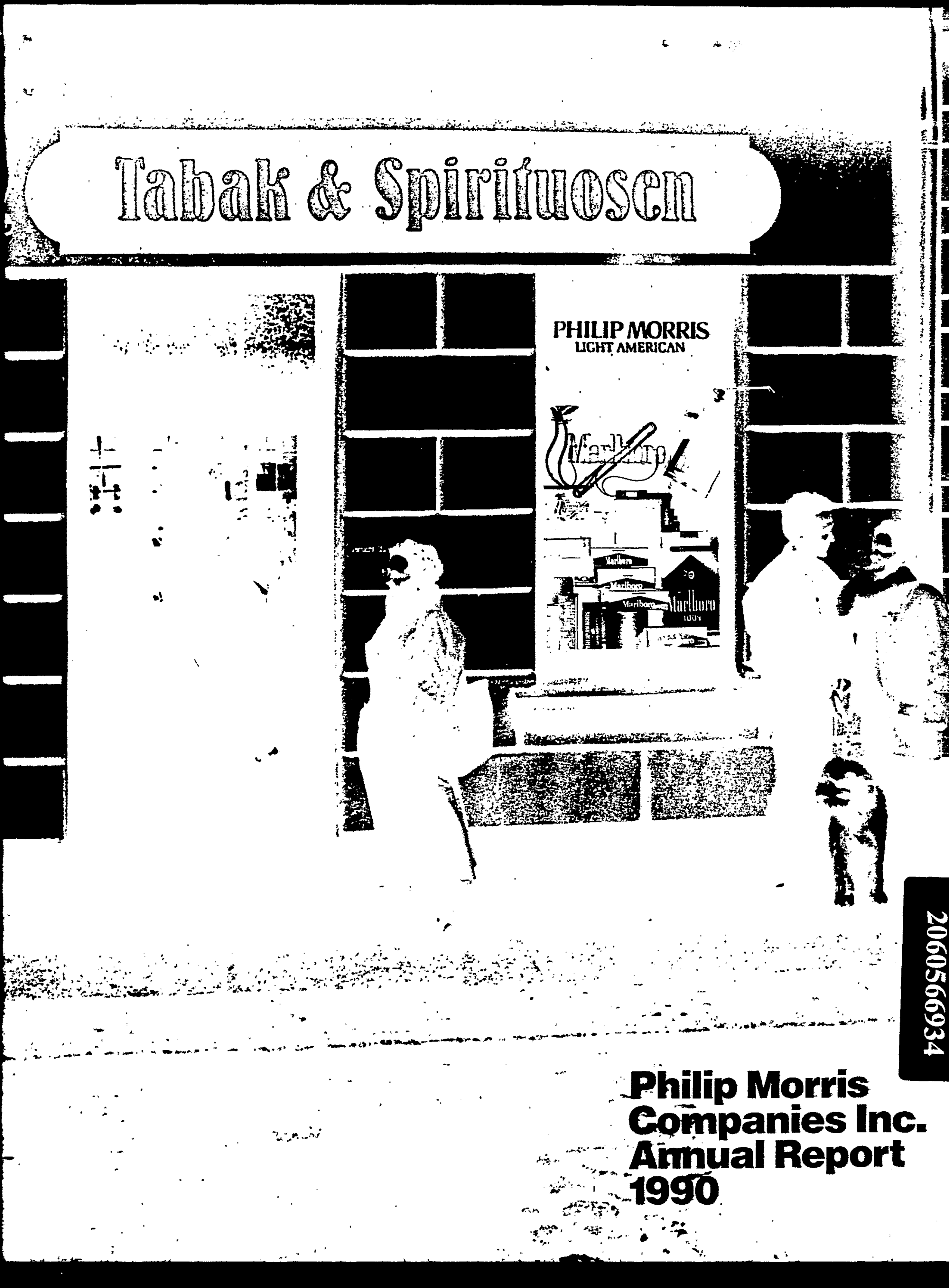
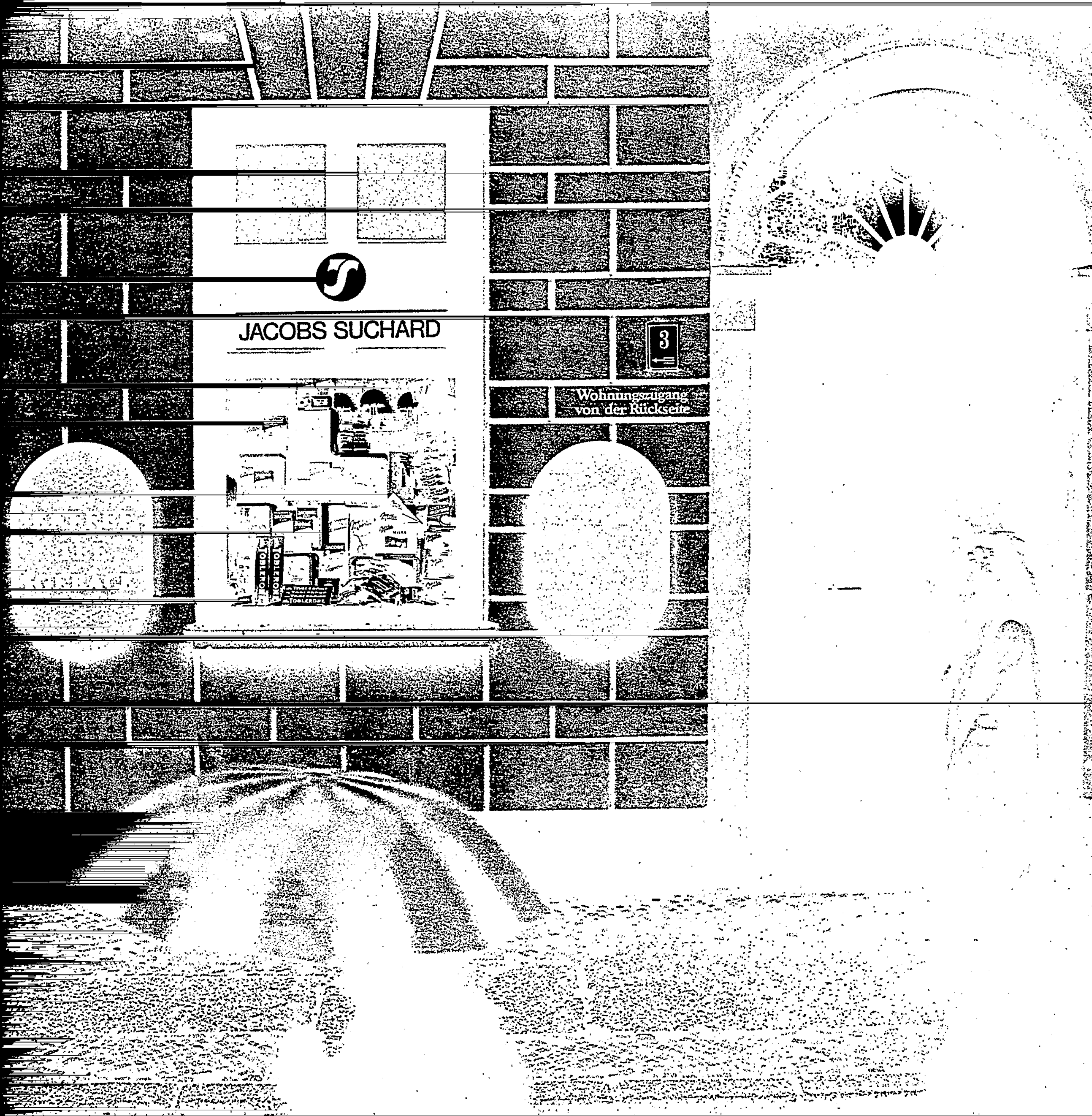


Philip Morris Companies Inc. Annual Report 1990



About the cover:
Philip Morris markets over 3,000 products to millions of consumers around the world. Germany is our largest and most profitable European market; in this photograph, store windows in reunified Berlin display some of our cigarettes, coffees, cheeses, dressings, and chocolates.

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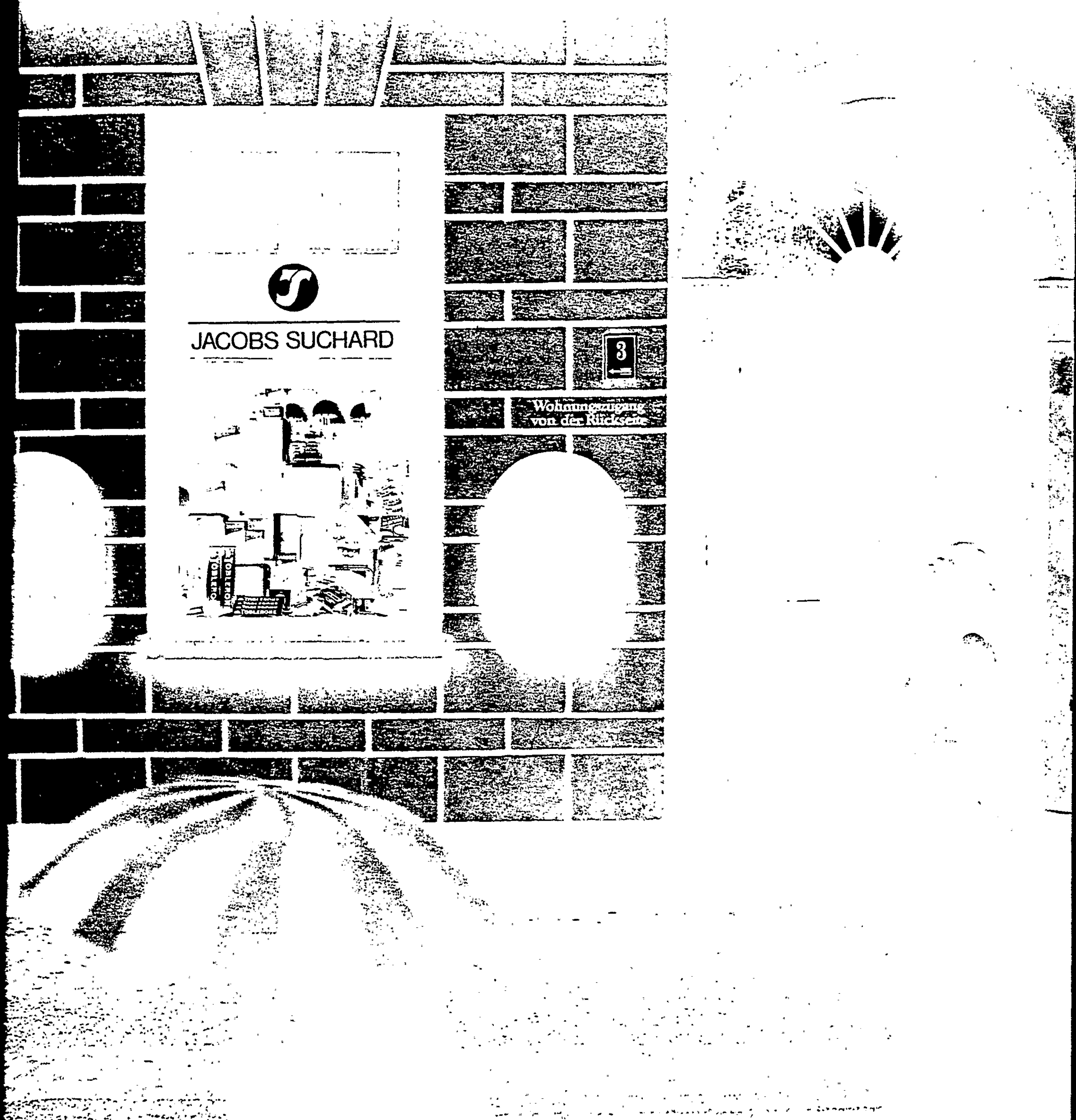

About the cover:
Philip Morris markets over 3,000 products to millions of consumers around the world. Germany is our largest and most profitable European market; in this photograph, store windows in reunified Berlin display some of our cigarettes, coffees, cheeses, dressings, and chocolates.

Financial Highlights (in millions of dollars, except per share data)

	1990	1989	1988	1987	1986
Operating revenues	**$51,169**	$44,080	$31,273	$27,650	$25,542
Net earnings	**3,540**	2,946	2,337	1,842	1,478
Net earnings per share	**3.83**	3.18	2.51	1.94	1.55
Dividends declared per share	**1.55**	1.25	1.01	.79	.62
Percent Increase Over Prior Year					
Operating revenues	**16.1%**	41.0%	13.1%	8.3%	58.1%
Net earnings	**20.2%**	26.1%	26.9%	24.7%	17.7%
Net earnings per share	**20.4%**	26.7%	29.4%	25.0%	18.3%
Dividends declared per share	**24.0%**	23.8%	28.6%	27.3%	23.8%
Operating Revenues					
Domestic tobacco	**$10,370**	$ 9,474	$ 8,491	$ 7,640	$ 7,053
International tobacco	**10,720**	8,375	8,085	7,004	5,638
Food	**26,085**	22,373	10,898	9,481	9,372
Beer	**3,534**	3,342	3,177	3,037	3,005
Financial services and real estate	**460**	516	622	488	474
Total operating revenues	**$51,169**	$44,080	$31,273	$27,650	$25,542
Operating Companies Income					
Domestic tobacco	**$ 4,206**	$ 3,606	$ 3,087	$ 2,715	$ 2,366
International tobacco	**1,394**	1,007	774	582	492
Food	**2,648**	2,138	849	773	741
Beer	**285**	226	190	170	154
Financial services and real estate	**197**	173	163	68	32
Other	—	—	—	20	(10)
Operating companies income	**8,730**	7,150	5,063	4,328	3,775
Gain on sale of Rothmans International p.l.c.	—	455	—	—	—
Restructurings of food operations	—	(179)	(348)	(71)	—
Amortization of goodwill	**(448)**	(385)	(125)	(105)	(112)
Unallocated corporate expenses	**(336)**	(252)	(193)	(162)	(126)
Interest and other debt expense, net	**(1,635)**	(1,731)	(670)	(646)	(772)
Earnings before income taxes	**$ 6,311**	$ 5,058	$ 3,727	$ 3,344	$ 2,765

Compounded Average Annual Growth Rate	1990-1985	1990-1980	1990-1975
Operating revenues	25.9%	17.9%	19.3%
Net earnings	23.0%	20.5%	20.6%
Net earnings per share	23.9%	21.4%	20.6%

Certain prior years' amounts have been reclassified to conform with the current year's presentation.

See Note 2 of the notes to consolidated financial statements regarding the acquisition of Jacobs Suchard AG in 1990 and Kraft, Inc. in 1988. Consolidated results of the company include the operating results of these companies since their acquisition.

See Note 3 of the notes to consolidated financial statements regarding 1989 and 1988 restructuring charges of food operations and the 1989 sale of the company's equity investment in Rothmans International p.l.c.

See Note 10 of the notes to consolidated financial statements regarding the company's 1988 adoption of the method of accounting for income taxes prescribed by Statement of Financial Accounting Standards No. 96.

In 1986, operating companies income for financial services and real estate was reduced by $71 million resulting from the effects of the Tax Reform Act of 1986 and certain related leveraged lease renegotiations.

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Dear Stockholder:

Your company is continuing its solid growth in a rapidly and radically changing world.

Political and economic developments are creating new opportunities for us. The borderless European Community planned for 1992, together with Eastern European countries now experimenting with free market systems, will constitute a larger market than North America.

We are well positioned to prosper from these changes. We have had a major international tobacco presence for more than 20 years. We have been the largest cigarette company in Europe since 1983, and in 1990 we widened our lead.

We took an important step to strengthen our competitiveness in European food markets by acquiring Jacobs Suchard AG, a Swiss-based coffee and confectionery company. This $4.1 billion purchase makes us the third-largest food company in Europe, and brings us brands and distribution channels in countries where we needed to broaden our business.

The consolidation of European markets is not the only key to our growth.

Although the cigarette market in the United States is declining slightly, we continue to gain volume and share. Our business in Asian cigarette markets, particularly Japan, is building rapidly. And in September 1990, we reached a major agreement to export cigarettes to the Russian Republic, the largest republic in the world's third-largest cigarette market—the Soviet Union. Both developments add impetus to the continued expansion of our international tobacco operations.

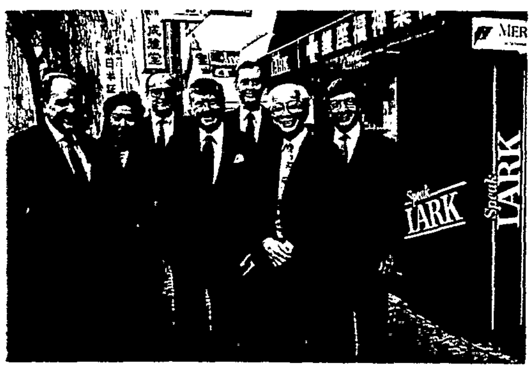
We are devoting ever increasing resources to the building of our food businesses. By pooling the research and talents of people in different parts of Kraft General Foods and applying them to a shared challenge, we accelerated the introduction of fat free foods in seven categories this past year. We have announced introductions in still more categories in 1991.

