RJReynolds
Tobacco Company

1996 OPERATING PLAN

SECRET

NOVEMBER 1995

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R.J. Reynolds Tobacco Company

1996 PLAN

KEY OBJECTIVES:

- **ARREST MARKET SHARE DECLINE**
- **GENERATE MEANINGFUL EARNINGS**

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1. **Build Brand Equity**

   - Market CAMEL more aggressively to accelerate share growth
   - Test market WINSTON and SALEM repositioning concepts
   - Strengthen the "DORAL Difference" campaign to maintain growth
   - Evaluate new Full-Price and Savings brand positionings

2. **Maintain Competitive Position**

   - Achieve effective retail pricing through disciplined discounting
   - Continue Relationship Marketing programs to retain franchise loyalty
   - Protect trade presence through stronger Merchandising, Private Label pr

3. **Control Costs to Provide Funds For Market Investment and Earnings**

For Mark
Rotsman-Personnel
1/11/96

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1996 Plan

RJReynolds
Tobacco Company

1996 Operating Plan

November 1, 1995 **Secret**

RJReynolds Tobacco Company

1996 Operating Plan Highlights

Financials:

- OCC ($1,400mm), CNI ($488mm) and Cash EPS ($1.48) all roughly flat versus 1995
- Free Cash Flow (+$54mm) is $106mm lower than 1995
  (TI leaf allocation changes & RN allocation outflow changes account for the negative impact)
- Invested capital is $400 million lower in 1996 versus 1995

Market Performance Plans:

- RJR Full-Price SOM is down .55 points (16.38%)
  - Versus -.8 to -.9 historically
  - WINSTON Select support falls to Base WINSTON levels & entire family repositioning occurs
  - CAMEL growth accelerates (2 X historical levels)
  - SALEM share almost flat due to heightened brand defense
- RJR Saving SOM (+.24 pts.) and SOSv. (+1.23 pts.) reverse a two year slide
  - DORAL and Forsyth gains more than offset losses across balance of the portfolio
  - MONARCH and BEST VALUE protected in pockets of strength
- Total RJR share decline .31 pts. (26.47%), excluding any GTC impact

Costs:

- $152mm in annualized savings from restructuring efforts (includes an 8% home office headcount reduction)

RJR 1996 Summary

	Volume	▲ Vs. '95	SOM	▲ Vs. '95	SOFP/Sv.	▲ Vs. '95	
Marketplace (X-GTC):							
Full-Price	73.5	(2.5)	16.38	(.55)	23.16	(.91)	Excluding recall benefit, share down only .2
WINSTON	24.3	(2.7)	5.31	(.58)	7.51	(.86)	Positioning gains offset by lower Select promotion
CAMEL	22.0	1.1	4.69	.28	6.63	.36	Excluding recall, growth rate about double
SALEM	17.7	NC	3.93	(.07)	5.55	(.14)	Better defense to hold position
Savings	48.7	2.0	10.09	.24	34.47	1.23	DORAL on track & lower AOSv. decline
DORAL	30.1	2.6	5.65	.42	19.29	1.65	Continues high growth with equity development
Forsyth	11.4	.2	2.60	.04	8.88	.23	Critical component in trade efforts
Total	122.2	(.5)	26.47	(.31)	NA		Flat share after removing recall impact

	Plan	▲ Vs. '95	
Financial:			
OCC Margin	$1,400	NC	• Utilize several upside sensitivities to establish this objective
CNI	488	(3)	• RN expense allocations about flat, as is RJR OCC
Free Cash Flow	54	(106)	• Leaf allocation to TI reduced $62mm and RN allocation outflow up $51mm
Cash EPS	$1.48	(.01)	

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1996 Operating Plan: Summary

RJR's 1996 Plan Is About Arresting Share Decline, While Generating Meaningful Earnings

Idea Generation And Investment

- GTC: 1Q96 launch, hurdles are external and in-market consumer acceptance
- WINSTON: 2Q96 repositioning launch planned, "Natural" positioning uncertain, "Natural" development continuing/other positioning work in process as well
- CAMEL: Offensively more aggressive and innovative
- SALEM: Positioning development in process, reserve for 3Q96 test repositioning launch established
- DORAL: Continue equity enhancement efforts to lessen need for discounting, while maintaining growth
- Niche exploration/Other efforts: Moonlight, Carolina Gold, Hogshead, BrainReserve, smoother cigarette, technologies, Smoker's Option

Maintain Competitive Position

- Discount Defense: Continue DORAL "Ceiling" and full-price "Gap" efforts (SALEM expanded)
- Franchise Relationship Programs: Continue employing these program to effectively and efficiently deliver franchise loyalty
- Protect Trade Presence: Strengthen merchandising, while continuing momentum of Wholesale Partners
- Private Label: Continue to tie Forsyth to Trade programs and category profitability pitches

Objectives & Issues

- The 1996 Plan seeks to improve market trends and outlook, while delivering $1,400mm OCC (See facer)
- Associated market and financial risks run the gamut from lower than expected industry volume to less improvement in trends than planned to heightened competitive activity
- External concerns cut across several RJR development initiatives
- Costs will be continually controlled to ensure maximum dollars for market investment & RJR earnings

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WINSTON Performance Overview

Shipments

	Base	Select	Family
1994 Shipments	24.1	4.5	28.6
1995 Shipments	22.5	4.5	27.0
Recall Impact	.8	0	.8
Adjusted Shipments	21.7	4.5	26.2
%▲ PP	-10%	NC	-8%
1996 Base Trend	19.9	4.5	24.4
%▲ Adjusted PP	-8%	NC	-7%
Adjustments To Trend:			
Price Gap Defense	.4	(.2)	.2
Select Base Switch	.3	—	.3
Non-Discount Support		(.4)	(.4)
Trend Deterioration		(1.0)	(1.0)
Repositioning Boost	.5	.3	.8
1996 Plan Volume	**21.1**	**3.2**	**24.3**
%▲ Adjusted PP	-3%	-29%	-7%

Share Projections

	SOM	SOFP
1994	6.22	8.92
1995 (with Recall)	5.89	8.37
1995 (x-Recall)	5.73	8.14
1996 Plan	5.31	7.51

1996 Financial Summary

	Baseline	Repo. Plan	Investment
Volume (B's)	23.5	24.3	.8
Net Sales (mm's)	$991	$1,025	$34
Product Cost	153	162	9
Marketing Expense			
Advertising	$1	$34	$33
Retail	90	105	15
Continuity	3	6	3
Conversion		11	11
SME	22	30	8
Retention	13	3	(10)
New Initiatives		2	2
Other	15	18	3
Prespending Impact	—	(3)	(3)
Net Marketing	$144	$206	$62
MAM	$694	$657	$(37)
▲ versus 1995	(15)	(52)	
%▲ versus 1995	-2%	-7%	

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WINSTON's Immediate Term Objectives Are To Develop A Viable Repositioning Idea And Effectively Implement This Idea In The Market

Positioning Development

- Repositioning development efforts continue around the WINSTON "Natural" proposition, with several issues to be resolved:
  - Power of the propositions with consumers (A&A results available in December)
  - Competitive and franchise smokers product acceptability (Second configuration test results in December)
  - External factors

- December will be the next time period for decisions related to the "Natural" positioning
  - Abandon the effort
  - Continue evaluation
  - Set a launch date
  - Combine elements with another positioning effort

- Alternative positioning efforts are underway

Positioning Strategies

- Strategies for deployment and establishment of a new WINSTON positioning will likely be very similar, regardless of the positioning choice
  - Establish the positioning via consumer communications
    - Mass media used for Brand presence & message
    - Maintain prominent retail presence
    - Employ "non-traditional" communication tactics
  - Re-engage competitive smokers
    - Interject WINSTON into competitive smoker's purchase patterns with retail promotion
    - Engage OU's and establish UB's with direct marketing
    - Exploit WINSTON Cup to accelerate new positioning
  - Minimize losses in discounting battles
    - Maintain 35¢ price gap versus Branded Savings
    - Match Marlboro's offensive discounting efforts

- Securing retail presence and price gap execution are also important for holding WINSTON's business base, while positioning development proceeds

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CAMEL Performance Overview

Shipments

	Total	X-Regular
1994 Shipments	19.3	15.7
1995 Shipments	20.9	17.5
Recall Impact	.7	.7
Adjusted Shipments	20.2	16.8
%▲ PP	5%	6%
1996 Baseline	21.1	17.8
Growth Acceleration	.9	.9
1996 Plan	**22.0**	**18.7**
%▲ Adjusted PP	8%	11%

Share Projections

	SOM		SOFP		
	Total	X-Reg.	Total	X-Reg.	YAS Share
1994	4.13	3.42	5.91	4.90	9.9
1995 (with Recall)	4.41	3.72	6.27	5.29	
1995 (x-Recall)	4.24	3.55	6.06	5.08	10.4
1996 Plan	4.69	4.03	6.63	5.70	11.4

1996 Financial Summary

	Plan	▲ Vs. 1995
Volume (B's)	22.0	1.1
Net Sales (mm's)	$912	$62
Product Cost	137	1
Marketing Expense:		
Advertising	$59	
Retail	116	
Continuity	48	
Conversion	25	
SME	7	
Retention	6	
New Initiatives	3	
Other	15	
Total Marketing	$279	$(22)*
MAM	$496	$41
%▲ Versus 1995	9%	

* P&L basis, Market spending difference = $(6)mm

1996 Operating Plan: Investment Continuation - CAMEL

CAMEL's Plan For 1996 Is To Move "More To Its Toes," Becoming Offensively Aggressive With Efforts To Accelerate The Brand's Growth (Total Market and 21-24 Year Old Smokers)

CAMEL's 1996 strategies remain essentially the same . . . . It's the aggressiveness of execution and integration of fresh elements that's changed

- Create marketplace news/excitement that reinforces the hip, cool CAMEL image
- Establish high growth regions that provide long-term momentum (goal to work toward 20% 21-24 year old smoker share in 9 priority Regions)
- Maintain competitive pricing versus Branded Savings and Marlboro offensive discounting efforts

- 3 marketing "events" will integrate marketing elements throughout the year
- Enhanced advertising reach objectives have been established
- Bolder, more frequent use of "Joe" in communications
- Establish "CAMEL Cash" proof values comparable to "Marlboro Miles"
- Enhanced support for billiard and Club programs
- Front and center retail presence and promotions
- New brand styles with unique communications aimed at YAS and trend setters (Red Kamel, Kamel Menthe)
- Utilize research to pinpoint geographies with the most growth potential among YAS and concentrate growth expansion efforts in these geographies
- Expand efforts of the "CAMEL Store" catalog
- Continue price gap strategy execution

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SALEM Performance Overview

Shipments

1994 Shipments	18.5
1995 Shipments	17.7
% ▲ PP	-4%
1996 Baseline	16.9
Enhanced Defense	.8
1996 Plan	17.7
% ▲ PP	NC

Share

	SOM	SOFP
1994	4.15	5.95
1995	4.00	5.69
▲ PP	-.15	-.26
1996	3.93	5.55
▲ PP	-.07	-.14

1996 Financial Summary

	Plan	▲ Vs. '95
Volume	17.7	NC
Net Sales	$750	7
Product Cost	119	7
Marketing	85	(34)
MAM	**$546**	**$(20)**
% ▲ Vs. 1995	-3.5%	

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1996 Operating Plan: Investment Opportunity - SALEM

SALEM Will Enter 1996 With Improved Defense Of Its Current Volume Base And An Assumption That Positioning Development Work-In-Process Will Payoff With A Small Geography Launch

Defense

- Match Kool and Newport discounting in geographies representing 70% of SALEM's volume base (Versus 30% in 1H95)
- Participate in mega-volume outlet and other trade programs in strong SALEM geographies
- Continue direct marketing relationship efforts
- Continue MAM positive checkout coupon programs

Repositioning Efforts

- Internal and agency (including BrainReserve) positioning development in-process
- "Female Think" positioning exploration with consumers is in-process
- Objective is a mid-year test geography positioning launch
- A $14mm reserve has been established for accomplishing a test geography launch

VANTAGE, MORE, NOW Performance Overview

	VANTAGE	MORE	NOW	Combined
Shipments				
1994 Shipments	5.8	2.9	2.5	11.3
1995 Shipments	5.4	2.7	2.3	10.4
%▲ PP	-8%	-10%	-10%	-8%
1996 Plan	**4.9**	**2.5**	**2.0**	**9.4**
%▲ PP	-8%	-7%	-11%	-10%
Share Projections				
1995 SOM	1.35	.64	.64	2.63
1996 SOM	**1.25**	**.60**	**.60**	**2.45**
1995 SOFP	1.91	.91	.92	3.74
1996 SOFP	**1.77**	**.85**	**.85**	**3.47**
Finances (mm's)				
Net Sales	$207	$102	$85	$394
Product Cost	37	18	13	68
Marketing	11	2	4	17
MAM	**$159**	**$82**	**$68**	**$309**
▲ versus 1995	(10)	(3)	(7)	(20)
%▲ versus 1995	-6%	-4%	-9%	-6.1%

The 1996 Plan For VANTAGE, MORE And NOW Will Be The Continuation Of A Purely Defensive Strategy

VANTAGE

- Expand retail price "gap" efforts versus Branded Savings in geographies representing 51% of VANTAGE volume (Versus 38% in 1995)
- Continue to utilize direct marketing relationship efforts to support franchise protection
- Target direct marketing efforts against best prospect smokers
  - Increase "Share of Requirements" among core franchise & occasional use base

MORE and NOW

- Continue to utilize direct marketing relationship efforts to support franchise protection
- Target direct marketing efforts against best prospect smokers
  - MORE = Western Sales Area franchise smokers
  - NOW = franchise & selected competitive low tar smokers
- Ensure adequate distribution in prime prospect geographies/outlets

DORAL Performance Overview

Shipments

1994 Shipments	25.1
1995 Shipments	27.5
%▲ PP	+9%
1996 Baseline	28.8
Growth Acceleration	1.3
1996 Plan	**30.1**
%▲ PP	+10%

Share Objectives:

	SOM	SOSv.
1994	4.57	15.12
1995 Projected	5.23	17.64
1996 Plan	**5.65**	**19.29**

1996 Financial Summary

	Plan	▲ Vs. 1995
Volume	30.1	2.6
Net Sales (mm's)	$867	$91
Product Cost	150	(12)
Marketing Expense:		
Retail Discounting	182*	16
Other Retail Promo.	62**	(13)
Media (OOH/Print)	25	(7)
Media Promo.	8	(6)
Relationship Mkt'ing	41	(7)
Other	8	(2)
Total	326	(19)
MAM Before Reserve	391	60
Consumer Pricing Reserve	22	(22)
Plan MAM	**$369**	**$38**
%▲ PP	11%	

* "Ceiling" strategy execution, as well as other discount programs
** Includes $18mm for BsGsF & premium promotions

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1996 Operating Plan: Value Enhancement - DORAL

DORAL's Plan Is To Continue Positioning/Equity Development In Order To Alleviate Some Of The Pressure To Discount The Brand, While Maintaining And Even Accelerating Its Growth Trend

- DORAL will continue its efforts behind its "Champion/True Friend Of Value-Oriented Smokers" positioning

  Product = Premium taste at an honest price (overall best in Savings)

  Attitude = Honest and friendly ("middle America")

- Key strategies for DORAL in 1996 include:

- Reduce consumer price discounting versus current rates	• Employ "ceiling" philosophy within markets • Provide executional guidelines to manage $ deployment • Hold reserve to combat increased competitive activity/slower than anticipated brand value development
- Better balance retail discounting and non-discounting promotion, while maintaining quality display/presence	• Promotional tactics targeted to outlet type • National brand focus for leadership presence
- Build image with 12 month advertising plan	• 2H95 media rate throughout 1996 • "DORAL Across America" 2Q impact promotion
- Enhance smoker relationships to defend/generate volume (DORAL & Co.)	• Penetrate 40% of buyer base & convert 180m smokers • Better database targeting to maximize resource
- Use product to competitive advantage	• Ensure parity or better performance • Leverage product benefits as appropriate (e.g. new packaging & product guarantee)

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GTC Introduction Roll-Out Plan Assumptions

	Cumulative % U. S. Coverage	Date
Intro. Lead Markets	1 to 2%	2/26/96
Phase I Roll-Out	22%	10/96
Phase II Roll-Out	42%	1/97
Phase IV	62%	4/97
Phase V	82%	7/97
Phase VI	100%	10/97

1996 Marketing Expense	$64mm
1996 OCC Impact	$(78)mm

Comprehensive Marketing And External Plans Will Be In Place To Support A 1996 Launch Of GTC

- Very unique relationship marketing efforts will be utilized to inform, educate and gain quality trial among prime prospect smokers
  - A concept called "Discovery Groups" will engage smokers with "person-to-person" instruction and education (extremely high usage in early test markets)
  - An "Infomercial" type video tape will be used to attract smokers to "Discovery Groups" and to perform the education function solo (Delivered via Direct Mail and Retail Intercept/Display)

- Post introductory programs have been designed to solidify GTC's positioning platform and extend trial/repurchase
  - Retail support includes a full array of display, merchandising, POS
  - Advertising/relationship programs have been designed to reinforce and maintain smoker conversion

- External programs have been developed to ensure quality communications to the target audiences
  - Get RJR's message on this product out (value to smokers, environmental smoke issues addressed)
  - Gain clearance for the product's introduction into the market

1996 Operating Plan: Expanded Idea Development

RJR Will Continue To Generate Market Development Ideas Beyond Those Impacting Existing National Brands And GTC

- Market tests will be fully explored and refined in search of new opportunities; expansion will follow successful market development
  - Moonlight: Seven brands in various combinations across three markets going into 1996
  - CAROLINA GOLD & HOGSHEAD: Branded Savings propositions in test in Pittsburgh and Austin respectively
  - SMOKERS OPTION: Non-cigarette smokeless alternative currently being marketed via Direct Selling (St. Louis, Philadelphia, Chicago)
  - Red Kamel, Kamel Menthe

- BrainReserve and RJR continue to work on strategies for not only positioning RJR brands in the marketplace, but also RJR as a company

- R&D is actively pursuing creation of a smoother cigarette

- Additionally, R&D is continuing development of cigarette products that address the various issues regarding smoking and society (stale smell, side-stream smoke, etc.)

Competitive "Lowest" Prices Limit Price Movement

	List	Standard Net***
RJR PL (Forsyth)	$8.79/carton	$5.45/carton
B&W PL (AVA)	8.44	5.63
PM PL*	8.79	~5.50
Liggett PL**	8.49	4.70
Star Tobacco	11.49	4.76
Commonwealth (USA Gold)	8.49	5.39
USA Tobacco (USA)	5.20	5.01
Direct Marketing Service (US1)	4.86	4.86
Lignum-2 (Rave)	4.85	4.85
Fortune Tobacco (Checkers)	6.49	4.85
Branded Savings	8.79	8.33
Full-Price	11.49	10.92

* Bronson sold to Quik Trip for $4.44
** Confirmed deals as low as $4.40
*** Does not include retail couponing/buydowns

1996 Operating Plan: Market Defense - Private Label Contracts

Forsyth Products Will Continue Their Dual Role Of Volume Support For Achievement Of SOSv. Objectives And Providing Trade Leverage In Selling A Total RJR Portfolio Approach

- To the retail trade Forsyth participation offers the following advantages:
  - Volume counts toward establishment of RDA and promotion accrual grid level
  - The promotion accrual value is set at 100 to 150% above the Base level, if RJR has EDLP representation
  - While Forsyth dead-nets are not the lowest available, RJR's allowance structure on Forsyth permits maximum flexibility to match with retailer needs and works in concert with other retailer programs to provide stronger portfolio profitability for the retailer

- To the wholesale trade Forsyth participation offers the following advantages:
  - Volume is included in Wholesale Partners program payout
  - Volume is counted toward calculation of SOSv. goal and therefore qualification for Base Plan payments
  - Works in concert with Partners, as well as other programs, to sell a total profitability picture that limits wholesale need to push lower price/potentially higher margin cigarettes

- As a result of RJR PL strategy implementation RJR has gained not only a 45% share of industry PL/B&W business, but RJR's performance across all price tiers is better in accounts where we have PL representation than in other accounts

- Low-ball competitive price offers persist in the market, making continuation of RJR Forsyth/Portfolio strategy imperative (See facer)

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2H95: Philip Morris (Marlboro & Basic) Drives Promotion Deeper

- In addition to "Gap" and "Ceiling" strategy guidelines versus competitive branded savings, the second half of 1995 finds WINSTON, CAMEL and DORAL responding to expanded Marlboro & Basic retail promotion
  - Marlboro's promotion increase is not being driven by large swings in competitive promotion and/or price "gap" (See backup page 1)
  - The recall has been partially established as a reason
  - From a competitors' perspective, it feels offensive in nature (in some cases Marlboro's promotion has been tied to Exclusive merchandising agreements)

- Competitively, all other industry players will have to respond resulting in the following:
  - Promoted volume levels will increase
  - The per pack value of discounting offers may go up
  - A beginning 1996 promotion level that may be above Plan levels (Strategy execution will continue by RJR and spending trade-offs will be explored in the event this occurs)

RJR's First Line Of Defense Will Continue To Be Execution Of DORAL's "Ceiling" And Full-Price's "Gap" Strategy. The Issue Is "What Level Of Competitive Activity Will RJR Encounter In 1996?"

	Marlboro	Kool/Newport	GPC	Basic	WINSTON	CAMEL	DORAL
Index of historical discounting versus 1996 Plan levels							
1Q94	45	55	66	79	49	34	53
2Q94	39	60	84	47	56	74	55
3Q94	62	79	93	65	139	138	96
4Q94	160	91	85	72	137	136	91
1Q95	118	90	80	83	122	125	88
2Q95	82	90	120	151	107	107	104
Aug Q95	200	90	128	250	145	133	106
Index of total promoted volume versus 1996 Plan levels							
1Q94	44	53	66	62	36	57	56
2Q94	61	62	83	50	57	80	59
3Q94	75	81	92	62	114	113	93
4Q94	119	93	84	79	108	108	95
1Q95	99	90	80	94	100	103	90
2Q95	101	94	118	119	83	95	103
Aug Q95	152	99	126	141	90	110	106

B&W: 1996 Merchandising War Gaming

B&W View of Competitive Actions

- PM will increase efforts to control the quality and quantity of retail presence possible for other manufacturers
  - Convenience/Gas threat is tremendous:
    - Limited facings for competition
    - Possibility of Basic on back bar, thus others savings also
    - Limited amount of communication possible
    - Exclusivity
  - Supermarket presence unaffected by PM changes in 1996
    Continue to purchase rows necessary to display/coupon SKU's
  - Cigarette Outlets likely little short-term impact as well due to promotion/presence philosophy of these outlets
  - Exclusivity success in any carton outlet will impact promotion during 3 weeks PM exclusive promotion window (enough to keep B&W RDA's on the table)
- RJR will react to protect position
  - RJR is B&W enemy in the near-term battle to secure adequate retail presence

B&W Likely Actions

- Will work to maintain its convenience/gas presence with enhanced RDA dollars (and possibly promotional guarantees) - - - Could choose to go toe-to-toe with RJR for a second position where the idea of only 2 companies on display is relevant (particularly true in high B&W development locations)
- Traditional carton and cigarette outlets will likely see smaller (or no) RDA increases; but promotional guarantees (i.e. coupons) are a possibility, particularly in cigarette outlets
- Unsuccessful B&W presence defense would squeeze their universe and free additional dollars for promotion short-term, result would be heightened activity where they have presence as they attempt to redirect activity to these outlets

  (Note: B&W RDA grid adjustments will most likely be made to offset divestiture losses)

1996 Operating Plan: Market Defense - Trade Presence

Philip Morris Has Rewritten Its Retail Merchandising Contracts (Again) In A Continuing Attempt To Distinctly Advantage Itself In Quality Of Retail Presence And Visibility

Primary PM Moves

- Unlimited volume based RDA's and promotion accruals for Exclusivity paid at a higher per carton value beginning 2H95
- Contracts all simplified to three levels (I, II and Exclusivity)
  - At any level PM must have a subjectively determined "visibility advantage"
  - Signage for competing companies now includes fixtures/display signage
  - Significant RDA difference between I and II (I 50% value of II)
  - Carton outlet II almost an Exclusive agreement (only lacks exclusive promotion period)
  - Pack outlet II gives PM best savings position and dictates other companies savings locations
- Flex (promotion accruals) extended into Level I contracts for the first time

RJR Implications

- PM's efforts play into the desire of many retailers to reduce clutter & better appease the "anti" establishment
- For brand development, as well as market defense, RJR must maintain a reasonable in-store presence by:
  - Battling the value of PM exclusivity (independently or in combination with B&W /Lorillard contracts)
  - Concurrently battle other companies for the #2 location, particularly B&W (especially relevant where PM severely limiting facings and/or B&W over-developed)
  - Giving RJR partners a distinct promotion advantage that further encourages partnership continuation
- The value of many of RJR's current contracts make the Company vulnerable to PM assaults. To overcome this, the strategy became to set universe coverage objectives and to develop flexible base contracts that maximize RJR's potential for achieving its objectives (See backup page 2)
- RJR's strategy, combined with the restrictive implications of PM's contracts, set the stage for a probable RJR/B&W showdown in many geographies, if not nationally (See facer)
- Financially RJR's actions will result in RDA expenditures that are $55mm more than anticipated in the July assessment ($80mm more than the 1995 C. E.)

Wholesale Relations Strengthening Efforts Will Continue Via Extension Of The 1995 Wholesale Partners Program Into 1996, With Some Incremental Partner Ventures Also Being Tested (Backup #3)

Full-Price Market Performance

	WINSTON	CAMEL	SALEM	AOFP	Total
Volume:					
1996 Base Trend (after adjustments)	23.5	21.1	16.9	9.5	71.0
Improvement Planned	.8	.9	.8	.0	2.5
Total Volume	24.3	22.0	17.7	9.5	73.5
Change versus 1995	-2.7	1.1	NC	-.9	-2.5
1996 Share Projections:					
SOM	5.31	4.69	3.93	2.45	16.38
Change versus 1995	-.58	+.28	-.07	-.18	-.55
SOFP	7.51	6.63	5.55	3.47	23.16
Change versus 1995	-.86	+.36	-.14	-.27	-.91

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1996 Operating Plan: Full-Price Performance

Excluding The Impact Of A Price Increase, Full-Price MAM Is Down (50% Due To GTC) With Smaller Than Historically Realized Share Losses (.55 pts.)

	WINSTON	CAMEL	SALEM	AOFP	GTC	Unallocated	Total
Volume (B's)	24.3	22.0	17.7	9.5	.3 (net)		73.8
Net Sales (mm's)	$1,025	$912	$750	$401	$14	$60**	$3,162
Variable Product Cost	162	137	119	70	6	3	497
Marketing:							
Baseline Spending	144	279	51	17	0	33	524
Investment	62	0	34	0	64	14	174
Total Marketing	206	279	85	17	64	47	698
Marketing/m	8.48	12.69	4.83	1.74	NA	NA	9.46
MAM*	**$657**	**$496**	**$546**	**$314**	**$(56)**	**$10**	**$1,967**
Change Versus 1995	(52)	41	(20)	(17)	(42)	45	(45)
MAM/m	27.10	22.55	30.86	32.83	NA	NA	26.65
Change Versus 1995	.82	.82	(1.10)	.80	NA	NA	.17

* Reconciliation of 1996 versus 1995 found on backup page

** Attributable to currently unallocated benefit of a price increase, as well as 1996 benefits from higher than forecasted RJR 1995 exit FP weekly volume

Note: See Backup #4 for MAM reconciliation 1995 to 1996

Savings Market Performance

	DORAL	Private Label	AOSv.	Total
Volume:				
1996 Base Trend	28.8	10.7	6.5	46.0
Improvement Planned	1.3	.7	.7*	2.7
Total Volume	30.1	11.4	7.2	48.7
Change versus 1995	+2.6	+.2	-.8	+2.0
1996 Share Projections:				
SOM	5.65	2.60	1.84	10.09
Change versus 1995	+.42	+.04	-.22	+.24
SOSv.	19.29	8.88	6.30	34.47
Change versus 1995	+1.65	+.23	-.65	+1.23

* AOSv. trends show improvement as a result of planned defensive enhancements on MONARCH & BEST VALUE (Protect these brands in pockets of strength via competitive levels/values of discounting)

Savings Volume, Share (Market & Category), MAM And MAM/m All Improve Versus 1995

	DORAL	Private Label	MONARCH	BEST VALUE	All Others	Total
Volume (B's)	30.1	11.4	4.1	2.0	1.1	48.7
Net Sales (mm's)	$867	$221	$116	$57	$28	$1,289
Variable Product Cost	150	57	19	10	7	243
Marketing:						
Retail Price Reduction	204	0	27	10	0	241
All Other	144	54	3	0	4	205
Total Marketing	348	54	30	10	4	446
Marketing/m	11.56	4.74	7.32	5.00	3.64	9.16
MAM* ($mm)	**$369**	**$110**	**$67**	**$37**	**$17**	**$600**
Change versus 1995	38	13	(5)	(5)	(8)	33
MAM/m	12.28	9.65	16.22	18.51	15.15	12.31
Change versus 1995	.39	1.01	.61	(.13)	(3.87)	(.31)

* Reconciliation of 1996 versus 1995 found on backup page

Note: See Backup #5 for MAM reconciliation 1995 to 1996

Cost Change Overview

	1995 Op. Plan	1995 C. E.	1996 Op. Plan	'95 Cost Reductions	'96 Vs. '95 Plan	'96 Vs. C. E.	
Product Cost (x-LIFO)	$896	$854	$867	$52	$29	$(13)	• Repeal 75/25 $23, increase offshore $22;
LIFO	(38)	(11)	(47)	—	9	36	offset by inflation & leaf financing costs
Total Product Cost	858	843	820	52	38	23	
Distribution	15	16	14	2	1	2	
Fixed Manufacturing	278	273	254	44	24	19	• $17 incremental for GTC (19 from R&D)
							• Smaller TI allocation ($13 < '95 Plan)
Trade:							
Disc./Allow./Ret./Partners	465	474	486	6	(21)	(12)	• Reduction in Returns = 6
							• Partners +51 vs. '95 Plan, +5 vs. 95 C. E.
							• Forsyth discount/allow. ▲'s (also vol. mix)
Field Sales	216	227	211	8	5	16	• Sales Force 2000
Merchandising	282	296	375	7	(93)	(79)	• Amortization ▲ = 7
							• Retail presence protection = +80 RDA's vs. '95 C. E.
R&D	76	89	68	5	8	21	• $19 GTC to Fixed Manufacturing
GAE	312	320	312	29	0	8	• 25 increase in gross legal expense
							(no Purchase Accounting Reserve left)
Total	$2,502	$2,538	$2,538	$153	$(36)	$0	

