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EXPERT ANALYSIS OF PROFITABILITY

BY

PAUL J. MUCH

JUNE 1997

HOULIHAN LOKEY HOWARD & ZUKIN

FINANCIAL ADVISORS

STATE OF MINNESOTA AND BLUE CROSS AND BLUE SHIELD VS. PHILIP MORRIS INCORPORATED, ET AL

EXPERT ANALYSIS OF PROFITABILITY

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A SPECIALTY INVESTMENT BANKING FIRM

Chicago

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The attached bound volume constitutes the expert report of Paul J. Much. This report and Mr. Much's opinions and testimony will be based on his academic training and experience and his ongoing review of publicly available corporate financial data and internal tobacco industry documents and discovery. A listing of the documents relied upon by Mr. Much is attached. Defendants have yet to fully answer discovery upon which portions of this report are based. Mr. Much may review additional documents and discovery produced or to be produced by defendants and may rely on other experts in this case. Mr. Much reserves the right to supplement and revise this report, in accordance with the court's orders of March 13, 1997, and May 16, 1997. Mr. Much also may offer testimony in response to related issues raised by defendants. A listing of the matters in which Mr. Much has testified, as well as Mr. Much's curriculum vitae, which includes a listing of his publications, are attached.

Paul J. Much
Senior Managing Director

5-30-97
Date

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Tobacco Profit Summary

Defendant Companies Summary

1954-96

GLOBAL CONSOLIDATED OPERATIONS

	Revenues	Operating Profits
American Tobacco	$235,401,000,000	$25,931,000,000
Brown & Williamson (BAT) (1)	474,369,000,000	43,179,000,000
Liggett	30,650,000,000	2,519,000,000
Lorillard	205,023,000,000	20,333,000,000
Philip Morris	681,433,000,000	103,119,000,000
RJ Reynolds	301,892,000,000	46,944,000,000
Total	$1,928,782,000,000	$242,023,000,000

GLOBAL TOBACCO OPERATIONS

	Revenues	Operating Profits
American Tobacco	$149,593,000,000	$16,643,000,000
Brown & Williamson (BAT) (1)	272,474,000,000	25,790,000,000
Liggett	20,902,000,000	1,870,000,000
Lorillard	40,372,000,000	9,996,000,000
Philip Morris	342,617,000,000	76,338,000,000
RJ Reynolds	169,207,000,000	36,401,000,000
Total	$995,165,000,000	$167,037,000,000

(1) Represents operations of Brown & Williamson's parent company BAT Industries, PLC.

Defendant Companies Summary

1954-96

DOMESTIC TOBACCO INDUSTRY

Aggregate Revenues	$463,237,000,000
Aggregate Operating Profits	114,904,000,000

DOMESTIC TOBACCO OPERATIONS

	Revenues	Operating Profits
American Tobacco	$50,770,000,000	$10,200,000,000
Brown & Williamson	58,143,000,000	10,222,000,000
Liggett	20,902,000,000	1,870,000,000
Lorillard	40,372,000,000	9,996,000,000
Philip Morris	165,398,000,000	52,186,000,000
RJ Reynolds	127,653,000,000	30,430,000,000
Total	$463,247,000,000	$114,906,000,000

Defendant Companies Summary

1954-96

MINNESOTA TOBACCO MARKET

Aggregate Revenues	$7,430,922,000
Aggregate Operating Profit	1,851,753,000

MINNESOTA TOBACCO OPERATIONS

	Revenues	**Operating Profits**
American Tobacco	$697,441,000	$146,777,000
Brown & Williamson	995,784,000	173,950,000
Liggett	312,480,000	26,470,000
Lorillard	618,756,000	147,228,000
Philip Morris	2,550,814,000	801,055,000
RJ Reynolds	2,255,647,000	555,893,000
Total	$7,430,922,000	$1,851,373,000

United States Tobacco Market

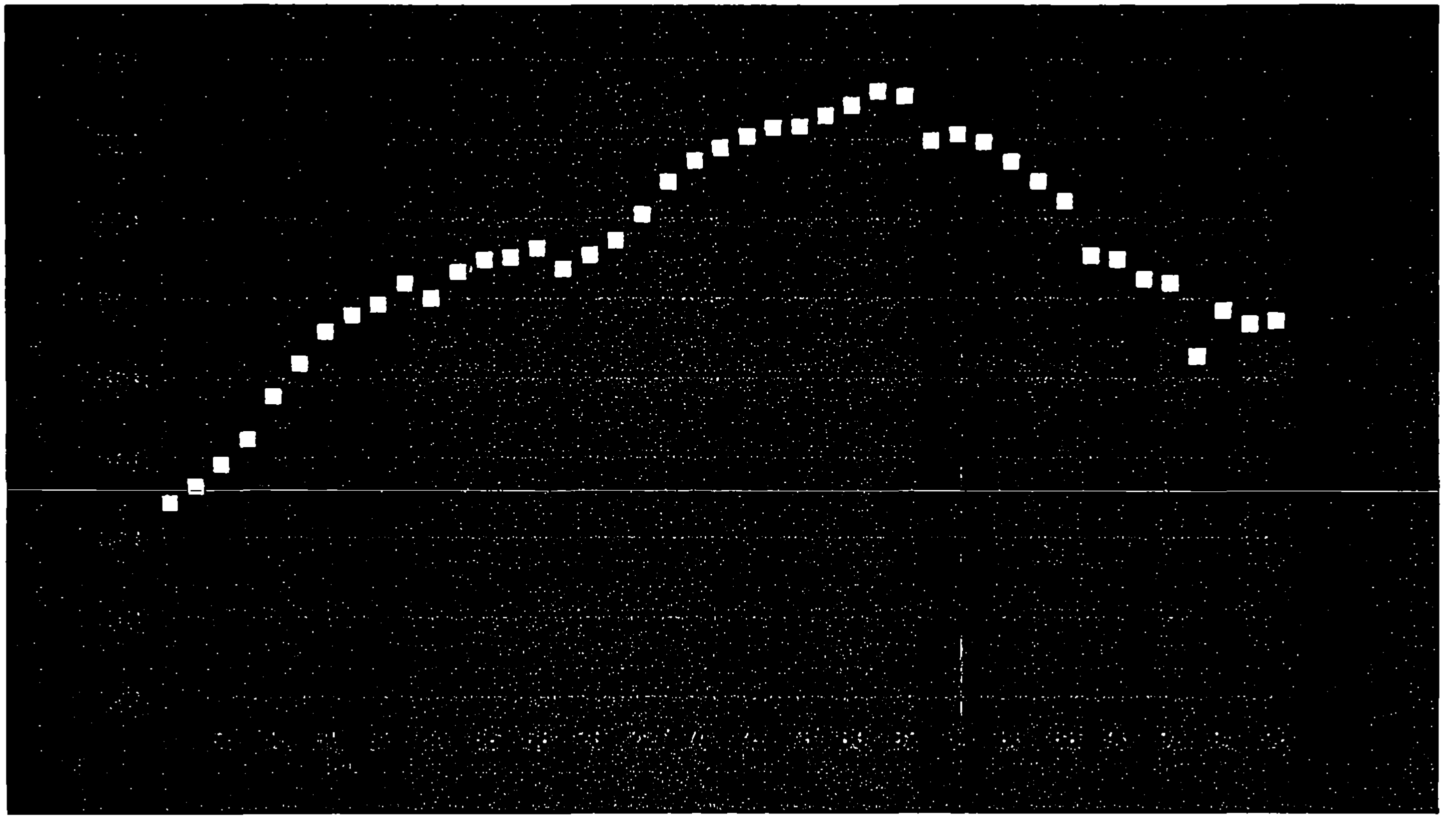
United States Tobacco Market

- Historically dominated by six manufacturers.
  - American Tobacco Company
  - Brown & Williamson
  - Liggett
  - Lorillard
  - Philip Morris
  - RJ Reynolds
- Diversification began in the 1960's.
  - Initial diversification related to tobacco packaging and other packaging materials.
  - Subsequent diversification included expansion into international tobacco and other consumer products using profits from domestic tobacco.

United States Tobacco Market

Domestic Unit Volume

(billions of cigarettes)

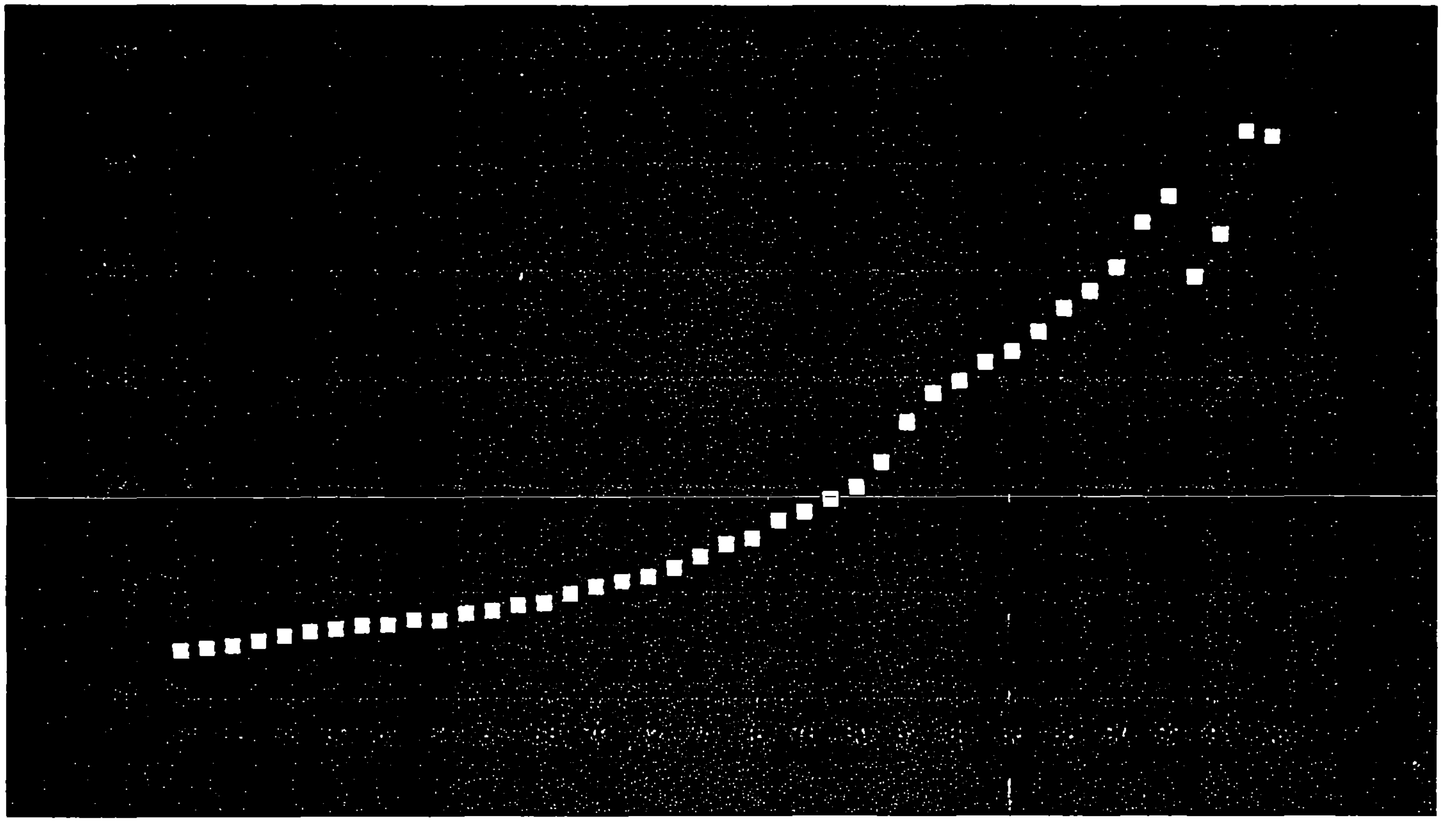


Source: Maxwell Reports

United States Tobacco Market

Domestic Retail Dollar Volume

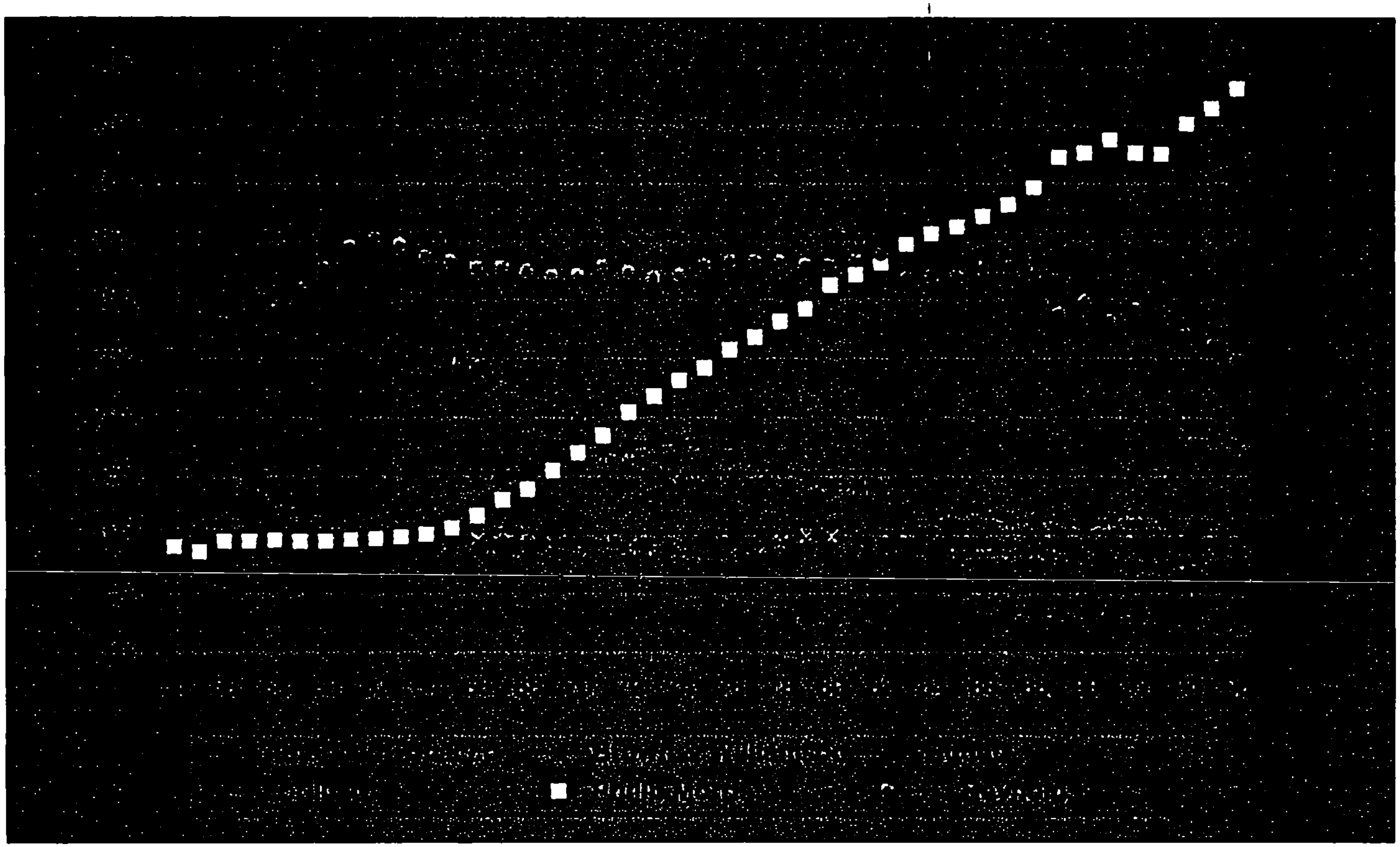
($billions)



Source: Maxwell Report and Tobacco Burden Report

United States Tobacco Market

Market Share Data



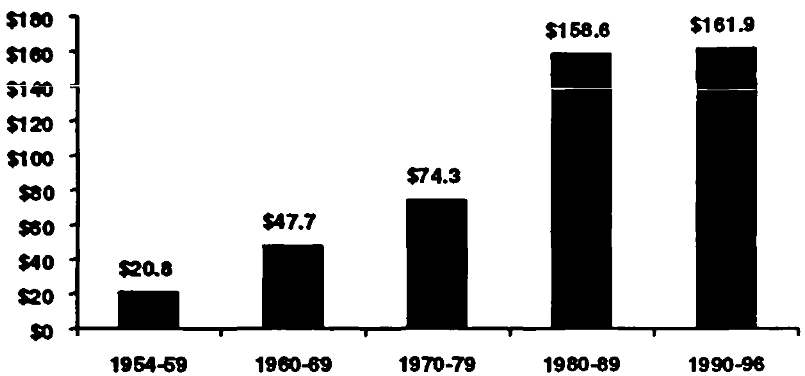
Source: Maxwell Reports

* Brown & Williamson 1995, 1996 data reflects the combination of Brown &Williamson and American Tobacco which are both part of BAT Industries PLC.

