CAMEL
World Report

1988-1989

R.J. Reynolds Tobacco International, Inc.

CAMEL

TABLE OF CONTENTS

CAMEL

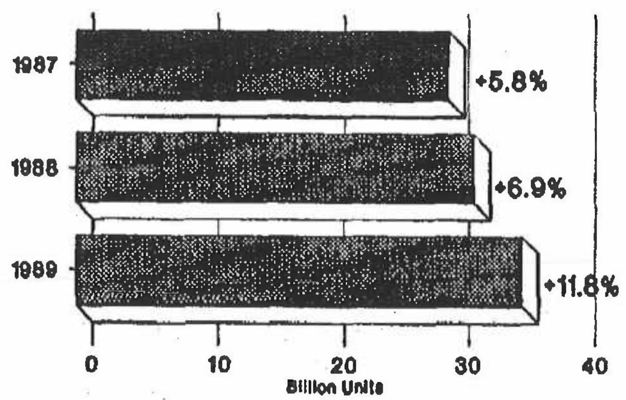
EXECUTIVE SUMMARY

Volume

RJRTI's global brand and **the world's third best-selling international cigarette completed another banner year in 1988.** Sold in more than 130 countries and territories, the brand achieved its twelfth consecutive year of volume growth. In April 1988, CAMEL regained the distinction of being RJRTI's best-selling cigarette from Winston. Total shipments during 1988 increased by over 2 Billion cigarettes to 31.7 Billion units, a 6.9% gain over 1987, outperforming industry (free world excl. the U.S. and PRC) by a factor of at least six. Based on available information to-date, CAMEL has also regained its claim as the **world's fastest-growing international cigarette brand** from Marlboro which grew an estimated 6.5% over 1987. CAMEL's growth was actually held back by softness in Germany; **excluding Germany, the brand's growth was an outstanding +13.2%.**

CAMEL's filtered brand styles, i.e. Filters 85/100 and Lights/Milds, were responsible for the brand's growth. **Excluding Regulars whose volume was essentially unchanged from prior year, the brand's 1988 worldwide volume growth rate was a remarkable +7.7% (excluding Germany: +14.7%).**

Total CAMEL Shipment Volume
(Percent Change vs. Previous Year)

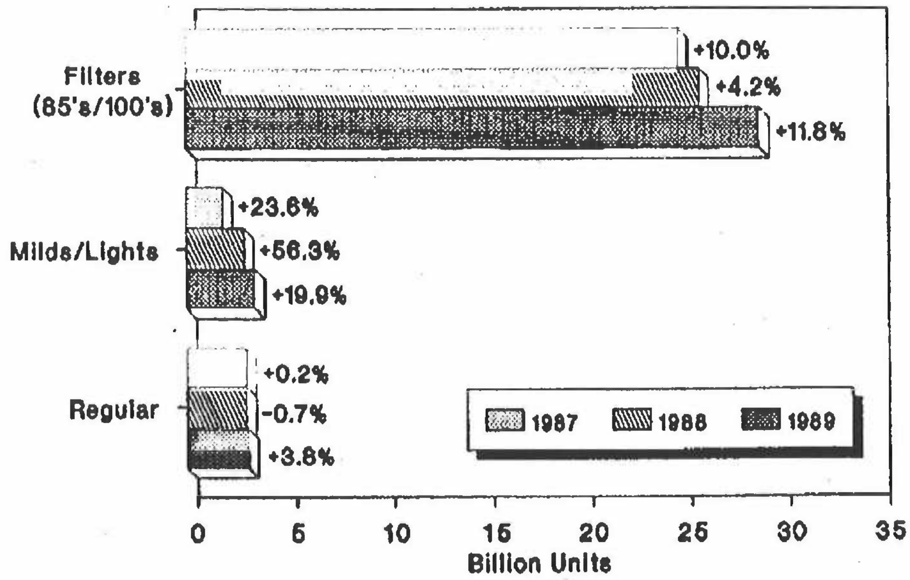


RJRTI's top priority brand achieved these results in an environment beset with escalating cigarette taxation by local, state and government bodies, stepped-up anti-smoking activities, and increasingly restrictive legislation.

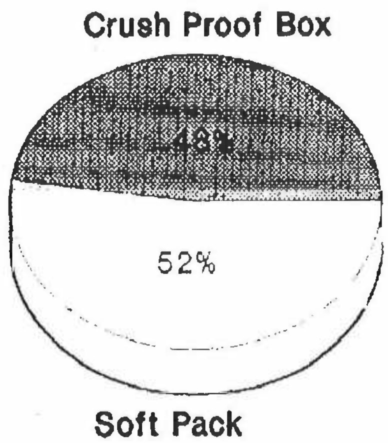
Total 1989 brand volume is forecast to grow 11.8%, to 35.5 Billion units, with the filtered brand styles providing the bulk of the growth (3.6 Billion) and Regulars adding slightly over 100 Million. CAMEL's 1989 growth rate is projected to be again better than Marlboro's which is estimated at 6.3%, and its compounded annual growth rate of 9.3% for the years 1987-89 is forecast to be substantially ahead of Marlboro's (6.4%) during the same time period; however, worldwide volume of PMI's global brand continues to be about five times that of CAMEL.

CAMEL Volume by Brand Style

(Percent Change vs. Previous Year)



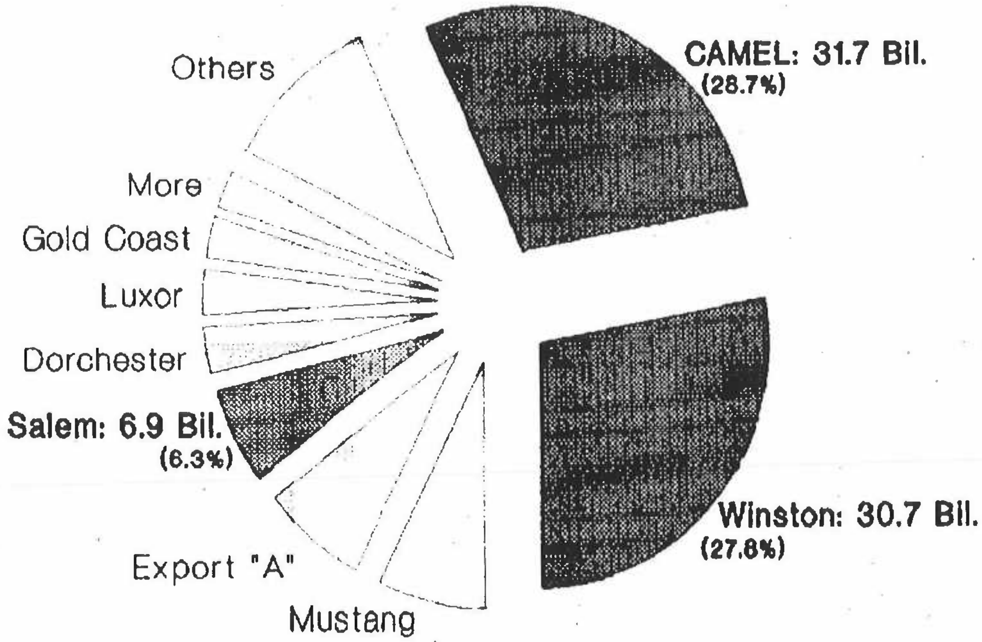
The analysis of CAMEL's volume development by brand style shows that both the full flavor and Lights/Milds styles contributed slightly over 1 Billion units each to CAMEL's growth. With their staggering 56.3% growth rate in 1988, Lights/Milds now account for 9% of CAMEL's total volume, up significantly from the 5% just two years ago and an indication for the vast potential that CAMEL's low tar line extensions offer for the years ahead. CAMEL's non-filter brand style registered 1988 unit volume of almost 3 Billion which is on the same level as last year and represents a remarkable accomplishment in the face of the segment's decline worldwide.



In terms of packaging styles, almost 90% of CAMEL's incremental 1988 volume was generated by the Crush Proof Box style. The brand has successfully capitalized on the growing consumer trend to CPB packaging as CAMEL's box styles registered 13.8% growth during 1988. Box accounted for 48% of CAMEL's total 1988 volume (1986: 43%), and more than 52% of all filtered CAMEL cigarettes came in this packaging style. This trend to box style packaging is expected to accelerate in the years ahead.