Note: Cost overview schedules included on Backup pages 6 & 7

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1996 Operating Plan: Costs

RJR Is Committed To On-Going Evaluation Of All Components Of Its Cost Structure To Maximize Dollars Available For Marketplace Investment And Earnings

- The full year value of cost reductions made in 1995 is $152mm and breaks as follows:

	Total Value	Headcount Component	Est. Headcount Quantity	% Headcount Reduction
Product Costs	$52	Footnote #1	-369	-9%
Fixed Manufacturing	46	$28	-147	-11
Field Sales	20	20	+410	+17
R&D	5	2	-16	-3
GAE	29	8	-75	-7
Total	$152	$58	-197	-2%
		Excluding Sales	-607	-8%

(Since 1/89 RJR total headcount has been reduced by 4,970 or 34%)

- Aggressive competitive moves, expected continuation of unfavorable external conditions and the loss of some one-time cost benefit items have negatively impact 1996 costs. Primary drivers are:

	Incremental Expense	
	Vs. '95 Op. Plan	Vs. '95 C. E.
Wholesale Partners	$51	$5
Merchandising/Retail Presence	102	80
Pension Cost	14	14
Inflation/Other	24	24
Legal	25	25
One-time benefits	20	20
	$236	$168

1. Volume related reduction is $25mm, total headcount savings is $83mm

Quarterly Financial Overview

	1Q96	2Q96	3Q96	4Q96	Total
Net Sales	$1,040	$1,148	$1,204	$1,165	$4,557
Margin After Marketing	615	658	701	619	2,593
Below MAM Cost	259	284	324	326	1,193
Operating Company Contribution	**356**	**374**	**377**	**293**	**1,400**
Change versus 1995	(14)	(12)	12	14	--
% Change versus 1995	-4%	-3%	3%	5%	--
Cash Net Income	**124**	**135**	**136**	**93**	**488**
Change versus 1995	(21)	42	(27)	3	(3)
% Change versus 1995	-15%	45%	-16%	4%	-1%
Cash EPS	**.38**	**.41**	**.41**	**.28**	**1.48**
Change versus 1995	(.06)	.13	(.09)	.01	(.01)
Free Cash Flow	**(223)**	**166**	**(4)**	**115**	**54**
Change Versus 1995	(162)	94	(200)	162	(106)

Note: Cash Net Income versus 1995 includes $55mm for Phase II

1996 Operating Plan: Financial Performance Outlook

RJR's OCC Objective Is Flat Performance Versus 1995 ($1,400mm)

	Full-Price	Savings	Sub-Total	GTC	Packaging	Total
Net Sales (mm's)	$3,148	$1,289	$4,437	$14	$106	$4,557
Variable Product Cost	491	243	734	6	80	820
Marketing Expense	634	446	1,080	64	--	1,144
Margin After Marketing	2,023	600	2,623	(56)	26	2,593
Below MAM Costs:						
Fixed Manufacturing			208	22	24	254
Distribution			13			13
Selling			211		2	213
Merchandising			375			375
R&D			68			68
GAE			312			312
Returned Good Expenses			9			9
Miscellaneous/Other			(51)			(51)
Total Below MAM Costs			1,145	22	26	1,193
Operating Company Contribution			**$1,478**	**$(78)**	**$0**	**$1,400**
Change Versus 1995			35	(40)	5	--
Cash Net Income						**$488**
Change Versus 1995						(3)
Cash EPS						**$1.48**
Change Versus 1995						(.01)

* Cash Net Income includes $55mm in Phase II expenses

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1996 Operating Plan: Filling The OCC Shortfall

As A Result Of An Originally Forecast OCC Decline Of $130mm, Several OCC Upside Sensitivities Have Been Incorporated In The Plan

Alternatives	Value Range			Plan Assumption
• $1.50/m price increase in May	$40mm	to	$70mm	$40mm
• Higher FP 1996 shipments due to 1995 exit rate higher than assumed (+15 to +25mm FP sticks per week, with a comparable savings downside)	10	to	20	20
• Potential asset restructuring moves	0	to	20	20
• Incremental cost reductions	15	to	30	15
• GTC 1996 rollout at a slower pace	0	to	40	35
	$65mm	to	$180mm	$130mm

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Margin Value Of Expected Volume Changes

	Full-Price			Savings			Total		
	Volume	▲ vs. '95	Value	Volume	▲ vs. '95	Value	Volume	▲ vs. '95	Value
R. J. Reynolds	73.5	(2.4) -3.2%	$(80)	48.7	2.0 4.3%	$25	122.2	(.4) -.3%	$(55)
Philip Morris	188.7	7.2 4.0%	$240	37.7	(.5) -1.3%	(7)	226.4	6.7 3.0%	$233
Brown & Williamson*	35.9	(.7) -1.9%	$(25)	51.9	1.1 2.2%	15	87.8	.4 .5%	$(10)
Lorillard	36.1	(.2) -.5%	$(6)	1.6	(.1) -5.9%	$(1)	37.7	(.3) -.8%	$(7)
Liggett	2.3	(.2) -7.3%	$(7)	8.2	.2 2.5%	$2	10.5	0 0%	$(5)
Industry	336.5	3.7 1.1%	$122	148.1	2.7 1.9%	$34	484.6	6.4 1.3%	$156

* Excludes impending divestiture of ~7B savings sticks (Montclair primarily), and possibly (but not likely) 1.5B full-price sticks (Tareyton)

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1996 Operating Plan: Industry Outlook

RJR Will Battle A Well Positioned PM And An Aggressive/Defensive B&W For Volume And Market Position. Earnings Across The Industry Could Be Pushed Down In The Struggle.

	1996 Overview Information	Implications	OCC Versus 1995
PM	• Volume projection suggests a $233mm margin upside without benefit of a price increase • Has set up a Merchandising win-win for themselves (Competition gets an even more disadvantaged retail presence or PM pays less money to retailers) • PM will likely retain a large portion of the Marketing accrual upside they reportedly entered 1995 with ($400mm) • 1996 represents the first full year of benefit from the three year restructuring program announced in 1993	• PM earnings pressures will be minimal, barring the impact of an all out price war • PM in good position to maintain market pressure <u>and</u> grow earnings • Overly optimistic industry assumptions could reduce their margins $80mm • Price increase not necessary to grow OCC	• +$300mm to flat +8% to No Change (flat is basically an all out price war and they use part of accrual reserve to cover some of the cost)
B&W	• Key dilemma #1: Impeding divestiture - Substantial volume at risk, will likely use aggressive GPC and/or AVA push to backfill lost savings volume - - - may include expanded use of the price/discounting hammer • Key dilemma #2: Threat to merchandising position - Will battle hard for some sort of visible presence and where they lose will likely convert dollars not spent on merchandising to discounting increases at outlets where they retain presence • Will get some value from full year merger synergies (maybe $50mm)	• Very difficult for them to hold earnings flat after divestiture • Regrouping to grow volume will likely be their major concern • Can be expected to be retail presence and discounting aggressive • Given likely volume concerns, a price increase will not play into their thinking	• -$50 to -$200mm -6% to -25%
Lorillard	• Compared to PM and B&W, Lorillard's likely market influence actions are very minimal (expect "status quo")	• Newport discounted competitively • Rely on demand pull to protect presence • Presence difficulty in weaker markets could slow growth	• Flat to -$75mm No Change to -12%
Lig/Others	• Continue to punch price card in attempt to attract volume • B&W's Montclair divestiture could/will add fuel to this fire	• Low-end price increase monitor role continued	• Irrelevant

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1996 RJR Volume Sensitivities

	Full-Price	Savings	Total
• Industry volume estimates are overly optimistic (no share impact) - Quantities represent a 1% smaller market	(.8)	(.5)	(1.3)
• WINSTON repositioning effort does not occur, occurs later or doesn't improve trends (maximum impact)	(.8)		(.8)
• SALEM "Gap" defense is not able to be executed effectively across 70% of SALEM's volume base (50% of improvement not realized)	(.4)		(.4)
• CAMEL accelerates its growth less than anticipated (50% of accelerated rate realized)	(.4)		(.4)
• DORAL growth acceleration is only partially realized (50%)		(.5)	(.5)
• RJR & industry full-price trends exit 1995 at higher levels than projected in the Plan (1% more industry FP in 1996)	.8	(1.5)	(.7)
• PM exclusivity growth is not overcome via RJR's 1996 Merchandising plan (10% CIV coverage increase with a 5 points RJR SOM impact in related outlets)	(.8)	(1.6)	(2.4)
Combined Sensitivities:			
Volume (B's)	(2.4)	(4.1)	(6.5)
MAM (mm's)	$(80)	$(60)	$(140)
Share (points)	(.3)	(.8)	(1.1)

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1996 Operating Plan: Plan Assumptions And Related Sensitivities

The Largest Spending Sensitivity Continues To Be Price Defense (Up To $200mm), While Volume Downside Sensitivities Of Up To 1.1 Share Points (5.2B Sticks) And Lower Industry Volume (1.3B Sticks) Also Exist

Assumption	Sensitivity	1996 Impact ($mm)	
• Industry volume increases slightly due to 2 extra trading days & continuation of an almost flat consumption trend	• A 1% decline versus Plan assumptions would be ~5B industry sticks, with RJR's share 1.25B (.75 FP)	$(20)	$(40)
• Discounting across the industry returns to levels experienced in the March/April 1995 timeframe	• A range from summer of 1995 discounting levels to "wargame" conditions could exist in 1996 (See backup page 8)	(60)	(200)
• That RJR's Marketing and Retail Presence programs will deliver the volume improvements assumed	• Less than anticipated brand volume impact from positioning expansion/establishment efforts and/or retail presence attainment falls short of objectives	(10)	(60)
• That GTC can be introduced in 42% of the U. S. in 1996	• GTC introduction and/or rollout delayed ❶	85	35
• That RJR can achieve its stated retail presence objectives by the end of 1Q96 and at the cost envisioned	• Sensitivities run from earlier objective achievement to non-achievement to cost RJR more than planned to get there due to competitive pressure	40*	(20)*
		* Positive ST earnings, but negative vol. implications of objective shortfall	
• No manufacturer price increase	• A price increase similar to 1995's occurs, with partial deal back (gross value ~90mm) ❶	50	10
• WINSTON and/or SALEM repositionings do not occur or occur later than planned	• $62mm WINSTON investment with .8B sticks, $14mm SALEM investment	45	15
• RJR & industry FP will not exit 1995 at a higher level than currently assumed	• Positive FP volume impact (.5 to 1.0B) with an offsetting loss of Sv. volume (-.8 to -1.5B) ❶	20	5
• No incremental cost reduction will occur in 1996	• Incremental cost reduction efforts will be evaluated and implemented ❶	15	30

❶ All or portions of these upside sensitivities recognized to achieve $1,400mm OCC

Backup Material

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1996 Operating Plan Backup: Price Gaps

	11/93	% Gap	3/95	% Gap	8/95	% Gap
Carton Prices:						
Unpromoted FP	$16.62		$16.39		$16.70	
Avg. Br. Sv.	12.43	34%	11.91	38%	12.33	35%
Avg. Lowest	11.94	39	11.20	46	11.59	44
Pack Prices:						
Unpromoted FP	1.95		1.94		$1.98	
Avg. Br. Sv.	1.44	35%	1.42	37%	1.47	35%
Avg. Lowest	1.36	43	1.28	52	1.33	49

RJReynolds Tobacco Company

1996 Trade Programs

- Merchandising/Retail presence +$80mm versus 1995 C. E.

	Pack Outlets				Carton Outlets			
	RJR Plan	▲ Vs. '95	PM	B&W	RJR Plan	▲ Vs. '95	PM	B&W
Outlet Universe (m)	84.3		96	76	21.0		24	24
Exclusivity			12.8				4.3	
Full Plan	65.9		80	76	18.6		20	24
% CIV	48%	+23 pts.	58%	51%	67%	+2 pts.	68%	73%
Component Plan	18.4		16		2.4		4	
% CIV	13%	-27 pts.	9%		10%	-2 pts.	5%	
Total % CIV	61%	-4 pts.	67%	51%	77%	+0 pts.	73%	73%
Spending ($mm)	$196	$+58	$278	$148	$96	$+22	$62	$52

- Continue wholesale relations strengthening via Whole Partners Program (+$45mm Vs. '95 Plan, +$5mm Vs. '95 C. E.)

1996 Wholesale Programs

- Partners (January - June)
  - Measures and objectives set for individual accounts based on RJR Region measures and objectives
  - Measures and objectives for
    - Total RJR SOM
    - Total RJR SOS
    - Total RJR Full-Price SOM
    - Total DORAL SOM
    - Total CAMEL SOM
  - Submission of weekly sales data

- Distributor Promotion Coverage (DPC)
  - Promotions sold and delivered by wholesaler/distributor to retail accounts not contacted by Field Sales
  - Approximately 62,000 retail account universe

- Continue evaluating and testing the opportunity to utilize a wholesalers employee to work inner city retail accounts (not contacted by RJR) to exclusively sell RJR brands, promotions and place POS

- Test with WAM, Inc. (made up of 17 wholesalers)
  - Exclusive RJR Private Label brand
  - Sell and deliver RJR promotions (no RJR Field Sales involvement)

Full-Price MAM Variance Analysis

	1995 MAM	Variances Due To Changes In: Net Selling Price	Product Cost	LIFO	Volume	Marketing	Accrual C/O	1996 MAM
WINSTON	$709	$12	$(3)	$8	$(85)	$29	$(13)	$657
SALEM	566	9	--	7	(2)	(30)	(4)	546
CAMEL	455	11	2	7	43	(6)	(16)	496
V/M/N	329	6	--	4	(28)	--	(2)	309
Other FP	(33)	--	(2)	(1)	2	(8)	(3)	(45)
Sub-Total	$2,026	$38	$(3)	$25	$(70)	$(15)	$(38)	$1,963
GTC	(14)	--	--	--	29	(96)	--	(81)
Total	$2,012	$38	$(3)	$25	$(41)	$(111)	$(38)	$1,882

Savings MAM Variance Analysis

	1995 MAM	Variances Due To Changes In: Net Selling Price	Product Cost	LIFO	Volume	Marketing	1996 MAM
DORAL	$331	$16	$(6)	$7	$62	$(41)	$369
Private Label	97	3	2	3	2	3	110
All Other	139	7	(6)	1	(20)	0	121
Total	$567	$26	$(10)	$11	$44	$(38)	$600

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1996 RJR Cost Overview

Variable Product Cost	Transportation/ Distribution
$834 (x-LIFO = $881)	$14
Payroll 102	Payroll 8

T' Ville	Whit. Park	Truck & Storage	Engineering	Op's Support	Shorefair	Tobacco Proc.	QA	Pkg. Division	Utilities Alloc Adj.	Misc./ Other	Allocations
$112	$44	$8	$17	$13	$37	$40	$10	$24	$0	$24	($62)
Payroll 37	Payroll 9	Payroll 8	Payroll 16	Payroll 21	Payroll 0	Payroll 13	Payroll 5	Payroll 12	Payroll (13)	Payroll 0	Payroll 0

Discounts/Allowances/Returns/Partners	Field Sales	Pkg Sales	Merchandising
$486	$211	$3	$375
	Payroll 154	Payroll 1	(Amortization = $48)

R&D	Full-Price Marketing	Savings Marketing
$68	$745	$446
(Payroll = 49) (Allocations = (26))	(GTC = 110)	

