	59,125	65,000
982,085	1,107,105	768	Comm. to Dist.	1,164,400	1,214,000
20,869	27,108	759	Financial Exp.	30,000	32,000
374	-	758	POS Distribution	-	-
5,304	10,400	772	Spec Mkt/Sell Exp	46,000	50,000
25,841	69,436	781	Loss on Ret'd Goods	36,000	40,000
84,084	91,200	785	Freight	84,000	90,000
600	1,500	790	Bldg. Rent	1,800	2,000
8,021	9,800	793	Insurance	10,000	10,000
1,280	35	794	Incidentals	1,200	1,000
$1,585,373	$1,873,134		Total	1,959,127	2,030,000
			MARKETING G & A		
39,687	117,000	762	Bad Debts	120,000	80,000
			SALES DEDUCTIONS		
407,593	428,718	754	Prom. Allowance	433,724	455,000
33,726	-	752	Free Goods	-	-
225,000	493,300	748	Spec. Incentives	114,000	-
666,319	922,018		Total	547,724	455,000
			DISTRIBUTION EXPENSE		
-	30,994	784	Warehouse Expense	23,000	25,000
			MEDIA ADVERTISING		
-	-	797	Tactical Fund	11,000	-
$2,291,379	$2,943,146	TOTAL COST CENTER		$ 2,660,851	$2,590,000

LIG- 138456

LG 0218732

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

COST CENTER 916 - PRESIDENT INT'L DIVISION

COMPLEMENT

1972 BUDGETED 18

1972 ACTUAL 18

1973 BUDGETED 18

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
			DIRECT EXPENSES		
$ 383,678	$ 461,337	801	Salaries/Fringes	$ 572,145	$ 600,000
-	3,000	816	Incentive	20,000	30,000
1,087	1,176	819	Overtime	1,500	2,000
4,583	4,200	820	Supplies	6,000	7,000
54,828	54,238	822	Telephone & Telegrpah	60,000	65,000
662	3,748	824	Postage	3,900	5,000
1,037	400	825	Outside Services	450	1,000
43,520	65,886	830	Travel	74,800	80,000
2,835	2,100	836	Dues & Subscrip.	2,278	3,000
312	100	841	Employee Relations	200	500
725	1,817	842	Employee Training	2,000	2,500
19,824	2,535	843	Relocation	15,000	15,000
15,999	12,569	846	Prof. Fees	15,000	15,000
4,660	3,566	849	Samples	3,600	4,000
-	6,281	888	Depreciation	6,600	7,100
5,258	4,423	889	Mechine Rent	4,800	5,000
-	53	891	Property Taxes	55	100
2,441	625	894	Incidentals	1,200	800
$ 541,449	$ 628,054	TOTAL	DIRECT EXPENSES	$ 789,528	$ 843,000
			INDIRECT EXPENSES		
-	$ 14,754	360-03	Professional Fees	30,000	32,000
-	3,500	360-04	Patents	3,600	4,000
-	70,250	360-05	Trademarks	80,750	82,000
-	88,504	TOTAL	INDIRECT EXPENSES	$ 114,350	$ 118,000
$ 541,449	$ 716,558	TOTAL	COST CENTER	$ 903,878	$ 961,000

LIG- 138457

LG 0218733

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

COST CENTER 890 - DIRECTOR OF DISTRIBUTION

COMPLEMENT

1972 BUDGETED ______

1972 ACTUAL ______

1973 BUDGETED ______

1971 ACTUAL	1972 PROJECTION	ACCOUNT NO.	ACCOUNT NAME	1973 BUDGET	1974 FORECAST
			SELLING		
$ 232,602	$ 203,316	785	Freight to Pier	$ 279,485	$ 304,092

LIG- 138458

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

CORPORATE G & A

COMPLEMENT

1972 BUDGETED ________

1972 ACTUAL ________

1973 BUDGETED ________

1971 ACTUAL	1972 PROJECTION		1973 BUDGET	1974 FORECAST
$ 78,698	$ 76,156	General Counsil	$ 83,026	$ 87,000
62,869	32,940	Executive V.P. Fin.	29,319	31,000
161,530	153,564	Personnel&Office Ser N.Y.	154,837	163,000
14,400	15,900	V. Pres. and Comptroller	9,700	10,000
19,256	(57,832)	General Auditor	8,358	9,000
61,161	69,216	Systems and Programs	68,000	71,000
36,211	68,160	Data Processing	52,200	54,000
$ 434,125	$ 358,104	TOTAL CORPORATE G & A	$ 405,440	$ 425,000

