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## Reynolds American, Inc. Q1 2008 Earnings Call Transcript

### Question-and-Answer Session

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Absolutely. [Operator Instructions]. We will take our first question from Judy Hong at Goldman Sachs.

**Judy Hong - Goldman Sachs**

Hi, good morning every one.

**Susan M. Ivey - Chairman, President and Chief Executive Officer**

Hi, Judy.

**Thomas R. Adams - Executive Vice President and Chief Financial Officer**

Goodmorning.

**Judy Hong - Goldman Sachs**

Hey Tom, can you first quantify how much the settlement adjustment in the quarter was?

**Thomas R. Adams - Executive Vice President and Chief Financial Officer**

It was about \$0.06 a share.

**Judy Hong - Goldman Sachs**

Okay. Now if I just look at the operating income for your cigarette business and even if you adjust for the settlement expenses, it seems like your profitability was down on a per unit... sorry, was up pretty modestly when you saw actually pretty healthy price growth. I am just wondering if you can sort of look at the profitability on a per unit basis and just walk us through how much savings you got in the quarter, was it really the negative operating leverage that kind of depressed that number because it looks like pricing was actually up pretty healthy?

**Thomas R. Adams - Executive Vice President and Chief Financial Officer**

Pricing was up and as we said, we took our pricing up and some of our other competitors went the other direction in terms of promotional activities, so our pricing was up but our volumes were down. You also need to look in the year-over-year comparison, as we mentioned, we had some timing of promotional expenditures in 2006 that benefited the first quarter of 2007 and our operating margins then were actually inflated by the fact that some of those volumes weren't burdened by the costs that resided in '06.

**Judy Hong - Goldman Sachs**

Okay. And then Susan, I just wanted to just get your perspective on some of the adverse dynamics that depressed your number in the first quarter. You've talked about those dynamics becoming more moderate going forward, but at the same time it also sounds like you may emphasize volume a little bit more in the near term, so how do we think about the competitive dynamics in the first few quarters as you sort of assess your strategy and focus maybe a bit more on volumes, you have got your competitors in the first quarter that really have become more promotional, how do you think the dynamics will play out and how do you think that these dynamics will impact the industry wide profit pool for the next few quarters.

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