During 1986, CAMEL had passed Winston as RJRTI's single largest volume contributor. Due to extraordinary volume gains in certain volatile markets, Winston temporarily regained this claim from CAMEL until April 1988 when CAMEL's volume surpassed that of Winston again. For total year 1988, CAMEL's volume was over 1 Billion cigarettes higher than Winston's (30.7 Bil.), and RJRTI's global brand accounted for almost 29% of total company volume.

CAMEL's Share of Total 1988 RJRTI Volume
(110.4 Billion Units)



For the third straight year, CAMEL's international volume was significantly ahead of the brand's 1988 sales in the U.S. domestic market (24.2 Bil.). Contrasting CAMEL's international performance, the brand's volume in the U.S. has been declining for the past several years, attributable to significant differences in U.S. smokers' wants. During the year, however, a change in positioning along with a new advertising campaign which was ranked third among the most appealing corporate campaigns for 1988 by an AdWeek survey, had a stabilizing effect on the brand's volume. Furthermore, for the first time since 1982, CAMEL's filtered styles actually posted volume growth of 5.8% in 1988, and are projected to continue on this trend during 1989.

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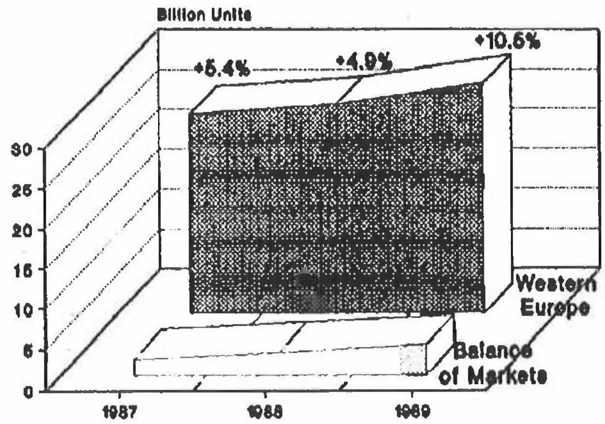
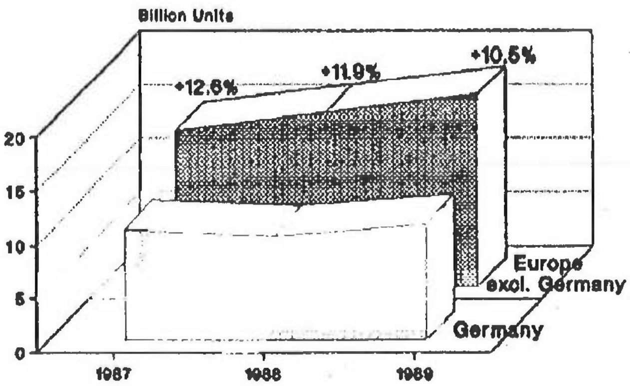
Geographically, CAMEL's volume continues to be concentrated in Western Europe: in 1988, this region accounted for some 82% of the brand's worldwide volume, down slightly from 84% in the two prior years due to positive developments in Middle East/Africa and Asia.

Western Europe: CAMEL's Heartland



CAMEL's volume growth in **Western Europe** was +4.9%, to 26 Billion units. All major markets in this region with the exception of Germany contributed to the brand's strong performance; double-digit growth was recorded in France, Holland, Switzerland, Spain, Canary Islands, and Europe Tax Free.

CAMEL's Volume in Western Europe excluding Germany



Excluding Germany, total CAMEL grew at a rate of +11.9% in this geographic grouping, and the brand's filtered styles posted growth of +14.7%.

Middle East/Africa and Asia combined contributed almost half of the brand's growth during 1988. CAMEL realized a 52.6% shipment gain over 1987 in **Middle East/Africa,** and volume approached the 2 Billion mark. Turkey and Cyprus represented the two major growth markets in the region as CAMEL 100's set new performance records. The brand's +15.9% growth in **Asia** was essentially due to its excellent showing in Japan where shipments nearly doubled, more than offsetting an adverse development in Malaysia, and lackluster performances in the Philippines, Singapore and Hong Kong.

In 1989, CAMEL's volume growth in Western Europe is projected to accelerate to +10.5%, contributing over 2.7 Billion units (or 73%) to the brand family's 1989 growth. Key to achievement of this objective will be to return Germany to its historic growth trend by means of an aggressive recovery plan which was implemented at the end of 1988.

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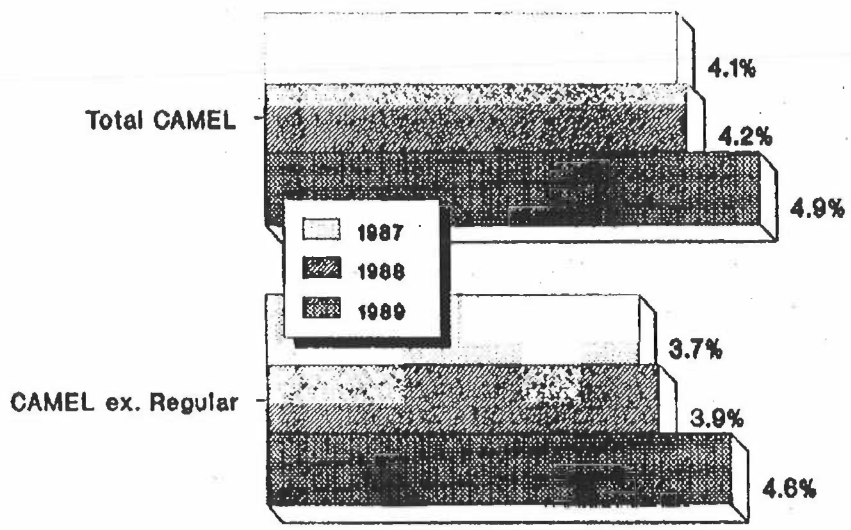
Share of Market

Western Europe continues to be the primary region with substantial share levels and growth for CAMEL: for 1988, the brand achieved SOM of 4.2% (CAMEL excl. Regulars: 3.9%) in this geographic grouping, driven by substantial marketing investments, a carefully devised marketing "satellite" model to guide its marketing mix, and excellent product performance, availability and visibility. CAMEL recorded share gains in 9 of the 10 key Western European markets, with particularly strong advances in France, Switzerland, Holland, and the Canary Islands. These remarkable results were achieved against the backdrop of 43 new competitive brand entries introduced during the year.

Market share for the brand family is forecast to increase 0.7 percent points, to 4.9%, during 1989 (CAMEL excl. Regulars: 4.6%, +0.7 pp).

CAMEL's Market Share in Western Europe



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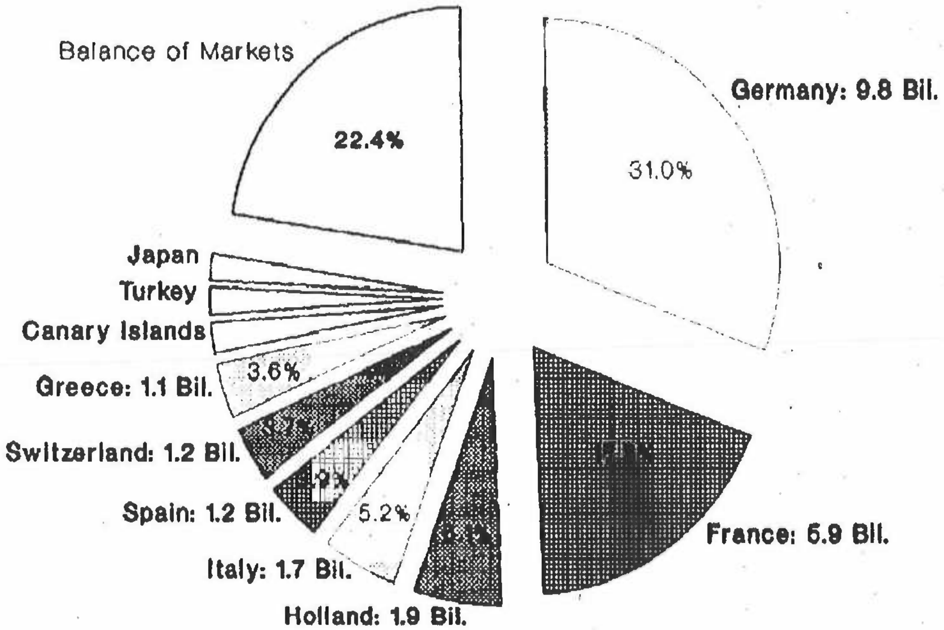
CAMEL's Key Markets

The brand's **top 10 inland sales volume markets** - Canary Islands, France, Germany, Greece, Holland, Italy, Japan, Spain, Switzerland, and Turkey - accounted for 77.6% of CAMEL's total 1988 volume, a moderate decline from 79.2% in 1987 as CAMEL's volume base broadened slightly. Double-digit growth was recorded in five of these markets - Canary Islands, Japan, Spain, Switzerland and Turkey - and close to 10% in France and Italy. In Greece, CAMEL registered good growth (+4.8%), contrasted by Marlboro's ongoing severe volume erosion.