138459

LG 0218735

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

INTERNATIONAL DIVISION

TECHNICAL RESEARCH

COMPLEMENT

1972 BUDGETED ________

1972 ACTUAL ________

1973 BUDGETED ________

1971 ACTUAL	1972 PROJECTION		1973 BUDGET	1974 FORECAST
$ 5,512	$ 8,580	Int'l Operations	$ 11,000	$ 13,000
34,424	60,710	Manufacturing - Europe	78,000	80,000
45,344	47,450	Manufacturing - Non-Eur.	61,000	63,000
18,720	18,260	International General	17,000	19,000
$104,000	$135,000	TOTAL TECHNICAL RESEARCH	$ 167,000	$ 175,000

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

NON-OPERATING INCOME SUMMARY

COMPLEMENT

1972 BUDGETED ________

1972 ACTUAL ________

1973 BUDGETED ________

1971 ACTUAL	1972 PROJECTION		1973 BUDGET	1974 FORECAST
$ 63,000	$ 31,000	Brazil Commission	$ 152,000	$ 143,000
7,000	7,000	Canadian Dividend	7,000	7,000
20,004	-	Canadian Company	-	-
302,000	281,000	Brussels N.V. Profit	305,000	300,000
6,335	-	Piccardo Dividend	-	-
$ 398,339	$ 319,000	TOTAL INCOME	$ 464,000	$ 450,000

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 PROFIT PLAN

INCOME/LOSS SUMMARY

UNCONSOLIDATED FOREIGN SUBSIDIARIES

COMPLEMENT

1972 BUDGETED ________

1972 ACTUAL ________

1973 BUDGETED ________

1971 ACTUAL	1972 PROJECTION		1973 BUDGET	1974 FORECAST
$ (86,000)	$ 236,000	Mexico	$ (107,000)	-
294,000	(288,000)	Brazil	(270,000)	-
(2,159,000)	(1,531,000)	Germany	-	-
(268,000)	(190,000)	Switzerland	30,000	-
$(2,219,000)	$(1,773,000)	Total	$ (347,000)	-

LIG- 138447

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 QUARTERLY CAPITAL BUDGET
CARRY OVER & PROPOSED

CLASSIFICATION Auto

LOCATION International

PROJECT NUMBER	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER	TOTAL
I-010-3	$ 10,000	$ 5,000			$ 15,000
I-020-3	-	7,000	7,000	7,000	21,000
TOTAL	$ 10,000	$ 12,000	$ 7,000	$ 7,000	$ 36,000

LIG— 138464

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 QUARTERLY CAPITAL BUDGET
CARRY OVER & PROPOSED

CLASSIFICATION Office Furniture ~~and Fixtures~~

LOCATION International

PROJECT NUMBER	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER	TOTAL
I-001-3	$ 1,000	$ 2,000	$ 2,000	$ 1,000	$ 6,000
I-002-3	1,000	1,000	1,000	1,000	4,000
TOTAL	$ 2,000	$ 3,000	$ 3,000	$ 2,000	$10,000

LG 0218741

LIGGETT & MYERS INCORPORATED
CIGARETTE AND TOBACCO DIVISION
1973 CAPITAL BUDGET

CLASSIFICATION Office Furniture and Fixtures
LOCATION International

PROJECT NUMBER	PROJECT TITLE	LAST YEAR CARRY-OVER	1973 PROPOSED	FUTURE YEARS CARRY-FORWARD	TOTAL CAPITAL EXPENDITURES	1973 EXPENSES	1973 DEPRECIATION	TOTAL 1973 EXPENSE
I-001-3	Office Furniture- Europe		$ 6,000				$ 250	$ 250
I-002-3	Office Equip. Non-Europe		4,000				166	166
TOTAL			$10,000				$ 416	$ 416

LG 0218742

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 CAPITAL BUDGET

CLASSIFICATION Auto

LOCATION International

PROJECT NUMBER	PROJECT TITLE	LAST YEAR CARRY-OVER	1973 PROPOSED	FUTURE YEARS CARRY-FORWARD	TOTAL CAPITAL EXPENDITURES	1973 EXPENSES	1973 DEPRECIATION	TOTAL 1973 EXPENSE
I-010-3	Auto - Europe		$ 15,000				$ 4582	$ 4582
I020-3	Auto - Non-Europe		21,000				3500	3500
TOTAL			$ 36,000				$ 8082	$ 8082

LG 0218743

LIGGETT & MYERS INCORPORATED

CIGARETTE AND TOBACCO DIVISION

1973 CAPITAL BUDGET
SUMMARY

LOCATION INTERNATIONAL

CLASSIFICATION	LAST YEAR CARRY-OVER	1973 PROPOSED	FUTURE YEARS CARRY-FORWARD	TOTAL CAPITAL EXPENDITURES	1973 EXPENSES	1973 DEPRECIATION	TOTAL 1973 EXPENSES
Office Furniture and Fixtures	-	$ 10,000				$ 416	$ 416
Auto	-	36,000				8082	8082
Total	-	$ 46,000				$ 8498	$ 8498

LG 0218744