9.11.01

Horeca - 5cartons/month

spend $3MM to lose $2.8MM

53230 0550

ReynoldsAmerican

08.04.04

Sept. 27 - Portfolio Decision

Oct. 30 - Op Plan

2 wks 2 Options - Single, Dual, Geographic, Channel, Target = Profit/Share/Vol

w/o Aug. 23 & 30 - Segment teams present to CMT

w/o Oct 4 - Nov. 1 - Develop Op plans

Oct. 25 - Leadership Team Approval

Nov. 8 - final '05 Company Plan

Annual Net Income Growth & Priority Brand Growth

Industry Overview

32 SOM

16 MM smokers

1.5% ↓ rate per day

| last 30 days | 98 | 03 |
|---|---|---|
| 3 or more brands | 5 | 7 |
| 2 brands | 17 | 19 |
| 1 brand | 78 | 73 |

% of Switches

6.7 / 9.0

2000 2003

5.3 7.5 FPNM

| Switchers | 15% | 8% | 8% | 6% | 7% |
|---|---|---|---|---|---|
| | 21-34 | 25-34 | 35-49 | 50-64 | 65+ |

21-34 89% smoke Box

66% by pack

Industry 66% sold in c/gas

73% 21-24 in c/gas

69% 25-34 in c/gas

Trends

Emotional Resonance - right message right smoker

Demographic Groundswells - multicultural

Boredom w/ Brands - must be different new news

Authenticity - true to one self

Our business concentrated in smaller styles

Principled ■ Creative ■ Dynamic ■ Passionate

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ReynoldsAmerican

Full Price
69% vol. promoted
Strongest on West Coast
54 SOM Marlboro
11 Newport
8 Camel
4 Kool
4 Salem

FP Menthol
SE & NE (east of Mississippi)
TX & CA also
21-24 5.6% growth
25-29 5.5%
AA - 82.5% H - 33.5%
Savings Menthol

4th Tier becoming more mainstream
50/50 Female/Male
21-34 ↑ 15% (from 5%)

B&W overview - Walt Carpenter
Business Strategy
1) Clear mkt. leader in ASU25 in consumer relationship marketing
- Database/Research
- Horeca
2) Kool & Pall Mall are only national retail priorities
3) Misty & Capri only supported after Kool
4) Lucky Strike & Advance test

their problem
their employees' problem
Core Strategy
Focus to build players

Repositioned Kool 2002

RJR overview
lower cost - New business model - targeted pricing - more efficient } Mkting Strategy
Pricing
Brand Building Programs
Product Differentiation

industry's fault
MSA
Lowered
Discounting

core strategy
- price
- cost cut
Focus to stay priced comp and be cheap

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(3)

**ReynoldsAmerican**

* What are our #1 goals? ASU Geography Target

Camel

2%/year growth in 21-34 buyers
living out the brand

Kool - Ludo

'03 [ 2.87 SOM
10B units

Brand Awareness ASU30 - 33% Advertising Awareness ASU30 15.6 how do you measure? US Mkt. Monitor
Menthol 49.2% Menthol 26.1
Newport 50.2 Newport 28.2

Brand Image - someone like me 4.7 Buyer - ASU30 - 2.2
leading brand 5.8 Share 21-24 2.7 (.9, 1., 2.7) trend
classic brand 6.4 AA growing Male/Female
smooth taste 5.7 Net switching .17
multicultural 5.3 Newport -1.03 --- ?
Switch in - 37% Newport
50% Marlboro

growing amongst all areas / 10% urban growth (Newport 60 SOM ASU30)

consumers say "what has Newport done for me"

Vision - fastest growing ASU30 menthol product rejected in blind-test - ranked last
Kool #1

Issue - grow ASU30 & minimize decline

Strategies:

Reduce ASU30 - [illegible] vulnerability [stopped all dm - not an ASU30 growth vehicle]

Drive ASU30 growth
- trend setting cities
- great products - trial, trial
- Horeca
- integrated promos
- Establish a dialogue

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# ReynoldsAmerican (4)

Key Consumers
- Urban influentials
affirm the positive possibilities of the real world

Brand Muscles - Real - original, 100% natural menthol, authentic — 70% of what brand is, 30% of what want to be
Urban Fusion - energy, multicultural — Master of game,
Smooth — Master of menthol
Confidence - cultural leadership, living life to fullest

Spend 7.5 sec. w/ad vs. 2.5-3.1 avg.
House of Menthol
Focus Cities - 20
exclusive sales reps specially trained and outfitted
7.5 SOM to 9.35M in these areas
Product - the perfect balance

Kool Jazz Festival - evolution of Jazz — Milds - most preferred
Smooth Moves
Working on product innovation - upgrade to current
Brand Ambassadors - face of brand

Salem
Stir The Senses
World of Sensation — Aspirational, Experiential Personality
Slide box — Sensory — Dramatic
Variety of menthol exp — Imaginative — Intriguing