In 1990, we increased our dividend by 25.1%, to an annualized rate of $1.72 per share, marking the 23rd consecutive year of dividend increases. Through our stock repurchase program, we spent $221 million in 1990 to repurchase Philip Morris common stock, at an average price of $38.88 per share.

1990 Results

Consolidated operating revenues of $51.2 billion were 16.1% higher than in 1989. Our 1990 performance includes operating results from Jacobs Suchard since its acquisition.

Our operating companies income grew 22.1% to $8.7 billion. Net earnings were $3.5 billion, up 20.2%, and net earnings per share reached $3.83, 20.4% higher than in 1989.



'hilip Morris management visiting Masuo Fukujin, a Tokyo retailer. .eft to right: Hamish Maxwell, Michiko Egawa (Philip Morris apan), Michael Miles, William Murray, Nicolaas Kuijpers (Kraft ɜeneral Foods International), Mr. Fukujin, and John Keenan.

Our tobacco operations enjoyed continued sales and profit growth. We sold one billion more cigarettes in the United States in 1990 than in 1989, while U.S. industry volume, based on shipments, declined 1.8 billion units. Outside the United States, we sold 368.1 billion units, 15.5% more than in 1989, bringing our tobacco factory utilization rates around the world close to full capacity.

At Kraft General Foods, volume grew by 6.5% for the year. Excluding Jacobs Suchard, volume grew by 3.3%, while revenues and operating companies income continued to grow strongly, and operating margins also improved. Including ι full year of 1990 Jacobs Suchard results on a pro forma basis, our food companies would have contributed approximately 52% of our revenues and 31% of our operating companies income, while 'mploying 66% of our work force.

Miller Brewing Company volume was up by 1.6 million barrels, or 3.8%, and operating companies ɲcome advanced by 26%. Five years of steady growth, fueled by successful new product introducions, have helped Miller build its position as a major competitor in the consolidating beer industry.

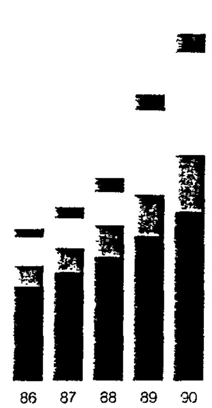
fanagement and Board of Directors

ɿ April, Richard D. Parsons, Chairman and Chief Executive Officer of the Dime Savings Bank of lew York, FSB, joined the Philip Morris Board of Directors.

Also in April, two members of your Board, Howard L. Clark and William P. Tavoulareas, retired in ccordance with our policies. Each had served with distinction on the Board of the General Foods orporation prior to its acquisition by Philip Morris in 1985. Their wisdom, experience, and insights

Operating Revenues
Billions of Dollars
- Domestic Tobacco
- International Tobacco
- Food
- Beer
- Financial Services & Real Estate

Operating Companies Income
Billions of Dollars
- Domestic Tobacco
- International Tobacco
- Food
- Beer
- Financial Services & Real Estate
- Other



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have contributed great value to Philip Morris during their years of service on your Board.

Social and Legislative Issues

We market more than 3,000 products to millions of consumers around the world. Our activities involve us in a host of public policy issues in every country in which we do business.

Among all these social issues, the relationship between smoking and health is the most controversial. We have acknowledged that smoking is a risk factor in the development of lung cancer and certain other human diseases, because a statistical relationship exists between smoking and the occurrence of those diseases. Accordingly, we insist that the decision to smoke, like many other lifestyle decisions, should be made by informed adults. We believe that smokers around the world are well aware of the potential risks associated with tobacco use, and have the knowledge necessary to make an informed decision.

The U.S. cigarette industry is both mature and highly competitive. Outside the U.S., most cigarettes are made and sold by government-owned enterprises; we are competing—for instance—against the elected governments of Japan, Italy, and France. Our competitors throughout the world are just as eager to attract our customers as we are to attract theirs. It is against this competitive background that we engage in marketing programs designed to persuade existing smokers to use our brands. We believe that such programs affect brand choices, but not the decision to smoke.

Many experts and studies—including those cited by the U.S. Surgeon General and the U.S. Environmental Protection Agency—remain divided over the relationship between environmental tobacco smoke and human health. We favor policies which accommodate and, if necessary, segregate nonsmokers and smokers in the workplace and in confined public spaces. We do not believe that the prohibition or unreasonable regulation of cigarette use in such places is justified, and we will, therefore, continue to oppose such proposals.

Cigarette product liability is the most publicized legal issue we face. By the end of 1990, the number of product liability cases pending against the U.S. cigarette industry dropped to 51, continuing a decline from a peak of 151 in 1986. We view this trend as a positive development for both your company and the U.S. tobacco industry.

The Outlook

Our goal is to be the world's most successful consumer packaged products company. We will continue to judge that success not only against our own past performance but against that of our competitors. Moreover, we will measure success not merely in terms of income and volume growth and in overall returns to our stockholders; we also aim to be the best in anticipating and providing for the needs of our consumers and customers and in accepting and fulfilling our responsibilities to the communities in which we live and work and to the environment in general.

No company can take these for granted. The war in the Persian Gulf, together with slowing economic growth in many countries, added to the risks and uncertainties of doing business. Fortunately, our products are consumer staples, and our businesses are relatively resilient.

To improve our effectiveness in each of our core businesses, we will continue to expand and fill in gaps while taking advantage of manufacturing, marketing, and distribution synergies. Acting on this strategy in 1990, we purchased a cigarette manufacturer from the former East German state; announced a marketing and manufacturing joint venture with the largest Hungarian coffee and confectionery producer, BEV; and acquired majority ownership of Negroni S.p.A., a specialty meat company in Italy.

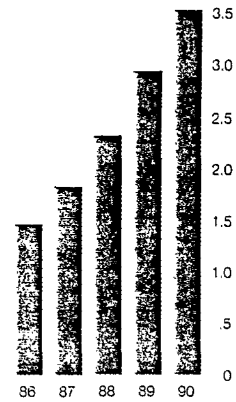
To assure consistency, quality, and availability of our brands, we are investing in our production processes. In 1990, our capital expenditures set a new record of $1.4 billion. We anticipate that from 1991 to 1995 they will amount to another $9.0 billion. We are also addressing increasingly urgent environmental concerns, even as we continue to find new ways of satisfying consumer desires for convenience, nutrition, and variety.

Our greatest competitive assets are not manufacturing facilities or brand franchises, however, but the talents, energies, and dedication of all our employees. We are only as strong as our employees are ambitious for our businesses. We thank them for all their past contributions and we count on their continued efforts to help us realize our potential to be the best consumer packaged products company in the world.

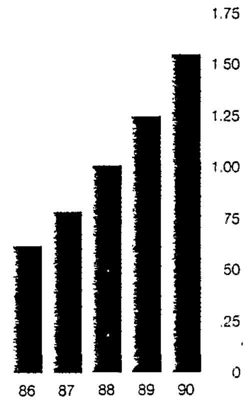
Hamish Maxwell

Hamish Maxwell
Chairman of the Board and Chief Executive Officer

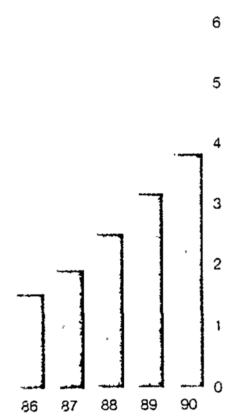
Net Earnings
Billions of Dollars



Dividends Declared Per Share
Dollars



Cash Flow Per Share From Operating Activities
Net Earnings Per Share
Dollars



This is Philip Morris

Philip Morris U.S.A.

Volume and market share at Philip Morris U.S.A. have grown in each of the past 30 years, and Marlboro now accounts for 26% of all cigarettes sold in the United States. The company is expanding production capacity to handle increasing demand.

Millions	1990	1989
Operating Revenues	$10,370	$9,474
Operating Companies Income	$ 4,206	$3,606

Philip Morris International Inc.

Strong international brands, led by Marlboro, Philip Morris, Merit, and Parliament, combine with regional favorites like Lark, Muratti, and Peter Jackson to make us the world's fastest-growing international cigarette company.

Millions	1990	1989
Operating Revenues	$10,720	$8,375
Operating Companies Income	$ 1,394	$1,007

General Foods USA

Enjoying an outstanding year in 1990, General Foods USA has 30 leading brands, including Maxwell House coffees, Post cereals, Entenmann's bakery products, Kool-Aid powdered beverages, and Jell-O desserts.

Millions	1990	1989
Operating Revenues	$ 5,078	$4,817
Operating Companies Income	$ 629	$ 433

Kraft USA

The Kraft name now appears on both traditional and fat free cheese, mayonnaise dressing, and salad dressings. Other leading brands include Philadelphia Brand cream cheese and Cheez Whiz pasteurized process cheese spread.

Millions	1990	1989
Operating Revenues	$ 4,783	$4,415
Operating Companies Income	$ 842	$ 763

Kraft General Foods International

The acquisition of Jacobs Suchard brings to KGF International such leading Jacobs coffees as Krönung and Night & Day, together with chocolates such as Milka, Toblerone, and Côte d'Or. KGF International is now Europe's third-largest food company.

Millions	1990	1989
Operating Revenues	$ 6,061	$3,656
Operating Companies Income	$ 672	$ 376

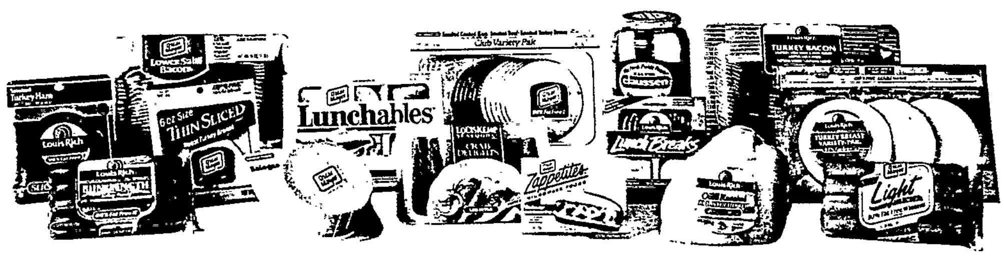
›erating companies income excludes Kraft General Foods, Inc.'s headquarter items.
ıft General Foods International includes the operating results of Jacobs Suchard since acquisition.

Kraft General Foods Canada

With a host of popular Kraft General Foods retail brands and a large food-service business, KGF Canada is Canada's largest packaged foods company.

Millions	1990	1989
Operating Revenues	$1,327	$1,251
Operating Companies Income	$ 235	$ 187

Oscar Mayer Foods



Already the leader in luncheon meats and bacon, Oscar Mayer also markets hot dogs, Louis Rich turkey products, Louis Kemp seafood products, Claussen pickles, and new Lunchables and Lunch Breaks lunch combinations.

Millions	1990	1989
Operating Revenues	$2,520	$2,270
Operating Companies Income	$ 145	$ 168

Kraft General Foods Frozen Products

KGF Frozen Products, the largest frozen food manufacturer in the world, introduced Sealtest Free nonfat frozen desserts, Breyers frozen yogurt, Kraft Eating Right frozen entrees, and Budget Gourmet Light and Healthy Dinners in 1990.

Millions	1990	1989
Operating Revenues	$2,155	$2,103
Operating Companies Income	$ 169	$ 169

Kraft General Foods Commercial Products

KGF Commercial Products has two divisions. Kraft Foodservice is the second-largest foodservice distributor in the United States. Kraft Food Ingredients is the country's leading processor of edible oils.

Millions	1990	1989
Operating Revenues	$4,161	$3,861
Operating Companies Income	$ 118	$ 160

Miller Brewing Company

Miller is the second-largest brewer in the world. Miller markets four of the top ten beers in the U.S. market: Miller Lite, Miller High Life, Milwaukee's Best, and Miller Genuine Draft. Other brands include Sharp's, the country's leading non-alcoholic brew.

Millions	1990	1989
Operating Revenues	$3,534	$3,342
Operating Companies Income	$ 285	$ 226

Operating companies income is income before amortization of goodwill, unallocated corporate expenses and interest and other debt expense, net and in 1989, gain on sale of the company's equity investment in Rothmans International p.l.c. and restructuring of food operations.

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Business Review

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Tobacco

We are the largest, most profitable, and fastest-growing international cigarette company in the world. Most of our gains over the past decade have come from premium-priced brands in industrialized nations. Our strong market positions in these countries provide a base for continued profit growth.

In 1990, as the worldwide cigarette industry expanded by 1.5%, to reach 5.4 trillion units, our total unit volume climbed 9.3%. Volume for Marlboro, the world's best-selling consumer packaged product, rose 6.8%, to reach 344 billion units.

Our U.S. business set new records. Volume, based on shipments, grew by one billion cigarettes, or 0.4%, in a market that declined by approximately 1.5 [illegible] units. Philip Morris U.S.A.'s operating revenues grew 9.5%, and operating companies income climbed 16.6%.

The Marlboro brand family now accounts for 26% of the U.S. market, or nearly one-third of all full-priced cigarettes sold. Marlboro has ranked first in the U.S. cigarette industry for 16 consecutive years, and its large share of adult smokers under age 35 is a strong platform for further share gains.

Among our other full-priced brands, Virginia Slims, Merit, and Benson & Hedges remained leaders in their categories. We also continued to develop low smoke and low nicotine formulations to satisfy changing consumer demands.

Acting on our determination to compete successfully in every profitable segment of the U.S. market, we expanded our share of the discount category to 15.3%, aided by the national introduction of Bucks and the continuing success of Cambridge and Bristol.

Our sales force has been reorganized and expanded, enabling us to improve the presentation and availability of our products at the point of sale.

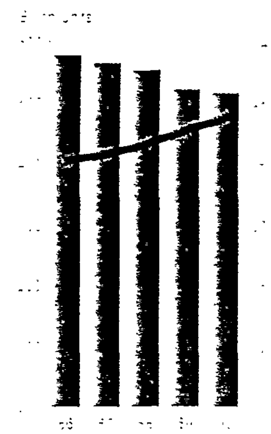
Unit volume growth at Philip Morris U.S.A. increased its market share by 0.3 share points to 42.2%. This increase is understated due to changes in competitors' trade inventory practices, which depressed their 1989 volume while exaggerating Philip Morris U.S.A.'s 1989 share. Consequently, our 1989 market share rose an inflated 2.3 share points. The more meaningful indicator of underlying share growth is our average annual gain of 1.5 share points over the two-year period.

Outside the United States, Philip Morris International's

U.S. Cigarette Industry Unit Sales

Based on shipments

- U.S. Cigarette Industry Unit Sales
- Philip Morris Share of the U.S. Industry



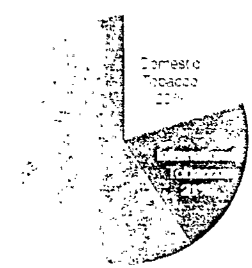
Above: Marlboro is the best-selling consumer packaged product in the world. In France, Marlboro is the country's best-selling brand.

Left: Marlboro lights up the night sky in Hong Kong, where it leads the market with more than a third of all cigarette sales.

Left: Philip Morris became the industry leader in Australia, aided by Longbeach [illegible]

Above: Merit held its lead as the best-selling free-standing low-tar cigarette in the United States.

Operating Revenues



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rec nit volume of 365.1 billion units represented a gain of 15.5% over 1989—our highest percentage increase in 15 years.

Our U.S. cigarette export unit volume grew nearly 25%. Our tobacco exports made a gross contribution of nearly $3 billion to the U.S. balance of payments, and our share of total U.S. cigarette exports reached 59%. The U.S. trade deficit would have been more than $5 billion higher without the industry's tobacco exports.

Marlboro further widened its lead as the world's best-selling cigarette with a 13% sales gain overseas. Among its 1990 successes, Marlboro became the top brand in Mexico and the best-selling international brand in the former East Germany. Its successes in Europe included volume gains of 28% in Spain, 17% in the Netherlands, 7% in the former West Germany, and 7% in Belgium. Marlboro is growing throughout Latin America, and now accounts for 7 of all cigarette sales in this region. Marlboro Lights, the world's best-selling international light cigarette, increased volume by 21%.

Approximately half our volume outside the United States comes from our many strong and growing international trademarks such as Lark, Parliament, Virginia Slims, Merit, L&M, Chesterfield, and the Philip Morris brand, as well as from local brands such as Muratti, Multi-Filter, and Peter Jackson. This diversified brand portfolio gives us a broad base for future expansion.

In the European Community, our aggregate market share increased to more than 22%. In the reunified German market, we led the industry with a market share of 32%. In Italy, we increased volume and achieved a 40% market share. Volume in France grew 7%, and we now account for almost a quarter of the market. Our volume in Spain climbed 27%, and our market share rose to 13%. We also posted volume gains in Belgium, Luxembourg, and the Netherlands.

Elsewhere in the European continent, our market share reached nearly 42% in Switzerland, and we registered higher volume in Austria and Sweden.

We continued to perform well in the Middle East, particularly in Turkey, where our volume increased 33%.

Eastern Europe and the Soviet Union together represent the second-largest cigarette market in the world. Throughout the region, consumers have come to know—and want—Marlboro, and our other international trademarks have significant potential. We are planning aggressive expansion of our business in this part of the world.

In 1990, we agreed to supply more than 20 billion cigarettes to the Russian Republic. We also doubled our business in both Poland and Yugoslavia. In addition,

Merit is the most popular light cigarette in Italy, where our share of the market is 40%.