Fin. Admin. Accto.	IR	Personnel/ Aviation	Mkt'ing Admin	External Relations	Gov't Relations	Law	Exective	Sales HQ	Admin & Facilities	All Other	Allocations
$27	$64	$22	$24	$26	$15	$54	$72	$24	$15	$7	($38)
Payroll 18	Payroll 27	Payroll 8	Payroll 18	Payroll 6	Payroll 2	Payroll 6	Payroll 42	Payroll 11	Payroll 4	Payroll 5	Payroll 0

Total	P/R	Depr	Other
$848	$110	$0	$738
267	108	72	87
1,075	154	52	869
1,259	49	11	1,199
312	147	14	151
$3,761	$568	$149	$3,044

Notes:
- GTC is included in the above numbers
- External Packaging is included in the above numbers

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Backup 6

R. J. REYNOLDS TOBACCO COMPANY
INFRASTRUCTURE EXPENSES - 1996 Plan

	Payroll & Fringe	Freight	Utilities	Taxes & Insurance	Maint.	Project Expense	System/ Telecom	Prof. Fees	Promotions	Office/ Equip. Rental	Memb. & Dues	Ext./Gov't Relations Programs	Auto Expense	Shorefair/ GTC	Depr.	Other	Subtotal	Alloc.	Total
GOE																			
Tobaccoville	36.9	-	11.6	3.5	13.6	-	3.7	0.1	-	0.1	-	-	-	-	39.6	3.2	112.3	-	112.3
Whitaker Park	9.5	-	5.8	2.7	4.3	-	2.9	-	-	-	-	-	-	-	17.3	1.9	44.4	-	44.4
Truck & Storage	7.6	-	0.1	0.1	1.3	-	0	-	-	0.3	-	-	-	-	0.4	(2.3)	7.5	-	7.5
Engineering	16.2	-	0.2	0.6	0.1	0.8	0.6	0.2	-	0.1	-	-	-	-	2.3	(3.8)	17.3	-	17.3
Operations Planning	2.8	-	-	-	-	-	0.6	0.2	-	-	-	-	-	-	0.1	0.2	3.9	-	3.9
Operations Support	17.8	-	27.0	1.9	3.8	0.3	0.2	0.6	-	0.1	-	-	-	-	7.2	(49.5)	9.4	-	9.4
Shorefair	-	-	-	-	-	-	-	-	-	-	-	-	-	36.5	-	-	36.5	-	36.5
Tobacco Processing	12.8	-	9.8	0.9	3.2	-	0.5	8.2	-	0.1	-	-	-	-	6.6	(2.3)	39.8	-	39.8
QA	5.3	0.1	-	-	-	-	-	-	-	-	-	-	-	-	0.6	4.1	10.1	-	10.1
Miscellaneous	-	0.1	-	15.1	-	-	-	-	-	2.0	-	-	-	-	1.0	2.4	20.6	-	20.6
Adj. Utilities Alloc.	(13.2)	-	(19.3)	(1.1)	(2.0)	(0.3)	(0.1)	(0.5)	-	-	-	-	-	-	(6.3)	42.8	-	-	-
Packaging Division	12.1	-	1.0	-	2.1	-	-	-	-	-	-	-	-	-	3.6	4.9	23.7	-	23.7
Inventory Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.5	-	3.5
Total	107.8	0.2	36.2	23.7	26.4	0.8	8.4	8.8	-	2.7	-	-	-	36.5	72.4	1.6	329.0	-	329.0
% of Total	32.8%	0.1%	11.0%	7.2%	8.0%	0.2%	2.6%	2.7%	0.0%	0.8%	0.0%	0.0%	0.0%	11.1%	22.0%	0.5%	98.9%	-	
IT Allocation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(59.8)	-	(59.8)
Less Shorefair Detail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2.4)	-	(2.4)
Net	107.8	0.2	36.2	23.7	26.4	0.8	8.4	8.8	-	2.7	-	-	-	36.5	72.4	1.6	266.8	-	266.8
% of Total	40.4%	0.1%	13.6%	8.9%	9.9%	0.3%	3.1%	3.3%	0.0%	1.0%	0.0%	0.0%	0.0%	13.7%	27.1%	0.6%	122.0%		
GAE																			
Fin./Admin. (DJA-XIR)	6.2	-	-	-	-	-	-	1.8	-	-	-	-	-	-	-	3.4	11.4	(2.0)	9.4
Finance/Acctg. (KJL)	12.2	-	-	-	0.1	-	0.4	1.6	-	-	-	-	-	-	0.1	1.0	15.4	(3.2)	12.2
IR	26.6	-	-	0.4	4.9	-	9.2	7.3	-	10.5	0.1	-	-	-	2.5	2.6	64.1	(21.0)	43.1
Purchasing	3.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.4	3.8	-	3.8
Personnel/Aviation	7.5	-	-	1.7	1.3	-	-	0.1	-	7.6	-	-	-	-	0.3	3.1	21.6	(7.4)	14.2
Marketing Admin.	17.5	-	-	-	0.1	-	-	0.7	-	0.2	-	-	-	-	-	5.0	23.5	(0.3)	23.2
External Relations	5.9	-	-	-	-	-	-	7.9	-	-	-	8.5	-	-	-	3.5	25.8	-	25.8
Admin. & Facilities	3.6	-	-	1.0	2.0	0.1	-	0.2	-	0.2	-	-	-	-	6.0	2.0	15.1	(3.5)	11.6
Govt. Relations	2.1	-	-	-	-	-	-	1.7	-	-	-	8.2	-	-	-	2.5	14.5	-	14.5
Law	5.5	-	-	-	-	-	-	48.1	-	0.1	-	-	-	-	-	0.8	54.5	(0.6)	53.9
Executive	42.1	-	-	5.4	-	-	-	1.6	-	0.3	14.6	-	-	-	4.2	4.2	72.4	-	72.4
Sales HQ Admin.	11.2	-	-	-	1.5	-	-	-	-	-	-	-	-	-	0.8	10.6	24.1	(0.2)	23.9
Pckg. Division	0.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	1.0	-	1.0
Business Planning USA	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.2	-	0.2
GTC	2.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.5	2.9	-	2.9
Total	147.3	-	-	8.5	9.9	0.1	9.6	71.0	-	18.9	14.7	16.7	-	-	13.9	39.7	350.3	(38.2)	312.1
% of Total	42.0%	0.0%	0.0%	2.4%	2.8%	0.0%	2.7%	20.3%	0.0%	5.4%	4.2%	4.8%	0.0%	0.0%	4.0%	11.3%	100.0%		
SELLING																			
Field Sales	154.0	-	-	-	-	-	1.5	-	-	8.4	-	-	21.5	-	3.7	17.5	206.6	-	206.6
Trade Relations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4.0	4.0	-	4.0
Pkg. Division	1.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0	2.3	-	2.3
Total	155.3	-	-	-	-	-	1.5	-	-	8.4	-	-	21.5	-	3.7	22.5	212.9	-	212.9
% of Total	72.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	0.0%	0.0%	3.9%	0.0%	0.0%	10.1%	0.0%	1.7%	10.6%	100.0%		
R&D																			
Total	48.6	-	4.1	1.5	6.2	0.2	1.5	7.6	-	-	1.8	-	-	-	10.5	11.7	93.7	(25.9)	67.8
% fo Total	51.9%	0.0%	4.4%	1.6%	6.6%	0.2%	1.6%	8.1%	0.0%	0.0%	1.9%	0.0%	0.0%	0.0%	11.2%	12.5%	100.0%		
TOTAL	459.0	0.2	40.3	33.7	42.5	1.1	21.0	87.4	-	30.0	16.5	16.7	21.5	36.5	100.5	75.5	923.7	(64.1)	859.6
% fo Total	49.7%	0.0%	4.4%	3.6%	4.6%	0.1%	2.3%	9.5%	0.0%	3.2%	1.8%	1.8%	2.3%	4.0%	10.9%	8.2%	106.4%		

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Backup 7

Discount/Pricing "Wargame"

- With every company in the industry attempting to implement a "growth strategy" (from Star Tobacco to Philip Morris), the industry is set to experience "winners" and "losers"
- Only Lorillard as a "loser" would likely lead to a non-threatening pricing battle (and they are the least likely "loser")
- B&W and PM have demonstrated a willingness to promote heavily to achieve growth goals or to minimize volume declines
- Liggett & "wildcatters" can only be expected to continue volume push with price (best possible result would be they only take volume from each other)
- RJR, the industry punching bag of recent years, cannot afford to give ground in big chunks anymore
- To quantify the implications of alternative price conditions two scenarios were analyzed:
  - GPC activity continues at current rates (5% PV above Plan with average values $.10/carton higher)
  - GPC activity accelerates significantly (15% PV above Plan with average values $.35/carton higher)

OCC impact would be as follows:

	July/August Conditions Continue	"Wargame" Conditions Occur
Incremental Cost:		
Full-Price	$54mm	$129mm
DORAL	29	95
Savings Reserve	(22)	(22)
Total	$61mm	$202mm

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Financial Schedules

RJ REYNOLDS TOBACCO COMPANY
OPERATING RESULTS
1996 OPERATING PLAN

EXHIBIT 1

($ in Millions)	JAN	FEB	MAR	Q1	APR	MAY	JUNE	Q2	JULY	AUG	SEP	Q3	OCT	NOV	DEC	Q4	FY
NET SALES				1,040				1,148				1,204				1,165	4,557
Base OCC				356				376				386				360	1,478
GTC (RJRT only)				0				(2)				(9)				(67)	(78)
OPERATING COMPANY CONTRIBUTION				356				374				377				293	1,400
.Intangible Amort.				92				91				92				91	366
OPER. INCOME (LOSS)				264				283				285				202	1,034
.Interest Income																	0
.Interest & Debt Expense																	0
.Interco Int. Exp.																	0
.Foreign Exch. Gain/(Loss)																	0
.Headquarters Allocation (RJRT and TI only)				129				128				128				128	513
.Other, net				1				2				1				2	6
INCOME BEFORE TAXES				134				153				156				72	515
.Headquarters Tax Allocation (RJRT and TI only)				(44)				(45)				(44)				(45)	(178)
.Tax Prov./(Benefits)				130				139				140				99	508
NET INCOME BEFORE EXTRA. LOSS				48				59				60				18	185
.Preferred Dividends				7				6				6				7	26
NET INCOME AVAIL TO COMMON				41				53				54				11	159
.Amortization of Goodwill				92				91				92				91	366
.Tax on Trademarks				9				9				10				9	37
CASH NET INCOME AVAIL TO COMMON				124				135				136				93	488
.Weighted Average Common Shares				330				330				330				330	330
EPS-Fully Diluted (Before Extra. Loss)				0.13				0.16				0.16				0.03	0.48
Cash EPS - Fully Diluted (Before Extra. Loss)				0.38				0.41				0.41				0.28	1.48

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R.J. REYNOLDS TOBACCO COMPANY
NET INCOME ANALYSIS (EXTERNAL BASIS)
1996 OPERATING PLAN
($ in Millions)

EXHIBIT 2

	1995F	1996
PRIOR YEAR NET INCOME	$198	$240
VOLUME/MIX	(170)	0
PRICING (NEW + CARRYOVER)	73	105
VARIABLE COSTS	47	27
FIXED COSTS	30	67
PRODUCTIVITY *		
DIRECT TRADE (FOODS)		
MARKETING/MERCHANDISING	(65)	(220)
LOCAL SHORT TERM INTEREST	1	(1)
HQ ALLOCATIONS (RJRT & TI only)	97	(11)
FOREIGN EXCHANGE		
OTHER	35	21
OPERATING COMPANY TAXES	12	(16)
HQ TAX ALLOCATION (RJRT & TI only)	(18)	(27)
TOTAL NET INCOME GROWTH	$42	($55)
TOTAL CURRENT YEAR (NET INCOME)	$240	$185

* Productivity is not broken out

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R.J. REYNOLDS TOBACCO COMPANY
NET INCOME ANALYSIS (MANAGEMENT BASIS)
1996 OPERATING PLAN

EXHIBIT 2A

($ in Millions)

	1995F	1996
PRIOR YEAR NET INCOME	**$198**	**$295**
VOLUME/MIX	(170)	0
PRICING (NEW + CARRYOVER)	73	105
VARIABLE COSTS	47	27
FIXED COSTS	30	67
PRODUCTIVITY *		
DIRECT TRADE (FOODS)		
MARKETING/MERCHANDISING	(65)	(220)
LOCAL SHORT TERM INTEREST	1	(1)
HQ ALLOCATIONS (RJRT & TI only)	182	(96)
FOREIGN EXCHANGE		
OTHER	35	21
OPERATING COMPANY TAXES	12	(16)
HQ TAX ALLOCATION (RJRT & TI only)	(48)	3
TOTAL NET INCOME GROWTH	**$97**	**($110)**
TOTAL CURRENT YEAR (NET INCOME)	**$295**	**$185**

* Productivity is not broken out

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R.J. REYNOLDS TOBACCO COMPANY
CASH FLOW SUMMARY
1996 OPERATING PLAN

EXHIBIT 3

($ in Millions)	JAN	FEB	MAR	Q1	APR	MAY	JUNE	Q2	JULY	AUG	SEP	Q3	OCT	NOV	DEC	Q4	FY
OPERATING COMPANY CONTRIBUTION				$356				$374				$377				$293	$1,400
Depreciation and Amortization				43				44				44				44	175
(Incr)/Decr in A/R				(1)				(3)				1				-	(3)
(Incr)/Decr in Inventories				35				102				117				72	326
(Incr)/Decr in Prepaids				(17)				(14)				11				20	-
(Incr)/Decr in Accounts Payable				19				17				(38)				11	9
(Incr)/Decr in Accrued Liabilities				(206)				30				(46)				64	(158)
Total Working Capital Source/(Use)				(170)				132				45				167	174
Capital Spending				(16)				(12)				(20)				(14)	(62)
Restructuring Payments				(22)				(22)				(18)				(8)	(70)
Pension Fund Contribution				-				-				(36)				-	(36)
Change in Other Assets/Liabilities				(2)				(27)				(34)				(31)	(94)
OPERATING CASH FLOW				$189				$489				$358				$451	$1,487
Non-Operational Sources:																	
Change in Receivables Sold				-				2				(1)				-	1
Interest Income				-				-				-				-	-
Non-Operational Uses:																	
Cash Interest Payments				-				-				-				-	-
Headquarters Allocation				(160)				(110)				(137)				(124)	(531)
Pfd. Dividend Allocations				(46)				(39)				(46)				(39)	(170)
RN Common Dividend Allocation				(92)				(92)				(93)				(93)	(370)
Nabisco Dividend/HQ Allocation				25				25				25				25	100
Financing Fees/Other				(1)				(2)				(1)				(2)	(6)
INCOME TAX PAYMENTS				(138)				(107)				(109)				(103)	(457)
FREE CASH FLOW				($223)				$166				($4)				$115	$54

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OPSCHCF.XLS

R.J. REYNOLDS TOBACCO COMPANY
1996 CAPITAL PROJECTS
MAJOR PROJECTS

EXHIBIT 4

($ in Millions)

Description	Est Appr Date	Est Comp Date	Total CAR**	Prior Years Capital Expenditures	1996 Capital Expenditures	Future Years Capital Expenditures
Projects Above Specified Limit: (see note below)						
GTC - Domestic capital only (see recon below)**	6/96	3/97	$77.4	$9.2	$45.7	$22.5
Total Projects Over Limit			$77.4	$9.2	$45.7	
Total Projects Under Limit					$16.3	
GRAND TOTAL*					$62.0	
Capitalized Interest					$0.0	

Approved CAR's		$0.0	
To Be Approved CAR's		$77.4	

NOTE: All projects should be listed in which the total individual project spending (capital + expense) exceeds $10million for RJRT, NHC, and TI.
*1996 Grand Total must agree with the Cash Flow amount on Exhibit 3.