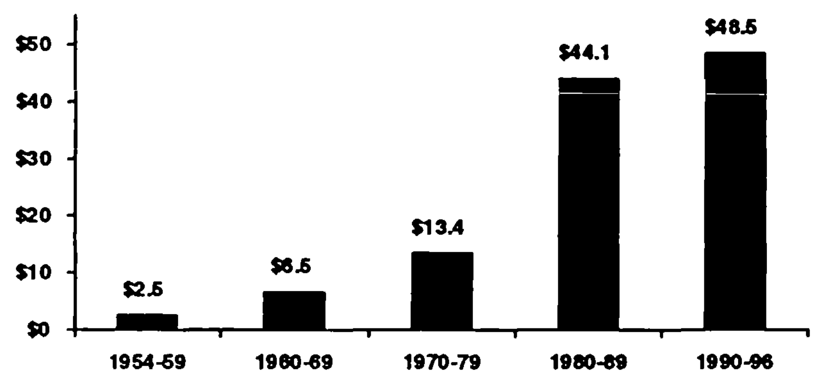
United States Tobacco Market

Tobacco has generated significant revenue and operating profits for decades.

Aggregate Domestic Tobacco
Revenues 1954-1996 (1)
($ billions)



Aggregate Domestic Tobacco
Operating Profits 1954-1996 (1)
($ billions)

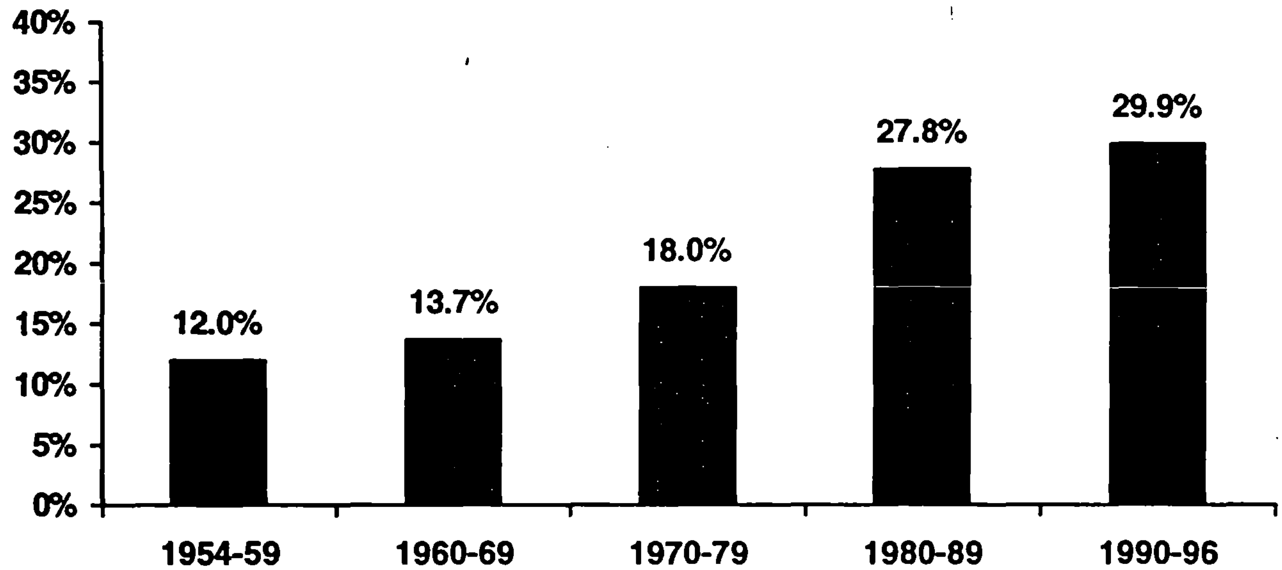


(1) Does not include results of Brown & Williamson from 1954-57 which was not disclosed by Brown & Williamson.

United States Tobacco Market

Tobacco has enjoyed increasing operating profit margins and redeployed those profits through diversification into other businesses.

Composite Domestic Operating Profit Margin(1)(2)



(1) Does not include results of Brown & Williamson from 1954-57 which was not disclosed by Brown & Williamson.
(2) Composite Margin represents weighted average margin based upon dollar volume not unit volume.

Minnesota Tobacco Analysis

Minnesota Tobacco Analysis

Applying a weighted average domestic Operating Profit Margin, yields aggregate Minnesota Operating Profit of $1.85 billion detailed by decade.

	Average Domestic Operating Profit Margin (1)	**Minnesota Operating Profit**
–1954-59	11.2%	$26,731,000
–1960-69	13.4%	81,393,000
–1970-79	17.9%	206,257,000
–1980-89	27.8%	775,282,000
–1990-96	28.8%	761,711,000
Total Operating Profit	24.9%	$1,851,373,000

(1) Weighted average margin is based on unit volume not dollar volume and therefore is slightly different than the results on page 14.

Cross-Check of Minnesota Analysis

Based on Tobacco Burden Report

Total US Retail Market	$804,386,264,000	based on summation of Line 37 Tab4B in Exhibit Volume
Minnesota Retail Revenue	14,188,896,000	based on summation of Line 5 Tab 4A in Exhibit Volume
Minnesota Market Size based on Retail Dollars	1.8%	

Based on Tobacco Burden Report and Maxwell Report

Total US Domestic Market (bn sticks)	22,631	based on summation of Line 30 Tab4B in Exhibit Volume
Minnesota Market (bn sticks)	348	based on summation of Line 32 Tab4B in Exhibit Volume
Minnesota Market Size based on Unit Volume	1.5%	

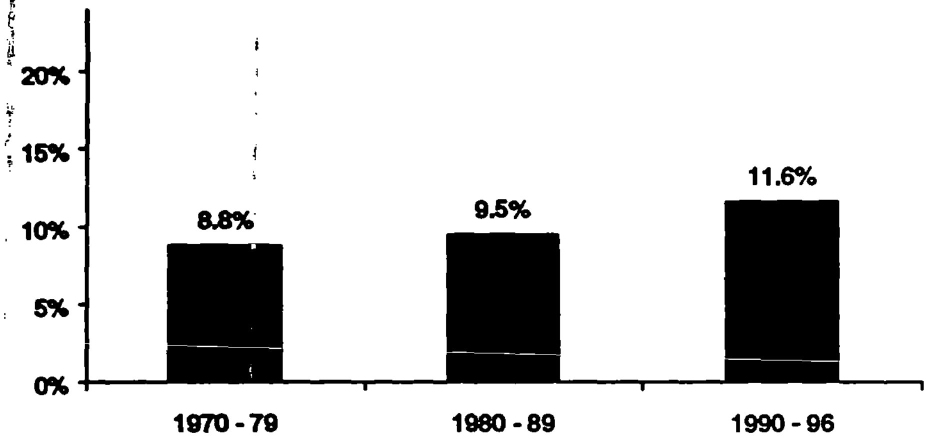
Based on Houlihan Lokey Calculations

Total US Profits	$114,903,806,000	based on summation of financial data
Calculated Minnesota Profits	1,851,373,000	based on calculation as detailed in Minnesota Analysis
Minnesota Market Size based on Profits	1.6%	

Pharmaceuticals & Consumer Products

Branded Food Products

Operating Profit Margin

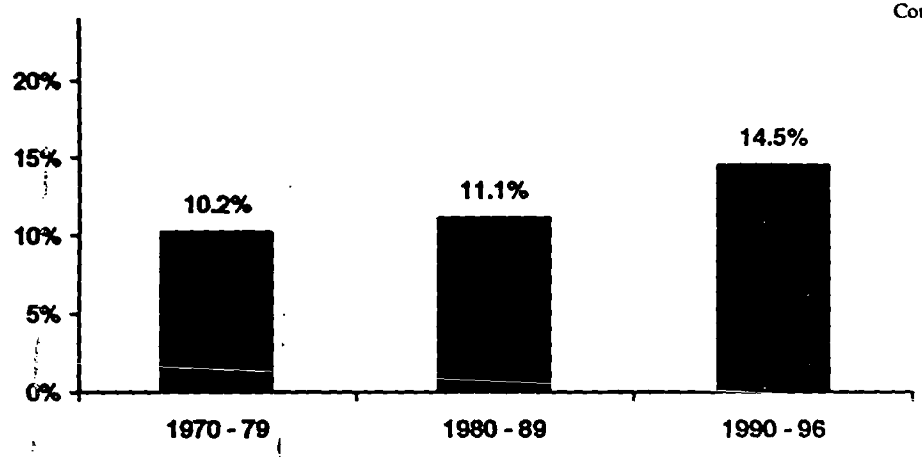


Companies Include

1970-79	General Foods(Maxwell House, Post Cereals) General Mills (Wheaties, Betty Crocker, Cheerios) Kellogg's (Frosted Flakes, Special K, Pop Tarts) Kraft Foods (Cheese, Miracle Whip, Crystal Light) Nabisco Foods (Oreo, Life Savers, Planter's) Pepsico (Fritos, Lays)
1980-89	General Foods(Maxwell House, Post Cereals) General Mills (Wheaties, Betty Crocker, Cheerios) Kellogg's (Frosted Flakes, Special K, Pop Tarts) Kraft Foods (Cheese, Miracle Whip, Crystal Light) Nabisco Foods (Oreo, Life Savers, Planter's) Pepsico (Fritos, Lays)
1990-96	General Mills (Wheaties, Betty Crocker, Cheerios) Kellogg's (Frosted Flakes, Special K, Pop Tarts) Nabisco Foods (Oreo, Life Savers, Planter's) Pepsico (Fritos, Lays) Philip Morris Foods (Kraft-General Foods)

Alcoholic Beverages

Operating Profit Margin



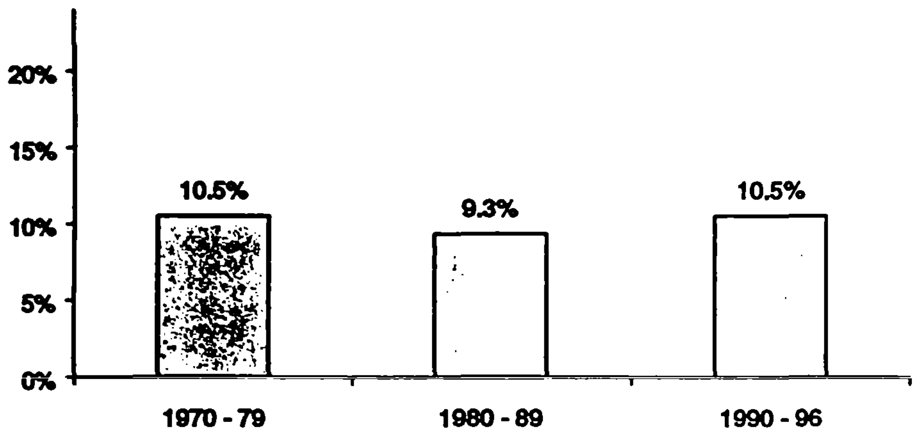
Companies Include

1970-79 (1)	American Brands (Jim Beam, DeKuyper) Anheuser-Busch (Budweiser, Bud Light, Michelob) Brown & Foreman (Jack Daniels, Southern Comfort, Korbel) Liggett & Myers (J&B, Bombay, Grand Marnier) Philip Morris (Miller, Miller Lite)
1980-89	American Brands (Jim Beam, DeKuyper) Anheuser-Busch (Budweiser, Bud Light, Michelob) Brown & Foreman (Jack Daniels, Southern Comfort, Korbel) Liggett & Myers (J&B, Bombay, Grand Marnier) Philip Morris (Miller) Seagrams Ltd. (VO, Chivas Regal, Crown Royal)
1990-96	American Brands(Jim Beam, DeKuyper) Anheuser-Busch (Budweiser, Bud Light, Michelob) Brown & Foreman (Jack Daniels, Southern Comfort, Korbel) Philip Morris (Miller) Seagrams Ltd. (VO, Chivas Regal, Crown Royal)

(1) Seagrams Ltd was not included in the 1970-79 period due to lack of publicly disclosed information.

Branded Consumer Products

Operating Profit Margin

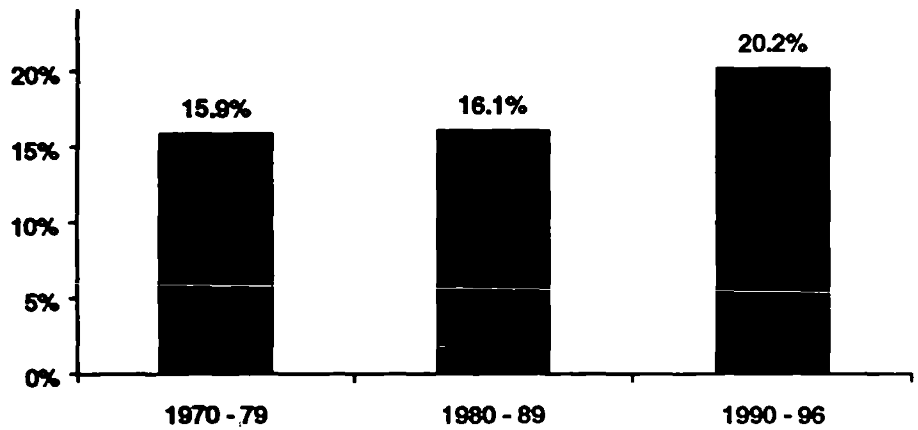


Companies Include

1970-79	Clorox Colgate-Palmolive Johnson & Johnson (Band-Aid, Tylenol) Procter & Gamble (Ivory, Tide, Pampers)
1980-89	Clorox Colgate-Palmolive Johnson & Johnson (Band-Aid, Tylenol) Procter & Gamble (Ivory, Tide, Pampers)
1990-96	Clorox Colgate-Palmolive Johnson & Johnson (Band-Aid, Tylenol) Procter & Gamble (Ivory, Tide, Pampers)