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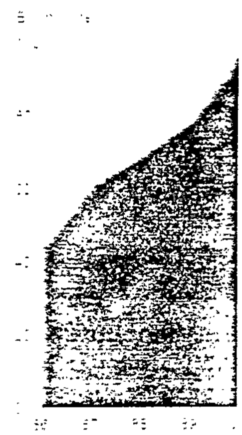
Philip Morris
U.S. Cigarette Export Volume



Philip Morris shipped more than 97 billion cigarettes from the United States in 1990, making a gross contribution of nearly $3 billion to the U.S. balance of payments.

Clockwise from top right: Lark and Merit both increased volume in Japan; a record-breaking trade agreement is bringing Marlboro to Moscow; low tar, low smoke Virginia Slims Superslims is the newest member of the Virginia Slims brand family.

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we negotiated joint venture and licensee agreements for the production of Marlboro and other brands in several Eastern European countries.

In Asia, our total volume grew almost 18% — the largest increase for any of our regions. Much of this growth was driven by strong gains in Japan, where our volume rose more than 22%. All seven of our top brands posted volume increases, bringing our share of the Japanese market to nearly 11% — up from 9% last year, and more than all other foreign competitors combined.

In Australia, Longbeach 40s, introduced in 1989, pushed our market share above 36%, making Philip Morris the industry leader.

In Latin America, volume grew by more than 17%. We are well positioned to profit further from our large and growing volume base in Latin America when the local economies improve.

To satisfy expanding worldwide demand for Philip Morris brands, we continued to modernize our Richmond and Louisville facilities, while investing in additional capacity internationally. Early in 1991, we announced plans to spend more than $400 million to expand our plant in Cabarrus, North Carolina. We expect to spend in excess of $2 billion over the next five years on further capacity improvements and expansions.

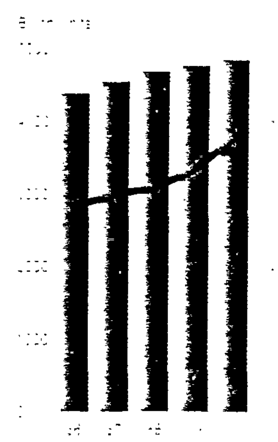
Quality tobacco is a key factor in the worldwide preference for American cigarettes. Our emphasis on purchasing domestically grown tobaccos has helped American leaf tobacco growers both to increase their share of tobacco sold in the United States, and to supply quality leaf at competitive prices to the expanding global market. We also supported federal legislation to increase production of burley tobacco, which is in short supply around the world.

Because the social environment in many countries is becoming hostile to cigarettes, we are actively arguing for tolerance, and we oppose neo-Prohibitionism.

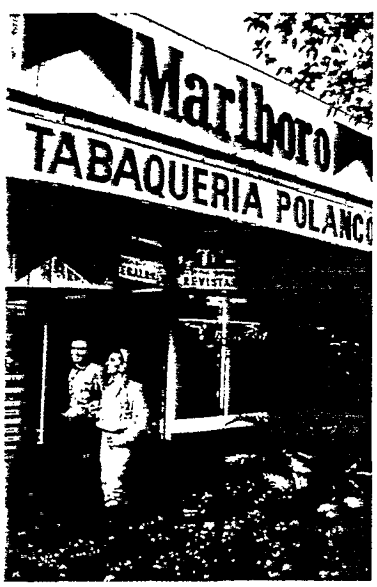
Budget deficits at all levels of government in the United States are prompting many attempts to increase excise taxes on cigarettes. The 1990 Congressional budget agreement calls for an additional four cents per pack in 1991, and another four-cent hike in 1993. We are campaigning vigorously against further excise tax increases, which are regressive and discriminate against consumers with lower incomes. In 1990, of the 139 state and local proposals to increase excise taxes, 115 were defeated or tabled.

We are also combating attempts to restrict our mar-

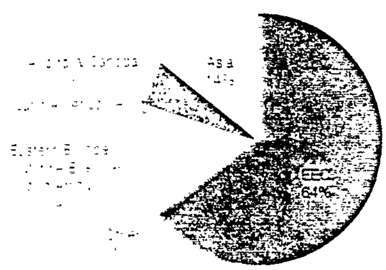
World Cigarette Industry Unit Sales



Left: Benson & Hedges maintained its lead as the best-selling free-standing 100mm cigarette in the United States.



Philip Morris International Operating Revenues



Left: Our U.S. tobacco business continues to grow. In 1990 we sold one billion more cigarettes than the year before.

Right: Marlboro more than doubled its share in the growing Mexican market over the past seven years, and became the country's leading cigarette brand in 1990.

Above: In Turkey, Parliament and other Philip Morris brands have won nearly 90% of the market for imported cigarettes.

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keting activities. As industry analysts have pointed out, the elimination of cigarette advertising would do little to discourage smoking. It would, however, reduce competition, and make it difficult for companies to introduce new products that might address the concerns of both smokers and nonsmokers. We believe that efforts to restrict our marketing are not consistent with free enterprise systems.

We are supporting industry and trade initiatives to discourage underage consumers from using our products. We also are supporting legislation to establish a minimum age of 18 for the purchase of tobacco products in states currently without such a law.

Over the past ten years, worldwide cigarette industry volume increased 20% — during the same period our cigarette volume grew by 53%. Our 1990 volume gain is the largest we've ever had, and gives us the momentum to continue building our share of the growing worldwide cigarette market. The expertise we first acquired in the United States has helped us satisfy millions of consumers with a wide range of local, regional, and global brands.

We are already a major force in most of the world's important tobacco markets, and developments in Europe and Asia offer even greater expansion opportunities. We envision large and profitable growth for many years to come.

Food

In 1990, Kraft General Foods, Inc. continued to build on its brand and other marketing strengths. Of our food operating revenues, 72% came from number one or two brands in their category, and our revenue and income growth put us among the top companies in the food industry.

For the year, volume grew 6.5%, while operating revenues were up 17%, and operating companies income increased 24%. Excluding the acquisition of Jacobs Suchard, volume rose by 3.3%, operating revenues by 10%, and operating companies income by 18%.

The diversity of our food operations yielded solid benefits, as superior performance in most of our businesses more than offset softness in a few segments. Our unique combination of strong brands in growing markets, rapid product development, cost savings and business opportunities realized through synergies, and technological creativity fueled steady growth even as we invested for the future.

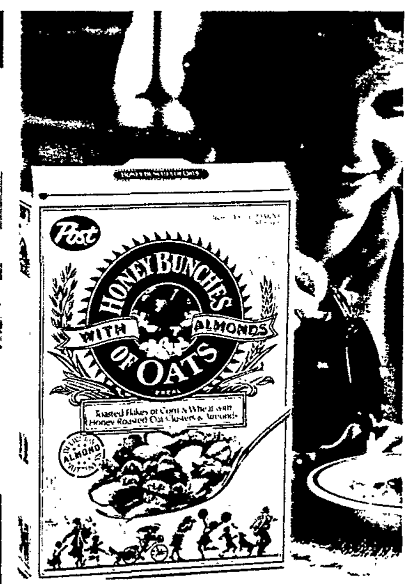
The acquisition of Jacobs Suchard was consistent with our strategy of building an ever stronger portfolio of brands and markets, whether through development or acquisition — and whether inside or outside the United States. Including a full year of results from Jacobs Suchard on a pro forma basis, approximately 32% of KGF's 1990 revenues would have been generated outside the United States.

With Jacobs Suchard, we are now Europe's leader in roast and ground coffee, the coffee segment with the greatest growth potential. Jacobs Suchard also increases our distribution capacity, while its Milka,

Operating Revenues
(Percent of Total Operating Revenues)

Kraft Free Singles and other cheeses were the first fat free cheeses available in the United States.

Consumer creativity: making Jell-O Jigglers, a gelatin finger food.



The success of Post Honey Bunches of Oats helped bring Post cereals' category share back over 11%.

Right: With the acquisition of Jacobs Suchard, a Swiss coffee and confectionery company, Kraft General Foods International is now the leader in Germany's coffee market.

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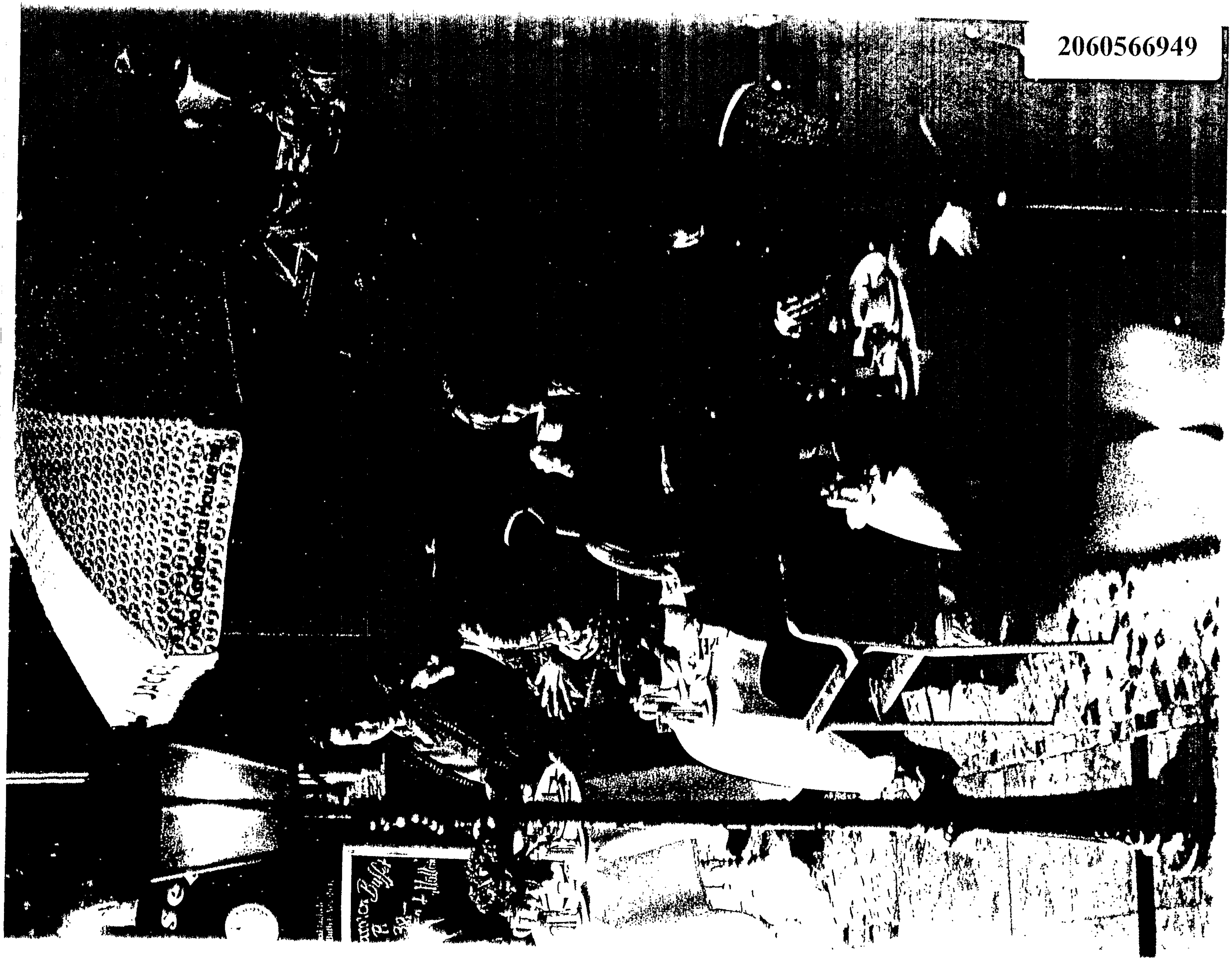

ıblerone, Suchard, and ıte d'Or brands bring us a ɔw core business in onfectionery.

In 1990, KGF Interna- ɔnal's other core busi- ɛsses in coffee, cheese, ıd viscous dressings l showed volume growth, oosted by geographic ‹pansion and line exten- ons for key brands. ıccessful new product troductions included ıeddarie spread, Vitalite ght margarine, and Max- ell House Classic premium ɛeze-dried coffee in the nited Kingdom; HAG olombian Supremo coffee Germany; Kraft MayOliva ayonnaise and Saimaza emium soluble coffee in ɔain; Kraft cholesterol free ayonnaise in Belgium; ɛvalia Premium soluble offee in Norway; Vegemite ngles in Australia; and new ıvors of Philadelphia Brand eam cheese in several ɔuntries.

We also widened some of ır major regional busi- ɛsses, bringing Miracoli ılian sauces to Germany ıd our Maxpax coffee vend- g system to Spain. New oduct development, dis- bution and marketing nergies, the continuing tegration of European arkets, and increasing osperity in the Pacific Rim ill drive KGF International's rther growth.

Most of KGF's food vol- ne, sales, and profits main in North America. nong the Kraft General ods operating companies ı the Continent, General Foods USA turned in an out- standing performance.

Maxwell House and our other coffees returned to profitability with continued quality and advertising improvements helping to build the business. Post cereals increased volume 10%, bringing category share back over 11%. The improvements were due to superior marketing of core Post brands such as Grape- Nuts, Pebbles, Honey Bunches of Oats, and the introduction of Marsh- mallow Alpha-Bits.

Kool-Aid brand powdered beverage volume grew 3%, maintaining an 80% share of the powdered soft drink cat- egory. The Jell-O Jigglers promotion helped to spur the largest gelatin category gains in over 25 years. The expansion of Entenmann's fat free and cholesterol free bakery line helped to increase bakery volume nearly 9% in 1990. Strong volume gains from Stove Top stuffing, Shake 'n Bake, and Log Cabin syrup, as well as the regional introduction of Kraft Microwave Entrees, also contributed to General Foods USA's performance.

At Kraft USA, new product introductions helped to increase the appeal of lead- ing brands. In cheese, vol- ume grew with the introduc- tion of such new products as Spreadery spreadable cheese, Cracker Barrel fla- vors, and low fat cheeses such as Kraft Light Singles and Kraft Light Naturals. Volume for Philadelphia Brand cream cheese also

An appetizing spread: Kraft's assorted cheeses, served with Oscar Mayer and Louis Rich luncheon meats.

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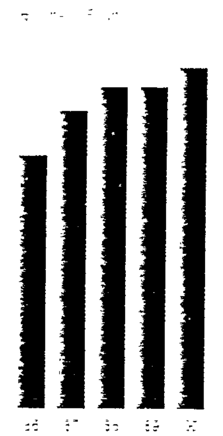
Kraft General Foods, Inc. Volume



Kraft General Foods can fill a family's kitchen with more number one and number two brands than any other food company in the United States.

We have fat free foods in more categories than any other company. Sealtest Free nonfat frozen desserts, dessert bars, and frozen yogurts are part of this growing — but fat free — portfolio.

Our Invernizzi cheese distributors deliver to food stores throughout Italy.

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increased. Following successful test marketing, Kraft's first nonfat process cheese product, Kraft Free Singles, has begun to expand geographically. The national introduction of Kraft Free nonfat salad dressings boosted the entire Kraft pourables line, building share to 41%; in a rare new product achievement, the Kraft Free line included three of the five best-selling products in the entire pourable dressing category.

Both Miracle Whip salad dressing and Kraft mayonnaise increased their shares. We expect improvements from the introductions of Miracle Whip Free nonfat dressing and Kraft Free nonfat mayonnaise dressing, two fat free products announced in early 1991.

Volume and share for Kraft and Parkay tablespreads also rose, and Touch of Butter expanded nationally. Volume for Kraft side dishes and dinners grew by 5%; new shapes and flavors, as well as microwave offerings, are being tested for introduction in 1991.

Total Oscar Mayer volume rose due to new products such as Lunchables lunch combinations and Louis Kemp surimi seafood. Partially due to higher red meat commodity costs, operating companies income declined.

Oscar Mayer brand's number one position, together with Louis Rich's leadership position in the growing turkey segment, accounted for 34% of the market for luncheon meats and a record 14% for bacon. We also have an 18% share of the hot dog market. To address changing consumer preferences, Oscar Mayer introduced turkey bacon, and a range of light, thin-sliced, and low-salt meats. We look to these and other product introductions for future growth.

Kraft General Foods Frozen Products defended and built on its franchises. Volume for dairy products, which contributed more than half the group's operating revenues and income, continued to grow, led by strong advances in the cultured products and toppings categories. New products such as Sealtest Free nonfat frozen dessert, Breyers frozen yogurt, Cool Whip Lite whipped topping, and Light n' Lively Free nonfat yogurt all helped generate category share gains for the dairy division.

All American Gourmet built its volume in 1990 by introducing Kraft Eating Right frozen entrees and Budget Gourmet Light and Healthy Dinners, while Birds Eye improved its product mix by emphasizing its vegetable-and-sauce offerings. Aided by the introduction of "soft" bagels and other marketing efforts, Lender's volume grew almost 9%, with category share climbing to 77%. Tombstone pizza continued to increase volume while expanding geographically, and is now sold in 25 states. Tombstone is the leader in the frozen pizza markets it now serves.

Kraft General Foods Canada posted strong results across most of its major product lines, with volume gains helped by new product launches. Lunchables lunch combinations, Maxwell House Filter Packets, Cheese Pot cheese

You can have your cake and eat it too—without fat or cholesterol, from Entenmann's.

