

Shareholder Resolutions
Responses

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The Board recommends a vote AGAINST the proposal.

Your Company consistently conducts its business throughout the world in accordance with the underlying principle that "Kids Should Not Smoke." Time and time again, studies conducted by independent researchers around the world conclude that advertising plays no role in the decision to begin smoking and that peer pressure and family members who smoke are the two most important influencers of that decision.

In enacting the law, which requires warnings on cigarette packages, but does not require them on utilitarian items provided to consumers for their own use, the U.S. Congress made a judgment that warnings should appear on cigarette packaging and advertising, but not on other items. This decision, in part, reflected two truths that have not changed:

- First, there was and still is today a near universal awareness among children and adults about the health risks that have been associated with smoking. This awareness of, as well as belief in, the risks of smoking consistently has been found by surveys conducted by independent researchers. As the Surgeon General has stated, "By the time they reach seventh grade, the vast majority of children believe smoking is dangerous to one's health." Given the fact that virtually everyone knows of and believes that smoking is dangerous, additional displays of warnings on utilitarian items serve no useful purpose.

- Second, experts advise that, particularly in the case of warnings relating to the health risks of smoking which the public already is aware of and accepts as true, there is a need to avoid diminishing their seriousness by displaying them in absurd situations, such as on utilitarian items. That is why, in connection with smokeless tobacco products, the Federal Trade Commission concluded that, "Since requiring the display of warnings on utilitarian items may be counterproductive to the ... goal of providing meaningful information concerning ... health risks, the benefits of requiring warnings on these items is at best de minimis."

Outside the United States, the Company's subsidiaries, of course, obey all laws and regulations which are enacted by the competent local authorities, reflecting the value judgments of the country. In addition, the Company's offshore subsidiaries also comply with industry marketing codes which exist in a number of markets in which they compete. These codes seek to ensure that cigarettes are advertised or promoted only to adults.

In each of the international markets, the Company competes with other U.S.-based companies, other international cigarette companies and local companies which often include an entity owned or controlled by the state. Even if your Company were to place warnings on utilitarian items, it is unlikely these competitors would do so and, if they did, it is unlikely they do things in the same way. The likely result is that the unilateral placement of warnings on utilitarian items in international markets would injure the Company's competitive position.