

2 The companies concerned

Gillette

Background

2.1. The Gillette Company was started in 1901 by Mr King Gillette in Boston, Massachusetts, USA, and commenced commercial production of the patented Gillette Safety Razor some two years later. The company headquarters has remained in Boston.

2.2. The Gillette Safety Razor Company established its London offices in 1905 to explore the product's potential in Europe. By 1909 Gillette had three European factories in France, Germany and England and was achieving annual world-wide sales of some 300,000 razors and 13 million blades.

2.3. Manufacturing in Europe ceased with the outset of the First World War although products continued to be exported from the USA. In 1920 a new plant was opened in Slough to supply the United Kingdom and other European markets and in 1937 Gillette UK moved to its present site at Isleworth, West London. A further United Kingdom plant was opened in 1947 at Reading. The major Gillette plant in mainland Europe is in Berlin; the other European plants are in France and Spain. In 1986 a hostile take-over bid by Revlon Group Inc (Revlon) was successfully resisted (see paragraph 2.13).

2.4. Blades and razors have remained Gillette's core product line. In 1989 it accounted for world-wide sales of \$1,238 million (1988: \$1,147 million) and operating profits of \$429 million (1988: \$391 million), representing 32 per cent and 62 per cent respectively of total sales and profits (1988: 32 per cent and 61 per cent).

2.5. Other product areas in which Gillette operates are:

- (a) toiletries and cosmetics;
- (b) stationery products;
- (c) consumer electrical goods; and
- (d) oral care.

Gillette's organisational structure

2.6. A chart of Gillette's world-wide organisational structure is at Appendix 2.1. All senior management of the Gillette North Atlantic Group, the division responsible for the manufacture and marketing of Gillette razors and blades in Europe and North America, is now carried out from Boston, USA.

2.7. Gillette's United Kingdom wet-shaving activities form part of the Gillette North Atlantic Group. This group's responsibilities are further subdivided into two divisions:

- (a) Manufacturing and Technical; and

(b) Marketing,

each of which is responsible for its activities throughout the Group's North American and European (essentially EC and EFTA countries) territory.

2.8. Within the Manufacturing and Technical Division there is a subdivision responsible for European manufacturing, namely the manufacturing facilities in Isleworth, Reading, Berlin, Seville and Annecy. The United Kingdom research and development laboratory (R&D), which is based at Reading, plays an important part in Gillette's wet-shaving R&D; it was there that both the Contour and Sensor products (see Chapter 4) were developed.

2.9. The Marketing Division's sales activities are divided on a geographic basis. The Northern European sales operations are responsible for the United Kingdom, Ireland, the Scandinavian countries, the Netherlands and Iceland. Other European sales activities are divided between Central Europe (Germany, Austria and Switzerland), Western Europe (France, Belgium and Luxembourg), South-East Europe (Italy and Greece) and South-West Europe (Spain and Portugal). Senior personnel responsible for overseeing European marketing (but not manufacturing) have recently moved to Boston from London.

Gillette's corporate structure

2.10. A chart showing Gillette's United Kingdom corporate structure is at Appendix 2.2. It will be noted that Gillette Industries is the holding company for Gillette UK and also for Lustrasilk International UK Ltd (Lustrasilk), each of which, as well as The Gillette Company itself, were involved in the transactions described in Chapter 3.

Financial information on Gillette

2.11. The Gillette Company prepares its accounts to 31 December each year. Except for 1986, when a major restructuring exercise took place, it has shown steady profit growth over the last five years, as will be seen from Table 2.1 which summarises its profit and loss accounts (ie the consolidated profit and loss accounts of The Gillette Company and its subsidiaries) for those years.

TABLE 2.1 **Gillette: summarised profit and loss accounts**

	US \$ million				
	Years ending 31 December				
	1985	1986	1987	1988	1989
Turnover	2,400	2,818	3,166	3,581	3,819
Cost of sales	(992)	(1,183)	(1,342)	(1,487)	(1,582)
Gross profit	1,408	1,635	1,824	2,094	2,237
Operating expenses	(1,037)	(1,227)	(1,301)	(1,480)	(1,573)
Restructuring expense	-	(179)*	-	-	-
Operating profit	371	229	523	614	664
Non-operating charges	(51)	(124)	(50)	(64)	(75)
Profit before investment income and interest	320	105	473	550	589
Interest less investment income	(48)	(47)	(81)	(101)	(115)
Profit before tax	272	58	392	449	474
Tax	(112)	(42)	(162)	(180)	(189)
Profit after tax	160	16	230	269	285
Dividends	(80)	(86)	(90)	(91)	(116)
Retained profit/(loss)	80	(70)	140	178	169

Source: Gillette.

