

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**  
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### FILER

#### RJR NABISCO HOLDINGS CORP

CIK: **847903** | IRS No.: **133490602** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-K405** | Act: **34** | File No.: **001-10215** | Film No.: **99573924**  
SIC: **2052** Cookies & crackers

Mailing Address	Business Address
1301 AVE OF THE AMERICAS C/O RJR NABISCO HOLDINGS CORP NEW YORK NY 10019-6013	1301 AVE OF THE AMERICAS NEW YORK NY 10019-6013 2122585600

#### RJR NABISCO INC

CIK: **83612** | IRS No.: **560950247** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-K405** | Act: **34** | File No.: **001-06388** | Film No.: **99573925**  
SIC: **2111** Cigarettes

Mailing Address	Business Address
1301 AVENUE OF THE AMERICAS NEW YORK NY 10019	1301 AVE OF THE AMERICAS NEW YORK NY 10019 2122585600

SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549

FORM 10-K  
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF  
 THE SECURITIES EXCHANGE ACT OF 1934  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

RJR NABISCO HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

<TABLE>			
<S>	<C>	<C>	
DELAWARE		1-10215	13-3490602
(State or other jurisdiction of incorporation or organization)		(Commission file number)	(I.R.S. Employer Identification No.)
</TABLE>			

RJR NABISCO, INC.

(Exact name of registrant as specified in its charter)

<TABLE>			
<S>	<C>	<C>	
DELAWARE		1-6388	56-0950247
(State or other jurisdiction of incorporation or organization)		(Commission file number)	(I.R.S. Employer Identification No.)
</TABLE>			

1301 AVENUE OF THE AMERICAS  
 NEW YORK, NEW YORK 10019  
 (212) 258-5600

(Address, including zip code, and telephone number, including area code,  
 of the principal executive offices of RJR Nabisco Holdings Corp. and RJR  
 Nabisco, Inc.)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

<TABLE>			
<CAPTION>			
TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED	TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
<S>	<C>	<C>	<C>
RJR NABISCO HOLDINGS CORP. Common Stock, par value \$.01 per share	New York	SUBSIDIARIES OF THE REGISTRANTS RJR NABISCO HOLDINGS CAPITAL TRUST I 10% Trust Originated Preferred Securities	New York
RJR NABISCO, INC. 8.30% Senior Notes due April 15, 1999	New York	RJR NABISCO HOLDINGS CAPITAL TRUST II 9.5% Trust Originated Preferred Securities	New York
8% Notes due January 15, 2000	New York		
8% Notes due July 15, 2001	New York		
8 5/8% Notes due December 1, 2002	New York		
7 5/8% Notes due September 15, 2003	New York		
8 1/4% Notes due July 1, 2004	New York		
8.75% Senior Notes due April 15, 2004	New York		
8 3/4% Notes due August 15, 2005	New York		
8 1/2% Notes due July 1, 2007	New York		
8 3/4% Notes due July 15, 2007	New York		
9 1/4% Debentures due August 15, 2013	New York		
</TABLE>			

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrants' knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of voting stock held by non-affiliates of RJR Nabisco Holdings Corp. on February 28, 1999 was approximately \$8.9 billion. Certain directors of RJR Nabisco Holdings Corp. are considered affiliates for purposes of this calculation but should not necessarily be deemed affiliates for any other purpose. None of the voting stock of RJR Nabisco, Inc. is held by any non-affiliate.

Indicate the number of shares outstanding of each of the Registrants' classes of common stock, as of the latest practicable date: February 28, 1999:  
RJR NABISCO HOLDINGS CORP.: 325,018,348 SHARES OF COMMON STOCK, PAR VALUE, \$.01 PER SHARE  
RJR NABISCO, INC.: 3,021.86513 SHARES OF COMMON STOCK, PAR VALUE \$1,000 PER SHARE

RJR Nabisco, Inc. meets the conditions set forth in General Instruction J(1)(a) and (b) of Form 10-K and is therefore filing this form with the reduced disclosure format.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement of RJR Nabisco Holdings Corp. to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934 on or prior to March 30, 1999 are incorporated by reference into Part III of this Report.

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PART I

ITEM 1. BUSINESS

(A) GENERAL DEVELOPMENT OF BUSINESS

The operating subsidiaries of RJR Nabisco Holdings Corp. ("RJRN Holdings") and its wholly-owned subsidiary, RJR Nabisco, Inc. ("RJRN") (collectively the "Registrants"), comprise one of the largest tobacco and food companies in the world. In the United States, the tobacco business is conducted by R. J. Reynolds Tobacco Company ("RJRT"), a wholly-owned subsidiary of RJRN and the second largest manufacturer of cigarettes, and the packaged food business is conducted under Nabisco Holdings Corp. ("Nabisco Holdings") by its wholly-owned

subsidiary, Nabisco, Inc. ("Nabisco"), the largest manufacturer and marketer of cookies and crackers. RJRN owns 100% of the outstanding Class B Common Stock of Nabisco Holdings, which currently represents approximately 80.5% of the economic interest in Nabisco Holdings and approximately 97.7% of the total voting power of Nabisco Holdings' outstanding common stock.

Outside the United States, tobacco operations are conducted by R.J. Reynolds International ("Reynolds International"), and food operations are conducted by Nabisco International, Inc. ("Nabisco International") and Nabisco Ltd (formerly Nabisco Brands Ltd). RJRT's and Reynolds International's tobacco products are sold around the world under a variety of brand names. Nabisco's food products are sold in the United States, Canada, Latin America, certain European countries and certain other international markets. Except for WalMart, which represents 11.5% of consolidated 1998 revenues, no customer of RJRN's subsidiaries in the aggregate accounted for 10% or more of RJRN's consolidated 1998 revenues. For financial information with respect to RJRN's operating segments, and operations in various geographic locations, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and note 15 to the consolidated financial statements of RJRN Holdings and RJRN as of December 31, 1998 and 1997 and for each of the years in the three-year period ended December 31, 1998 (the "Consolidated Financial Statements").

RJRN was incorporated as a holding company in 1970 holding the stock of RJRT and other companies that have since been sold. It acquired Nabisco Holdings Corp. (formerly Nabisco Brands, Inc.) in 1985. RJRN Holdings was organized as a Delaware corporation in 1988 to effect the acquisition of RJRN, which was completed on April 28, 1989. As a result of this acquisition, RJRN became an indirect, wholly-owned subsidiary of RJRN Holdings. After a series of holding company mergers completed on December 17, 1992, RJRN became a direct, wholly-owned subsidiary of RJRN Holdings. The business of RJRN Holdings is conducted through RJRN.

In recent years subsidiaries of RJRN Holdings and RJRN have completed a number of acquisitions and have divested certain businesses. These acquisitions included Butterkist Ltd, a biscuit producer in Jamaica in 1998 and the stock of Cornnuts, Inc., a manufacturer of crispy corn kernel snacks in 1997. Businesses sold or exited include the College Inn brand of canned broths, the U.S. and Canadian tablespreads and U.S. egg substitute businesses and the Del Monte brand canned vegetable business in Venezuela in 1998 and certain Nabisco domestic regional brands in 1997.

On March 9, 1999, RJRN and RJRT entered into a definitive agreement to sell the international tobacco business of Reynolds International for approximately \$8 billion, including the assumption of approximately \$200 million of net debt, to Japan Tobacco Inc. ("Japan Tobacco"). Under the terms of the sale agreement, Japan Tobacco will acquire substantially all of the business, including intellectual property rights, of Reynolds International, including the international rights to the CAMEL, WINSTON and SALEM brands. Proceeds from the sale will be used to reduce debt and for general corporate purposes which is expected to substantially strengthen the financial position of RJRT. The sale is subject to certain regulatory conditions and receipt of certain consents from RJRN's bondholders.

Also on March 9, 1999, RJRN Holdings announced that its Board of Directors had approved a plan to separate the domestic tobacco business conducted by RJRT from the food business conducted by operating

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subsidiaries of Nabisco Holdings. Under the plan, the separation will be accomplished by a tax-free spin-off to RJRN Holdings shareholders of shares of the tobacco business (the "Spin-off").

Upon completion of the Spin-off, RJRN Holdings will be renamed Nabisco Group Holdings and will continue to exist as a holding company, owning 80.5% of Nabisco Holdings. Nabisco Group Holdings and Nabisco Holdings will each continue to trade as separate companies on the New York Stock Exchange and shares of tobacco company stock also will trade separately. The separation is subject to final Board approval and bondholder consent and is currently expected to occur following completion of the sale of the international tobacco business.

(B) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS During 1997 and 1996, industry segments were reported as tobacco and food. In the fourth quarter of 1998 RJRN Holdings and RJRN implemented SFAS No. 131 and restated segment disclosures for prior years to conform with the current year presentation which includes five operating segments: R.J. Reynolds Tobacco, Reynolds International, Nabisco Biscuit, the U.S. Foods Group and the International Food Group which are segregated by both product and geographic location.

For information relating to operating segments for the years ended December 31, 1998, 1997 and 1996, see note 15 to the Consolidated Financial Statements.

(C) NARRATIVE DESCRIPTION OF BUSINESS

The tobacco line of business is conducted by RJRT and Reynolds International, which manufacture, distribute and sell cigarettes. Cigarettes are manufactured in the United States by RJRT and in over 40 foreign countries and territories by Reynolds International and subsidiaries, joint ventures or licensees of RJRT and are sold throughout the United States and in more than 170 markets around the world. In 1998, approximately 64% of total tobacco segment net sales (after deducting excise taxes) and approximately 78% of total tobacco segment operating company contribution on an ongoing basis were attributable to domestic tobacco operations. Pursuant to an agreement with Japan Tobacco, described above, it is expected that the sale of Reynolds International will be consummated during the second quarter of 1999.

#### DOMESTIC TOBACCO OPERATIONS

The domestic tobacco business has been conducted by RJRT, the second largest cigarette manufacturer in the United States and will continue under RJRT as a separate, publicly traded company after the Spin-off. RJRT's largest selling cigarette brands in the United States include DORAL, WINSTON, CAMEL, SALEM, and VANTAGE. RJRT's other cigarette brands, including MONARCH, MORE, NOW, CENTURY, STERLING and MAGNA, are marketed to meet a variety of smoker preferences. All RJRT brands are marketed in a variety of styles. Based on data collected for RJRT by an independent market research firm, RJRT had an overall share of retail consumer cigarette sales during 1998 of 25.17%, a decrease of approximately one-quarter of a share point from 1997. During 1998, RJRT and the largest domestic cigarette manufacturer, Philip Morris Incorporated, together sold, on a shipment basis, approximately 73.4% of all cigarettes sold in the United States.

In May 1996, RJRT began test marketing in Chattanooga, Tennessee, ECLIPSE, a cigarette that primarily heats rather than burns tobacco and thereby substantially reduces second-hand smoke. Test markets were expanded in 1997 to include Lincoln, Nebraska and Atlanta, Georgia. ECLIPSE is also available to adult smokers by mail in many states. RJRT continues to assess the test results.

A primary long-term objective of RJRT is to increase earnings and cash flow through selective marketing investments in its key brands and continual improvements in its cost structure and operating efficiency. Marketing programs for full-price brands are designed to build brand awareness and add value to the brands by building brand loyalty among current adult smokers and attracting adult smokers of competing brands. In 1998, RJRT continued to make progress in strengthening its brands. The WINSTON

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styles supported by the "No Bull" positioning gained market share for the first time in 25 years, despite a fiercely competitive marketplace. CAMEL continued to be a strong competitor, backed by its new "Mighty Tasty" advertising campaign and related promotional events. After a year of successful test-marketing of a new SALEM positioning, RJRT introduced the "It's Not What You Expect" campaign nationally in January 1999, with special emphasis on markets where the full-price menthol segment is strong. RJRT believes it is essential to compete in all segments of the cigarette market, and accordingly it offers a range of lower-priced brands including DORAL, MONARCH and BEST VALUE, intended to appeal to more cost-conscious adult smokers. DORAL maintained its positive performance trend, achieving significant gains and growing to an almost 24 percent share of the savings segment. For a discussion on competition in the tobacco business, see "Business--Tobacco--Competition" in this Item 1.

RJRT's domestic manufacturing facilities, consisting principally of factories and leaf storage facilities, are located in or near Winston-Salem, North Carolina and are owned by RJRT. Cigarette production is conducted at the Tobacoville cigarette manufacturing plant (approximately two million square feet) and the Whitaker Park cigarette manufacturing complex (approximately one and one-half million square feet). RJRT believes that its cigarette manufacturing facilities are among the most technologically advanced in the United States. RJRT also has significant research and development facilities in Winston-Salem, North Carolina.

RJRT's cigarettes are sold in the United States primarily to chain stores, other large retail outlets and through distributors to other retail and wholesale outlets. Except for McLane Company, Inc., which represented approximately 16.7% of RJRT's sales, no RJRT customers accounted for more than 10% of RJRT's sales for 1998. WalMart, which is an affiliate of McLane, represents an additional approximately 5% of RJRT's sales. RJRT distributes its cigarettes primarily to public warehouses located throughout the United States that serve as local distribution centers for RJRT's customers.

RJRT's products are sold to adult smokers primarily through retail outlets. RJRT uses print media, billboards, point-of-sale displays and other methods of advertising. As a part of a Master Settlement Agreement with state attorneys general entered into in 1998, billboard advertising is being discontinued and certain other forms of brand name promotion are being severely limited. Since 1971, television and radio advertising of cigarettes has been prohibited in the

#### INTERNATIONAL TOBACCO OPERATIONS

Reynolds International, which is being sold to Japan Tobacco subject to the sale agreement described above, operates in over 170 markets around the world. Reynolds International believes that the American-blend segment, in which Reynolds International primarily competes, is growing significantly faster than overall foreign cigarette sales. Although Reynolds International is the second largest of two international cigarette producers that have significant positions in the American-blend segment, its share of sales in this segment is approximately one-fourth of the share of Philip Morris International Inc., the largest American-blend producer.

Reynolds International has strong brand presence in Western Europe and is well established in its other key markets in the Middle East/Africa, Asia, the CIS and Baltics region and Canada. Reynolds International is aggressively pursuing development opportunities throughout the world.

Reynolds International markets nearly 100 brands of which WINSTON, CAMEL and SALEM, all American-blend cigarettes, are its international leaders. WINSTON, Reynolds International's largest selling international brand, has a significant presence in Puerto Rico and has particular strength in the Western Europe and Middle East/Africa regions. CAMEL is sold in approximately 140 markets worldwide and is Reynolds International's second largest selling international brand. SALEM is one of the world's largest selling menthol cigarettes and is particularly strong in Far East markets. Reynolds International also markets a number of local brands in various foreign markets. None of Reynolds International's customers accounted for more than 10% of its sales in 1998.

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Approximately 17% of Reynolds International's 1998 volume was U.S.-made product, with the remainder manufactured outside the U.S. Reynolds International brands are manufactured in owned or joint-venture facilities in 22 locations outside the United States, and through licensing agreements in about 16 other countries. Reynolds International owned or joint-venture manufacturing locations include Andorra, Canada, China, the Czech Republic, Finland, Germany, Hong Kong, Indonesia, Kazakhstan, Malaysia, Mexico, Puerto Rico, Poland, Portugal, Romania, Russia, Spain, Switzerland, Tanzania, Tunisia, Turkey, Ukraine and Vietnam.

#### RAW MATERIALS

In its domestic production of cigarettes, RJRT primarily uses domestic burley and flue cured leaf tobaccos purchased at domestic auction. RJRT also purchases oriental tobaccos, grown primarily in Turkey and Greece, and certain other non-domestic tobaccos. Reynolds International uses a variety of tobacco leaf from both United States and international sources. RJRT and Reynolds International believe there is a sufficient supply of tobacco in the worldwide tobacco market to satisfy their current production requirements.

Tobacco leaf is an agricultural commodity subject in the United States to government production controls and price supports that can affect market prices substantially. The tobacco leaf price support program is subject to Congressional review and may be changed at any time. In December 1994, Congress enacted the Uruguay Round Agreements Act to replace a domestic content requirement with a tariff rate quota system that keys tariffs to import volumes. The tariff rate quotas have been established by the United States with overseas tobacco producers and became effective on September 13, 1995.

#### COMPETITION

Generally, the markets in which RJRT and Reynolds International conduct their businesses are highly competitive, with a number of large participants. Competition is conducted on the basis of brand and packaging recognition, brand loyalty, retail display and promotion, quality and price. For most of RJRT's and Reynolds International's brands, substantial advertising and promotional expenditures are required to maintain or improve a brand's market position or to introduce a new brand. Anti-smoking groups have undertaken activities designed to inhibit cigarette sales, the form and content of cigarette advertising and the testing and introduction of new cigarette products.

Because television and radio advertising for cigarettes is prohibited in the United States and brand loyalty has tended to be higher in the cigarette industry than in other consumer product industries, established cigarette brands in the United States have a competitive advantage. RJRT has repositioned or introduced brands designed to appeal to adult smokers of the largest selling cigarette brand in the United States, but there can be no assurance that such efforts will be successful.

In addition, increased selling prices and taxes on cigarettes have resulted in additional price sensitivity of cigarettes at the consumer level and in a proliferation of discounted brands in the savings segment of the market. Generally, sales of cigarettes in the savings segment are not as profitable as

those in other segments.

#### LEGISLATION AND OTHER MATTERS AFFECTING THE CIGARETTE INDUSTRY

The tobacco business is subject to a wide range of laws and regulations regarding the advertising, sale, taxation and use of tobacco products imposed by local, state, federal and foreign governments. In addition, in 1999 the U.S. Congress is likely to consider legislation regarding increases in the federal excise tax, Medicaid reimbursement to the federal government as a result of the Master Settlement Agreement with the state attorneys general, changes to the Medicare statutes regarding possible litigation against the industry by the Department of Justice and regulation of tobacco products by the Food and Drug Administration. President Clinton has indicated support for a 55 cent per pack increase in the federal excise tax and plans for the filing of a Medicare cost recovery lawsuit. For a discussion of the regulatory

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and legislative environment applicable to the cigarette business see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Tobacco--Governmental Activity" and note 10 to the Consolidated Financial Statements.

#### LITIGATION AFFECTING THE CIGARETTE INDUSTRY

OVERVIEW. Various legal actions, proceedings and claims are pending or may be instituted against R.J. Reynolds Tobacco Company ("RJRT") or its affiliates (including, with increasing frequency, RJRN and RJRN Holdings) or indemnitees, including those claiming that lung cancer and other diseases as well as addiction have resulted from the use of or exposure to RJRT's tobacco products. During 1998, 334 new actions were served against RJRT and/or its affiliates or indemnitees and 183 such actions were dismissed or otherwise resolved in favor of RJRT and/or its affiliates or indemnitees without trial. There have been noteworthy increases in the number of these cases pending. On December 31, 1998, there were 664 active cases pending, as compared with 516 on December 31, 1997, 234 on December 31, 1996 and 134 on December 31, 1995. As of March 15, 1999, 658 active cases were pending against RJRT and/or its affiliates or indemnitees: 653 in the United States; two in Canada; one in each of the Marshall Islands, Nigeria and Puerto Rico.

The U.S. cases are pending in 42 U.S. states and the District of Columbia. The breakdown is as follows: 126 in West Virginia; 122 in Florida; 109 in New York; 53 in California; 29 in Massachusetts; 24 in Louisiana; 17 in Pennsylvania; 16 in Tennessee; 15 in Texas; 14 in the District of Columbia; 12 in Alabama; 11 in New Jersey; nine in each of Illinois and Mississippi; six in each of Iowa and Ohio; five in each of Indiana, Maryland and Minnesota; four in each of Arkansas, Georgia, Missouri, Nevada, Oklahoma, Rhode Island and Virginia; three in each of Arizona and New Mexico; two in each of Colorado, Hawaii, Kansas, Kentucky, Michigan, North Carolina, North Dakota, South Carolina, South Dakota, Utah and Washington; one in each of Nebraska, New Hampshire, Oregon and Wisconsin. Of the 653 active U.S. cases, 136 are pending in federal court, 512 in state court and five in tribal court. Most of these cases were brought by individual plaintiffs, but an increasing number, discussed below, seek recovery on behalf of third parties or large classes of claimants.

