



INDIA NEWS

Karnataka: Auctions Likely To End In March

The Tobacco Board of India authorities have indicated that the tobacco auctions that are currently going on in the State of Karnataka may conclude by the end of March.

Jammu and Kashmir: Crack Down On Tobacco Vendors Near Schools

Stores and kiosks selling cigarettes and tobacco products near schools were shut down in the capital city of Srinagar, even as houseboat owners volunteered to disallow smoking on their premises. The Srinagar District Magistrate Baseer Ahmed Khan also directed the Chief Education Officer to ensure that 'no-smoking' signs are posted at all schools, both government and private.

Rajasthan: Home Department Notifies Hookah Parlors

The Rajasthan Government in a February 11th notification endorsed a decision by the Police Commissioner of Jaipur to close down all hookah bars and smoking parlors in the State capital. The Commissioner, B. L. Soni had ordered the shutting of all hookah bars functioning in the Pink City on December 9th last year.

Tamil Nadu: State Commended For Tobacco Measures

At a national level review meeting held in New Delhi recently, the State of Tamil Nadu was commended for being a model in enforcement of Control of Tobacco Products Act and also the State ban on prevention of smoking in public places.



TOBACCO NEWS

WORLD HIGHLIGHTS

AMERICAS

US: Reynolds American Q4 Earnings Up 16%

US's No. 2 tobacco group Reynolds American Inc., the owner of R.J. Reynolds Tobacco Company, American Snuff Company, Santa Fe Natural Tobacco, and Nicovum AB, posted lower-than-expected 4Q and full year 2011 earnings, of US\$304 million, or 52 cents per share for the three months ended December 31st, but up 16% from US\$262 million, as higher prices and productivity gains helped offset decreasing cigarette sales. The maker of *Camel*, *Pall Mall* and *Natural American Spirit* cigarettes said heavy promotional activity by competitors drove its cigarette volumes down about 7% to 10.5 billion cigarettes, even as *Pall Mall* improved market share by 0.3 percentage points to 8.6%, and *Camel* remained stable at 8%. Reynolds' American Snuff Co.'s *Grizzly* and *Kodiak* brands rose 6% compared with a year ago, and *Camel Snus* captured 75% of the market in the category. Reynolds listed Santa Fe Natural Tobacco Co. as a separate segment for the first time, logging a 22% increase in proceeds to US\$111 million. For the full year, the *Winston-Salem* company's turnover climbed 25.4% to US\$1.4 billion, or US\$2.41 per share, compared with US\$1.1 billion the previous year. Sales excluding excise

taxes were flat at US\$8.5 billion, while volumes slipped 5.1% for 2011, compared with an industry drop of 3.5% for the year. Reynolds American forecast full-year adjusted earnings to be in the range of US\$2.91 and US\$3.01 per share.

US: CEO Daniel Delen Says Reynolds To Sustain Momentum

Reynolds' President and Chief Executive Daniel Delen said the North Carolina firm intends in 2012 to "sustain operating companies' key-brand momentum, invest in innovation and have the financial flexibility to take advantage of competitive opportunities." Over the past year, the marketplace environment has been a difficult one and the year ahead is not likely to be any easier," CEO Delen added in a conference call. "The weak economy and high unemployment levels continue to put pressure on consumers' disposable income and competitive promotional activity remains intense," Reynolds noted, stating that it has started a thorough review of its businesses to "ensure they are aligned with today's economic and competitive landscape." It expects the evaluation to be completed by March 31st.



TOBACCO NEWS

US: Separate Santa Fe Insights, Innovation Encouraging, States Bonnie Herzog

Bonnie Herzog, analyst with Wells Fargo Securities, said Reynolds exceeded her view with its performance, and it is encouraging that separate financial insights are being provided on Santa Fe. “The hidden gem is no longer hidden,” she said. “We are impressed with Reynolds’ innovation, execution, leadership and methodical approach to building long-term sustainable growth as a total tobacco company,” the analyst affirmed.