*Restructuring expense included the write-down of assets and the accrual of estimated severance and other related costs. A further US \$26 million restructuring expense was included in non-operating charges.

2.12. Blades and razors have been Gillette's most profitable activity, as will be seen from Table 2.2 which divides its turnover and profits between (a) blades and razors and (b) other products. The former have accounted for around two-thirds of profits on about one-third of turnover.

TABLE 2.2 **Gillette: division of total turnover and operating profit between (a) blades and razors and (b) other products**

	<i>US \$ million</i>				
	<i>Years ending 31 December</i>				
	1985	1986	1987	1988	1989
<i>Turnover</i>					
Blades and razors	794	903	1,030	1,147	1,238
Other products*	<u>1,606</u>	<u>1,915</u>	<u>2,136</u>	<u>2,434</u>	<u>2,581</u>
	2,400	2,818	3,166	3,581	3,819
<i>Operating profit</i>					
Blades and razors	265	281	334	406	429
Other products*	<u>128</u>	<u>156</u>	<u>214</u>	<u>236</u>	<u>266</u>
	393	437	548	642	695
Restructuring expense	-	(179)	-	-	-
Corporate costs	<u>(22)</u>	<u>(29)</u>	<u>(25)</u>	<u>(28)</u>	<u>(31)</u>
	371	229	523	614	664
<i>per cent</i>					
<i>Turnover</i>					
Blades and razors	33	32	33	32	32
Other products*	<u>67</u>	<u>68</u>	<u>67</u>	<u>68</u>	<u>68</u>
	100	100	100	100	100
<i>Operating profit†</i>					
Blades and razors	67	64	61	63	62
Other products*	<u>33</u>	<u>36</u>	<u>39</u>	<u>37</u>	<u>38</u>
	100	100	100	100	100

Source: Gillette.

*Other products comprise toiletries and cosmetics, writing instruments and office products, Braun products, oral care and miscellaneous.

†Operating profit percentages are calculated before deduction of the restructuring expense in 1986 and of corporate costs, which have been deducted in arriving at operating profits shown in Table 2.1.

2.13. Gillette's consolidated balance sheet position at the end of each of the last five years is shown in Table 2.3. During the period covered by that table it spent US \$1,483 million on the repurchase of its own stock (referred to in its balance sheet as Treasury stock). There were two main elements in these repurchases. First, in 1986 Gillette repurchased a parcel of its own stock from Revlon as part of the settlement of that company's attempted take-over. The aggregate cost of this repurchase was US \$558 million. Secondly, in 1988 litigation between Gillette and the Coniston Group arising out of a proxy contest was settled on terms which included all Gillette stockholders being enabled to sell to Gillette one share at US \$45 for every seven shares held. The cost of this repurchasing programme was US \$712 million. These and other repurchases of its own stock resulted in a substantial increase in Gillette's capital gearing, which was partly offset by the issue of US \$600 million redeemable preferred stock to Berkshire Hathaway Inc in 1989.

TABLE 2.3 **Gillette: consolidated balance sheet positions**

	<i>US \$ million</i>				
	<i>At 31 December</i>				
	1985	1986	1987	1988	1989
Fixed assets:					
Tangible	668	811	896	856	999
Intangible	225	239	257	272	261
Stock and debtors less creditors (other than borrowings)	<u>572</u>	<u>671</u>	<u>705</u>	<u>884</u>	<u>997</u>
Capital employed	1,465	1,721	1,858	2,012	2,257
Borrowings net of cash	(709)	(1,020)	(951)	(1,804)	(1,272)
Short-term investments	<u>332</u>	<u>23</u>	<u>24</u>	<u>19</u>	<u>27</u>
Net assets	<u>1,088</u>	<u>724</u>	<u>931</u>	<u>227</u>	<u>1,012</u>
Share capital and reserves	899	1,029	1,227	1,398	1,553
Treasury stock at cost	-	(568)	(628)	(1,483)	(1,483)
Minority interests	5	8	8	12	14
Redeemable preferred stock	-	-	-	-	<u>600</u>
	904	469	607	(73)	684
Provisions (including pensions and deferred taxation)	<u>184</u>	<u>255</u>	<u>324</u>	<u>300</u>	<u>328</u>
	1,088	724	931	227	1,012
					<i>per cent</i>
<i>Gearing</i>					
(a) Borrowings net of cash and short-term investments expressed as a percentage of net assets less provisions	42	213	153	negative base	182
(b) As above excluding the effect of Treasury stock	42	96	75	127	57

Source: MMC from Gillette data.