THEORIES OF RECOVERY. The plaintiffs in these actions seek recovery on a variety of legal theories, including, among others, strict liability in tort, design defect, negligence, special duty, voluntary undertaking, breach of warranty, failure to warn, fraud, misrepresentation, unfair trade practices, conspiracy, aiding and abetting, unjust enrichment, antitrust, Racketeer Influenced and Corrupt Organization Act ("RICO"), indemnity, medical monitoring and common law public nuisance. Punitive damages, often in amounts ranging into the hundreds of millions or even billions of dollars, are specifically pleaded in a number of cases in addition to compensatory and other damages. Fourteen of the 653 active cases in the United States involve alleged non-smokers claiming injuries purportedly resulting from exposure to environmental tobacco smoke. Fifty-eight cases purport to be class actions on behalf of thousands of individuals. Purported classes include individuals claiming to be addicted to cigarettes, individuals and their estates claiming illness and death from cigarette smoking, persons making claims based on alleged exposure to environmental tobacco smoke, African-American smokers claiming their civil rights have been violated by the sale of menthol cigarettes, purchasers of cigarettes claiming to have been defrauded and seeking to recover their costs, and Blue Cross/Blue Shield subscribers seeking reimbursement for premiums paid. Approximately 111 of the active cases seek, INTER ALIA, recovery of the cost of Medicaid payments or other health-related costs paid for treatment of individuals suffering from diseases or conditions allegedly related to tobacco use. Nine, brought by entities administering asbestos liability, seek contribution for the costs of settlements and judgments.

DEFENSES. The defenses raised by RJRT and/or its affiliates, where applicable, include preemption by the Federal Cigarette Labeling and Advertising Act of some or all such claims arising after 1969; the lack of any defect in the product; assumption of the risk; contributory or comparative fault; lack of

cause; and statutes of limitations or repose; and, when applicable, additional statutory, equitable, constitutional and other defenses. RJRN and RJRN Holdings have asserted additional defenses, including jurisdictional defenses, in many of these cases in which they are named.

**INDUSTRY TRIAL RESULTS.** Juries have found for plaintiffs in five smoking and health cases in which RJRT was not a defendant. In one such case, no damages were awarded and the judgment was affirmed on appeal. The jury awarded plaintiffs \$400,000 in another such case, CIPOLLONE V. LIGGETT GROUP, INC., but the award was overturned on appeal and the case was subsequently dismissed. In the third such case, on August 9, 1996, a Florida jury awarded damages of \$750,000 to an individual plaintiff. That case, CARTER V. BROWN & WILLIAMSON, was overturned on appeal on June 22, 1998. In another Florida case brought by the same attorney, WIDDICK V. BROWN & WILLIAMSON, a state court jury awarded the plaintiff approximately \$1 million in compensatory and punitive damages on June 10, 1998. On January 29, 1999, the Florida Court of Appeals reversed this verdict and ordered a new trial in a different location (Palm Beach County). On February 9-10, 1999, in HENLEY V. PHILIP MORRIS, INC., a San Francisco state court jury awarded an individual smoker \$1.5 million in compensatory damages and \$50 million in punitive damages. Philip Morris has stated that it will file motions with the trial judge requesting that the verdict be set aside and/or reduced. Depending upon the outcome of those motions, Philip Morris may appeal the judgment.

On May 5, 1997, in an individual case filed against RJRT, brought by the same attorney who represented plaintiffs in the CARTER and WIDDICK cases, a Florida state court jury found no RJRT liability (CONNOR V. R. J. REYNOLDS TOBACCO CO.). On October 31, 1997, in still another case (KARBIWNYK V. R.J. REYNOLDS TOBACCO COMPANY) brought by the same attorney, another Florida state court jury found no RJRT liability. On March 19, 1998, an Indiana state court found for RJRT, RJRN Holdings and other defendants in an individual case, DUNN V. RJR NABISCO HOLDINGS CORP., in which plaintiffs sought damages for the alleged harm caused to a non-smoker by environmental tobacco smoke. Finally, on March 18, 1999, the jury in an Ohio federal district court found for the defendants, including RJRT, on all counts in a class-action union trust-fund case, IRONWORKERS LOCAL 17 V. PHILIP MORRIS.

**CERTAIN CLASS-ACTION SUITS.** In May 1996, in an early class action case, CASTANO V. AMERICAN TOBACCO COMPANY, the Fifth Circuit Court of Appeals overturned the certification of a purported nationwide class of persons whose claims related to alleged addiction to tobacco. Since this ruling by the Fifth Circuit, most purported class-action suits have sought certification of statewide rather than nationwide classes.

Putative class-action suits based on claims similar to those asserted in CASTANO have been brought against RJRT and in some cases RJRN in state and, in a few instances, federal courts in Alabama, Arkansas, California, the District of Columbia (D.C. court), Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Michigan, Minnesota, New Mexico, Nevada, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, West Virginia and Wisconsin. A putative class action filed in Tennessee seeks reimbursement of Blue Cross/Blue Shield premiums paid by subscribers throughout the United States. On October 19, 1998, a putative class action was filed in federal court in Philadelphia, Pennsylvania, on behalf of "all living Black Americans who have purchased or consumed menthol tobacco products since 1954 (including minors through their legal representatives)" seeking redress of alleged violations of the plaintiffs' civil rights. A purported class action suit against RJRT in Texas claims that the marketing of "lights" and "ultralight" cigarettes is deceptive. Similar claims have been made in other lawsuits. Other types of class-action suits have also been filed in additional jurisdictions and there are also putative class action suits pending in Canada, Puerto Rico and Nigeria. Most of these suits assert claims on behalf of classes of individuals who claim to be addicted, injured, or at greater risk of injury by the use of tobacco or exposure to environmental tobacco smoke, or are the legal survivors of such persons.

Despite the marked increase of purported class actions brought against tobacco companies, very few purported class actions have been certified, or if certified, have survived on appeal. Class certification was granted, however, by a Maryland state court in RICHARDSON V. PHILIP MORRIS. That decision is being reviewed by the Maryland Court of Appeals. In addition, on November 5, 1998 a Louisiana state appeals court

affirmed the certification of a medical monitoring and/or smoking cessation class of Louisiana residents who were smokers on or before May 24, 1996 (SCOTT V. AMERICAN TOBACCO COMPANY). On February 26, 1999, the Louisiana Supreme Court denied the defendants' petition for writ of certiorari and/or review. Finally, defendants settled another class-action suit, BROIN V. PHILIP MORRIS, in



October, 1997. This settlement was challenged but was approved by the Florida Court of Appeals on March 24, 1999.

Trial is underway in a class-action suit pending in Florida, ENGLE V. R. J. REYNOLDS TOBACCO COMPANY, in which a class consisting of Florida residents or their survivors who claim to have diseases or medical conditions caused by their alleged "addiction" to cigarettes has been certified. The trial is divided into three phases. The initial phase, which includes common issues related to liability and general causation, entitlement to punitive damages and possibly the basis or ratio for assessment of punitive damages, is expected to last several months, but even if potential liability is confirmed in this phase of the trial, no actual liability would be established until the subsequent phases which could last for some years.

HEALTH-CARE COST RECOVERY CASES. In June 1994, the Mississippi attorney general brought an action, MOORE V. AMERICAN TOBACCO COMPANY, against various industry members including RJRT. This case was brought on behalf of the state to recover state funds paid for healthcare and medical and other assistance to state citizens suffering from diseases and conditions allegedly related to tobacco use. By making the State the plaintiff in the case and basing its claims on economic loss rather than personal injury, the State sought to avoid the defenses otherwise available against an individual plaintiff. Following the filing of the MOORE case, most other states, through their attorneys general and/or other state agencies, sued RJRT and other U.S. cigarette manufacturers based on similar theories. The first four of these cases scheduled to come to trial, those of Mississippi, Florida, Texas and Minnesota, were settled by separate agreements between the state and the cigarette manufacturer defendants in each case.

On November 23, 1998, the major U.S. cigarette manufacturers, including RJRT, entered into a Master Settlement Agreement ("MSA") with attorneys general representing the remaining 46 states, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, American Samoa and the Northern Marianas (the "Settling States"). The MSA settles all the health-care cost recovery actions brought by the Settling States and contains releases of certain additional present and future claims.

The MSA calls for the tobacco companies to pay the Settling States an initial payment of \$2.4 billion (allocated among the companies on the basis of relative market capitalization) and four subsequent additional annual initial payments starting in 2000 (allocated among the companies on the basis of relative market share) of up to approximately \$2.47 billion, \$2.5 billion, \$2.6 billion and \$2.7 billion, respectively. It also requires perpetual annual payments, increasing from \$4.5 billion in April 2000 to \$8 billion in 2004 and further to \$9.0 billion in 2018 and thereafter. Ten additional payments of \$861 million are due annually beginning in April 2008.

Except for the first initial payment, all payments made under the MSA are allocated among the participating manufacturers based on their relative market shares. In addition, most payments to be made under the MSA after 1999 are subject to a number of adjustments, most frequently adjustments based on inflation (the greater of 3% or the rise in the consumer price index) and on changes in the volume of cigarettes sold each year. Certain payments are also subject to adjustments to account for payments to previously settling states and for the impact, if any, on the signatory tobacco companies of competitive disadvantages vis-a-vis non-settling manufacturers as a result of the settlement. Furthermore, certain payments are subject to set-off against payments that cigarette companies might be required to make to the federal government that are paid over to the Settling States for uses related to the MSA. Finally, if judicial approval is not obtained in any state, there would be an adjustment deducting for the share of a payment allocable to that state.

The tobacco companies have also agreed to (a) make a one-time payment of \$50 million on March 31, 1999 to establish a fund for enforcement of the MSA and laws relating to tobacco products and (b) fund

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activities of the National Association of Attorneys General relating to the MSA at the cost of \$150,000 per year for ten years.

In addition, the MSA calls for the creation of a national foundation which would establish public education and other programs and conduct or sponsor research to reduce youth smoking and to understand and educate the public about diseases associated with tobacco-product use. The tobacco companies will fund the establishment of the foundation with 10 annual payments of \$25 million commencing March 31, 1999, further payments of \$250 million on March 31, 1999 and \$300 million annually thereafter for four years and additional annual payments of \$300 million beginning in 2004 if, during the year preceding the year when payment is due, participating manufacturers collectively accounted for at least 99.05% of the cigarette market.

The manufacturers also agree to pay the litigation costs, including government attorneys fees, of the attorneys general's offices relating to the

settled cases and, subject to certain quarterly and annual payment caps, the costs and fees of outside counsel to the settling states. Outside counsel fees are to be determined either by arbitration or in accordance with a negotiated fee procedure. Awards determined by arbitration will be paid subject to an aggregate annual cap for all these (and certain other) settled cases in each year of \$500 million. Fees set by the negotiated fee procedure would be subject to an annual cap of \$250 million, and will not exceed a total of \$1.25 billion.

The MSA also contains provisions restricting the marketing of cigarettes. Among these are restrictions or prohibitions on the following: use of cartoon characters; use of brand name sponsorships and brand name non-tobacco products; outdoor and transit brand advertising; payments for product placement; free sampling; and lobbying. The MSA requires the dissolution of the Tobacco Institute, the Council for Tobacco Research and the Center on Indoor Air Research and places restrictions on the establishment of any replacement organizations.

The MSA, when judicially approved, will release RJRT (and certain of its indemnitees), RJRN and RJRN Holdings from: (i) all claims of the Settling States (and their respective political subdivisions and other recipients of state health-care funds) relating to past conduct arising out of the use, sale, distribution, manufacture, development, advertising, marketing or health effects of, the exposure to, or research, statements or warnings about, tobacco products; and (ii) all monetary claims relating to future conduct arising out of the use of, or exposure to, tobacco products which have been manufactured in the ordinary course of business.

RJRT's share of the first payment of \$2.4 billion is \$163.2 million which was charged to expense in the fourth quarter of 1998 and was paid from general corporate funds. The financial effects of the MSA on RJRT, RJRN and RJRN Holdings are difficult to predict, but the MSA may have a significant negative impact on operating results, cash flows and financial condition in the future. The financial effects depend, among other things, on the impact of increased cigarette prices (needed to cover the cost of these payments), proposed marketing restrictions, increased funding of anti-smoking educational programs, the amount and kind of additional requirements that may be imposed on the industry by state and national legislation and regulation, and the effect on RJRT's payment obligations of such variables as inflation, sales volumes, the level of operating profits and RJRT's competitive position in the industry. The effect of the MSA, if any, on existing claims, or the number and type of additional lawsuits filed against RJRT in the future, is also difficult to predict at this time.

The MSA becomes effective on the earlier of June 30, 2000 or the date on which final approval of the settlement has been obtained in courts of 80% of the Settling States (both by number and percentage share of the settlement payments due). As of February 19, 1999, final approval had been obtained in 31 of the necessary 42 Settling States having percentage shares equal to 41.7% of the percentage shares of payments due.

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Payments for all tobacco litigation settlement agreements currently in effect will be approximately \$1.6 billion in 1999 and will be funded through price increases. Payments in future years will approximate \$2.0 billion per year, but these payments will be subject to, among other things, the volume of cigarettes sold by RJRT, RJRT's market share and inflation adjustments.

As part of the MSA, the tobacco companies agreed to work with tobacco growers to address the possible adverse economic impact on growers of the MSA. RJRT, with the other major manufacturers, has agreed in principle to participate in funding a \$5.15 billion trust fund to be administered by the tobacco-growing states. Details of these arrangements are not yet established but it is expected that RJRT's payment obligations will be met over a number of years and will be subject to adjustments for several factors, including inflation, U.S. aggregate cigarette volumes and market share.

UNION CASES. Although the MSA settled some of the most potentially burdensome healthcare cost recovery actions, many other such cases have been brought by other types of plaintiffs. Approximately 73 lawsuits have been brought by union trust funds against cigarette manufacturers and others in the past two years. The funds seek recovery of payments made by them for medical expenses of their participants-- union members and their dependents allegedly injured by cigarettes. The claims in these cases are almost identical, and more than 30 of the cases purport to be class actions on behalf of all union trust funds in a particular state.

The defendants in these actions argue, among other things, the settled law that one who pays an injured person's medical expenses is legally too remote to maintain an action against the person allegedly responsible for the injury. In addition, they argue that the traditional subrogation remedy cannot be supplanted by a direct right of action for the trust fund that strips defendants of the defenses they would ordinarily have against the injured individual.

The majority of courts that have decided motions in these union cases support the tobacco defendants' position on "remoteness" and have dismissed all or most of the claims against the industry on motions to dismiss. There are a few notable exceptions to this trend. In two such cases that are being scheduled together, LABORERS LOCAL 17 V. PHILIP MORRIS and UNITED FEDERATION OF TEACHERS V. PHILIP MORRIS, a New York federal district court, on March 26, 1998, granted defendants' motions to dismiss state and federal antitrust and unjust enrichment claims but denied motions to dismiss claims asserted under RICO and those based on fraud and breach of special duty. This decision was appealed to the Second Circuit Court of Appeals which heard oral argument on February 4, 1999. Another case, STEAMFITTERS LOCAL UNION 420 V. PHILIP MORRIS, has been appealed to the Third Circuit Court of Appeals and was argued a week prior to the Second Circuit hearing. Also surviving motions to dismiss, NORTHWEST LABORERS V. PHILIP MORRIS, filed in federal court in Washington, was certified as a class action and is currently scheduled for trial in September of 1999.

The first union case to survive motions to dismiss and go to trial was IRON WORKERS LOCAL NO. 17 V. PHILIP MORRIS. This case, in which a class of approximately 111 union trust funds was certified by a federal district court in Ohio, went to trial on February 22, 1999 on the counts that survived motions to dismiss-- state and federal RICO and civil conspiracy. The federal RICO claim was dismissed during the trial, and after the conclusion of plaintiffs' case, the court directed a verdict dismissing RJRN and RJRN Holdings from the case. On March 18, 1999, the jury in this case returned a unanimous verdict for the defendants on all surviving counts.

OTHER HEALTH-CARE COST RECOVERY AND AGGREGATED CLAIMS PLAINTIFFS. Similar cases have been filed by Native American tribes, five in tribal courts and one putative class action in San Diego Superior Court. Four groups of health care insurers as well as a private entity that purported to self-insure its employee health care programs have also advanced claims similar to those found in the union cost recovery actions. Two of these "insurer" cases, WILLIAMS & DRAKE V. AMERICAN TOBACCO, and REGENCE BLUESHIELD V. PHILIP MORRIS, were dismissed on "remoteness" grounds by federal district courts in Pennsylvania and Washington respectively. Two foreign countries have also brought health-care cost recovery suits in U.S. courts. Other

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cost recovery suits have been brought by, among others, local governmental jurisdictions, foreign governments, tax payers (on behalf of a governmental jurisdiction), a university and a hospital. Finally, nine actions have been filed against RJRT by asbestos companies and/or asbestos-related trust funds based on the theory that the plaintiffs "overpaid" claims brought against them to the extent that tobacco use, not asbestos exposure, was the cause of the alleged personal injuries for which they paid compensation. There have been, to date, no rulings on motions to dismiss these asbestos actions.

RECENT AND SCHEDULED TRIALS. As of March 19, 1999, there were 13 cases scheduled for trial in 1999 against RJRT alleging injuries relating to tobacco. Two of these cases, in which RJRT is a party, are currently in progress: the ENGLE case in Florida; and NEWCOMB V. R.J. REYNOLDS TOBACCO COMPANY, which is one of four consolidated individual cases being tried in Memphis, Tennessee. Cases against other tobacco company defendants are also scheduled for trial in 1999 and thereafter. Although trial schedules are subject to change and many cases are dismissed before trial, it is likely that there will be an increased number of tobacco cases, some involving claims for possibly billions of dollars, against RJRT and RJRN coming to trial over the next year as compared to prior years when trials in these cases were less frequent.

OTHER DEVELOPMENTS. On May 28, 1997, a suit was filed against RJRT in the U.S. District Court for the Northern District of Georgia, FARR V. R.J. REYNOLDS TOBACCO COMPANY, alleging claims under Title VII and the Equal Pay Act. The suit was brought on behalf of female RJRT employees and applicants for employment in the "southeast sales region," seeking equitable relief, back pay and lost benefits, as well as punitive damages, based on allegations that plaintiffs had been denied employment, desirable job assignments, training, promotion and equal pay. On plaintiffs' motion, all class action allegations in this case were dismissed without prejudice in February 1999.

RJRT is aware of certain grand jury investigations being conducted in New York and Washington, D.C. which relate to the cigarette business. In addition, RJRT received a document subpoena date September 17, 1998, from a federal grand jury convened in the Eastern District of Pennsylvania by the Antitrust Division of the Department of Justice. RJRT understands that the grand jury is investigating possible violations of the antitrust laws related to tobacco leaf buying practices. RJRT is responding to the subpoena.

On December 22, 1998, a now inactive tobacco subsidiary that was part of Reynolds International's business, Northern Brands International, Inc. ("NBI"), entered into a plea agreement with the United States Attorney for the Northern District of New York. NBI was charged with aiding and abetting certain customers who brought merchandise into the United States "by means of false and fraudulent practices. . . ." NBI agreed to pay a \$10 million forfeiture and a \$5.2 million

fine and special assessment. In the plea agreement, the U.S. Attorney agreed not to bring additional criminal charges in the Northern District against NBI or its corporate affiliates (including RJRN Holdings, RJRN, RJRT and Reynolds International) for actions (from 1985 through 1998) that are related to those that gave rise to the agreement. RJR-MacDonald, Reynolds International's operating company in Canada, is cooperating with an investigation now being conducted by the Royal Canadian Mounted Police relating to the same events that gave rise to the NBI investigation. Management cannot predict whether any other authorities in the United States or Canada will seek to take further actions with regard to these events.

For a further discussion of litigation affecting the tobacco business see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Tobacco--Governmental Activity."

Litigation is subject to many uncertainties and it is possible that some of the tobacco-related legal actions, proceedings or claims could be decided against RJRT or its affiliates (including RJRN Holdings and RJRN) or indemnitees. Determinations of liability or adverse rulings against other cigarette manufacturers that are defendants in similar actions, even if such rulings are not final, could adversely affect the litigation against RJRT or its affiliates or indemnitees and could encourage an increase in the number of such claims. There have been a number of political, legislative, regulatory, and other developments relating to the tobacco industry and cigarette smoking that have received wide media attention, including the

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Master Settlement Agreement referred to above. These developments may negatively affect the outcomes of tobacco-related legal actions and encourage the commencement of additional similar litigation.