Branded Non-Alcoholic Drinks

Operating Profit Margin

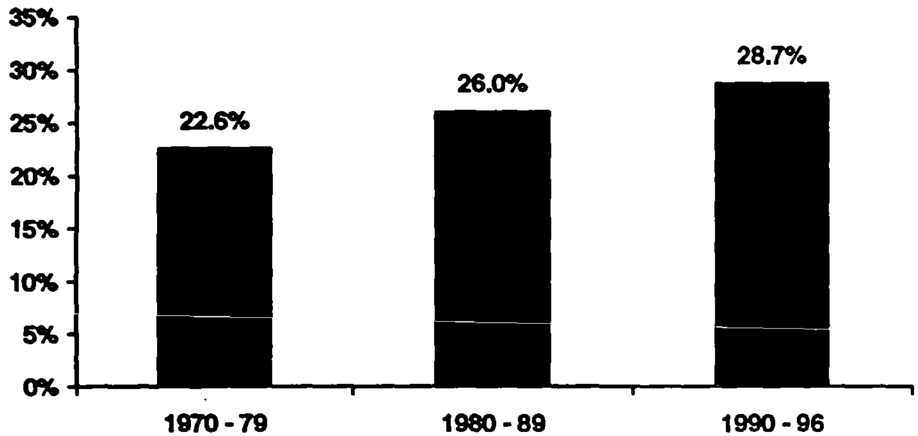


Companies Include

1970-79	Coca-Cola (Sprite, Tab) Pepsico (Pepsi)
1980-89	Coca-Cola (Sprite, Minute Maid, Diet Coke) Pepsico (Slice, Mountain Dew)
1990-96	Coca-Cola (Sprite, Minute Maid, Diet Coke) Pepsico (Slice, Mountain Dew)

Pharmaceuticals

Operating Profit Margin

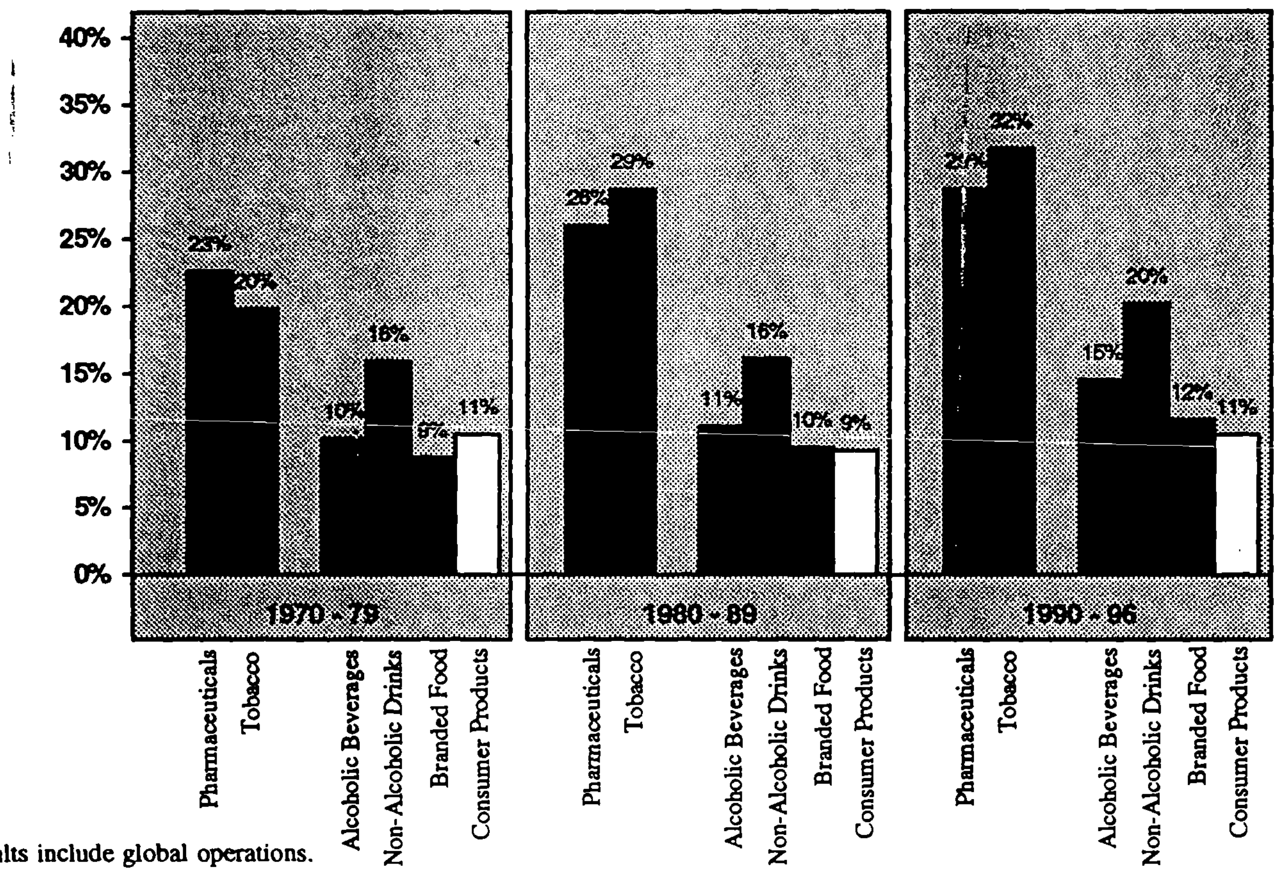


Companies Include

1970-79	Bristol Myers Eli Lilly Johnson & Johnson Merck Upjohn
1980-89	Bristol Myers Eli Lilly Johnson & Johnson Merck Upjohn
1990-96	Bristol Myers Eli Lilly Johnson & Johnson Merck Upjohn

Tobacco and Pharmaceuticals vs. Consumer Products (1)

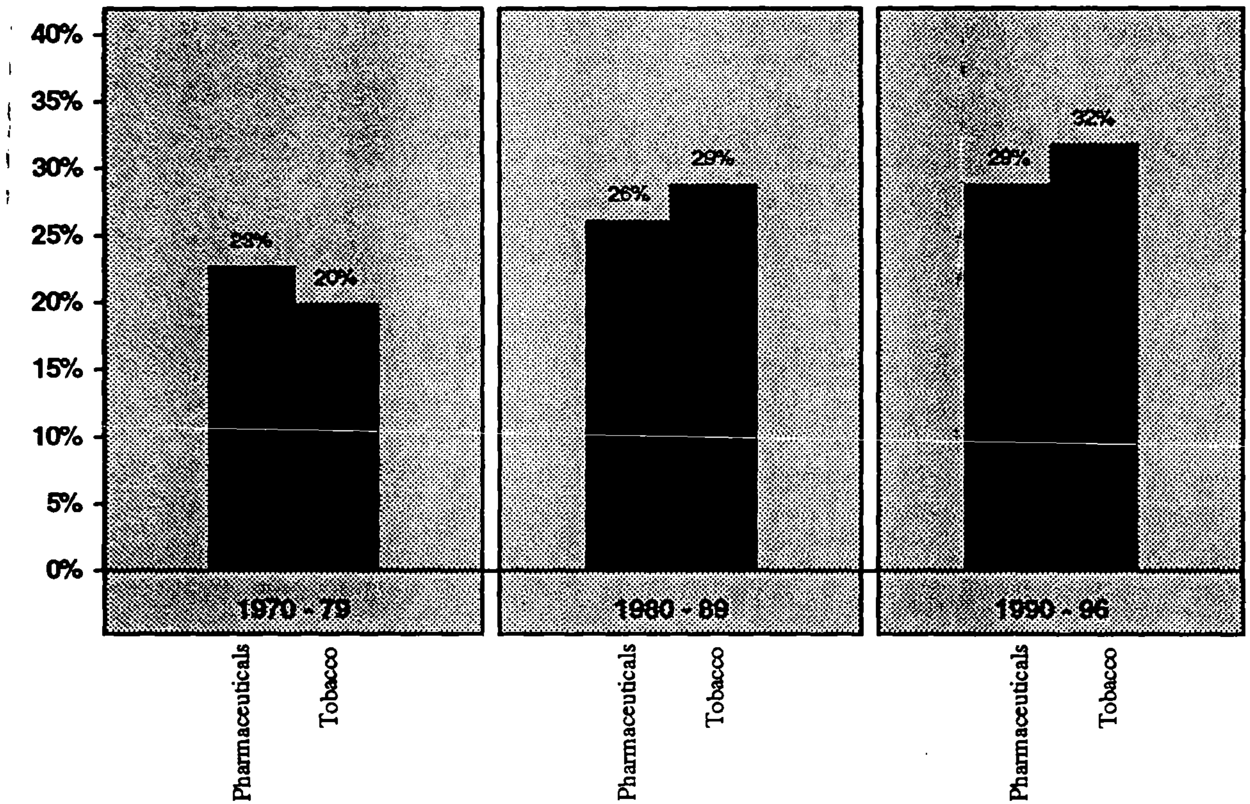
Summary Operating Profit Margin



(1) All operating results include global operations.

Tobacco and Pharmaceuticals (1)

Summary Operating Profit Margin



(1) All operating results include global operations.

Observations

- Tobacco Operating Profit Margins exceed those of other consumer products.
- Tobacco Operating Profit Margins are similar to those of pharmaceutical companies.

Defendant Company Summaries

American Tobacco

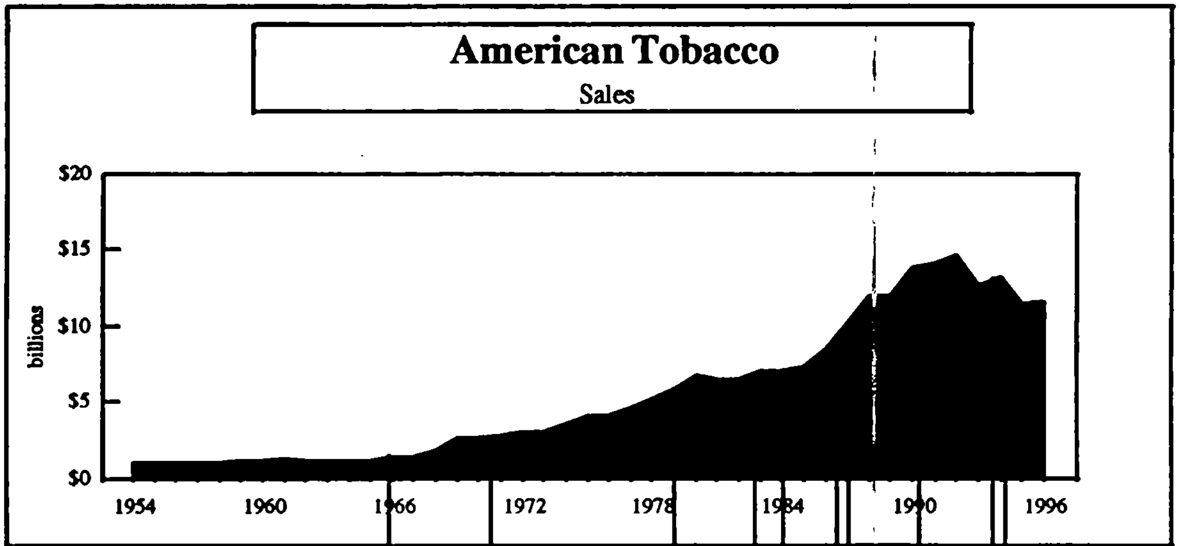
- Started in 1864 as W. Duke and Sons, a small tobacco company started by Washington Duke, a North Carolina farmer.
- Domestic tobacco is currently part of B.A.T. Industries PLC (since 1994, American Brands pre 1994)
  - Diversified Global Tobacco and Consumer Product Company
    - → Pre-BAT 1994 - American Brands Business Mix (1)

– Global Tobacco	$7.8 billion Revenue (65%), $764.8 million Operating Profit (58%)
– Distilled Spirits	$1.3 billion Revenue (11%), $221.2 million Operating Profit (17%)
– Home Improvement	$1.3 billion Revenue (11%), $176.5 million Operating Profit (14%)
– Golf & Leisure/Office Products	$1.6 billion Revenue (13%), $147.8 million Operating Profit (11%)

- → Major brands include

– Tobacco:	Lucky Strike, Pall Mall, Carlton and Tareyton
– Distilled Spirits:	Jim Bean, Whyte & Mackay
– Home Improvement:	Moen, Master Lock and AristoKraft

(1) American sold their Domestic Tobacco operations to B.A.T. in December 1994. International Tobacco is represented by Gallaher International, a leading tobacco company in the U.K.



1966 - acquired Sunshine Biscuits, Inc. for approximately $112 million and James B. Beam Distilling Company for $111 million.

1970 - acquired The Andrew Jergens Company for $109 million.

1979 - acquired The Franklin Life Insurance company for $645 million.

1983 - acquired Pinkerton's, Inc. for $158 million.

1984 - The Franklin Life Insurance Company purchased the Southland Life Insurance Company for $352 million.

1987 - acquired National Distillers, Chemical Corporation's distilled spirits business and ACCO World Corporation for $1.186 billion.

1988 - sold Sunshine Biscuits, Pinkerton's, Andrew Jergens, and substantially all of Pumps and Valves and Case Cutlery for $648 million.

1988 - purchased the common stock of E-II Holdings, Inc. for $1.1 billion.

1990 - Gallaher Limited purchased Whyte & Mackay for $270 million and Master Brands Industries acquired The Moen Group for $982 million.

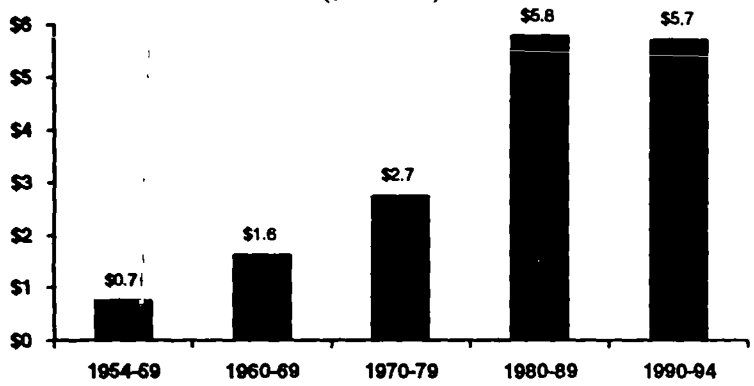
1994 - sold the American Tobacco Company to B.A.T. Industries for $1 billion.

1995 - sold Franklin Life Insurance for $1.17 billion.