Gillette Industries and Gillette UK

2.14. As will be seen from Appendix 2.2, Gillette Industries is the holding company for Gillette's United Kingdom interests. It makes up its accounts to 30 November each year and in the year ended 30 November 1989 made a consolidated profit before tax of £16.2 million (1988 £1.0 million) on a turnover of £305.5 million (1988 £265.5 million). Its net assets (capital and reserves) at 30 November 1989 were £33.9 million (1988 £36.1 million).

2.15. Its subsidiary, Gillette UK, is the United Kingdom company in the group that manufactures and distributes blades and razors, toiletries and writing instruments. It prepares its accounts to 30 November each year. Its profits before tax have fluctuated over the last five years, falling from a high point of £10.5 million in 1986 to £2.3 million, £5.2 million and £0.3 million respectively in the following three years, but recovering to £9 million in 1989, as will be seen from Table 2.4 which summarises its profit and loss accounts for the five years 1985 to 1989 and also shows its gross, operating and net margins.

TABLE 2.4 **Gillette UK: summarised profit and loss accounts**

	<i>Years ending 30 November</i>					<i>£ million</i>
	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	
Turnover	105.8	99.9	113.2	126.2	145.4	
Cost of sales	<u>(86.7)</u>	<u>(87.4)</u>	<u>(99.3)</u>	<u>(114.7)</u>	<u>(125.4)</u>	
Gross profit	19.1	12.5	13.9	11.5	20.0	
Overhead costs less other						
operating income	<u>(8.2)</u>	<u>(9.6)</u>	<u>(5.4)</u>	<u>(6.5)</u>	<u>(5.6)</u>	
Operating profit	10.9	2.9	8.5	5.0	14.4	
Exceptional items*	-	-	<u>(2.6)</u>	<u>(1.8)</u>	<u>(1.8)</u>	
Profit before interest	10.9	2.9	5.9	3.2	12.6	
Interest payable	<u>(0.4)</u>	<u>(0.6)</u>	<u>(0.7)</u>	<u>(2.9)</u>	<u>(3.6)</u>	
Profit before tax	10.5	2.3	5.2	0.3	9.0	
Tax	<u>(4.3)</u>	<u>(0.9)</u>	<u>(2.3)</u>	<u>(0.3)</u>	<u>(4.1)</u>	
Profit after tax	6.2	1.4	2.9	-	4.9	
Extraordinary items†	-	-	(1.4)	-	-	
Dividends	<u>(6.8)</u>	<u>(1.1)</u>	<u>(6.8)</u>	<u>(1.5)</u>	<u>(9.9)</u>	
Retained profit/(loss) for the year	<u>(0.6)</u>	<u>0.3</u>	<u>(5.3)</u>	<u>(1.5)</u>	<u>(5.0)</u>	
<i>Ratios</i>						<i>per cent</i>
1. <i>Gross margins</i>						
Gross profit as a percentage of turnover	18.1	12.5	12.3	9.1	13.8	
2. <i>Operating margins</i>						
Operating profit as a percentage of turnover	10.3	2.9	7.5	4.0	9.9	
3. <i>Net margins</i>						
Profit before taxation as a percentage of turnover	9.9	2.3	4.6	0.2	6.2	

Source: Gillette.

*Corporate restructuring costs, except for £1.4 million write-down of investment in 1989.

†Provision in 1987 for permanent diminution in the value of the company's investment in its subsidiary, Gillette Personal Care Ltd.

2.16. Table 2.5 summarises the year-end balance sheet positions of Gillette UK for the same five years and shows its capital gearing at each year end.

