

**Remarks by Steven F. Goldstone at the Investor Responsibility Research Center
Conference**

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Thank you for inviting me here today. RJR Nabisco has some 330 million common shares outstanding; close to 80 percent of that float is held by institutional investors. In fact, when I look down the list of participants at this conference, I see that many of our largest shareholders are in this room today.

Since the settlement agreement was announced in June, I've heard from many of you who have expressed concerns about the proposed resolution and what might happen to our domestic tobacco company.

As an aside, I noticed that the prior panel was on corporate governance practices. Our board has its annual dinner soon, where I will talk to them about my performance and then the board will spend the rest of the meeting in executive session talking about my performance and the company's. One thing I will be talking about is the reason why it's important to talk with our opponents and settle some of the critical issues facing the domestic tobacco company.

That's been a major preoccupation for me. And this morning I'd like to take you back a couple of years and share my perspective on why resolving this matter is in my company's interest and society's.

We've had some balance sheet problems since the LBO but in RJR Nabisco we still have the sixth-largest consumer products company in the world, with enormous potential for growth.

At the same time, our tobacco businesses generate 65 percent of our earnings; and 50 percent of our earnings are derived from the U.S. tobacco business headquartered in Winston-Salem, which has had to face some very difficult issues.

Litigation. State and local smoking restrictions. Domestic tobacco also is facing an increasingly skeptical and often antagonistic press. White House and FDA hostility. They're all symptoms of a society becoming convinced that:

1. Tobacco is a dangerous product;
2. That the product was costing society in terms of money and public health;
3. And that – unfairly or not – RJR and its competitors had assumed the role of a kind of rogue industry working outside of an acceptable regulatory framework, given the risks of its products.

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So given these public perceptions, this environment hasn't been one in which a chief executive could make decisions relating to the use and investment of capital and growing businesses.

On the other side of the coin, however, I believed that the domestic tobacco company was on firm ground in terms of its legal positions – and I still do. Jurors continue to support the industry's position that smoking comes down to the issue of personal choice and freedom. Also, most federal courts seemed to side with the industry in its belief that the private class actions are not the right forum.

When you take a step back and look at the situation from a constructive point of view without all of the sound and the fury, there seems to be considerable room for consensus:

Everyone is in agreement on underage smoking – the public, the government, the tobacco industry – that we can and should do more to curtail youth access to cigarettes;

The public wants assurance that the tobacco industry is operating responsibly – and the industry clearly is not opposed to reasonable regulation;

And the mainstream of the body politic believes that tobacco should continue to be legal and available to adults who choose to purchase it.

So, when you stand back and look at the fundamental issue, you see common ground. It's made sense – in fact, it's seemed inevitable – that the industry and its critics sit down together. And that's what we've done.

I have no doubt it is the right thing to do for the country and for our shareholders and company. But make no mistake about it; there are plusses and minuses.

There are two serious minuses in all of this for our company:

First, there is no question that this agreement will hurt my company's earnings.

The very insignificant consumer price increases contemplated by the June 20th accord are going to lead to sharp decreases in volume and will cause consumers to trade down to cheaper brands.

And second – apart from earnings – the tobacco companies are giving up a very basic freedom: We are a consumer products company, and we are giving up the freedom to communicate with those adults consumers through a variety of creative channels.

That is especially troubling at Reynolds Tobacco, where major brands, such as Winston and Salem, have been declining for 20 years and its major competitor has benefited as a result.

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In short, we're asking Reynolds – a company with only a 25% share of the domestic market – to give up many of the tools needed to turn around their business performance. And that comes just as RJR is beginning to do a better job marketing its brands than it has in many years.

That concession has ruffled more than a few feathers among our employees at domestic tobacco and some shareholders who think we have made too many concessions. But it certainly leaves no doubt that we are serious about resolving these issues.

So much for the minuses. They are very serious but I think the positive aspects of an agreement outweigh them over the long term. And our job as managers is to chart a course for RJR Nabisco over the long term.