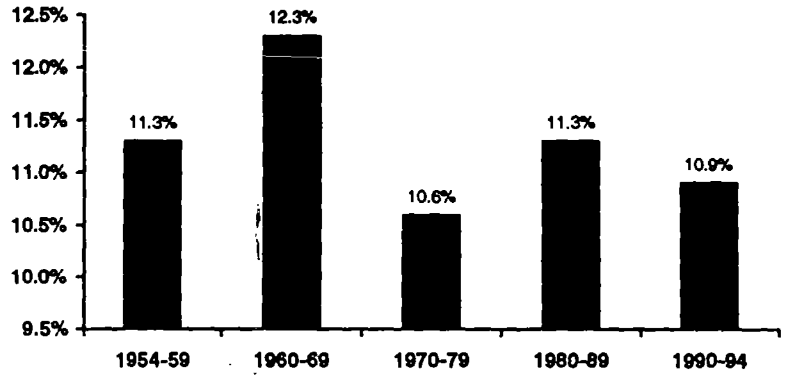
American Tobacco

- American Tobacco Global Financial Results by Period
  - Aggregate Results 1954-94
    - →Total Revenues $149.6 billion
    - →Total Profits $16.6 billion
    - →Avg. Operating Margin 11.1%

Operating Profit
($ billions)



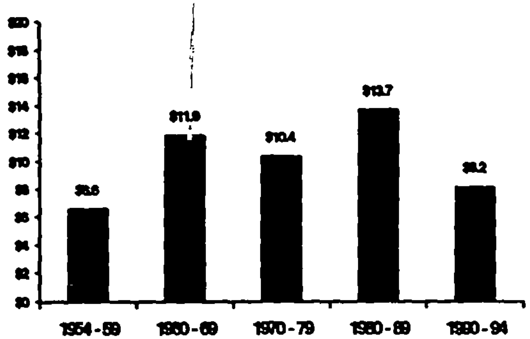
Operating Profit Margins



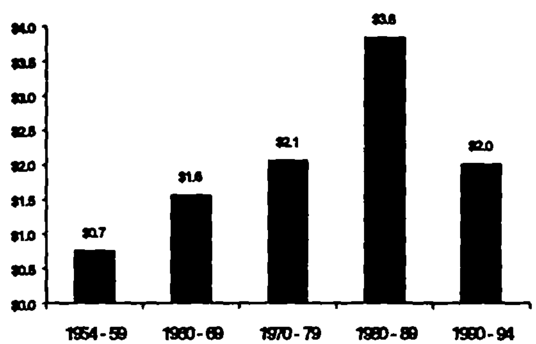
American Tobacco

- American Tobacco Domestic Tobacco Results by Period
  - Aggregate Results 1954-94(1)
    - →Total Tobacco Revenues $50.8 billion
    - →Total Tobacco Profits $10.2 billion
    - →Avg. Operating Margin 20.1%

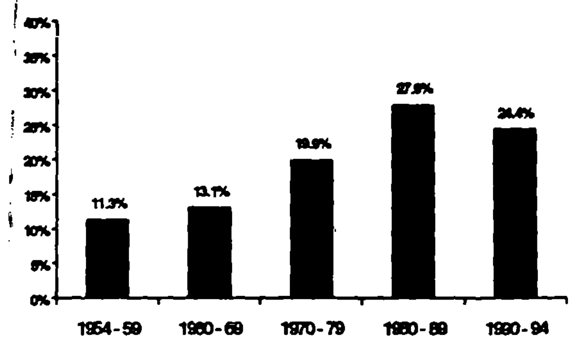
Revenue
($ billions)



Operating Profit
($ billions)



Operating Profit Margin

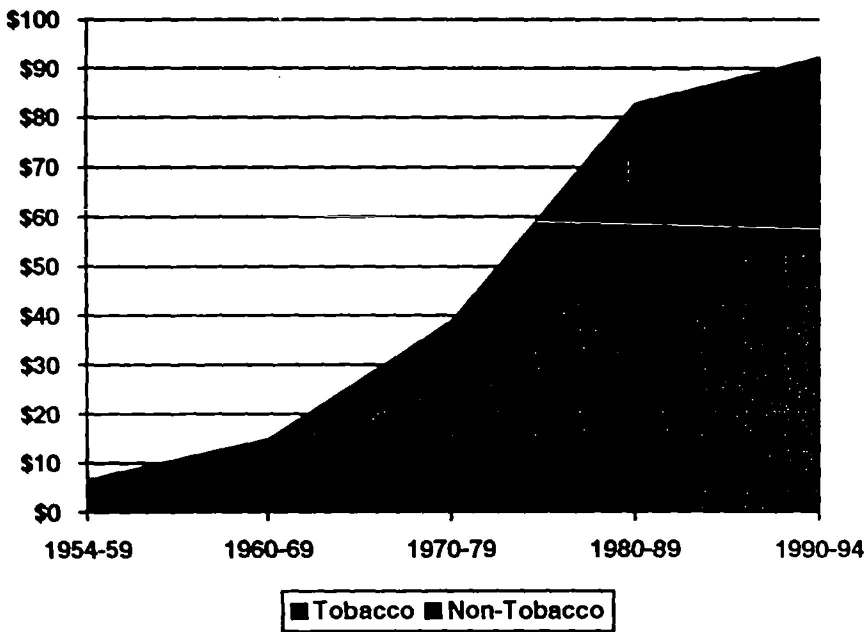


(1) In 1994 American Tobacco sold its domestic tobacco business to B.A.T. Industries.

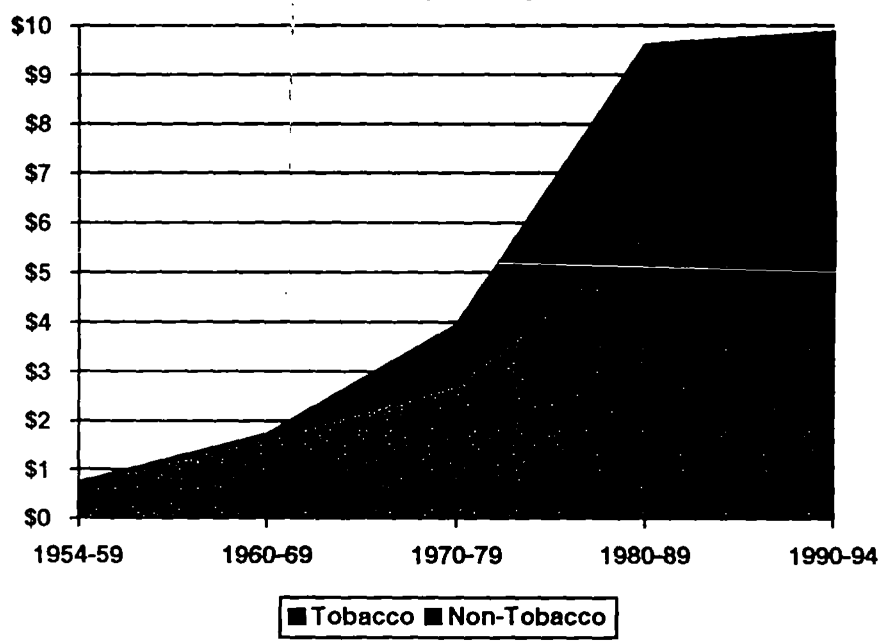
American Tobacco

Global Tobacco Contribution vs. Other Global Operations

Revenue by Decade
1954-94



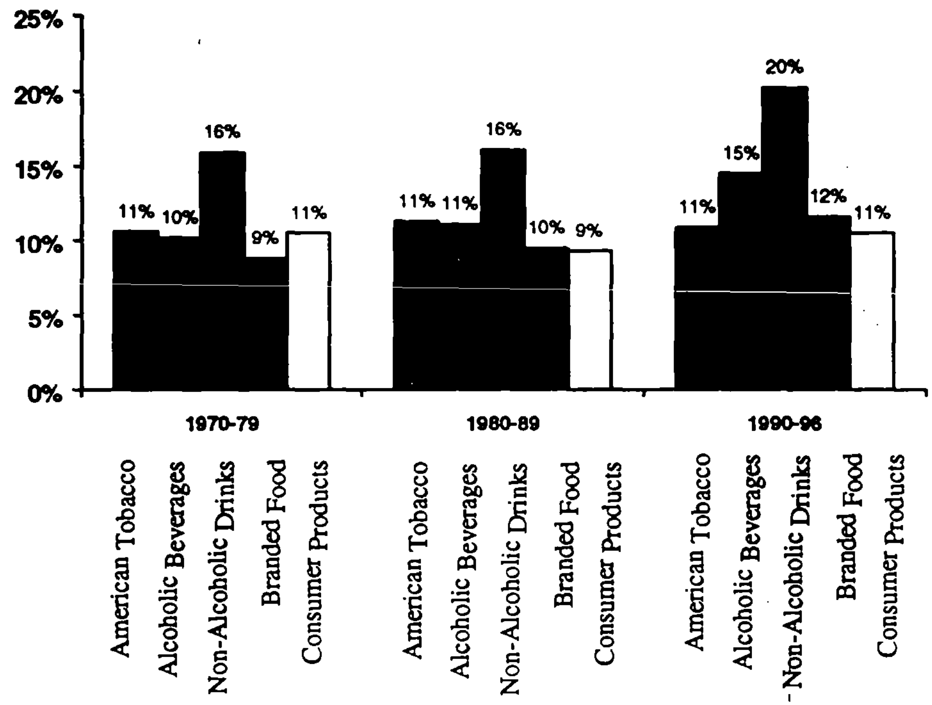
Operating Profits by Decade
1954-94



American Tobacco

American Tobacco's Global Tobacco historical profitability has not proven to be substantially greater than other branded consumer products over time periods analyzed.

Operating Profit Margin



Brown & Williamson

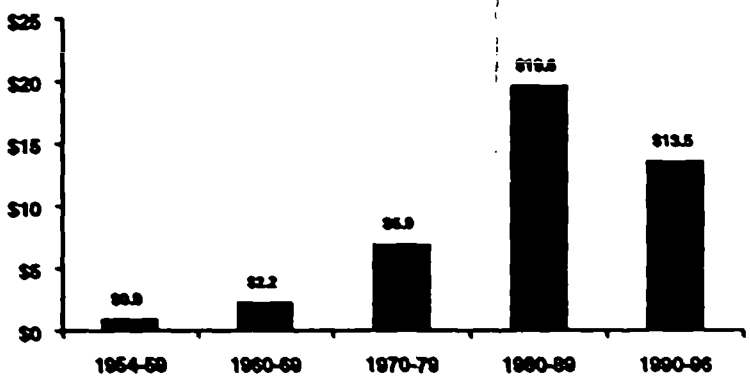
- Started in 1894 by George Brown and Robert Williamson
- Currently part of B.A.T. Industries PLC
  - Diversified Global Tobacco and Financial Services Company
    - →Current Business Mix
      - Commercial (1) $17.9 billion Revenue (72%) $1.6 Operating Profit (61%)
      - Financial Services $6.7 billion Revenue (28%) $1.0 Operating Profit (39%)
    - →Major brands include
      - Tobacco: Kool, Viceroy, Barclay and Raleigh
      - Financial Services: Farmers Insurance Group, Canada Trust & Eagle Star

(1) Predominantly tobacco operations

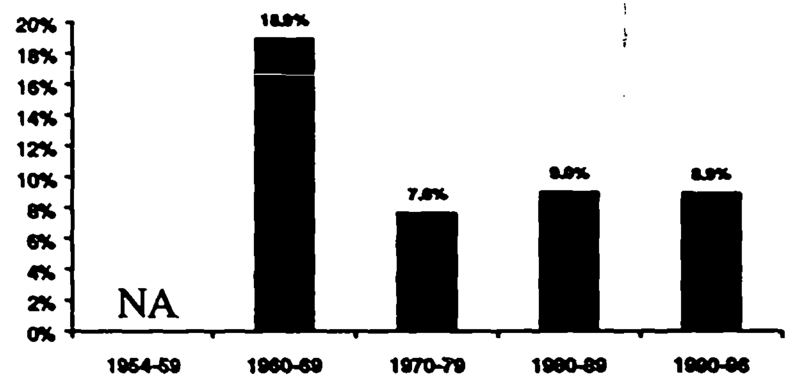
Brown & Williamson

- BAT Industries PLC Global Financial Results by Period
  - Aggregate Results 1958-96
    - →Total Revenues $474.4 billion
    - →Total Profits $43.2 billion
    - →Avg. Operating Margin 9.1%

Operating Profit (1)
($ billions)



Operating Profit Margins (1)

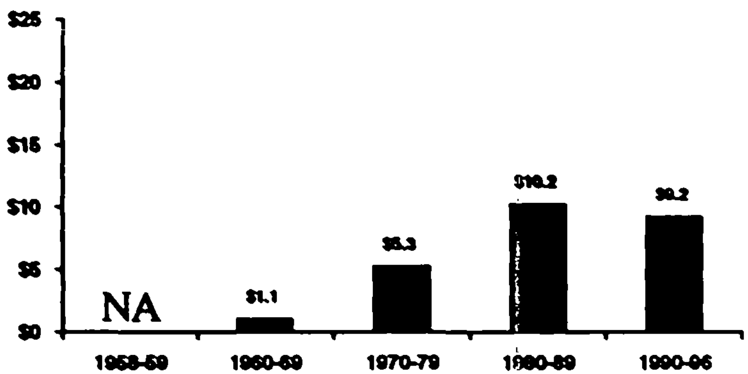


(1) BAT Global data excludes revenue data prior to 1966 due to UK GAAP disclosure requirements. Therefore, Operating Profit Margin is not available for 1954-59.

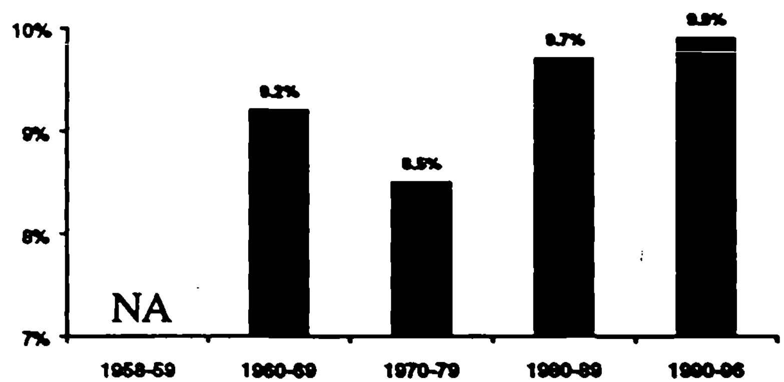
Brown & Williamson

- BAT Industries PLC Worldwide Tobacco Results by Period
  - Aggregate Results 1958-96
    - →Total Tobacco Revenues $272.5 billion
    - →Total Tobacco Profits $25.8 billion
    - →Avg. Operating Margin 9.5%

Operating Profit [1]
($ billions)



Operating Profit Margins [1]

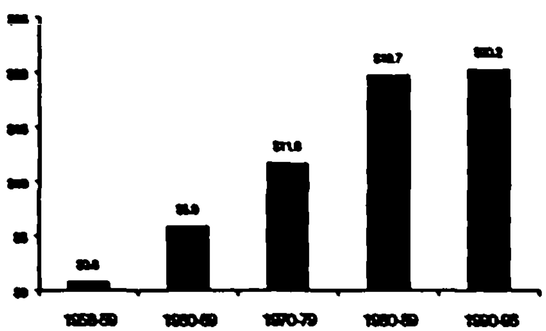


(1) BAT Global data excludes revenue data prior to 1966 due to UK GAAP disclosure requirements. Therefore, Operating Profit Margin is not available for 1954-59.