TABLE 2.5 **Gillette UK: summarised balance sheet positions**

	<i>At 30 November</i>					<i>£ million</i>
	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	
Tangible fixed assets	21.8	23.8	24.1	31.7	34.9	
Investment in subsidiaries	6.5	6.5	5.2	5.2	5.9	
Stocks and debtors less creditors (other than borrowings)	<u>24.4</u>	<u>13.8</u>	<u>24.0</u>	<u>27.1</u>	<u>12.1</u>	
Capital employed	52.7	44.1	53.3	64.0	52.9	
Net cash/(borrowings)	<u>(3.4)</u>	<u>4.8</u>	<u>(10.4)</u>	<u>(22.1)</u>	<u>(17.6)</u>	
Net tangible assets	<u>49.3</u>	<u>48.9</u>	<u>42.9</u>	<u>41.9</u>	<u>35.3</u>	
Share capital and reserves	43.0	43.3	37.9	36.4	31.4	
Provision for deferred taxation	<u>6.3</u>	<u>5.6</u>	<u>5.0</u>	<u>5.5</u>	<u>3.9</u>	
	<u>49.3</u>	<u>48.9</u>	<u>42.9</u>	<u>41.9</u>	<u>35.3</u>	
						<i>per cent</i>
<i>Gearing</i>						
Borrowings net of cash as a percentage of share capital and reserves	7.9	-	27.4	60.7	56.1	

Source: MMC from Gillette data.

2.17. Table 2.6 shows its returns on average capital employed.

TABLE 2.6 **Gillette UK: returns on average capital employed**

	<i>Years ending</i>				<i>per cent</i>
	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	
Profit before interest and tax as a percentage of average capital employed	6.0	12.1	5.5	21.6	

Source: MMC from Gillette data.

Wilkinson Sword

Background

2.18. The business of Wilkinson Sword was founded in the 18th century by Henry Nock, a noted British gunmaker. When he was joined by his son-in-law James Wilkinson, a swordsmith, it was expanded to include the manufacture of bayonets and swords. In 1890 the company began to produce a range of cutting implements, including a cut-throat razor, and in 1898 it produced its first safety razor. The manufacture of garden shears was added after the First World War. In 1955 a co-operation arrangement was made with a German company based in Solingen to produce stainless steel razor blades and this was followed by the formation in 1961 of a partnership company, Wilkinson Sword GmbH. In the same year Wilkinson Sword launched the first stainless steel PTFE-coated razor blade. This led to a tenfold increase in its sales of razor blades in three years and brought about a change from a company whose business was confined mainly to the United Kingdom to that of an international organisation. It put considerable strain on its financial resources and personnel, however, and in 1964 Wilkinson Sword became a public company.

2.19. Swedish Match AB was formed in 1917 by an amalgamation of Swedish manufacturers whose interests included the British match company J John Masters Ltd. The British Match Corporation Ltd (British Match) was formed in 1927 to acquire Bryant & May Ltd's United Kingdom and overseas activities together with the United Kingdom interests of Swedish Match AB, which consequently took a 33 per cent shareholding in British Match.

2.20. In 1973 Wilkinson Sword was acquired by British Match in a merger that was the subject of an inquiry by the MMC.¹ Wilkinson Sword thus became part of a group whose major activity was the manufacture and sale of matches, notably through Bryant & May. At that time Swedish Match AB retained a 33 per cent shareholding in the merged enterprise which changed its name to Wilkinson Match Ltd (Wilkinson Match).

2.21. In 1978 Swedish Match AB disposed of the greater part of its shareholding in Wilkinson Match to Allegheny International Inc (Allegheny). By 1980 Allegheny had acquired all the shares in Wilkinson Match that it had not acquired in 1978, including those of Swedish Match AB. Under the ownership of Allegheny a number of changes were made to the structure of the group. Most of the overseas interests of Wilkinson Match (including those of the Wilkinson Sword business) were transferred to other subsidiaries of Allegheny and a number of United Kingdom activities that were not part of the core consumer products activities were disposed of between February 1986 and April 1987.

2.22. In 1984, Swedish Match AB acquired the Cricket lighters activities and factories from Gillette.

2.23. By 1987 Allegheny's Wilkinson Sword Consumer Division (as it was then known) numbered among its assets in the United Kingdom Bryant & May's matches and lighters businesses and Wilkinson Sword, which made and sold razor blades and other shaving products, garden tools, scissors, kitchen knives and swords. In 1987 Swedish Match AB acquired these businesses from Allegheny. This merger was also the subject of an inquiry by the MMC.²

2.24. In March 1988 the Swedish Match AB home and garden business, including the Wilkinson Sword garden tools business, was sold to Fiskars Oy AB (Fiskars) of Finland. As part of these arrangements, a trade mark licence agreement was entered into between Wilkinson Sword Ltd and Fiskars. This granted Fiskars the exclusive right to use the Wilkinson Sword logo and trade mark on garden tools for a period of three years, with a two-year covenant thereafter which prevented Wilkinson Sword from using the mark on those products. The exclusivity period has been extended to coincide with that of the covenant.

