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Conrad Black's Spectacular Collapse

Media Mogul Quits Post Atop Crumbling Empire And Must Repay Millions

Edited by Hugo Dixon

Conrad Black's control of his media empire is collapsing in spectacular fashion. The newspaper mogul has not just had to retire as chief executive of Hollinger International, which owns newspapers such as Britain's Daily Telegraph and the Chicago Sun-Times. He is being forced to repay over \$7 million (€5.9 million) in unauthorized payments, while the group is probably going to be sold or broken up. (See related article.)

When Mr. Black's \$7 million payment was initially disclosed to the U.S. Securities and Exchange Commission, Hollinger said it had been authorized by the independent directors and was made to "satisfy a closing condition" on a disposal. But this wasn't true. What's more, a further \$17 million paid to Hollinger Inc., the vehicle through which Mr. Black controls Hollinger, hadn't been disclosed at all.

As if this wasn't enough, Hollinger is now severing ties with Ravelston, the Black-controlled company that sits on top of Hollinger Inc. Ravelston has received more than \$200 million since 1995 from Hollinger in return for management services supplied by Mr. Black and his associates. But with this relationship unraveling, Ravelston won't have the cash to funnel

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through to Hollinger Inc. that will then struggle to service its \$120 million debt mountain. If that happens, creditors might be forced to seize its shares in Hollinger. No wonder Mr. **Black** has been wriggling so frantically to try to find an investor to plug the hole in his finances.

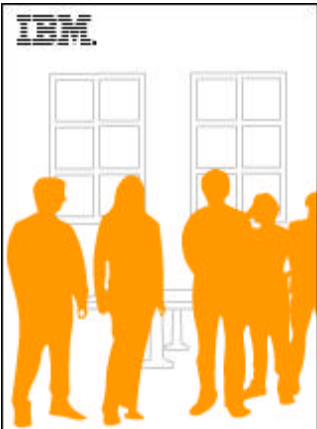
None of this will come as a complete surprise to the London market, which was left with a sour taste after Mr. **Black** floated the Telegraph in the early 1990s. He sold a large block of shares in 1994 just before he entered into a price war with Rupert Murdoch's Times of London newspaper -- an event that caused the shares to plummet. Mr. **Black** was effectively blackballed when Cazenove, his broker, resigned. Now Mr. **Black** faces the prospect of his newspapers, which also include the Jerusalem Post, being sold. And, of course, his name will be **Black**.

\* \* \*

#### Imperial Tobacco

**Imperial Tobacco** used to be a market darling. But investors don't seem enamored of the stock any longer. In spite of its successfully bedding down its acquisition of Reemtsma, the U.K. tobacco group's stock is flat since the beginning of the year. And not only has Imperial Tobacco underperformed the rising British market by 14%, it has also lagged the European tobacco sector by 3% over the year.

The problem is that the group is particularly exposed to Germany, which is expected to contribute about 20% of earnings before interest, tax and amortization next year. And German smokers face tough times, thanks to an expected tax increase of €1 (\$1.17) a pack between 2004 and 2005. This would hamper any attempts by tobacco manufacturers to hike up prices. And customers may either stop smoking altogether -- upping the rate of decline that is already running at about 4% a year -- or trade down to less expensive cigarettes. The fear is that Imperial could have to



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reinvest some of its savings in marketing and promotions.

But while Imperial certainly faces harsh conditions in Germany, the picture may not be quite so glum. The group reckons that its roll-your-own tobacco products could pick up some of the slack if consumers do trade down. And the group is slashing costs over at Reemtsma. Last year it delivered above-target synergies, and it now says that it can get 25% more cost cuts this year than it had originally anticipated. That should help offset any damage, at least in the near future.

While the extraordinary growth it bought with Reemtsma is expected to run out after 2005, the group still has room to grow faster than its rivals. It has plans to expand in China and Turkey. And it looks well placed to take advantage of cheaper production costs when Eastern European countries such as Poland join the European Union.

\* \* \*

#### Ambassadorial Directors

What do Hollinger International, [Marconi](#) and Cable & Wireless all have in common? Apart from being disaster stories, that is. All three shared, at one time or another, a certain nonexecutive director -- Raymond Seitz, former U.S. ambassador to the Court of St. James's.

It may just be Mr. Seitz's bad luck that a few of the companies where he took directorships ran amok. For example, he only joined Hollinger's board in July, when most of Lord Black's governance problems were already out in the open. On this basis, one might argue that only since Mr. Seitz joined the board have Hollinger's real warts been exposed, notably a series of unauthorized payments to a company controlled by the media baron himself.

But then how to explain the roles he played at Marconi and C&W? At the former, Mr. Seitz watched the company's transformation from a cash-rich engineer to a near-bankrupt tech icon. Surely he is not to blame for all of Marconi's faults, but he -- like other directors -- has much to answer for. C&W

#### [Hollinger International Inc. \(HLR\)](#)

PRICE	15.59
CHANGE	-0.18
U.S. dollars	12:11 p.m.

#### [Imperial Tobacco Group PLC \(ITY\)](#)

PRICE	36.50
CHANGE	-0.16
U.S. dollars	12:03 p.m.

#### [Marconi PLC ADS \(MRCIY\)](#)

PRICE	20.15
CHANGE	0.03
U.S. dollars	9:46 a.m.

\* At Market Close

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pulled a similar stunt, selling its Hong Kong telecom business for cash that it promptly squandered in overpriced Internet assets.

Again, all of this may have had nothing to do with Mr. Seitz. But it does suggest that having a former ambassador is nice for prestige, but not necessarily so great for holding managers to account.

--- Hugo Dixon, Fiona Maharg, Camilla Palladino and Rob Cox

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