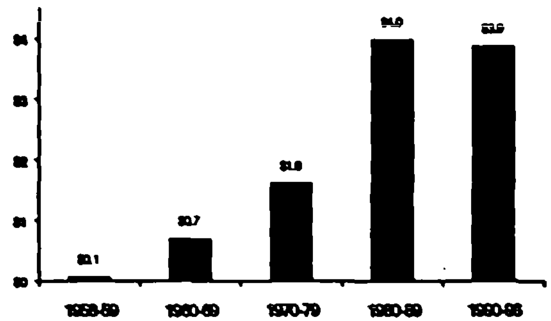
Brown & Williamson

- Brown & Williamson Domestic Tobacco Results by Period
  - Aggregate Results 1958-96
    - →Total Tobacco Revenues $58.1 billion
    - →Total Tobacco Profits $10.2 billion
    - →Avg. Operating Margin 17.6%

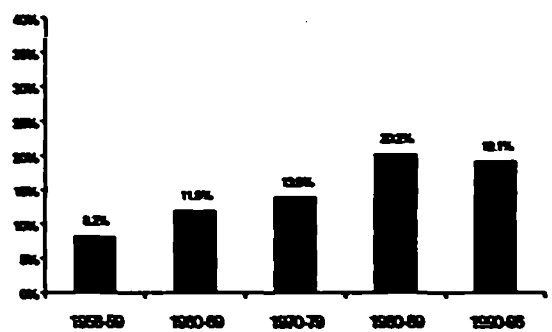
Revenue
($ billions)



Operating Profit
($ billions)



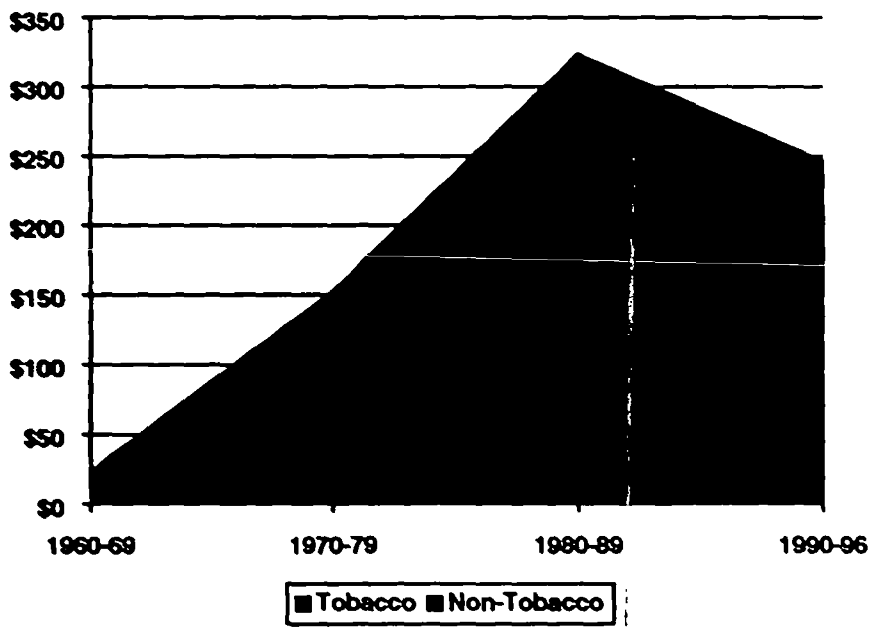
Operating Profit Margin



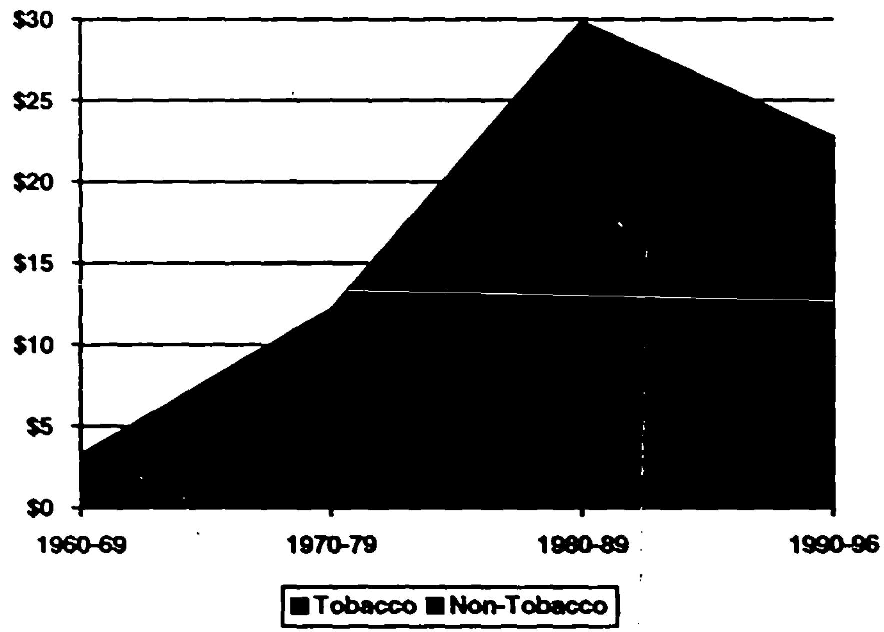
Brown & Williamson

BAT Global Tobacco Contribution vs. Other Global Operations

Revenue by Decade
1958-94



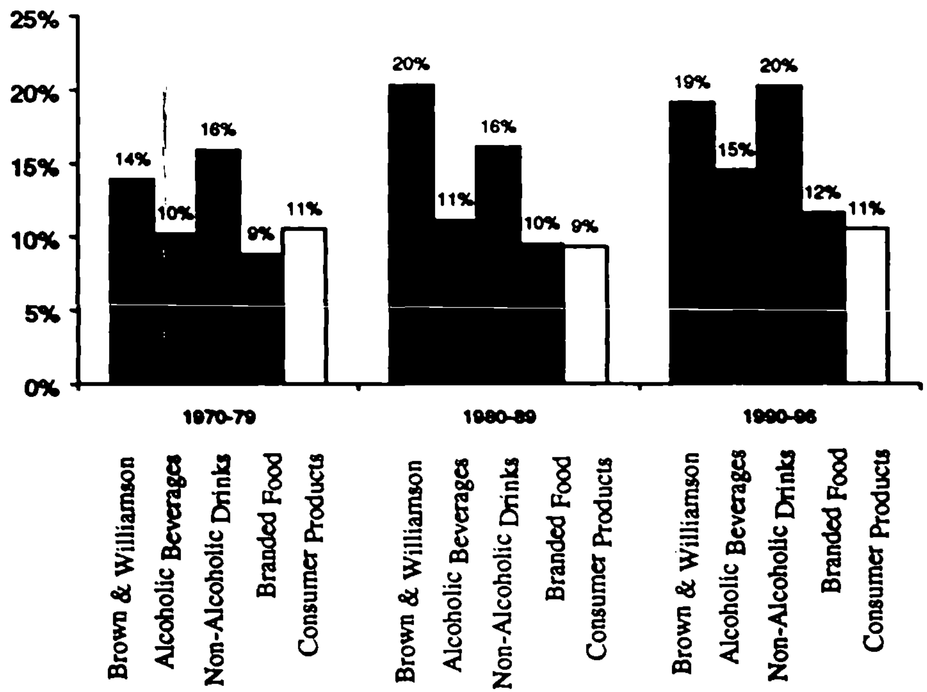
Operating Profits by Decade
1958-94



Due to lack of disclosure, results from 1954-59 have been excluded.

Brown & Williamson

Brown & Williamson's Global Tobacco historical profitability has proven to be greater than most other branded consumer products.



Liggett

- Started in 1870 as Liggett & Myers Tobacco.
- Currently part of Brooke Group, Ltd.
  - Brooke Group Ltd. primarily operates in the U.S. tobacco industry.
  - Other operations include a tobacco firm and real estate development firm in Russia

→Current Business (1)

- Tobacco

Revenue	$448 million
Operating Profit	$5 million

- Real Estate

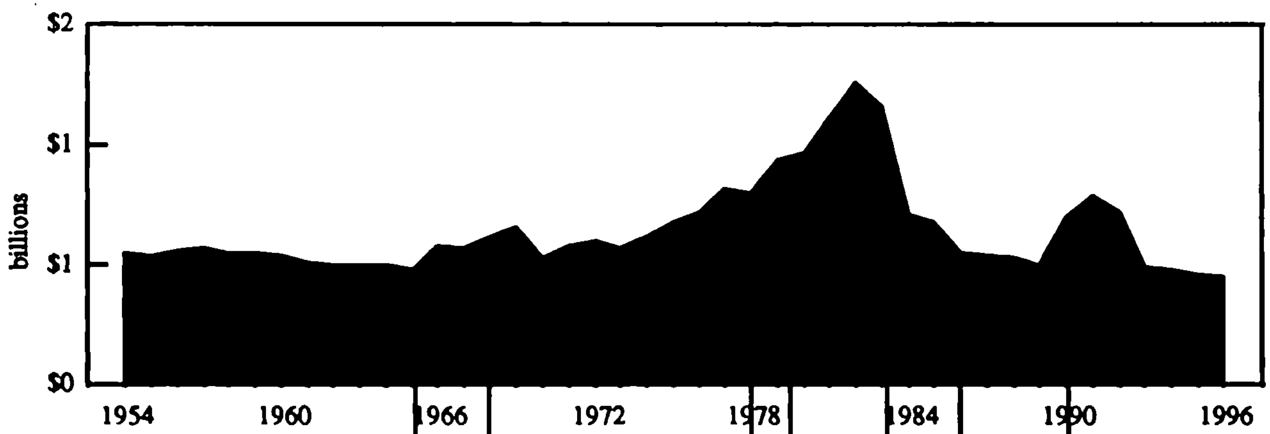
Revenue	$2.7 million
Operating Profit	$0.1 million

- Major brands include: L&M, Chesterfield and Lark

(1) Financial results are based soley on publicly available financial statements.

Liggett & Myers

Sales



1964 - acquired 100 percent ownership of the Pinkerton Tobacco Company and acquired Allen Products Company.

1968 - acquired majority interests in three foreign tobacco companies at a cost of $6.7 million.

1978 - sold its foreign cigarette business to Philip Morris for approximately $108 million.

1980 - sold its spirits and wines subsidiary, Austin, Nichols & Co., Inc. for $97.5 million.

1983 - sold its spirits and wines subsidiaries, the Paddington Corp., Carillon Importers, Ltd. and Bombay Spirits, for $254 million.

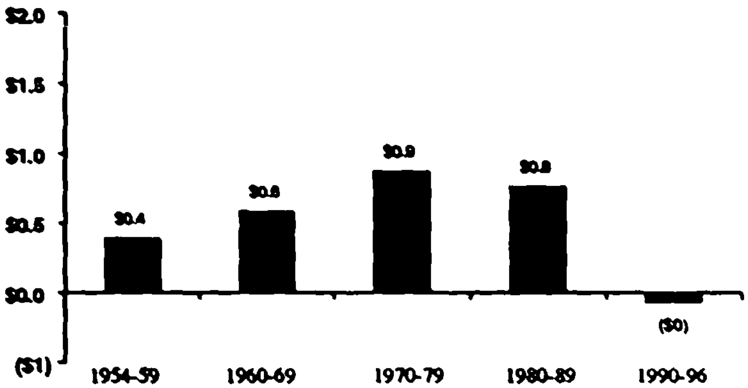
1986 - L. Holdings, Inc. acquired all of Liggett's outstanding stock from Grand Met USA, Inc.

1990 - separated into two operating subsidiaries, Liggett and Impel, and changed name to Brooke Group Ltd.

Liggett

- Liggett Global Financial Results by Period
  - Aggregate Results 1954-96 [1]
    - →Total Tobacco Revenues $30.7 billion
    - →Total Tobacco Profits $2.5 billion
    - →Avg. Operating Margin 8.2%

Operating Profit
($ billions)



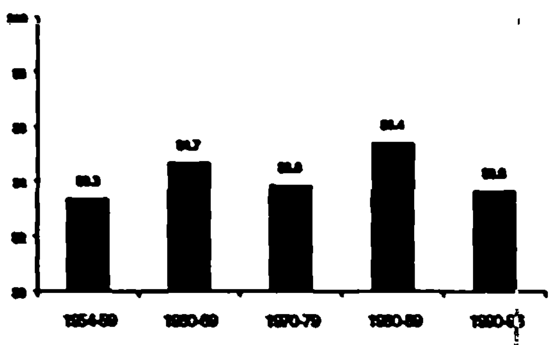
Operating Profit Margins

(1) Financial results are based soley on publicly available financial statements.

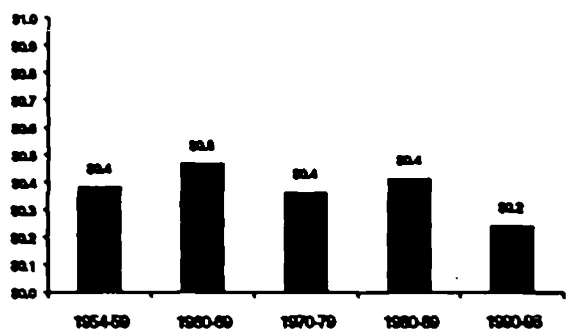
Liggett

- Liggett Domestic Tobacco Results by Period
  - Aggregate Results 1954-96 (1)
    - →Total Tobacco Revenues $20.9 billion
    - →Total Tobacco Profits $1.9 billion
    - →Avg. Operating Margin 8.9%

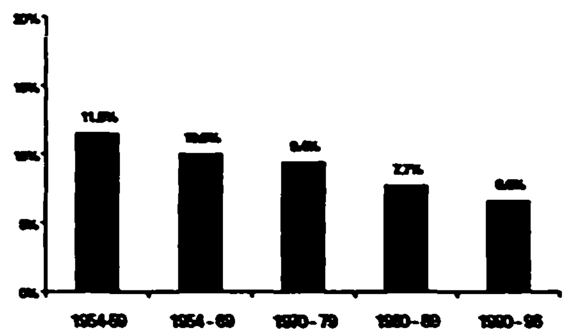
Revenue
($ billions)



Operating Profit
($ billions)



Operating Profit Margin

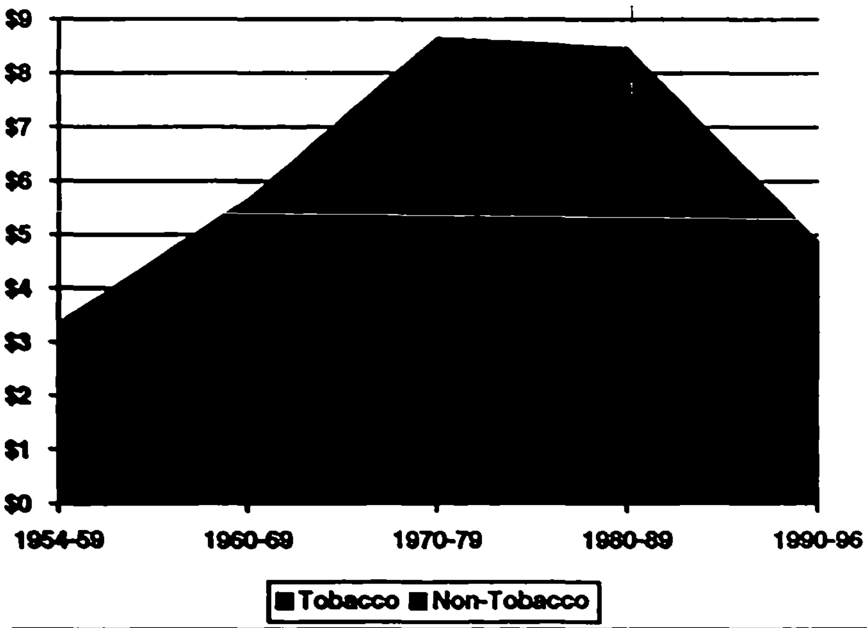


(1) Financial results are based soley on publicly available financial statements.