Although it is impossible to predict the outcome of such events on pending litigation and the rate at which new lawsuits are filed against RJRT, RJRN and RJRN Holdings, a significant increase in litigation and/or in adverse outcomes for tobacco defendants could have an adverse effect on any one or all of these entities. RJRT, RJRN and RJRN Holdings each believe that they have a number of valid defenses to any such actions and intend to defend such actions vigorously.

RJRN Holdings and RJRN believe, that notwithstanding the quality of defenses available to them and RJRT in litigation matters, it is possible that the results of operations or cash flows of RJRN Holdings or RJRN in particular quarterly or annual periods or the financial condition of RJRN Holdings and RJRN could be materially affected by the ultimate outcome of certain pending litigation matters (including litigation costs). Management is unable to predict the outcome of the litigation or to derive a meaningful estimate of the amount or range of any possible loss in any particular quarterly or annual period or in the aggregate.

For more detailed information about the class action and other aggregated claims suits pending against RJRT and its affiliates and indemnitees, see exhibit 99 to this Form 10-K, a copy of which will be provided free of charge to persons requesting it in writing and addressed to Worldwide Communications, RJR Nabisco Holdings Corp., 1301 Avenue of the Americas, New York, NY 10019 or by phone to 800-RJR-NAB3.

#### FOOD

The food line of business is conducted by operating subsidiaries of Nabisco Holdings. RJRN owns 100% of the outstanding Class B Common Stock of Nabisco Holdings, which currently represents approximately 80.5% of the economic interest in Nabisco Holdings and approximately 97.7% of the total voting power of Nabisco Holdings' outstanding common stock. Nabisco's businesses in the United States are comprised of Nabisco Biscuit and the U.S. Foods Group. The U.S. Foods Group is comprised of the Sales & Integrated Logistics Group and Specialty Products, LifeSavers, Planters, Tablespreads (through August 14, 1998) and Food Service. Nabisco's businesses outside the United States are conducted by Nabisco Ltd and Nabisco International, Inc. ("Nabisco International" and together with Nabisco Ltd, the "International Food Group").

Food products are sold under trademarks owned or licensed by Nabisco and brand recognition is considered essential to their successful marketing. None of Nabisco's customers accounted for more than 10% of sales for 1998.

#### NABISCO BISCUIT

Nabisco Biscuit is the largest manufacturer and marketer in the United States cookie and cracker industry with eight of the top ten selling brands. Overall, in 1998, Nabisco Biscuit had a 38.6% share of the domestic cookie category and a 52.6% share of the domestic cracker category (in the aggregate more than two times the share of its closest competitor) compared to 39.6% and 53.7%, respectively, in 1997. Leading Nabisco Biscuit cookie brands include OREO, CHIPS AHOY!, SNACKWELL'S and NEWTONS. Leading Nabisco Biscuit cracker brands include RITZ, PREMIUM, NABISCO HONEY MAID GRAHAMS and TRISCUIT.

OREO and CHIPS AHOY! are the two largest selling cookies in the United States. OREO, the leading sandwich cookie, is Nabisco Biscuit's largest selling cookie brand. Line extensions such as OREO DOUBLE STUFF, FUDGE COVERED OREO and Reduced Fat OREO continue to increase the brand's

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appeal to targeted consumer groups. CHIPS AHOY! is the leader in the chocolate chip cookie segment with line extensions such as CHUNKY CHIPS AHOY! and CHEWY CHIPS AHOY!.

NEWTONS, the oldest Nabisco Biscuit cookie brand, is the fourth leading cookie brand in the United States. In recent years, fat free and reduced calorie varieties of Newtons, as well as NEWTONS COBBLERS, have been introduced.

SNACKWELL'S cookies and crackers, on a combined basis, is the seventh leading brand in the United States. The entire SNACKWELL'S cookie and cracker line was relaunched in the middle of the year, with improvements in taste, texture and appearance. In addition, two new products, MINT CREME and CARMEL DELIGHTS were introduced during the year.

Nabisco Biscuit's cracker business is led by RITZ, the largest selling cracker in the United States, as well as RITZ BITS, RITZ BITS SANDWICHES and REDUCED FAT RITZ, all successful product line extensions. The RITZ product line accounted for 13.4% of cracker sales in the United States in 1998, compared to 12.8% in 1997. PREMIUM, the oldest Nabisco cracker brand and the leader in the saltine cracker segment, is joined by NABISCO HONEY MAID GRAHAMS, TRISCUIT, AIR CRISPS and WHEAT THINS to comprise, along with RITZ, six of the eight largest selling cracker brands in the United States. AIR CRISPS, launched nationally in 1996, consists of a line of light crispy baked snacks in Ritz, Cheese Nips, Wheat Thins, Pretzel and Potato varieties. During the year, Nabisco Biscuit introduced SWEET CRISPERS which ranked number one in sales for new cookie/cracker products.

Nabisco Biscuit's other cookie and cracker brands, which include NILLA, NUTTER BUTTER, STELLA D'ORO, BETTER CHEDDARS, CHEESE NIPS AND BARNUM'S ANIMAL CRACKERS, compete in consumer niche segments. Many are the first or second largest selling brands in their respective segments.

Nabisco Biscuit's products in the breakfast snack aisle include SNACKWELL'S cereal bars, granola bars and TOASTETTES toaster pastries. The line has expanded over the years with new varieties, and in 1998 Nabisco Biscuit introduced SNACKWELL'S STREUSEL SQUARES.

Nabisco Biscuit's products are manufactured in 13 Nabisco Biscuit owned facilities and in 15 facilities with which Nabisco Biscuit has production agreements with contract manufacturers. These facilities are located throughout the United States. Nabisco Biscuit also operates a flour mill in Toledo, Ohio which supplies over 85% of its flour needs.

Nabisco Biscuit's products are sold to major grocery and other large retail chains through Nabisco Biscuit's direct store delivery system. The system is supported by a distribution network utilizing 11 major distribution warehouses and 110 shipping branches where shipments are consolidated for delivery to approximately 65,000 separate delivery points.

#### U.S. FOODS GROUP

Nabisco manages its non-biscuit food operations in the U.S. through the U.S. Foods Group which is comprised of the following operating units:

**SALES & INTEGRATED LOGISTICS GROUP.** The Sales & Integrated Logistics Group handles sales and distribution for the LifeSavers and Planters Specialty Companies and distribution for the Food Service Company. It sells to major grocery chains, national drug and mass merchandisers, convenience channels and warehouse clubs through a direct sales force. It also sells to small retail grocery chains and regional mass merchandisers through independent brokers. The products are distributed from twelve distribution centers located throughout the United States.

**PLANTERS SPECIALTY.** Planters Specialty produces and markets a broad range of food products. These products include nuts and salty snacks largely for sale in the United States, primarily under the PLANTERS trademark. Planters, the only nut brand sold nationally, is the clear leader in the packaged nut

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category. In December 1997, the CORNNUTS line of crispy corn kernel snacks was acquired and added to the Planters line. Planters Specialty also manufactures and markets sauces and condiments, pet snacks, hot cereals, dry mix desserts, and gelatins representing the largest categories. Many of Planters Specialty products are first or second in their product categories. Well-known brand names include A.1. steak sauces, GREY POUPON mustards, MILK-BONE pet snacks, CREAM OF

WHEAT hot cereals, ROYAL desserts and KNOX gelatines.

Planters Specialty's primary entries in the steak sauce and mustard segments are A.1. and A.1. BOLD steak sauces, the leading line of steak sauces, and GREY POUPON mustards, which include the leading Dijon mustard.

Planters Specialty is the second largest manufacturer of pet snacks in the United States with MILK-BONE dog biscuits and dog snacks. MILK-BONE products include MILK-BONE ORIGINAL BISCUITS, FLAVOR SNACKS, SUPER PREMIUM BISCUITS, DOG TREATS and DOGGIE BAG TREATS.

Planters Specialty, a leading manufacturer of hot cereals, participates in the cook-on-stove and mix-in-bowl segments of the category. CREAM OF WHEAT, the leading wheat-based hot cereal, and CREAM OF RICE participate in the cook-on-stove segment. INSTANT CREAM OF WHEAT participates in the mix-in-bowl segment and includes new varieties such as BANANA NUT BREAD and CINNAMON RAISIN. Quaker Oats Company is the most significant participant in the hot cereal category.

Planters Specialty manufactures products in seven plants and sources products from a number of contract manufacturers.

LIFESAVERS. LifeSavers manufactures and markets non-chocolate candy and gum primarily for sale in the United States. LifeSavers' well-known brands include LIFE SAVERS candy, BREATH SAVERS sugar free mints, CARE\*FREE sugarless gum, ICE BREAKERS gum, BUBBLE YUM bubble gum, GUMMI SAVERS fruit chewy candy, NOW & LATER fruit chewy taffy and FRUIT STRIPE gum. LIFE SAVERS is the largest selling non-chocolate candy brand in the United States, with a 1998 share of 5.1%, compared to 5.2% in 1997, of the non-chocolate candy category. BREATH SAVERS is the largest selling sugar free breath mint in the United States and BUBBLE YUM is among the largest selling bubble gum brands in the United States.

LifeSavers manufactures its products in four owned plants and utilizes three primary contract manufacturers.

FOOD SERVICE. Food Service utilizes a direct national sales force to sell a variety of specially packaged food products of the Nabisco Biscuit and U.S. Foods Group including cookies, crackers, confections, hot cereals, sauces and condiments to the food service and vending machine industry.

#### INTERNATIONAL FOOD GROUP

NABISCO LTD. Nabisco Ltd conducts Nabisco's Canadian operations through its Snack and Grocery Divisions. Excluding private label brands, the Snack Division produced all of the top ten cookies and nine of the top ten crackers in Canada in 1998. Nabisco Ltd's cookie and cracker brands in Canada include OREO, CHIPS AHOY!, SNACKWELL'S, FUDGE-O, PEEK FREANS, DAD'S, DAVID, PREMIUM PLUS, RITZ, AIR CRISPS, TRISCUIT and STONED WHEAT THINS. These products are manufactured in five bakeries in Canada and are sold through a direct store delivery system, utilizing 10 sales offices and distribution centers and a combination of company trucks and common carriers.

The Snack Division also uses a separate selling and marketing organization which offers a variety of specially packaged food products to non-grocery outlets, wherever the consumer may have opportunity to

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consume food products outside of the home. The products are sourced from both the Snack and Grocery Divisions and include cookies, crackers, canned fruits, vegetables, pasta and condiments.

Nabisco Ltd's Grocery Division produces and markets canned fruits and vegetables, fruit juices and drinks, pet snacks, pasta and other Italian food products. The Grocery Division is the leading canned fruit producer and second largest canned vegetable producer in Canada. Canned fruits and vegetables, as well as fruit juices and drinks, are marketed under the DEL MONTE trademark pursuant to a license from the Del Monte Corporation, and under the AYLNER trademark. Dry pasta and other Italian food products are marketed under the PRIMO trademark, which is the number two pasta brand in Canada. The Grocery Division also markets MILK-BONE pet snacks and MAGIC baking powder, each a leading brand in Canada. Nabisco Ltd's Grocery Division operated seven manufacturing facilities in 1998. Five produced canned products, principally fruits and vegetables, one produced pet snacks and one produced pasta. The Grocery Division's products are sold directly to retail chains and are distributed through five regional warehouses.

NABISCO INTERNATIONAL. Nabisco International is a leading producer of biscuits, powdered dessert and drink mixes, baking powder, pasta, juices, milk products and other grocery items, as well as industrial yeast and bakery ingredients. Nabisco International also exports a variety of Nabisco Biscuit and U.S. Foods Group products to markets in Europe, the Middle East, Latin America, Africa and Asia from the United States. Nabisco International operates one of the largest multinational packaged food businesses in Latin America, with

operations in 15 countries.

Nabisco International manufactures and markets biscuits and crackers under the NABISCO, TERRABUSI, ARTIACH, MARBU and LUCKY brands, yeast and bakery ingredients under the FLEISCHMANN'S brand, desserts, drink mixes and baking powder under the ROYAL brand, processed milk products under the GLORIA brand and juice under the MAGUARY brand.

Nabisco International's largest market is Brazil, where it operates 15 manufacturing facilities. In the biscuit category, Nabisco International is the market leader in Spain, Argentina, Venezuela, Puerto Rico, Nicaragua, Uruguay, Taiwan and Beijing, China. It holds strong number two positions in Peru, Ecuador, other Central American markets, Shanghai and Guangzhou, China. Nabisco International is the market leader in powdered desserts in Spain and most of Latin America, in the yeast category in Brazil and certain other Latin American countries and in baking powder throughout South America.

Nabisco increased its Latin American biscuit operations through the acquisitions of Companhia Produtos Pilar in Brazil, and Productos Mayco S.A.I.C.I.F. and Productos Capri S.A.C.I.I. in Argentina during 1996, and Galletera Tejerias, S.A. in Venezuela during 1995. Its pasta business was strengthened in Argentina via the acquisition of Luis Vizzolini e Hijos, S.A.I.C., and initiated in Brazil with the Pilar acquisition. In 1998, Nabisco International acquired Butterkist Ltd., a biscuit producer in Jamaica.

Nabisco International's products in Spain include biscuits marketed under the ARTIACH and MARBU trademarks, powdered dessert mixes marketed under the ROYAL trademark, and various other foods, including canned meats and juices. In 1996, it consolidated its market leadership position in biscuits with the acquisition of Galletas Fontaneda, S.A.

In Asia, Nabisco International operates its Chinese biscuit business through joint ventures in Beijing and a wholly-owned subsidiary in Suzhou. In Indonesia, a plant which is 70% owned by Nabisco and 30% owned by its partner and distributor was started up in 1996. Biscuit leadership in Taiwan was gained in 1996 through the acquisition of the assets of Lucky Enterprises Corporation Limited, the leading biscuit company in Taiwan.

Nabisco International's grocery and biscuit products are sold to retail outlets through its own local country sales forces and independent wholesalers and distributors. Industrial yeast and bakery products are sold to the bakery trade through Nabisco International's own local country sales forces and independent distributors.

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#### RAW MATERIALS

Agricultural commodities constitute the principal raw materials used by Nabisco in its food businesses. These raw materials are normally purchased through supplier contracts, while the commodities market is utilized to hedge prices for a large portion of anticipated future requirements. Prices of agricultural commodities tend to fluctuate due to seasonal, climatic and economic factors which generally also affect Nabisco's competitors. Nabisco Holdings and Nabisco believe that the raw materials for Nabisco products are in plentiful supply and are readily available from a variety of independent suppliers.

#### COMPETITION

Generally, the markets in which Nabisco Biscuit, U.S. Foods Group and the International Food Group conduct their business are highly competitive. Competition consists of large domestic and international companies, local and regional firms and generic and private label products of food retailers. Competition is conducted on the basis of brand recognition, brand loyalty, quality and price. Substantial advertising and promotional expenditures are required to maintain or improve a brand's market position or to introduce a new product.

The trademarks under which Nabisco Biscuit, U.S. Foods Group and the International Food Group market their products are generally registered in the United States and other countries in which such products are sold and are generally renewable indefinitely. Nabisco and certain of its subsidiaries have from time to time granted various parties exclusive licenses to use one or more of their trademarks in particular locations. Nabisco does not believe that such licensing arrangements have a material effect on the conduct of its domestic or international businesses.

#### OTHER MATTERS

#### ENVIRONMENTAL MATTERS

The U.S. Government and various state and local governments have enacted or adopted laws and regulations concerning protection of the environment. The

regulations promulgated by the U.S. Environmental Protection Agency (the "EPA") and other governmental agencies under various statutes have resulted in, and will likely continue to result in, substantial expenditures for pollution control, waste treatment, plant modification and similar activities.

In April 1995, RJRN Holdings was named a potentially responsible party (a "PRP") with certain third parties under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") with respect to a superfund site at which a former subsidiary of RJRN had operations. RJRN has also been named in an insurance coverage suit brought by another company named as a PRP at this site. In this lawsuit, DEL MONTE FRESH PRODUCE V. FIREMAN'S FUND INSURANCE, filed August 13, 1997 in the First Circuit Court of the State of Hawaii, the plaintiff seeks declaratory judgment that it is entitled to insurance coverage for the site or, in the alternative, that RJRN is obligated to indemnify Del Monte Fresh Produce under the terms of the agreement by which RJRN sold that company in 1989. The Fireman's Fund Insurance Company has filed a motion for summary judgment that has not yet been heard.

Certain subsidiaries of RJRN have also been named as PRPs with third parties or may have indemnification obligations with respect to a number of additional sites. Liability under CERCLA is joint and several.

RJRN Holdings' subsidiaries have been engaged in a continuing program to assure compliance with U.S., state and local laws and regulations. Although it is difficult to identify precisely the portion of capital expenditures or other costs attributable to compliance with environmental laws and to estimate the cost of resolving these CERCLA matters, RJRN Holdings and RJRN do not expect such expenditures or other costs to have a material adverse effect on the business or financial condition of the Registrants and their subsidiaries taken as a whole.

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#### EMPLOYEES

At December 31, 1998, RJRN Holdings together with its subsidiaries had approximately 74,000 employees, of which approximately 1,700 were part-time employees. None of RJRN's operations is unionized. Most of the unionized workers at Nabisco's operations are represented under a national contract with the Bakery, Confectionery and Tobacco Workers International Union, which was ratified in August 1996 and which will expire in August 2001. Other unions represent the employees of a number of Nabisco's operations and several of Reynolds International's operations are unionized. RJRN believes that its subsidiaries' relations with these employees and with their unions are good.

#### (D) FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS

For information about foreign and domestic operations for the years 1996 through 1998, see "Segment Geographic Information" in note 15 to the Consolidated Financial Statements.

#### ITEM 2. PROPERTIES

For information pertaining to RJRN Holdings' and RJRN's assets by operating segment and geographic areas as of December 31, 1998 and 1997, see note 15 to the Consolidated Financial Statements.

For information on properties, see Item 1.

#### ITEM 3. LEGAL PROCEEDINGS

In the fourth quarter of 1995, purported RJRN Holdings stockholders for themselves and derivatively for RJRN Holdings and Nabisco Holdings filed three putative class and derivative actions in the Court of Chancery of the State of Delaware in and for New Castle County against members of RJRN Holdings Board of Directors. The actions were consolidated in December 1995. The plaintiffs allege, among other things, that the individual defendants breached their fiduciary duty and wasted corporate assets by undertaking an exchange offer and related consent solicitations completed by RJRN and Nabisco in June 1995 and by amending, in August 1995, RJRN Holdings By-Law provisions concerning the calling of shareholder meetings and procedures for shareholder action by written consent. The plaintiffs allege that management took these and other actions to wrongfully obstruct a spin-off of Nabisco Holdings, to enrich the defendants at the expense of RJRN Holdings, its shareholders and Nabisco Holdings and to entrench the defendants in the management and control of RJRN Holdings. On February 25, 1999, the plaintiffs in this case filed a status report with the court indicating that a stipulation of dismissal without prejudice will be circulated shortly. As of March 17, 1999, no stipulation has been executed.

For information about other litigation and legal proceedings, see "Business--Tobacco--Litigation Affecting the Cigarette Industry" and "Other Matters--Environmental Matters" in Item 1 and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Governmental Activity" in Item 7.



Litigation is subject to many uncertainties, and it is possible that some of the tobacco-related legal actions, proceedings or claims could be decided against RJRT or its affiliates or indemnitees. Determinations of liability or adverse rulings against other cigarette manufacturers that are defendants in similar actions, even if such rulings are not final, could adversely affect the litigation against RJRT or its affiliates or indemnitees and increase the number of such claims. Although it is impossible to predict the outcome of such events or their effect on RJRT, a significant increase in litigation activities could have an adverse effect on RJRT. RJRT believes that it has a number of valid defenses to any such actions, including but not limited to those defenses based on preemption under the CIPOLLONE decision, and RJRT intends to defend vigorously all such actions.

RJRN Holdings and RJRN believe that, notwithstanding the quality of defenses available to them and RJRT in litigation matters, it is possible that the results of operations or cash flows of RJRN Holdings

or RJRN in particular quarterly or annual periods or the financial condition of RJRN Holdings and RJRN could be materially affected by the ultimate outcome of certain pending litigation matters (including litigation costs). Management is unable to predict the outcome of litigation or to derive a meaningful estimate of the amount or range of any possible loss in any particular quarterly or annual period or in the aggregate.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANTS

EXECUTIVE OFFICERS OF RJRN HOLDINGS

The executive officers of RJRN Holdings are Steven F. Goldstone (Chairman of the Board, Chief Executive Officer and President), Gerald I. Angowitz (Senior Vice President, Human Resources and Administration), H. Colin McBride (Senior Vice President, Associate General Counsel and Secretary), David B. Rickard (Senior Vice President and Chief Financial Officer), William L. Rosoff (Senior Vice President and General Counsel), Richard G. Russell (Senior Vice President and Controller) and Francis X. Suozzi (Senior Vice President and Treasurer). The following table sets forth certain information regarding such officers.