Left: Chocolate from Jacobs Suchard works its magic on a discerning consumer in Bern, Switzerland

Oscar Mayer Zappetites microwave snacks continued to hit the target in 1990.

Vegemite continues to be one of Australia's most popular products and fat free products are also being offered

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›pread, Honey Bunches of ›ats cereals, Kraft Free salad lressings, and the Jell-O igglers promotion all contributed to volume and share ;rowth in key categories. ›raft packaged dinners, the ›est-selling dry grocery item n the country, introduced uper Mario Bros. Pasta and ›heese in the children's segnent, and achieved a 14% olume improvement. Coffee olume grew almost 6%, ided by successful aunches of General Foods iternational Coffees and Iaxwell House 1892. KGF 'anada also expanded its uccessful regional direct ›odservice business to a ›ading position with the cquisition of Groupe Café ı March 1990.

Volume increased in both ivisions of Kraft General ›ods Commercial Products. raft Food Ingredients beneted from strong perforıances in the oil products ıd Specialty Ingredients usinesses. Kraft Foodserce volumes for cheeses, ils, shortening products, ıd sauces also grew. Future ›odservice performance ıins will depend on an nproved food-away-fromome market, greater penration of new accounts, ıd further efficiencies from oadline distribution ›erations.

Our strong overall perforance at KGF was made ›ssible by a broad array of ıared innovations and marıting strategies to meet ıanging consumer tastes.

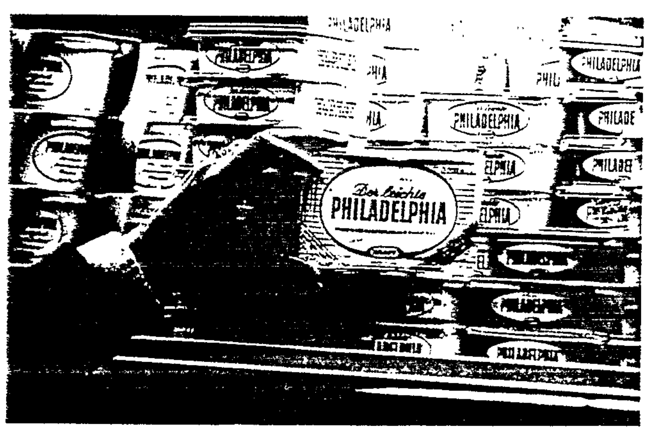
Our established products ill have significant growth potential, as shown by the improvements at Maxwell House and Post. In addition, the Jell-O Jigglers promotion, one of the largest gelatin promotions ever, made Jell-O desserts a "top-of-mind" snack for children, boosting U.S. sales by 13% in 1990.

As we develop and launch new products and promotions, we are benefiting from a unique set of synergies.

Most of our savings through these synergies and productivity improvements were reinvested; for our goal is not to avoid spending, but to spend wisely. Our most important synergies create incremental business.

Our fat free products are a good example of how we are becoming more than the sum of our companies. We recognize that lower fat and cholesterol now head the list of consumers' dietary concerns. And nearly every one of the KGF operating companies is replacing fats with other natural ingredients in at least one of its products—from cheeses and pourable salad dressings to cakes and frozen desserts. These innovative fat free products alone accounted for more than $275 million in revenues in 1990.

We first introduced fat replacement technology in our U.S. markets, and now we are pooling our experience to bring new fat free products to Canada, Europe, and Australia. We had fat free products in more categories than any other company in 1990, and we are



Philadelphia Brand cream cheese is one of our strongest international brands, sold in the United States, Germany—and 35 other countries around the world

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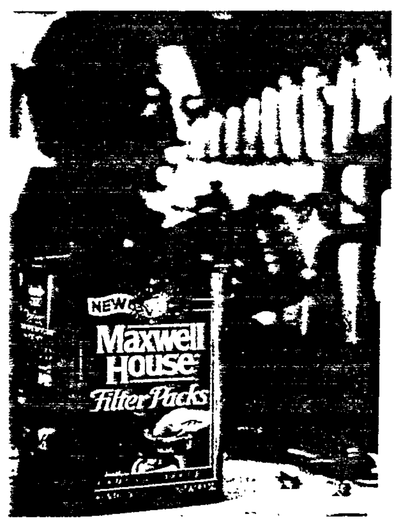
Our food products on sale in Korea include Maxim and other coffees, as well as Post cereals.



Above. Oscar Mayer applied the Lunchables concept to develop new Louis Rich Lunch Breaks, popular and convenient for parents and children alike. Top right: our foodservice division supplies U.S. restaurants, hospitals, and other institutions with Kraft General Foods and other products. Right: convenient Maxwell House Filter Packs helped our U.S. coffee business return to profitability.

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veloping still more fat free oducts this year.

In fact, crossing operating mpany borders to find nergies, KGF answered mand for nutrition, conve- ence, and variety by intro- cing more than 300 new oducts in the United States ring the year, and was med the new product mpany of the year by *epared Foods Magazine.*

We bolstered our brands th double-digit increases marketing expenditures in 90 and plan similar creases in 1991. Our Holi- y Homecoming promotion the United States, featur- 34 of our leading brands December 1990, was other notable example of w our companies are rking—and spending— gether to build our siness.

We are backing up our investments in new markets, products, and packagings by investing in our people. We are enlisting all our employees in a drive for continuous improvement in every company process, from purchasing and research to manufacturing and marketing, to serve both customers and consumers better. Only by aiming for excellence in each aspect of our business can we lead our competition and begin to satisfy our own high standards.

Kraft General Foods recorded solid business gains in 1990. We are determined to deliver steadily better operating results over the years to come.

Beer

In 1990, for the fifth consecutive year, volume growth at Miller Brewing Company outperformed the U.S. brewing industry. Our total shipments of 43.5 million barrels, including Sharp's and exports, were up nearly 4% for the year. Our share of the total U.S. malt beverage industry grew to a record 22%. Our export volume rose more than 6%.

Operating revenues and operating companies income also set new records. Growth in premium-priced brands helped boost revenues 6%, and lower costs contributed to a 26% gain in operating companies income.

Shipments of Miller Genuine Draft grew by almost 30%, consolidating the brand's ninth-place position among U.S. beers. Combined with Miller High Life, Genuine Draft's continued success gave Miller 16% of the more profitable full-calorie premium segment.

Miller Lite, the country's second-best-selling beer, continued to gain volume, and accounted for more than 45% of the premium low-calorie segment. We added to our presence in this segment by bringing Miller Genuine Draft Light into ten western states.

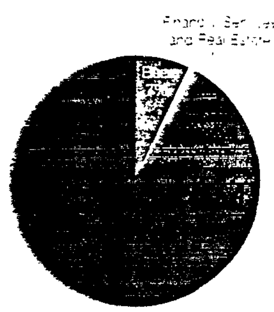
In the above-premium segment, the company is represented by Löwenbräu, and we brought both Miller Reserve, an all-barley packaged draft product, and Miller Reserve Light, a low-calorie line extension, into test markets in 1990. In the below-premium category, volume gains by Milwaukee's Best made it the sixth-most-popular beer in the country.

Miller Sharp's, first introduced in December 1989, fueled the growth of the non-alcoholic brew segment, which nearly doubled its

ve: The full rich taste of Miller Sharp's benefited from an nnovative inology, and Sharp's became the country's best-selling non- holic brew. Right: Miller Genuine Draft Light, a ow-calorie ne exten- of Miller Genuine Draft, joined the Miller family n 1990. Far right er Genuine Draft, the country's ninth-most-popular beer and one of astest-growing premium beers in the United States

Operating Revenues

Percent of Total Operating Revenues



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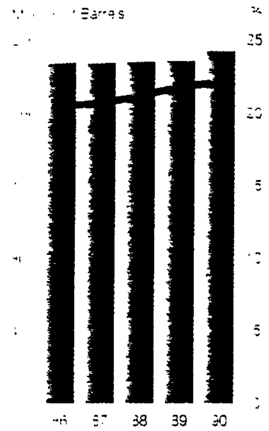
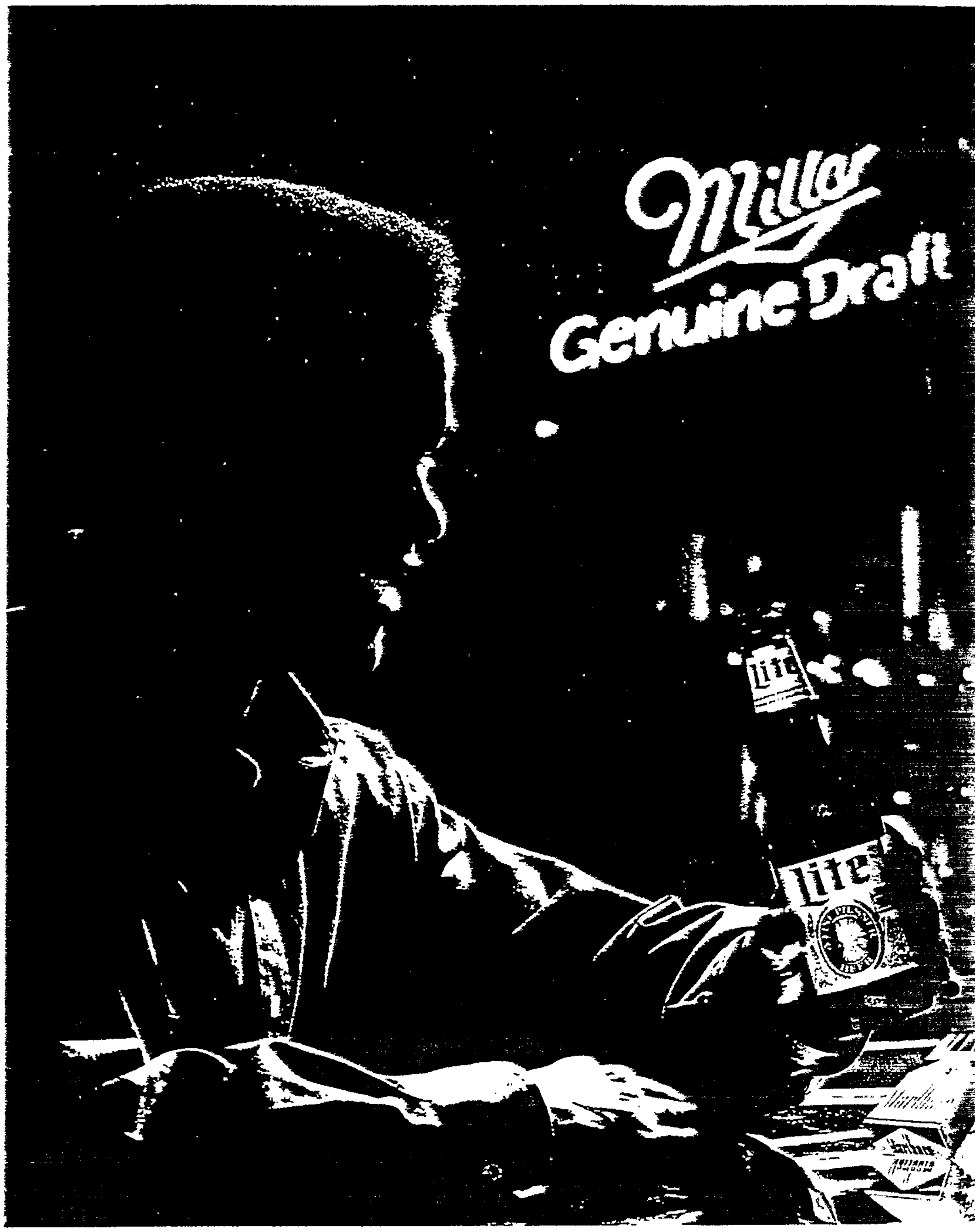
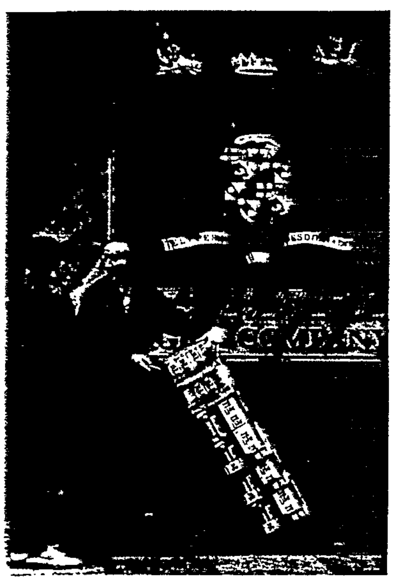
U.S. Malt Beverage Industry Barrel Shipments

- U.S. Malt Beverage Industry Barrel Shipments
- Miller Share of U.S. Malt Beverage Industry (%)





Miller Lite is the second-most-popular beer in the United States, and it continues to be the country's best-selling light beer.



Miller exports to many countries around the world.

Offering a wide variety of brews, Miller increased its share of the U.S. malt beverage industry.

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volume during 1990. Sharp's finished the year in a leadership position, with 27% of the market for non-alcoholic brews.

Our steady progress enabled us to announce the reopening of our Trenton, Ohio, brewery in 1991.

Federal legislation passed in 1990 doubled the federal excise tax on beer, from $9 to $18 per barrel, or from 16 cents to 32 cents per six-pack, effective January 1, 1991. In spite of this discriminatory tax increase, we are determined to continue our solid growth in volume, revenues, and profitability.

Financial Services and Real Estate

Consolidated operating companies income from Philip Morris Capital Corporation's financial services and real estate businesses rose 13.9%, despite a 10.9% drop in operating revenues, as Mission Viejo Company continued to wind down its homebuilding activities.

Revenues from PMCC's financial services operations grew 19.2%, while operating companies income increased 27.4%. In 1990, PMCC expanded its financing programs for customers and suppliers of Philip Morris operating companies. The company also increased its investment in leasing transactions, building on its position as one of the country's major equipment lessors.

PMCC has a strong capital position, and its debt is comparatively small when set against the financial position of its parent, Philip Morris Companies Inc. In addition, PMCC's assets do not reflect significant exposure to highly leveraged companies or troubled industries. Although the current economic downturn introduces some uncertainties, we expect the company to continue its pattern of sound revenue and income growth.

As Mission Viejo phased out homebuilding, operating revenues declined 27.2%. Operating companies income, derived from land planning, development, and sales, increased 1.1%. The Colorado residential real estate market showed signs of improvement, with Mission Viejo's Highlands Ranch planned community achieving the highest market share for new home sales in the Denver area.

Financing from Philip Morris Capital Corporation helps Miller distributors keep stores well stocked.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

)perating Results

	Operating Revenues			Operating Income		
.n millions)	**1990**	1989	1988	**1990**	1989	1988
obacco	**$21,090**	$17,349	$16,576	**$5,596**	$5,063	$3,846
ood	**26,085**	22,373	10,398	**2,205**	1,580	392
.eer	**3,534**	3,342	3,177	**285**	226	190
inancial services and real estate	**460**	516	622	**196**	172	162
Operating Profit				**8,282**	7,041	4,590
nallocated corporate expenses				**(336)**	(252)	(193)
Total	**$51,169**	$44,080	$31,273	**$7,946**	$6,789	$4,397

)n August 16, 1990, the company's wholly-owned subsidiary, Kraft ;eneral Foods, Inc., purchased Colima Holding AG, the principal sset of which was a controlling interest in Jacobs Suchard AG, Swiss-based coffee and confectionery company. In September 990, a tender offer was completed for substantially all of the emaining publicly held interests of Jacobs Suchard. The purchase price of Colima and the remaining publicly held interests of acobs Suchard totaled $4.1 billion.

On December 7, 1988, Kraft, Inc. became a wholly-owned subidiary of the company. The purchase of outstanding Kraft shares, etirement of employee stock options and other related payments otaled $12.9 billion.

The acquisitions have been accounted for as purchases and, ccordingly, operating results of Kraft and Jacobs Suchard have een included in the consolidated operating results of the comany since acquisition.

990 Compared with 1989

)perating revenues for 1990 increased $7.1 billion (16.1%) and perating profit, as defined for segment reporting purposes (operting income excluding unallocated corporate expenses), icreased $1.2 billion (17.6%). The inclusion of Jacobs Suchard nce acquisition resulted in $1.4 billion (20.0%) of the increase ı operating revenues and $89 million (7.2%) of the increase in perating profit.

Amortization of goodwill increased 16.4% to $448 million in 990, due primarily to goodwill arising from acquisitions, $33 milon of which related to Jacobs Suchard. Interest and other debt xpense, net, decreased $96 million in 1990 compared with 1989, ue primarily to lower rates, lower average outstanding debt durıg the year and higher interest income.

Net earnings increased in 1990 by $594 million (20.2%), due to icreased operating profit ($1.2 billion), partially offset by a igher income tax provision ($659 million). Interest and goodwill nortization arising from the acquisition of Jacobs Suchard xceeded that company's income contribution in 1990, resulting ı a dilution in earnings of approximately $.03 per share.

)89 Compared with 1988

perating revenues for 1989 increased $12.8 billion (41.0%) and perating profit increased $2.5 billion (53.4%). The inclusion of raft for the full year of 1989 resulted in approximately 90% of the .crease in operating revenues and $904 million (36.9%) of the increase in operating profit. The remainder of the increases resulted primarily from tobacco operations.