** The CAR for GTC will total $88.5MM and will include both the Domestic and International spending as follows:

	Capital	Expense	Total CAR
Domestic	$77.4	$2.1	$79.5
International	$8.9	$0.1	$9.0
Total	$86.3	$2.2	$88.5

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CAPBUD.XLS

R.J. REYNOLDS TOBACCO COMPANY
INVESTED CAPITAL/CAPITALIZATION
1996 OPERATING PLAN
($ in Millions)

EXHIBIT 5

	JAN	FEB	MAR	Q1	APR	MAY	JUNE	Q2	JULY	AUG	SEP	Q3	OCT	NOV	DEC	Q4	FY
Cash & Cash Equivalent				(38)				(38)				(38)				(60)	
Accounts Receivable				48				51				50				50	
Accounts Receivable Sold				(36)				(38)				(37)				(37)	
Inventories				983				880				764				692	
Prepaid Expenses				86				100				89				68	
Short-Term Borrowings				-				-				-				-	
Accounts Payable				(103)				(120)				(82)				(93)	
Accrued Liabilities				(556)				(564)				(501)				(597)	
Income Taxes				(260)				(347)				(433)				(100)	
Total Working Capital				124				(76)				(188)				(77)	
Prop., Plant & Equipment, Net				1,516				1,495				1,487				1,472	
Other Assets				(146)				(112)				(78)				(41)	
G.W., Trademarks & Intangibles				12,004				11,913				11,822				11,730	
TOTAL INVESTED CAPITAL				13,498				13,220				13,043				13,084	
Current Maturities - LTD				-				-				-				-	
Other Liabilities				829				845				825				806	
Long-Term Debt				-				-				-				-	
Deferred Income Taxes				1,314				1,302				1,290				1,278	
Intercompany				9,995				9,654				9,449				9,504	
Preferred Stock + TOPrS				-				-				-				-	
Common Stockholders Equity				1,360				1,419				1,479				1,496	
TOTAL CAPITALIZATION				13,498				13,220				13,043				13,084	
Ratios:																	
Reported ROE																3.37%	
Cash ROE																10.32%	

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R.J. REYNOLDS TOBACCO COMPANY
1996 OPERATING PLAN
TREASURY PLANNING AND ANALYSIS

EXHIBIT 6

($ in Millions)

	1995F	1996
<u>INTERNATIONAL CASH REMITTANCES</u>		
Dividends & Branch Profits		
Royalties		
Product & Other		
Withholding Tax		
Total Net Remittances	N/A	N/A

	1995F	1996
<u>INTEREST EXPENSE</u>		
Short Term Borrowing - Debt Instruments		
Other (Imputed Interest)		
Total Short Term Interest	N/A	N/A

Memo: Long Term Interest

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RJ REYNOLDS TOBACCO
VOLUME/PRODUCT CONTRIBUTION
1996 OPERATING PLAN
($ in Millions)

EXHIBIT 7

	JAN	FEB	MAR	Q1	APR	MAY	JUNE	Q2	JULY	AUG	SEP	Q3	OCT	NOV	DEC	Q4	FY
VOLUME (in Billions)																	
Full Price				17.1				18.7				19.3				18.4	73.5
Branded Savings				7.9				8.9				9.4				9.1	35.3
Private Label/Black and White				3.1				3.4				3.5				3.4	13.4
GTC																0.3	0.3
TOTAL VOLUME				28.1				31.0				32.2				31.2	122.5
PRODUCT CONTRIBUTION																	
Full Price				343				369				404				390	1,506
Branded Savings				48				59				68				44	219
Private Label/Black and White				17				21				23				21	82
GTC				0				(2)				(9)				(67)	(78)
TOTAL PRODUCT CONTRIBUTION				408				447				486				388	1,729

1966 Brand Plans

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WINSTON

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PERFORMANCE PERSPECTIVE

Historical lack of competitive positioning eliminating opportunity for short term stability or long term growth.

WINSTON experiencing long term share-of-market declines:

	1985	August YTD 1995	Change
Base	11.36	5.78	(5.58)
Select	NA	.95	.95
Total	11.36	6.73	(4.63)

. . . as a result of negligible younger adult smoker appeal.

	Profile						
	WINSTON		Marlboro			Industry	
	1985	1995	1985	1995	(S0S)*	1985	1995
18-24	7	3	33	24	(61)	15	13
25-34	23	13	34	36	(48)	27	24
35+	70	84	33	40		58	63

*Share-Of-Smoker

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1996 WINSTON OPERATING PLAN

BRAND HISTORY

. . . which are also reflected in packaging preferences

	1995 Profile		
	WINSTON	**Marlboro**	**Industry**
Pack/Carton	38 / 62	55 / 53 ?	57 / 43
Box/Soft Pack	15 / 85	~~69 / 31~~	42 / 58

. . . as well as tar category profiles:

	1995 Profile		
	WINSTON	**Marlboro**	**Industry**
Full Flavor	50	43	39
Lights	40	55	47
Ultra Lights	10	2	14

All leading to switching and aging losses that are crippling WINSTON.

1996 WINSTON OPERATING PLAN

Immediate Objective - 1995

Develop and confirm positioning which can differentiate WINSTON, sustaining long term growth.

- **Consumer confirmation: week of 12/11**
- **SSA launch (Southern Sales Area): 4/96**

Criteria:

- **Unique:** **No one else is there**
- **Meaningful:** **Relevant to consumers**
- **Credible:** **Will consumers grant it to WINSTON**

Supported by both attitude and a product point-of-difference

Positioning - No B.S.

Attitude (Heart)

- **True to himself / herself**
- **Straight up kind of person**
- **What you see is what you get**

Product Point-Of-Difference (Head)

- **100% natural tobacco**
- **No artificial ingredients**
- **No additives**
- ***All natural. All tobacco. All taste.***

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1996 WINSTON OPERATING PLAN

PLAN LEGEND

1995	**=**	**Estimated 1995**
1995 Ex. Recall	**=**	**1995 minus positive impact of PM recall**
1996 Baseline	**=**	**Business forecast with maintenence level of support (no repositioning)**
1996 Plan	**=**	**SSA (Southern Sales Area) launch of repositioning 4/96:**

- **National product changeover**
- **National print support**
- **Heavy-up marketing support in SSA only**

1996 Winston Op Plan

Volume

* '96 Baseline shows slightly improved performance on Base Winston offset by declines on Select.

* '96 SSA repositioning provides incremental volume of 800mm.

	1995	1995 ex-Recall	1996 Baseline	1996 Plan
Base Winston	22.5	21.7	20.5	21.0
% Change vs. YAG	-6.6%	-9.7%	-8.7%	-6.8%
Select	4.5	4.5	2.9	3.3
% Change vs. YAG	-0.3%	-0.3%	-35.3%	-27.3%
Total Winston	27.0	26.2	23.4	24.2
% Change vs. YAG	-5.6%	-8.2%	-13.1%	-10.2%

1996 Winston Op Plan

Volume Rationale

* Key Baseline assumptions reflect improved Price Gap execution on Base Winston offset by elimination of Select specific promotion support.

* '96 Plan volume benefits from incremental competitive share and restored Select trend.

	Base Winston	Select	Total
Baseline			
Price Adj. Base Trend	19.9	4.6	24.5
* Price Gap Defense	0.3	(0.2)	0.1
* Select Switch Base (28%)	0.3	-	0.3
* Eliminate Brand Building	-	(0.4)	(0.4)
* Trend Deterioration (23% - 15%)	-	(1.0)	(1.0)
Baseline Volume	20.5	2.9	23.4
1996 Plan (Reposition 4/1)			-
* .5 SOM Repositioning (SSA)	0.3	0.1	0.4
* Restore Select Base Trend		0.2	0.2
* National Advertising Impact	0.1	0.1	0.2
Total Plan Volume	21.0	3.3	24.2
Difference vs. Baseline	0.4	0.4	0.8

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1996 Winston Op Plan

Share

* Repositioning efforts in SSA reduce share loss by .17 SOM versus Baseline declines.

	1995	1995 ex-Recall	1996 Baseline	1996 Plan
SOM				
Base Winston	4.88	4.73	4.46	4.56
Change vs. YAG	(0.35)	(0.50)	(0.42)	(0.32)
Select	1.01	1.01	0.69	0.76
Change vs. YAG	0.02	0.02	(0.32)	(0.25)
Total Winston	5.89	5.74	5.15	5.32
Change vs. YAG	(0.33)	(0.48)	(0.74)	(0.57)

1996 Winston Op Plan

Share

* Repositioning efforts in SSA reduce share loss by .24 SOFP versus Baseline declines.

	1995	1995 ex-Recall	1996 Baseline	1996 Plan
SOFP				
Base Winston	6.94	6.73	6.30	6.44
Change vs. YAG	(0.56)	(0.77)	(0.64)	(0.50)
Select	1.44	1.44	0.97	1.07
Change vs. YAG	0.02	0.02	(0.47)	(0.37)
Total Winston	8.38	8.17	7.27	7.51
Change vs. YAG	(0.54)	(0.75)	(1.11)	(0.87)

1996 Winston Op Plan

MAM

* Total Plan MAM down $38mm ($657mm vs. $695mm) vs. Baseline due to repositioning investment.

	1995	1995 ex-Recall	1996 Baseline	1996 Plan
MAM ($MM)	$ 709	$ 682	$ 695	$ 657
Change vs. YAG	$ (34)	$ (61)	$ (14)	$ (52)
MAM/M	$ 26.61	$ 26.01	$ 29.64	$ 27.13
Change vs. YAG	$ 0.29	$ (0.61)	$ 3.03	$ 0.51

REPOSITIONING OBJECTIVES REBUILD WINSTON BRAND EQUITY

- **Ensure Franchise Support / Buy-In**

- **Establish the positioning**
  - ***Leverage mass media*** **to establish and sustain Brand presence and message**
  - **Build and maintain** ***prominent retail presence***
  - ***Leverage word of mouth*** **via a Discovery strategy**

- ***Re-engage competitive smokers***
  - ***Interject WINSTON*** **into competitive smoker's purchase patterns with retail promotion**
  - **Use direct marketing to** ***engage OU's and establish UB's***
  - ***Exploit WINSTON Cup appeal*** **to accelerate new positioning and heighten motivation**

- ***Minimize losses due to value shortfall versus branded savings***
  - ***Maintain 35¢ price gap*** **versus Branded savings**

1996 Winston Op Plan

Spending

* Repositioning investment totals $62.1mm.

* SSA focus in '96 plan results in $28.8mm spending reduction vs. 1995 ($.31/M decrease).

	1996 Baseline	1996 Plan	'96 Plan vs. '95	'96 Plan vs Base
Advertising	1.0	34.2	14.4	33.2
Retail	89.5	105.2	(5.1)	15.7
Continuity	3.0	5.7	(2.5)	2.7
Conversion/Comp DM	-	10.9	(11.6)	10.9
SME	22.2	29.7	6.6	7.5
Retention/Relationship	12.5	2.8	(18.6)	(9.7)
New Initiatives	-	1.5	1.5	1.5
Other	15.4	18.3	(10.9)	2.9
Total	143.6	208.3	(26.2)	64.7
Less: Prespending	-	(2.6)	(2.6)	(2.6)
Total Net	143.6	205.7	(28.8)	62.1
$/M	$ 6.13	$ 8.49	$ (0.31)	$ 2.36

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1996 WINSTON OPERATING PLAN

KEY INITIATIVES

Plan Objective: Establish the positioning

Plan Strategy: Mass media (ultimate plan to be determined by creative execution)

Benchmarks: 11% SOV (Marlboro 18%)

	Spending
• Print	22.6
• OOH	6.1
• Production	5.5
Total	$34.2MM

	1996
• Advertising Awareness	50%
• Attitude Agreement	25%

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1996 WINSTON OPERATING PLAN

KEY INITIATIVES

Plan Objectives: Re-engage competitive smokers

Plan Strategy: Retail promotion

- **National PV levels comparable ('95 vs. '96) with heavy up in SSA**
- **Offensive offers focused in SSA**

	1995		1996 (National)		1996 (SSA)	
	$MM	% PV	$MM	%PV	$MM	%PV
• Offensive	32.6	7.0	25.7	4.5	17.8	10.8
• Defensive	71.0	21.8	75.8	23.3	19.9	23.3
• Presence/Other	6.7	–	3.7	–	–	–
Total	110.3	28.8	105.2	27.8	37.6	34.2

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1996 WINSTON OPERATING PLAN

KEY INITIATIVES

Plan Objective: Establish positioning / re-engage competitive smokers

Plan Strategy: **Competitive direct marketing**

- **Broad reach effort to establish positioning and guarantee extended use**
  - **1996: 400M 21-34 SSA competitive smokers**
  - **4-pack mailing with positioning video followed by 12-pack heavy up to ensure product use**
  - **$10.9MM / $27.5 per participant**

- **Discovery effort - grass roots word-of-mouth momentum ($1.5MM)**
  - **1996: 8 cities focused in SSA**
  - **Positioning and product delivery**
  - **9,000 contacts**

1996 WINSTON OPERATING PLAN

KEY INITIATIVES

Plan Objective: Re-engage competitive smokers

Plan Strategy: Motorsports leverage

- **Exploit WINSTON Cup appeal to accelerate new positioning and heighten motivation**
- **Establish WINSTON Motorsports Club" as premier WINSTON Cup association**
  - **Competitive focus**
  - **Franchise glorification**
- **Build word-of-mouth momentum**

Key Initiatives	*Cost ($MM)*
• Motorsports Club	
- Competitive continuity	5.7
- Quarterly direct mail	3.2
	9.4
• At-Event Promotion	
- Personal Selling	4.6
-- 150,000 reach	
- Tent / presence	3.2
• Operations	18.7
Total	35.4

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ROI ANALYSIS

Three Key Scenarios

1. Launch in SSA (plus Houston) April 1996

   - Positioning supported nationally via print and POS
   - Major investment in SSA only

   National expansion April 1997

   a. .50 SOM Year 1 (1st A&A .44 - .65) followed by .20 / .40 buyer base expansion with 25% conversion to UB's

   b. 1.00 SOM Year 1 followed by .40 / .60 buyer base expansion with 25% conversion to UB's

2. No repositioning -- manage decline

1996 Winston Op Plan

Return on Investment

* MAM positive versus Baseline after 2 years with 18% ROI.

	1995	1996	1997	1998	1999	2000
Volumes						
Op Plan	27.0	24.2	24.4	23.4	21.3	20.5
Diff vs Baseline		0.8	3.3	4.9	5.2	6.0
Spending						
Op Plan	$ 236	$ 206	$ 291	$ 287	$ 289	$ 295
Diff vs Baseline		$ 62	$ 152	$ 150	$ 155	$ 160
MAM						
Op Plan	$ 709	$ 657	$ 580	$ 547	$ 470	$ 435
Diff vs Baseline		$ (38)	$ (39)	$ 22	$ 27	$ 51

ROI : 18%

Return on Investment (1.0 SOM Scenario)

* Represents significant investment opportunity with 276% return.