CAMEL's 1988 Volume in 10 Key Markets

(77.6% of Total CAMEL Volume)



On a broader scale, 13 of CAMEL's 17 key markets recorded sales volume gains during 1988, and market share advanced in 12 of these markets while SOM was maintained in the U.K.

The 1989 Plan calls for sales volume and SOM increases in all 10 top markets, with double-digit volume growth in eight and share increases of 0.5 percentage points or better in seven of the brand's top 10 markets.

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CAMEL vs. Marlboro

Volume and SOM in CAMEL's Key Markets

Marlboro's international volume for 1988 is estimated at 168.6 Billion units, representing +6.5% growth over 1987 or over 10 Billion incremental units. Globally (i.e., including the U.S.), the world's number 1 brand sold an estimated 307 Billion cigarettes during the year, up almost 5% vs. 1987. In 1985, Marlboro's international volume surpassed the brand's U.S. volume and, in 1988, widened the gap to an estimated 30 Billion units.

While Marlboro's international volume is over five times that of CAMEL, RJRTI's global brand is almost one third its size in Western Europe. During 1988, however, CAMEL's growth rate in this region (+3.3%) fell behind Marlboro's (+6.9%) due to Germany's softness; this single-largest CAMEL market accounts for over 40% of the brand's volume in the region. **Excluding Germany, CAMEL's 1988 growth in Western Europe was +9.8% (or 1.3 Billion incremental units) compared to Marlboro's +5.9% gain (or 2.8 Billion incremental)** -- a clear confirmation of CAMEL's sound positioning and marketing strategy.

CAMEL registered sales volume increases in nine of its top 10 volume markets while Marlboro recorded volume gains in eight of these markets and posted declines in Greece and Turkey. About 50% of Marlboro's total volume is generated in CAMEL's top 10 markets.

Nine of CAMEL's top 10 markets posted SOM increases in 1988, and the brand's share grew 0.5 percentage points or better in five of these markets: Canary Islands, France, Holland, Switzerland, and Turkey. Marlboro's market share advanced in eight of CAMEL's top 10 markets and registered declines in Greece and Turkey.

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CAMEL vs. Marlboro

Marketing Spending/Share of Voice in CAMEL's Key Markets

In 1988, **CAMEL benefitted from a substantial 36.1% worldwide marketing spending increase, to US$ 179.4 Million**, after the brand's spending jumped 42.9% during the previous year, to US$ 131.9 Million. These increases were designed to accelerate the development and implementation of all elements of CAMEL's marketing mix. Marlboro's 1988 spending is estimated at US$ 431 Million, up +27.7% over prior year.

The bulk of CAMEL's 1988 spending (77%) focused on its core markets in Western Europe to ensure the brand's continuing sales and share growth momentum. Based on available information, CAMEL's 1988 spending increase in Europe (+32.9%) was ahead of Marlboro's (+26.3%).

CAMEL's 1988 marketing expenditures tripled in Japan, and almost doubled in the Canary Islands, Turkey, and Greece, consistent with the brand's outstanding volume and share development in these key markets. In the U.K., spending more than doubled to support CAMEL's encouraging trend in this market which has historically been dominated by Virginia blend cigarettes. Substantial marketing spending increases were recorded in the balance of CAMEL's key markets.

Spending growth of CAMEL's prime competitor, Marlboro, generally paralleled that of CAMEL in its key markets; however, exceptionally large increases in Marlboro's spending were noted in Spain and France (+43%), Italy (+38%), and Turkey (+40%). Marlboro's spending doubled in Japan where the brand is licensed to JTI, and in Greece in an apparent effort to stem the ongoing volume and share decline.

As Marlboro's worldwide marketing spending level is more than twice that of CAMEL, Marlboro's share of voice is generally ahead of CAMEL's in all key markets with the exception of the Canary Islands and Germany where CAMEL's share of voice matched or exceeded Marlboro's during 1988. **In terms of marketing spending per M cigarettes, however, CAMEL has consistently outspent Marlboro by a factor of two.** Moreover, due to the substantial spending increases during the past several years, **CAMEL's share of voice is significantly ahead of its market share in virtually every key market**, and twice or more its SOM in five of its ten key markets.

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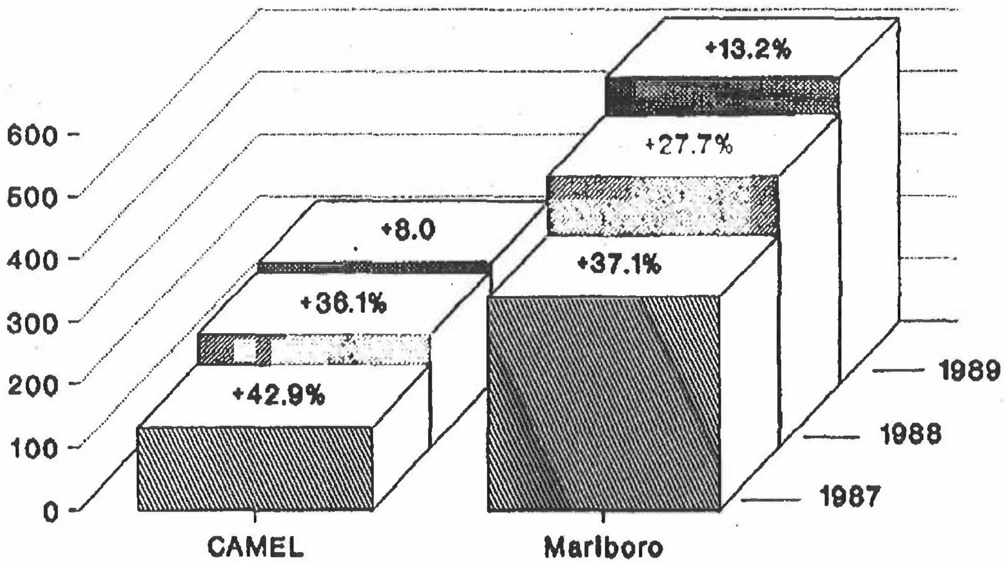
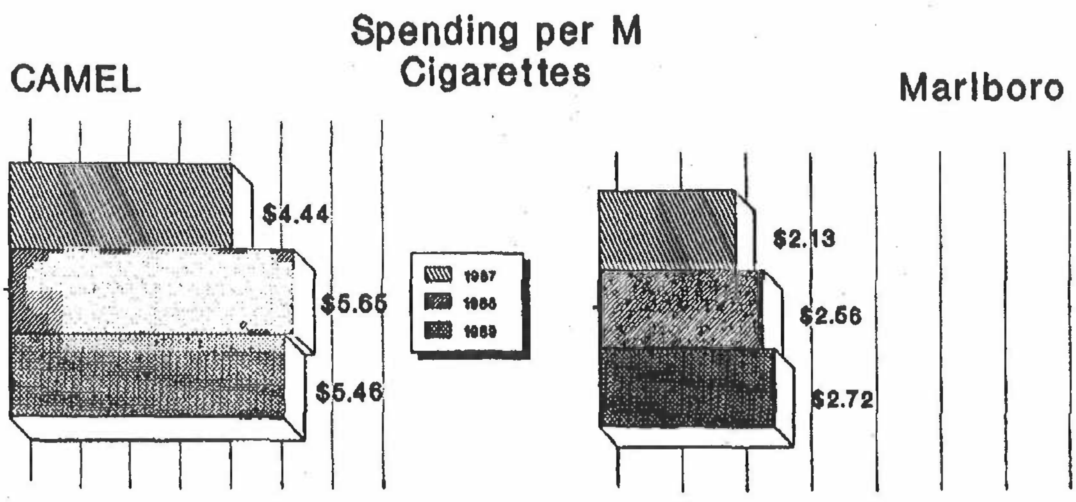
CAMEL vs. Marlboro: Marketing Spending
(US $ Millions)





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1988 Key Events/Activities and 1989 Highlights

Twelve line extension introductions in twelve different markets generated over 800 Million incremental units, or more than 40% of the brand's growth during 1988. Eight of these introductions were low tar brand styles, designed to capitalize on the dynamic growth of this category.

