



ACTION APPROVAL PROCESS INDEX

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- III. Process Description For Each Type of Activity:
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- IV. Appendix:
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 - Examples of Supporting Tactics

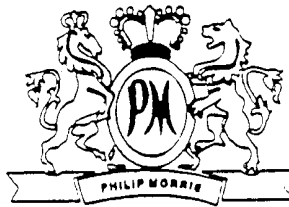
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PURPOSE OF THE PROCESS

- Expedite new product/new packaging introductions and increase PM USA's ability to react quickly to competitors' efforts.
- Provide accountability and status reporting for projects.
- Insure project consistency with strategies and objectives.
- Provide Operations with lead times and project prioritization/timing.
- Provide Senior Management, Finance and Marketing Planning with early forecast of project cost and benefits (incremental volume/profit).

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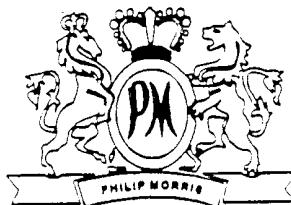
OVERVIEW OF THE PROCESS

- The Action Approval Process was designed to expedite the evaluation, development and production of new products and new packaging.

Three types of activities will be performed by "Project Teams" that are overseen by the "New Product Steering Committee". These include:

- Concept Studies
 - Feasibility Studies
 - Production Requests
- The cross-functional Project Teams will be composed of personnel from: R&D, Manufacturing, Engineering, Marketing, Sales and Finance. It will be the responsibilities of the Project Team members to communicate with each other and to complete their project as quickly and effectively as possible.
 - The New Product Steering Committee will meet on a monthly basis to review the progress of ongoing projects, schedule new projects, reassign personnel and make whatever decisions that are necessary to remove project bottlenecks.
 - In general, Marketing Planning will:
 - Assist in incremental volume/profit, strategic, and other analyses (when appropriate).
 - Input information into the computerized retrieval system from Concept Study, Feasibility Study and Production Requests.
 - Copy and/or obtain approvals from the SVP Marketing and EVP Operations when necessary.
 - Copy/contact other parties as necessary.
 - Prepare status reports for WIC staff meetings.
 - Interface with Sales/Production Forecasting concerning the status of projects.

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TYPES OF REQUESTS - CONCEPT STUDY REQUESTS

- Concept Studies are designed for the initial review of relatively undefined new packaging and new product concepts. In general, Concept Studies ask the question: "should we?". If the project is sufficiently defined or urgent, Brand Groups may request Feasibility Studies without first requesting Concept Studies.
- Concept Studies:
 - Identify possible equipment constraints, T/O and other issues,
 - Examine alternative but directionally similar concepts,
 - Further define the project concept so that a Feasibility Study can be undertaken (if appropriate).
 - Produce preliminary estimates of costs, expenses and expenditures required for further study and, eventually, production.
- Senior Management approval is not required for Concept Study Requests. However, the SVP Marketing and EVP Operations will be copied on all completed forms.

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TYPES OF REQUESTS - FEASIBILITY STUDY REQUESTS

- Feasibility Studies develop firm estimates and resolve critical issues associated with defined new packaging and new product concepts.
- Feasibility Studies:
 - Develop firm estimates of production costs, expenditures and earliest production availability,
 - Resolve all T/O and other issues,
 - In general, generate all the information that is necessary to complete a Production Request Form (if appropriate).
- Senior Management approval is not required to initiate Feasibility Studies. However, the SVP Marketing and EVP Operations will be copied on all completed forms.

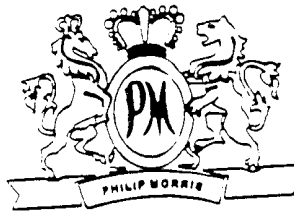
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TYPES OF REQUESTS - PRODUCTION REQUESTS

- Production Requests ask Operations to order the appropriate equipment and begin production of specified new product/packaging configurations on an agreed-upon schedule.
- In general, a Feasibility Study should have been completed before a Production Request can be approved. If the concept is defined and has been previously studied, or if it is urgent, Production Requests may be submitted without prior Concept/Feasibility Studies.
- To complete a Production Request form, Brand Groups will develop:
 - Firm total and incremental volume/profit estimates,
 - Desired scheduling (given Five Year Plan objectives and the competitive environment).
- In order to complete a Production Request form, Feasibility Study Project Teams will have developed firm estimates of:
 - All expenses, expenditures and costs,
 - Earliest production availability.
- Approvals must be obtained from SVP Marketing and EVP Operations before a Production Request can be executed. All approved forms will be copied to Finance and other appropriate parties.