In 1989, General Foods Corporation was combined with Kraft to form Kraft General Foods, Inc., and the company charged $179 million against pretax income, primarily for costs associated with this merger. In addition, the company sold its equity investment in Rothmans International p.l.c. for £610 million of 10¼% notes maturing in 1994, generating a pretax gain of $455 million. The notes were subsequently sold with recourse for approximately $850 million. The net impact of these items was an increase in earnings before income taxes, net earnings and earnings per share of $276 million, $152 million and $.16, respectively.

The company's 1988 results included restructuring costs at General Foods. As a result of this restructuring, certain facilities were combined and overhead costs were reduced to achieve operating efficiencies. This restructuring reduced earnings before income taxes, net earnings and earnings per share by $348 million, $212 million and $.23, respectively.

Amortization of goodwill increased to $385 million in 1989, due primarily to goodwill arising from the acquisition of Kraft. Interest and other debt expense, net, increased $1.1 billion in 1989 compared with 1988, due primarily to higher amounts of outstanding debt resulting from the acquisition of Kraft.

Earnings before cumulative effect of accounting change increased in 1989 by $882 million (42.7%), due to increased operating profit ($2.5 billion), partially offset by higher interest expense ($1.1 billion) and a higher income tax provision ($449 million).

Recent Developments

Effective January 1, 1991, the federal excise tax on beer increased from $9 per barrel to $18 per barrel, and the federal excise tax on cigarettes increased from $8 per thousand to $10 per thousand. Under existing legislation, the cigarette excise tax will further increase to $12 per thousand, effective January 1, 1993. In addition, legislation is periodically proposed which would further curtail the advertisement and use of our tobacco and beer products. Some or all of the foregoing may have an adverse impact on the company's operating revenues and operating profit.

The company believes that any interruption of business resulting from the military conflict in the Middle East will not have a significant impact on consolidated operating results.

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Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," issued in 1990, requires companies to accrue the cost of such benefits during the employee's period of service. Currently, the company expenses such costs generally as they are incurred. Upon adoption, which must occur no later than January 1, 1993 for domestic plans, the additional liability may be recognized either immediately or prospectively over not more than twenty years. The company intends to adopt SFAS 106 prospectively in 1993 and estimates that adoption will increase annual expense, the amount of which has yet to be determined.

Operating Results by Business Segment

Tobacco

	Operating Revenues			Operating Profit		
(in millions)	**1990**	1989	1988	**1990**	1989	1988
PM U.S.A.	**$10,370**	$ 9,474	$ 8,491	**$4,206**	$3,606	$3,087
PM International	**10,720**	8,375	8,085	**1,390**	1,457	759
Total	**$21,090**	$17,849	$16,576	**$5,596**	$5,063	$3,846

The following discussion of results excludes PM International's gain on sale of investment in Rothmans in 1989 ($455 million) and amortization of goodwill.

1990 Compared with 1989

In 1990, *Philip Morris U.S.A.*'s operating revenues increased 9.5% due to price increases ($1.0 billion) and volume increases ($43 million), partially offset by unfavorable product mix. Volume increases in 1990 resulted from new product introductions. Philip Morris U.S.A.'s domestic volume (based on shipments) increased 1.0 billion units to 220.5 billion units. This unit volume growth increased Philip Morris U.S.A.'s share (based on shipments) to 42.2%, up 0.3 share points over 1989. The domestic cigarette industry's volume decreased approximately 0.3% in 1990 as compared with a 6% decline in 1989. The industry decline in 1989 reflected, in part, a decision by Philip Morris U.S.A.'s competitors to reduce trade inventories by limiting shipments. Philip Morris U.S.A.'s 1990 increase in market share is understated due to these changes in competitors' trade inventory practices, which depressed their 1989 volume while inflating Philip Morris U.S.A.'s 1989 share. Consequently, Philip Morris U.S.A.'s 1989 market share rose 2.6 share points and 1990 market share rose 0.3 share points. However, in the opinion of management, a more meaningful indicator of underlying share growth is Philip Morris U.S.A.'s average annual gain of 1.5 share points over the two-year period. Marlboro continued to be the number-one-selling cigarette in the United States, with a 26% share of the market. In 1990, Philip Morris U.S.A.'s operating profit increased 16.6%, reflecting higher gross profit ($914 million), partially offset by higher marketing expenses ($309 million). The increase in gross profit was due primarily to price increases ($1.0 billion) and cost savings, partially offset by unfavorable product mix ($216 million).

Philip Morris International's operating revenues increased 28.0%, due primarily to increases in unit volume ($1.4 billion), price increases ($331 million) and currency translation ($597 million), partially offset by the deconsolidation of certain operations. Unit volume of Philip Morris International for 1990 increased 15.5% over 1989, reflecting significant increases in Europe and Asia. Philip Morris International's operating profit increased $388 million (38.7%), due primarily to higher gross profit ($648 million), offset by higher marketing, administration and research costs ($260 million). The increase in gross profit was due to price and cost increases ($148 million), volume increases ($469 million) and currency translation ($127 million), partially offset by the deconsolidation of certain operations.

The company has negotiated an agreement to export to the Russian Republic over 20 billion cigarettes by year-end 1991. The company has taken measures to minimize risk of loss on shipments thus far and intends to do so for future shipments.

1989 Compared with 1988

In 1989, the 11.6% increase in *Philip Morris U.S.A.*'s operating revenues was due primarily to price increases. Philip Morris U.S.A.'s domestic unit volume (based on shipments) increased 247 million units to 219.5 billion units. The 16.8% increase in Philip Morris U.S.A.'s operating profit in 1989 reflects higher gross profit ($731 million), substantially all of which was related to price increases, partially offset by higher marketing expenses.

Philip Morris International's 3.6% increase in operating revenues was due primarily to increased unit volume ($694 million) and price increases ($561 million), partially offset by currency translation ($480 million) and the deconsolidation of a subsidiary, the operations of which were merged into a joint venture. Unit volume of Philip Morris International in 1989 increased 9.7% over 1988, reflecting growth in Europe and Asia. Philip Morris International's operating profit increased $233 million (30.2%), due primarily to higher gross profit ($318 million), partially offset by higher marketing, administration and research costs ($85 million). The increase in gross profit was due to price increases ($254 million) and volume increases ($199 million), partially offset by currency translation ($92 million) and the deconsolidation of a subsidiary.

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continued impact of a 1988 change in business strategy in :lifornia from residential homebuilding to land planning, :elopment and sales. While there is demand for the company's :lifornia properties, recent developments in the domestic bank- , industry have reduced the financing options available to ›spective purchasers.

:9 Compared with 1988

erating revenues from financial services in 1989 increased · million (9.6%) over 1988, and operating profit increased) million (31.7%), due primarily to increased investments in ance assets and interest savings from debt refinancings under- en during 1988. Operating revenues from real estate operations 989 decreased $122 million (26.8%), and operating profit :reased $10 million (10.1%) from 1988 levels, reflecting the ınge in business strategy referred to above.

ıancial Review

sh Provided and Used

Cash Provided by Operating Activities

sh provided by operating activities of $5.4 billion increased in 0 by $1.7 billion (46.7%). The increase was related primarily to her earnings ($594 million) and to less cash used for working ›ital items in 1990.

:ash provided by operating activities decreased in 1989 by $1.4 ion (27.8%). The decrease is related to the large amount of h provided by working capital items in 1988, which was gener- d principally by a designed reduction of accounts receivable l increase in accounts payable, as well as an increase in rued liabilities. This increased cash flow was used to fund t of the Kraft acquisition. Net cash used for working capital in 9 was principally due to the reversal of the amount provided in 8. Partially offsetting the change in cash attributable to work- capital items was an increase of $926 million (26.3%) in other ·rating cash flows, attributable primarily to higher earnings.

Cash Used in Investing Activities

990, the company paid $3.1 billion for the purchase of Jacobs hard, net of $825 million of acquired cash. In 1988, the com- y paid $11.4 billion for the purchase of Kraft, net of $866 lion of acquired cash. In 1990 and 1989, the company paid an :itional $11 million and $388 million, respectively, for pre- ısly untendered shares of Kraft common stock.

'apital expenditures were $1.4 billion in 1990, approximately ; of which related primarily to expansion and modernization of ıufacturing and processing facilities of food operations. In 9, capital expenditures increased $222 million over 1988 due narily to the inclusion of Kraft for a full year in 1989. Capital enditures are estimated to be $1.7 billion in 1991 and a total of) billion for the five-year period 1991-1995, of which approx- tely $1.1 billion and $6.1 billion, respectively, are projected for d operations.

In 1989, cash provided by investing activities included $992 million received from the divestiture of the company's equity investment in Rothmans and several food operations.

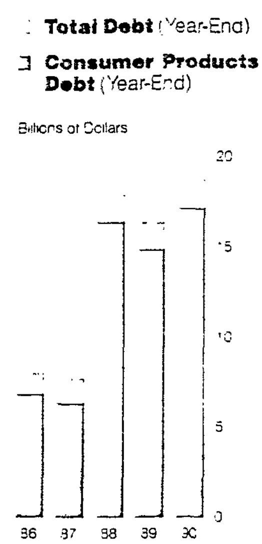
In 1990, the company invested $523 million in finance assets as compared with $481 million in 1989 and $495 million in 1988. Leasing investments accounted for 69%, 65% and 39% of these amounts, respectively.

Net Cash Provided by (Used in) Financing Activities

Consumer Products Debt

During 1990, total consumer products debt increased by $2.3 billion. The increase represented $3.6 billion of debt issued, $1.1 billion of debt assumed in the acquisition of Jacobs Suchard and currency translation of $250 million, partially offset by $2.7 billion of debt repayments.

At December 31, 1990, the company's ratio of consumer products debt to total equity was 1.44, down from 1.56 at December 31, 1989. Fixed rate debt comprised approximately 73% and 66% of consumer products debt at December 31, 1990 and 1989, respectively. The average interest rate on total consumer products debt was approximately 9.2% and 9.5% during 1990 and 1989, respec-



tively. At December 31, 1990, the average interest rate on total consumer products debt, including the impact of interest and currency swap agreements discussed below, was approximately 3.3%.

During 1989, total consumer products debt decreased by $1.6 billion. The decrease represented $4.0 billion of debt repayments and currency translation of $62 million, partially offset by $2.5 billion of domestic debt issued to refinance commercial paper and bank borrowings arising from the acquisition of Kraft.

During 1988, total consumer products debt increased by $10.1 billion, which represented $10.0 billion of debt issuances and 3.9 billion of Kraft debt assumed at acquisition, partially offset by 3.9 billion of debt repayments, as well as foreign currency translation.

Total Debt

The company's credit ratings were upgraded by Moody's in 1990 to "P-1" in the commercial paper market and "A2" for long-term obligations, as compared with ratings of "P-2" and "A3," respectively, at December 31, 1989. The company's credit ratings by Standard & Poor's remained at "A-1" in the commercial paper market and "A" for long-term debt obligations.

At December 31, 1990, the company's total debt-to-equity ratio was 1.57, down from 1.72 at December 31, 1989. Total debt was $18.7 billion at December 31, 1990, compared with $16.4 billion at December 31, 1989.

At December 31, 1990, the company had interest rate swap agreements with an aggregate notional principal amount of $2.4 billion and a weighted average maturity of 1.2 years. These agreements provided a weighted average interest rate of 9.0%. In addition, the company has entered into currency and related interest rate swap agreements to manage interest rate and currency exposure on certain long-term debt obligations. The aggregate notional principal amount of these swap agreements outstanding at December 31, 1990 was $1.5 billion, of which $721 million related to consumer products debt.

The company expects to continue to refinance long-term and short-term debt from time to time. The nature and amount of the company's long-term and short-term debt and the proportionate amount of each can be expected to vary as a result of future business requirements, market conditions and other factors.

The company's percentages of fixed rate debt and average interest rates for 1990 and 1989 relative to total debt were approximately the same as those previously discussed for consumer products debt.

At December 31, 1990, the company's credit facilities amounted to approximately $17.2 billion, including a $12.0 billion revolving bank credit facility expiring in 1993, of which approximately $15.5 billion were unused. These facilities were used to support the company's commercial paper borrowings.

The company expects that cash from operations and available credit facilities will continue to be sufficient to meet the future needs of the business.

The company continually monitors its foreign currency exposure. It acts to manage such exposure, when deemed prudent, through various hedging transactions. Foreign currency denominated debt for which the company has not entered into currency swap agreements is maintained primarily to hedge the currency exposure of its net investments in foreign operations.

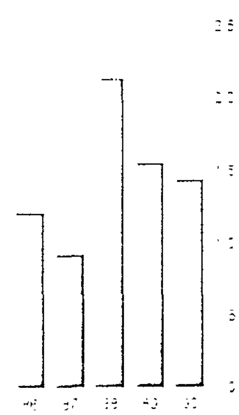
Equity and Dividends

In 1989, the company announced its intention to spend up to $1.5 billion to repurchase common stock in open market transactions at prevailing prices from time to time over a two-year period commencing in 1990. In 1990, the company repurchased 5.7 million shares at an aggregate cost of $221 million. The share repurchase program was temporarily suspended in 1990 due to the Jacobs Suchard acquisition.

Dividends paid in 1990 increased 22.7% over 1989, reflecting the increase in dividends declared to $1.55 per share in 1990 from $1.25 per share in 1989. The quarterly dividend rate established in August 1990 is at an annual rate of $1.72 per share, an increase of 25.1% over the annual rate of $1.375 established in August 1989. Return on average stockholders' equity was 32.3% in 1990 and 34.2% in 1989.

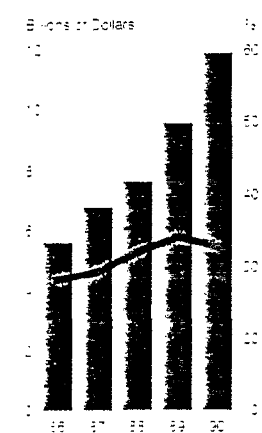
Ratio of Total Debt to Stockholders' Equity (Year-End)

Ratio of Consumer Products Debt to Stockholders' Equity (Year-End)



Stockholders' Equity (Year-End)

Return on Average Stockholders' Equity %



Selected Financial Data—Fifteen-Year Review

(in millions of dollars, except per share data)

	1990	1989	1988	1987	1986
Summary of Operations:					
perating revenues	$ 51,169	$ 44,080	$ 31,273	$ 27,650	$ 25,542
nited States export sales	2,928	2,288	1,863	1,592	1,193
ost of sales	24,430	21,868	13,565	12,183	11,901
ederal excise taxes on products	2,159	2,140	2,127	2,085	2,075
oreign excise taxes on products	4,687	3,608	3,755	3,331	2,653
perating income	7,946	6,789	4,397	3,990	3,537
terest and other debt expense, net (consumer products)	1,635	1,731	670	646	772
arnings before income taxes and cumulative effect of accounting change	6,311	5,058	3,727	3,344	2,765
retax profit margin	12.3%	11.5%	11.9%	12.1%	10.8%
rovision for income taxes	$ 2,771	$ 2,112	$ 1,663	$ 1,502	$ 1,287
arnings before cumulative effect of accounting change	3,540	2,946	2,064	1,842	1,478
umulative effect of accounting change			273		
et earnings	3,540	2,946	2,337	1,842	1,478
arnings per share before cumulative effect of accounting change	3.83	3.18	2.22	1.94	1.55
er share cumulative effect of accounting change			.29		
et earnings per share	3.83	3.18	2.51	1.94	1.55
ividends declared per share	1.55	1.25	1.01	.79	.62
eighted average shares (millions)	925	927	932	951	954
apital expenditures (consumer products)	$ 1,355	$ 1,246	$ 1,024	$ 718	$ 678
epreciation (consumer products)	876	755	608	564	514
roperty, plant and equipment, net (consumer products)	9,604	8,457	8,648	6,582	6,237
nventories (consumer products)	7,153	5,751	5,384	4,154	3,836
otal assets	46,569	38,528	36,960	21,437	19,482
otal long-term debt	16,121	14,551	16,812	5,983	6,887
otal debt—consumer products	17,182	14,887	16,442	6,355	6,889
—financial services and real estate	1,560	1,538	1,504	1,378	1,141
otal deferred income taxes	2,083	1,732	1,559	2,044	1,519
ockholders' equity	11,947	9,571	7,679	6,823	5,655
ommon dividends declared as a % of net earnings	40.5%	39.3%	40.3%	40.6%	39.9%
ook value per common share	$ 12.90	$ 10.31	$ 8.31	$ 7.21	$ 5.94
arket price of common share—high/low	52-36	45½-25	25½-20⅜	31⅜-18⅜	19½-11
losing price of common share at year-end	51¾	41⅝	25½	21⅝	18
rice/earnings ratio at year-end	14	13	10	11	11
umber of common shares outstanding at year-end (millions)	926	929	924	947	951
umber of employees	168,000	157,000	155,000	113,000	111,000

Operating income is income before interest and other debt expense, net.

Certain prior years' amounts have been reclassified to conform with the current ar's presentation.

See Note 2 of the notes to consolidated financial statements regarding the quisition of Jacobs Suchard AG in 1990 and Kraft, Inc. in 1988. Consolidated sults of the company include the operating results of these companies since eir acquisition.