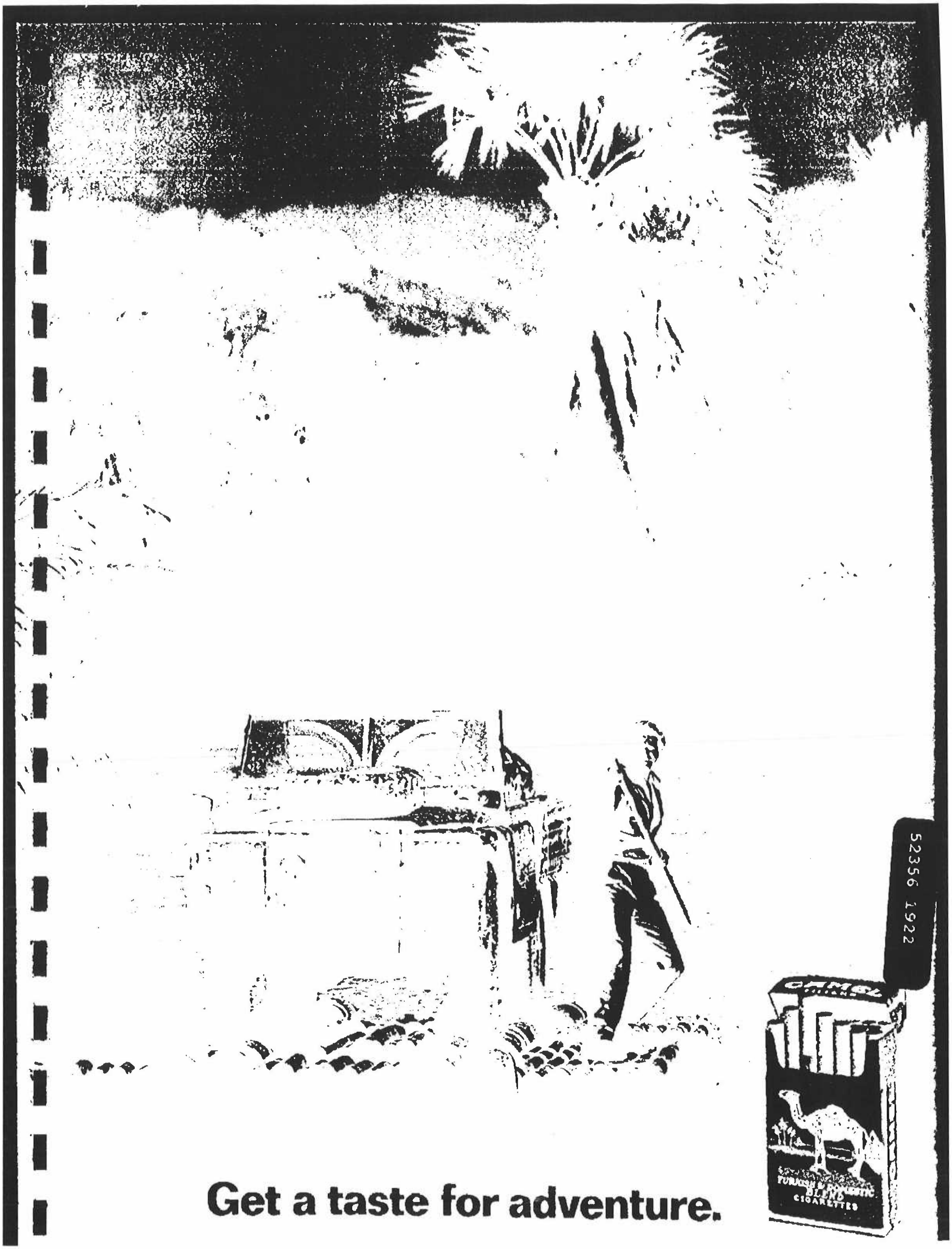
In 1989, CAMEL will be further line extended into at least 10 additional markets (eight of which are designed as low tar line extensions), and generate a projected incremental volume of nearly 1 Billion units (or 25% of total volume growth).

CAMEL is priced at parity with its primary competitor (usually Marlboro) in most markets. During 1988, the brand's price was aligned in Germany to achieve price parity with Marlboro, without creating a noticeable negative impact on brand performance. A number of markets where CAMEL's retail price is still below Marlboro's, have been encouraged to follow this successful alignment in Germany and consider achieving price parity.

To enhance the brand family's unique heritage, distinctive pack design, and high quality image, **all packaging for CAMEL Lights and Milds (packs, cartons, bundle wrappers, end panel stickers, cigarette dye prints, shipping cases) was standardized** during 1988. Markets with plans to introduce line extensions will adopt the new designs, and current line extensions will be converted to achieve the consistent family look worldwide. Minor modifications for CAMEL Filters (85's and 100's) packaging will be implemented as soon as practical to achieve global packaging consistency. No changes are planned for packaging of CAMEL's non-filter style; however, a new carton and bundle wrapper have been developed.

In response to growing trend to 84mm crush proof box packaging throughout Europe, **CAMEL was modified from 79mm to the 84mm configuration** in Italy and Switzerland in late 1988; 13 additional conversions in the balance of CAMEL's major European markets are planned for 1989.

The **"Global CAMEL Marketing Mix"** concept which had been developed during 1987, was adopted and implemented by all CAMEL markets. Within this concept, each of the satellites of the marketing mix (CAMEL World Campaign, Formula I advertising, CAMEL Trophy, Off-Road Rallying, Logo License) has a specific role and contribution toward building the overall brand imagery.


Get a taste for adventure.

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The **CAMEL World Campaign** has been in place in Germany since 1975, and in all other CAMEL markets worldwide since 1983. The campaign was modified during 1988 to **broaden its scope and appeal** in a more contemporary way, to adopt a new, **fresh approach** to copy line development and layout, and to **project a global look and feel** to CAMEL advertising.

The addition of new print visuals from the **"1988 Philippines IV" shoot resulted in the broadest pool to-date for the CAMEL World Campaign.** The new catalogue offers a wide range of subjects and an even wider range of treatments of each subject, covering the full range of the CAMEL World from open vistas to smoking close-ups; from activity/action to relaxation shots. The new print visuals were accompanied by a catalogue outlining a totally new and fresh approach to both copy claims and layouts. Markets will utilize a pool of copy lines which operate in harmony with the visual and, ideally, should be rendered in English. In terms of layouts, the previous rigid approach is replaced by a more flexible direction regarding use, size, and positioning of logos, packs, and copy lines.

The "Philippines IV" print pool, for the first time, included visuals specifically shot to support individual brand family styles by visually differentiating both the contents and the predominating color. Supplementary visuals were also produced to highlight the line extension styles to be used for launch or style awareness building. As the current pool is expected to adequately cover market needs through 1989, the next print shoot is scheduled to be conducted not before the end of that year.

Three out of the four films from the "1988 Philippines IV" shoot (Forced Landing, Dusk Landing, Obstruction, Volcano) were selected by most markets for use during 1989. The future direction of CAMEL film advertising will be to create a well-balanced pool of films which focus on each of the campaign's core elements (CAMEL World; World of Adventure; World of Satisfaction). The next shoot is scheduled for early 1989 in Thailand and will result in three CAMEL Filters films and one CAMEL Mild/Lights specific; final versions of these films will become available by mid-year.

CAMEL Team Lotus concluded the last race of the **1988 Formula I season** with a third place finish by Nelson Piquet, placing him 6th overall in the Drivers Championship, and the Team 4th in the Constructors Championship. CAMEL's sponsorship has allowed the brand to fully leverage the excitement and image benefits associated with this premier racing event. After a review of **Formula I film**

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advertising which revealed that due to the limited life span of film materials and the fact that these materials only become available mid-season, it was agreed that no further films would be produced. Instead, **market needs will be covered via Formula I print materials for advertising and promotion** which will be produced at the very start of each season. For 1989, Piquet will continue as the Team's number 1 driver, and Nakajima as number 2. Major changes include a new designer and normally-aspirated JUDD V-8 engines in place of the turbo-charged Honda engines. CAMEL expanded its racing involvement during 1988, not only in Europe but also in other strategic markets around the world. This expansion included the sponsorship of additional teams/drivers in Formula I, Formula III, Formula 3000 as well as several rally sponsorships at the local level.