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CONCEPT STUDY PROCESS STEPS

- A Brand Group member completes a Concept Study Request Form and obtains the approval of the appropriate Brand Group VP.
- A cross-functional Project Team is assembled that includes personnel from: R&D, Manufacturing, Engineering, Brand, Marketing Research/Planning. It is the responsibility of the Project Team to complete the study and to update the project files on the computerized tracking system.
- The originating Brand Group member sends copies of the Concept Requests to all Project Team members and the New Product Steering Committee.
- Marketing Planning will transfer the information on the completed Concept Request Form to the computerized tracking system.
- On a monthly basis, the New Product Committee will meet to:
 - Review all new requests and ongoing projects,
 - Assign/revise priorities for each project in light of workload/logistical constraints,
 - Re-assign Project Team personnel as necessary,
 - Review the results of all completed projects.
- On ongoing basis, Marketing Planning will:
 - Advise the New Product Steering Committee of constraints and bottlenecks,
 - Prepare status reports for WIC meetings,
 - Provide analytical and expedition assistance when needed,
 - Advise Production Planning of each project's status.

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CONCEPT STUDY REQUEST

Detail Specifications - Page 1



Concept Request Number _____

Project Name _____

Product Request for Consumer Research

Description:

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Tar Deliveries:

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Lengths:

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Circumferences:

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Tipping Colors:

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Quantities:

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Smokable or Non-Smokable:

.....

Date Requested:

.....

Date Needed By:

.....

Address to be Delivered to:

.....

PM Contact Person — Extension:

.....

Product Request for Package Testing

Description:

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Tar Deliveries:

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Lengths:

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Circumferences:

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Tipping Colors:

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Quantities:

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Smokable or Non-Smokable:

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Date Requested:

.....

Date Needed By:

.....

Address to be Delivered to:

.....

PM Contact Person — Extension:

.....

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CONCEPT STUDY REQUEST

Detail Specifications - Page 2



Concept Request Number _____ Project Name _____

<u>Project Description</u>		<u>Ad Pack</u>	
Production Date		Description:	
Estimated Development Time (Operations):			
POL Testing Estimated Completion Date:			
<u>Consumer Research</u> <u>Richmond</u>	<u>Consumer Research</u> <u>New York</u>		
Description/Objective:	Description/Objective:		
Location:	Location:		
Scheduled Date:	Scheduled Date:		
			Product Specs:
			Quantities:
			Date Requested:
		Date Needed By:	
		Address to be Delivered to:	
		PM Contact Person — Extension:	

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FEASIBILITY STUDY REQUEST



Section I - General Information

Project Name _____ Date Issued _____
Feasibility Number _____ Team Leader/Originator _____
Supersedes Feasibility Number _____ Brand/Packing _____
Co-Project Number _____ Brand Group VP Approval _____
Project Team _____

Section II - Request Type Packaging Product Promotion Merchandising

Section III - Concept Description (Detail Specifications Attached? Yes No)

Section IV - Budget/Plan Implications

In current year budget? Yes, sufficient funds Yes, insufficient funds No
In Five Year Plan? Yes No
Strategic objectives? Extend trademark equity Capture discount share Cost Savings
 Economies of scale Restructure profitability Other

Reactive? Yes No Regulatory? Yes No Strategic Flexibility? Yes No

Section V - Project Priority 1 2 3

Section VI - Anticipated Total and Incremental (Brand) Volume/Share

Section VII - Team Leader's Project Updates (Additional Pages Attached? Yes No)

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Section VIII - Team Leader's Estimated Study Completion Date _____

Section IX - Study Status (Entered by Marketing Planning)

Completed Ongoing Cancelled/superseded

Section X - Reporting Status (Entered by Marketing Planning) Active Inactive

FEASIBILITY STUDY REQUEST
Detail Specifications - Page 1



Feasibility Request Number _____

Project Name _____

Product Request for Consumer Research

Description:

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Tar Deliveries:

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.....