US: Deutsche Bank Reiterates “Hold” On RAI

JP Morgan retained an “overweight” recommendation on Reynolds with a US\$56 PT on shares that are currently trading at US\$39.54. Deutsche Bank, on the other hand, reiterated a “hold” on RAI and lowered the target rate to US\$40 from US\$41 on a more challenging outlook. UBS maintained that RAI’s EPS guidance indicates tougher competitive environment.

US: Reynolds American Cuts Jobs

Reynolds American Inc. laid off an undisclosed number of workers at its Tobaccoville plant on February 7th. Reynolds did not provide further details, but last month, had said it was conducting an in-house review, and could slash both hourly and salaried jobs at Reynolds American, RAI Services, and many other departments in the R.J. Reynolds Tobacco Company.

US: Lorillard 4Q11 Profit Tops Estimates, Soars 20%

America’s best selling menthol cigarette *Newport* manufacturer Lorillard Inc.’s fourth-quarter profit beat Wall Street’s expectations soaring 20% to US\$310 million, or US\$2.32 a share, from US\$259 million on better shipments of flagship *Newport* and *Maverick* brands. Sales spiraled 8.9% to US\$1.62 billion, or totaled US\$1.13 billion excluding excise duties. Premium smoke *Newport*, which represents the bulk of the sales, was up 4.3% as domestic retail market share zoomed to 11.7% from 11.1%. *Maverick*’s volumes picked up 16%, while *Old Gold*’s shrunk 5.1%. David Taylor, Chief Financial Officer, said the top line was steered by a 5.6% swell in wholesale shipments and higher average selling prices. In addition, to lower promotional levels observed “across the board on all brands.”

US: UBS Lifts EPS On Lorillard

Lorillard shares were given a “neutral” rating by analysts at Goldman Sachs in a research report issued to clients and investors on February 10th. UBS AG raised the EPS on LO shares from US\$8.62 to US\$8.94 with a “buy” and a US\$140 target, while Stifel Nicolaus downgraded LO from a “buy” to “hold” in a note this week.



TOBACCO NEWS

US: Universal Corp. Registers Strong 3Q, Nine Months Revenue

Prime leaf tobacco merchant and processor Universal Corporation filed a net income of US\$58.5 million, or US\$2.06 per diluted share, for the third quarter of fiscal year 2012, ended December 31, 2011, 12% above last year's US\$52.3 million for like period. Performance in Universal's Other Regions segment outweighed declines in the North American and the Other Tobacco Operations. Revenues for the quarter of US\$672 million was lower about 2%, reflecting poorer leaf prices on healthier volumes. For the nine months to December 2011, net was US\$66.3 million, or US\$2.34 per diluted share, including the effect of the charge in the second fiscal quarter for the European Commission fine. Chairman, President, and CEO George C. Freeman, III attributed the strong 3Q show to the successful managing of the business in this year's oversupply situation.

US: Universal Confirms Quarterly Dividend

Universal Corporation's board of directors confirmed a quarterly dividend of 49 cents per share on the common stock, payable May 14, 2012, to shareholders of record at the close of trade on April 9, 2012.

US: Alabama Representatives Examine Cigarette Duty Bills

The Alabama House of Representatives heard three bills this week read by Reps. Patricia Todd (D-Birmingham) and Joe Hubbard (D-Montgomery) all pushing to raise the State levy on cigarettes by between 32.5 cents to US\$1. Cigarettes are assessed at 42.5 cents a pack in the State.

US: Universal Foresees Fall In Crop Sizes World Over

The Richmond headquartered global leaf buyer, Universal Corp. anticipates that crop sizes will come down in many of the growing regions around the world during the next year, which could mitigate pricing pressures, as markets for some grades may be tightening.

US: Alliance One Three Months Returns Up

Chief tobacco dealer Alliance One International Inc. presented third quarter and nine months to December 31, 2011 financials, revealing that returns totaled US\$11.8 million for the quarter, or US\$0.13 per basic share, recovering from a net loss of US\$2.0 million last year. For the nine months ended December, the Morrisville concern's takings slumped to US\$9.4 million, or US\$0.11 per basic share, from US\$32.1 million for the same period the prior fiscal year. Last year's nine months results included US\$37.5 million of gain on sale of certain Brazilian assets, while this year it was only US\$13.1 million on the exchange of certain Brazilian assets. CEO Mark Kehaya said, "We have a strong order book developing for next fiscal year and we have started purchasing the new crop in Brazil, which is smaller than last year. Combined with reduced crop sizes in other regions we believe the shift back towards market equilibrium is beginning." He confirmed that fiscal year 2012 is on track with expectations.