2.25. In May 1988 Swedish Match AB was acquired by Stora. However, following a review of its activities, Stora decided in mid-1989 to concentrate on its core businesses and to seek a purchaser for its CP Division, ie the matches, disposable lighters and Wilkinson Sword shaving products businesses. Consequently in July 1989 Stora appointed Morgan Stanley International (MSI) as its adviser in connection with the proposed sale.

Wilkinson Sword's organisation

2.26. Prior to the sale by Stora the Wilkinson Sword business in the United Kingdom was carried on through:

- (a) Wilkinson Sword Group Ltd, which was the holding company of Wilkinson Sword Ltd (see (b)). It also handled:
 - (i) special contracts, for example the supply of equipment to third parties for the manufacture of razors or blades, particularly in Eastern bloc and Middle East countries;
 - (ii) exports of wet-shaving products to independent distributors in countries where there was no Wilkinson Sword associated company; and
 - (iii) royalty fees from Fiskars.

¹ *British Match Corporation Limited and Wilkinson Sword Limited: a report on the proposed merger*, Cmnd 5442, October 1973.

² *Swedish Match AB and enterprises belonging to Allegheny International Inc: a report on the merger situation*, Cm 227, October 1987.

(b) Wilkinson Sword Ltd, which was the principal operating company for the Wilkinson Sword business in the United Kingdom and was responsible for all operating activities in the United Kingdom including R&D, production and sales.

2.27. At this time the Wilkinson Sword business was headquartered in High Wycombe with the following operations:

- (a) manufacturing facilities in the United Kingdom (Cramlington), West Germany (Solingen) and Spain (Irun); with further (limited) manufacturing facilities in Brazil and Zimbabwe and packaging operations in the USA and Australia;
- (b) R&D functions mainly at Solingen but also, to a limited extent, at High Wycombe; and
- (c) sales operations in all EC countries (except Denmark and Greece, where sales were effected through independent distributors), and elsewhere including Australia, Austria, Brazil, Canada, Japan, New Zealand and the USA.

2.28. After the sale by Stora and following a restructuring of the business under the new management a new United Kingdom holding company has been established, Wilkinson Sword Group Holdings Ltd; and certain of the activities of Wilkinson Sword Group Ltd (including most of those in paragraph 2.26(a)(ii)) have ceased following the sale to Gillette of the non-EC/US businesses. The corporate headquarters of Wilkinson Sword has been transferred to Solingen and the manufacturing facility in Spain closed.

2.29. In addition to a full range of wet-shaving equipment of all three types (system, disposable, double edge), Wilkinson Sword also markets related personal care products sourced from outside the company.

Swedish Match NV (formerly Eemland Management Services BV)

2.30. Negotiations leading to the sale of the CP Division took place during the second half of 1989. The sale was made in December of that year by means of a highly leveraged buy-out involving certain members of the Swedish Match AB senior management. The vehicle used for this purchase was then known as Eemland Management Services BV (Eemland), a Dutch company which had been incorporated as a shelf company in February 1988. The transaction, which is the subject of the reference, is more fully described in Chapter 3. The transfer of the businesses took place mainly but not wholly on 20 December 1989. The purchase was financed by a consortium of banks and finance houses including Swedish institutions, together with Gillette which has a non-voting equity stake and is also a loan creditor of the new company.

2.31. Immediately after the transaction Eemland sold the non-EC wet-shaving businesses of Wilkinson Sword to Gillette. However, the US business was sold back on 20 January 1989 to Eemland on commencement of an investigation by the US anti-trust authorities. Following the sale back and on the basis of certain undertakings given by Gillette and Eemland the proceedings were settled by means of a Consent Order entered in the US District Court for the District of Columbia in July 1990. Details of the Final Judgment are given in Appendix 2.3.

