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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 is strong and that we remain a confident team of people.

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

Today, I want to answer your questions, but let me start by laying a framework for where I believe we are.

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

First, let me begin with the proposed Liggett settlement. It is a sham. Originally, the newspapers described the settlement as a crack in the dam. But now everyone understands that the proposed settlement was just a tactic in a war which has nothing to do with the fundamentals of tobacco litigation. It was a desperation move by Bennett LeBow in his effort to take over RJR.

Second, the proposed Liggett settlement does not change the litigation. The strength of our position in these suits is untouched. Indeed, we were encouraged by the hearing last week in the *Castano* class action. The investment community and even the press agreed that the Court seemed skeptical of many of the plaintiffs' arguments.

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

Third, let me talk about the issue of youth smoking. We believe kids should not smoke and Philip Morris has been a leader in the effort to keep cigarettes away from kids.

One of the most frustrating things about the past few weeks has been to see Liggett being praised as a

leader on the youth smoking issue. Nothing can be further from the truth. Our Action Against Access program here in the United States is being implemented aggressively across the country. I'm very proud of this effort and you should be too. It puts our money where our mouth is -- which is against youth smoking.

Over the next weeks you will see us communicating more on this effort. You have already seen the first ad. 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 youth smoking. We want it to stop. Period.

(Pause)

Now let me mention the affidavits of our former employees.

Our opponents handled these affidavits with real public 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 refused to do that. Why? Because it would be foolish. We can not be shooting back wildly on these issues. We have to take the time to see exactly what the facts are so that we can respond accurately and persuasively.

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

We have now reviewed the statements in detail. We have talked to other people involved in these issues, and will shortly cross-examine at least two of the three former employees.

Let me be clear.

We are completely confident that the affidavits not only have been misrepresented by our opponents but that they also contain errors of fact and many incorrect assertions. We will go into this in detail after the depositions and after we have submitted our formal response to the FDA. Not before.

But let me assure you -- I am confident that these statements will not 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 to keep people smoking. We do have quality control procedures to assure consistency in our brands. That's it.

We also stand four-square behind former PM USA President and CEO 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 worked diligently on changes to our products which some in the medical community have sought. We have lowered the tar, we have looked at -- and made several modifications -- relating to phenols, nitrites, and carbon monoxide, among others.

Indeed, the process referred to by our one of our so-called whistle blowers -- denitrification -- is actually taking place and has been for more than 20 years. 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)

Those are the facts and the facts will come out.

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 reckless 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 can expect more leaks and sensational stories.

I want to assure you that we will not sit silent. We will fight, but we will fight smart. Sometimes that will mean an immediate and vigorous public response. Other times it will mean waiting for a deposition, a court filing and sometimes a trial. But we will respond and the facts will become known.

We will not be baited into overacting. We will not be drawn into addressing complex factual issues in the press if we cannot get an impartial and fair opportunity to present our side of the story. We will not compromise our litigation strategy. In court there is a level playing field, and that is where we have always prevailed.

I want to be perfectly clear. We have no intention of settling any litigation. We will fight in the courts, and we will win, because we are right. And by winning in the courts, we will also ultimately prevail in the court of public opinion.

(Pause)

I believe passionately that we are right, and let me tell you why.

We are right because for millions of people, smoking is part of an adult lifestyle, 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 are unaware of the claimed risks. Which means they are making 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. Surveys show quite clearly that most Americans do not agree with the anti-smokers on the basic tobacco issues. They see smoking as part of life, and they know that it is ultimately an issue of personal choice in a free society.

What some people may not understand is that we are an ethical company. Our tobacco business may be controversial, but we are principled people who are honest and straight-dealing. We know who we are and what we do, and we do it with a sense of ethics, integrity and responsibility towards our consumers and towards our society. That is an absolutely critical part of our corporate culture.

(Pause)

In conclusion, I am absolutely convinced that the fundamental strength of our legal position remains intact, and that once we are able to address recent allegations in the objective setting of a courtroom, we will be vindicated.

But let me say again, we will not just quietly wait for these issues to be resolved in court. We will speak out forcefully and often, but we will do it in a way that does not compromise our long term strategy.

And in the meantime, let's keep our eye on the ball. Let's fight hard. Let's fight smart. And let's fight using the ethics and the reasonableness that we know are our greatest weapons -- because they will be the basis of our triumph.

And let us always stick together -- as a team energized by what we are fighting for. This is a battle not just for our products. Nor is it just for our company and our industry. And it is not just for our consumers. It is all of that and more. It is ultimately a fight for personal freedoms, for reasonableness, and for the ability of informed adults to make their own decisions in a free society.