In April 1988, the **ninth annual CAMEL Trophy was successfully completed in Sulawesi with Turkey as the winner** and Belgium finishing second. The Team Spirit Award, voted for by all participants, was captured by the British Team. The reorganization of the event with outside parties handling certain logistics and special tasks proved effective and successful. The 1989 CAMEL Trophy will be held in the Amazon region of Brazil with 14 markets participating in this 10th anniversary of the event. This represents somewhat of a symbolic return as the first CAMEL Trophy, organized by RJRTGmbH Germany, involved three teams driving 1,000 miles along the "Transamazonica", twelve days through the mud and heat of the Amazon Jungle. A print and film shoot is scheduled to take place during CAMEL Trophy 1989 with the objective to supplement and refresh currently available materials. As market needs for CAMEL Trophy film materials differ, there are no plans for a centralization of film development. However, all historical film footage and print material for CAMEL Trophy has been transferred to the Agency in London where it was catalogued to facilitate local markets' edits.

During 1988, **two scheduled CAMEL Advisory Conferences** were held in Rio (coinciding with the first Formula I race of the season) and in New York in October 1988. The objective of the meetings were to address the three primary and strategic elements of CAMEL's communication mix: the World Campaign, key sponsorship and promotion programs, and logo license activities. Additionally, the format included a two-way dialogue between markets.


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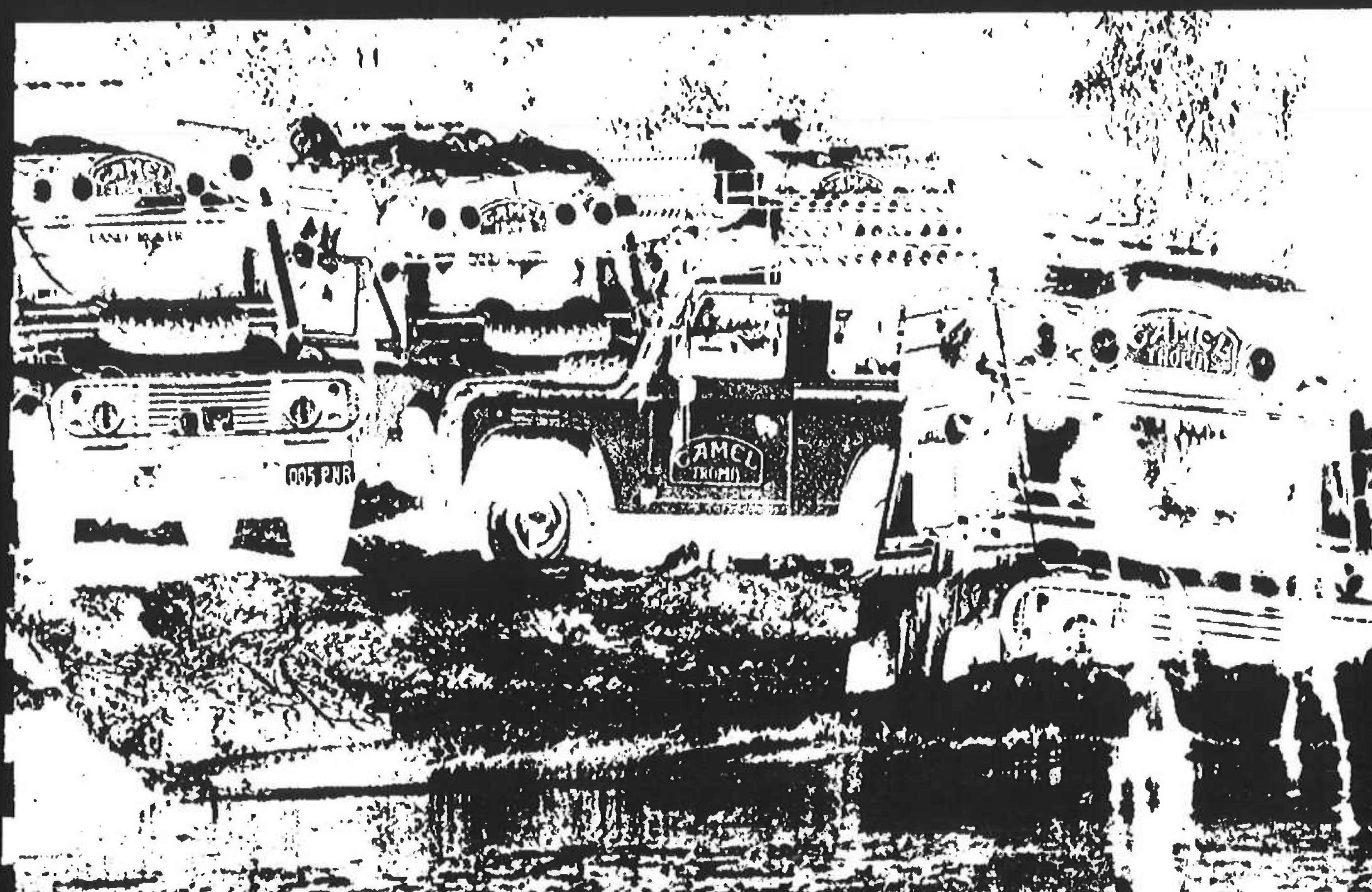
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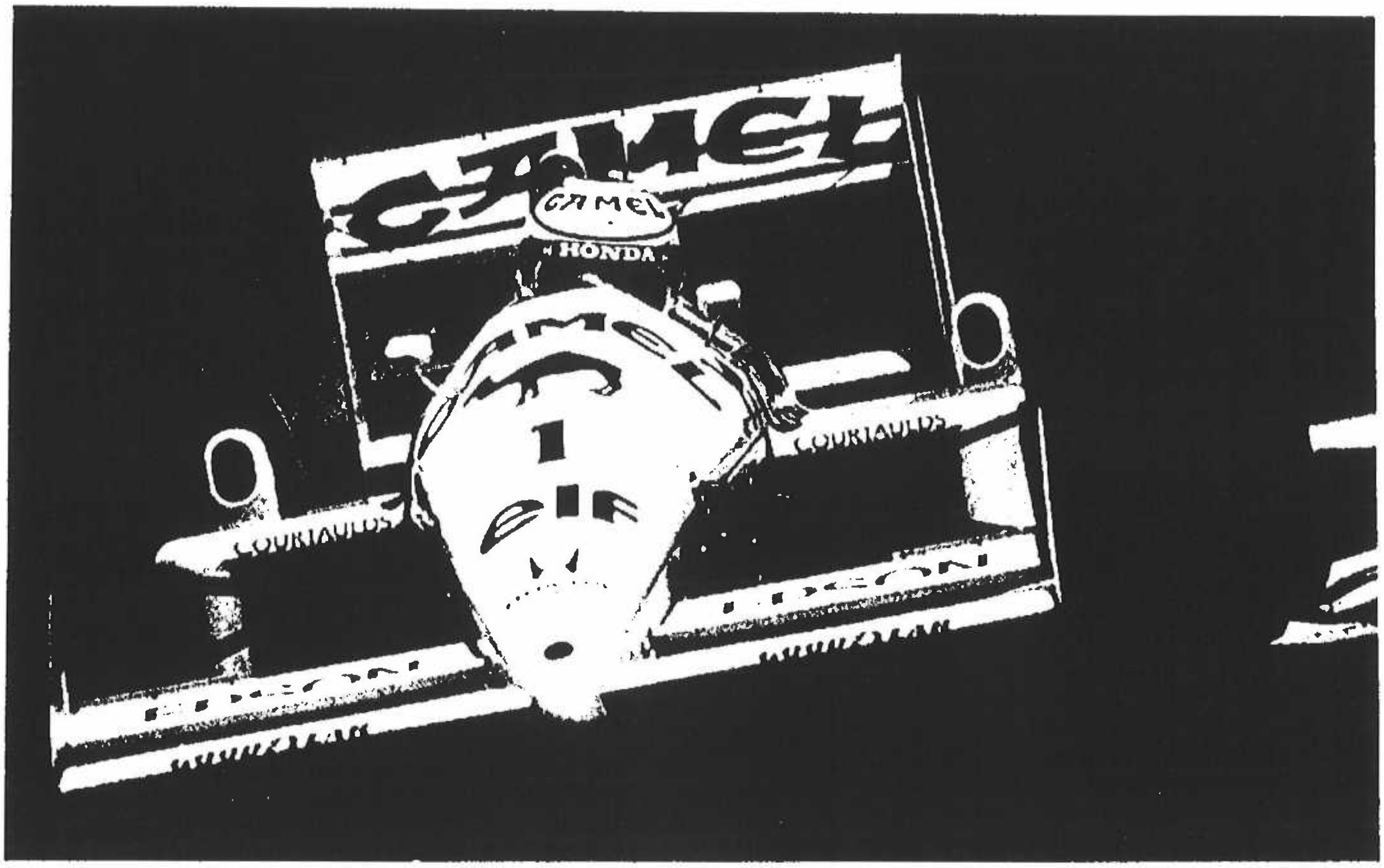
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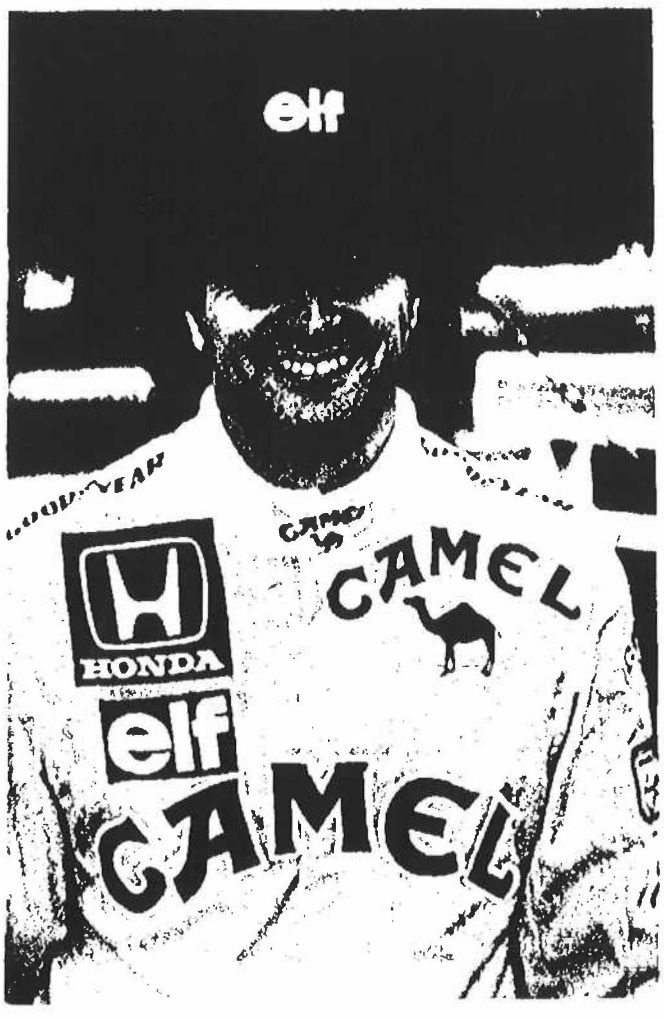
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PERFORMANCE REVIEW BY MARKET