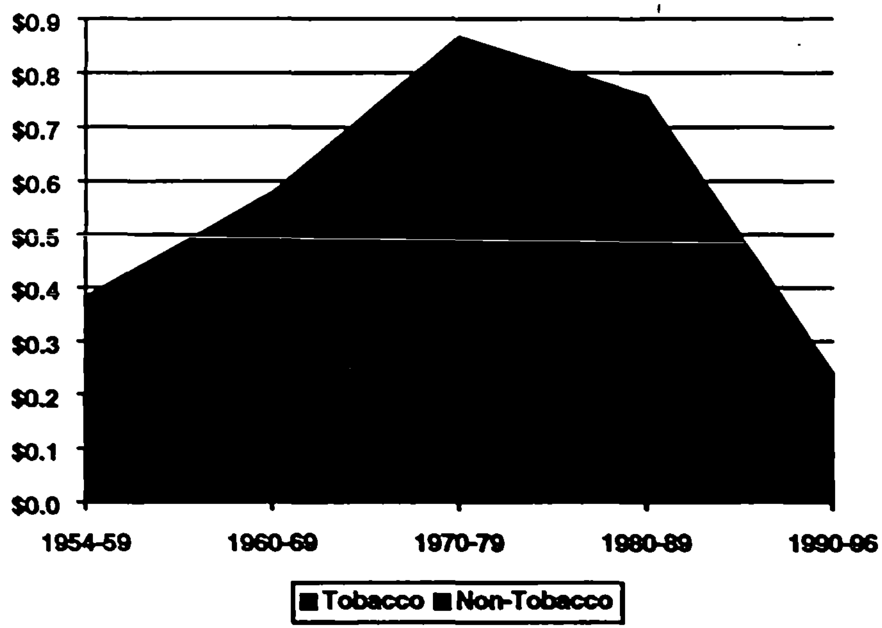
Liggett

Global Tobacco Contribution vs. Other Global Operations

Revenue by Decade
1954-96



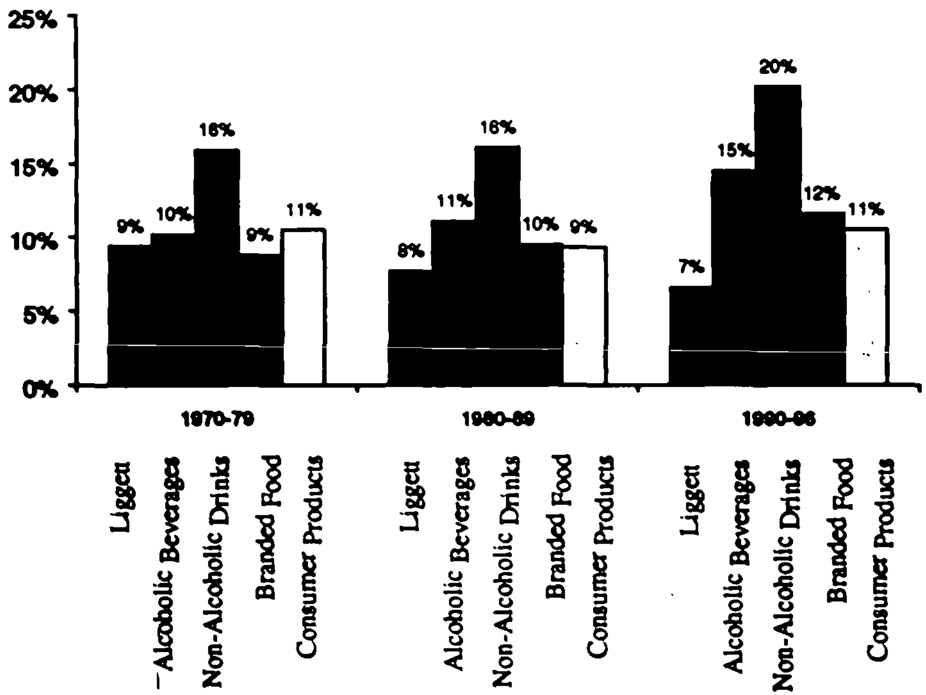
Operating Profits by Decade
1954-96



Liggett

Liggett's historical profitability has proven to lower than other branded consumer products over all time periods analyzed.

Operating Profit Margin



Lorillard

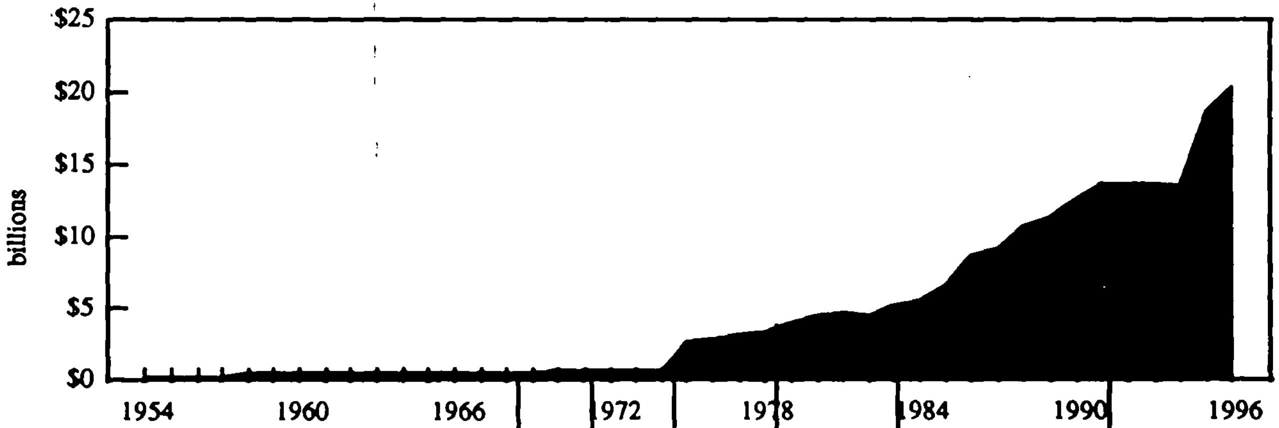
- Started in 1760 by Pierre Lorillard in New York City. Merged with Loews Corp. in 1968.
- In 1977 Lorillard sold all of its major tobacco trademarks outside of the U.S.
- Currently part of Loews Corporation
  - Diversified Tobacco, Consumer Products and Entertainment Company
    - → Current Business Mix

	Revenue		Operating Profit	
– Tobacco	$2.2 billion	(11%)	$0.7 billion	(26%)
– Insurance	$17.3 billion	(84%)	$1.8 billion	(65%)
– Offshore Drilling	$ 0.7 billion	(3%)	$0.2 billion	(8%)
– Consumer Products	$ 0.3 billion	(2%)	$0.0 billion	(1%)

- → Major brands include
  - Tobacco: Newport, Kent and True
  - Insurance: CNA Financial Corporation

Lorillard

Sales



1968 - Loews Theaters merged with Lorillard.

1971 - Loew's Corp. merged with Loews Theaters.

1974 - acquired 51.6% of the voting stock of CNA Financial Corporation.

1979 - acquired 53.5% of the voting stock of Bulova.

1983 - sold its consumer finance subsidiary, General Finance Corporation, for approximately $193 million.

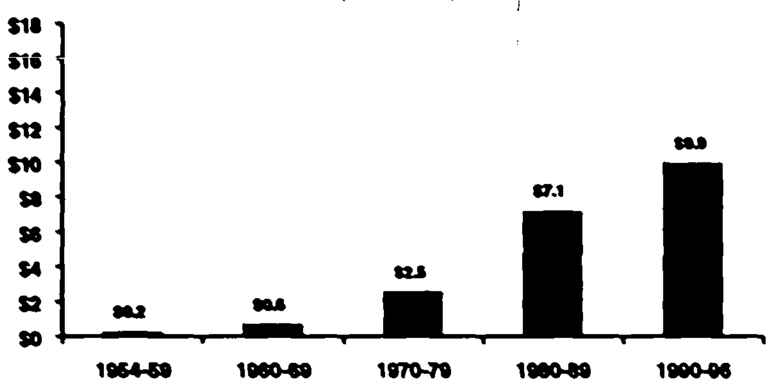
1992 - Diamond Offshore Drilling, Inc., a wholly owned subsidiary, acquired Odeco Drilling, Inc. for $372.3 million.

Lorillard

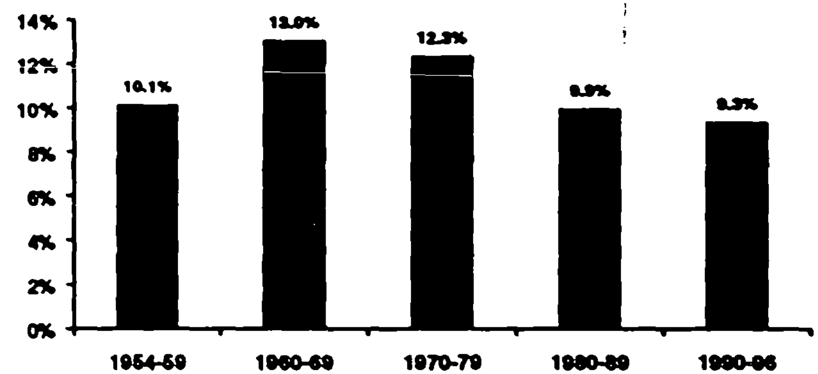
- Loews Global Financial Results by Period
  - Aggregate Results

→Total Revenues	$205.0 billion
→Total Profits	$20.3 billion
→Avg. Operating Margin	9.9%

Operating Profit
($ billions)



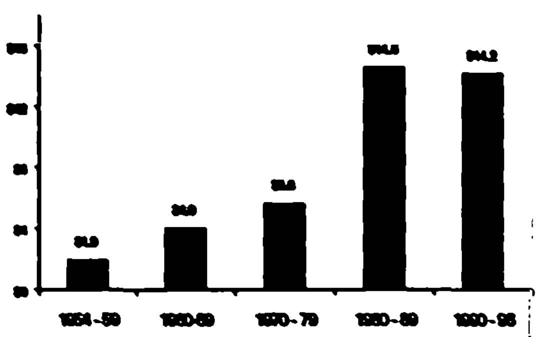
Operating Profit Margins



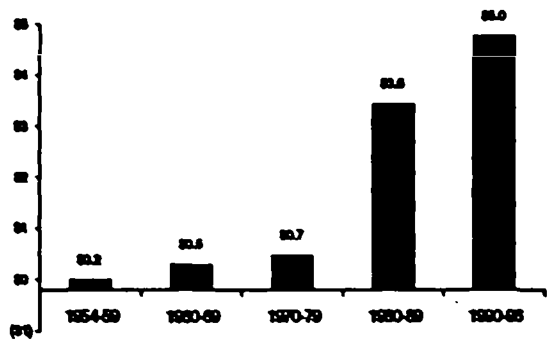
Lorillard

- Lorillard Domestic Tobacco Results by Period
  - Aggregate Results (1)
    - →Total Tobacco Revenues $40.4 billion
    - →Total Tobacco Profits $10.0 billion
    - →Avg. Operating Margin 24.8%

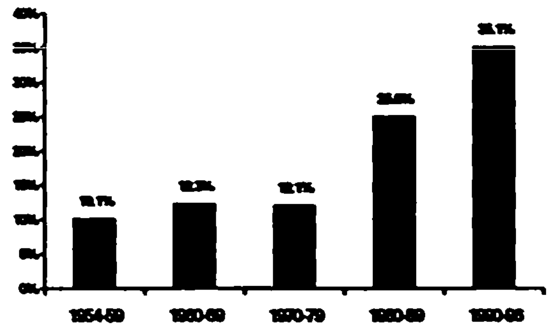
Revenue
($ billions)



Operating Profit
($ billions)



Operating Profit Margin

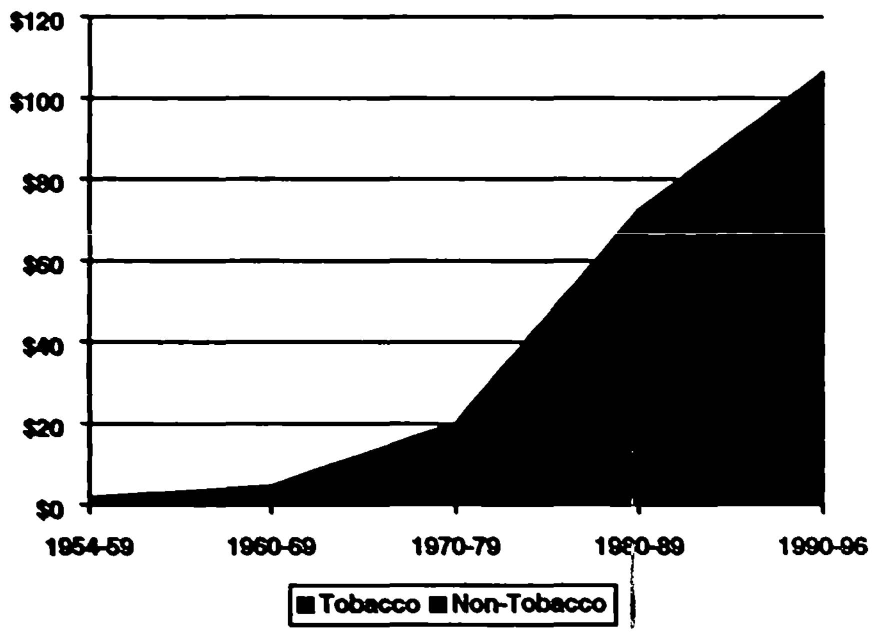


(1) In 1997, Lorillard sold its major tobacco trademarks outside of the U.S.

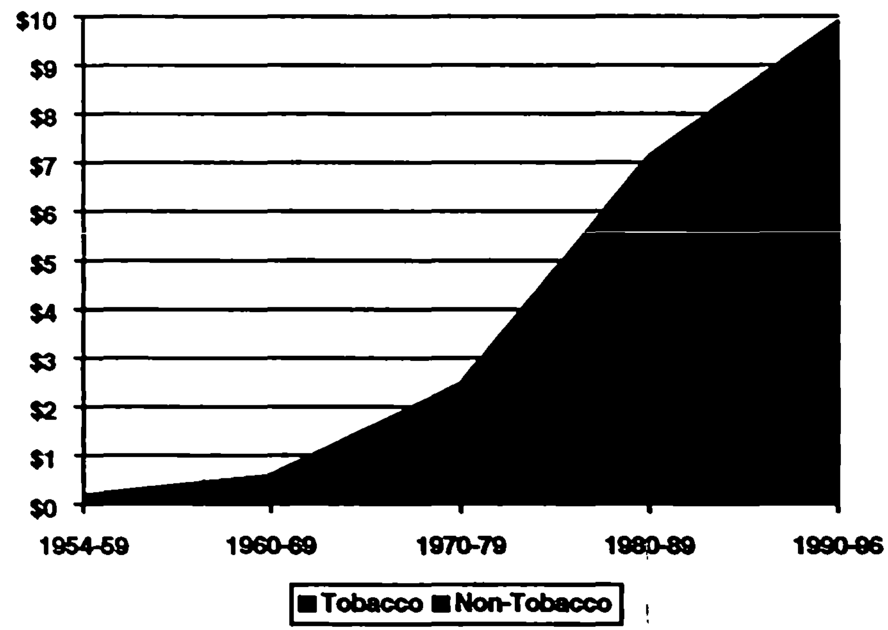
Lorillard

Global Tobacco Contribution vs. Other Global Operations

Revenue by Decade
1954-96

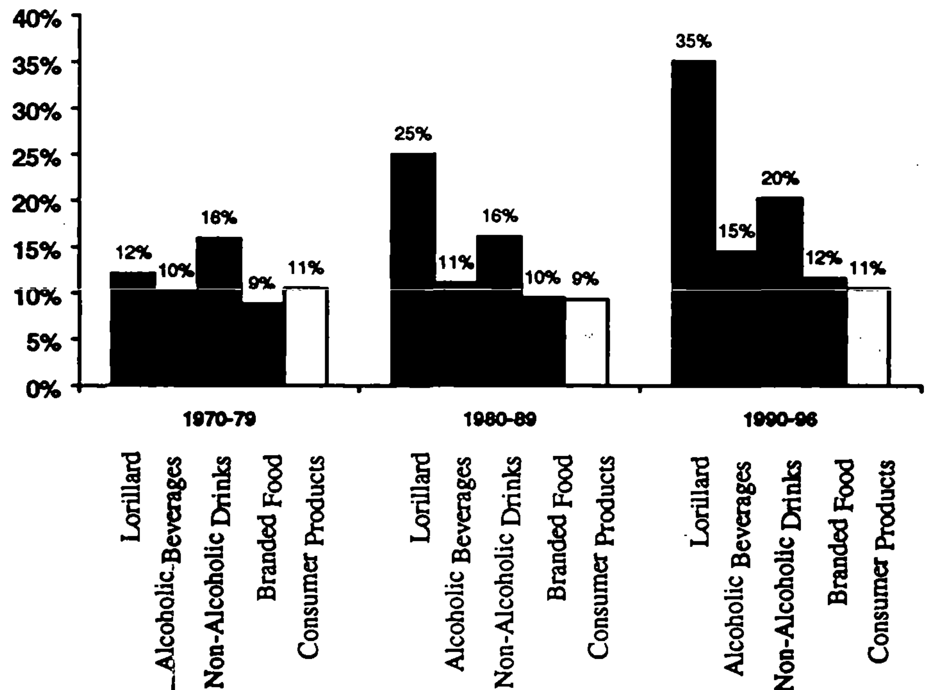


Operating Profits by Decade
1954-96



Lorillard

Lorillard's historical tobacco profitability has proven to be substantially greater than comparable branded consumer products over most time periods analyzed.