This agreement is worth doing because it gives domestic tobacco a rightful place in commerce. And that is a business that sorely needs such a place. That's in the interests of shareholders like you, who obviously have been concerned about the controversy.

It is in the interest of employees who are entitled to know that they have a future. And it is in the interest of adult customers, who want to make their choices, and not be vilified or mocked at every turn. In short, it's the right thing for us to do.

First, it is right from a valuation standpoint. I do not have to tell you that the continued controversy surrounding the domestic tobacco business has caused investors to value that business at zero when you add up the components of our stock. In my company's case, that is zero value on a business that earns around \$1.4 billion annually.

Legislation based upon this agreement would end much of the litigation we face and stabilize the environment for the business over the long term.

We expect domestic tobacco earnings to fall significantly, but investors should be able to assign a multiple to those earnings, and that multiple will certainly be greater than zero. So our stock price performance should improve.

Second, the agreement is consistent with our corporate responsibility. Every company in America has an obligation to operate responsibly. It is the price we pay for the privilege of doing business in a free society.

The public has made it clear that it expects the tobacco industry to meet an even higher standard, given the known health risks of its products.

Take the issue of science, for example. Many industry scientists honestly believe – in good faith – that there are open questions on some of the health risks related to tobacco, such as environmental tobacco smoke or some other issues.

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There's a temptation to debate issues where you feel you're being treated unfairly or, frankly, where your motives are being questioned.

But if you want to resolve controversy and secure your rightful place in commerce, then it makes sense to work cooperatively with your critics and with the public health community and forego the debate on matters like science as well as marketing restrictions.

In signing on to the June 20th agreement, the industry has agreed to do that.

Unfortunately, I am not convinced we are going to be successful. I am hopeful, but I am also a realist. And now that the agreement we made has gone to Congress, I cannot predict what changes will be made of if we will ultimately be able to support them.

Congressional consideration of this agreement will prompt considerable public debate.

I am all for that because it may force society to answer a fundamental question that it has confronted before but still not answered: Do we want to enact a new prohibition -- this time on tobacco products? Do we want to regulate the industry out of business? Do we want to tax it out of business? Do we want to litigate it out of business?

Do we want to nationalize the industry and have the government seize our plants and manage the retailers who sell the product?

If we do, then we should get on with it. If we don't want prohibition, then we must come to terms with a reasonable framework in which the tobacco industry can operate responsibly but competitively.

We have to agree that it is natural and right for a company like Reynolds to compete for the three out of four adult smokers who today do not purchase its brands. That means companies must be able to communicate in some fashion with adult consumers.

They also must be able to develop responsive products, compete for retail shelf space and engage in all of the other types of activities on a restricted basis that legitimate businesses do in a free enterprise system to win business.

It means competing for legitimate business within a government-sanctioned regulatory framework.

It means not being subject to cries of outrage at every turn. That is a tough sell to the tobacco control movement, but it is part of the deal.

The June 20th agreement is a compromise, which is what reasonable parties come to once they agree that fighting until the last warrior is left standing on the battlefield does not do a lot for the public interest.

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Unfortunately not all of the rhetoric has been reasonable. More than one commentator quoted in the media has said that any agreement supported by the tobacco industry must be no good!

For instance, an editorial in one of the local papers here said: "Almost by definition, any deal the tobacco companies find congenial is against the public interest."

Now most of the public health community has the best of intentions. We do not always agree but we have proven in recent months that we can all make a few sacrifices in order to advance the public good.

But there always are going to be a few who just are not satisfied unless we are put out of business. That is not realistic. That is not going to happen.

We have conceded a lot more than anyone would have predicted a year ago – myself included. But as a private enterprise, we have our limits. We are going to oppose prohibition whether it is in the form of outright sales bans, or over-the-top taxation that makes it virtually impossible for adults to afford the product.

It will result in dramatic gains in public health policy. It will reassure the public that the industry's sales practices are responsible. It will reduce the ability of kids to buy tobacco.

And finally, it will secure the industry's place in mainstream commerce, where it can recruit employees, compete for legitimate business, and compete for capital by earning a fair return for its shareholders.

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