CAMEL'S 10 Key Markets

Canary Islands

In April 1988, the new joint venture with Atlantico became fully operational and RJRTI gained full control over sales and distribution. The effects of this new setup became immediately apparent as CAMEL embarked on a solid growth trend, finishing the year with a 13.6% volume gain which resulted in a market share gain of 1.2 pp, to 13.1%. The Canaries retained the distinction as RJRTI's largest SOM market and are projected to solidify this claim during 1989 with a share point gain of 2.3 pp, to 15.4%, surpassing Marlboro (15.2%).

France

CAMEL Family recorded another year of outstanding growth (+9.7%, to 5.9 Billion units) in a sluggish industry, fueled by CAMEL Milds (+18.9%) and, since September 1988, aided by CAMEL Extra Mild which got off to a superb start. The brand family's market share grew 0.6 pp, to 6.3%. In mid-year 1988, CAMEL Filters became the second best selling blond brand, passing Peter Stuyvesant, and maintained this distinctions as well as its record as the fastest growing full flavor brand style through the remainder of the year. For FY 1989, CAMEL's growth is projected to accelerate to +14.7%, and SOM is forecast to reach 7.4%.

Germany

After a soft performance in 1987, the brand actually lost volume (-4.9%) and share (-0.5 pp, to 8.3%) during 1988. CAMEL's performance in its largest volume market was contrasted by significant growth for Marlboro which became the largest selling brand in Germany with a market share of over 25%. An aggressive recovery plan for CAMEL has been implemented by a new management team to restore CAMEL to a firm growth trend. The recovery plan focuses on refreshed communication of the brand's established strengths, extended by programs to convey a more international, contemporary, sociable, quality image to younger adult smokers. As a result, CAMEL is forecast to achieve volume and share increases in 1989 of 10.5% and 1.1 percentage points, respectively.

Greece

CAMEL is the driving force behind RJRTI's progress amid a declining industry, contrasted by a substantial and prolonged volume and SOM shortfall for Marlboro since July 1987. While CAMEL's 1988 volume exceeded 1.1 Billion units (+4.9%), and market share advanced 0.2 pp, to 3.9%, Marlboro's volume declined 20.5%, accompanied by a drop in market share of 3.3 points, to 13.6%. The 1989 Plan projects CAMEL to grow 12% in volume and 0.7 pp in market share.

Holland

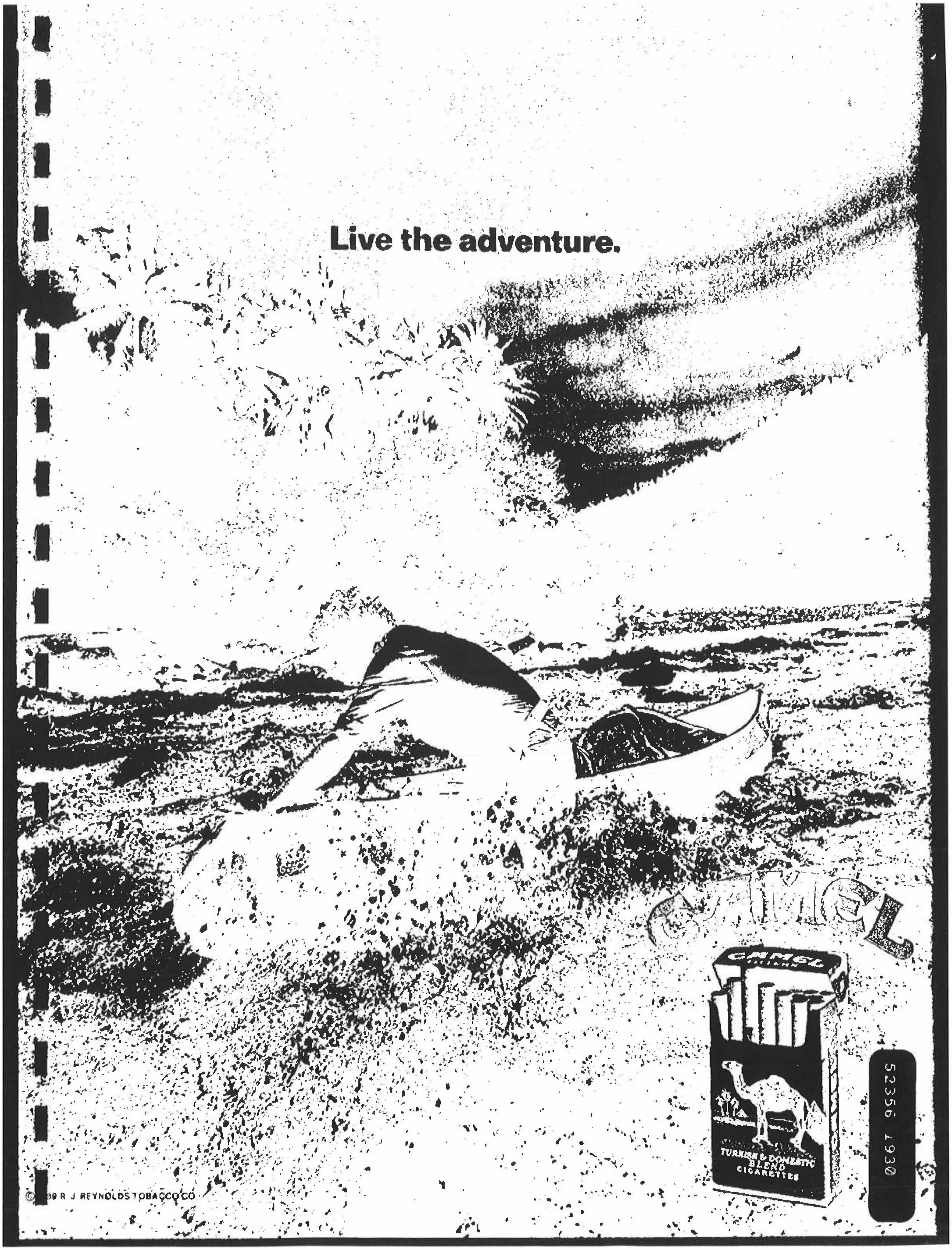
CAMEL approached the 2 Billion volume mark as a result of strong performances of CAMEL Filters 20's and newly launched 25's. The August 1988 introduction of CAMEL Filters 25's CPB boosted CAMEL's volume as a large proportion of the style's new smokers came from competitive brands, primarily Marlboro (1988 SOM: 15.2%). CAMEL Filters ranked third among 1988's Top 10, taking this position from Peter Stuyvesant; moreover, CAMEL Filters retained its claim as the fastest growing major brand in the market. In 1989, CAMEL's volume is forecast to grow to 2 Billion units while market share will increase to 13%.