Lengths:

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Circumferences:

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Tipping Colors:

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Quantities:

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Smokable or Non-Smokable:

.....

Date Requested:

.....

Date Needed By:

.....

Address to be Delivered to:

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PM Contact Person — Extension:

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Product Request for Package Testing

Description:

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Tar Deliveries:

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Lengths:

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Circumferences:

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Tipping Colors:

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Quantities:

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.....

Smokable or Non-Smokable:

.....

Date Requested:

.....

Date Needed By:

.....

Address to be Delivered to:

.....

.....

PM Contact Person — Extension:

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FEASIBILITY STUDY REQUEST

Detail Specifications - Page 2



Feasibility Request Number _____ Project Name _____

<u>Project Description</u>		<u>Ad Pack</u>	
Production Date		Description:	
Estimated Development Time (Operations):			
POL Testing Estimated Completion Date:			
<u>Consumer Research</u> <u>Richmond</u>	<u>Consumer Research</u> <u>New York</u>		
Description/Objective:	Description/Objective:		
Location:	Location:		
Scheduled Date:	Scheduled Date:		
			Product Specs:
			Quantities:
			Date Requested:
		Date Needed By:	
		Address to be Delivered to:	
		PM Contact Person — Extension:	

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EXPLANATION OF CONCEPT STUDY REQUEST FORM LINE ITEMS

Section I - Background Information:

- "Project Name", "Date Issued", "Originator", "Brand/Packing", "Brand Group VP Approval", "Project Team" - these items are self-explanatory. "Concept Request No", "Co-Project No", and "Supersedes No" will be filled out by Marketing Planning. Project numbers will be assigned automatically by the computer. Co-projects are those which may involve more than one Brand Group but are related or similar concepts from an Operations point of view.

Section II - Request Type:

- Choose any of these items that is appropriate. Some projects may fall into multiple categories. Note that, by definition, any project that results in a new SKU (e.g. 5 pack cartons) is a "new product".

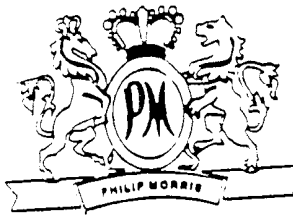
Section III - Concept Description (Detail Specifications Attached Yes/No):

- Briefly, but accurately, describe the physical properties of concept and outline the strategic business objectives or rationale. Two pages of detailed specifications are also attached for use by R&D.

Section IV - Budget/Plan Implications:

- "In Current Year Budget": Choose "Yes" or "No". If "Yes", choose "Sufficient Funds" or "Insufficient Funds" based on available cost information.
- "In Five Year Plan": choose "Yes" or "No" depending on whether or not the project is included in the Five Year Plan (either specifically or in concept).

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EXPLANATION OF CONCEPT STUDY REQUEST FORM LINE ITEMS

- "Strategic Objectives": all requests should be consistent with at least one of the Pillars of the strategies outlined in the Five Year Plan or result in cost savings or other strategic benefits. Refer to the Appendix for a more detailed discussion of the Pillars and examples of tactics that support each:
 - "Extend Trademark Equity" (primarily for Premium Brands)
 - "Capture Discount Share"
 - "Economies of Scale" (e.g., projects designed to increase SKU's)
 - "Restructure Profitability"
 - "Cost Savings"
 - "Other"
- "Reactive": choose "Yes" if the project is specifically in reaction to a competitor's efforts (e.g., Wides, Fresh-Wrap, various promotions, etc.).
- "Strategic Flexibility": choose "Yes" if the capability of the project is required but full use of the capacity is not scheduled.
- "Regulatory": choose "Yes" if the project is undertaken specifically in response to regulatory issues.