Product - Salem = Sensation

44% OUS Salem Buyers — .9 ASU 21-24 SOS — Relies on event mkting
OU SOR - 2.8
37 Buyer Share
31% 2nd UB Salem



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we have a bunch
of "me too" brands

we market in the same way

our pictures are the only difference

Focused business mgers

Build Brands

Believe in people are key
o accountable

Creative lacks "quality" imagery

ReynoldsAmerican ⑤

Pall Mall

Quality, strong, International

Value Seekers - high quality
longer lasting

Vision - leading brand in mid-price segment by 2010

Mission - destination brand for premium price smokers - superior quality c positive image

Positioning - premium, up-to-date brand delivering superior value, = high quality
slow burn

Filtered, Smooth, Longer Lasting smooth taste
w/out premium price

Muscles/

Essence - Genuinely More · optimistic, authentic, uncompromised satisfaction

Age

77% 36+

16% 25-34

| | | PMB | Conversion | Doral | Conversion Doral | |
|---|---|---|---|---|---|---|
| Funnel- | Awareness | 21.6% | 54% | 89.4 | | |
| | Consideration | 11.7 | 54% | 29.8 | 33% | How is |
| | Trial/Usage | 3.4 | 29% | 10.3 | 35 | this done? |
| | MOB/ORB (Repertoire) OUs | 1.7 | 51 | 5.9 | 57 | |
| | MOB (Regular) 100% SOE | 1.4 | 81 | 4.8 | 82 | |
| | Loyal ambassador | .6 | 44 | 1.8 | 37 | |

Increasing switching in .7 Share No switchers out

50M - 1.64 c growing

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ReynoldsAmerican (6)

Doral

80% volume in 17 States (CE)

"Imagine Getting More"

more for your $ more out of life

SOM 4.82 sustain profitable volume - Goal

17.8 B units

SOM 5.07 2nd Qtr. '04

Winston

'97 - No Bull

Leave The Bull Behind (Total escape)

Unadulterated Smoking Moment / \ Getting Back to Your True Self

80% 35+ Industry 49%

Lucky Strike - Ludo

premium price to Marlboro 1999-2000

mkting mix based on consumer insights w/ limited demand on B&W resources

60/40 Male/Female

Creative Explorer - best educated

Muscles { Original American Dream Urban Pulse Living Legend Playful Intelligence

Free Thinking Man

Key dates - Sept. 02, April 03, (self discovery) Sense of humor

Oct. April 04

Total Share - .62 YTD 2004 Awareness 8 → 38 unaided

.51 SOM 2003 78 94 aided

2 14 trial

7 32 PI

Principled ■ Creative ■ Dynamic ■ Passionate

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ReynoldsAmerican (9)

Isn't that a result of just doing something

Freq. Bar Attendees
Awareness 95
PI 36
Trial 17

Image Attributes

Brand Ambassadors, Partners, Horeca, Retail

Key partners to: leveraging equity from

Product - fire cured, toasted smell,
Pack Inserts - 47% consumers read, improves post trial
"It's All About the Smoke"
Print inside the pack - discovery

Trend Hunter (Zandl)

404 outlets, non-traditional, 14 facings, "New Blend"
Equity enhancing promotions - Rudy's Barbershop
(only 1 B1G1F)
Horeca - 125 outlets, driving force trial, 37M packs in '03, bar staff outings

leverage their credibility to make our brand more credible

Not replicable

Brand Ambassador - real, honest

64% awareness coming from bar (Horeca)



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ReynoldsAmerican ⑧

Horeca & Brand Ambassadors - Rolf

Retail Channel

has it not wked because you can't buy cigarettes everywhere in other parts of world?

104 reps, ~~13 regio~~ - 120 people

3 components - 1) Quality Distribution & Coverage - Right Outlets
(all menthol) 2) What to Achieve - 5 ctns./month target
1 brand mdsed, multi-brand distribution
visible distribution
3) Work with the Influencers

Performance - 5000 bars at $141 per month distribute cigarettes themselves
(not translating to National SOM) YTD - 47,485 cartons 10M packs/month
vending component - exclusivity. Newport's SOM ↓ in vending

Brand Ambassadors How can you ever do it large enough to make a difference?

Role - Redefine, introduce or differentiate a brand cost/conversion?

