

Memo

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REMARKS
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PHILIP MORRIS COMPANIES, INC.

APRIL 9, 1996 MEETING WITH EMPLOYEES

I want to start this session with a thank you. The past few weeks have not been an easy time for any of us. But I have felt in this building -- and around the globe -- that our spirit has been strong and that we remain a confident team of people.

They say that there is nothing like a battle to bring a team together. Well, today we are together more than ever before. And I thank you -- personally and most sincerely -- for that support.

What I want to do today is answer your questions. And if I can't answer a particular specific, then I will ask Murray Bring or Steve Parrish to step in.

But let me start by laying a framework for where I believe we are.

First, as I have said to you in memos, we must never forget that despite all the noise and thunder of the last few weeks, nothing fundamental has changed.

Our business is growing by leaps and bounds. We will report a strong first quarter and the next quarter looks equally good.

And even if our stock has taken a bit of a beating, some of this was inevitable profit-taking in the market. The analysts who follow us continue to recommend our stock. They know that our fundamentals -- including in the litigation area -- remain strong.

Indeed, when you get past the propaganda and media hype, our litigation and political position in the U.S. is perhaps even stronger than it was.

Let me explain.

Originally, the newspapers described the Liggett settlements as a crack in the dam. But now everyone understands that the proposed settlements were a tactic in a war which has nothing to do with the fundamentals of tobacco

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litigation. It is a desperation move by Bennett LeBow in his efforts to take over RJR. And we will know next week whether or not he will succeed in that quest.

But the strength of our position in these suits is untouched. Indeed, in the hearings last week on the *Castano* case, we feel we did very well. Even the press agreed.

In fact, subsequent to this hearing, we have seen the plaintiffs lawyers starting a new game of spin control because of the very real possibility that this absurd class action case will be thrown out of court.

It isn't our dam that is showing cracks. It is theirs.

Everyone now understands that the Liggett settlement is a sham. It will be challenged in the courts by the plaintiffs -- since it is a lousy deal for them -- and by other lawyers. And, make no mistake, Liggett has not bought itself legal peace with this settlement. They got pats on the back from hypocritical politicians and lawyers, but they got nothing and gave nothing. All they did in the end was to destroy significant value for investors in our industry.

In retrospect, the worst part of the LeBow charade was to see Liggett receive praise for being a leader on the youth smoking issue. Dead wrong. We are the leaders in the U.S. industry on the youth issue. Our Action Against Access program here in the United States is being aggressively implemented across the country. I'm proud of this effort and you should be too. It puts our money where our mouth is -- which is against youth smoking.

ad going out today - Saw first ad - More to come

Over the next weeks you will see us communicating more on this effort. That is not just chest beating. We are going to fight back strongly against any misperception or distortion of our position on youth smoking. We oppose it. We want it to stop. Period.

(Pause)

Now let me address the affidavits of our ex-employees. I know that some of you have felt that we have been a little slow on this one and, perhaps, we have been. Let me tell you why.

Our opponents handled these leaks with real media relations skills. The affidavits were given to reporters and not to us. So we were asked to comment on documents we did not have and could not see.

We rightly refused to do that. Why? Because it would be wrong. We can not be shooting back wildly on these issues -- particularly when they involve people who have worked for our company. The three individuals who have

given these affidavits worked for us for many years. They seem to be reasonable and honorable people. We have to take the time to see exactly what they are saying so that we can respond with reason and care.

That is smart legal strategy. It is also the right thing to do.

Now we have reviewed the affidavits in detail. We have talked to other people involved in these issues, and will shortly take the depositions of the three ex-employees.

We are completely confident that the affidavits have errors of fact and many incorrect assertions. We will go into this in detail after we have taken depositions of the three individuals and have formulated our formal response to the FDA. Not before.

But let me assure you -- nothing in these affidavits will undermine the fundamentals of our position, which has been stated repeatedly and was restated in the ad we ran three weeks ago. Let me state it yet again.

We do not "manipulate" nicotine levels in our cigarettes. We do have quality control procedures to assure consistency in our brands. That's it.

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We also stand four-square behind former PM/USA President, Bill Campbell and reject the irresponsible charges that have been made with respect to his Congressional testimony.

And with regard to the so-called "safer cigarette," the fact is that we have diligently worked on changes to our products which the medical community has sought. We have lowered the tar, we have looked at -- and made several modifications -- relating to phenols, nitrites, and carbon monoxide.

Indeed, the specific product modification referred to by our one of our so-called whistle blowers -- denitrification -- is actually taking place. His particular process for denitrification was not brought to market because it proved to have problems. This was a practical issue, not a legal one.

(Pause)

We are not oblivious to the fact that we took a blow from a public relations perspective over the past several weeks. I wish I could tell you that we can set that right through some sort of p.r. initiative. We can't, because it wouldn't work.

I wish I could also tell you that we won't go through another bout like the last few weeks. But I can't. In fact, I have to tell you to expect that there will be other tough days and weeks ahead.

The other side is engaging in a propaganda campaign of mis-truths, half-truths, innuendo, false piety, and downright deceit. In some ways, they are doing this because their case is so weak. And they are not going to stop doing it as their legal and political positions deteriorate. Which they will.

So we must continue to expect further trouble.

But we have decided that we will not be drawn into their game of half-truths. We can not -- we will not -- allow ourselves to be forced into simplistic arguments in fabricated media settings. We will lose if we respond too quickly or too facilely.

It is also true -- and you all know this -- that the absurdities of the U.S. litigation scene hobble us in some of the language we can use on these issues. The other side can be reckless in whatever they choose to say, but we are shackled in our language -- on critical issues of risk, so-called "addiction", and even the phrase "safer cigarette". I wish this were not so. But the plaintiff bar's eagerness to catch us in the slightest shift of nuance requires that we choose our words carefully -- no matter how outrageous the other side is.

So what are we going to do? We are going to continue to fight -- first and foremost in those forums such as the courts where the facts can be presented and argued. But we will also fight in the court of public opinion -- where sometimes our concern for accuracy and fairness may put us at a disadvantage against unscrupulous opponents.

But I remain convinced we will ultimately prevail in the court of public opinion as well. Let me tell you why.

You have heard me say innumerable times that when you fight and you are right, you win. We must never lose sight of why we are right in this fight.

We are right because smoking is part of human custom and efforts to prohibit it are absurd.

We are right because cigarettes are a legal product and for generations people have understood what smoking is and what it isn't.

We are right because whatever one wants to say about tobacco and health -- it is absurd to say that adult smokers don't know about the risks. Which means they are taking informed choices -- when they start, when they continue, and when they quit.

No amount of prohibitionist propaganda can change those fundamentals -- which lie at the heart of our issues. Americans know that too. Surveys show