	1995	1996	1997	1998	1999	2000
Volumes						
1.0 SOM	27.0	24.7	26.5	25.6	24.4	23.9
Diff vs Base Case		1.2	5.3	7.1	8.3	9.4
Spending						
1.0 SOM	$ 236	$ 206	$ 291	$ 306	$ 319	$ 335
Diff vs Base Case		$ 62	$ 152	$ 169	$ 185	$ 200
MAM						
1.0 SOM	$ 709	$ 672	$ 652	$ 606	$ 551	$ 518
Diff vs Base Case		$ (23)	$ 32	$ 81	$ 107	$ 133

ROI: 276%

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1996 WINSTON OPERATING PLAN

Sensitivities

	MAM Impact
• Price gap worsens	$19MM - $62MM
• Volume upside (100MM - 200MM Q4'95)	$3.5MM - $10.5MM
- 100 - 300MM '96	
• Heightened Marlboro defense (continued 2nd Half '95 rate - 28%)	$36.0MM
• Repositioning 1/2 effective (394MM unit downside)	$13.8MM
• Unsuccessful implementation of two full price displays	$16MM - $27MM
- 450MM - 750MM unit downside	

CAMEL

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1996 CAMEL PLAN

CAMEL Share Growth Trend

	1985	1995	Change
Total CAMEL	4.35	4.40	.05
CAMEL Ex Reg	2.60	3.69	1.09

...due primarily to growth among 18 - 24 year old smokers since repositioning

	CAMEL Ex Regular (Share of Smoker)			1995 Profile		
	1985	1995	Change	CAMEL	Marlboro	Industry
18-24	3.0	10.4	7.4	25	24	13
25-34	3.7	5.5	1.8	26	36	24
35-49	2.1	3.8	1.7	30	30	36
50+	2.1	2.2	.1	19	11	28

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1996 CAMEL PLAN

... and is supported by significant shifts in style preference

	1985	1995		
	CAMEL	CAMEL	Marlboro	Industry
Soft Pack	90	49	31	58
Box	10	$\boxed{51}$	69	42
Full Flavor	67	50	43	39
Lights	33	$\boxed{46}$	55	47
Ultra Lights	-	4	1	14
Pack	36	$\boxed{54}$	53	43
Carton	65	46	47	57

All indicate potential for continued long-term share growth.

1996 CAMEL PLAN

Vision

Re-establish younger adult share momentum and accelerate share of full price growth.

Corporate Role

RJR's primary source of young adult growth short and long-term.

Positioning

CAMEL has a brand personality that embodies the attitudes of younger adult smokers -- irreverent, virile, unexpected, social and fun-loving.

1996 CAMEL PLAN

Volume Performance (Shipments)

	1994	1995	1995 (Ex Recall)	1996
Total CAMEL	19.3	20.9	20.2	22.0
% Chg. vs YAG	7.8	8.3	4.6	8.9
Ex Regular	15.7	17.5	16.8	18.7
% Chg. vs YAG	9.7	11.5	7.0	11.3
Regular	3.6	3.4	3.4	3.3
% Chg. vs YAG	.4	-5.6	-5.6	-3.0

Perspective

- 1996 goal makes CAMEL Ex Regular highest % growth of all full price brands in industry.

1996 CAMEL PLAN

Share of Full Price

	1994	LE 1995	LE 1995 (Ex Recall)	1996
Total CAMEL	5.91	6.27	6.06	6.71
Chg. vs YAG	+.07	+.36	+.15	+.44
Ex Regular	4.90	5.29	5.08	5.79
Chg. vs YAG	+.16	+.39	+.18	+.50

Share of Smoker

	1994	LE 1995	LE 1995 (Ex Recall)	1996
18 - 24	9.9	10.4	10.4	11.4
Chg. vs YAG	-.4	+.5	+.5	+1.0

Perspective

- Ex Regular SOFP growth objective: +.5
  - 1.0 YAS growth = +.1
  - 6% conversion rate = +.4

1996 CAMEL PLAN

Share of Market

	1994	LE 1995	LE 1995 (Ex Recall)	1996
Total CAMEL	4.13	4.41	4.27	4.72
Chg. vs YAG	+.15	+.28	+.14	+.31
Ex Regular	3.42	3.72	3.58	4.07
Chg. vs YAG	+.19	+.30	+.16	+.35

1996 CAMEL PLAN

Financial Performance

	1994	1995	1995 (Ex Recall)	1996
MAM	419	455	429	497
Chg. vs YAG	59%	9%	2%	16%
MAM/M	21.98	22.36	21.26	23.02

Perspective

- Business building advances earnings 16%.

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1996 CAMEL PLAN

Key Strategies

- Create marketplace news with three integrated marketing events.
- Establish high growth regions that provide long-term momentum
    - 20% Share goal among YAS in high growth regions over three years
- Convert competitive smokers with emphasis against 21-24
- Maintain competitive pricing versus branded savings

1996 CAMEL PLAN

Spending

	1994	1995	1996	Change vs YAG 1995	Change vs YAG 1996	Rationale
Advertising	45	50	59	5	9	SOV increase 9% - 12%
Retail	100	111	116	11	5	31% PV vs 41% 1995; 20% pricing
Continuity	42	36	48	-6	12	Proof value 13.5¢; expanded offers
Conversion	27	33	25	6	-8	6% conversion rate; reduced reach
SME	11	9	11	-2	+2	SJR Cup car included
Retention	7	10	6	3	-4	Solidify conversion prospects
New Initiatives	-	-	3		3	Microbrand introductions
Other	20	24	11	4	-13	Eliminate 1997 pre-production
TOTAL	252	273	279	21	6	
$/M	13.19	13.29	12.69			

Perspective

- Minimal incremental investment for significant volume/share return
    - $/M significantly reduced

1996 CAMEL Plan

Plan Strategy:

Create Marketplace News

MEDIA: High Impact Events
Big Brand Presence
Competitive Share-of-Voice

	SOV (%)			Spending ($MM)	
	1990-93	1994-95	1996	1995	1996
CAMEL	12	9	12	31	46
Marlboro	19	20	17	75	75

	Event 1				Event 2				Event 3				
	F	M	A	M	J	J	A	S	O	N	D	J	$MM
OOH													
- High Growth		I	I			I	I			I	I		15
- Threshold		T	T			T	T			T	T		6
- Neons/Walls													11
Print													14
Total Media													46
Events													3
Production													10
TOTAL													59

1996 CAMEL Plan

Plan Strategy: Create Marketplace News

New Initiatives: Cigarette microbrands that generate incremental business and build Brand equity
- Red Kamel
- Kamel Menthe

Non-cigarette CAMEL trademark products (CAMEL Cigars)
Innovative marketing ideas

Current Projects: Red Kamel/Kamel Menthe

Launch Dates: January (bar program) March (retail) -- Red Kamel
April (bar program) June (retail) -- Kamel Menthe

Metro Markets: New York, Dallas, Seattle, LA, Denver, Chicago

Marketing Support: Advertising -- National and local print
Retail -- semi-permanent display and POS
Promotion -- bar program events; no retail promotions

New Initiative Spending:	$3.0MM
Red Kamel/Kamel Menthe	1.9
Other Projects	1.1

1996 CAMEL Plan

Plan Strategy:
Convert Competitive Smokers

Retail Promotions: Workplan integrated with event themes
31% PV (double Marlboro PV)
51 % spending in High Growth Regions

	Event 1				Event 2				Event 3			
	F	M	A	M	J	J	A	S	O	N	D	J
Workplan	X		X		X	X			X	X		
Incremental Priority											X	
Collector's Packs								X				

	1995		1996	
	$MM	%PV	$MM	%PV
Offensive	55	14	59	11
Defensive	56	25	57	20
Total	111	39	116	31

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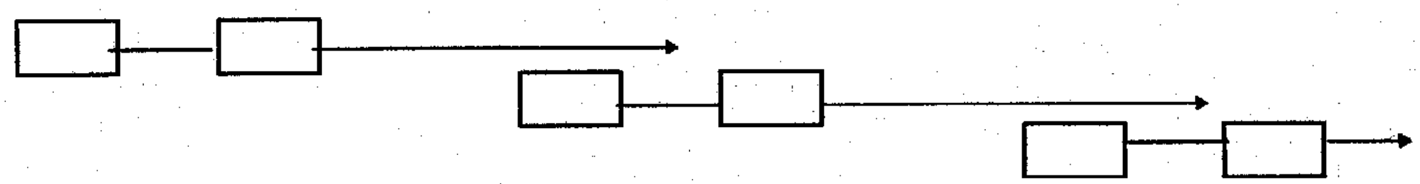
Convert Competitive Smokers

Continuity: Three event-themed catalogs
Expanded offers
Cash use outside of catalogs
Increase proof value: 13.5¢

Event #1				Event #2				Event #3			
F	M	A	M	J	J	A	S	O	N	D	J

Event Catalogs
☐ = retail drop



1995		1996	
$MM	# Proofs	$MM	# Proofs
36	255MM	43	240MM
		5	95 Prespending
		48	

1996 CAMEL Plan

Convert Competitive Smokers

Conversion: Expand pool/biker programs
Add new cities to bar program
Test new options to character conversion (direct mail)
Improve/refine based on results

	1995	1996
Reach	1.5MM	1.9MM
Conversion Rate	11%	6%
Converted Smokers	161M	120M
Spending	$33	$25

1996 CAMEL Plan

Plan Strategy:

Competitive Pricing/Retention

Direct Marketing: Support vulnerable post-conversion participants. Maintain core franchise loyalty.

	# Mailings	Spending $MM	Cost per Smoker
Vulnerable (300M)	11	4	$14.19
Loyal (200M)	6	2	$ 9.17

1996 CAMEL Plan

Regional Plan Summary

	High Growth	Threshold	Low
Advertising			
OOH	Impact	Threshold	-0-
Print	Print	Print	Print
Neons/Walls	Neons	Neons	-0-
Event	Event	-	-
New Initiatives	New Initiatives	-	-
Retail Display	Camel Specific	Camel/Shared	Camel/Shared
Work Plan Promotions	7	6	4
Collectors Pack	1	1	1
Continuity	Display/Ship	Ship	Ship
Conversion	Primary	Secondary	-

1996 CAMEL Plan

High Growth Regions

Criteria: Strong 5 year trend
YAS Growth
Business Building Opportunity
Volume Importance

High Growth Regions	
Minneapolis	Detroit
Seattle	N. California
Denver	S. California
Chicago	Florida
	Pittsburgh

Total CAMEL Volume: 62.4%

Threshold Regions

Criteria: Moderate Share and Volume growth
Average YAS
Average Business Building Opportunity

Threshold Regions	
Atlanta	Boston
Buffalo	Houston
St. Louis	Richmond
Cincinnati	Dallas

Total CAMEL Volume: 28.4%

Low Priority Regions

Criteria: Weak Share and Volume performance
Low YAS share
Low Business Building Opportunity

Low Priority Regions
New York
Philadelphia
Winston-Salem
Hartford

Total CAMEL Volume: 9.2%

1996 CAMEL PLAN

Issues/Sensitivities

Category	MAM Impact
• **Volume Upside**	
- improved 4th Quarter +100 to +200MM	$7MM - $17.5MM
- provides 1996 +200 to +500MM	
• **Retail**	
- price gap worsens	($18MM - $51MM)
- Marlboro % promoted doubles (to 2nd Half 1995)	($27.5MM)
- reduced pack outlet display	($8MM - $14MM)
• **Advertising**	
- viability of Joe CAMEL Campaign	-
• **Continuity**	
- Marlboro increases proof value	($8MM - $12MM)
• **Conversion**	
- Conversion rate 4% vs 6% plan (-.13 SOFP)	($13MM)
• **YAS Share**	
- Growth .5 vs 1.0 (-.05 SOFP)	($7MM)

SALEM

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1996 SALEM Plan

SALEM Declining Share Trend

	1985	1995	Change
SALEM	7.39	3.71	(4.22)

. . . due to little to no appeal among 18-24 year old smokers and savings pressure among 35+ smokers.

	Share of Smoker					
	SALEM		Newport		Kool	
	1985	1995	1985	1995	1985	1995
18-24	6.5	0.7	10.7	12.3	4.5	1.4
25-34	10.5	3.5	8.8	10.4	9.5	2.0
35-49	9.4	5.7	2.9	5.0	5.7	6.1
50+	8.7	6.0	0.9	1.4	4.1	2.9

1996 SALEM Plan

Lack of 18-24 appeal is reflected in style preferences . . .

	1995			
	SALEM	Newport	Kool	Industry
Pack	48	73	50	57
Carton	52	27	50	43
Soft Pack	87	45	86	58
Box	13	55	14	42
FF	34	84	69	39
LT	47	16	28	47
ULT	19	0	3	14

. . . while the Brand has also missed out on menthol dynamic occurring in African-American market.

White	68	39	50	81
AA	24	49	41	10
Hispanic	43	8	5	4

These factors have led to a significant sustained SOM loss on SALEM.

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1996 SALEM Plan

Vision

Identify positioning for long-term brand growth.

Corporate Role

Defend Brand's franchise/current base of smoker.

Positioning

TBD—goal is positioning alternatives identified by year end (1995).

1996 SALEM Plan

Volume/Share MAM

	1995 L.E.	1995 (ex. recall, price gap)	1996 Plan	Diff 96 vs 95
Shipments (billions)	17.7	17.5	17.7	-
% Change	-4.3	-5.4	-	NA
SOFP	5.69	5.63	5.55	-.13
SOM	4.00	3.96	3.93	-.07
MAM ($MM)	562.1	567.8	545.9	-16.1

Perspective

- Significant increase in price defense against Kool/Newport allows SALEM to maintain volume level versus year ago.

1996 SALEM Plan

Objectives/Strategies

I. Identify positioning for long-term brand growth

- In-market launch third quarter, 1996

II. Defend Brand's franchise/current base of smoker

- Maintain competitive pricing versus key full-price opponents
  - Price gap
  - Checkout couponing
- Establish retail presence in primary defense markets
  - Renew retail display presence
  - Implement retail defense promotions

- Sustain relationship marketing among targeted franchise smokers

1996 SALEM Plan

Spending

	1995 LE	1996 Op Plan	96 Plan vs 95
Advertising	$0.0	$0.0	$0.0
Relationship Marketing	14.7	13.2	(1.5)
Retail:			
Checkout coupon	4.5	6.0	1.5
Price gap	23.6	52.1	28.5
Co-marketing	5.0	8.6	3.6
Work plan	0.0	0.8	0.8
DPC/megavolume	0.0	1.1	1.1
POS/other	0.3	0.3	0.0
	33.4	68.9	35.5
Preferred	4.5	0.5	(4.0)
Agency fee	1.5	1.5	0.0
Market research	1.6	1.3	(0.3)
TOTAL	$55.7	$85.4*	$29.7

Perspective

Over 80% of Brand funding directed against price defense versus key competition.

*$14MM additional being held in reserve for SALEM repositioning.

1996 SALEM Plan

Key Retail Strategies

Maintain franchise base protection while renewing retail display presence.

- Price gap coverage at 70% of Brand's volume base.
- Checkout coupon targeted against Kool/Newport.
- Retail display presence nationally, where appropriate.
- Work Plan Partners promotion in key primary defense regions (New York and Philadelphia).
- DPC Promotions in key menthol-oriented outlets.

