

PHILIP MORRIS

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March 27, 2003

Honorable Christine O. Gregoire
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VIA FACSIMILE: 360/664-0228

Dear General Gregoire:

As you are aware, the trial court in Madison County, Illinois, in an action entitled *Price vs. Philip Morris Incorporated*, recently entered a judgment after a bench trial against Philip Morris USA in the amount of \$10.1 billion, of which \$7.1 billion is compensatory damages (which includes an award to plaintiffs' counsel of \$1.775 billion) and \$3 billion is punitive damages payable to the State of Illinois. In addition, Judge Byron ordered that Philip Morris USA post an appeal bond in the amount of \$12 billion.

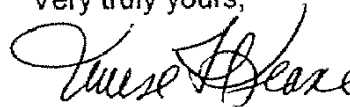
On April 15, 2003, payment is due by Philip Morris USA to the Settling States pursuant to Section IX (c) of the Master Settlement Agreement in the aggregate amount of approximately \$2.5 billion. Philip Morris USA will, as it always has in the past, endeavor to meet all of its payment obligations under the MSA, including its obligation to make the \$2.5 billion payment due on April 15, 2003. However, because of the extraordinary amount of the bond presently required by the Madison County trial judge, it is presently uncertain whether Philip Morris USA will be able to make the Section IX (c) payment on April 15.

Philip Morris USA is not financially able to post the enormous bond that the Madison County court has demanded. In this regard, we are prepared to share with you, subject to appropriate confidentiality, non-public Philip Morris USA financial information demonstrating that Philip Morris USA is unable to post a bond in such an amount. Unfortunately, efforts to date have been unavailing in

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persuading the Illinois legislature to pass reasonable bond cap legislation. We are available at any time to discuss with you all measures that are being taken to avoid a failure of payment on April 15.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Denise F. Keane".

Denise F. Keane