

INDUSTRY OVERVIEW

THE DRAMATIC GROWTH OF U. S. DOMESTIC CIGARETTE SALES DURING THE 1970'S HAS SHOWN RECENT EVIDENCE OF SLOWING DOWN. WHILE DOMESTIC CIGARETTE SALES IN 1981 WILL BE UP 0.9% OVER 1980 TO A VOLUME OF 624 BILLION UNITS, THE FORECAST OF DOMESTIC CIGARETTE SALES FOR THE 1982-1986 PERIOD SHOWS AN ANNUAL COMPOUND GROWTH RATE OF 0.4% TO A VOLUME OF 636.2 BILLION UNITS IN 1986.

THIS INDUSTRY FORECAST TAKES INTO ACCOUNT THE INTERACTION OF THE THESE BASIC INDUSTRY SALES VOLUME DRIVE FACTORS, I.E., THE SLOWING OF THE GROWTH IN U. S. ADULT POPULATION; THE CONTINUING DECLINE IN SMOKING INCIDENCE; AND A RELATIVELY FLAT SMOKER PER CAPITA CONSUMPTION RATE.

OTHER FACTORS SUCH AS THE IMPACT OF BRAND/STYLE PROLIFERATION; THE INCREASE IN DOMESTIC CIGARETTE SELLING PRICE; AND THE POSSIBILITY OF INCREASES IN EXCISE TAXES AND FURTHER REGULATORY ACTIONS, ALL WILL PLAY A PART IN DETERMINING THE LEVEL OF INDUSTRY SALES OVER THE NEXT FIVE YEARS. HOWEVER, NO INCREASE OR MODERATION IS EXPECTED IN ANY OF THESE AREAS, AND THEIR DEGREE OF INFLUENCE ON INDUSTRY SALES IS EXPECTED TO BE RELATIVELY LEVEL AND CONSTANT.

DURING THE 1982-1986 PERIOD THE MARKET'S SEGMENT CONFIGURATION WILL CONTINUE TO CHANGE IN A DRAMATIC FASHION:

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- ULTRA LOW TAR WILL CONTINUE TO BE THE FASTEST GROWING SEGMENT, WITH MARKET SHARE INCREASING FROM 10.8% IN 1981 TO 27.3% IN 1986. GROWTH WILL BE IN BOTH THE NON-MENTHOL AND MENTHOL VERSIONS.

- THE LIGHTS SEGMENT IS ALSO PROJECTED TO GROW FROM ITS CURRENT LEVEL OF 30.8% MARKET SHARE TO 35.1%, WITH BOTH NON-MENTHOL AND MENTHOL VERSIONS INCREASING IN MARKET SHARE.

- THE FULL TASTE SEGMENT WILL CONTINUE TO DECLINE, FROM ITS CURRENT MARKET SHARE OF 50.8% DOWN TO 33.8% IN 1986, WITH THE LOSS IN BOTH NON-MENTHOL AND MENTHOL FULL TASTE STYLES.

- BY 1986, VIRTUALLY ALL CIGARETTES WILL BE FILTERED (OR APPROXIMATELY 96% VERSUS 92% CURRENTLY).

- THE MENTHOL SEGMENT WILL REMAIN RELATIVELY LEVEL OVER THE 1982-1986 PERIOD: 28.5% MARKET SHARE CURRENTLY VERSUS 28.3% IN 1986.

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SEGMENT FORECAST
SHARE OF MARKET

<u>ULTRA LOW TAR</u>	<u>1981</u>	<u>1986</u>
NON-MENTHOL	8.0	19.7
MENTHOL	<u>2.8</u>	<u>7.6</u>
	10.8	27.3
<u>LIGHTS</u>		
NON-MENTHOL	20.7	23.3
MENTHOL	<u>10.1</u>	<u>11.8</u>
	30.8	35.1
<u>FULL TASTE</u>		
NON-MENTHOL	35.3	25.0
MENTHOL	<u>15.5</u>	<u>8.8</u>
	50.8	33.8
<u>NON-FILTER</u>	7.6	3.8

THE ABOVE SEGMENT FORECASTS ARE BASED ON COMPANY DEFINITIONS CONSISTENT WITH CONSUMER PERCEPTIONS AND MARKET POSITIONING BY THE VARIOUS COMPANIES, AND THEREFORE, DOES NOT ADHERE STRICTLY TO THE DEFINITIONS OF LOW TAR AND FULL TASTE BASED ON THE 0-15 MGS. OF TAR CLASSIFICATIONS.

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