Time frame to switch is dramatically shorter

Idea - get you to buy (not samplers)
sustained contact with about 200 smokers

Lucky - 15 months, 6 ambassadors, 1300 consumers

Kool - 9 months, 5 ambassadors, 900 consumers

57/130 converted to Kool

2 out of 5 ambassadors when re-contacted have pack in hand

Melanie Barker

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(9)

# ReynoldsAmerican

## Database

21-30 2.7 MM 28% coverage of total 21-30

31-49 5.9

50+ 4.2

2.7 MM email addresses 1.1 for Camel

6.4% responsive of those in AML

30 MM coupons

Fallacy is that pricing segments cause dependency & creates redeemers

## Retail

Obj. - Increase contracted CIV, disc. coverage, product availability & presence

Profit based approach to obtain mdsing space & brand presence

Product Availability Incentive Plan - percent OOS - 2.2%

EDLP - 48% Ind. Vol & 67% of RJRT vol

Presence - min. 25%/6 ft. Pack outlet

opt. 35%/9 ft. 75% pack outlets

Optimum Space & EDLP. $9.60 44% CIV 64% RJR

Optimum Space 8.00 Nat. + 3.5% 3.1%

Minimum Space 7.50 Nat

No Plan 18.1% CIV 7.4% RJRT vol

Conv/Gas - 10% CIV 5.2% RJRT Vol = No Plan

Issue - other outlets, drug, mass, grocery

23¢ spending/ctn. including fixtures

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Wholesale Program

3 levels - 1) Underdeveloped 2% ↓ — min. 11¢/ctn.

2) Underdeveloped 1-2.0% ↓ Share 81¢/ctn.

3) At or above share target 84¢/ctn. ] 92% of RJRT Vol

B&W Trade Program - Rick Baker

Kool - $7.50 off invoice

2004 - $95 MM in RDAs 155M stores 82% CIV

Priorities: Pall Mall, Kool, Misty, Capri

Must

If contract - add. $2.50 Kool - Pall Mall Misty

16% vol. in Plan like ours

Kool Fire - 5000 stores - 21.7 B&W Share

C/G - 61% CIV 50% B&W Vol

CTS - 16.4% CIV 23% B&W

Combined

| | | | |
|---|---|---|---|
| C/G | 62% CIV | 31.4% Share | 16% Strategic Share |
| CTS | 19% | 38.7% | 17.6 |
| Total | | 31.7% | 16% |

5% CIV lift w/combined

ReynoldsAmerican (11)

Segmentation Study

2664 consumers 55 mkts. All brands but Marlboro augmented 600 people

lifestyle, psycho, touchpoint

199 Brand related attributes

171 Lifestyle

Brand Values { Brand Image, Product Reasons } Functional; { User Imagery, User Personality } Emotive Gratification Personality

28 Factors

(A) Stylish / Urbanized  Traditional / Realistic

Independent / Middle Aged / Prof.

6 Segments

1. User Imagery - Active
   Personality - Classy, Streetwise, Show off
2. Stylish Trendy
   Attractive Pack
   Not mainstream
3. Dynamic White males
   Authentic
   Satisfying smoke
4. Prestigious / sophisticated
   Lights
   Females / 40s
5. Designer, not dynamic

High Quality Smoke

Contemporary / Trusted

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ReynoldsAmerican (12)

#2 largest

Segment 1 Consumer Needs 23% of smokers M.NM # Brand Fit

Active Lifestyle Newport 2 Marlboro 1

Streetwise MM VSlims 3

Classy Camel 4 B&H 5

High Quality Kool - not a good fit

Contemporary/Trusted

#3 Most ASU30 Most Menthol

ASU30

Segment 2 Lgest Brands Fit Newport (1)

Menthol MNM Marlboro

Attractive Kool (2)

Streetwise Salem

Macho Camel (3)

Most Attractive segment

Segment 3 Camel Brand Fit Marlboro

Not too strong 30% of smokers Winston ASU30 Camel

Active MNM have highest share Newport

Macho

Dynamic

Smallest 100/120

Segment 4 Fit

female Menthol Skew Parliament Misty

Lts VSlims

OU Salem - best fit

Prestigious/Sophisticated Capri

Second smallest 8% smokers least ASU30 lowest daily cap

Segment 5 Legacy Segment Fit

Controlled/confident/leader menthol Kool's best fit

innovative female Newport

Not Dynamic/White Male savings

second oldest smoker

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# ReynoldsAmerican

1690 smokers savings

Segment 6 | Best Fit
Price-Value | Doral #1
Traditional / Careful | PMall #5
Independent / Middle Aged

PREPs - potentially reduced risk & exposure products

Asked about offers | Differences

All Projective [ Rate perceptions of all brands not w/in a segment

feels a lot like Yankelovich

Emotionally based

(?) Product expectations & wants

* Determine message not the programs

fit based on perceptions - today of a brand

Needs feel very tangible & lifestyle oriented not emotive / psychologically

Portfolio

Generates Year over Year overall co. Net Income & Focused Brand Share Growth

~~Portfolio~~
Option - Grow Brands in Full Price Segment
Grow Brands in Each Price Segment

how
how much
barriers

Aug. 17 & 19 - list of options, analyses, approach to estimate financials, pricing & retail implications, Next Steps
Aug. 25 - short list options & rationale, financials, pricing & retail strategy, next steps for Sept. recommendation
31 - CMT roll up

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