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DATE: November 1, 1994  
TO: C. M. Harper  
RE: 1995 RJRT Operating Plan

RJRT's 1995 Operating Plan establishes growth benchmarks for OCC (+1.6% to \$1,500mm) and key brands (Camel, Winston Select and Doral), while enhancing use of relationship marketing to minimize volume losses and maximize earnings delivery on its other full-price brands. Additionally, the plan assumes a launch of GTC during the first half of 1995 with its estimated OCC impact of -\$61mm already built into the aforementioned OCC objective.

Upside sensitivities related to FET assumptions (+\$.15 per pack August, 1995) and domestic content requirement laws (law invalidated by GATT) total approximately \$75mm.

Downside sensitivities of potentially \$300mm highlight the vulnerability of RJRT's OCC objective in this Plan. The majority (70%) of this downside potential lies in savings margins continuing at their current depressed levels into 1995. This pulls full-price contribution down along with savings contribution, as full-price volume is lost to the savings segment or full-price discounting escalates to hold acceptable price "gap" levels. Plan optimism regarding industry consumption volume (less than a 1% decline) and RJRT full-price brand performance improvement (50% reduction versus RJRT's historical decline rate) comprise the balance of downside sensitivities.

Due to the magnitude of the OCC downside sensitivities, RJRT is pro-actively addressing two critical profit impact areas to maximize the probability of OCC objective achievement. First of all, given the inherent industry resistance to higher savings margins, RJRT is developing a plan to again attempt to lead a breakthrough of this industry profitability barrier. Secondly, RJRT recognizes the need to establish a cost structure that can allow long-term achievement of RJRT's OCC growth objective, even if attempts to establish higher savings margins fail. Progress against both of these efforts will be shared in upcoming plan review meetings.

*Andy*  
A. J. Schindler

c: J. W. Johnston

"We work for smokers."