

From: Fitz Stefan [StefanFitz@AustriaTabak.com]
Sent: 30 October 2003 09:08
To: Rolfe Mark (Gallaher)
Cc: Simon Nigel; Saad Suhail (Gallaher); Keevil Tom (Gallaher); Perks Stephen (Gallaher)
Subject: Sovereign

Mark,

sorry to bother you directly but the Sovereign problem gets out of control.

Starting end springtime smaller volumes appeared in Romanian Duty-Free. The duty-free shops there are split basically in two groups - one are delivered from our contract partner for Romania and the other don't have our products. First appearance was in the shops which don't have our products. We could keep our contract partner quiet because it was not so big. I send samples to Suhail.

In the last weeks the quantities have been rising tremendously - several containers a week. Our contract partner could no longer stop the duty-free chain that has our products also to list Sovereign. Main reason is the extreme margin to be made with it: Sales price to duty-free operator 90 EUR per mastercase and then retail price to consumers 4 EUR per outer (for your comparison Memphis sales price to dutyfree operator is 115 EUR per mastercase and retail is 3,6 per outer. You see immediately the margin that the Sovereign supplier leaves to the duty free operator.

Also the products are sold extremely fast but you cannot find the in any of the surrounding areas with consumers.

Our contract partner has the exclusive right for Gallaher for Romania including Dutyfree. He is now seriously thinking of compensation claims.

First the sales of the other products are slowing down - secondly the margin on Sovereign leads to dutyfree operator wanting the same margin for the other products.

I don't know how long I can still keep him "quiet" and hinder a compensation case - who will pay?
As well we are getting in real trouble meeting our objectives 2003 (DutyFree net profit is about 4 EUR for us) and need certainly a profit relief for 2004.

What can we do? Please help?

It is really annoying to see how a well run business is destroyed by third parties.

As well our contract partner is also our partner for local Romania, Bulgaria and Czech Republic - he is disappointed by Gallaher.

Best regards,
Stefan

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