2.32. In April 1990, after the third stage of the sale, Eemland, which was by then the holding company for the matches, lighters and wet-shaving subsidiaries, changed its name to Swedish Match NV.

2.33. On 8 October 1990 Swedish Match NV agreed the sale of the major part of the matches and disposable lighters businesses which should enable it to reduce the senior debt substantially: this transaction is also more fully described in Chapter 3. Once this sale is completed it will be left with the EC and US Wilkinson Sword wet-shaving businesses, since the non-EC/US Wilkinson Sword businesses have already been sold to Gillette. It then intends to change its name to Wilkinson Sword NV. It will, however, continue to operate a world-wide business in private-label razors, and special contracts.

2.34. Although a Dutch company, the Swedish Match NV headquarters is at Nyon, Switzerland, whence the matches and disposable lighters businesses have been managed.

2.35. Under its agreement with Gillette, Wilkinson Sword is now prevented from marketing its Wilkinson Sword branded wet-shaving products anywhere in the world, directly or indirectly, other than in the EC and the USA. This loss of markets to Gillette as a result of its purchase of the non-EC businesses includes the EFTA countries and Eastern Europe. (The position in Canada remains unresolved at present because of an inquiry by the Canadian competition authority.)

2.36. A chart showing the proposed structure of Swedish Match NV following the sale of the matches and disposable lighters businesses and the reorganisation of the retained shaving business is attached at Appendix 2.4. Information on the funding of the company is given in Chapter 3.

Financial information on Swedish Match NV and Wilkinson Sword

2.37. As a newly incorporated company which did not commence trading until 20 December 1989, Swedish Match NV has not yet produced statutory accounts. Information circulated to prospective investors in connection with the financing of the purchase from Stora did, however, include brief particulars of the financial results of the matches, lighters and shaving businesses world-wide from which we have extracted the data shown in Table 2.7.

TABLE 2.7 Results of matches, lighters and shaving businesses world-wide

	<i>SEK million</i>		
	<i>1987</i>	<i>1988</i>	<i>Estimate for 1989</i>
<i>Matches</i>			
Sales	1,881	2,296	2,247
Operating income	129	282	296
Operating margin (%)	6.9	12.3	13.2
<i>Lighters</i>			
Sales	475	515	550
Operating (loss)	(39)	(11)	-
<i>Shaving</i>			
Sales	606	911	1,111
Operating income	33	52	64
Operating margin (%)	5.4	5.7	5.8

Source: MMC from Swedish Match NV data.

2.38. This information also showed that the gross assets and the net operating assets of the three businesses at 31 December 1988 were as set out in Table 2.8.

TABLE 2.8 Gross and net operating assets of the matches, lighters and shaving businesses

	<i>SEK million</i>			
	<i>Matches</i>	<i>Lighters</i>	<i>Shaving</i>	<i>Total</i>
Fixed assets	887	145	95	1,127
Inventories	305	141	122	568
Accounts receivable	295	162	259	716
Other operating accounts	-	4	-	4
Gross assets	1,487	452	476	2,415
Accounts payable	(181)	(105)	(110)	(396)
Other operating accounts	(82)	-	(65)	(147)
Net operating assets	1,224	347	301	1,872

Source: MMC from Swedish Match NV data.

2.39. The total gross assets of SEK 2,415 million are equivalent to about £240 million.

2.40. Table 2.9, which is extracted from Swedish Match NV's 1990 management accounts, shows its 1990 budget and the actual results for the first half of the year together with the corresponding 1989 figures for Stora's consumer products business, analysed by divisions and, in the case of the Personal Care Division (shaving, manicure and toiletries), between the EC, US and Canadian markets.

TABLE 2.9 Swedish Match NV: financial results 1989 and 1990

	SEK million					
	1989		1990		Actual Jan-June†	
	Actual for year*		Budget for year†		Sales	Operating income
	Sales	Operating income	Sales	Operating income	Sales	Operating income
Matches	2,204	279	[1,149	191
Advertising products	143	1			102	5
Lighters	520	7			282	14
Lights, others	21	(8)			(17)	(3)
Personal care:‡						
EC	<u>860</u>	<u>83</u>			<u>482</u>	<u>51</u>
US	<u>117</u>	<u>(12)</u>			<u>54</u>	<u>(11)</u>
Canada	<u>21</u>	<u>(2)</u>			<u>11</u>	<u>(3)</u>
	<u>998</u>	<u>69</u>			<u>547</u>	<u>37</u>
	3,886	348		<i>Figures omitted. See note on page iv.</i>	2,063	244
Central charges	-	(33)			-	(20)
Goodwill amortisation	-	-			-	(22)
	<u>3,886</u>	<u>315</u>			<u>2,063</u>	<u>202</u>
Non-EC/US shaving business§	<u>184</u>	<u>12</u>			<u>110</u>	<u>13</u>
	4,070	327]	2,173	215
						<i>per cent</i>
Personal care profit margins:						
EC		9.7	[10.6
US/Canada		(10.1)]			(21.5)
Total		6.9				6.8

