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April 12, 1993

To Our Managers

SUBJECT: War In The Store

I am sure by now you have heard of Philip Morris' plans. They announced on April 2 their intentions to pursue an aggressive price reduction program on Marlboro at the expense of up to 40% of their 1993 profits. Philip Morris' objective is clear - to aggressively grow Marlboro by gaining a competitive advantage through discounting. We must not let this happen.

It is critical to the success of our Company that we continue to grow share and protect the gains that you have all worked so hard to accomplish in 1992 and the beginning of this year. Our volume for the first quarter 1993 is up 8% versus our first quarter 1992 volume, a tremendous accomplishment. Volume has declined over the same period for each of our competitors.

Philip Morris is betting that we do not have the will nor the resources to respond to their initiatives. They are wrong. Our objectives are extremely clear and can be summed up with two key points:

1. When we are attacked, we will respond and match.
2. We will utilize opportunistic initiatives where applicable to respond offensively and gain share.

Philip Morris, in initiating this price war (full-price and savings), has made what I feel is a huge tactical mistake. They have brought the battle to our turf. They have given us an advantage. The strength of our Sales Force provides us with a strong advantage to out-execute Philip Morris on a store-by-store, day-to-day basis. We have an industry-wide opportunity to gain market share by leveraging our strengths in retail accounts and across all price tiers. While the possibility of a full-price discounting war initiated by Philip Morris represents a serious challenge, it also presents a tremendous opportunity.

In June, Philip Morris will launch an unprecedented discounting program on Marlboro. We will aggressively compete with them with an unprecedented program of our own focusing on WINSTON and CAMEL. Clearly, our immediate goal is defending WINSTON and CAMEL. The following pages highlight these programs and show our total Company commitment and response for defending these brands. We must react with confidence, lightning speed, aggressiveness and precision. It is vitally important to the future of our Company.

While the attached outlines in detail our key full-price brands' strategies and tactics, our savings brands must also play a vital role. We must defend RJR savings brands against the aggressive efforts of Basic and Cambridge and ensure that Marlboro does not erode our loyal mid-price smoker base. Details of how we will protect our savings business will be provided in the next few days.

The war in the store has risen to a new level. We have met the challenge before and I am confident you can do it again. So that we are perfectly clear on our objectives, let me reiterate once again our goals. We will do whatever it takes to remain competitive and to protect and grow our share of market. When we are attacked, we will respond. You will be given the resources you need. It is a battle we must win!

Good Selling!

Y. W. Ford, Jr.

We work for smokers.

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