See Note 3 of the notes to consolidated financial statements regarding 1989 and 1988 restructuring charges of food operations and the 1989 sale of the company's investment in Rothmans International p.l.c.

See Note 10 of the notes to consolidated financial statements regarding the company's 1988 adoption of the method of accounting for income taxes prescribed by Statement of Financial Accounting Standards No. 96.

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1985	1984	1983	1982	1981	1980	1979	1973	1977	1976
16,158	$ 14,102	$ 13,256	$ 11,720	$ 10,886	$ 9,322	$ 8,303	$ 6,633	$ 5,202	$ 4,294
923	925	970	978	834	702	521	424	316	211
6,709	5,840	5,665	5,532	5,253	4,675	3,857	3,134	2,455	2,018
2,049	2,041	1,983	1,180	1,169	1,105	1,037	961	862	778
1,766	1,635	1,527	1,435	1,411	1,389	1,122	703	490	381
2,664	1,908	1,840	1,547	1,312	1,144	1,096	883	721	569
311	276	230	244	232	205	190	137	95	97
2,353	1,632	1,610	1,303	1,080	939	906	746	626	472
14.6%	11.6%	12.1%	11.1%	9.9%	9.6%	10.9%	11.2%	12.0%	11.0%
1,098	$ 743	$ 706	$ 521	$ 420	$ 390	$ 398	$ 337	$ 291	$ 206
1,255	889	904	782	660	549	508	409	335	266
1,255	889	904	782	660	549	508	409	335	266
1.31	.91	.90	.78	.66	.55	.51	.42	.35	.28
1.31	.91	.90	.75	.66	.55	.51	.42	.35	.28
.50	.43	.36	.30	.25	.20	.16	.13	.10	.07
959	981	1,008	1,005	999	997	996	966	957	951
347	$ 298	$ 566	$ 818	$ 1,019	$ 751	$ 629	$ 566	$ 280	$ 220
367	341	294	250	211	178	133	105	78	64
5,684	4,014	4,381	4,173	3,583	2,806	2,214	1,723	1,188	861
3,827	2,653	2,599	2,534	2,922	2,499	2,235	2,077	1,728	1,594
18,712	9,880	9,908	9,756	9,180	7,362	6,379	5,608	4,048	3,582
8,035	2,239	2,549	3,776	3,499	2,598	2,448	2,147	1,427	1,248
7,887	2,566	3,054	3,728	3,304	2,800	2,507	2,365	1,547	1,514
944	436	141	58	3	1	9	7	47	12
1,233	907	825	627	455	327	234	150	104	73
4,737	4,093	4,034	3,663	3,234	2,837	2,471	2,115	1,690	1,430
38.1%	46.8%	40.5%	38.6%	37.9%	36.3%	30.6%	30.6%	27.9%	25.7%
4.96	$ 4.21	$ 4.03	$ 3.64	$ 3.22	$ 2.84	$ 2.48	$ 2.13	$ 1.76	$ 1.50
11⅞-9	10⅜-7¾	9-6¾	8½-5½	6⅞-5¼	6⅛-3⅝	4⅞-3⅞	4¾-3½	4-3¼	4-2⅛
11	10⅛	9	7½	6⅛	5⅜	4½	4⅜	3⅞	3
8	11	10	9	9	9	8	10	11	13
955	971	1,000	1,007	1,003	998	996	994	959	952
14,000	68,000	68,000	72,000	72,000	72,000	65,000	60,000	53,000	51,000

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Consolidated Balance Sheets (in millions of dollars)

December 31,	1990	1989
Assets		
Consumer products		
Cash and cash equivalents	$ 146	$ 118
Receivables, net	4,101	2,956
Inventories:		
Leaf tobacco	2,458	2,202
Other raw materials	1,934	1,521
Finished product	2,761	2,028
	7,153	5,751
Other current assets	967	555
Total current assets	12,367	9,380
Property, plant and equipment, at cost:		
Land and land improvements	664	611
Buildings and building equipment	4,004	3,554
Machinery and equipment	8,480	7,305
Construction in progress	1,133	887
	14,281	12,357
Less accumulated depreciation	4,677	3,900
	9,604	8,457
Goodwill and other intangible assets		
(less accumulated amortization of $1,178 and $745)	19,037	15,682
Other assets	1,675	1,569
Total consumer products assets	42,683	35,088
Financial services and real estate		
Finance assets, net	3,220	2,845
Real estate held for development and sale	418	383
Other assets	248	212
Total financial services and real estate assets	3,886	3,440
TOTAL ASSETS	$46,569	$38,528

See notes to consolidated financial statements.

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	1990	1989
iabilities		
:onsumer products		
Short-term borrowings	$ 1,034	$ 489
Current portion of long-term debt	863	752
Accounts payable	2,462	1,917
Accrued liabilities:		
Taxes, except income taxes	851	596
Employment costs	832	805
Other	3,553	2,376
Income taxes	1,366	1,190
Dividends payable	399	318
Total current liabilities	11,360	8,943
Long-term debt	15,285	13,646
Deferred income taxes	1,316	897
Other liabilities	3,499	2,622
Total consumer products liabilities	31,460	26,108
inancial services and real estate		
Short-term borrowings	724	633
Long-term debt	836	905
Deferred income taxes	1,382	1,111
Other liabilities	220	200
Total financial services and real estate liabilities	3,162	2,849
Total liabilities	34,622	28,957
:ontingencies (Note 13)		
:tockholders' Equity		
:ommon stock, par value $1.00 per share (935,320,439 shares issued)	935	935
arnings reinvested in the business	10,960	9,079
urrency translation adjustments	561	143
	12,456	10,157
Less cost of treasury stock (9,101,348 and 6,790,848 shares)	509	586
Total stockholders' equity	11,947	9,571
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$46,569	$38,528

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Consolidated Statements of Earnings

in millions of dollars, except per share data

r the years ended December 31,	1990	1989	1988
perating revenues	**$51,169**	$44,080	$31,273
ost of sales	**24,430**	21,368	13,565
xcise taxes on products	**6,846**	5,748	5,382
Gross profit	**19,893**	16,464	11,826
larketing, administration and research costs	**11,499**	9,290	7,304
mortization of goodwill	**448**	385	125
Operating income	**7,946**	6,789	4,397
nterest and other debt expense, net	**1,635**	1,731	670
Earnings before income taxes and cumulative effect of accounting change	**6,311**	5,058	3,727
rovision for income taxes	**2,771**	2,112	1,663
Earnings before cumulative effect of accounting change	**3,540**	2,946	2,064
umulative effect of change in method of accounting for income taxes			273
Net earnings	**$ 3,540**	$ 2,946	$ 2,337
er share data:			
Earnings before cumulative effect of accounting change	**$ 3.83**	$ 3.18	$ 2.22
Cumulative effect of accounting change			.29
Net earnings	**$ 3.83**	$ 3.18	$ 2.51

e notes to consolidated financial statements.

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Consolidated Statements of Stockholders' Equity

(In millions of dollars except per share data)

	Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Currency Translation Adjustments	Cost of Treasury Stock	Total Stockholders' Equity
Balances, January 1, 1988	$240	$272	$ 6,437	$146	$(272)	$ 6,823
Net earnings			2,337			2,337
Exercise of stock options/units		(20)			48	28
Cash dividends declared						
$1.01 per share			(941)			(941)
Currency translation adjustments						
(including income tax						
provisions of $26)				(29)		(29)
Stock purchased					(539)	(539)
Balances, December 31, 1988	240	252	7,833	117	(763)	7,679
Net earnings			2,946			2,946
Exercise of stock options/units						
and issuance of other stock						
awards prior to stock split		(35)			87	52
Cash dividends declared						
$1.25 per share			(1,159)			(1,159)
Four-for-one stock split	695	(217)	(478)			—
Exercise of stock options/units						
and issuance of other stock						
awards after stock split			(63)		90	27
Currency translation adjustments						
(net of income tax						
provisions of $4)				26		26
Balances, December 31, 1989	935	—	9,079	143	(536)	9,571
Net earnings			**3,540**			**3,540**
Exercise of stock options/units						
and issuance of other stock						
awards			**(218)**		**298**	**80**
Cash dividends declared						
$1.55 per share			**(1,432)**			**(1,432)**
Currency translation adjustments						
(including income tax						
benefits of $17)				**418**		**418**
Stock purchased					**(221)**	**(221)**
Other			**(9)**			**(9)**
Balances, December 31, 1990	**$935**	**$ —**	**$10,960**	**$561**	**$(509)**	**$11,947**

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

in millions of dollars

r the years ended December 31,	1990	1989	1988
Cash Provided By (Used In) Operating Activities			
Net earnings—Consumer products	$ 3,400	$ 2,817	$ 2,173
—Financial services and real estate	140	129	164
Net earnings	3,540	2,946	2,337
Adjustments to reconcile net earnings to operating cash flows:			
Consumer products			
Depreciation and amortization	1,367	1,194	779
Deferred income tax provision	108	154	(43)
Restructuring charges		179	348
Gain on sale of investment in Rothmans International p.l.c.		(455)	
Gains on sales of businesses	(104)		
Cumulative effect of change in method of accounting for income taxes		—	(232)
Cash effects of changes, net of the effects from acquired companies:			
Receivables, net	(249)	(718)	601
Inventories	(699)	(431)	2
Accounts payable	100	171	408
Other working capital items	730	203	556
Other	378	201	9
Financial services and real estate			
Deferred income tax provision	277	217	178
Cumulative effect of change in method of accounting for income taxes			(41)
Decrease in real estate receivables	32	22	13
Decrease (increase) in real estate held for development and sale	(41)	(7)	108
Other	(54)	(4)	65
Net cash provided by operating activities	5,385	3,672	5,088
Cash Provided By (Used In) Investing Activities			
Consumer products			
Purchase of Jacobs Suchard AG, net of acquired cash of $825	(3,116)		
Purchase of Kraft, Inc., net of acquired cash of $566 in 1988	(11)	(288)	(11,363)
Purchase of other businesses, net of acquired cash	(160)	(400)	
Proceeds from sales of investments and businesses	159	992	44
Capital expenditures	(1,355)	(1,246)	(1,024)
Other	246	32	52
Financial services and real estate			
Investments in finance assets	(523)	(481)	(495)
Proceeds from other finance assets	111	190	69
Other	(17)		1
Net cash used in investing activities	(4,666)	(1,251)	(12,716)
Net cash provided by (used in) operating and investing activities	$ 719	$ 2,421	$ (7,628)

See notes to consolidated financial statements.

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	1990	1989	1988
Cash Provided By (Used In) Financing Activities			
Consumer products			
Net issuance (repayment) of short-term borrowings	$ (994)	$(2,990)	$ 3,761
Long-term debt proceeds	3,562	2,534	1,212
Long-term debt repaid	(1,776)	(1,014)	(881)
Purchase of treasury stock	(221)		(539)
Dividends paid	(1,351)	(1,101)	(895)
Issuance of shares	80	73	28
Other			(85)
Financial services and real estate			
Net issuance (repayment) of short-term borrowings	91	60	(20)
Long-term debt proceeds			201
Long-term debt repaid	(182)	(20)	(32)
Net cash provided by (used in) financing activities	(791)	(2,452)	7,750
Effect of exchange rate changes on cash and cash equivalents	100	(19)	(44)
Increase (decrease) in cash and cash equivalents	28	(50)	78
Cash and cash equivalents at beginning of year	118	168	90
Cash and cash equivalents at end of year	$ 146	$ 118	$ 168
Cash paid: Interest—Consumer products	$ 1,511	$ 1,711	$ 589
—Financial services and real estate	$ 100	$ 90	$ 38
Income taxes	$ 2,027	$ 1,303	$ 1,088

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lotes to Consolidated Financial Statements

ote 1. Summary of Significant Accounting Policies:

ısis of presentation:
ıe consolidated financial statements include all significant ıbsidiaries.

Balance sheet accounts are segregated by two broad types of ısinesses. Consumer products assets and liabilities are classi- :d as either current or non-current, whereas the accounts of ıancial services and real estate are unclassified, in accordance :th respective industry practices.

Certain prior years' amounts have been reclassified to conform :th the current year's presentation.

ısh and cash equivalents:
ısh equivalents include demand deposits with banks and all ghly liquid investments with original maturities of three onths or less.

:entories:
ventories are stated at the lower of cost or market. The last-in. st-out ("LIFO") method is used to cost substantially all domestic inventories. The cost of other inventories is determined by the average cost or first-in, first-out methods. It is a generally recognized industry practice to classify the total amount of leaf tobacco inventory as a current asset although part of such inventory, because of the duration of the aging process, ordinarily would not be utilized within one year.

Income taxes:
Effective January 1, 1988, the company prospectively adopted the method of accounting for income taxes prescribed by Statement of Financial Accounting Standards No. ("SFAS") 96, "Accounting for Income Taxes." See Note 10.

Depreciation and amortization:
Depreciation is recorded by the straight-line method. Substantially all goodwill and other intangible assets are amortized by the straight-line method, principally over 40 years.

ote 2. Acquisitions:

ı August 16, 1990, the company's wholly-owned subsidiary, aft General Foods, Inc. purchased Colima Holding AG, the prin- ɔal asset of which was a controlling interest in Jacobs Suchard 3, a Swiss-based coffee and confectionery company. In Septem- r 1990, a tender offer was completed for substantially all of the maining publicly held interests of Jacobs Suchard. KGF retained rtain coffee and confectionery operations of Jacobs Suchard d sold to the former owner of Colima certain assets which ɔuld not fully integrate into the KGF structure, including the dustrial chocolate business, the Canadian coffee business, por- ns of the U.S. confectionery business and interests in three eign banks. The acquisition has been accounted for as a pur- ase and, accordingly, operating results of Jacobs Suchard have en included in the consolidated operating results of the com- ny since acquisition. The aggregate purchase price, net of ıounts received for businesses sold, was $4.1 billion which was anced with the company's credit facilities, internally generated ıds and a SFr 250 million note payable.

The estimated fair value of assets acquired and liabilities sumed totaled $3.0 billion and $2.4 billion, respectively. The cess of the purchase price over the estimated fair value of the t assets purchased was approximately $3.5 billion and such cess is being amortized over 40 years by the straight-line ethod. The allocation of the purchase price is based upon pre- ıinary estimates and assumptions and is subject to revision ce appraisals, evaluations and other studies of the fair value of : acquired assets and liabilities have been completed.

Had the acquisition occurred at the beginning of 1990 and 1989, pro forma operating revenues, net earnings and earnings per share would have been approximately $52.7 billion, $3.4 billion and $3.74, respectively, for the year ended December 31, 1990 and $47.8 billion, $2.7 billion and $2.89, respectively, for the year ended December 31, 1989.

On December 7, 1988, Kraft, Inc. became a wholly-owned subsidiary of the company. The purchase of outstanding shares, retirement of employee stock options and other related payments totaled approximately $12.9 billion. The acquisition has been accounted for as a purchase and, accordingly, operating results of Kraft have been included in the consolidated operating results of the company since acquisition. The purchase price exceeded the fair value of the net assets acquired by $12.2 billion and such excess is being amortized over 40 years by the straight-line method. The fair value of tangible assets acquired totaled $5.5 billion and long-term debt and other liabilities assumed totaled $4.8 billion. Had the acquisition of Kraft occurred at the beginning of 1988, pro forma operating revenues, net earnings and earnings per share would have been approximately $43.0 billion, $1.5 billion and $1.63, respectively.

Pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been consummated at the beginning of each year, nor are they necessarily indicative of future consolidated results.

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Note 3. Restructurings and Divestiture:

In 1989 General Foods Corporation was combined with Kraft to form KGF. The company charged $179 million against pretax income which was primarily for costs of this merger. In addition, the company sold its equity investment in Rothmans International p.l.c. for £610 million 10¼% notes maturing in 1994, generating a pretax gain of $455 million. These notes were subsequently sold with recourse for approximately $850 million. The net impact of these items was an increase in earnings before income taxes, net earnings and earnings per share of $276 million, $152 million and $.16, respectively.

In 1988 the company provided for restructuring costs at General Foods. As a result of this restructuring, certain facilities were combined and overhead costs were reduced to achieve operating efficiencies. This restructuring reduced earnings before income taxes, net earnings and earnings per share by $348 million, $212 million and $.23, respectively.

Note 4. Inventories:

The cost of approximately 56% of inventories in 1990 and 60% of inventories in 1989 were determined using the LIFO method. The stated LIFO values of inventories were approximately $880 million and $770 million lower than the current cost of inventories at December 31, 1990 and 1989, respectively.

Note 5. Short-Term Borrowings and Borrowing Arrangements:

At December 31, the company's short-term borrowings and related average interest rates consisted of the following:

	1990		1989	
(in millions)	Amount Outstanding	Average Year-End Rate	Amount Outstanding	Average Year-End Rate
Consumer products:				
Bank loans	$ 1,661	9.2%	$ 435	11.3%
Commercial paper	4,576	8.4%	6,106	8.6%
Amount reclassified as long-term debt	(5,203)		(6,052)	
	$ 1,034		$ 489	
Financial services and real estate:				
Commercial paper	$ 724	8.2%	$ 533	8.5%

The company maintains credit facilities with a number of lending institutions, amounting to approximately $17.2 billion at December 31, 1990. Approximately $15.5 billion of these facilities were unused at December 31, 1990. These facilities are used for acquisitions and to support the company's commercial paper borrowings and are available for other corporate purposes.