<TABLE>  
<CAPTION>

NAME	AGE	BUSINESS EXPERIENCE DURING THE PAST FIVE YEARS AND OTHER INFORMATION
<S>	<C>	<C>
Steven F. Goldstone.....	53	Chairman since May 1996; Chief Executive Officer since December 1995; President since October 1995; prior thereto, General Counsel, March 1995 to December 1995; previously Senior Partner with law firm of Davis Polk & Wardwell until October 1995 and for more than five years prior thereto.
Gerald I. Angowitz.....	49	Senior Vice President of Human Resources and Administration since March 1995; prior thereto, Vice President of Human Resources, January 1994 to March 1995; Vice President of Employee Benefits, January 1992 to December 1993.
H. Colin McBride.....	53	Senior Vice President, Associate General Counsel and Secretary since February 1998; prior thereto, Vice President, Assistant General Counsel and Secretary, December 1995 to February 1998; Vice President and Assistant General Counsel for more than five years prior thereto.
David B. Rickard.....	52	Senior Vice President and Chief Financial Officer since March 1997; previously Executive Vice President, International Distillers and Vintners Americas, 1996 to 1997; Finance Director, International Distillers and Vintners, 1995 to 1996; Group Controller, Grand Metropolitan PLC, 1994 to 1995; Senior Vice President and Chief Financial Officer, The Pillsbury Company, 1991 to 1994.
William L. Rosoff.....	52	Senior Vice President and General Counsel since January 1998; previously Partner with law firm of Davis Polk & Wardwell for more than five years prior thereto.
Richard G. Russell.....	53	Senior Vice President and Controller since May 1995; previously Partner at the accounting firm of Deloitte & Touche LLP for more than five years prior thereto.

</TABLE>

<TABLE>  
<CAPTION>

NAME	AGE	BUSINESS EXPERIENCE DURING THE PAST FIVE YEARS AND OTHER INFORMATION
------	-----	--

NAME	AGE	BUSINESS EXPERIENCE DURING THE PAST FIVE YEARS AND OTHER INFORMATION
Francis X. Suozzi	58	Senior Vice President and Treasurer since December 1998; prior thereto, Senior Vice President--Corporate Business Development, Nabisco Holdings and Nabisco, July 1998 to December 1998; Senior Vice President and Treasurer, Nabisco Holdings and Nabisco, April 1997 to July 1998; Vice President and Treasurer, Nabisco Holdings and Nabisco, February 1995 to April 1997; Vice President and Assistant Treasurer of RJRN from March 1994 to February 1995; previously Managing Director, First Intercontinental Group, 1993 to March 1994.

</TABLE>

EXECUTIVE OFFICERS OF RJRN HOLDINGS OR ITS SUBSIDIARIES NOT LISTED ABOVE

Set forth below are the names, ages, positions and offices held and a brief account of the business experience during the past five years of certain executive officers of RJRN Holdings or its subsidiaries, other than those listed above.

<TABLE>  
<CAPTION>

NAME	AGE	BUSINESS EXPERIENCE DURING THE PAST FIVE YEARS AND OTHER INFORMATION
James M. Kilts	51	Chief Executive Officer and President of Nabisco Holdings and of Nabisco since January 1998; previously Executive Vice President--Worldwide Food of Philip Morris Companies, 1994 to March 1997; President of Kraft USA, 1989 to 1994.
Pierre de Labouchere	45	Chief Executive Officer and President of Reynolds International since December 1995; prior thereto, President of Eastern Europe, Middle East and Africa Region, Reynolds International, 1994 to December 1995; Regional Vice President--European and Special Markets, Reynolds International, 1991 to 1994.
Andrew J. Schindler	54	Chief Executive Officer and President of RJRT since July 1995; prior thereto, President and Chief Operating Officer--U.S.A., RJRT, May 1994 to June 1995; Executive Vice President--Operations, RJRT, 1991 to 1994.
Jeffrey A. Kuchar	44	Senior Vice President and General Auditor since January 1998; prior thereto, Vice President and General Auditor, 1993 to 1997; Director of Finance and Business Development, Specialty Products Company, Nabisco, 1993; Director of Financial Planning, Specialty Products Company, Nabisco, 1992 to 1993.
Lionel L. Nowell III	44	Senior Vice President of Strategy and Business Development since January 1998; previously Vice President--Finance, Pillsbury North America, November 1996 to January 1998; Vice President--Finance, Pillsbury Bakeries & Foodservice, February 1996 to November 1996; Vice President and Chief Financial Officer, Haagen-Dazs, November 1994 to February 1996; Vice President and Controller, The Pillsbury Company, May 1993 to November 1994; Vice President-- Food and International Retailing Audit, The Pillsbury Company, September 1992 to May 1993.
J. Thomas Pearson	57	Senior Vice President of Taxation since 1988.

</TABLE>

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<TABLE>  
<CAPTION>

NAME	AGE	BUSINESS EXPERIENCE DURING THE PAST FIVE YEARS AND OTHER INFORMATION
Huntley R. Whitacre	56	Senior Vice President of Investor Relations since August 1995; prior thereto, Vice President of Investor Relations for more than five years.
Jason H. Wright	38	Senior Vice President of Worldwide Communications since February 1994; prior thereto, Vice President of Worldwide Communications, 1993 to 1994; Vice President of Financial Communications, 1990 to 1993.

</TABLE>

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PART II

ITEM 5. MARKET FOR REGISTRANTS' COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of RJRN Holdings, par value \$.01 per share (the "Common Stock"), is listed and traded on the New York Stock Exchange (the "NYSE"). Since completion of the acquisition there has been no public trading market for the common stock of RJRN.

As of February 28, 1999, there were approximately 55,000 record holders of the Common Stock. All of the common stock of RJRN is owned by RJRN Holdings. The Common Stock closing price on the NYSE for February 26, 1999 was \$27.3125.

The following table sets forth, for the calendar periods indicated, the high and low sales prices per share for the Common Stock on the NYSE Composite Tape, as reported in THE WALL STREET JOURNAL:

	HIGH	LOW
	-----	-----
<S>	<C>	<C>
1998:		
First Quarter.....	\$ 38.0625	\$ 30.0
Second Quarter.....	31.3125	23.5
Third Quarter.....	27.375	21.3125
Fourth Quarter.....	31.9375	24.0

	HIGH	LOW
	-----	-----
<S>	<C>	<C>
1997:		
First Quarter.....	\$ 38.875	\$ 30.625
Second Quarter.....	36.5	27.0
Third Quarter.....	36.125	29.5625
Fourth Quarter.....	37.9375	29.875

On March 5, 1996, RJRN Holdings announced a 23% increase in its annual common dividend rate from \$1.50 to \$1.85 per share of Common Stock and adopted as an objective the repurchase of approximately 10 million shares of Common Stock over the next several years based on the achievement of performance targets. RJRN Holdings repurchased approximately \$100 million of Common Stock in 1996. On February 28, 1997, the Board of Directors authorized an 11% increase in the annual common dividend to \$2.05 per share and authorized the repurchase of up to \$200 million of Common Stock in 1997. No such repurchases were made in 1997 or 1998. Commencing with the April 1, 1999 payment, the quarterly dividend paid by Nabisco was increased to \$.1875 per share or \$.75 per share on an annual basis, from its previous level of \$.70 per share. As a result, the Nabisco Holdings dividends payable to RJRN increased from approximately \$141 million annually to \$160 million annually.

The operations of RJRN Holdings and RJRN are conducted through RJRN's subsidiaries and, therefore, RJRN Holdings and RJRN are dependent on the earnings and cash flow of RJRN's subsidiaries to satisfy their respective obligations and other cash needs. Certain Nabisco credit facilities limit the amount of dividends, distributions and advances by Nabisco Holdings and its subsidiaries to RJRN Holdings and its non-Nabisco subsidiaries. Moreover, RJRN's credit agreements and certain policies adopted by the Board of Directors of RJRN Holdings limit the payment by RJRN Holdings of dividends on the Common Stock in excess of certain specific amounts. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Financial Condition" and notes 6 and 9 to the Consolidated Financial Statements. RJRN Holdings does not believe that the provisions of its credit agreements or its adopted policies concerning distributions to stockholders will limit its ability to pay its anticipated quarterly dividends.

ITEM 6. SELECTED FINANCIAL DATA

YEARS ENDED DECEMBER 31 (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	1998	1997	1996	1995	1994
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
RESULTS OF OPERATIONS					
Net sales.....	\$ 17,037	\$ 17,057	\$ 17,063	\$ 16,008	\$ 15,366
Income (loss) before extraordinary item.....	(577)	402	611	627	764
PER SHARE DATA					
Basic income (loss) per share before extraordinary item.....	\$ (1.91)	\$ 1.11	\$ 1.75	\$ 1.59	\$ 2.07
Diluted income (loss) per share before extraordinary item.....	\$ (1.91)	\$ 1.09	\$ 1.74	\$ 1.58	\$ 2.06
Average number of common and common equivalent shares outstanding (in thousands):					
Basic.....	323,853	323,787	324,917	325,476	305,142
Diluted.....	323,853	325,318	325,947	326,235	306,756
Dividends per share of common stock.....	\$ 2.05	\$ 2.05	\$ 1.85	\$ 1.50	--
Dividends per share of Series A convertible preferred stock.....	--	--	--	--	\$ 2.92

Dividends per share of Series C convertible preferred stock.....	--	\$ 2.25	\$ 6.01	\$ 6.01	\$ 3.94
CASH FLOW DATA					
Dividends paid on common and preferred stock.....	\$ 742	\$ 755	\$ 716	\$ 598	\$ 395
Capital expenditures.....	576	763	741	744	670
BALANCE SHEET DATA					
(AT END OF PERIODS)					
Total assets.....	\$ 28,892	\$ 30,678	\$ 31,289	\$ 31,518	\$ 31,408
Long-term debt.....	8,655	9,456	9,256	9,429	8,883
Mandatorily redeemable preferred securities.....	1,327	953	954	954	--
Stockholders' equity.....	8,014	9,631	10,148	10,329	10,908
OTHER DATA					
Number of employees					
Tobacco.....	23,000	26,400	25,400	22,800	21,200
Food.....	51,000	54,000	54,300	53,200	49,400

</TABLE>

See Subsequent Events regarding the pending sale by RJRN and RJRT of the international tobacco business and the separation of the domestic tobacco and food businesses.

See the consolidated financial statements regarding (i) the restructuring of the food operations in 1998 and 1996; (ii) the restructuring of the international tobacco operations during 1998 and 1997; (iii) the tobacco settlement agreements entered into and the related expenses incurred by RJRT during 1998 and 1997 and the restructuring of the domestic tobacco operations during 1997; (iv) the issuance of preferred securities by a subsidiary of RJRN Holdings and the redemption of Series B preferred stock by RJRN Holdings in 1998; and (v) the conversion during 1997 of Series C depositary shares issued during 1994.

During 1995, a pre-tax restructuring charge of \$154 million (\$104 million after-tax) was recorded in connection with a program to streamline the worldwide tobacco operations; a subsidiary of RJRN Holdings issued preferred securities in exchange for an equal amount of RJRN Holdings' Series B preferred stock outstanding; and RJRN Holdings and Nabisco completed a debt exchange that resulted in a pre-tax charge of approximately \$103 million for fees and expenses.

During 1994, the Series A depositary shares issued during 1991 converted into 42,000,000 shares of common stock and a pre-tax charge of \$65 million was recorded in connection with the realignment of corporate headquarters.

Net sales and costs of products sold exclude excise taxes of \$3.526 billion, \$3.599 billion, \$3.852 billion, \$3.832 billion and \$3.578 billion for the years ended December 31, 1998, 1997, 1996, 1995 and 1994, respectively.

See Notes to Consolidated Financial Statements.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the consolidated financial condition and results of operations of RJRN Holdings. The results of operations discussion and analysis is presented in four sections. The first section includes reported information for net sales and operating company contribution as included in the historical consolidated financial statements. The second section highlights unusual items that management believes impact the comparability of the historical operating company contribution information presented in section one. The third section illustrates operating company contribution on a basis consistent with how management manages the ongoing businesses excluding unusual items described in the second section. This section should not be viewed as a substitute for the historical results of operations but as a tool to better understand underlying trends in the business. The last section includes management's discussion and analysis of the ongoing results. The discussion and analysis should be read in connection with the consolidated financial statements and the related notes thereto of RJRN Holdings as of December 31, 1998 and 1997 and for each of the years in the three-year period ended December 31, 1998.

RESULTS OF OPERATIONS

<TABLE>  
<CAPTION>

YEARS ENDED DECEMBER 31 (DOLLARS IN MILLIONS)	1998	1997	1996	% CHANGE FROM PRIOR YEAR	
				1998	1997
<S>	<C>	<C>	<C>	<C>	<C>
Net sales:					

R.J. Reynolds Tobacco.....	\$ 5,568	\$ 4,895	\$ 4,551	14%	8%
Reynolds International.....	3,069	3,428	3,623	(10)%	(5)%
Total Tobacco.....	8,637	8,323	8,174	4%	2%
Nabisco Biscuit.....	3,542	3,545	3,677	--%	(4)%
U.S. Foods Group.....	2,334	2,604	2,638	(10)%	(1)%
International Food Group.....	2,524	2,585	2,574	(2)%	--%
Total Food.....	8,400	8,734	8,889	(4)%	(2)%
	\$ 17,037	\$ 17,057	\$ 17,063	--%	--%
Operating company contribution (1) (2):					
R.J. Reynolds Tobacco.....	\$ 178	\$ 1,151	\$ 1,450	(85)%	(21)%
Reynolds International.....	468	581	803	(19)%	(28)%
Total Tobacco.....	646	1,732	2,253	(63)%	(23)%
Nabisco Biscuit.....	500	691	542	(28)%	27%
U.S. Foods Group.....	335	386	346	(13)%	12%
International Food Group.....	210	231	242	(9)%	(5)%
Total Food.....	1,045	1,308	1,130	(20)%	16%
Headquarters.....	(79)	(70)	(67)	(13)%	(4)%
	\$ 1,612	\$ 2,970	\$ 3,316	(46)%	(10)%

</TABLE>

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(1) Includes domestic tobacco settlement and related costs of \$1.442 billion in 1998 and \$359 million in 1997, and restructuring-related expenses of \$56 million in 1998, \$89 million in 1997 and \$97 million in 1996. Restructuring-related costs by operating segment follow: Nabisco Biscuit--\$42 million, U.S. Foods Group--\$6 million and International Food Group--\$8 million for the year ended December 31, 1998; Reynolds International--\$89 million for the year ended December 31, 1997 and Nabisco Biscuit--\$58 million, U.S. Foods Group--\$33 million and the International Food Group--\$6 million for the year ended December 31, 1996.

(2) Operating company contribution represents operating income before amortization of trademarks and goodwill and restructuring expenses.

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The following table summarizes the impact of certain unusual items on operating company contribution ("OCC") and diluted earnings per share for each period presented. We believe these items are unusual in nature and therefore are not included when evaluating the ongoing operating performance of our businesses. These items are described in notes 2, 3 and 10 to the consolidated financial statements.

<TABLE>  
<CAPTION>

YEARS ENDED DECEMBER 31 (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	1998		1997		1996	
	OCC	PER DILUTED SHARE	OCC	PER DILUTED SHARE	OCC	PER DILUTED SHARE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
R.J. Reynolds Tobacco:						
Tobacco settlement and related expenses.....	\$ 1,442	\$ 2.87	\$ 359	\$ .67	\$ --	\$ --
Reynolds International:						
Restructuring-related costs.....	--	--	89	.24	--	--
Food:						
Restructuring-related costs.....	56	.09	--	--	97	.14
Net gain from divested businesses.....	(14)	--	--	--	--	--
Total.....	\$ 1,484	\$ 2.96	\$ 448	\$ .91	\$ 97	\$ .14

</TABLE>

The following table represents operating company contribution excluding unusual items.

<TABLE>  
<CAPTION>

YEARS ENDED DECEMBER 31 (DOLLARS IN MILLIONS)	1998	1997	1996	% CHANGE FROM PRIOR YEAR	
				1998	1997
<S>	<C>	<C>	<C>	<C>	<C>
R.J. Reynolds Tobacco.....	\$ 1,620	\$ 1,510	\$ 1,450	7%	4%
Reynolds International.....	468	670	803	(30)%	(17)%
Total Tobacco.....	2,088	2,180	2,253	(4)%	(3)%
Nabisco Biscuit.....	542	691	600	(22)%	15%
U.S. Foods Group.....	339	386	379	(12)%	2%
International Food Group.....	206	231	248	(11)%	(7)%
Total Food.....	1,087	1,308	1,227	(17)%	7%
Headquarters.....	(79)	(70)	(67)	(13)%	(4)%
	\$ 3,096	\$ 3,418	\$ 3,413	(9)%	--%

</TABLE>

UNLESS OTHERWISE NOTED, OPERATING COMPANY CONTRIBUTION COMPARISONS WITHIN THE FOLLOWING DISCUSSIONS ARE BASED ON ONGOING RESULTS, WHICH EXCLUDE UNUSUAL ITEMS DISCLOSED ABOVE.

#### TOBACCO

The tobacco line of business is conducted by R.J. Reynolds Tobacco ("RJRT") and Reynolds International.

1998 VS. 1997. RJRT's net sales for 1998 were \$5.6 billion, \$673 million higher than 1997. The increase is primarily attributable to higher pricing of \$1 billion, partially offset by lower volume of \$272 million. The pricing increase is before competitive discounting (marketing). See the operating company contribution discussion below. RJRT's volume for 1998 decreased 6%, while overall industry volume decreased 5%.

RJRT's overall retail share of market for 1998 decreased to 25.17% from 25.41% in the prior year. RJRT's full-price share of market declined to 16.27% from 16.65% in 1997, while its savings share of market increased to 8.90% from 8.76%. Industry wide shipments for the full-price category were 73% of

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the total shipments in 1998 and 72% in 1997. RJRT's full-price shipments as a percentage of its total shipments were 63% in 1998 and 1997.

Camel's retail share increased to 5.31% for the year from 5.18% in 1997, although volume was down 3%. Two new promotions for Camel were launched in the fourth quarter, the "Mighty Tasty Lifestyles" sweepstakes and the new Camel Cash catalog.

Winston's retail share was flat for the year, while volume declined 5%. The second half of 1997 included strong introductory shipments of the repositioned, "No Bull" Winston. Salem volume declined 11% compared to 1997, while market share declined from 3.71% to 3.44%. Following a successful New York-area test market, Salem's "It's Not What You Expect" repositioning is being expanded nationally in early 1999, with special emphasis on markets where the full-price menthol segment is strong.

Doral's retail share increased to 6.38% in 1998 from 5.90% in the prior year, solidifying its position as the leading savings brand. For the year, Doral volume increased 3%. The brand introduced a new advertising campaign-"Imagine Getting More"-in September 1998.

RJRT's operating company contribution increased 7% over 1997 to \$1.62 billion. The increase is due primarily to increased pricing of \$1 billion, partially offset by lower volume of \$230 million, ongoing settlement costs of \$148 million, higher competitive discounting (marketing) of \$336 million and other costs (including product and merchandising costs).

RJRT announced a \$22.50 per thousand cigarette price increase effective November 25, 1998. This followed other price increases in 1998 of \$3.00 per thousand cigarettes announced in the third quarter, two increases of \$2.50 per thousand cigarettes announced in the second quarter and an increase of \$1.25 per thousand cigarettes announced in the first quarter. Each \$1.00 per thousand cigarettes increase equals a \$.02 increase per pack. The manufacturers list price per pack of cigarettes increased approximately \$.64 in 1998. Similar price increases were announced by other cigarette manufacturers.

Reynolds International's net sales were \$3.1 billion in 1998, a decrease of 10% from 1997, due primarily to lower volume of \$199 million and unfavorable foreign currency translation of \$152 million. Overall volume of 188 billion units was down 5% versus 1997, primarily due to deteriorating economic conditions in the CIS and Baltics region and weakness in Special Markets.