TOBACCO NEWS

US: Tobacco Out Of Bounds On State Property

Oklahoma Governor Mary Fallin signed an executive order this week banning the use of cigarettes and other tobacco products such as smokeless tobacco on State property, including buildings, land and vehicles. Fallin announced the decision in her State of the State address on February 6th, giving the agencies six months to comply.

US: West Virginia To Term RYO Shops Manufacturers

After South Dakota and Virginia, West Virginia Senator Dan Foster (D-Kanawha), a physician, sponsored a bill this week seeking to label retailers offering roll your own cigarette machines as cigarette manufacturers, subjecting them to the same excise duties as regular cigarettes. West Virginia currently charges cigarettes at 55 cents a pack, and shops that supply loose tobacco and single cigarettes avoid the tariff.

US: Cigarette Rolling Machines May Be Outlawed At Washington Stores

Washington State Senator Karen Keiser (D-Kent) and Senator Rodney Tom (D-Bellevue) are proposing to outlaw cigarette-rolling machines at stores that sell bulk tobacco. Initially, at the beginning of the 2012 Legislative session, House and Senate measures aimed to classify do-it-yourself tobacco outlets as producers, but last week, the language of the Senate Bill 6564 was changed to totally prohibit use of rolling machines in such stores. The regulation intends to close a loophole that makes purchasing unpackaged cigarettes 50% cheaper, and unfair to businesses that have to pay the steep cigarette tax.

EUROPE

Austria: Philip Morris International Sets Up New Austrian Subsidiary

The Austrian division of Philip Morris International, Philip Morris GmbH announced the establishment of a new unit, Philip Morris Austria GmbH, which will begin functioning from January next year, in addition to the start of a new distribution partnership with Kuehne & Nagel GmbH, effective from the same time. PMI's contract with the

present distribution partner Tobaccoland is due to expire 2012-end. Alexander Ott has been appointed the MD of the holding, which will handle the delivery of cigarette brands *Marlboro*, *Chesterfield*, *L&M*, *Philip Morris*, *Muratti* and *EVE*.



TOBACCO NEWS

Switzerland: Sturdy Asia Demand Drives Philip Morris Fourth Quarter, 2011 Income

Cigarette giant Philip Morris International Inc., that makes seven of the key 15 brands of the world, declared that 4Q turnover rose 7.6% surpassing market estimates to gross US\$1.89 billion, or US\$1.08 a share, against US\$1.75 billion a year earlier, on robust Asian demand. Total cigarette volumes expanded 0.7%, notching 11% in Asia, fueled by double-digit developments in Indonesia, Japan and South Korea. The more established European countries saw a 7.1% fall, predominantly due to weakness in Italy, Portugal and Spain. Eastern Europe, Middle East and Africa inched up 0.2%, while Latin America and Canada, slid 7.4%, mainly due to Mexico. For 2011, Philip Morris recorded diluted earnings per share of US\$4.85, up by 23.7%, versus US\$3.92 in 2010. Cigarette shipments progressed by 1.7%, as revenues, excluding excise tariffs, was up by 14.3% to US\$31.1 billion. Management's 2012 earnings per share guidance is in the range of US\$5.25-US\$5.35, including a US\$0.10 impact of unfavorable currency movements.

Switzerland: Deutsche Bank, Stifel Nicolaus Raise PMI Price Target

Deutsche Bank maintained a "buy" on Philip Morris International and moved the price target from US\$77 to US\$84 on superior earnings without a premium rating. Stifel Nicolaus too has a "buy" on the stock with a US\$88.0 PT.