The company's credit facilities include a revolving bank credit agreement expiring in 1993 for $12.0 billion which enables the company to refinance short-term debt on a long-term basis. Accordingly, short-term borrowings intended to be refinanced have been reclassified as long-term debt.

Certain of these facilities limit payment of cash dividends and the purchase, redemption or retirement of capital shares and/or require maintenance of a fixed charges coverage ratio. At December 31, 1990, approximately $2.0 billion of earnings reinvested in the business was free of such restrictions.

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lotes (continued)

ote 6. Long-Term Debt:

December 31, the company's long-term debt consisted of the following:

ı millions)	1990	1989
ɪnsumer products:		
Short-term borrowings, reclassified	$ 5,203	$ 6,052
Notes, 7% to 13.8% (average effective rate 9.22%), due through 2000	7,518	5,497
Debentures, 3% to 10.75% (average effective rate [illegible]),		
$1.7 billion face amount, due through 2017	1,354	1,211
Foreign currency obligations:		
Swiss franc, 3¾% to 8[illegible]%, due through 2005	828	491
Deutsche mark, 2¾% to 6%, due through 1997	435	304
Japanese yen, 5[illegible]% and 6[illegible]%, due 1992 and 1991	249	239
Other	240	272
Other	321	332
	16,148	14,398
Less current portion of long-term debt, net of $1.0 billion		
reclassified as long-term debt in 1989	(863)	(752)
	$15,285	$13,646
ıancial services and real estate:		
Notes, 9.25% to 12.25% (average rate 9.84%), due through 1993	$ 125	$ 200
Zero coupon bonds, 13.3% effective rate, $200 million face amount, due 1994	130	115
Foreign currency obligations:		
Swiss franc, 4¼% and 4[illegible]%, due 1993 and 1996	285	230
Sterling, 11[illegible]%, due 1995	149	120
Other	147	240
	$ 836	$ 905

ıe company has entered into currency and related interest rate ·ap agreements with third parties to manage exposure to inter- t rate and currency movement on certain obligations. As a sult, the effective interest rates and currency denominations ay differ from those set forth in this note. The aggregate notional incipal amount of these swap agreements outstanding at ·cember 31, 1990 was $1.5 billion. The aggregate maturities of ᴈ notional amounts of these arrangements are as follows (in mil- ·ns): 1991–$154; 1992–$729; 1993–$408 and 1996–$196. Market lue gains and losses on these swap agreements are recognized d offset the related foreign exchange gains and losses on the ·eign currency denominated debt.

In addition, at December 31, 1990, the company had interest ·e swap agreements with an aggregate notional principal ıount of $2.4 billion. These arrangements, with a weighted aver- e maturity of 1.2 years, provided a weighted average interest ·e of 9.0%. The differential to be paid or received on these swap reements is included in interest and other debt expense, net as ·erest rates change over the lives of the respective agreements.

The company is exposed to credit loss in the event of non-performance by the other parties to the swap agreements. However, the company does not anticipate nonperformance by the counterparties.

Aggregate maturities of long-term debt, excluding short-term borrowings reclassified as long-term debt, are as follows:

(in millions)	Consumer products	Financial services and real estate
1991	$ 863	$ 13
1992	1,628	12
1993	975	405
1994	951	200
1995	1,480	149
1996-2000	4,186	127
2001-2005	584	

The revolving credit facility under which the short-term debt was reclassified as long-term debt expires in 1993 and any amounts then outstanding mature.

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Note 7. Capital Stock:

Effective September 15, 1989, outstanding shares of common stock were split four-for-one. All references in the financial statements to weighted average numbers of shares and related prices, per share amounts and stock plan data have been restated to reflect the split. Shares of authorized common stock are 4 billion; issued, treasury and outstanding were as follows:

	Issued	Treasury	Outstanding
Balances, January 1, 1988	239,618,948	(2,992,463)	236,626,485
Exercise of stock options/units		661,760	661,760
Purchased		(6,257,300)	(6,257,300)
Balances, December 31, 1988	239,618,948	(8,588,003)	231,030,945
Exercise of stock options/units and issuance of other stock awards prior to split		869,552	869,552
Four-for-one stock split	695,701,491		695,701,491
Exercise of stock options/units and issuance of other stock awards after split		927,603	927,603
Balances, December 31, 1989	935,320,439	(6,790,848)	928,529,591
Exercise of stock options/units and issuance of other stock awards		**3,384,700**	**3,384,700**
Purchased		**(5,695,200)**	**(5,695,200)**
Balances, December 31, 1990	**935,320,439**	**(9,101,348)**	**926,219,091**

At December 31, 1990, 31,369,642 shares of common stock were reserved for stock options, stock units and other stock awards and 10,000,000 shares of Serial Preferred Stock, $1.00 par value, were authorized, none of which have been issued.

In 1989 the company distributed rights for each outstanding share of its common stock. The rights are not exercisable and trade automatically with the common stock until ten days after public announcement that any person has acquired 10% or more of the company's common stock or ten business days after any person announces a tender offer for 10% or more of the company's common stock.

When exercisable, unless a person has acquired 10% or more of the company's shares, each right entitles the holder to buy from the company one share of common stock for the exercise price (currently $150). If the company is thereafter involved in a business combination, the rights will entitle holders to buy shares of the acquiring company having a value of twice the exercise price. If any person acquires 10% or more of the company's common stock, the rights will entitle holders (other than such person) to buy shares of the company's common stock having a market value of twice the exercise price. Following the acquisition by any person of more than 10% but less than 50% of the company's shares, the company may exchange one share of common stock for each right (other than rights held by such person).

The company may redeem the rights for $.01 per right before any person acquires 10% or more of the company's common stock. The rights expire on October 25, 1999 unless earlier redeemed or exchanged. At December 31, 1990, 963,401,420 shares of common stock were reserved for issuance upon exercise of the rights.

Note 8. Stock Plans:

Under the 1987 Philip Morris Long Term Incentive Plan, the company can grant to eligible employees stock options, stock appreciation rights, restricted stock, deferred stock, stock purchase rights and long-term performance awards. Such grants may be for cash and up to 32 million shares of common stock.

Under previous option plans, eligible employees were granted options to purchase common stock of the company at market prices on dates of grant. Under one such plan, units were granted which permit the holder to purchase shares of common stock at market prices on dates of grant or to receive the appreciation value (the excess of the market price at the date of exercise over the market price at the date of grant) in the form of stock or stock and cash. Appreciation value may be received with respect to the equivalent of 50% of the units granted.

At December 31, 1990 and 1989, options and units were exercisable for 16,177,150 shares and 12,560,164 shares, respectively. Shares available to be granted at December 31, 1990 and 1989 were 9,021,081 and 15,085,712, respectively.

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lotes (continued)

›te 8. Stock Plans (continued):

tions/units activity was as follows for the years ended December 31,

	1990	1989	1988
ance, beginning of year	**19,942,060**	16,317,528	15,105,184
Granted	**6,200,846**	7,226,076	4,973,652
Exercised	**(3,619,610)**	(3,321,384)	(3,017,284)
Cancelled	**(174,735)**	(280,160)	(244,024)
ance, end of year	**22,348,561**	19,942,060	16,317,523
ıge of exercise prices at year-end	**$6.43-$35.42**	$6.43-$22.38	$4.07-$22.38
.nt prices	**$46.94 and $47.00**	$35.42 and $39.38	$20.92 and $20.99

1990, 1989 and 1988, the company granted 75,000 shares, 2,000 shares and 33,332 shares, respectively, of restricted stock officers and key employees, giving them in most instances all of rights of stockholders, except that they may not sell, assign, pledge or otherwise encumber such shares, and such shares are subject to forfeiture in certain events. At December 31, 1990, restrictions on 616,334 shares remain, net of forfeitures, and will lapse in varying amounts through 1996.

›te 9. Earnings per Share:

·nings per common share have been calculated on the weighted ·rage number of shares of common stock outstanding for each year, which was 925,190,333, 926,520,510 and 931,948,304 for 1990, 1989 and 1988, respectively.

›te 10. Pretax Earnings and Provision for Income Taxes:

ective January 1, 1988, the company prospectively adopted the ›visions of SFAS 96 and changed its method of computing ferred income taxes from the deferred method used in prior ırs. The adoption of SFAS 96 increased 1988 net earnings and ·nings per share by $213 million and $.23, respectively. The cumulative effects as of January 1, 1988 of adopting SFAS were decreases in deferred income taxes of $736 million and ›dwill of $463 million, and an increase in 1988 net earnings and earnings per share of $273 million and $.29, respectively. Pursuant to the provisions of SFAS 96, such cumulative effects at adoption included $105 million of excess deferred tax benefits, which have subsequently reversed. Application of SFAS 96 during 1988 decreased earnings before cumulative effect of accounting change by $60 million ($.06 per share), resulting primarily from the reversal of the aforementioned excess deferred tax benefits recorded upon adoption of SFAS 96.

millions)	1990	1989	1988
tax earnings:			
United States	**$4,743**	$4,080	$3,167
Outside United States	**1,568**	975	560
Total pretax earnings	**$6,311**	$5,055	$3,727
vision for income taxes:			
United States federal:			
Current	**$1,481**	$1,089	$ 935
Deferred	**350**	323	203
	1,831	1,412	1,138
State and local	**332**	282	191
Total United States	**2,163**	1,694	1,329
Outside United States:			
Current	**573**	370	402
Deferred	**35**	48	(68)
Total outside United States	**608**	418	334
Total provision for income taxes	**$2,771**	$2,112	$1,663

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At December 31, 1990 applicable United States federal income taxes and foreign withholding taxes have not been provided on approximately $1.3 billion of accumulated earnings of foreign subsidiaries that are expected to be permanently reinvested abroad. If these amounts were not considered permanently reinvested, additional deferred taxes of approximately $130 million would have been provided.

The effective income tax rate on pretax earnings differed from the U.S. federal statutory rate for the following reasons:

	1990		1989		1988	
(in millions)	Amount	%	Amount	%	Amount	%
Provision computed at U.S. federal statutory rate	$2,146	34.0%	$1,720	34.0%	$1,267	34.0%
Increases (decreases) resulting from:						
State and local income taxes, net of						
federal tax benefit	215	3.4	191	3.8	126	3.4
Repatriation of foreign earnings	62	1.0	54	1.1	77	2.1
Excess deferred tax benefits	38	0.6	(7)	(0.1)	74	2.0
Rate differences—foreign operations	66	1.1	28	0.5	48	1.3
Goodwill amortization	146	2.3	128	2.5	43	1.1
Other	98	1.5	(2)		28	0.7
Provision for income taxes	$2,771	43.9%	$2,112	41.8%	$1,563	44.6%

Deferred income tax assets (liabilities) included in the consolidated balance sheets were as follows:

	Consumer products		Financial services and real estate	
	December 31,		December 31,	
(in millions)	1990	1989	1990	1989
Other current assets	$ 619	$ 287	$ —	$ —
Income taxes	(4)	(11)		
Deferred income taxes	(1,316)	(897)	(1,382)	(1,111)
	$ (701)	$(621)	$(1,382)	$(1,111)

The major types of temporary differences that give rise to deferred income tax assets and liabilities are differences between the book and tax bases of property, plant and equipment, investments in finance leases and accrued liabilities.

lotes (continued)

ote 11. Segment Reporting:

bacco, food, beer, and financial services and real estate are the ijor segments of the company's operations. The company's nsolidated operations outside the United States, which are ncipally in the tobacco and food businesses, are organized into ographic regions by segment, with Europe the most significant. ersegment transactions are not reported separately since they : not material.

For purposes of segment reporting, operating profit is operat- ; income exclusive of certain unallocated corporate expenses.

See Note 2 regarding the acquisitions of Kraft and certain operations of Jacobs Suchard and Note 3 regarding food restructurings and the sale by the company's tobacco business of its investment in Rothmans. Substantially all goodwill amortization is attributable to the food segment.

Identifiable assets are those assets applicable to the respective industry segments. Reportable segment data reconciled to the consolidated financial statements were as follows:

:a by Segment for the years ended December 31, (in millions)	1990	1989	1988
erating revenues:			
Tobacco	$21,090	$17,849	$16,576
Food	26,085	22,373	10,398
Beer	3,534	3,342	3,177
Financial services and real estate	460	516	622
Total operating revenues	$51,169	$44,080	$31,273
erating profit:			
Tobacco	$ 5,596	$ 5,063	$ 3,346
Food	2,205	1,580	392
Beer	285	226	190
Financial services and real estate	196	172	662
Total operating profit	8,282	7,041	4,590
Unallocated corporate expenses	336	252	293
Operating income	$ 7,946	$ 6,789	$ 4,297
ntifiable assets:			
Tobacco	$ 7,644	$ 6,790	$ 6,001
Food	32,336	25,983	24,570
Beer	1,612	1,556	1,623
Financial services and real estate	3,886	3,440	3,169
	45,478	37,759	35,663
Corporate assets	1,091	769	1,297
Total assets	$46,569	$38,528	$36,960
oreciation expense:			
Tobacco	$ 282	$ 246	$ 237
Food	438	356	221
Beer	141	137	136
Financial services and real estate	1	2	4
oital additions:			
Tobacco	$ 324	$ 422	$ 467
Food	860	733	466
Beer	99	80	56

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Data by Geographic Region for the years ended December 31, (in millions)	1990	1989	1988
Operating revenues:			
United States—domestic	$33,086	$30,890	$20,617
—export	2,928	2,288	1,863
Europe	12,474	8,160	7,078
Other	2,681	2,742	1,715
Total operating revenues	$51,169	$44,080	$31,273
Operating profit:			
United States	$ 6,715	$ 6,061	$ 3,975
Europe	1,173	692	449
Other	394	288	166
Total operating profit	8,282	7,041	4,590
Unallocated corporate expenses	336	252	193
Operating income	$ 7,946	$ 6,789	$ 4,397
Identifiable assets:			
United States	$32,968	$32,045	$30,638
Europe	10,906	4,210	3,604
Other	1,604	1,504	1,421
	45,478	37,759	35,663
Corporate assets	1,091	769	1,297
Total assets	$46,569	$38,528	$36,960

Note 12. Retirement Benefit Plans:

Pension Plans

The company adopted SFAS 87 for its U.S. pension plans in 1986 and for its non-U.S. plans in 1989.

The company and its subsidiaries sponsor noncontributory defined benefit pension plans covering substantially all U.S. employees. The plans provide retirement benefits for salaried employees based generally on years of service and compensation during the last years of employment. Retirement benefits for hourly employees generally are a flat dollar amount for each year of service. The company funds these plans in amounts consistent with the funding requirements of federal law and regulations.

Pension coverage for employees of the company's non-U.S. subsidiaries is provided, to the extent deemed appropriate, through separate plans, many of which are governed by local statutory requirements. The plans provide pension benefits that are based primarily on years of service and employees' salaries near retirement. The company provides for obligations under such plans by depositing funds with trustees or purchasing insurance policies. The company records liabilities for unfunded foreign plans.

U.S. Plans

Net pension cost consisted of the following components:

(in millions)	1990	1989	1988
Service cost—benefits earned during the year	$ 141	$ 128	$ 102
Interest cost on projected benefit obligation	315	303	216
Return on assets—actual	263	(788)	(372)
—deferred gain (loss)	(671)	408	108
Amortization of net gain upon adoption of SFAS 87	(28)	(28)	(28)
Net pension cost	$ 20	$ 23	$ 26

ote 12. Retirement Benefit Plans (continued):

e funded status of U.S. plans at December 31 was as follows:

millions)	1990	1989
tuarial present value of accumulated benefit obligation—vested	$2,948	$2,828
—nonvested	230	198
	3,178	3,026
nefits attributable to projected salaries	898	540
ojected benefit obligation	4,076	3,566
n assets at fair value	4,684	5,110
cess of assets over projected benefit obligation	608	1,544
amortized net gain upon adoption of SFAS 87	(289)	(317)
recognized prior service cost	167	49
recognized net (gain) loss from experience differences	53	(437)
Prepaid pension cost	$ 539	$ 839

e projected benefit obligation at December 31, 1990, 1989 and 88 was determined using assumed discount rates of 8%, 8% d 8½%, respectively, and assumed compensation increases of to 7%, 6% to 7% and 6% to 7½%, respectively. The assumed ng-term rate of return on plan assets was 9% at December 31, 90, 1989 and 1988. Plan assets consist principally of common ock and fixed income securities.

The company and certain of its subsidiaries sponsor deferred profit-sharing plans covering certain salaried, nonunion and union employees. Contributions and costs are generally determined as a percentage of consolidated pretax earnings, as defined by the plans. Certain other subsidiaries of the company also maintain defined contribution plans. Amounts charged to expense for defined contribution plans totaled $209 million, $180 million and $136 million in 1990, 1989 and 1988, respectively.

n-U.S. Plans

t pension cost in 1990 and 1989 consisted of the following components:

millions)	1990	1989
vice cost—benefits earned during the year	$ 41	$ 33
erest cost on projected benefit obligation	82	63
urn on assets—actual	25	(92)
—deferred gain (loss)	(100)	31
ortization of net gain upon adoption of SFAS 87	(2)	(2)
Net pension cost	$ 46	$ 33

e effect of the adoption of SFAS 87 for non-U.S. plans was not significant. Pension cost for 1988 was $35 million.