Although volume was up 7% in Russia, margins softened as consumers traded down to lower-priced popular and value brands. Overall, performance fell far short of expectations as increased local volume did not make up for profits and volume lost for the year through a 57% decline in the company's higher-margin exports into Russia. In Asia, economic upheavals also had a substantial impact on the company's performance. The regional economy, coupled with a tax increase in Japan in the previous year, caused a downturn in Reynolds International's premium-priced business. Overall volume in Japan declined 1% for the year, although Salem, Reynolds International's flagship menthol brand, increased volume by 3%. Volume performance in Western Europe stabilized in 1998 after several years of declines, with gains registered in Spain and Germany.

By brand, overall Camel volume decreased 7%, but the brand showed growth in high-margin markets such as France, up 18%, and Spain, up 23%. The brand continues to stabilize in Germany after a number of years of decline. Winston's overall volume decreased 10% for the year, with volume in France decreasing 16% due to the effect of a pricing disadvantage. However, with the pricing issue behind it, Reynolds International expects renewed growth for Winston in 1999 in France. The brand showed volume growth in several key markets during 1998, with volume in Spain up 21% and Greece up 19%.

Operating company contribution for Reynolds International was \$468 million for the year, a decrease of 30% versus 1997. Only the Americas region posted a small gain. The decrease in operating company contribution is mainly attributable to the volume decline and unfavorable foreign currency translation.

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1997 VS. 1996. RJRT's net sales increased 8% over 1996 to \$4.9 billion. The increase is primarily due to pricing of \$409 million, partially offset by a 2% volume decline of \$81 million. The company believes that its shipments and those of the entire domestic tobacco industry were influenced by wholesale trading activity in anticipation of further price increases. The industry volume declined 1% but it is estimated that volume would have declined by approximately 2%, excluding the impact of the additional buying activity.

RJRT's retail share of market declined slightly to 25.41% from 25.90%. RJRT's full-price share of market decreased slightly to 16.65% from 16.81%. The company's savings share of market also decreased slightly to 8.76% from 9.09%. Industry-wide, the full-price category was 72% of total shipments in 1997 and 1996. RJRT's full-price shipments as a percentage of its total shipments remained steady at 63% for 1997 and 1996.

The company made progress on several initiatives designed to strengthen its full-price business, as demonstrated by its stable full-price share of market in the latter half of 1997. Camel shipments grew 5% as it continued to be one of the fastest-growing full-price brands in the United States. During 1997, Camel successfully introduced a new advertising campaign "What You're Looking For" to replace "Joe Camel." The newest additions to the Camel family, Camel Menthol, Red Kamel and Kamel Menhe, continued to show positive results. In addition, Winston, another of the company's flagship brands, grew 9% in volume in the second half of 1997 compared to the same period of the prior year and sustained share after the company introduced its national "No Bull" marketing campaign. "No Bull" repositioned the brand with a "straight-up" attitude leveraging its image and unique product point-of-difference; a 100 percent-tobacco blend with no additives for true tobacco taste. In November 1997, the company began the test marketing of a new positioning strategy for the Salem brand.

In the savings category, Doral, the industry's leading savings brand, grew volume by 5% and its share of the savings segment was up 8%.

Operating company contribution grew 4% over 1996 to \$1.5 billion primarily due to favorable pricing and mix, partially offset by higher marketing and litigation expenses and the overall volume decline.

Reynolds International's volume increased 1% over 1996 despite a decision to reduce quarter-end sales incentives in order to eliminate excess trade inventories. Unfavorable volume mix (approximately \$183 million) and currency translation (approximately \$190 million) more than offset higher pricing (approximately \$167 million), resulting in a decrease in net sales of 5% to \$3.4 billion.

By region, volume declines in Western Europe of 15% and Special Markets of 11% were more than offset by volume increases in the CIS and Baltics of 13% and Central Europe of 43%. In Western Europe, short-term pricing pressures in France and Spain, a general shift from the full-flavor segments throughout Western Europe and the decision to reduce excess trade inventories caused the 15% volume

decline. Reynolds International's new lights entries (Camel Lights and Camel Medium) fueled growth in the low tar and nicotine category. Camel Lights grew 5% in Western Europe while Camel Medium grew 17%. Difficult operating conditions affected the volume performance in the European and Middle East export markets. Regional heritage brands such as Peter I in Russia fueled the growth in the CIS and Baltics region. Peter I was the largest-selling filter cigarette in Russia, where capacity was expanded to meet the growing demand. In addition, other heritage brands were introduced throughout the region and also performed well. The volume increase in Central Europe was driven by Winston and Monte Carlo. In Asia, volume declined approximately 3% primarily driven by the trade inventory reduction. Salem Pianissimo, a low smoke, low smell cigarette, continued to outperform competition in Japan.

Reynolds International's operating company contribution declined 17%, primarily due to unfavorable volume mix, higher product costs and unfavorable foreign currency translation, partly offset by higher pricing.

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#### GOVERNMENTAL ACTIVITY

The advertising, sale and use of cigarettes have been under attack by government and health officials in the United States and in other countries for many years, principally due to health concerns about cigarette smoking and environmental tobacco smoke. This attack has resulted in: a number of substantial restrictions on the marketing, advertising and use of cigarettes; diminishing social acceptability of smoking; and activities by anti-smoking groups designed to inhibit cigarette sales, the form and content of cigarette advertising and the testing and introduction of new cigarette products. Together with manufacturers' price increases in recent years and substantial increases in state and federal excise taxes on cigarettes, these developments have had and will likely continue to have an adverse effect on cigarette sales.

Cigarettes are subject to substantial excise taxes in the United States and to similar taxes in many foreign markets. The federal excise tax per pack of 20 cigarettes is currently 24 cents. On August 5, 1997, President Clinton signed H.R. 2015 into law, which will increase the per pack federal cigarette excise tax by 10 cents in fiscal year 2000, and an additional 5 cents in fiscal year 2002. In his State of the Union address, President Clinton specifically indicated support for a 55 cent additional increase in the federal excise tax. In addition, all states and the District of Columbia impose excise taxes at levels ranging from a low of 2.5 cents in Virginia to a high of \$1.00 per pack in Alaska.

In August 1996, the U.S. Food and Drug Administration (the "FDA") asserted jurisdiction over cigarettes and certain other tobacco products by declaring such products to be medical devices and adopting regulations, first proposed in 1995, on the advertising, promotion and sale of cigarettes. The regulations include a phased-in schedule of effectiveness over a two-year period. The first phase began on February 28, 1997, when regulations establishing 18 as the national minimum age for the sale of cigarettes and requiring age identification from purchasers who appear to be under age 26 became effective. Among other things, the remaining regulations would prohibit or impose stringent limits on a broad range of sales and marketing practices, including bans on sampling, sponsorship by brand name, and distribution of non-tobacco items carrying brand names. The FDA's rules also limit advertising in print and on billboards to black and white text and impose new labeling language.

RJRT, together with the four other major domestic cigarette manufacturers and an advertising agency, filed suit in the U.S. District Court for the Middle District of North Carolina (COYNE BEAUM V. UNITED STATES FOOD & DRUG ADMINISTRATION) challenging the regulations. Similar suits were filed in the same court by manufacturers of smokeless tobacco products, by operators of retail stores and by advertising interests. On April 26, 1997, the court ruled on a motion for summary judgment, that based on the facts alleged by the FDA, that agency was not barred from asserting jurisdiction over tobacco but lacked authority to issue certain of the regulations bearing on marketing and advertising. The court immediately certified its decision for appeal to the Fourth Circuit Court of Appeals and stayed the effectiveness of that portion of the regulations which had not yet been implemented pending appeal or further court action. The Fourth Circuit overturned the District Court ruling, finding that the FDA had exceeded its authority by regulating tobacco products. The FDA has filed an appeal with the U.S. Supreme Court. RJRT cannot predict whether the Court will accept the appeal or the outcome or any decision. However, the major cigarette manufacturers have accepted restrictions similar to some of those proposed by the FDA with respect to brand name sponsorships, distribution of non-tobacco items carrying brand names and billboard advertising in connection with the Master Settlement Agreement described above. See "Business--Tobacco--Litigation Affecting the Cigarette Industry" in Item 1.

On May 28, 1997, the Federal Trade Commission (the "FTC") issued an unfairness complaint against RJRT, seeking to stop the use of Joe Camel advertising, to require RJRT to undertake certain public education activities and to monitor sales and share of sales of each of RJRT's brands to smokers



under the age of 18. Although RJRT had then withdrawn Joe Camel advertising, trial before an administrative law judge began in November 1998. The case was, however, dismissed by FTC motion on January 26, 1999.

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In December 1992, the U.S. Environmental Protection Agency (the "EPA") issued a report which classified environmental tobacco smoke as a Group A (known human) carcinogen. On June 22, 1993, RJRT and others filed suit in the U.S. District Court for the Middle District of North Carolina (FLUE-CURED STABILIZATION CORP. V. U.S. ENVIRONMENTAL PROTECTION AGENCY) to challenge the validity of the EPA report. On July 17, 1998, the court's ruling on the plaintiffs' motion for summary judgment found that the EPA's classification of environmental tobacco smoke was invalid and vacated those portions of the report dealing with lung cancer. The EPA has appealed and oral argument is expected before the Court of Appeals for the Fourth Circuit in June, 1999.

In March 1994, the U.S. Occupational Safety and Health Administration ("OSHA") announced proposed regulations that would restrict smoking in the workplace to designated smoking rooms that are separately exhausted to the outside. Although RJRT cannot predict the form or timing of any regulations that may be finally adopted by OSHA, if the proposed regulations are adopted, RJRT expects that many employers who have not already done so would prohibit smoking in the workplace rather than make expenditures necessary to establish designated smoking areas to accommodate smokers. RJRT submitted comments on the proposed regulations during the comment period which closed in February 1996 but no regulation has been adopted to date. Because many employers currently do not permit smoking in the workplace, RJRT cannot predict the effect of any regulations that may be adopted, but incremental restrictions on smokers could have an adverse effect on cigarette sales and RJRT.

Legislation imposing various restrictions on public smoking has also been enacted in 48 states and many local jurisdictions, and many employers have initiated programs restricting or eliminating smoking in the workplace. A number of states have enacted legislation designating a portion of increased cigarette excise taxes to fund either anti-smoking programs, health care programs or cancer research. In addition, educational and research programs addressing health care issues related to smoking are being funded from industry payments made or to be made under settlements with state attorneys general. Federal law prohibits smoking on all domestic airline flights of six hours duration or less and the U.S. Interstate Commerce Commission has banned smoking on buses transporting passengers inter-state. Certain common carriers have imposed additional restrictions on passenger smoking.

In July 1996, Massachusetts enacted legislation requiring manufacturers of tobacco products sold in Massachusetts to report yearly, beginning December 15, 1997, the ingredients of each brand sold. The statute also requires the reporting of nicotine yield ratings in accordance with procedures established by the State. The legislation contemplates public disclosure of all ingredients in descending order, a trade-secret disclosure that RJRT believes could damage the competitive position of its brands. RJRT, together with other cigarette manufacturers, filed suit in the U.S. District Court for the District of Massachusetts seeking to have the statute declared null and void and to restrain Massachusetts officials from enforcing it. A similar suit was filed by manufacturers of smokeless tobacco products. The court granted a preliminary injunction that enjoined Massachusetts officials from enforcing the law relating to ingredient reporting, which has been upheld by the Court of Appeals for the First Circuit. Both the manufacturers and the State are now seeking summary judgment from the district court. The case has been briefed and argued.

In 1997, Texas enacted legislation very similar to the Massachusetts law, except that the Texas statute authorizes confidentiality of trade secrets. After notice and comment, the Texas Department of Health ("TDH") promulgated regulations termed "Final" in mid-1998 that now require both ingredient and nicotine-yield reports to be filed March 1, 1999. TDH, however, has proposed amendments and it is uncertain when in 1999 the filing date will be for the initial reports.

In 1997, the Minnesota legislature enacted a requirement that manufacturers of tobacco products sold in Minnesota report annually the presence of five substances in each brand of their products in its "unburned" and "burned" states. On February 15, 1999, RJRT and other manufacturers filed their first reports. Based on publicly available literature, RJRT reported the presence of lead, cadmium, arsenic, formaldehyde, and ammonia and compounds of ammonia.

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In August 1998, the Massachusetts Department of Health (the "DOH") issued regulations for public comment that would require (beginning July 1, 2000) annual reporting on a brand-by-brand basis of 43 smoke constituents in both mainstream smoke and sidestream smoke. RJRT, together with other cigarette manufacturers, filed comments with the DOH on October 9, 1998. RJRT and the other manufacturers believe that the DOH lacks legal authority to promulgate these regulations. Nevertheless, RJRT and the other manufacturers have proposed

conducting a cooperative benchmarking study to address certain DOH concerns. It is anticipated that DOH will not amend or finalize these regulations until the DOH has reviewed the results of the manufacturers' study.

The Canadian province of British Columbia has also adopted ingredient and constituent disclosure regulations. RJR-MacDonald is challenging these regulations.

In 1990, RJRT and other U.S. cigarette manufacturers, through The Tobacco Institute, announced a tobacco industry initiative to assist retailers in enforcing minimum age laws on the sale of cigarettes, to support the enactment of state laws requiring the adult supervision of cigarette vending machines in places frequented by minors, to seek the uniform establishment of 18 as the minimum age for the purchase of cigarettes in all states, to distribute informational materials to assist parents in combatting peer pressure on their children to smoke, and to limit voluntarily certain cigarette advertising and promotional practices. In 1995, wholesalers, retailers and the tobacco industry including RJRT formed the Coalition for Responsible Tobacco Retailing and launched a new program ("We Card") focused on stopping underage access to cigarettes. In 1992, the Alcohol, Drug Abuse and Mental Health Act was signed into law. This act requires states to adopt a minimum age of 18 for purchases of tobacco products and to establish a system to monitor, report and reduce the illegal sale of tobacco products to minors in order to continue receiving federal funding for mental health and drug abuse programs. In January 1996, regulations implementing this legislation were announced by the Department of Health and Human Services.

In 1964, the Report of the Advisory Committee to the Surgeon General of the U.S. Public Health Service concluded that cigarette smoking was a health hazard of sufficient importance to warrant appropriate remedial action. Since 1966, federal law has required a warning statement on cigarette packaging. Since 1971, television and radio advertising of cigarettes has been prohibited in the United States. Cigarette advertising in other media in the United States is required to include information with respect to the "tar" and nicotine yield content of cigarettes, as well as a warning statement.

During the past three decades, various laws affecting the cigarette industry have been enacted. In 1984, Congress enacted the Comprehensive Smoking Education Act (the "Smoking Education Act"). Among other things, the Smoking Education Act: (i) establishes an interagency committee on smoking and health that is charged with carrying out a program to inform the public of any dangers to human health presented by cigarette smoking; (ii) requires a series of four health warnings to be printed on cigarette packages and advertising on a rotating basis; (iii) increases type size and area of the warning required in cigarette advertisements; and (iv) requires that cigarette manufacturers provide annually, on a confidential basis, a list of ingredients used in the manufacture of cigarettes to the Secretary of Health and Human Services. The warnings currently required on cigarette packages and advertisements (other than billboards) are as follows: (i) "Surgeon General's Warning: Smoking Causes Lung Cancer, Heart Disease, Emphysema, And May Complicate Pregnancy"; (ii) "Surgeon General's Warning: Quitting Smoking Now Greatly Reduces Serious Risks To Your Health"; (iii) "Surgeon General's Warning: Smoking By Pregnant Women May Result in Fetal Injury, Premature Birth, and Low Birth Weight"; and (iv) "Surgeon General's Warning: Cigarette Smoke Contains Carbon Monoxide." Similar warnings are required on outdoor billboards.

Since the initial report in 1964, the Secretary of Health, Education and Welfare (now the Secretary of Health and Human Services) and the Surgeon General have issued a number of other reports which purport to find the nicotine in cigarettes addictive and to link cigarette smoking and exposure to cigarette smoke with certain health hazards, including various types of cancer, coronary heart disease and chronic

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obstructive lung disease. These reports have recommended various governmental measures to reduce the incidence of smoking.

It is not possible to determine what additional federal, state, local or foreign legislation or regulations relating to smoking or cigarettes will be enacted or to predict any resulting effect thereof on RJRT, Reynolds International or the cigarette industry generally, but such legislation or regulations could have an adverse effect on RJRT, Reynolds International or the cigarette industry generally.

For a description of certain litigation affecting RJRT and its affiliates (including RJRN Holdings and RJRN) and indemnitees, see note 10 to the consolidated financial statements.

FOOD

The food line of business is conducted through the operating subsidiaries of Nabisco Holdings Corp. ("Nabisco Holdings"). Nabisco Holdings' businesses in the United States are comprised of the Nabisco Biscuit and the U.S. Foods Group.

Nabisco Holdings' businesses outside the United States are conducted by Nabisco Ltd and Nabisco International, Inc. (collectively, the "International Food Group").

1998 VS. 1997. Biscuit's net sales were flat at \$3.54 billion versus the prior year reflecting price increases and volume gains in core cookies and crackers largely offset by lower volumes in SnackWell's and breakfast snacks. Although net sales were flat versus the prior year, momentum was reestablished in the second half of 1998. After adjusting selling days to an equal days basis, Biscuit's net sales rose nearly 5% in the fourth quarter of 1998 versus the same period a year ago. These sales reflect the impact of increased marketing spending and the efforts of Biscuit's redesigned direct store delivery sales force, which was approximately one-third in place at December 31, 1998 and was approximately half complete on February 28, 1999.

The U.S. Foods Group's net sales decreased 10% in 1998 primarily due to divestitures in 1998 and 1997 (1998 - College Inn broths, the tablespreads and egg substitute businesses, Plush Pippin frozen pies and the chocolate yogurt business; 1997 - certain regional brands). Excluding the impact from these businesses, net sales increased 3% primarily due to the inclusion of Cornnuts snacks acquired in December 1997 and increased volume for Planters nuts, A.1. steak sauces and pet snacks, partially offset by lower volume for confections.

The International Food Group's net sales decreased by 2% in 1998 versus 1997. Excluding the impact of foreign currency translation, International's net sales were up 2% in 1998 versus the prior year primarily due to price increases and increased volumes in several Latin American markets, partially offset by volume declines in Brazil, Argentina and Asia.

Biscuit's operating company contribution declined 22% to \$542 million, largely the result of increased marketing spending invested behind core brands including the SnackWell's line. Higher costs associated with strengthening and redesigning the Biscuit direct store delivery sales organization also significantly contributed to the profit decline.

The U.S. Foods Group operating company contribution declined 12% to \$339 million. Excluding the results from divestitures in both years, the U.S. Foods Group's operating company contribution in 1998 increased 7% to \$301 million from \$281 million in 1997 primarily due to gains in Planters nuts, A.1. steak sauces, pet snacks and the acquisition of Cornnuts in December 1997, partially offset by declines in confections.

The International Food Group's operating company contribution decreased 11% to \$206 million. The decrease in operating company contribution was principally due to unfavorable foreign currency translation of \$20 million and lower earnings, exclusive of foreign currency translation, in Spain, Asia and Canada, which more than offset increased earnings in Brazil and Argentina as progress was made in lowering costs in these operating regions.

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In the third quarter of 1998, operating company contribution (on a reported basis) was increased by a \$14 million net gain (\$1 million after tax, net of minority interest) related to the sale of the College Inn brand of canned broths, the U.S. and Canadian tablespreads and U.S. egg substitute businesses (formerly included in the U.S. Foods Group operating segment), and the Del Monte brand canned vegetable business in Venezuela (formerly included in the International Food Group operating segment) for net proceeds of approximately \$550 million, and the costs of exiting certain non-strategic businesses.

1997 VS. 1996. Biscuit's net sales declined 4% in 1997 versus the prior year, primarily due to volume declines in SnackWell's and breakfast snacks, which more than offset volume increases in other core cookie and cracker brands. The decrease reflects a decline in market share in a number of core brands, less market acceptance of certain new products and in-store performance difficulties experienced in Biscuit's direct store delivery system.

The U.S. Foods Group's net sales decreased 1% in 1997 primarily due to lower sales volume for tablespreads, condiments and certain other products and the impact from the sale of certain domestic regional brands in the second quarter of 1997, partially offset by higher volume for Planters nuts and certain confectionery products.

