

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.

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 Wall Street analysts who follow us continue to recommend our stock. They know that our fundamentals -- including in the litigation area -- remain strong.

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 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, we were encouraged by the hearing last week on the *Castano* case. 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.

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 some hypocritical politicians and lawyers, but they got nothing and gave nothing. All they did in the end was to temporarily erode 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. In truth, 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 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. I know that some of you have felt that we have been a little slow on this one and, in a sense, we have been. Let me tell you why.

To be sure, 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 refused to do that. Why? Because it would be foolish. 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 statements worked for us for many years. They are entitled to their views. We have to take the time to see exactly what they are saying so that we can respond accurately and persuasively.

That is smart legal 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.

We are completely confident that the affidavits not only have been misrepresented by our opponents but that they also have 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)

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 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 <sup>can</sup> must continue to expect more leaks and sensational stories. over — See back of page

*barted into overreacting.*

~~But we have decided that we will not be drawn into a their game of half-truths. We can not -- we will not -- allow ourselves to be forced into simplistic arguments in fabricated media settings. Our ultimate victory depends on responding prudently and with full command of the facts.~~

*we will not be drawn into*  
Addressing complex factual issues in the press, ~~where we cannot~~ <sup>if</sup> ~~hardly~~ get an impartial and fair opportunity to present our side of the story. ~~rather, we will concentrate our efforts in the arena where we know there is a level playing field, and where we have always prevailed. — the courts.~~ *that is*

*X*  
*X*  
We will not compromise our litigation strategy. On court

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I want to assure that we will  
not sit silent. We will fight,  
but we will fight smart.

Sometimes that will mean an  
immediate and ~~urgent~~  
vigorous and public response.

Other times it will mean  
waiting ~~at~~ for a deposition,  
a court filing and ~~in~~ sometimes  
~~to~~ a trial. But we will  
respond and the facts will  
~~be~~ become known.

It is also true -- and you all know this -- that the realities 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 everything we say on critical issues of risk, so-called "addiction", and even the phrase "safer cigarette" is subject to scrutiny and distortion. 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 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 temporary 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.~~

~~Let me be~~  
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 ~~prevail in the~~ ultimately prevail in the Court of public opinion.

I believe passionately that we are right, and 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 <sup>for millions of people,</sup> smoking is part of <sup>an</sup> adult <sup>(life style)</sup> 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 <sup>are unaware of</sup> whatever one wants to say about tobacco and health -- it is absurd to say that adult smokers ~~don't know about~~ 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. Americans know that too. 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 they perhaps don't know -- which is the frustrating part for you and me -- is that we are an ethical company. We may be in a controversial industry, 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, absolutely critical part of our corporate culture, -- particularly because we ~~are in such a controversial industry.~~

It is true that along the way, some of our people have said or written uninformed things or made inappropriate recommendations. And that will provide our opponents with fodder for their disinformation campaigns. But these are the rare exceptions in our history -- which we will be able to show in court.

I remain confident that we will prevail. When we get to the forums where the facts can be put on the table and our history and our present practice can be explained for what they are, we will win. And that will also mean ultimate victory for us in the court of public opinion.

I am absolutely <sup>convinced</sup> ~~confident~~ that the fundamental strengths of our legal ~~and~~ position remains intact, and that once we are able to address recent allegations in the objective setting of a courtroom, we will be vindicated.

Let me conclude by saying

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.