1996 SALEM Plan

Regional Plan

	SOM	Volume %	Volume Rank	Bus Bldg Rank	Buyers Rank	Responsiveness Price	Responsiveness Retail
Work Plan Defense Markets							
Philadelphia	5.4	7.3	4	6	7	H	L
New York Metro	4.6	6.2	6	5	8	A	L
		14	(128 Index)				
Primary Defense Markets							
Pittsburgh	6.0	9.6	1	4	3	H	H
Richmond	5.6	8.9	2	2	2	H	H
Winston-Salem	5.4	5.8	7	1	4	A	L
St. Louis	4.5	7.1	5	3	1	H	L
Chicago	4.4	7.9	3	9	5	H	A
		39	(131 Index)				
Remaining Markets							
Atlanta	4.6	3.9	11	11	15	L	A
Cincinnati	4.5	5.4	9	14	10	A	A
Detroit	3.7	5.7	8	12	11	H	L
Dallas	3.7	3.7	12	18	12	L	L
Florida	3.5	3.5	15	13	6	L	H
Buffalo	3.2	4.6	10	10	13	A	A
Boston	3.1	3.6	14	16	19	A	A
Houston	3.1	1.5	20	20	17	L	A
N. California	2.7	2.9	18	19	20	L	H
Denver	2.6	3.1	16	7	9	L	H
Minneapolis	2.4	3.1	16	17	16	L	L
S. California	2.2	3.7	13	8	14	L	H
Seattle	2.1	2.4	19	15	18	L	L
		47					

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1996 SALEM Plan

Regional Plan

Regions	Price Gap*	Checkout Coupon	Work Plan Partners	Retail Presence**	DPC***
Philadelphia	F		X	P	
NY Metro	F		X	S	
Pittsburgh	F				
Richmond	F				
Winston-Salem	F				
St. Louis	F				
Chicago	F				
Atlanta	F			O	
Cincinnati	F				
Detroit	F				
Dallas	N				
Florida	N				
Buffalo	P				
Boston	P				
Houston	N				
N. California	N				
Denver	N				
Minneapolis	P				
S. California	N				
Seattle	N				

*Price gap coverage: F = full, P = partial, N = none
**P = primary, S = shared display secondary, O = opportunistic (where appropriate)
***Nationally, where appropriate

1996 SALEM Plan

Checkout Couponing

- Total spending:

1995	1996	Diff
4.5	6.0	+1.5

- Increase due to:

  - Full year at $3.00
  - No set cap on "triggers"

- National focus
- Eleven cycles (January - October)
- Trigger set against most major menthol styles, as well as competitive Savings menthol
- PV (coupon offers only): 360MM units

1996 SALEM Plan

Relationship Marketing

Reinforce franchise loyalty through equity-based efforts.

- Total spending:

1995	1996	Diff
14.7	13.2	-1.5M

  - Decrease due to reduction in database names (currently 800M)

- Name generation activity to strengthen franchise database
- Six mailings and coupon sleeve (end of year)
- Offers include continuity programs, carton coupons, or both
- PV (coupon offers only): 360MM units

1996 SALEM Plan

Time Line

	J	F	M	A	M	J	J	A	S	O	N	D
Price Gap												
Checkout Coupon												
WP-Partners						X				X		
DPC		X		X			X			X	X	
Megavolume						X						
POS												
Relationship		X		X		X		X		X		X

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1996 SALEM Plan

Sensitivities

Issue	*MAM Impact* *($MM)*
I. Price gap couponing:	
• Price gap sensitivity within model (-200MM units)	$7
• Effectiveness of retail implementation	

Target Coverage	Loss of Inc.	SOM Impact	
80%	-200MM	-.04	$7

• Accelerated competitive activity

Scenario	Budget Impact ($MM)	
Change in coupon value ($.25)	3.7	
Change in PV (1%)	3.1	
Aggressive competitor ($.25/ctn and incremental 5% PV)		$15-17

II. Savings activity:	
• Widening of retail price gap with Savings menthol products: Volume 120-130MM	$4-6
III. Retail: Reduced pack outlet display: Volume 225-400MM units	$8-14
IV. Competitive direct marketing (new program):	
• Newport: targeting of SALEM Lights franchise	
Mailings: 350M circ, 1 per quarter (2 ctn cpns)	$2

A/M/N

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VANTAGE/MORE/NOW

1996 OPERATING PLAN

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VANTAGE/MORE/NOW

1996 Operating Plan

Objective

- Maintain core franchise loyalty and optimize targeted opportunities which deliver share performance and profitability.

Corporate Role

- Contribute positive MAM and SOFP to RJR's full price portfolio.

VANTAGE

1996 Operating Plan

Key Strategies

- Deliver a credible, relevant positioning and end benefit which provide Brand's "reason for being".

- Reinforce brand choice and solidify loyalty via relationship marketing.

- Execute micro-marketing to maximize brand performance and return:

    - Emphasize prime prospect smokers age 35-49
    - Overlay and grow database in those markets
    - Increase SOR among core franchise and OU base
    - Maintain competitive pricing to deter erosion

VANTAGE

1996 Operating Plan

	LE 1995*	LE 1996	Difference	% Change vs. YAG
Volume (Billion Units)	5.35	4.94	(.41)	-7.6%
SOFP	1.60	1.47	(.13)	
Spending ($MM)	$11.5	$11.0	($0.5)	-4.3%
MAM ($MM)	$167.8	$159.4	($8.4)	-5.0%
MAM ($/M)	$31.36	$32.25	($0.89)	

* 9/15/95 L.E.

VANTAGE

1996 Operating Plan

Marketing Spending

	1995	1996
Retail		
- Price Gap	2,100	3,000
- Catalina	1,775	2,000
- Co-Marketing	2,519	0
- Other	20	0
TOTAL Retail	6,414	5,000
Relationship Marketing	4,400	5,500
Business Building	130	50
Agency Fee	310	250
Research	200	160
TOTAL Spending	$11,454	$10,960

VANTAGE

1996 Operating Plan

<u>Retail Price Gap Strategy</u>

- Implement price gap strategy in <u>overdeveloped</u> and <u>price responsive</u> geographies:
  - Total Regions BDI 175+; Promotion responsive via model
  - Divisions versus Regions to optimize effectiveness and efficiencies
  - Outlet type focus based on development/responsiveness

- Product must be visible to consumer for effective implementation:
  - Carton fixture
  - Temporary display

- Funding out of Full Price Gap budget.

Net Result: 41% VANTAGE volume covered in 26% U.S. and 30% Industry CIV.

Vantage
1996 Operating Plan

Retail Market Priorities

1996 Regions	Priority Mkts. (% Regions)	Region BDI	% Business	% U.S.	Outlet Type
Winston-Salem	Total Region (100%)	260	11.18	4.18	C/G, SM, OO
Atlanta	Total Region (100%)	255	8.83	3.35	C/G, SM, OO
Richmond	All Divs. ex. Charleston (87%)	107	6.96	6.29	C/G, SM, OO
Cincinnati	Louisville, Lexington (17%)	143	3.59	1.33	C/G, SM
Minneapolis	Fargo (13%)	116	.83	.41	C/G, SM
St. Louis	Memphis/Nashville/ Little Rock (46%)	173	5.06	6.20	C/G, SM,
Dallas	Jackson/Hattiesburg (17%)	113	4.70	3.90	C/G, SM
			41.15	25.66	

*Priority market identification and data will be updated with new MSA information availability.

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MORE

1996 Operating Plan

Key Strategies

- Leverage "unique" positioning to deliver image and tangible product points of difference.
- Enhance franchise loyalty and emotional relationship with the Brand.
- Identify any OU opportunities to increase SOR or convert to Brand.
- Focus marketing efforts against
  - Prime prospect smokers 35-50 years old
  - Target geographies (WSA)
  - Strongest styles
- Improve distribution via consumer request in target markets.

MORE

1996 Operating Plan

	LE 1995*	LE 1996	Difference	% Change vs. YAG
Volume (Billion Units)	2.64	2.45	(.19)	-7.0%
SOFP	.80	.73	(.07)	
Spending ($MM)	$2.9	$2.3	($.6)	-20.7%
MAM ($MM)	$84.6	$81.5	($3.1)	-3.7%
MAM ($/M)	$32.06	$33.20	$1.14	

* 9/15/95 L.E.

MORE

1996 Operating Plan

Marketing Spending

	1995	1996
Retail		
- Catalina	427	600
- Other	4	0
TOTAL Retail	431	600
Relationship Marketing	2,052	1,350
Business Building	50	30
Agency Fee	250	250
Research	80	100
TOTAL Spending	$2,863	$2,330

NOW

1996 Operating Plan

Key Strategies

- Re-establish Brand's positioning and critical product benefits among concerned smokers from "destination" to "choice".
- Maximize impact and effectiveness in targeted NOW and competitive geographies.
- Differentiate NOW from its competitors.
- Identify and leverage opportunities to increase SOR among occasional users and attract competitive smokers to the Brand.

NOW

1996 Operating Plan

	LE 1995*	LE 1996	Difference	% Change vs. YAG
Volume (Billion Units)	2.27	2.03	(.24)	-10.6%
SOFP	.68	.60	(.08)	
Spending ($MM)	$3.40	$3.40	-	-
MAM ($MM)	$74.2	$68.3	($5.9)	-8.0%
MAM ($/M)	$32.73	$33.72	$0.99	

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* 9/15/95 L.E.

NOW

1996 Operating Plan

Marketing Spending

	1995	1996
Retail		
- Catalina	800	1,000
- Other	4	0
TOTAL Retail	804	1,000
Relationship Marketing	2,140	2,000
Business Building	54	50
Agency Fee	250	210
Research	180	150
TOTAL Spending	$3,428	$3,410

Savings

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1996 SAVINGS PLAN

OPERATING PLAN REVIEW

(10/3/95)

TOTAL SAVINGS BUSINESS

1995 RECAP

	AUG 1995 LE	9/15 LE	SBU 10/95 LE
VOLUME	47,268	47,268	46,748
VARIABLE MARGIN	$ 996.0	$ 975.0 *	$ 965.0 **
MARKETING SPENDING	$ 408.0	$ 408.0	$ 398.0
MAM	$ 588.0	$ 567.0	$ 567.0
MAM PER M	$ 12.44	$ 12.00	$ 12.13

*CHANGE IN LIFO- $(19.1)MM, OTHER-$(2.0)MM

**CHANGE IN VOLUME OFFSET BY CONSUMER SPENDING

1996 Savings Plan

1996 MAM

- $588MM - Starting point objective @ $21.23/M variable margin.
- $600MM - Current objective @ $21.49/M updated variable margin.
- $622MM - Updated SBU goal (assumes $22MM reserve is not needed).

1996 Savings Plan

'96 Planning Goal

Make more money in '96 vs. '95, while continuing DORAL investment.

- '95 Savings MAM L.E.: $567

Two Basic Scenarios

1. Current environment continues (OP Plan scenario)

   - Competitive activity (pricing, promotions)
   - Savings margins ≈ $12.00 - $12.50/M
   - Savings remains approximately 30% of industry

2. Environment deteriorates (key contingency plan)

   - Competitive activity, driven by B&W, heats up significantly
   - Savings margins erode $11.00 - $11.50/M
   - Savings remains 30% of industry (due to FP gap management)

1996 RJR SAVINGS

1996 Objective

Improve RJR Savings margins and Total RJR profitability while maintaining an extremely competitive share of the Savings Segment.

Strategies

- Grow Doral → Via equity - vs- just price
- Grow Forsyth → Where strategic benefits to Total RJR are obtained
- Manage AOSAV → For optimal balance of share/profit
- Project Symphony → SOS growth via equity/higher margins
- Total Category → To improve Total RJR share and profitability (FP; BS; LP)

1996 Savings Plan

Volume/Share and MAM Objectives

- Volume, share and profit are projected to strengthen slightly.

Total Savings	1995 L.E.	1996	% Difference
• Volume	47.3	48.7	+3%
• SOM	9.8	10.1	+.3%
• SOSav	33.2	34.5	+1.3%
• MAM ($MM)	$567	$622*	+10%
- Per M	$12.00	$12.77	+6%

*$600M if $22MM reserve is spent.

1996 DORAL Plan

Strategic Vision

Clearly establish DORAL as the "gold standard" of all savings brands by demonstrating the ability to grow share at increasing margins.
Net: Achieve at least 20% SOSav at $12.50M MAM in 1996.

Corporate Role

RJR's driver to maintain a competitive position in Savings while improving Total RJR share and profitability over time.

Brand Positioning

DORAL IS THE CHAMPION/TRUE FRIEND OF VALUE-ORIENTED SMOKERS.

Product - Premium taste at an honest price (overall best in Savings)

Attitude - Honest and Friendly ("middle America")

1996 DORAL Plan

DORAL '96 Objectives

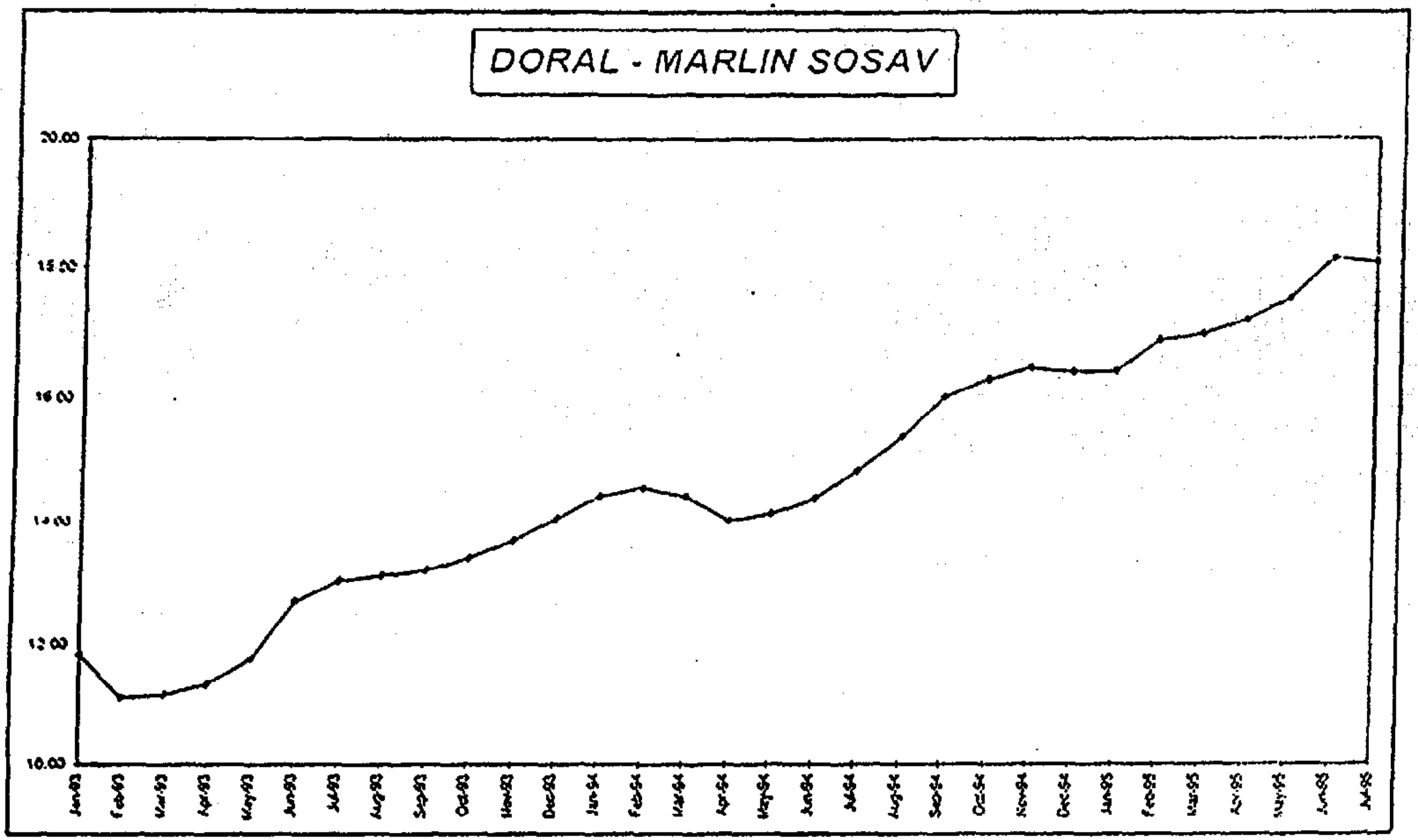
- DORAL's growth momentum will continue driving share and profits up.

