activities by anti-smoking groups designed to inhibit cigarette sales. The effects of these claims together with substantial increases in state and federal taxes on cigarettes have resulted in lower cigarette consumption, which is likely to continue in the future.

During the period 1992-1996, U.S. cigarette consumption declined at an average of 0.7% per year and exports of cigarettes by U.S. manufacturers increased at an average rate of 6.0% per year. The growth of U.S. cigarette exports is due to successful marketing of U.S. cigarette brands by U.S. tobacco manufacturers and the increasing popularity of the lighter flavor of American blend cigarettes, particularly in Europe and Asia. In addition, certain countries have reduced trade barriers that had previously limited imports of cigarettes manufactured by U.S. manufacturers. In response to the growing popularity of American blend cigarettes and increased exports by U.S. manufacturers, foreign manufacturers are now producing American blend cigarettes.

Consumption of chewing tobacco and moist snuff is concentrated primarily in the United States. U.S. production of chewing tobacco products has steadily declined for more than a decade and from 1992 through 1996 it has declined by 4.3%. Consumption has declined because chewing tobacco appeals to a limited and declining customer base, primarily males living in rural areas. Moist snuff consumption has risen steadily since the mid-1970s and has increased 1.2% from 1992 through 1996 due to the shift away from cigarettes and other types of smoking tobacco.

Health Regulations. Federal law has required health warnings on cigarettes since 1965 and has recently required states, in order to receive full funding for federal substance abuse block grants, to establish a minimum age of 18 years for the sale of tobacco products, together with an appropriate enforcement program. In recent years, a variety of bills relating to tobacco issues have been introduced in the Congress of the United States, including bills that would have (i) prohibited the advertising and promotion of all tobacco products and/or restricted or eliminated the deductibility of such advertising expenses; (ii) increased labeling requirements on tobacco products to include, among other things, addiction warnings and lists of additives and toxins; (iii) modified federal preemption state laws to allow state courts to hold tobacco manufacturers liable under common law or state statutes; (iv) shifted regulatory control of tobacco products and advertisements from the FTC to the FDA; (v) increased tobacco excise taxes; and (vi) required tobacco companies to pay for health care costs incurred by the federal government in connection with tobacco related diseases. Hearings have been held on certain of these proposals; however, to date, none of such proposals or similar bills may have an adverse effect on the sales or operations of the Company. In addition, various federal agencies, including the FDA as discussed below, have recently proposed to regulate the tobacco industry.

In addition, federal, state and local legislative and regulatory bodies have increasingly moved to curtail smoking by prohibiting smoking in certain public places, restricting the sale of tobacco products to minors, increasing labeling requirements, regulating the marketing, promotion and advertisement of cigarettes and smokeless tobacco and protecting non-smokers from so-called "second-hand" smoke. Smokeless tobacco manufacturers are subject to similar health warning regulations as cigarette producers, and there has been litigation that claims smokeless tobacco causes oral cancer. To the extent that further actions are taken to regulate tobacco products and restrict smoking, such actions could have a material adverse effect on the Company. Some foreign countries have also taken steps to restrict or prohibit cigarette advertising and promotion, to require ingredient disclosure, to impose maximum constituent levels, to increase taxes on cigarettes, to control prices, to restrict imports, to ban or severely restrict smoking in workplace and public