Source: MMC from Swedish Match NV data.

*Results for Stora's CP Division.

†Budget and results for Swedish Match NV.

‡Personal care includes all wet-shaving products and toiletries.

§Now being supplied under transitional arrangements with Gillette.

2.41. So far as the United Kingdom is concerned, the Wilkinson Sword operating company, Wilkinson Sword Ltd, which prepares its accounts to 31 December each year, has incurred losses before tax for some years. There has, however, been a gradual improvement in more recent years, as will be seen from Table 2.10, which summarises its profit and loss accounts for the last five years.

TABLE 2.10 **Wilkinson Sword Ltd: summarised profit and loss accounts**

	<i>Years ending 31 December</i>					<i>£ million</i>
	1985*	1986	1987	1988	1989	
Turnover†	39.2	38.2	32.2	24.9	25.6	
Cost of sales	<u>(27.4)</u>	<u>(26.1)</u>	<u>(20.5)</u>	<u>(16.2)</u>	<u>(16.6)</u>	
Gross profit	11.8	12.1	11.7	8.7	9.0	
Overhead costs	<u>(14.0)</u>	<u>(14.2)</u>	<u>(11.1)</u>	<u>(7.9)</u>	<u>(6.4)</u>	
Operating profit/(loss)	(2.2)	(2.1)	0.6	0.8	2.6	
Amount written off investment	-	-	<u>(0.8)</u>	-	-	
Profit/(loss) before interest	(2.2)	(2.1)	(0.2)	0.8	2.6	
Interest payable	<u>(3.8)</u>	<u>(3.5)</u>	<u>(3.8)</u>	<u>(4.0)</u>	<u>(4.8)</u>	
(Loss) before tax	(6.0)	(5.6)	(4.0)	(3.2)	(2.2)	
Tax	<u>3.2</u>	<u>(0.1)</u>	<u>(0.1)</u>	<u>0.2</u>	<u>1.9</u>	
(Loss) after tax	(2.8)	(5.7)	(4.1)	(3.0)	(0.3)	
Extraordinary items	<u>(1.3)‡</u>	<u>0.4‡</u>	-	<u>1.5§</u>	<u>31.4¶</u>	
	(4.1)	(5.3)	(4.1)	(1.5)	31.1	

Source: Wilkinson Sword Ltd.

*1985 was a 13-month year as the year end was changed.

†Turnover was reduced substantially on sale of the home and garden business to Fiskars in March 1988.

‡Provision for restructuring the company's activities.

§Surplus on sale of Home and Garden Division.

¶Sale of non-EC trade marks to Gillette for the US \$ equivalent of £32 million, plus £2 million profit on liquidation of subsidiaries less tax on extraordinary profits £2.6 million.

2.39. We show in Table 2.11 a summary of Wilkinson Sword Ltd's year-end balance sheet positions for the same five years.

TABLE 2.11 **Wilkinson Sword Ltd: summarised balance sheet positions**

	<i>At 31 December</i>					<i>£ million</i>
	1985	1986	1987	1988	1989	
Tangible fixed assets	4.6	5.1	4.1	3.0	2.8	
Stocks and debtors less						
creditors (other than borrowings)	<u>7.8</u>	<u>9.9</u>	<u>7.9</u>	<u>5.7</u>	<u>4.6</u>	
Capital employed	12.4	15.0	12.0	8.7	7.4	
Investments	-	-	0.4	-	-	
(Borrowings) net of cash*	<u>(24.7)</u>	<u>(34.5)</u>	<u>(36.0)</u>	<u>(34.1)</u>	<u>(1.5)†</u>	
Net tangible assets/(liabilities)	<u>(12.3)</u>	<u>(19.5)</u>	<u>(23.6)</u>	<u>(25.4)</u>	<u>5.9</u>	
Share capital and reserves	(14.4)	(19.8)	(23.9)	(25.4)	5.7	
Provisions and deferred income	<u>2.1</u>	<u>0.3</u>	<u>0.3</u>	-	<u>0.2</u>	
	(12.3)	(19.5)	(23.6)	(25.4)	5.9	

Source: Wilkinson Sword Ltd.