	1995 L.E.	1996	% Difference
• Volume	27.8	30.1	+8.3%
• SOM	5.2	5.7	+.5%
• SOSav	17.6	19.3	+1.3%
• MAM ($MM)	$332	$390*	+17%
- Per M	$11.95	$12.96	+8%
• Competitive Conversions			
- (000's)	180	180	-
- (SOM)	.4	.4	-

*$368 if $22MM reserve is spent.

DORAL SOS Trend 1993-1995 YTD

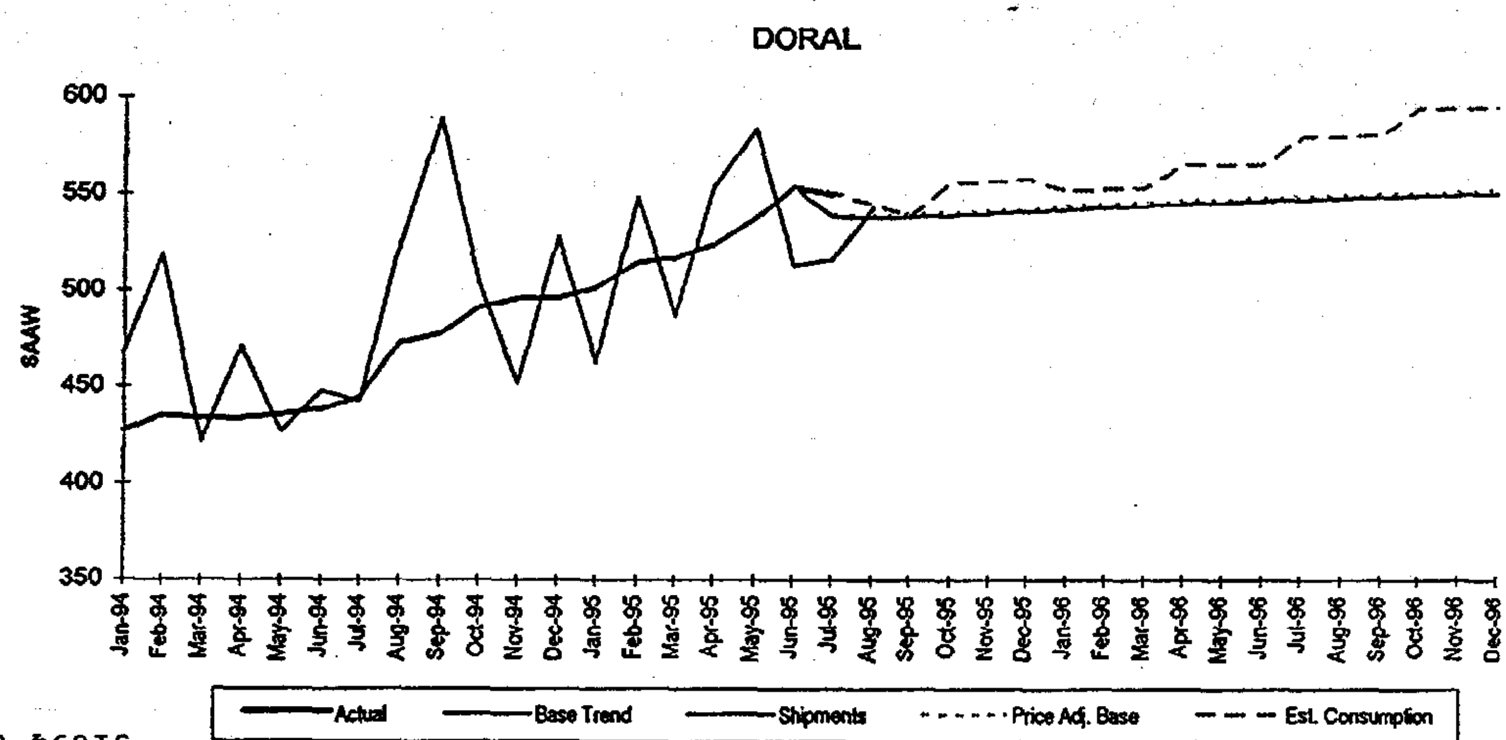
- Our objective is to sustain DORAL's growth trend.



1996 DORAL

Base Trend vs. Improvement

- Estimated '96 consumption represents approximately 1.2 billion units improvement over base trend (90%+ spending required to deliver base trend).
  - Base Trend (MM) $322/16,367 PV
  - Improvement (MM) $26/1,054 PV
  - Total (MM) $348/17,421 PV



1996 DORAL

Key Strategies

Sustain profitable share growth with equity <u>and</u> price

- **(Responding to market dynamics) optimize consumer price points**
- **Invest in strong brand positioning (with full marketing mix)**

- Reduce consumer pricing vs. current rates (hold reserve)
  - Employ "ceiling" philosophy within markets
  - Provide executional guidelines to manage deployment

- Shift retail spending to greater promotion and presence emphasis
  - Promotional tactics targeted to outlet type
  - National brand focus for leadership presence

- Build brand image with 12 month advertising plan
  - 2nd half '95 media rate throughout '96
  - "DORAL Across America" impact promotion 2Q

- Build smoker relationships (DORAL & Co.) to defend/generate volume
  - Penetrate 40% of buyer base
  - Better database targeting to maximize resource

- Use product to competitive advantage
  - Ensure at least parity performance
  - Continue "high ground" strategy (1-3-5 year plan)

1996 DORAL Plan

Tactical Plan Summary

	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec
Retail												
National Promotions			X					X				X
- Priority (3x)												
- Threshold (2x)												
- Low (1x)												
Partners Promotions					X				X			
DPC			X		X			X				
POS	X—	—	—	—	—	→	X—	—	—	—	—	→
PDI	←	—	—	—	—	—	—	—	—	—	—	→
Advertising												
Print (Nat'l.)	←	—	—	—	—	—	—	—	—	—	—	→
OOH (65% U.S.)				←T→	←I—	→			←—T	—→		
(10% U.S.)		←	—	—	—	—	—	—	—	—	—	→
Media-delivered Promotion		X (reg.)			X (nat'l.)			X (reg.)				
DORAL & Co.												
- Core Franchise	X			X			X			X		X
- Occasional Users	X		X	X		X	X			X		X
- Competitive Smokers	X		X		X		X					

1996 DORAL Plan

Retail Promoted Volume

- PV levels reflect our strategy to reduce price discounting moderately; however, a reserve is in place to close the gap if needed.

	'95 % PV	'96% PV	Inc./Decr.
Consumer Pricing	56.4	48.3	(8.1)
Workplan Promotions	9.5	10.8	+1.3
TOTAL Planned	65.9	59.1	(6.8)
Reserve	5.4	7.3	+1.9
TOTAL Available	71.3%	66.4%	(4.9%)

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1996 DORAL

MARKETING SPENDING COMPARISON

- '96 spending plan reflects the shift from consumer pricing to retail promotion . Total spending rate per carton equal to '95 rate.

	1996			Difference vs 1995		
	Totals	$'s/Ctn	% of Ttl	Totals	$'s/Ctn	% of Ttl
VOLUME	30,100			2,259		
CONSUMER PRICING*** (Includes FV, P&H)	$150.0	$1.00	46%	($35.3)	($0.33)	-14%
MARKETING						
Retail (Promo/POS)	94.0	0.62	29%	30.7	0.17	8%
Media (OOH/Print)	25.0	0.17	8%	7.4	0.04	2%
Media Promo	8.0	0.05	2%	6.2	0.04	2%
Relationship Marketing	41.0	0.27	13%	7.3	0.03	2%
Other	8.0	0.05	2%	2.3	0.01	1%
Total Marketing	$326.0	$2.17	100%	$18.6	($0.04)	0%
MAM	$389.8	$2.59		$57.5	$0.20	

*** Excludes $22MM Consumer Pricing contingency in 1996

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1996 DORAL

Sensitivities

	Total $MM	Less $22MM*
• '95 volume remains soft, impacts 1996 selling rate (555 vs. 575 avg. week = 1.0 billion)	($23.8)	($1.8)
• Marketplace remains at 3Q '95 levels (i.e., GPC 75% PV @ $2.15 avg. ctn.)	($29)	($7)
• Marketplace heats up (i.e., GPC 85% PV @ $2.50 avg. ctn.)	($95)	($73)

1996 DORAL

(Assumes marketplace heats up)

Trade-off long business building for short-term discounting response.

Program Activity	$MM	Comments
1. Consumer Pricing Reserve	22.0	• 1st line of defense
2. Retail presence heavy-up (25%)	1.5	• Loss of retail impact in emphasis regions
3. Continuity (50%)	7.0	• Driven by proof requirements and response rate
4. Symphony sustaining support (25%)	1.0	• End test markets 2nd half '96
5. Full year OOH in top 10% U.S.	1.0	• Loss of presence in key locations/top markets
6. December pack promotion	3.8	• Trade-off year end pack PV
7. Cut emphasis region heavy-up (50%)	5.0	• Trade-off business building in key geography
8. Military brand building (60%)	1.8	• Cut exchanges/pack efforts
9. Reduced MONARCH heavy-up (65%)	2.0	• Loss of MONARCH support x-pricing
10. FSI promotions (50%)	3.0	• Trade-off media volume support for retail
11. 20% reduction in print advertising	3.0	• Loss of market presence
12. 15% reduction in DORAL & Co.	6.0	• Trade-off franchise defense through mail for retail
	57.1	

1996 DORAL

Improve 1996 MAM at Expense of Business Building

- Assumes a Savings MAM of $600MM which includes a $22MM consumer pricing contingency.

Program/Activity	Program Cost ($MM)	'96 Volume Impact Units	'96 Volume Impact Var. Margin	Net $$ Gain
1. Reduce retail presence heavy-up	1.5	-	-	1.5
2. Eliminate continuous OOH in 10% top U.S.	1.0	-	-	1.0
3. Reduce Symphony sustaining support 25%	1.0	20	.5	.5
4. Eliminate all new program development	1.0	-	-	1.0
5. Cut 40% print advertising	6.0	-	-	6.0
6. Cut 25% OOH advertising	2.3	-	-	2.3
7. Eliminate MONARCH heavy-up	3.0	85	2.1	.9
8. Reduce Military heavy-up by 60%	1.8	77	1.4	.4
9. Cut 50% emphasis region heavy-up	5.0	143	3.4	1.6
10. Eliminate all personal selling	2.0	75	1.8	.2
11. Cut DORAL & Co. 15%p (50/50 franchise/comp.)	5.8	171	4.1	1.7
12. Eliminate retail continuity in 50% offers	7.0	210	5.0	2.0
13. Cut FSI's by 50%	3.0	84	2.0	1.0
TOTAL	**40.4**	**865**	**20.3**	**20.1**

FORSYTH (1996)

Role

- Volume growth to assist meeting Total RJR SOS objectives.

  AND

- Provide strategic benefit/leverage to Total RJR portfolio approach (FP;BS; PL).

Strategies

- Better incorporate RJR PL into "Total RJR Package" to offer/leverage competitive advantage.
- Prioritize accounts/opportunities based on importance to RJR today and for future
  - maintain existing accounts
  - identify target accounts (up "ante" on top 5)
- Effective/formal transition to Field Sales is imperative.
- Maintain at least current margins.

Key Issues

- Ensure those with Forsyth responsibility understand criteria, guidelines and details.
- Develop better utilization/benefit from accrual program.
- Minimizing SKU proliferation.

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FORSYTH
FINANCIAL COMPARISON

	1995		1996		DIFFERENCE	
	Totals	Per/Ctn	Totals	Per/Ctn	Totals	Per/Ctn
Volume	11,266		11,400		134	
Variable Margin	$ 157.6	$ 2.80	$ 164.3	$ 2.88	$ 6.7	$ 0.08
Consumer Pricing (Inclduding FV, P&H)	$ -	$ -	$ -	$ -	$ -	$ -
MARKETING						
Retail (Promo/POS)	$ 0.4	$ 0.01	$ 0.4	$ 0.01	$ -	$ (0.00)
Forsyth Alliance	$ 45.1	$ 0.80	$ 45.6	$ 0.80	$ 0.5	$ (0.00)
Forsyth Bonuses	$ 6.8	$ 0.12	$ 7.0	$ 0.12	$ 0.2	$ 0.00
Media (OOH/Print)	-	-	-	-	-	-
Media Promo	-	-	-	-	-	-
Direct Marketing	-	-	-	-	-	-
Other	5.2	0.09	1.0	0.02	(4.2)	(0.07)
Total Marketing	$ 57.5	$ 1.02	$ 54.0	$ 0.95	$ (3.5)	$ (0.07)
Total Spending	$ 57.5	$ 1.02	$ 54.0	$ 0.95	$ (3.5)	$ (0.07)
MAM	$ 100.1	$ 1.78	$ 110.3	$ 1.94	$ 10.2	$ 0.16

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1996 MONARCH PLAN

Company Role

Contribute to total RJR Savings objectives via an optimal balance of profit and share.

Key Strategies

- Continued "private label" EDLP agreements in identified accounts
- Ensure sufficient consumer pricing $$ to maintain price competitive with Branded Savings, thus managing share declines.
  - Spend more per carton -vs- '95
  - Employing "ceiling" strategy
- Additional support in 3 priority regions (Detroit, Buffalo, Boston = 43% MONARCH).

Regional Plan Approach

- Consumer pricing allocation based on consumption.
  - Net: 65% PV @ $2/ctn. average
- Develop DORAL/MONARCH co-existence retail plan in priority regions (DPC, Workplan promotions, etc.).

1996 BEST VALUE PLAN

Corporate Role

Contribute to RJR Savings objectives via an optimal balance of profit and share.

Key Strategies

- Continued "private label" EDLP agreements in identified accounts
- Focus consumer pricing in highest development markets only.
- Ensure sufficient consumer pricing $$ to manage share declines.
  - Spend more per carton -vs- '95
  - Employing "ceiling" strategy

Regional Plan Approach

- Consumer pricing allocation based on consumption
  - Overall 50% PV @ $2/ctn. average
  - Focused on divisions with overdeveloped share

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VOLUME, SPENDING & MAM

	'95	**'96**	**Difference**
MONARCH			
Volume - Billion	4.6	4.1	(.5)
Spending - $MM	29.9	30.0	.1
MAM - $MM	71.2	66.9	(4.3)
MAM Per M	$15.48	$16.32	$.84
BEST VALUE			
Volume - Billion	2.3	2.0	(.3)
Spending - $MM	9.1	10.0	.9
MAM - $MM	42.8	37.0	(5.8)
MAM Per M	$18.61	$18.50	($.11)

1996 Savings Plan

Plan Summary

- Strengthening our Share of Savings while sustaining current margins/overall profitability.

- Continued investment in DORAL to build brand value

  - Retail focus with regional emphasis
  - Contingency plan for more aggressive marketplace

- Continue to leverage Forsyth where strategic (total category) benefits exist.

- More effective defensive spending on MONARCH and BEST VALUE.