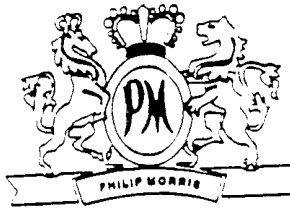
Section V - Requested/Priority Completion Date For Study:

- Brand Groups should assign priorities such that about 1/3 of the requests are: top (1), medium (2) or low (3) priority. The completion date is the requested date for the completed study by the Project Team. Both priorities and requested completion dates may be modified by the New Product Steering Committee.

Section VI - Project Updates (Additional Pages Attached? - (Yes/No):

- Project Updates will be entered on an ongoing basis by Project Team members and/or Marketing Planning.

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EXPLANATION OF CONCEPT STUDY REQUEST FORM LINE ITEMS

Section VII - Estimated Study Completion Date:

- A study completion date is estimated by Operations. At this point, it will be entered into the computer file as the "Reply Date" by Marketing Planning.

Section VIII - Study Status:

- Entered by Marketing Planning, this field concerns the study's status.

Section IX - Reporting Status:

- Entered by Marketing Planning, this field determines whether or not the idea of the project is still active and being discussed/reported.

NOTE: Brand Groups are only responsible for filling out the non-shaded areas of the forms and attached detail specifications. However, information received from all parties may be recorded in the "Updates" section.

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FEASIBILITY STUDY PROCESS STEPS

- A Brand Group member completes a Feasibility Study Request Forms and obtains the approval of the appropriate Brand Group VP.
- A cross-functional Project Team is assembled that includes personnel from: R&D, Manufacturing, Engineering, Brand, Marketing Research/Planning. It is the responsibility of the Project Team to complete the study and to update the project files on the computerized tracking system. In general, the personnel of the preceding Concept Study Project Team will comprise the new Feasibility Study Team.
- The originating Brand Group member sends copies of the Feasibility Study Requests to all Project Team members and the New Product Steering Committee.
- Marketing Planning will transfer the information on the completed Feasibility Study Request Forms to the computerized tracking system.
- On a monthly basis, the New Product Committee will meet to:
 - Review all new requests and ongoing projects,
 - Assign/revise priorities for each project in light of workload/logistical constraints,
 - Re-assign Project Team personnel as necessary,
 - Review the results of all completed projects.
- On ongoing basis, Marketing Planning will:
 - Advise the New Product Steering Committee of constraints and bottlenecks,
 - Prepare status reports for WIC meetings,
 - Provide analytical and expedition assistance when needed,
 - Advise Production Planning of each project's status.

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EXPLANATION OF FEASIBILITY STUDY REQUEST FORM LINE ITEMS

Sections I-X (Except VI):

- These sections are completed in a similar fashion to the analogous sections in the Concept Study Request forms. However, the "Concept Description" should be more defined.

Section VI - Anticipated Total and Incremental (Brand) Volume/Share:

- Brand Groups, in conjunction with Marketing Planning/Research, will develop estimates of volume requirements for Operations.

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PRODUCTION REQUEST - PROCESS STEPS

- A Brand Group member completes a Production Request Form and obtains the approval of the appropriate Brand Group VP.
- In general, a Feasibility Study must have been completed before a Production Request can be considered. The same Project Team that performed the Concept and Feasibility studies will be responsible for executing the Production Requests and obtaining approvals of SVP Marketing and EVP Operations.
- The Production Request Form is copied to Marketing Planning who:
 - Enters the information into the computerized tracking system and sends copies of approved forms to the members of the New Product Steering Committee, Finance, Production/Sales Planning and other appropriate parties.
- During the monthly New Product Steering Committee meetings each request is reviewed for completeness, and scheduling. Additional Key personnel will be assigned to each Project Team as necessary.
- Operations will act against approved/prioritized Production Request Forms and provide updates to Marketing Planning on a monthly basis (for status reporting).