Italy

CAMEL's 1988 growth of 9.4% was fueled mainly by Filters (+5.3%) but also by Lights which recorded a 33.2% volume increase, contributing 300 Million units to total family volume of 1.7 Billion (SOM 1.7%, +0.2 pp). Marlboro's share in Italy advanced one point, to 14.3%, and the brand retained its place as the second largest after the Monopoly's MS. During 1989, CAMEL's volume growth is expected to continue at a similar pace as in 1988 with SOM increasing 0.3 pp, to 2.0% in a declining industry.

Japan

While CAMEL is still relatively small in Japan, it has been on a clear upward trend despite no support during the 1985-1987 period. Key aspects of CAMEL's marketing mix were addressed during 1988 to maximize CAMEL's true potential such as


Live the adventure.
CAMEL
TURKISH & DOMESTIC BLEND CIGARETTES
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Japan - Continued

the relaunch of CAMEL Milds with charcoal filter in March; the introduction of CAMEL Lights Box in December 1988; increased distribution in vending and retail; and concentration on the CAMEL World campaign in print media. Year-end results confirmed the validity of measures taken: CAMEL's sales volume increased 58% over 1987, to over half a billion units, and market share doubled to 0.2%. The 1989 Plan projects the brand's sales volume at 1 Billion units, with market share increasing another tenth of a point, to 0.3%.

Spain

Beginning in January 1988, CAMEL's market share climbed steadily and reached the 2% level in May, a new record high since introduction in 1986. This SOM level was again achieved in November, resulting in a 1.6% market share for total year, up 0.3 pp vs. 1987. As CAMEL's volume grew an outstanding 17.1% in a declining industry, it became the fifth largest blond brand in the market. Competitive brands which affected CAMEL's 1987 performance were either sluggish (Lucky Strike) or declined (Chesterfield) during 1988. CAMEL's 1989 performance objective reflects confidence in the brand's potential as volume is forecast to grow over 21%, to 1.5 Billion (SOM 1.9%, +0.3 pp).

Switzerland

CAMEL was the fastest growing brand among the Top 10 during 1988 with volume up 12.5%, to almost 1.2 Billion units, and a market share increase of 0.8 pp, to 7.3%. This performance was achieved amid significantly increased marketing spending but also due to innovative and highly appealing promotional concepts such as "CAMEL Sounds", co-sponsored with Coca-Cola. The concept includes different local pop groups supporting a leading Swiss pop singer on a tour through Switzerland. Results of the Q4/1988 market monitor show that CAMEL has become the leading brand among young adult smokers and among all males, significantly ahead of Marlboro. CAMEL's advertising and brand awareness also increased while its appeal as a "starter" brand for young males is now on the same level as Marlboro (26%). These results bode well for CAMEL's 1989 Plan which calls for volume growth of 11.1% and a market share gain of almost one full point, to 8.2%.

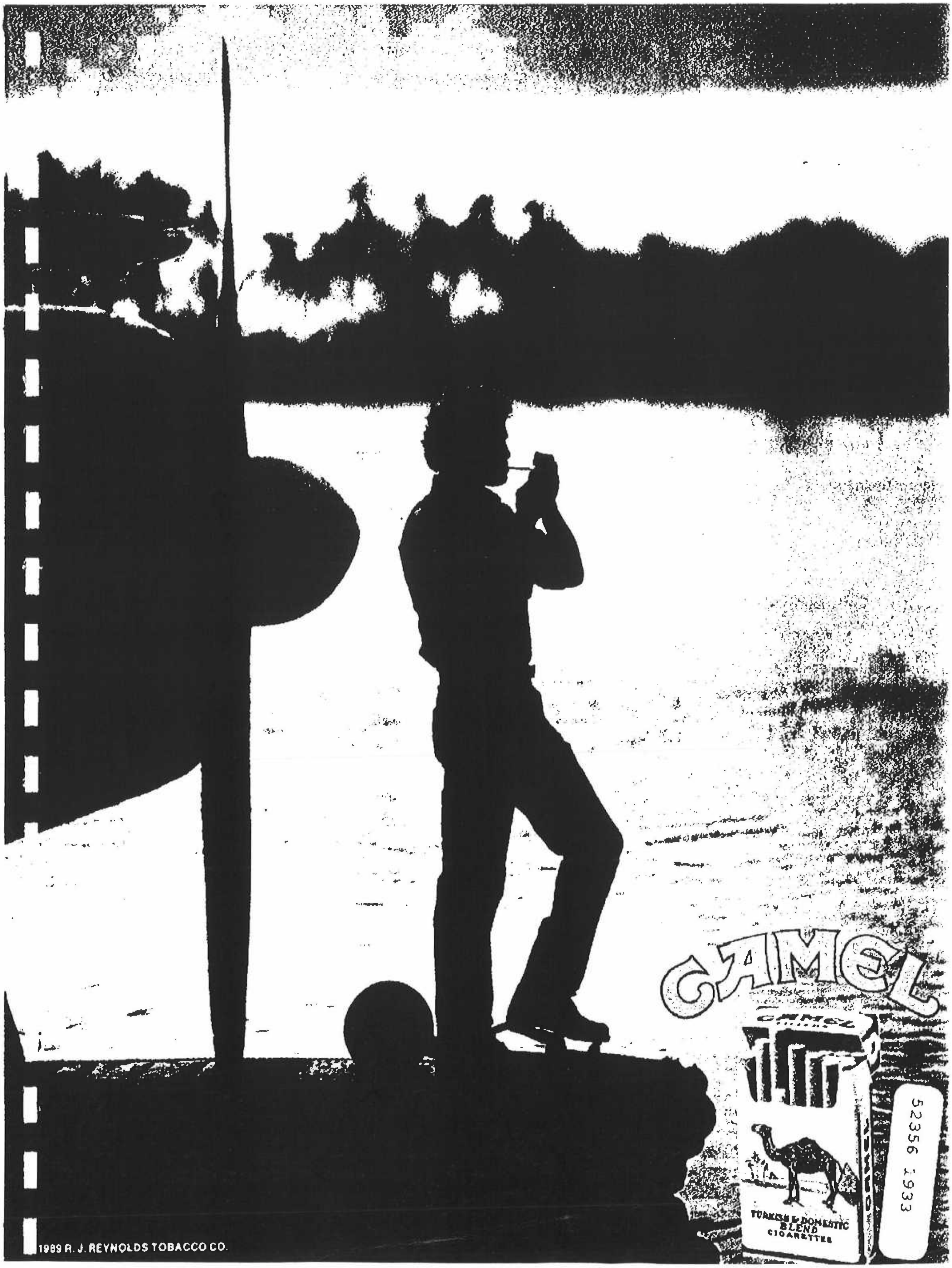
Turkey

The Monopoly increased prices on imports three times during 1988, resulting in a total price increase for the year of 100%. TEKEL's policy to limit imports via consumer price increases was effective as the imported segment declined 4.5% in 1988. In this adverse market environment, CAMEL's performance was the more remarkable: volume jumped 88%, and the brand's share of imports increased 2.8 pp, to 5.8%, fueled by overwhelming acceptance of CAMEL Filters 100's (+287%; SOS 3.7%, +2.8 pp) in the Turkish marketplace. Marlboro, by contrast, suffered considerably from TEKEL's stifling measures as 1988 volume fell 17%, and the brand's dominance of the segment weakened (SOS 71.5%, -10.8 pp); this decline, however, was partially compensated by Parliament 100's which doubled in volume and segment share. CAMEL Filters 100's continuing appeal to Turkish smokers and an effective new distributor arrangement are expected to have a highly positive impact on CAMEL's performance during 1989: volume will jump 89%, to 1.1 Billion, and share of imports is projected at 7.8%, up three full points over 1988.