Philip Morris

- Philip Morris opened his London tobacco store in 1847 and by 1854 was making his own cigarettes. American investors purchased the right to leading Philip Morris brands in 1919.
- Currently part of Philip Morris, Inc. a Diversified Global Tobacco, Food and Beverage Company

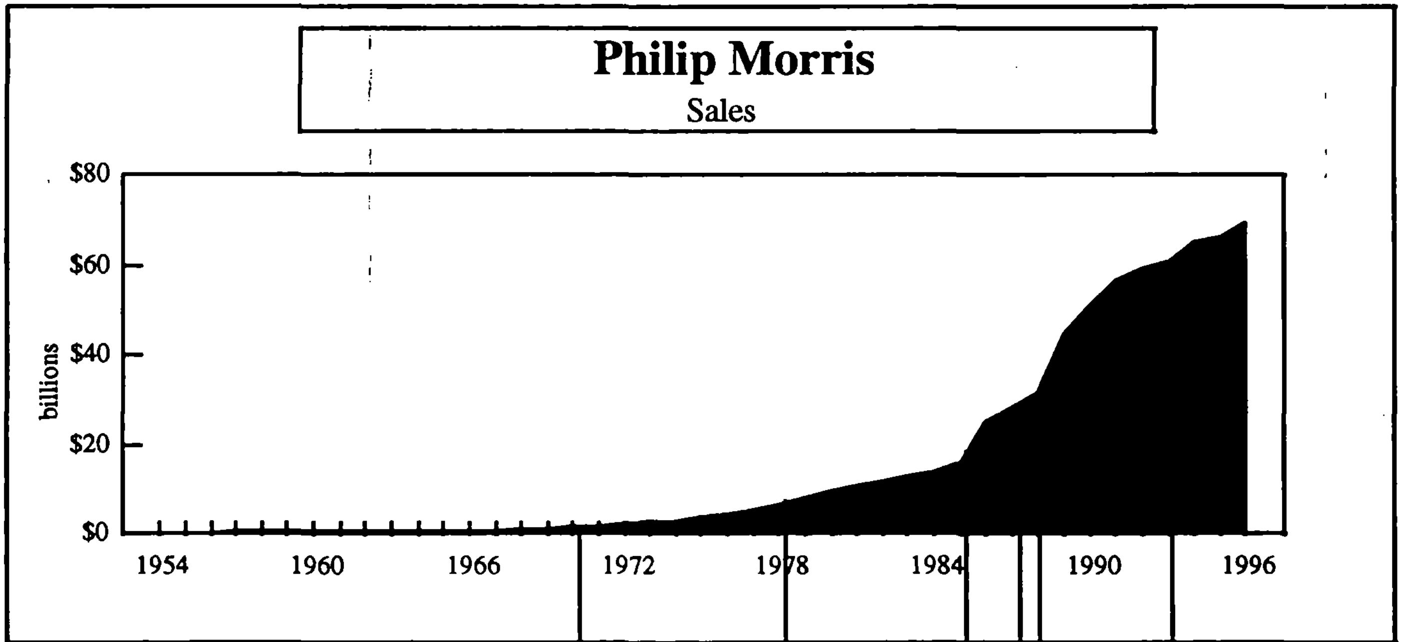
→Current Business Mix

	Revenue	Operating Profit
– Tobacco	$36.5 billion (53%)	$ 8.3 billion (65%)
– Food	$28.0 billion (40%)	$ 3.4 billion (31%)
– Beer	$4.3 billion (6%)	$ 0.4 billion (3%)
– Financial Services	$0.4 billion (1%)	$0.2 billion (1%)

→Major brands include

- Tobacco: Marlboro, Merit and Virginia Slims
- Food: Kraft, Velveeta, Oscar Mayer, Maxwell House, etc.
- Beer: Miller, Molson, Fosters, Asahi

→Diversification started in 1960 with the purchase of American Safety Razor Products Corporation.



1970 - acquired approximately 53% of Miller Brewing Company.

1978 - acquired all of the outstanding common stock of The Seven-Up Company for $520 million.

1985 - acquired General Foods for $5.6 billion.

1986 - sold substantially all of the operations previously conducted by The Seven-Up Company to various purchasers.

1988 - Kraft, Inc. became a wholly-owned subsidiary of Philp Morris for a purchase price of $12.9 billion.

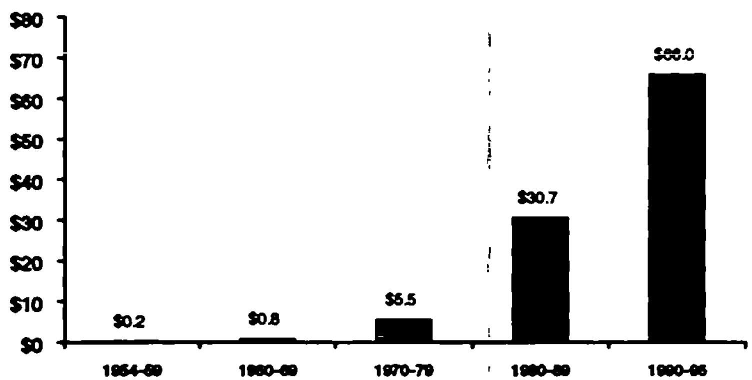
1993 - Acquired Freia Marabou A.S. at a cost of $1.3 billion; RJR Nabisco's North American cold cereal operation at a cost of $448 million; and Terry's Group for $295 million; In addition, purchased a 20% interest in Molson and 100% of Molson Breweries USA for $320 million.

Philip Morris

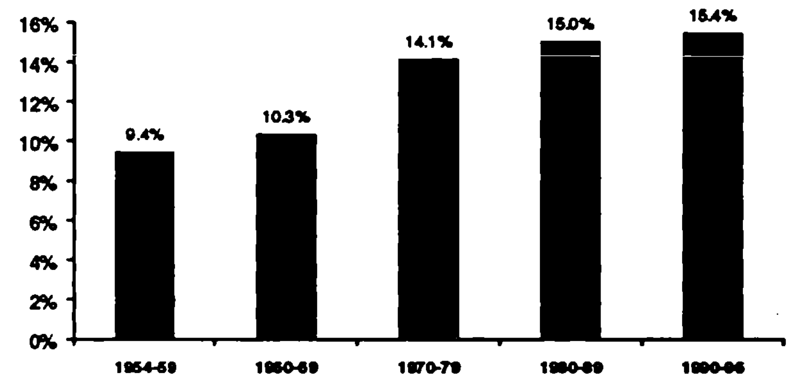
- Philip Morris Global Financial Results by Period
  - Aggregate Results 1954-96
    - →Total Revenues $681.4 billion
    - →Total Operating Profits $103.1 billion
    - →Avg. Operating Margin 15.1%

Operating Profit

($ billions)



Operating Profit Margins



Philip Morris

- Philip Morris Global Tobacco Results by Period
  - Aggregate Results 1954-96

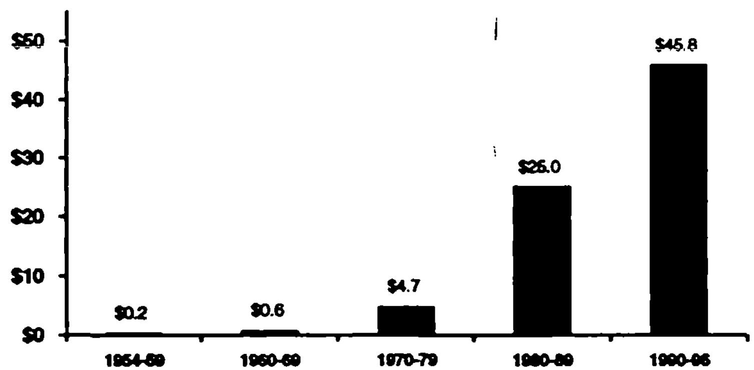
→Total Tobacco Revenues $342.6 billion

→Total Tobacco Profits $ 76.3 billion

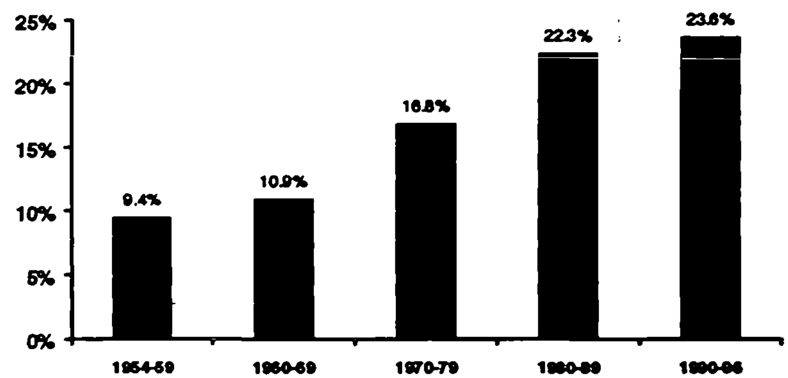
→Avg. Operating Margin 22.3%

Operating Profit

($ billions)



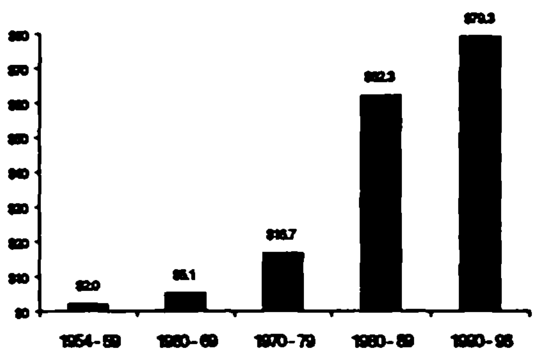
Operating Profit Margins



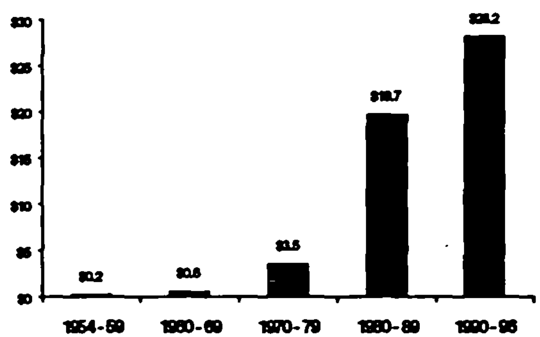
Philip Morris

- Philip Morris Domestic Tobacco Results by Period
  - Aggregate Results 1954-96
    - →Total Tobacco Revenues $165.4 billion
    - →Total Tobacco Profits $52.2 billion
    - →Avg. Operating Margin 31.6%

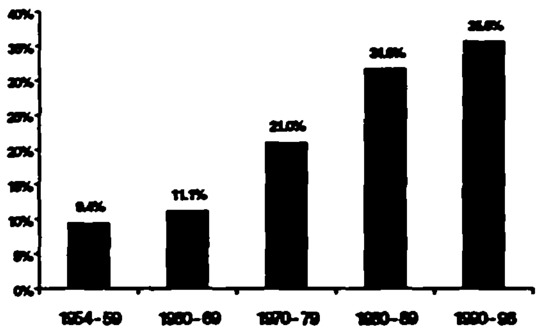
Revenue
($ billions)



Operating Profit
($ billions)



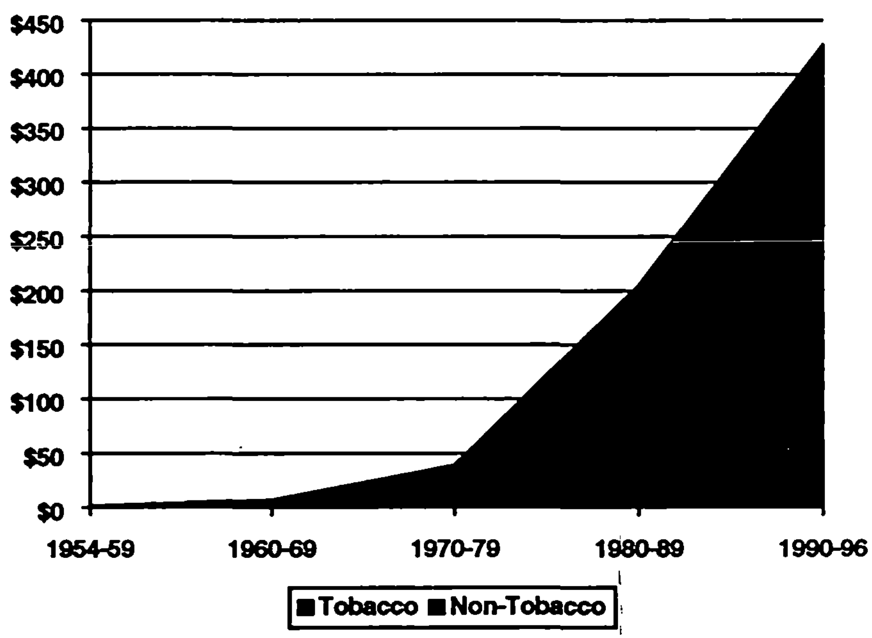
Operating Profit Margin



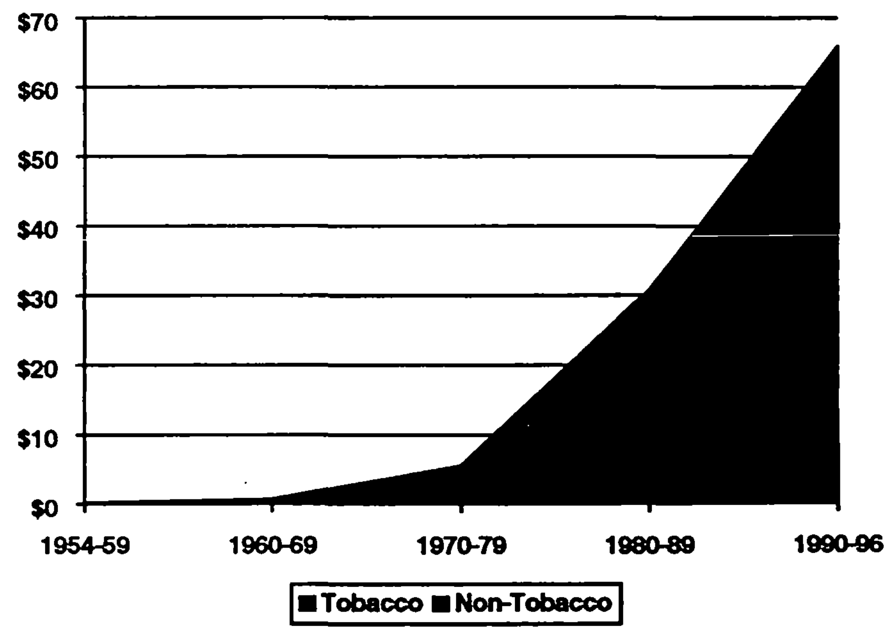
Philip Morris

Global Tobacco Contribution vs. Other Global Operations

Revenue by Decade
1954-96



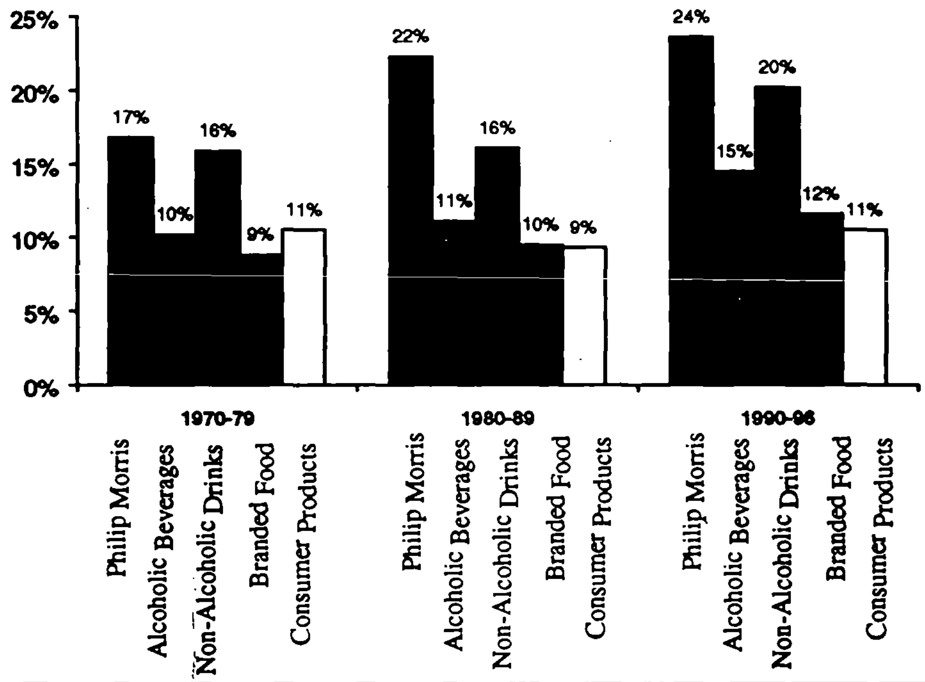
Operating Profits by Decade
1954-96



Philip Morris

Philip Morris' historical Global Tobacco profitability has proven to be substantially greater than other branded consumer products over all time periods analyzed.