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SALES OR FUTURE LAUNCH REQUEST



Section I - General Information

Project Name _____ Date Issued _____
Production Request Number _____ Team Leader/Originator _____
Supersedes Production Number _____ Brand/Packing _____
Co-Project Number _____ Brand Group VP Approval _____
Project Team _____

Section II - Request Type (Feasibility Study Completed? Yes No)

Packaging Product Promotion Merchandising

Section III - Concept Description (Additional Documents Attached? Yes No)

Section IV - Budget/Plan Implications

In current year budget? Yes, sufficient funds Yes, insufficient funds No
In Five Year Plan? Yes No
Strategic objectives? Extend trademark equity Capture discount share Cost Savings
 Economies of scale Restructure profitability Other
Reactive? Yes No Regulatory? Yes No Strategic Flexibility? Yes No

Section V - Requested Priority/Scheduled Sales Launch Date or Future Launch TBD

Requested Priority 1 2 3 Scheduled Sales Launch Date or Future Launch TBD _____

Section VI - Cost/Benefit Analysis (Additional Pages Attached? Yes No)

Anticipated Total and Incremental (Brand) Volume/Share _____
Anticipated Incremental Cannibalization of Other PM Brands _____
Anticipated Net Incremental Contribution _____
Anticipated Development Expenses, Incremental Product Costs, Capital Expenditures (Operations Estimate) _____

Section VII - Team Leader's Project Updates (Additional Pages Attached? Yes No)

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Section VIII - Senior Management Approvals

Senior V.P. Marketing _____ Date _____
Executive V.P. Operations _____ Date _____

Section IX - Form Status (Entered by Marketing Planning)

Completed/approved Completed/awaiting approval Incomplete Cancelled/superseded

Section X - Reporting Status (Entered by Marketing Planning) Active Inactive



EXPLANATION OF PRODUCTION REQUEST FORM LINE ITEMS

Section I-X (Except VI, VIII and IX):

- These sections are completed in a similar fashion to the analogous sections in the Concept and Feasibility Study Request forms (although with greater, final definition).
- Note that Section IV contains the additional line item 1 "Feasibility Request Completed: Yes/No". In general, for all new packaging and new product configurations, Production Requests should be preceded by a Feasibility Study (except as noted).

Section VI - Cost/Benefit Analysis:

- These estimates should be developed by Brand Groups, Marketing Planning and Operations in order to provide Executive Management, Marketing Planning and Finance with a forecast of the project's attractiveness and impact.

Section VIII - Approvals:

- Marketing Planning will obtain approvals from the SVP Marketing and EVP Operations for all Production Requests. Production will not begin until all approvals are obtained.

Section IX - Form Status:

- Entered by Marketing Planning to record the current status of the form/project.

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FOUR PILLARS OF LONG-TERM STRATEGY
AND EXAMPLES OF TACTICS THAT SUPPORT EACH

- I. Extend equity of Premium trademarks
- II. Capture fair share of discount category growth
- III. Develop economies of scale
- IV. Restructure industry profitability

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I. EXTEND EQUITY OF PREMIUM TRADEMARKS

To capitalize on premium trademarks equity and defend against accelerating price competition, value will be added to these trademarks by:

- (1) Continued heavy advertising support
- (2) Promotions that build imagery, generate trial, increase loyalty and source competitive volume
- (3) Merchandising leadership
- (4) Line extensions that are pre-emptive, have greater relevance or target untapped segments
- (5) Alternative packaging configurations

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EXAMPLES OF TACTICS THAT EXTEND EQUITY OF PREMIUM TRADEMARKS

I. Alternative Packaging Configurations Designed to Reduce Cash Outlay, Net Price and/or Occasions

For Example:

- 10 pack 25's cartons
- 15 and 20 pack cartons
- 1/2 cartons
- 10 packs
- 2/3 pack sleeves
- 2 carton sleeves

II. Line Extension Designed to Penetrate Niches, Increase Brand Relevance and/or Pre-Empt Competitors

For Example:

- B&H KS menthol, KS lights, KS full flavor and USP
- Merit Ultima and parent reformulation
- Virginia Slims 85's, low odor/sidestream and USP
- Marlboro Medium 100's, RX, Wides, extra lights
- Parliament Menthol
- Wider Cigarettes

III. New Product Packaging Designed to Add Value

For Example:

- Fresh wrap

IV. Promotions Designed to Build Imagery, Generate Trial, Increase Loyalty, Add Value and Source Competitive Volume

- Direct mail programs targeted to competitive smokers.