The International Food Group's \$11 million net sales increase for 1997 reflected improved results in Asia and Mexico, partially offset by declines in Brazil, principally volume, resulting from aggressive competitive activity in the biscuit and milk categories, and in Argentina, due to competitive pricing pressures. The results reflect economic and competitive problems in certain international markets and underperformance at certain units.

Biscuit's operating company contribution increased 15% in 1997. This increase resulted largely from restructuring-driven margin improvements and ongoing productivity initiatives.

The U.S. Foods Group's operating company contribution increased 2% in 1997. Excluding the impact of divested businesses in 1997, operating company contribution was flat compared to 1996, as reduced sales of higher margin products offset the benefits of restructuring efficiencies.

The International Food Group's 7% decline in operating company contribution for 1997 was primarily attributable to lower earnings in Brazil from lower sales, and in Argentina due to lower sales and higher marketing expenses, partially offset by profitable sales growth in Mexico and Asia and productivity-driven earnings improvements in Canada.

In the second quarter of 1997, Nabisco sold certain domestic regional brands (formerly included in the U.S. Foods Group) which resulted in a pre-tax gain of \$32 million. In addition non-recurring pre-tax expenses of \$31 million were recorded for the write-down of certain assets of a business held for sale, the reorganization of the U.S. Foods Group selling organization and the relocation of the International Food Group headquarters.

Net sales for 1998 and 1997 from all divestitures in both years by Nabisco were \$298 million and \$632 million, respectively. Operating company contribution for 1998 and 1997 from divested businesses was \$39 million and \$99 million, respectively.

TOBACCO SETTLEMENT AND RELATED EXPENSES

RJRT recorded pre-tax charges totaling \$1.442 billion during 1998 for the initial up front tobacco settlement and related expenses as follows:

<TABLE>		
<S>		<C>
Multi-state settlement agreement.....	\$	620
Minnesota settlement agreement.....		312
"Most favored nation" adjustments for previously settled states....		145
Rationalization of manufacturing operations.....		214
Employee severance and related benefits.....		151
		-----
	\$	1,442
		-----
		-----

</TABLE>

For a discussion regarding the provisions of the multi-state settlement, the Minnesota settlement and the most favored nation adjustments, see note 10 to the consolidated financial statements. The rationalization of manufacturing operations primarily represents a charge to write-down the book value of one of RJRT's production facilities and certain equipment in Winston-Salem, North Carolina to fair value. The employee severance and related benefits expense represents a charge for workforce reductions totaling approximately 1,300 employees. These charges were in response to the changing business conditions which will likely result from the multi-state settlement agreement signed in November 1998. RJRT anticipates that the November price increase, which was necessary to satisfy its ongoing annual payment obligations under the multi-state settlement agreement, is likely to adversely affect volume and its results of operations.

Cash expenditures related to the termination of employees is anticipated to be approximately \$100 million and will be paid from operations into the year 2000. Pre-tax savings in 1999 and 2000 relating to the employee terminations and the rationalization of manufacturing operations is expected to be approximately \$75 million and \$110 million, respectively. As of December 31, 1998, \$268 million of the accrual was utilized as follows: \$54 million for severance and related benefits and \$214 million for rationalization of manufacturing operations.

RJRT recorded pre-tax charges totaling \$359 million during 1997 related to settlement agreements reached with the Florida, Mississippi and Texas state attorneys general and in certain class action cases. See note 10 to the consolidated financial statements for further discussion.

RESTRUCTURING EXPENSES

Restructuring expenses by business follow:

<TABLE>			
<CAPTION>			
YEARS ENDED DECEMBER 31 (DOLLARS IN MILLIONS)		1998	1997
			1996
		-----	-----
<S>	<C>	<C>	<C>
R.J. Reynolds Tobacco.....	\$	--	\$ 80
Reynolds International.....		55	221
		-----	-----
Total Tobacco.....		55	301
			--

Nabisco Biscuit.....	314	--	238
U.S. Foods Group.....	98	--	115
International Food Group.....	118	--	75
Total Food.....	530	--	428
	\$ 585	\$ 301	\$ 428

</TABLE>

#### 1998 RESTRUCTURING EXPENSES

In the second and fourth quarters of 1998, Nabisco recorded restructuring charges of \$406 million (\$216 million after-tax, net of minority interest) and \$124 million (\$75 million after-tax, net of minority interest), respectively. These restructuring programs were undertaken to streamline operations and

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improve profitability. The programs include workforce reductions of approximately 6,500 employees. The restructuring charge for the International Food Group of \$118 million primarily consisted of \$17 million for Canada and \$84 million for Latin American operations, including \$38 million for Brazil and \$22 million for Argentina. The key elements of the restructuring programs include:

<TABLE>

<CAPTION>

DOLLARS IN MILLIONS	SEVERANCE AND BENEFITS	CONTRACT TERMINATIONS	ASSETS TO BE DISPOSED OF	OTHER EXIT COSTS	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Sales force reorganizations.....	\$ 37	\$ 3	\$ --	\$ --	\$ 40
Distribution reorganizations.....	16	8	9	--	33
Staff reductions.....	83	--	3	--	86
Manufacturing cost reduction initiatives.....	22	--	8	--	30
Plant closures.....	46	3	217	15	281
Product line rationalizations.....	4	4	20	32	60
Total restructuring charges.....	\$ 208	\$ 18	\$ 257	\$ 47	\$ 530

</TABLE>

- Sales force reorganizations consist of \$35 million for Biscuit to reorganize its direct store delivery sales force to improve its effectiveness and \$5 million for the International Food Group, principally Latin America.
- Distribution reorganizations consist of plans to exit a number of domestic and international distribution and warehouse facilities, principally \$19 million for Biscuit and \$14 million for the International Food Group.
- Staff reductions consist of headquarters and operating unit realignments, functional consolidations and eliminations of positions throughout Nabisco. Amounts are: \$37 million for the U.S. Foods Group; \$26 million for International headquarters, Canada and other foreign units; \$15 million for corporate headquarters; and \$8 million for Biscuit.
- Manufacturing cost reduction initiatives consist of a number of domestic and international programs to increase productivity, principally \$19 million for Biscuit and \$7 million for Canada.
- Plant closure accruals are for the closure and future sale of 18 production facilities in order to improve manufacturing efficiencies and reduce costs. Amounts by operating segment are: Biscuit \$217 million; U.S. Foods Group \$12 million; and International Food Group \$52 million. As of December 31, 1998, production had ceased in 6 facilities which are being actively marketed for sale. Other exit costs consist of incremental costs to be incurred prior to sale.
- Product line rationalizations consist of exit costs to discontinue a number of domestic and international product lines. Other exit costs are principally write-offs for disposals of various discontinued products. Amounts by operating segment are: U.S. Foods Group \$34 million; Biscuit \$14 million; and International Food Group \$12 million.

The 1998 restructuring programs are proceeding as scheduled. The June 1998 program is expected to be completed in 1999 and the December 1998 program is expected to be completed by the middle of 2000. These programs will require cash expenditures of approximately \$205 million, primarily to be spent in 1999. In addition, the programs will require additional expenditures of approximately \$134 million, of which \$56 million (\$27 million after-tax, net of minority interest) was incurred in 1998. These restructuring related expenses are principally for implementation and integration of the programs and include costs for relocation of employees and equipment and training. The programs will also require capital expenditures of approximately \$100 million. All cash requirements are expected to be funded from operations. Pre-tax savings in 1999 are expected to be approximately \$80 million and, after completion of the programs, are expected to be approximately \$145 million annually.

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As of December 31, 1998, \$61 million of charges were applied against restructuring reserves as follows: \$34 million for 2,000 employees severed, \$3 million for contract terminations, \$12 million for asset disposals and \$12 million for other exit costs. Of the charges applied against the restructuring reserves, cash expenditures amounted to \$39 million.

In the fourth quarter of 1998, Reynolds International recorded a net pre-tax restructuring charge of \$55 million to retool its operations in Russia and other countries in the CIS region in response to continuing depressed economic conditions in these countries. The pre-tax charge, which had no associated income tax benefit, includes severance and related benefits associated with a workforce reduction of 2,900 employees of approximately \$19 million as well as the rationalization of manufacturing facilities of approximately \$54 million. This program will require cash expenditures of approximately \$25 million and is expected to be completed in 1999. All cash requirements are expected to be funded from operations. Pre-tax savings in 1999 are anticipated to be approximately \$20 million and, after completion of the program, are expected to be approximately \$28 million annually. In the fourth quarter of 1998, the 1997 restructuring accrual was reduced by \$18 million due primarily to changes in severance and related benefit estimates of certain international accruals.

The workforce reductions relate to employees at certain manufacturing facilities and a headquarters location (8 locations in total) in the CIS region. The rationalization of manufacturing facilities consist primarily of: (i) the closing of a facility in Azerbaijan, where Reynolds International will exit all operations (\$23 million); (ii) the closing of a warehouse and manufacturing facility in St. Petersburg (\$15 million); and (iii) the closing of a facility in Lviv (\$15 million). Each of the tasks began in January 1999 and are expected to be substantially completed as follows: the Azerbaijan closing -- the fourth quarter of 1999; the St. Petersburg closings -- the third quarter of 1999; and the Lviv closing -- the first quarter of 1999. The types of costs that will be expensed with respect to these exit activities primarily include the write-down of facilities and equipment held for sale to fair value and the write-off of equipment to be abandoned (\$48 million) and contract and lease termination costs (\$5 million). The facilities will continue in operation until the closing dates to minimize losses.

None of the restructuring accruals were utilized during the year ended December 31, 1998.

#### 1997 RESTRUCTURING EXPENSES

RJRN Holdings recorded a pre-tax restructuring expense of \$301 million (\$235 million after-tax) in the fourth quarter of 1997 to reorganize its worldwide tobacco operations. The 1997 restructuring program was undertaken to enhance RJRN Holdings' competitive position and improve its long-term earnings growth prospects.

The components of the \$301 million charge were as follows:

<TABLE>  
<CAPTION>  
DOLLARS IN MILLIONS

	INTERNATIONAL	DOMESTIC	TOTAL
<S>	<C>	<C>	<C>
Employee severance and related benefits.....	\$ 142	\$ 30	\$ 172
Rationalization of manufacturing operations.....	42	30	72
Disposal of non-strategic investments.....	33	--	33
Contract termination and other costs.....	4	20	24
	-----	-----	-----
	\$ 221	\$ 80	\$ 301
	-----	-----	-----
	----	----	-----

</TABLE>

For international tobacco, the employee severance and related benefits pertained to workforce reductions of 2,600 employees at various manufacturing facilities, headquarters and regional support centers (21 locations worldwide in

total). These benefits are being paid over a period of more than one year under Reynolds International's severance policy, which is based on length of service provided by the terminated employees.

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The rationalization of certain manufacturing operations consisted of the following: (i) the closing of the Berlin, Germany and Turku, Finland manufacturing facilities in connection with the consolidation of manufacturing operations into Trier, Germany (\$16 million and \$13 million, respectively); (ii) the closing of Reynolds International's stemmery operations in Tilsonburg, Canada (\$2 million); (iii) the closing of a leased manufacturing facility in Hong Kong (\$6 million) and (iv) the downsizing of a manufacturing facility in Montreal, Canada (\$5 million). Each of these tasks began in either December 1997 or January 1998 and were or are expected to be substantially completed as follows: Tilsonburg and Montreal, Canada and Hong Kong -- December 1997; Berlin, Germany -- January 1999; and Turku, Finland -- the second quarter of 1999. Reynolds International expects all outstanding tasks to be substantially completed as originally planned. The types of costs that were expensed with respect to these exit activities included the write-down of buildings and surplus equipment held for sale to fair value and the write-off of equipment to be abandoned.

The contract terminations and other costs primarily represented the write-down of office equipment and fixtures and other exit costs as a result of office floor space reductions, the consolidation of certain offices and the abandonment of lease obligations in Italy, Kenya, Dubai and the United Kingdom.

The disposal of non-strategic investments consisted of the following: the exits of a distribution company in Poland (\$7 million) and operations in Vietnam (\$8 million), India (\$6 million), Armavir, Russia (\$6 million) and Hungary (\$6 million). The disposals were or are expected to be substantially completed as follows: Hungary -- the fourth quarter 1998; India -- the first quarter 1999; Armavir, Russia and Poland -- the second quarter 1999; and Vietnam -- the third quarter 1999. Reynolds International began the process of disposing of each of the non-strategic investments during 1998. The following is a summary of the status of certain investments that will not be disposed of until 1999. The sale of Armavir, Russia, which was to take place in 1998, could not be completed and instead Armavir, Russia will now be abandoned; the transfer of ownership of the Polish distribution company will take place on April 21, 1999 even though Reynolds International had an agreement to sell this operation on April 7, 1998; and the closing of the Vietnam operations was subject to a lengthy approval process by the Vietnamese government even though Reynolds International had a contract for sale in the third quarter of 1998. Accordingly, although the sale of some of the non-strategic investments was not scheduled to close until late 1998 or beyond, management had the ability to close these facilities on the commitment date. As noted above, Reynolds International had contracts to sell most of these investments in 1998, however, many of the sales are subject to lengthy regulatory reviews. The facilities continue in operation until the closing dates only to minimize the losses. If any of the planned sales are not consummated, management is prepared to abandon the investment, as was the case with the Armavir transaction described above.

For domestic tobacco, the employee severance and related benefits pertained to workforce reductions of 192 full-time positions and 217 seasonal positions at a manufacturing facility and staff related areas. The severed employees were primarily employed at RJRT's Brook Cove, North Carolina Stemmerly which was closed. The rationalization of certain manufacturing operations primarily relates to the closing of RJRT's Brook Cove, North Carolina Stemmerly which took place in February 1998, after RJRT finished processing tobacco purchased from the 1997 burley crop. Beginning with the 1998 flue-cured crop, RJRT began contracting with an outside third party to do its leaf processing. The type of costs that were expensed with respect to the exit of this activity included the write-down of the building and equipment held for sale to fair value and the write-off of equipment to be abandoned.

The contract termination and other costs for RJRT represented a loss on the termination of a contractual obligation. During 1997, management decided and committed to a plan of termination of a leaf supply contract at a price below RJRT's contract price. The loss represents the shortfall between the contract cost and the amount that was recovered upon the sale of the leaf inventory. RJRT, acting as a broker, exercised all of its remaining obligations under a leaf supply contract and immediately transferred title to a third party without taking possession of the tobacco.

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Of the \$301 million total tobacco charge, cash outlays will aggregate approximately \$180 million. The program is expected to be completed in late 1999.

In addition to the above restructuring charge, approximately \$89 million was recognized in operating expenses for international tobacco for implementation and integration expenses, principally training and relocation of employees and

equipment.

For the year ended December 31, 1998, \$183 million of the 1997 worldwide tobacco restructuring accruals were utilized as follows: \$90 million for employee severance and related benefits, \$59 million for rationalization of manufacturing operations, \$12 million for disposal of non-strategic investments, and \$22 million for contract terminations and other costs. Of the charges applied against the restructuring reserve in 1998, cash expenditures amounted to \$115 million, which were provided from operations.

1996 RESTRUCTURING EXPENSES

Nabisco recorded a restructuring charge of \$428 million (\$241 million after-tax, net of minority interest) in the second quarter of 1996. The restructuring program was undertaken to streamline operations and improve profitability. A summary of the key events and costs of the worldwide program were:

- \$81 million of severance benefits for restructuring corporate staff and operating company head offices.
- \$116 million to eliminate low-volume product lines and sizes.
- \$62 million for severance benefits and contract exit costs to increase the efficiency and effectiveness of the U.S. sales organizations.
- \$118 million for streamlining production and distribution systems, principally for severance benefits and property disposals.
- \$51 million to write-down the values of several non-strategic regional product lines held for sale.

The restructuring charge consisted of \$238 million for Biscuit and \$115 million for the U.S. Foods Group and corporate, including \$29 million for Food Service, \$29 million for Planters and the remainder of approximately \$57 million for corporate headquarters operations, the Sales & Integrated Logistics Group and other business units. The restructuring expense for the International Food Group amounted to \$75 million and consisted of \$51 million for Latin American operations (including \$31 million for Brazil), \$11 million for Canada, and \$10 million for Iberia.

The 1996 restructuring program events were substantially completed by the end of 1997. The major changes in estimates and charges are summarized below. Severance benefits increased \$30 million over the original estimate due to higher than anticipated costs associated with Biscuit's sales force reorganization. Estimated costs of product line disposals decreased \$15 million due to the decision not to sell a small regional brand. Estimated costs of product line rationalizations, contract terminations and facility reorganizations were also changed due to different actual costs. The major components of the restructuring charge and changes in estimates and charges are summarized below.

<TABLE>  
<CAPTION>

DOLLARS IN MILLIONS	JUNE 1996 PROVISION	CHANGE IN ESTIMATE	ADJUSTED PROVISION	PAYMENTS & CHARGES	BALANCE 12-31-97	PAYMENTS & CHARGES	BALANCE 12-31-98
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Severance and benefits.....	\$ 194	\$ 30	\$ 224	\$ (197)	\$ 27	\$ (25)	\$ 2
Product line rationalizations..	116	4	120	(117)	3	(3)	--
Product line disposals.....	51	(15)	36	(36)	--	--	--
Contract terminations.....	45	(15)	30	(29)	1	(1)	--
Plant closures and facility reorganizations.....	22	(4)	18	(12)	6	(6)	--
Total.....	\$ 428	\$ --	\$ 428	\$ (391)	\$ 37	\$ (35)	\$ 2

</TABLE>

As of December 31, 1998, cumulative cash expenditures amounted to \$238 million, which were provided from operations. Cash requirements in 1999 to extinguish the remaining obligations, principally severance benefits, are estimated to be approximately \$2 million. In addition, the program required additional 1996 expenditures of \$97 million for implementation and integration expenses, principally for relocation of employees and equipment and training. Annual pre-tax savings, commencing in 1998, are approximately \$150 million. The program costs are discussed further in note 2 to the consolidated financial statements.

INTEREST AND DEBT EXPENSE



Interest expense was \$880 million in 1998, a decrease of \$32 million or 4% from the prior year. The decrease is mainly attributable to the paydown of commercial paper with the net proceeds from divested businesses and the replacement of fixed rate debt at lower interest rates, both at Nabisco.

#### OTHER INCOME (EXPENSE), NET

Other income (expense), net was an expense of \$132 million, an increase of \$25 million or 23% over the prior year. The increase is principally due to higher foreign exchange losses and a penalty paid by Reynolds International, (see note 10 to the consolidated financial statements for further discussion), partially offset by higher interest income.

#### INCOME TAXES

The effective income tax rate on an ongoing basis for 1998, 1997 and 1996 was 46%, 42.4% and 43.7%, respectively. The higher effective income tax rate for 1998 primarily reflects a higher tax rate for Reynolds International due to a shift in the earnings mix and a minimal tax benefit on certain write-offs and charges recorded in 1998.

The reported effective income tax benefit rate of 3.7% in 1998 is lower than the 52.2% effective income tax rate for 1997 due primarily to a lower effective tax rate on restructuring charges and tobacco settlement and related expenses in 1998 and the greater impact of non-deductible goodwill amortization relative to income (loss) before income taxes.

#### IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

During 1998, RJRN Holdings and RJRN adopted Statement of Financial Accounting Standards ("SFAS") No. 130, Reporting Comprehensive Income, SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, SFAS No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits and Statement of Position No. 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use. See note 1 to the consolidated financial statements for further discussion.

See note 1 to the consolidated financial statements for a discussion regarding recently issued accounting pronouncements.

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#### LIQUIDITY AND FINANCIAL CONDITION

Net cash flows from operating activities were \$1.30 billion in 1998 in comparison to \$1.57 billion in 1997. The decrease primarily reflects a decrease in net income and increased tobacco settlement and restructuring payments; partially offset by a reduction in inventory resulting from overall improved inventory management, a reduction in interest payments due to debt refinancings and repayments at Nabisco and lower income tax payments due to lower earnings.

Net cash flows used in investing activities for 1998 were \$26 million, compared to a use of \$686 million in 1997. The decrease is due to higher divestiture proceeds from the sale of certain food businesses during 1998 and lower capital expenditures in 1998 (primarily at Reynolds International), partially offset by lower proceeds in 1998 versus 1997 resulting from the sale and closure of certain international tobacco facilities in 1997.

Net cash flows used in financing activities were \$1.32 billion in 1998, compared to \$751 million in 1997. The increase was primarily due to an overall reduction in debt, principally at Nabisco, and the redemption of the Series B preferred stock, partially offset by the proceeds from the issuance of RJRN Holdings' trust originated preferred securities.