*Borrowings are mainly from group companies and are interest-bearing.

†The reduction in borrowings and the improvement in the net assets position at the end of 1989 was largely because of the sale of the non-EC trade marks to Gillette (see note ¶ to Table 2.10).

Stora

Background

2.40. Stora was founded in the 13th century as a mining organisation. More recently it has concentrated on forest products and goods manufactured from them. Stora's principal operating divisions are listed in Appendix 2.5. It is now one of the leading companies world-wide in such markets as wood pulp, newsprint, fine papers, packaging, paper and board. Other products include doors, windows and kitchen

and bathroom furniture. The basis for most of its industrial operations is the group's own holdings of 1.6 billion hectares of productive forest land in Sweden, and hydroelectric capacity of 3,800 GWh. In 1989 it made an operating profit of SEK 5,054 million (1988: SEK 4,307 million) on sales of SEK 42,264 million (1988: SEK 34,256 million).

2.41. As noted above, shortly after acquiring Swedish Match AB in 1988 Stora decided to concentrate on its core business. In the consequent restructuring some wood-based activities of Swedish Match AB were transferred to other Stora operating divisions leaving the matches, lighters and wet-shaving businesses comprising the CP Division for disposal. It also disposed of its chemical company, Stora Kemi, except for its mining and sulphurous chemical operations. Both divestments have now been substantially completed.

2.42. In line with its policy to concentrate on and expand its core business and also a determination to strengthen its presence within the EC, Stora acquired Feldmühle Nobel AG (Feldmühle) in 1990. Feldmühle is Europe's largest purchaser of pulp and Stora the world's second largest producer of pulp. The transaction is contingent on the approval of the German Bundeskartellamt. With this acquisition Stora's sales are estimated to rise to SEK 74 billion.

Financial information on Stora

2.43. Stora prepares its accounts to 31 December each year. Table 2.12 summarises its consolidated income statements for the last five years.

TABLE 2.12 **Stora: summarised income statements**

	<i>Years ending 31 December</i>					<i>SEK million</i>
	1985	1986	1987	1988	1989	
Sales	<u>12,921</u>	<u>12,996</u>	<u>20,480</u>	<u>34,256</u>	<u>42,264</u>	
Operating profit	1,714	1,623	2,820	4,307	5,054	
Net financial items	<u>(578)</u>	<u>(226)</u>	<u>(296)</u>	<u>(597)</u>	<u>(1,132)</u>	
Profit after financial items	1,136	1,397	2,524	3,710	3,922	
Extraordinary items	<u>203</u>	<u>(18)</u>	<u>71</u>	<u>25</u>	<u>178</u>	
Profit before appropriations and taxes	1,339	1,379	2,595	3,735	4,100	
Appropriations and taxes	<u>(926)</u>	<u>(1,113)</u>	<u>(2,217)</u>	<u>(2,625)</u>	<u>(2,482)</u>	
Net profit	413	266	378	1,110	1,618	

Source: Stora.

2.44. Table 2.13 contains summaries of Stora's balance sheets at 31 December in each of the last five years.

TABLE 2.13 **Stora: summarised balance sheets**

	<i>At 31 December</i>					<i>SEK million</i>
	1985	1986	1987	1988	1989	
Total assets	17,798	22,813	33,271	49,058	55,275	
Liabilities	<u>(10,828)</u>	<u>(12,702)</u>	<u>(16,589)</u>	<u>(29,292)</u>	<u>(33,812)</u>	
Net assets	<u>6,970</u>	<u>10,111</u>	<u>16,682</u>	<u>19,766</u>	<u>21,463</u>	
Minority interests	289	2,120	2,567	3,284	2,918	
Untaxed reserves	4,096	5,377	7,482	8,896	9,924	
Stockholders' equity	<u>2,585</u>	<u>2,614</u>	<u>6,633</u>	<u>7,586</u>	<u>8,621</u>	
	6,970	10,111	16,682	19,766	21,463	

Source: Stora.