For Example:

- 5 pack Marlboro Medium offer
- 1/2 free pack offer
- Flexibility to apply pack/carton coupons and other materials in PM factories to increase promotional capacity and reduce burden on sales force.

For Example:

- On-carton factory applied coupons/bounceback offers
- In-carton stuffers
- On-pack coupons
- In-pack inserts (e.g., Camel cash)

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II. CAPTURE FAIR SHARE OF DISCOUNT CATEGORY GROWTH

In order to capture its fair share of the discount category growth while minimizing the damage to our premium trademarks, PM USA will:

- (1) Add equity to Cambridge and Bristol and differentiate them from competitive brands
- (2) Target offensive price promotions to maximize incremental volume and profit
- (3) Foster partnership with key customers by leveraging private label programs

EXAMPLES OF TACTICS THAT CAPTURE FAIR SHARE OF DISCOUNT GROWTH

I. Promotions Designed to Add Value, Build Equity and Source Competitive Volume

- Direct mail programs targeted to competitive smokers.
- Flexibility to apply carton/pack coupons and other materials at PM factories in order to expand capabilities and reduce burden on sales force.

For Example:

- On-carton factory applied coupons/bounceback offers
- In-carton stuffers
- On-pack coupons
- In-pack inserts (e.g., Camel cash)

II. Aggressive Pursuit of Private Label Contracts

18 Private Label brands are currently in development:

- To gain trade leverage (vis a vis competitors).
- To deny easy access to profit/volume for competitors.

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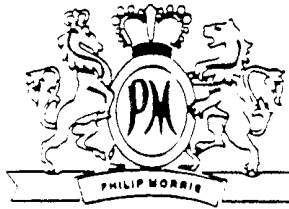


III. DEVELOP ECONOMIES OF SCALE

PM USA will develop and leverage scale economies by:

- (1) Introducing new merchandising and private label programs that:
 - Incent retailers to focus on selling PM USA's premium brands and
 - Ensure PM USA gets superior in-store presence
- (2) Developing new pack/carton configurations that match consumer buying patterns but are difficult for competitors to copy because of retail space constraints (increasing SKU's)
- (3) Lowering manufacturing costs through global purchasing, improved supplier relations and investment in process technology
- (4) Developing unique proprietary product technology to enhance premium brands' value to consumers

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EXAMPLES OF TACTICS THAT DEVELOP SCALE ECONOMIES

- I. Alternative Packaging Configurations Designed to Increase SKU's
- 1/2 cartons
 - 10's packs
 - 25's cartons
 - 15 and 20 pack cartons
- II. Merchandising Programs Designed to Incent Retailers to Emphasize PM Premium Brands and Gain Superior Presence
- For Example:
- Restructured merchandising payments.
 - Black & white and Private Label programs that provide superior profitability to retailers.
- III. Invest in Technology
- Proprietary product technology that provides unique benefits to consumers (e.g., low nicotine, low odor/smoke).
 - Process technology that improves manufacturing efficiencies and flexibility.
- IV. Manage Supplier Relations to Generate Cost Savings and Ideas
- Idea LAB
 - Purchasing

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IV. RESTRUCTURE PROFITABILITY

Competitors have traditionally sought income growth by substantially increasing prices of their premium brands. PM USA will take actions that force competitors to seek income growth by reducing support or increasing the prices of their discount brands.

- (1) PM USA will continue to increase the profit potential of discount brands.
- (2) PM USA will continue to compete in niche premium categories, reducing funds available to competitors to support their discount brands.

EXAMPLES OF TACTICS THAT RESTRUCTURE PROFITABILITY

I. Line Extensions Targeted at Competitor-Dominated Niches

For Example:

- Merit Ultima
- B&H Kings
- Parliament Menthol

II. Programs That Build The Profit Potential of Discount Brands

For Example:

- Reduced leaf and other costs
- Continued price increases

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