

- Denial is not reasonable.
- What's your plan to deal with various external issues.



THE CITY OF NEW YORK

- We, the Trustees / fiduciaries are feeling the heat

July 13, 1994

JUL 1994
RECEIVED
R.W. MURRAY

Mr. R. William Murray
Chairman
Philip Morris Companies Inc.
120 Park Avenue
New York, NY 10017

Dear Mr. Murray:

We are Trustees of the New York City Employees' Retirement System. The System owns 3,140,376.00 shares of Philip Morris Companies Inc. common stock. These assets are invested to provide retirement benefits for current and retired City employees who are members of the System.

Many investors are seriously concerned about both the social and economic implications of their investments in companies that manufacture cigarettes and other tobacco products. Some, such as the City University of New York, Harvard University and Johns Hopkins endowment funds, have already sold their investments in "tobacco stocks". Municipalities, including Pittsburgh, have approved divestment, and divestment bills have been introduced in numerous state and municipal legislatures. Other investors have begun proselytizing diversified manufacturers of tobacco products to split into tobacco and non-tobacco corporations in an attempt to unlock shareholder value and shield non-tobacco assets from liability.

As fiduciaries of the New York City Employees' Retirement System, we too are concerned. A major reason for this concern is that Philip Morris Companies Inc., and, indeed, the U.S. tobacco industry, seem to have reached a conclusion that stubborn denial is the only way to react to the thousands of scientific studies that link tobacco to disease and death. This perpetual denial, in effect since the first U.S. Surgeon General's report some 30 years ago, is, in our opinion, short-sighted and dangerous. It demonstrates no concern for the long-term viability of Philip Morris Companies Inc., nor does it provide for a fallback position if denial proves untenable either as a legal defense against liability or as a strategic defense against increased regulation, increased taxation, and/or a change in consumer behavior.

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Furthermore, public policy regarding tobacco has shifted such that it is becoming steadily more difficult for smokers to smoke and tobacco sellers to sell -- and judging from recent reports, it is only going to get more difficult. The Occupational Safety and Health Administration is contemplating a ban on smoking in the workplace that would apply to more than six million businesses. The Environmental Protection Agency may go further and prohibit smoking in all public places including bars and restaurants. In light of Congressional testimony suggesting that cigarette companies manipulate the nicotine content of cigarettes, the Food and Drug Administration is looking at whether and how to regulate tobacco as a drug; once such an FDA regulation is enacted, the EPA estimates that one million smokers in the U.S. will quit. Mississippi has sued tobacco manufacturers to recover the state's health care costs, and Florida enacted legislation that allows the state to pursue similar action. Local laws restricting smoking are in effect in major cities across the country and even stricter local laws are under consideration by a number of municipalities including New York City.

We would, therefore, like to know if Philip Morris Companies Inc. has a strategic plan in place to minimize, offset, or contain the potential risks. While domestic legal liabilities are certainly high on the list of those risks, others include pending tax increases, ingredient disclosure regulations, and the potential determination that cigarettes and other tobacco products are drug delivery systems that can and should be more closely regulated.

Accordingly, we would appreciate a response detailing your strategic plan. Among the issues we would like discussed:

- 1) Has Philip Morris Companies Inc. analyzed the potential costs of tobacco-related product liability, including wrongful death, disease, environmental tobacco smoke, and the alleged manipulation of nicotine levels? If yes, what is Philip Morris Companies Incorporation's strategy for dealing with that potential liability and what are the potential write-downs? If not, why not?
- 2) Does Philip Morris Companies Inc. plan to phase out of or decrease its involvement in the tobacco industry?
- 3) Is Philip Morris Companies Inc. in any way considering a "split" into more than one company, to isolate the tobacco-related assets and liabilities from the non-tobacco businesses?
- 4) Does Philip Morris Companies Inc. plan any change in litigation strategy as it relates to tobacco?

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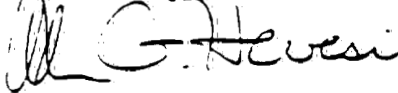
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5) Is Philip Morris Companies Inc. considering any product reformulations, introductions or withdrawals motivated by tobacco liability issues?

6) Does Philip Morris Companies Inc. add nicotine to the tobacco it uses, use tobacco to which nicotine was added by suppliers, or control nicotine levels in any other manner?

We look forward to your answers to these questions, as well as your general discussion of the tobacco-related issues facing Philip Morris Companies Inc. and your plans for dealing with those issues.

Sincerely,



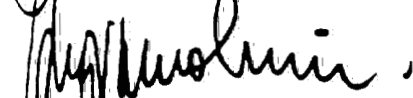
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Comptroller



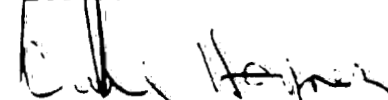
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