Free cash flow, another measure used by management to evaluate liquidity and financial condition, represents cash available for the repayment of debt and certain other corporate purposes such as common stock dividends, stock repurchases and acquisitions. It is essentially net cash flow from operating activities and investing activities per the Consolidated Statements of Cash Flows, adjusted for acquisitions and divestitures of businesses, less preferred stock dividends. Free cash flow resulted in an inflow of \$779 million in 1998 versus \$850 million in 1997. The decrease in free cash flow primarily reflects a decline in operating company contribution, and the increase in tobacco settlement and restructuring payments in 1998, partially offset by the reduction in inventory and the reduction in income tax and interest payments discussed above and a decrease in capital expenditures and preferred dividend payments.

In July 1997, RJRN repaid commercial paper borrowings with proceeds from the issuance of \$150 million 8 1/4% notes due 2004 and \$200 million 8 1/2% notes due 2007. In August 1997, Nabisco issued \$200 million of floating rate notes (5.38% as of December 31, 1998) due 2009, which are puttable and callable in August 1999. In December 1997, Nabisco refinanced \$432 million of 8.3% notes due 1999 and \$541 million of 8% notes due 2000 with short-term borrowings. These short-term borrowings were refinanced in January 1998 with \$1 billion

6.0%-6 3/8% long-term notes due 2011-2035, which are puttable and callable in 2001-2005.

In August 1998, RJR Nabisco Holdings, RJR Nabisco Inc. and the RJR Nabisco Holdings Capital Trusts filed a shelf registration with the Securities and Exchange Commission for \$1.25 billion of debt. In October 1998, Nabisco filed a shelf registration with the Securities and Exchange Commission for \$1.0 billion of debt.

In August 1998, a newly formed wholly owned subsidiary trust of RJRN Holdings issued \$374 million principal amount of preferred securities. The proceeds from the sale of the preferred securities and the original capital contribution were invested by the trust in approximately \$385 million principal amount of 9 1/2% junior subordinated debentures of RJRN Holdings. The junior subordinated debentures are redeemable by RJRN Holdings on or after September 30, 2003 and are due in September 2047. Cash distributions on the preferred securities are cumulative at an annual rate of 9 1/2% of the liquidation amount of \$25 per security and are payable quarterly in arrears. In October 1998, RJRN Holdings used \$301 million of the proceeds from the issuance of the junior subordinated debentures to redeem its outstanding Series B preferred stock.

At December 31, 1998, fixed rate debt comprised approximately 84% of total consolidated debt. RJRN Holdings' ratio of total debt (notes payable and long-term debt, including current maturities and

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mandatorily redeemable preferred securities) to equity was 1.31 to 1 and 1.12 to 1 at December 31, 1998 and 1997, respectively.

See the Results of Operations within this section regarding the divestiture of certain food businesses in 1998 and 1997 and cash requirements of Food and Tobacco restructuring programs.

Total payments in 1998 for all tobacco litigation settlement agreements currently in effect and their associated costs, including the multi-state settlement agreement, all other attorney general agreements and related amendments and fee payment agreements and the agreement with Blue Cross and Blue Shield of Minnesota, were \$786 million. Payments were funded primarily by cash flows from operating and financing activities. Payments related to these agreements will be approximately \$1.6 billion in 1999 and will be funded through price increases. Payments in future years will approximate \$2.0 billion per year, but these payments will be subject to, among other things, the volume of cigarettes sold by RJRT, RJRT's market share and inflation adjustments. For further discussion of the potential impact of litigation issues and various litigation settlements, including the effects of certain attorney general agreements, see note 10 to the consolidated financial statements.

RJRN maintains a three-year \$2.146 billion revolving credit facility, of which no borrowings were outstanding at December 31, 1998, and a 364-day credit facility primarily to support commercial paper issuances, of which \$179 million was available at December 31, 1998. In June 1998, the maturity of the revolving credit facility was extended to June 2001 and the 364-day credit facility was renewed to May 31, 1999. The commitment under the 364-day facility was reduced to \$212 million from \$568 million. The commitments under the revolving credit facility decline to approximately \$2.1 billion in 1999, to \$2.0 billion in 2000 and to \$1.7 billion in 2001. The revolving credit facility provides for the issuance of up to \$800 million of letters of credit, of which \$308 million was issued at December 31, 1998. Availability under the revolving credit facility is reduced by the amount of any borrowings outstanding and letters of credit issued under the facility and by the amount of outstanding commercial paper in excess of \$212 million. At December 31, 1998 approximately \$1.84 billion was available under the revolving credit facility. During 1998, RJRN Holdings and RJRN also amended certain terms of these credit agreements to accommodate the settlement of certain litigation and a restructuring charge. RJRN anticipates that it will negotiate the terms and amounts of a new credit facility to support the operations of the domestic tobacco business after the completion of the separation of the food and tobacco businesses.

Nabisco maintains a four-year \$1.5 billion revolving credit facility, of which no borrowings were outstanding at December 31, 1998, and a 364-day credit facility primarily to support commercial paper issuances, of which \$174 million was outstanding at December 31, 1998. In October 1998, the 364-day credit facility was extended to October 1999 and amended to provide \$1.11 billion of credit. At the end of the 364-day period, any borrowings outstanding under the 364-day credit facility are convertible into a three-year term loan at Nabisco's option. The commitments under the revolving credit facility decline to approximately \$1.46 billion in the final year. The revolving credit facility also provides for the issuance of up to \$300 million of letters of credit, of which none was issued at December 31, 1998. Availability under the revolving credit facility is reduced by the amount of any borrowings outstanding and letters of credit issued under the facility and by the amount of outstanding commercial paper in excess of \$1.11 billion. At December 31, 1998, the entire revolving credit facility was available.

Distributions and the payment of dividends by RJRN Holdings are subject to certain restrictions under certain financing agreements and debt instruments of RJRN Holdings and RJRN and their subsidiaries. The financing agreements generally restrict cumulative common and preferred dividends and distributions, limit the ability to incur indebtedness, engage in transactions with stockholders and affiliates, create liens, sell or dispose of certain assets and certain subsidiaries' stock, issue certain equity securities and engage in certain mergers or consolidations. RJRN Holdings and RJRN believe that they are currently in compliance with all covenants and restrictions imposed by the terms of their indebtedness.

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Nabisco's credit agreements, among other things, generally restrict common and preferred dividends and distributions, limit loans and advances by Nabisco Holdings and its subsidiaries to RJRN, limit the ability to incur indebtedness, engage in transactions with stockholders and affiliates, create liens, acquire, sell or dispose of certain assets and securities and engage in certain mergers or consolidations. Nabisco Holdings and Nabisco believe that they are currently in compliance with all covenants and restrictions imposed by the terms of their indebtedness.

Nabisco increased its quarterly dividend to \$.1875 per share or \$.75 per share on an annual basis from \$.70 per share on an annual basis commencing with the April 1, 1999 payment.

Nabisco maintains an arrangement to sell for cash substantially all of its domestic trade accounts receivable to a financial institution. In addition, similar arrangements have been established for the sale of trade accounts receivable by certain foreign tobacco and food subsidiaries.

Capital expenditures were \$576 million, \$763 million and \$741 million for 1998, 1997 and 1996, respectively. The decreased level of capital expenditures in 1998 was primarily due to the reduced level of capital investment for Reynolds International (notably in Russia). The level of expenditures currently planned for 1999 is approximately \$350 million to \$400 million (approximately 56% Food and 44% Tobacco) due to a reduced level of capital expenditures for Reynolds International and will be funded primarily by cash flows from operating activities. Management expects that its capital expenditure program will continue at a level sufficient to support the strategic and operating needs of RJRN Holdings' operating subsidiaries. There were no material long-term commitments for capital expenditures as of December 31, 1998.

RJRN Holdings' subsidiaries have operations in many countries which utilize many different functional currencies. Significant foreign currency net investments are located in Canada, Spain, Argentina, Puerto Rico, Germany, Brazil, Mexico, Malaysia, Russia, Venezuela and Hong Kong. RJRN Holdings' subsidiaries also have significant exposure to foreign exchange transactions in currencies other than their functional currencies. Exposures primarily include the U.S. dollar, German mark, French franc, British pound, Italian lira, Japanese yen, Swiss franc, Hong Kong dollar, Singapore dollar, Finnish markka, Canadian dollar, Spanish peseta, Dutch guilder, Brazilian real, Malaysian ringgitt, Indonesian rupiah, Russian rouble, Romanian leu, and Turkish lira. Whenever possible, RJRN Holdings' policy is to net exposures and utilize natural offsets to minimize the effects of foreign currency transactions on cash flows; otherwise, consideration is given to foreign currency arrangements to protect RJRN Holdings and its subsidiaries from risk that the eventual dollar cash flows resulting from transactions with international parties will be adversely affected by changes in exchange rates. In addition, consideration is given to foreign currency arrangements to hedge foreign currency exposures on existing assets and liabilities, including certain international debt.

At December 31, 1998, there was \$2.05 billion of accumulated and undistributed income of foreign subsidiaries. No applicable U.S. federal deferred income taxes have been provided because management reinvested these earnings abroad indefinitely to fund international acquisitions, new products and other opportunities in foreign markets.

See Subsequent Events within this section for a discussion regarding the pending sale by RJRN and RJRT of the international tobacco business and the separation of the domestic tobacco and food businesses.

#### FOREIGN MARKET RISK

Current volatility of financial markets and political uncertainty in Russia and the rest of the CIS region have and could continue to adversely impact RJRN's results of operations. Reynolds International's sales, volume and profits for the fourth quarter and year ended 1998 suffered from deteriorating economies in Russia and the rest of the CIS region. Volume in the CIS region declined 12% during the

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year compared to 1997, while sales declined 19% and operating company contribution declined to a loss of approximately \$3 million from income of approximately \$73 million. The rouble's devaluation and severe limits on trade credit froze important distributor channels for imported and domestic products. In addition, the poor economy and uncertain conditions fostered a decline in consumer purchasing power and weak demand for mid- and premium-priced products. These conditions led Reynolds International to briefly suspend domestic manufacturing and the import of higher-priced western brands into Russia toward the end of the third quarter of 1998. Although domestic manufacturing in Russia resumed early in the fourth quarter, business and economic conditions continue to be unstable.

Nabisco is exposed to the current volatility of financial markets in Brazil, which could potentially adversely impact the International Food Group's financial position. As of February 28, 1999 Brazil's currency, the real, suffered a devaluation of approximately 68% from December 31, 1998, compared to the U.S. dollar, which resulted in an unfavorable cumulative translation adjustment of approximately \$150 million.

At this time, RJRN is unable to predict with any certainty the short or long-term impact of these developments, but anticipates that these factors could have an adverse effect on RJRN's results of operations in 1999 and beyond.

#### YEAR 2000 ISSUE

RJRN Holdings is implementing plans to address the implications of the year 2000 on its computer systems and business operations. The year 2000 issue stems from computer applications that were written using two digits rather than four digits to define the applicable year. The issue is whether computer systems will properly interpret date-sensitive information when the year changes to 2000. The status of RJRN Holdings' year 2000 compliance effort as of December 31, 1998 follows.

RJRN Holdings has inventoried and assessed its financial, information and operational systems, and has developed detailed plans for required systems modifications or replacements. This process has been completed for all information technology systems ("IT systems"). Management estimates that this process is approximately 80% complete for information systems with embedded technology ("non-IT systems"), which include, but are not limited to, process control, automated factory/assembly lines, environmental safety, quality control and facilities. This phase is anticipated to be completed during the second quarter of 1999. Management believes that the risk of critical issues arising from the remaining items to be inventoried is minimized due to the duplication of equipment across facilities within each operating company.

Software remediation (modifying existing programs to make them year 2000 compliant) is progressing and, in the case of IT systems, is approximately 88% complete for Nabisco Holdings, approximately 85% complete for RJRT, and approximately 90% complete for Reynolds International. Management expects this phase of year 2000 readiness to be complete by the end of the first quarter of 1999, with the exception of certain standalone systems at Nabisco Holdings, which are anticipated to be completed during the second quarter of 1999. In the case of non-IT systems, software remediation efforts are ongoing and estimated completion dates are the third quarter of 1999 for Nabisco Holdings and the first quarter of 1999 for both RJRT and Reynolds International.

Software testing following remediation is approximately 77% complete for IT systems at Nabisco Holdings and approximately 80% complete at RJRT and Reynolds International. Management expects that testing at Nabisco Holdings and RJRT will be complete during the third quarter of 1999 and at Reynolds International by the second quarter of 1999. With respect to non-IT systems, approximately 45% are compliant at Nabisco Holdings, with anticipated completion by the end of the third quarter of 1999. This phase is approximately 70% complete at RJRT and Reynolds International and is expected to be complete by the end of the third and second quarters of 1999, respectively.

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Approximately 70% of IT systems at Nabisco Holdings are compliant and in production. Management expects the remainder to be complete during the third quarter of 1999. About 80% of IT systems at RJRT are compliant and in production. Management anticipates the balance to be complete by the end of the third quarter of 1999. Approximately 85% of IT systems at Reynolds International have been tested and returned to production. This phase should be complete during the second quarter of 1999. Both RJRT and Reynolds International anticipate non-IT systems to be fully year 2000 compliant in the third quarter of 1999. Nabisco Holdings anticipates that all non-IT systems will be compliant by November of 1999.

Incremental costs, which include contractor costs to modify or replace existing systems, and costs of internal resources dedicated to achieving year 2000 compliance are charged to expense as incurred and are funded by operating cash flows. Costs are expected to total approximately \$90 million, of which \$44 million has been spent as of December 31, 1998, details of which are as follows:

<TABLE>  
<CAPTION>

	TOTAL COSTS AS OF 12/31/98	ANTICIPATED TOTAL PROJECT COSTS
<S>	<C>	<C>
BY SYSTEM TYPE		
IT Systems.....	\$ 40	\$ 71
Non-IT Systems.....	4	19
BY WORK PERFORMED		
Remediation.....	\$ 41	\$ 83
Replacement.....	3	7
INTERNAL/EXTERNAL		
Internal Cost.....	\$ 24	\$ 41
Replacement/Contractor Costs.....	20	49

RJRN Holdings is also in contact with suppliers, vendors, service providers and customers to assess the potential impact on operations if key third parties are not successful in converting their systems in a timely manner. In early 1999, Nabisco Holdings initiated an effort to obtain a more accurate and up-to-date status of third parties' year 2000 compliance. This involved re-contacting all previously contacted third parties, as well as contacting additional selected third parties. As of February 28, 1999, correspondence had been sent to 90% of all identified third parties, with the remainder to be sent during March 1999. As of February 28, 1999, Nabisco Holdings received responses from 11% of identified third parties, with most respondents confirming that they are currently compliant, and those that are not in compliance assuring that they will be compliant by the end of 1999. RJRT has received responses from 85% of identified third parties, as follows: 70% of identified third parties have confirmed that they are fully compliant, 14% are not currently compliant but expect to be by the end of 1999, and 1% will not be in compliance. Reynolds International has received correspondence from 65% of identified third parties. Those that are not currently compliant assure that efforts are ongoing and are anticipated to achieve full compliance by the end of the fourth quarter of 1999. Internationally, however, many governmental agencies and utilities have not been proactive in addressing the year 2000 problem and have not provided sufficient assurances regarding their state of year 2000 readiness. The status of year 2000 efforts for those third parties that have been identified as critical will continue to be monitored and contingency plans specific to those third parties are being, or have been, developed.

Progress against year 2000 compliance plans is monitored by management at each of the operating companies as well as the internal audit department. Results are reported to the board of directors on a regular basis.

RJRN Holdings' systems risk management program includes emergency backup and recovery procedures to be followed in the event of failure of a business-critical system. However, these procedures have been expanded to include additional procedures for potential year 2000 issues. In addition, contingency plans to protect the business from year 2000-related interruptions are being developed, which will include

development of backup procedures, identification of alternate suppliers and possible increases in safety inventory levels. These plans have already been completed at RJRT and will be complete at Nabisco Holdings and Reynolds International by the end of the second and third quarters of 1999, respectively. The possible consequences of RJRN Holdings or key third parties not being fully year 2000 compliant include temporary plant closings, delays in the delivery of products or receipt of supplies, invoice and collection errors, and inventory obsolescence. However, RJRN Holdings believes its year 2000 implementation plan, including contingency measures, should be completed in all material respects by the end of 1999, thereby reducing the possible material adverse effects of the year 2000 issue on its business, results of operations or financial condition.

EURO CURRENCY CONVERSION

On January 1, 1999, eleven of the fifteen member countries of the European Union adopted the euro as their common legal currency. The euro is trading on currency exchanges and is available for non-cash transactions. From January 1, 1999 through January 1, 2002, each of the participating countries is also scheduled to maintain its national ("legacy") currencies as legal tender for goods and services. Beginning January 1, 2002, new euro-denominated bills and coins will be issued, and legacy currencies will be withdrawn from circulation no later than July 1, 2002. RJRN Holdings' operating subsidiaries that will be affected by the euro conversion (primarily Reynolds International and Nabisco's operating subsidiaries in Spain and Portugal) have established plans to address any business issues raised, including the competitive impact of cross-border price transparency. It is not anticipated that there will be any near term

business ramifications; however, the long-term implications, including any changes or modifications that will need to be made to business and financial strategies are still being reviewed. From an accounting and computer system standpoint, the impact from the euro currency conversion did not have a material impact on the financial position or results of operations of RJRN Holdings and its subsidiaries. From a treasury standpoint, the impact from the euro conversion is not expected to have a material impact on the financial position or results of operations of RJRN Holdings and its subsidiaries.

#### LITIGATION

For a description of certain litigation affecting RJRT and its affiliates (including RJRN Holdings and RJRN) and indemnitees, see note 10 to the consolidated financial statements.

#### ENVIRONMENTAL MATTERS

The U.S. Government and various state and local governments have enacted or adopted laws and regulations concerning protection of the environment. The regulations promulgated by the Environmental Protection Agency and other governmental agencies under various statutes have resulted in, and will likely continue to result in, substantial expenditures for pollution control, waste treatment, plant modification and similar activities.

In April 1995, RJRN Holdings was named a potentially responsible party (a "PRP") with certain third parties under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") with respect to a superfund site at which a former subsidiary of RJRN had operations. RJRN has also been named in an insurance coverage suit brought by another company named as a PRP at this site. In this lawsuit, DEL MONTE FRESH PRODUCE V. FIREMEN'S FUND INSURANCE, filed August 13, 1997 in the First Circuit Court of the State of Hawaii, the plaintiff seeks declaratory judgment that it is entitled to insurance coverage for the site or, in the alternative, that RJRN is obligated to indemnify Del Monte under the terms of the agreement by which RJRN sold that company in 1989. The Fireman's Fund Insurance Company has filed a motion for summary judgment that has not yet been heard.

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Certain subsidiaries of RJRN have also been named as PRPs with third parties or may have indemnification obligations with respect to a number of additional sites. Liability under CERCLA is joint and several.

RJRN Holdings' and RJRN's subsidiaries have been engaged in a continuing program to assure compliance with U.S., state and local laws and regulations. Although it is difficult to identify precisely the portion of capital expenditures or other costs attributable to compliance with environmental laws and to estimate the cost of resolving these CERCLA matters, RJRN Holdings and RJRN do not expect such expenditures or other costs to have a material adverse effect on the business or financial condition of RJRN Holdings and RJRN and their subsidiaries taken as a whole.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact the consolidated financial position, results of operations or cash flows of RJRN Holdings due to adverse changes in financial and commodity market prices and rates. RJRN Holdings is exposed to market risk in the areas of foreign currency exchange rates, interest rates and commodity prices. These exposures are directly related to its international operations, its use of agricultural commodities in its food operations and its normal investing and funding activities. RJRN Holdings has established various policies and procedures to manage its exposure to market risks, including the use of financial and commodity derivatives, which are highly correlated to underlying exposures. See note 11 to the consolidated financial statements for further information regarding interest rate arrangements and foreign currency arrangements entered into by RJRN Holdings' subsidiaries and further information regarding market and credit risk which may result from the use of these financial instruments. RJRN Holdings estimates its market risk due to changes in foreign currency rates, interest rates and commodity prices utilizing a financial model called Value at Risk ("VaR"). VaR is a statistical measure of the potential loss in terms of fair value, cash flows or earnings of market-risk sensitive instruments over a one-year horizon assuming a 95% confidence interval for changes in market rates and prices.