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The funded status of the non-U.S. plans at December 31 was as follows:

(in millions)	Assets Exceed Accumulated Benefits 1990	Assets Exceed Accumulated Benefits 1989	Accumulated Benefits Exceed Assets 1990	Accumulated Benefits Exceed Assets 1989
Actuarial present value of accumulated benefit obligation—vested	$ 758	$452	$ 460	$ 209
—nonvested	78	34	44	20
	836	486	504	229
Benefits attributable to projected salaries	280	194	106	53
Projected benefit obligation	1,116	680	610	282
Plan assets at fair value	1,174	836	48	25
Plan assets in excess of (less than) projected benefit obligation	58	156	(562)	(257)
Unamortized net (gain) loss upon adoption of SFAS 87	(26)	(34)	8	7
Unrecognized net (gain) loss from experience differences	38	(60)	27	4
Prepaid (accrued) pension cost	$ 70	$ 62	$(527)	$(246)

The assumptions used in 1990 and 1989 were as follows:

	1990	1989
Discount rates	6.0% to 11.0%	4.5% to 10.0%
Compensation increases	3.0% to 8.0%	3.0% to 9.5%
Long-term rates of return on plan assets	5.0% to 11.0%	5.0% to 11.0%

Plan assets consist primarily of common stock and fixed income securities.

Other Postretirement Benefits

The company and its domestic subsidiaries provide certain health care and other benefits to substantially all retired employees. The costs of such benefits are expensed generally as incurred, although liabilities for vested benefits were recorded in connection with the acquisitions of General Foods and Kraft. Amounts charged to expense related to such benefits have not been significant.

Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," was issued in 1990 and requires companies to accrue the cost of such benefits during the employee's period of service. The standard must be adopted no later than 1993 for domestic plans and 1995 for foreign plans. Upon adoption, companies may recognize the additional liability either immediately or prospectively over not more than twenty years. At present, the company plans to adopt SFAS 106 prospectively in 1993. The company currently estimates that adoption of the standard will increase annual expense, the amount of which has yet to be determined.

Note 13. Contingencies:

There is litigation pending against the leading United States cigarette manufacturers seeking compensatory and, in some cases, punitive damages for cancer and other health effects alleged to have resulted from cigarette smoking. Philip Morris Incorporated, a wholly-owned subsidiary of the company, is a defendant in some of these actions. It is not possible to predict the outcome of this litigation. Litigation is subject to many uncertainties and it is possible that some of these actions could be decided unfavorably to PM Inc. An adverse development in pending litigation could encourage the commencement of additional similar litigation. All such actions are and will be vigorously defended. However, management does not believe that this litigation will have a material adverse effect upon the financial condition of the company.

The company is contingently liable for payment of £610 million notes maturing in 1994, sold with recourse in 1989.

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lotes (continued)

ote 14. Additional Information:

millions)			
ars ended December 31:	1990	1989	1988
preciation expense	$ 877	$ 757	$612
nt expense	$ 283	$ 209	$120
search and development expense	$ 344	$ 313	$245
erest and other debt expense, net:			
Interest expense	$1,746	$1,789	$739
Interest income	(111)	(58)	(69)
	$1,635	$1,731	$670
erest expense of financial services			
and real estate operations included in cost of sales	$ 93	$ 91	$ 58
December 31:			
crued marketing costs	$1,398	$ 981	

ote 15. Financial Services and Real Estate Operations:

ilip Morris Capital Corporation is a wholly-owned subsidiary of e company. PMCC invests in third-party leveraged and direct iance leases and securities of third parties and engages in vari- is financing activities for customers and suppliers of the com- ny's subsidiaries. Additionally, PMCC is engaged through its iolly-owned subsidiary, Mission Viejo Company, in land plan- ning, development and sales.

Pursuant to a support agreement, the company has agreed to retain ownership of 100% of the voting stock of PMCC and make periodic payments to PMCC to the extent necessary to ensure that earnings available for fixed charges equal at least 1.25 times its fixed charges.

ndensed balance sheet data at December 31 follows:

millions)	1990	1989
sets		
Finance leases	$3,526	$2,723
Other investments	1,208	1,166
	4,734	3,889
Less unearned income and allowances	1,449	1,000
Finance assets, net	3,285	2,889
Real estate held for development and sale	418	383
Goodwill, net of accumulated amortization	39	39
Other assets	209	220
Total assets	$3,951	$3,531
bilities and stockholder's equity		
Short-term borrowings	$ 724	$ 633
Long-term debt	836	905
Deferred income taxes	1,382	1,111
Other liabilities	225	200
Stockholder's equity	784	682
Total liabilities and stockholder's equity	$3,951	$3,531

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The amounts shown above include receivables and payables with other subsidiaries of the company as follows:

(in millions)	1990	1989
Finance assets, net	$65	$44
Other assets		$47
Other liabilities	$ 5	

These amounts were eliminated in the company's consolidated balance sheets.

Finance leases consist of investments in transportation, telecommunications, commercial equipment and facilities. Rentals receivable for leveraged leases represent unpaid rentals less principal and interest on third-party nonrecourse debt.

Other investments consist primarily of preferred stock and real estate and commercial receivables.

Condensed income statement data follows for the years ended December 31.

(in millions)	1990	1989	1988
Revenues:			
Financial services	$223	$186	$168
Real estate	243	333	456
Total revenues	466	519	624
Expenses:			
Financial services	113	100	107
Real estate	153	244	357
Total expenses	266	344	464
Earnings before income taxes and cumulative effect of accounting change	200	175	160
Provision for income taxes	60	46	37
Earnings before cumulative effect of accounting change	140	129	123
Cumulative effect of change in method of accounting for income taxes			41
Net earnings	$140	$129	$164

Note 16. Quarterly Financial Data (Unaudited):

	1990 Quarters			
(in millions, except per share data)	1st	2nd	3rd	4th
Operating revenues	$11,388	$12,740	$12,818	$14,223
Gross profit	$ 4,345	$ 5,113	$ 5,086	$ 5,349
Net earnings	$ 775	$ 948	$ 937	$ 880
Per share data:				
Net earnings	$ .84	$ 1.03	$ 1.01	$ .95
Dividends declared	$ .344	$ .344	$ .430	$ .430
Market price—high	$ 43¾	$ 47¼	$ 50⅞	$ 52
—low	$ 36	$ 39	$ 41	$ 44

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Notes (concluded)

Note 16. Quarterly Financial Data (Unaudited) (continued):

(in millions, except per share data)	1989 Quarters 1st	2nd	3rd	4th
Operating revenues	$10,610	$11,420	$11,186	$10,964
Gross profit	$ 3,354	$ 4,356	$ 4,181	$ 4,073
Net earnings	$ 590	$ 745	$ 748	$ 363
Per share data:				
Net earnings	$ .64	$ .80	$ .81	$ .39
Dividends declared	$ .281	$ .281	$ .344	$ .344
Market price—high	$ 30¼	$ 36	$ 42	$ 45½
—low	$ 25	$ 29¼	$ 34½	$ 39½

See Note 2 regarding the acquisition of certain operations of Jacobs Suchard in the third quarter of 1990.

See Note 3 regarding restructuring charges primarily in the fourth quarter of 1989 and the sale of the company's investment in Rothmans in the fourth quarter of 1989.

The principal stock exchange on which the company's common stock (par value $1 per share) is listed is the New York Stock Exchange. At January 31, 1991 there were approximately 99,200 holders of record of the company's common stock.

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Report of Independent Accountants

To the Board of Directors and Stockholders of
Philip Morris Companies Inc.:

We have audited the accompanying consolidated balance sheets of Philip Morris Companies Inc. and subsidiaries as of December 31, 1990 and 1989, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Philip Morris Companies Inc. and subsidiaries at December 31, 1990 and 1989, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 10 to the consolidated financial statements, the company adopted in 1988 the method of accounting for income taxes prescribed by Statement of Financial Accounting Standards No. 96.

COOPERS & LYBRAND

New York, New York
January 28, 1991

Company Report on Financial Statements

The consolidated financial statements and all related financial information herein are the responsibility of the company. The financial statements, which include amounts based on judgments, have been prepared in accordance with generally accepted accounting principles. Other financial information in the annual report is consistent with that in the financial statements.

The company maintains a system of internal controls which it believes provides reasonable assurance that transactions are executed in accordance with management's authorization and properly recorded, that assets are safeguarded, and that accountability for assets is maintained. The system of internal controls is characterized by a control-oriented environment within the company which includes written policies and procedures, careful selection and training of personnel, and audits by a professional staff of internal auditors.

Coopers & Lybrand, independent accountants, have audited and reported on the company's consolidated financial statements. Their audits were performed in accordance with generally accepted auditing standards.

The Audit Committee of the Board of Directors, composed of seven non-management directors, meets periodically with Coopers & Lybrand, the company's internal auditors and management representatives to review internal accounting control, auditing and financial reporting matters. Both Coopers & Lybrand and the internal auditors have unrestricted access to the Audit Committee and may meet with it without management representatives being present.

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Board of Directors












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Professor of Industrial Administration, Carnegie-Mellon University, and Visiting Scholar, Yale School of Organization and Management

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2060566986

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Chairman Emeritus

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hilip Morris
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ımish Maxwell
ıairman of the Board and
ıief Executive Officer

hn A. Murphy
esident

ichael A. Miles
ce Chairman of the Board

illiam Murray
ce Chairman of the Board

ırray H. Bring
nior Vice President and
eneral Counsel

ırc S. Goldberg
nior Vice President,
ırporate Planning

ıns G. Storr
nior Vice President and
ıief Financial Officer

hn J. Tucker
nior Vice President,
ıman Resources and
lministration

uce S. Brown
ce President,
xes

ɔnald Fried
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ssociate General Counsel,
d Secretary

ıvid I. Greenberg
ce President,
ɔvernment Affairs

eorge R. Lewis
ce President and
easurer

Jack Miller
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Executive Vice President

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Senior Vice President,
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Senior Vice President,
Marketing

Allen A. Schumer
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Administration

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Michael J. Kinney

Mission Viejo Company

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Craig McCallum
President–Colorado Division

James L. Huesman
Executive Vice President
and Treasurer

Van Stevens
Executive Vice President

Vice Presidents:

Danette S. Fenstermacher
William K. Smith
Robert P. Swank

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ıe products and services buy and sell, in our em- ,ment policies, and in our rces and uses of invest- ıt capital, we hold our ducts, people, and prac- s to the highest standards.)ur position as a major ıufacturer and marketer ·ackaged goods makes)articularly sensitive to ironmental issues. Each ·ur operating companies ctive in source reduction ·rts, recycling, and has ıblished task forces and ior management com- tees to improve the ironmental impact of its ·rations. The United States ıgress has passed legisla- ı requiring the U.S. Food Drug Administration to ›pt federal regulations arding health and nutri- ı labeling. We strongly ·port efforts to achieve ional uniformity of envi- mental regulations.

)ne key to any society's ıre economic vitality ducation. In 1990, joined with the Pew ıritable Trusts and the ladelphia Mayor's nmission on Literacy aunch the Gateway Pro- m, an ambitious adult racy campaign designed erve as a national model. ıddition, we supported Milwaukee County ıth Initiative, a program encourage families' olvement in their chil- n's education.

ıs one of the world's gest food companies, we are also concerned with the effects of hunger and mal- nutrition. Among our many initiatives in 1990 was a major grant to the Food Research and Action Center for a public education cam- paign to explore the impact of poor nutrition on edu- cation, and to alleviate childhood hunger. We are also working with the U.S. Department of Housing and Urban Development and the U.S. Department of Agricul- ture to develop nutrition education programs for low- income residents of public housing facilities in eight American cities.

Our cultural activities included the sponsorship of "Kazimir Malevich, 1878–1935" at the National Gallery of Art in Washington, D.C., and the sponsorship of "Craft Today USA," an exhibition touring 12 cities outside the United States, including Frankfurt, Mos- cow, and Warsaw, as an official presentation of the United States Information Agency. We also testified before a commission estab- lished by the U.S. Congress in support of the National Endowment for the Arts, and in favor of continued public funding for challenging and innovative art.

To help bring the promise of social and economic justice closer to reality for people throughout the United States, we continued our strong support of U.S. organizations such as the

President George Bush with students and celebrities as he announces the launch of StarServe, a Points of Light Initiative exclusively underwritten by the Kraft General Foods Foundation.

National Urban League, the National Puerto Rican Coali- tion, the National Women's Political Caucus, the United States Hispanic Chamber of Commerce, Women Involved in Farm Economics, and the National Minority Suppliers Development Council.

Philip Morris has responded to the needs of victims of disease and natu- ral disasters. Our 1990 relief efforts included sending food and water to earth- quake victims in Iran and the Philippines and to several orphanages in the Soviet Union near Chernobyl. We were one of the first major corporations to fund pro- grams for AIDS-related re- search and for treatment of the disease's victims; our cumulative AIDS funding now amounts to more than a million dollars.

We are continuing to mark the bicentennial of the U.S. Bill of Rights with an extensive educational cam- paign. The national tour of this document is scheduled to end in December 1991.

Kraft General Foods Foundation is the exclusive underwriter of StarServe, an innovative program designed to help teachers engage the nation's youth in community service activi- ties. StarServe has been recognized by the Points of Light Foundation, headed by Honorary Chairman President George Bush, as a Points of Light Initiative.

We act in the interests of our constituencies to bring about responsible public policies that address issues affecting our business such as product liability; the environment; excise taxes; labeling and advertising; and restrictions on market- ing and product use. For more information on our positions on these and other business issues, please write to our Corporate Affairs Department, whose address is given on the facing page.

General Corporate Information

Headquarters Addresses:

Philip Morris Companies Inc.
120 Park Avenue
New York, New York 10017
(212) 880-5000

Philip Morris Incorporated
120 Park Avenue
New York, New York 10017

Philip Morris U.S.A.
120 Park Avenue
New York, New York 10017

Philip Morris International Inc.
800 Westchester Avenue
Rye Brook, New York 10573

Regional Headquarters:

Philip Morris EEC
Brillancourt 4
Case Postale
1001 Lausanne
Switzerland

Philip Morris EFTA, Eastern Europe, the Middle East, & Africa
Avenue de Cour 107
Case Postale
1001 Lausanne
Switzerland

Philip Morris Latin America
800 Westchester Avenue
Rye Brook, New York 10573

Philip Morris Asia, Inc.
23rd Floor, Two Pacific Place
88 Queensway
Hong Kong

Philip Morris (Australia) Ltd.
252 Chesterville Road
Moorabbin, Victoria 3189
Australia

Kraft General Foods, Inc.
Kraft Court
Glenview, Illinois 60025

Operating Unit Headquarters:

General Foods USA
250 North Street
White Plains, New York 10625

Kraft USA
Kraft Court
Glenview, Illinois 60025

Kraft General Foods International
800 Westchester Avenue
Rye Brook, New York 10573

Kraft General Foods Canada
95 Moatfield Drive
Don Mills, Ontario
M3B 3L6

Oscar Mayer Foods
910 Mayer Avenue
Madison, Wisconsin 53704

Kraft General Foods Frozen Products
Kraft Court
Glenview, Illinois 60025

Kraft General Foods Commercial Products
1 Parkway North
Deerfield, Illinois 60015

Miller Brewing Company
3939 West Highland Boulevard
Milwaukee, Wisconsin 53201

Philip Morris Capital Corporation
800 Westchester Avenue
Rye Brook, New York 10573

Mission Viejo Company
26137 La Paz Road
Mission Viejo, California 92691

Annual Meeting:
The annual meeting of stockholders of Philip Morris Companies Inc. will be held on April 25, 1991, at the Philip Morris Manufacturing Center, 3601 Commerce Road, Richmond, Virginia.

Form 10-K:
The company's annual report on Form 10-K, which will be filed with the Securities and Exchange Commission, will be available to stockholders in April upon written request to:

Donald Fried, Secretary
Philip Morris Companies Inc.
120 Park Avenue
New York, New York 10017

Transfer Agent and Registrar:
First Chicago
Trust Company of New York
30 West Broadway
New York, New York 10007-2192

Shareholders may call the company about their accounts, certificates, or dividends using the toll-free telephone number 1-800-446-2617

Dividend Reinvestment Agent:
First Chicago
Trust Company of New York
Dividend Reinvestment Plan
P.O. Box 3506
Church Street Station
New York, New York 10008-3506

Stock Exchange Listings:
New York
Amsterdam
Antwerp
Basel
Brussels
Frankfurt
Geneva
Lausanne
London
Luxembourg
Paris
Tokyo
Zurich

NY Stock Exchange
Symbol: MO

Independent Accountants:
Coopers & Lybrand
1301 Avenue of the Americas
New York, New York 10019

Public Policy Issues:
Inquiries about our positions on public policy issues involving the company and its products should be directed to:

Corporate Affairs Department
Philip Morris Companies Inc.
120 Park Avenue
New York, New York 10017

Shareholder Publications:
Written requests should be directed to:

Financial Communications Dept.
Philip Morris Companies Inc.
120 Park Avenue
New York, New York 10017
or you may call toll-free:
1-800-367-5415

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