Operating Profit Margin



RJ Reynolds

- RJ Reynolds formed the RJ Reynolds Tobacco Company in 1875 in Winston, North Carolina to produce chewing tobacco.
- Currently part of RJR Nabisco Holdings Corp. a Diversified Global Tobacco and Food Company

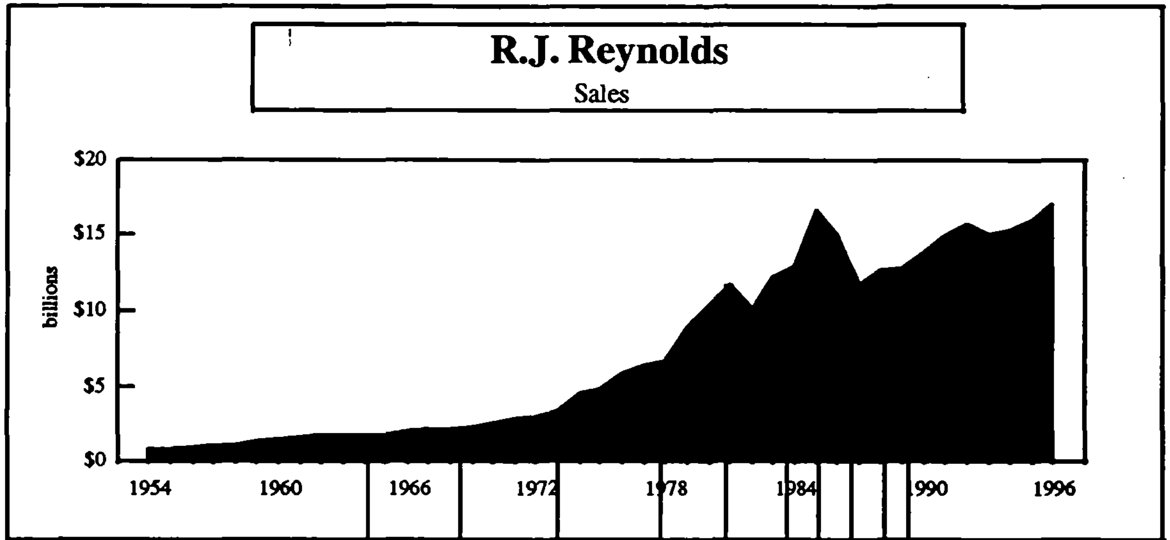
→Current Business Mix

	Revenue		Operating Profit	
– Tobacco	$8.2 billion	(48%)	$ 1.8 billion	(79%)
– Food	$8.9 billion	(52%)	$ 0.5 billion	(21%)

→Major brands include

- Tobacco: Winston, Salem, Camel, Doral
- Food: Nabisco, Planters, Life Savers

– Diversification started in the 1960s with investments in transportation, energy and food industries.



1965 - purchased Penick & Ford, Ltd., Inc. for $97 million .

1969 - merged with McLean Industries, Inc.

1974 - acquired the stock of Macdonald Tobacco, Inc. for $75 million.

1979 - merged with Del Monte Corporation for a total cost of $618 million.

1982 - merged Heublein, Inc. into Reynolds Tobacco for a total cost of $1.36 billion.

1985 - purchased 50.2% of the outstanding shares of Nabisco Brands, Inc. common stock.

1986 - sold its quick-service restaurant business, Kentucky Fried Chicken Corp. for $1.2 billion.

1987 - sold its spirits and wines businesses, conducted principally through Heublein, Inc., for $1.2 billion.

1989 -sold five European food businesses of Nabisco International for approximately $2.5 billion.

1989 - sold the fresh fruit business of Del Monte for approximately $875 million.

1990 - sold the processed foods business of Del Monte for approximately $1.475 billion.

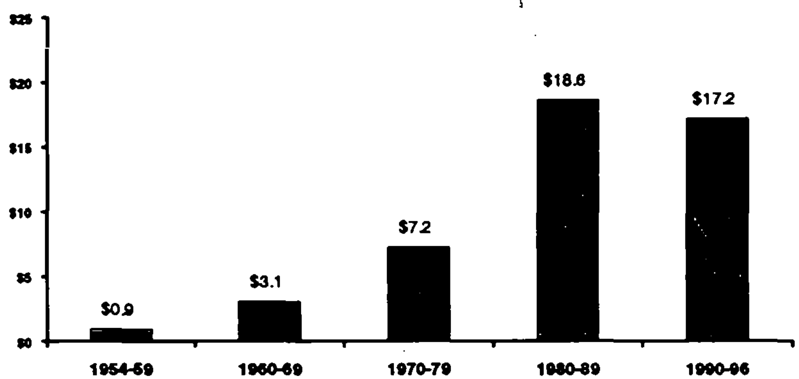
RJ Reynolds

- RJR Nabisco Global Financial Results by Period
  - Aggregate Results 1954-96

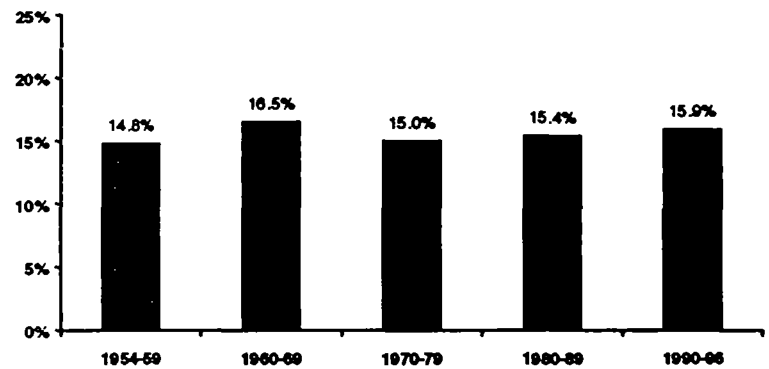
→Total Revenues	$301.9 billion
→Total Profits	$46.9 billion
→Avg. Operating Margin	15.5%

Operating Profit

($ billions)



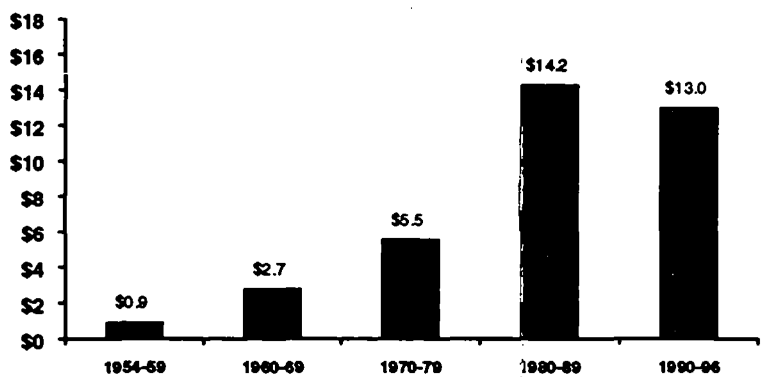
Operating Profit Margins



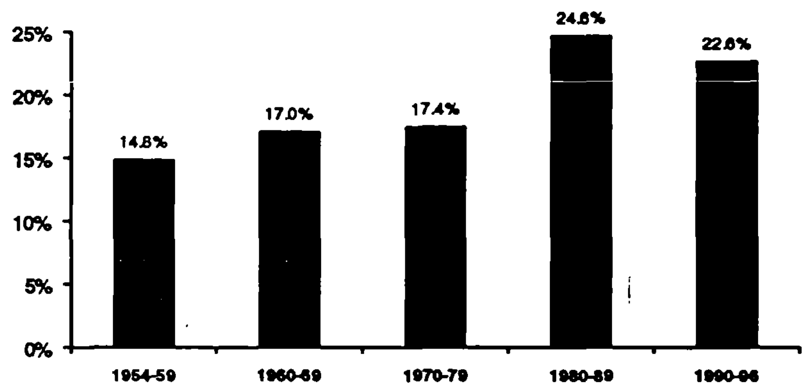
RJ Reynolds

- RJ Reynolds Global Tobacco Results by Period
  - Aggregate Results 1954-96
    - →Total Tobacco Revenues $169.2 billion
    - →Total Tobacco Profits $36.4 billion
    - →Avg. Operating Margin 21.5%

Operating Profit
($ billions)



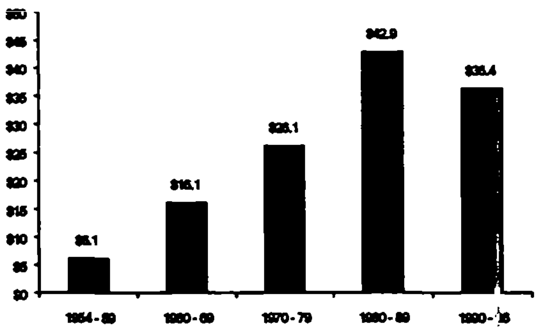
Operating Profit Margins



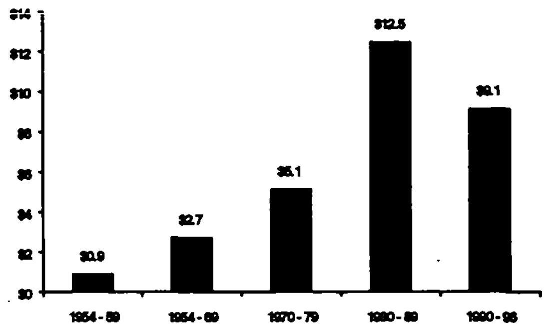
RJ Reynolds

- RJ Reynolds Domestic Tobacco Results by Period
  - Aggregate Results 1954-96
    - →Total Tobacco Revenues $127.7 billion
    - →Total Tobacco Profits $30.4 billion
    - →Avg. Operating Margin 23.8%

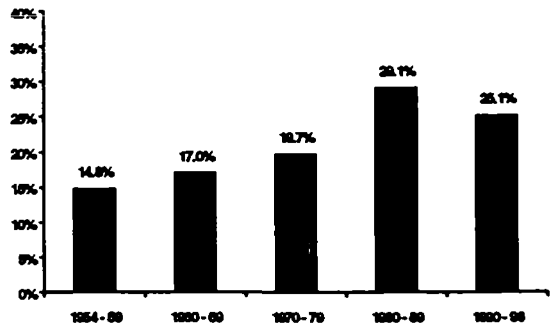
Revenue
($ billions)



Operating Profit
($ billions)



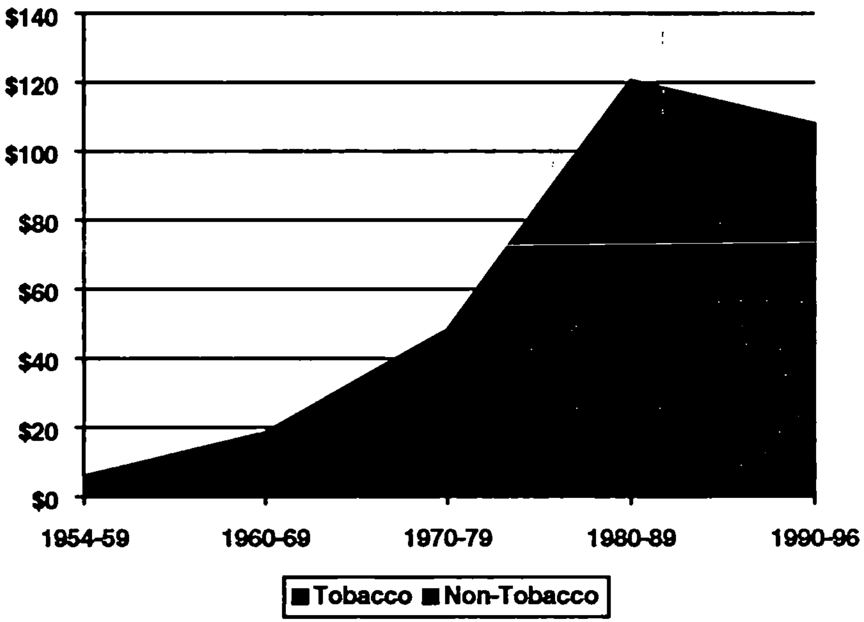
Operating Profit Margin



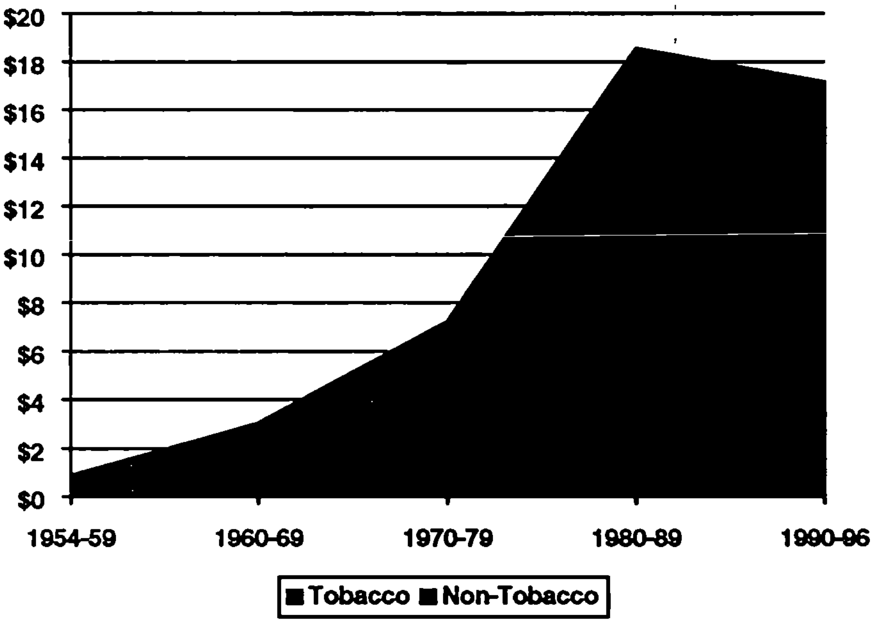
RJ Reynolds

Global Tobacco Contribution vs. Other Global Operations

Revenue by Decade 1954-96



Operating Profits by Decade 1954-96



RJ Reynolds

RJ Reynolds' Global Tobacco Segment's historical profitability has proven to be substantially greater than other branded consumer products over all time periods analyzed.