Switzerland: Louis Camilleri Asserts Pricing Tailwind For Philip Morris

Philip Morris Chief Executive Louis Camilleri told analysts pricing would be a tailwind for Philip Morris this year, adding cost enhancements were already enacted in several markets, including Germany, Indonesia and Russia. He added that while the threat of higher excise levies has always been a concern, most governments abroad are realizing that such hikes do not result in a corresponding leap in finances. Camilleri maintains that additional taxes are unlikely this year, and while several European nations are mulling general value-added fees, potential ramp ups should be manageable.

Switzerland: Japan Tobacco International Reports 2011 Results

The global arm of Japan Tobacco Inc., Japan Tobacco International (JTI) reported 2011 and October-December 2011 results, with a 17.3% increment in Full year EBITDA and a 10.9% rise in core net sales of US\$11,211 million on the back of Global Flagship Brands (GFB) *Winston*, *Camel*, *Mild Seven*, *Benson & Hedges*, *Silk Cut*, *LD*, *Sobranie* and *Glamour*, and solid pricing. Shipments picked up in Russia and the Middle East, while year-on-year market share expanded in most key markets, including Turkey, Italy, France and Spain, JTI said. For October to December 2011, net sales were up 5.3% because of product costs, while greater volumes in Russia and the Middle East partly offset dips in Spain and the Philippines.

Switzerland: JTI To Construct New Headquarters

Camel Snus seller Japan Tobacco International has decided to build a new international headquarters in Geneva, Switzerland. Construction is set to commence in spring, and the company plans to move into the new office in 2015.

United Kingdom: British American Tobacco Makes Management Changes

British American Tobacco International Managing Director Jose Benikes and head of Global Accounts & the Global Customer Engagement Unit based in Zug, Switzerland, has been moved to a senior position in Trade Marketing & Distribution within the British American Tobacco Group. Stefano Mariotti, currently General Manager GTR Europe, will succeed Benikes. The changes are effective 1st February 2012.

Spain: Altadis Calls For Tax Freeze To Stem Cigarette Smuggling

Altadis, an Imperial Tobacco Group Inc. entity, has requested the Spanish government this month for a two-year freeze on tobacco taxes to help the market recover. The *Fortuna* and *Nobel* brand supplier said illegal imports, which were non-existent since 1993, came back forcefully last year, accounting for nearly 7% to 8% of the current domestic cigarette sales. Duty hikes, a ban on smoking coupled with mounting unemployment paved the best scenario for smuggling and illicit tobacco, Jaime Gil- Robles, Altadis corporate affairs director pointed out, eroding both government coffers and company resources. Philip Morris International, which has the second largest share at 30.7% behind Altadis, does not anticipate much improvement in Spain this year. “The dynamics observed in the Spanish market in 2011, mainly the adverse economic circumstances and the high unemployment rate, are likely to continue in 2012,” PMI said in a statement.



TOBACCO NEWS

ASIA & OCEANIA

Japan: Japan Tobacco FQ3 Turnover Surges 67%

Tokyo-based world's third leading cigarette manufacturer Japan Tobacco Inc. registered a massive 67% jump in net profit to 64.5 billion yen for the October-December months, from 38.6 billion yen during like period a year earlier. JT said revenue grew 23% to 669.6 billion yen from 542.6 billion yen the previous year, reflecting a steady upturn in domestic tobacco operations that were severely hampered by taxes and the devastating earthquake and tsunami that hit the country in March last year.

Japan: JT President Says Next Year's Profit Will Increase

Japan Tobacco Inc. President Hiroshi Kimura confirmed on February 8th that profits will likely surge next financial year, as business bounces back after the natural disasters that struck Japan in March 2011. He said JT may issue a limited amount of debt to help fund a buyback of government-owned shares. Meanwhile, eleven analysts polled by Thomson Reuters foresee an average annual operating return of 406 billion yen for the fiscal year that starts in April.

Japan: JT Bolsters Earnings Forecast, Shares Climb

Pianissimo and *Mild Seven* cigarette maker Japan Tobacco climbed the most in four months in Tokyo trading on February 7th, gaining 5.5% to touch 406,500 yen, the biggest since September 20th, after lifting its earnings forecast and planned dividend. A faster-than-predicted sales recovery after the March 11th tsunami prompted JT to raise its full-year to March net income projection by 17% to 189 billion yen (US\$2.5 billion) from 161 billion yen, on a 34% spike in nine-month takings. The company also revised the dividend outlook to 9,000 yen a share, amidst expectations that the dividend will soar further next quarter. The domestic tobacco sales target in terms of volume is anticipated to advance by 4.9% for the fiscal year.