Other Markets

Belgium/Luxembourg

The Belgian industry has been declining in this market for the past several years, compounded by adverse legislation and extensive smoking restrictions. CAMEL's performance in this shrinking market, however, continued on its growth trend during 1988 with a volume gain of 8.2%, to almost 300 Million units. Excluding Regulars, CAMEL grew at a rate of 9.2%, significantly ahead of Marlboro's 6.2% growth rate. The brand's market share increased another 0.2 percentage points, to 2.0%; most of this increase occurred during the last quarter of 1988 as a result of successful consumer promotions. In a slightly decreasing Luxembourg market, CAMEL was the fastest growing brand with a 16.1% volume increase, and market share was up 0.5 pp, to 3.6%. During 1989, CAMEL's momentum in Belgium will be accelerated (+30.5%) to 381 Million cigarettes (SOM 2.7%) thus creating the volume growth which will offset the inevitable decline of St. Michel.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CAMEL

Eastern Europe

Shipments in this grouping of markets were recorded at 582 Million units, an increase of more than 13% over 1987 and exactly on Plan. Two markets contributed the bulk of the growth: in **Yugoslavia**, volume was up 40% to 187 Million units, and in **Hungary**, CAMEL Filters 1988 sales stood at over 100 Million cigarettes, translating into a 58% increase over prior year and solidifying CAMEL's position as the fastest growing brand in the domestic market among both licensed and local products. For 1989, CAMEL's volume in the markets of Eastern Europe is forecast to grow 24%, to 723 Million units.

Scandinavia

The primary CAMEL market in Scandinavia is **Finland** as over half of the brand's volume of a quarter billion in the region was generated in this market. Brand family growth in Finland was 40% as CAMEL Filters advanced 29% and CAMEL Lights more than doubled in volume. In **Sweden**, CAMEL excl. Regulars continued to set new growth records (+19%) as new CAMEL Lights CPB (launched in October) gained distribution and generated favorable consumer reactions. Similarly, the October introduction of this brand style in **Norway** resulted in record sales during the last quarter, and CAMEL's volume for total year was up 26%.

United Kingdom

In this market dominated by Virginia blend brands, CAMEL is being developed particularly in the Southeast. 1988 results confirm the marketing and sales concept as volume grew over 40%, to surpass the 100 Million mark. This achievement - while on low volume levels - is contrasted by Marlboro's continuing volume (-3.7%) and share decline (-0.1 pp, to 2.4%) despite substantial and increasing investment marketing spending. In 1989, CAMEL is projected to record volume of over 200 Million units (+80%), thereby doubling its market share, to 0.2%.

CAMEL

U.S./L.A. Tax Free

All Latin American licensees - **Argentina, Chile, Peru** - have been assigned to the U.S./L.A. Tax Free SBU. The economic environment in these markets, however, is characterized by hyperinflation, rapidly deteriorating buying power and, as a result, massive downtrading to inexpensive local brands. CAMEL's volume, therefore, has been declining in these markets for the past several years and the outlook for the years ahead is not favorable.

Asian CAMEL Markets

The **Philippines** were classified as a tactical market in view of the continued political and economic uncertainty; additionally, higher priority has been assigned to Salem in this predominantly menthol market. However, due to relative economic stability and a Formula I TV advertising flight which resulted in strong brand sales primarily in the Manila area, CAMEL's 1988 volume advanced a modest 2.9%, to 525 Million units. If this moderately favorable market environment continues, a similar gain is projected for 1989. In **Malaysia**, CAMEL and, to a greater degree, Marlboro, continued to be negatively affected by intense competition in the value segment as a large number of new value brand introductions continued to drain established brands. While CAMEL's volume fell over 30 Million units in 1988, Marlboro's loss was substantial with a volume decline of over 100 Million. Given the current smoker trend to value brands in Malaysia, a further drop in volume is projected for both CAMEL (-16%) and Marlboro (-12%). In **Singapore**, continuing heavy competitive activity in the menthol segment, price discounting of Marlboro earlier in the year, and, finally, upward momentum for Salem and Winston had a detrimental effect on CAMEL during 1988. Thus, CAMEL's volume declined 7%, to 185 Million units, and is forecast to fall another 13% in 1989.

Table E: Comparison with Marlboro - Marketing Spending (US$MM)

	CAMEL					MARLBORO				
				CAGR 87-89					CAGR 87-89	
	1987	1988	1989	Spdg.	Volume	1987	1988	1989	Spdg.	Volume
Established Markets:										
Argentina	.190	.045	-	NA	-15.0%	(Not Available)				
Canary Islands	1.625	2.962	2.792	31.1%	17.4%	2.000	2.731	2.792	18.2%	15.7%
Germany	46.061	61.533	64.391	18.2%	2.5%	44.600	51.200	55.000	11.0%	2.0%
Holland	5.809	6.805	7.249	11.7%	4.4%	5.500	7.180	7.450	16.4%	7.9%
Singapore	.250	.150	.137	-26.0%	-10.1%	1.050	1.281	1.301	11.3%	-0.1%
Spain	11.510	14.019	12.275	3.3%	19.4%	17.032	24.388	22.917	16.0%	29.0%
South Africa	1.364	2.000	2.135	25.1%	-4.0%	(No Presence)				
Switzerland	8.193	10.626	12.201	22.0%	11.8%	11.020	14.410	16.120	20.9%	2.6%
Subtotal I:	**75.002**	**98.140**	**101.180**	**16.1%**		**81.202**	**101.190**	**105.580**	**14.0%**	
Development Markets:										
Belgium	3.883	4.973	5.042	14.0%	18.8%	6.810	8.217	8.620	12.5%	-0.7%
France	9.663	12.834	16.177	29.4%	12.2%	16.600	23.800	26.100	25.4%	2.5%
Greece	1.717	3.242	3.836	49.5%	8.3%	2.401	4.750	5.226	47.5%	-15.4%
Italy	8.387	10.555	11.107	15.1%	9.4%	36.300	49.920	52.630	20.4%	-2.2%
Japan	2.877	8.709	10.312	89.3%	71.5%	8.900	18.200	30.800	86.0%	90.0%
Malaysia	.973	.292	.341	-40.8%	-18.4%	3.625	3.000	2.280	-20.7%	-14.2%
Turkey	1.469	2.591	3.616	56.9%	88.5%	4.000	5.600	7.500	36.9%	-7.6%
U.K./Ireland	.775	2.006	2.795	89.9%	59.1%	16.000	17.000	18.000	6.1%	11.1%
Subtotal II:	**29.744**	**45.202**	**53.226**	**33.8%**		**94.636**	**130.487**	**151.156**	**26.4%**	
Headquarters Spdg.:	**14.616**	**19.000**	**22.400**	**23.8%**						
Other Markets:	**12.517**	**17.080**	**17.037**	**16.7%**		**161.562**	**199.323**	**231.264**	**19.6%**	
Total Spending:	**131.879**	**179.422**	**193.843**	**21.2%**		**337.400**	**431.000**	**488.000**	**20.3%**	

Product Testing

Annually, CAMEL Product Acceptability Monitoring Tests are conducted to ensure excellent product performance. During 1988, tests were carried out in eight of CAMEL's key markets: seven tests were performed among both franchise and source of business smokers while three were conducted among source of business smokers only. **CAMEL products were rated superior by franchise in five tests and at parity in two; none of the tested products lost to competition.**

Among source of business smokers, one test resulted in superior performance for the CAMEL product while these groups of smokers rated the respective CAMEL product at parity with its major competitor in seven test. In two cases, CAMEL was rated lower than its main competitor.

Overall, a **CAMEL product was rated parity or better in 88% of all cases,** and recorded **superior performance in 35%.** The following table provides an overview of the 1988 P.A.M. test results:

	LOSS	PARITY	WIN
Franchise		France Holland	Canary Islands Germany South Africa Switzerland (CA Mild) Switzerland (CA Filters)
	LOSSES - 0	**PARITIES - 2**	**WINS - 5**
Source of Business	France Switzerland (CF 100's)	Canary Islands Germany Holland Spain South Africa Switzerland (CA Mild) Switzerland (CA Filters)	United Kingdom
	LOSSES - 2	**PARITIES - 7**	**WINS - 1**