Japan: Japan Tobacco May Buy Back Shares To Boost EPS

Japan Tobacco may buy back shares to narrow a gap in earnings-per-share growth with rivals including Philip Morris International Inc. and British American Tobacco Plc., Executive Deputy President Masakazu Shimizu said in an interview. "We want to increase EPS and dividends simultaneously," Shimizu added.



TOBACCO NEWS

South Korea: BAT Korea Introduces Richer *Lucky Strike Original Filters*

Dunhill Switch producer British American Tobacco Korea is introducing a stronger version of the popular *Lucky Strike* cigarettes to reinforce the brand's presence in the market. The latest edition, *Lucky Strike Original Filters*, offers a richer and bolder taste than the previous variety, and features cork-tipped filters with modern, black packaging. The cigarettes, contain 8 mg of 'tar,' and will be available for 2,500 won (\$2.20) starting February 8th. BAT Korea has been trying to prop up its No.2 spot in the domestic market following a 200-won cost rise in April.

Philippines: Farmers Protest Restructuring Of Tobacco Excise

Tobacco growers in the Philippines held protest rallies this week opposing House Bill 5727, authored by Representative Joseph Emilio A. Abaya (1st district, Cavite) seeking to restructure the excise taxes on tobacco and alcohol products, saying it is not favorable for the tobacco industry and cultivators. The Department of Finance is looking to revamp the rates so that all cigarette brands pay P30 per pack in two years time. A number of low-value cigarettes, which are currently levied at P2.72 a pack and account for 60% of the business, will end up shelling out a staggering P30, while the measure will benefit premium cigarette importers whose fee will go from just P28.30 to P30 a pack.

South Korea: KT&G To Maintain Cigarette Rates

South Korean tobacco major KT&G Corp. has made clear that it does not intend to revise its cigarette price list for the time being, in the midst of hikes by competitors. KT&G instead is focusing on bolstering productivity rather than temporary sales development.

Australia: Govt. Files Defense In Plain Packaging Suit, Says Restriction Not Acquisition Of Property

The Australian Federal government defended in the High Court the constitutional legitimacy of the plain cigarette packaging rules, arguing that restricting tobacco companies' use of trademarks does not amount to an acquisition of property. And hence it does not need to pay any compensation. In defense filings in the Court, the Gillard government pointed out that the law does not add up to acquirement because it "does not deliver to the Commonwealth or anyone else any identifiable and measurable benefits or advantages." Further, the government claimed that (tobacco's property rights) "those rights were always and are subject or susceptible to regulation under law" - including that of plain packaging and it has the authority to monitor packaging. Phillip Morris, British American Tobacco Australia, Imperial Tobacco Australia and Japan Tobacco International are challenging the legislation, on the basis of a section of the Constitution that states an acquisition of property by the Commonwealth must grant "just terms." Attorney-General Nicola Roxon expressed confidence that the Commonwealth is on strong legal ground.



TOBACCO NEWS

AFRICA

Malawi: Leaf Output May Plummet 50%

Tobacco output in Malawi, the world's top burley producer, may plunge by a whopping 50% this year, as early estimates show that fewer farmers have planted the crop. The reports have triggered concern that this could worsen the country's already ailing economy as it means weak foreign exchange reserves. The Tobacco Association of Malawi had initially projected tobacco yield to reach 160 million kg. this year but that could go down to as low as 80 million kg. Last season, the country harvested a total volume of 237 million kg. of all tobacco types put together.

Zimbabwe: Tobacco Production Projected To Be 15% Higher

Zimbabwe's tobacco production is expected to surge by nearly 15% this year to reach 150,000 tons, officials said this week, ahead of the start of the tobacco selling season on February 15th. Tobacco Industry and Marketing Board Chief Andrew Matibiri said planters will benefit from the slump in Brazil and the US, with the market about 5% to 10% short of tobacco.



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