#### FOREIGN EXCHANGE AND INTEREST RATE EXPOSURES

Upon reviewing its derivatives and other foreign currency and interest rate instruments, based on historical foreign currency rate movements and the fair value of market-rate sensitive instruments at year-end, RJRN Holdings does not believe that near term changes in foreign currency or interest rates will have a material impact on its future earnings, fair values or cash flows.

#### COMMODITY PRICE EXPOSURE

Based on either Nabisco Holdings' derivative commodity instruments or its net commodity exposure (derivatives plus physical contracts less anticipated future consumption), a near-term change in commodity prices, based on historical commodity price movements, would not have a material impact on future earnings, fair values or cash flows of RJRN Holdings.

#### SUBSEQUENT EVENTS

On March 9, 1999, RJRN and RJRT entered into a definitive agreement to sell the international tobacco business for approximately \$8 billion, including the assumption of approximately \$200 million of net debt, to Japan Tobacco Inc. ("Japan Tobacco"). Under the terms of the agreement, Japan Tobacco will acquire substantially all of the business including intellectual property rights of Reynolds International, including the international rights to the Camel, Winston and Salem brand names. Proceeds from the sale will be used to reduce debt and for general corporate purposes, which is expected to substantially strengthen the financial position of RJRT. The sale is subject to certain regulatory conditions and receipt of certain consents from RJRN's bondholders.

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Also on March 9, 1999, RJRN Holdings announced that its board of directors had approved a plan to separate the domestic tobacco business conducted by RJRT, from the food business conducted by operating subsidiaries of Nabisco Holdings. Under the plan, the separation of the businesses will be accomplished by a tax-free spin-off to RJRN Holdings' shareholders of shares in the domestic tobacco business.

Upon completion of the spin-off, RJRN Holdings will be renamed Nabisco Group Holdings and will continue to exist as a holding company, owning 80.5% of Nabisco Holdings. The re-named Nabisco Group Holdings and Nabisco Holdings will each continue to trade as separate companies on the New York Stock Exchange and shares of tobacco company stock will also trade separately. The separation is subject to final board approval and bondholder consent and is expected to occur following completion of the sale of the international tobacco business.

See note 18 to the consolidated financial statements for pro forma information as a result of the above transaction.

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The foregoing discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements particularly with respect to the level of restructuring-related expenses and the amount of savings related to restructuring programs, capital expenditures, foreign market risk, the impact of proposed litigation settlements, including certain attorney general agreements and the MSA related to the tobacco business, the impact of the euro currency conversion and the impact of the year 2000 issue on computer systems and applications, which reflect management's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties, including, but not limited to, the effect on financial performance and future events of competitive pricing for products, success of new product innovations and acquisitions, local economic conditions and the effects of currency fluctuations in countries in which RJRN Holdings and its subsidiaries do business, the effects of domestic and foreign government regulation, ratings of RJRN Holdings' or its subsidiaries' securities and, in the case of the tobacco business, litigation and related legislative and regulatory developments. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Refer to the Index to Financial Statements and Financial Statement Schedules on page 52 for the required information.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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#### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANTS

Item 10 is hereby incorporated by reference to RJRN Holdings' Definitive Proxy Statement to be filed with the Securities and Exchange Commission on or prior to March 30, 1999. Reference is also made regarding the executive officers of the Registrants to "Executive Officers of the Registrants" following Item 4 of Part I of this Report.

#### ITEM 11. EXECUTIVE COMPENSATION

Item 11 is hereby incorporated by reference to RJRN Holdings' Definitive Proxy Statement to be filed with the Securities and Exchange Commission on or prior to March 30, 1999.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Item 12 is hereby incorporated by reference to RJRN Holdings' Definitive Proxy Statement to be filed with the Securities and Exchange Commission on or prior to March 30, 1999.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Item 13 is hereby incorporated by reference to RJRN Holdings' Definitive Proxy Statement to be filed with the Securities and Exchange Commission on or prior to March 30, 1999.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

<TABLE>		
<C>	<C>	<S>
(a)	1.	The financial statements listed in the accompanying Index to Financial Statements and Financial Statement Schedules are filed as part of this report.
	2.	The financial statement schedules listed in the accompanying Index to Financial Statements and Financial Statement Schedules are filed as part of this report.
	3.	The exhibits listed in the accompanying Index to Exhibits are filed as part of this report.
(b)		REPORTS ON FORM 8-K FILED SINCE THE THIRD QUARTER 1998
		Form 8-K dated November 23, 1998, reporting on the execution by RJRT and certain other U.S. tobacco companies of a Master Settlement Agreement with attorneys general of 46 states and certain other U.S. jurisdictions and filing as exhibits the related press release and agreement.
		Form 8-K dated March 9, 1999, reporting the agreement to sell the international tobacco business to Japan Tobacco and the approval by the RJRN Holdings' Board of Directors of a plan to separate the domestic tobacco business and the food business into two publicly traded entities and filing as an exhibit the related press release.
(c)		EXHIBITS
		See Exhibit Index.
(d)		FINANCIAL STATEMENT SCHEDULES.
		See Index to Financial Statements and Financial Statement Schedules.
</TABLE>		

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York on March 26, 1999.

<TABLE>		
<S>	<C>	<C>
		RJR NABISCO HOLDINGS CORP.
	By:	/s/ STEVEN F. GOLDSTONE
		-----
		(Steven F. Goldstone)
		Chairman and Chief Executive Officer
</TABLE>		

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 26, 1999.

<TABLE>			
<CAPTION>			
	SIGNATURE	TITLE	DATE
	-----	-----	-----
<C>	<S>	<C>	<C>
		Chairman and Chief	



/s/ STEVEN F. GOLDSTONE ----- (Steven F. Goldstone)	Executive Officer (principal executive officer)	March 26, 1999
/s/ DAVID B. RICKARD ----- (David B. Rickard)	Senior Vice President and Chief Financial Officer (principal financial officer)	March 26, 1999
/s/ RICHARD G. RUSSELL ----- (Richard G. Russell)	Senior Vice President and Controller (principal accounting officer)	March 26, 1999
* ----- (John T. Chain, Jr.)	Director	March 26, 1999
* ----- (Julius L. Chambers)	Director	March 26, 1999
* ----- (John L. Clendenin)	Director	March 26, 1999
* ----- (Ray J. Groves)	Director	March 26, 1999
* ----- (Fred H. Langhammer)	Director	March 26, 1999
* ----- (H. Eugene Lockhart)	Director	March 26, 1999
* ----- (Theodore E. Martin)	Director	March 26, 1999

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<TABLE>		
<CAPTION>		
SIGNATURE	TITLE	DATE
-----	-----	-----
<C>	<S>	<C>
* ----- (Rozanne L. Ridgway)	Director	March 26, 1999

<TABLE>		
<S>	<C> <C>	
	*By: /s/ WILLIAM L. ROSOFF	
	-----	
	William L. Rosoff	
	Attorney-in-Fact	

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York on March 26, 1999.

<TABLE>		
<S>	<C> <C>	
	RJR NABISCO, INC.	
	By: /s/ STEVEN F. GOLDSTONE	
	-----	
	(Steven F. Goldstone)	
	Chairman and Chief Executive Officer	

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 26, 1999.

SIGNATURE	TITLE	DATE
<C>	<S>	<C>
/s/ STEVEN F. GOLDSTONE (Steven F. Goldstone)	Chairman and Chief Executive Officer (principal executive officer)	March 26, 1999
/s/ DAVID B. RICKARD (David B. Rickard)	Senior Vice President and Chief Financial Officer (principal financial officer)	March 26, 1999
/s/ RICHARD G. RUSSELL (Richard G. Russell)	Vice President and Controller (principal accounting officer)	March 26, 1999
* (John T. Chain, Jr.)	Director	March 26, 1999
* (Julius L. Chambers)	Director	March 26, 1999
* (John L. Clendenin)	Director	March 26, 1999
* (Ray J. Groves)	Director	March 26, 1999
* (Fred H. Langhammer)	Director	March 26, 1999
* (H. Eugene Lockhart)	Director	March 26, 1999

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SIGNATURE	TITLE	DATE
<C>	<S>	<C>
* (Theodore E. Martin)	Director	March 26, 1999
* (Rozanne L. Ridgway)	Director	March 26, 1999

<TABLE>  
<S> <C> <C>  
\*By: /s/ WILLIAM L. ROSOFF  
-----  
William L. Rosoff  
Attorney-in-Fact  
</TABLE>

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INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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Report of Management's Responsibility for Financial Statements.....	F-1
Consolidated Statements of Income--Years Ended December 31, 1998, 1997 and 1996.....	F-2

Consolidated Statements of Cash Flows--Years Ended December 31, 1998, 1997 and 1996.....	F-3
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FINANCIAL STATEMENT SCHEDULES

For the years ended December 31, 1998, 1997 and 1996:

<TABLE>	
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REPORT OF DELOITTE & TOUCHE LLP, INDEPENDENT AUDITORS

RJR Nabisco Holdings Corp.  
RJR Nabisco, Inc.:

We have audited the accompanying consolidated balance sheets of RJR Nabisco Holdings Corp. ("RJRN Holdings") and RJR Nabisco, Inc. ("RJRN") as of December 31, 1998 and 1997, and the related consolidated statements of income, cash flows and stockholders' equity and comprehensive income for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedules of RJRN Holdings and RJRN as of December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998 as listed in the accompanying index to the financial statements. These financial statements and financial statement schedules are the responsibility of the Companies management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of RJRN Holdings and RJRN at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/S/ DELOITTE & TOUCHE  
New York, New York  
January 27, 1999,  
(March 25, 1999 as to note 10 and note 18)

REPORT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements presented in this report have been prepared by management in accordance with generally accepted accounting principles using, where appropriate, management's best estimates and judgment. Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and transactions are executed as authorized and properly recorded. The system includes established policies and procedures, a program of internal audits, management reviews and careful selection and training of qualified personnel.

The audit committee is comprised solely of outside directors. It meets periodically with management, the internal auditors, and the independent auditors, Deloitte & Touche LLP, to discuss and address internal accounting control, auditing and financial reporting matters. Both independent and internal auditors have unrestricted access to the audit committee.

/S/ STEVEN F. GOLDSTONE  
-----

Chairman and  
Chief Executive Officer

/S/ DAVID B. RICKARD  
-----

CONSOLIDATED STATEMENTS OF INCOME  
(DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS)

<TABLE>

<CAPTION>

YEARS ENDED DECEMBER 31	1998		1997		1996
	RJRN HOLDINGS	RJRN	RJRN HOLDINGS	RJRN	RJRN HOLDINGS
<S>	<C>	<C>	<C>	<C>	<C>
NET SALES*	\$ 17,037	\$ 17,037	\$ 17,057	\$ 17,057	\$ 17,063
Costs and expenses:					
Cost of products sold*	7,530	7,530	7,847	7,847	7,973
Selling, advertising, administrative and general expenses	6,453	6,455	5,881	5,888	5,774
Tobacco settlement and related expenses (notes 3 and 10)	1,442	1,442	359	359	--
Amortization of trademarks and goodwill	629	629	634	634	636
Restructuring expense (note 2)	585	585	301	301	428
OPERATING INCOME	398	396	2,035	2,028	2,252
Interest and debt expense	(880)	(775)	(912)	(817)	(927)
Other income (expense), net	(132)	(132)	(107)	(107)	(126)
INCOME (LOSS) BEFORE INCOME TAXES	(614)	(511)	1,016	1,104	1,199
Provision (benefit) for income taxes	(23)	19	530	566	585
INCOME (LOSS) BEFORE MINORITY INTEREST IN INCOME (LOSS) OF NABISCO HOLDINGS	(591)	(530)	486	538	614
Less minority interest in income (loss) of Nabisco Holdings	(14)	(14)	84	84	3
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(577)	(516)	402	454	611
Extraordinary item--loss on early extinguishment of debt, net of income taxes and minority interest	--	--	(21)	(21)	--
NET INCOME (LOSS)	\$ (577)	\$ (516)	\$ 381	\$ 433	\$ 611
BASIC NET INCOME (LOSS) PER SHARE:					
Income (loss) before extraordinary item	\$ (1.91)		\$ 1.11		\$ 1.75
Net income (loss)	\$ (1.91)		\$ 1.05		\$ 1.75
DILUTED NET INCOME (LOSS) PER SHARE:					
Income (loss) before extraordinary item	\$ (1.91)		\$ 1.09		\$ 1.74
Net income (loss)	\$ (1.91)		\$ 1.03		\$ 1.74
DIVIDENDS PER SHARE:					
Common stock	\$ 2.05		\$ 2.05		\$ 1.85
Series C preferred stock	\$ --		\$ 2.25		\$ 6.01

<CAPTION>

YEARS ENDED DECEMBER 31	RJRN
<S>	<C>
NET SALES*	\$ 17,063
Costs and expenses:	
Cost of products sold*	7,973
Selling, advertising, administrative and general expenses	5,779
Tobacco settlement and related expenses (notes 3 and 10)	--
Amortization of trademarks and goodwill	636
Restructuring expense (note 2)	428
OPERATING INCOME	2,247
Interest and debt expense	(832)
Other income (expense), net	(127)
INCOME (LOSS) BEFORE INCOME TAXES	1,288
Provision (benefit) for income taxes	619
INCOME (LOSS) BEFORE MINORITY INTEREST IN INCOME (LOSS) OF NABISCO HOLDINGS	669
Less minority interest in income (loss) of Nabisco Holdings	3
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	666
Extraordinary item--loss on early extinguishment of debt, net	

of income taxes and minority interest.....	--
NET INCOME (LOSS).....	\$ 666

BASIC NET INCOME (LOSS) PER SHARE:  
Income (loss) before extraordinary item.....  
Net income (loss).....  
DILUTED NET INCOME (LOSS) PER SHARE:  
Income (loss) before extraordinary item.....  
Net income (loss).....  
DIVIDENDS PER SHARE:  
Common stock.....  
Series C preferred stock.....  
</TABLE>

\* Excludes excise taxes as follows: 1998--\$3.526 billion, 1997--\$3.599 billion and 1996--\$3.852 billion.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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CONSOLIDATED STATEMENTS OF CASH FLOWS  
(DOLLARS IN MILLIONS)

YEARS ENDED DECEMBER 31	1998		1997		1996	
	RJRN HOLDINGS	RJRN	RJRN HOLDINGS	RJRN	RJRN HOLDINGS	RJRN
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:						
Net income (loss).....	\$ (577)	\$ (516)	\$ 381	\$ 433	\$ 611	\$ 666
Adjustments to reconcile net income (loss) to net cash flows from operating activities:						
Depreciation and amortization.....	1,135	1,135	1,138	1,138	1,174	1,174
Deferred income tax benefit.....	(558)	(558)	(183)	(184)	(120)	(114)
Extraordinary loss.....	--	--	43	43	--	--
Tobacco settlement and related expenses, net of cash payments.....	803	803	226	226	--	--
Restructuring and restructuring-related expenses, net of cash payments.....	377	377	168	168	257	257
Other changes that provided (used) cash:						
Accounts and notes receivable.....	(1)	4	208	216	(77)	(66)
Inventories.....	247	247	(40)	(40)	(135)	(135)
Accounts payable and accrued liabilities, including income taxes.....	(157)	(144)	(270)	(278)	(310)	(283)
Other, net.....	28	39	(102)	(100)	95	87
Total adjustments.....	1,874	1,903	1,188	1,189	884	920
Net cash flows from operating activities.....	1,297	1,387	1,569	1,622	1,495	1,586
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:						
Capital expenditures.....	(576)	(576)	(763)	(763)	(741)	(741)
Acquisitions of businesses.....	(9)	(9)	(46)	(46)	(189)	(189)
Divestitures of businesses and certain assets.....	572	572	145	145	153	153
Net proceeds from repurchases of Nabisco Holdings' common stock.....	(38)	(38)	(22)	(22)	--	--
Net proceeds from exercise of Nabisco Holdings' common stock options.....	25	25	--	--	--	--
Net cash flows used in investing activities.....	(26)	(26)	(686)	(686)	(777)	(777)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:						
Proceeds from issuance of long-term debt.....	1,274	1,274	787	787	34	34
Repayments of long-term debt.....	(67)	(67)	(1,181)	(1,181)	(216)	(216)
Increase (decrease) in short-term borrowings.....	(1,923)	(1,923)	358	358	249	249
Repurchase of common stock.....	--	--	--	--	(100)	--
Proceeds from the issuance of trust originated preferred securities.....	374	--	--	--	--	--
Redemption of Series B preferred stock.....	(301)	--	--	--	--	--
Dividends paid on common and preferred stock.....	(742)	(36)	(755)	(34)	(716)	(30)
Other, net (including intercompany transfers and payments).....	70	(654)	40	(733)	60	(816)
Net cash flows used in financing activities.....	(1,315)	(1,406)	(751)	(803)	(689)	(779)

Effect of exchange rate changes on cash and cash equivalents.....	(4)	(4)	(36)	(36)	(11)	(11)
Net change in cash and cash equivalents.....	(48)	(49)	96	97	18	19
Cash and cash equivalents at beginning of period.....	348	348	252	251	234	232
Cash and cash equivalents at end of period.....	\$ 300	\$ 299	\$ 348	\$ 348	\$ 252	\$ 251
Income taxes paid, net of refunds.....	\$ 566	\$ 566	\$ 652	\$ 690	\$ 693	\$ 727
Interest paid.....	\$ 821	\$ 716	\$ 895	\$ 800	\$ 913	\$ 794
Tobacco settlement payments.....	\$ 786	\$ 786	\$ 133	\$ 133	\$ --	\$ --

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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CONSOLIDATED BALANCE SHEETS  
(DOLLARS IN MILLIONS)

DECEMBER 31	1998		1997	
	RJRN HOLDINGS	RJRN	RJRN HOLDINGS	RJRN
<S>	<C>	<C>	<C>	<C>
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 300	\$ 299	\$ 348	\$ 348
Accounts and notes receivable, net.....	1,118	1,102	1,122	1,118
Inventories:				
Finished products.....	695	695	816	816
Leaf tobacco.....	1,058	1,058	1,184	1,184
Raw materials.....	191	191	226	226
Other.....	349	349	391	391
Total inventories.....	2,293	2,293	2,617	2,617
Prepaid expenses and excise taxes.....	733	733	538	538
TOTAL CURRENT ASSETS.....	4,444	4,427	4,625	4,621
Property, plant and equipment--at cost:				
Land and land improvements.....	310	310	324	324
Buildings and leasehold improvements.....	1,949	1,949	2,002	2,002
Machinery and equipment.....	6,023	6,023	6,299	6,299
Construction-in-process.....	482	482	554	554
Total property, plant and equipment.....	8,764	8,764	9,179	9,179
Less accumulated depreciation.....	3,466	3,466	3,240	3,240
Property, plant and equipment, net.....	5,298	5,298	5,939	5,939
Trademarks, net of accumulated amortization (1998--\$2,387, 1997--\$2,226).....	7,266	7,266	7,759	7,759
Goodwill, net of accumulated amortization (1998--\$3,626, 1997--\$3,277).....	11,449	11,449	11,885	11,885
Other assets and deferred charges.....	435	423	470	453
	\$ 28,892	\$ 28,863	\$ 30,678	\$ 30,657

</TABLE>

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CONSOLIDATED BALANCE SHEETS (CONTINUED)  
(DOLLARS IN MILLIONS)

DECEMBER 31	1998		1997	
	RJRN HOLDINGS	RJRN	RJRN HOLDINGS	RJRN
<TABLE>				
<CAPTION>				

<S>	<C>	<C>	<C>	<C>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Short-term borrowings.....	\$ 260	\$ 260	\$ 361	\$ 361
Accounts payable.....	637	637	733	733
Accrued liabilities.....	3,346	3,155	2,750	2,572
Current maturities of long-term debt.....	225	225	33	33
Income taxes accrued.....	235	228	268	243
<b>TOTAL CURRENT LIABILITIES.....</b>	<b>4,703</b>	<b>4,505</b>	<b>4,145</b>	<b>3,942</b>
Long-term debt (less current maturities).....	8,655	8,655	9,456	9,456
Minority interest in Nabisco Holdings.....	752	752	812	812
Other noncurrent liabilities.....	2,279	1,967	2,157	1,908
Deferred income taxes.....	3,162	3,098	3,524	3,460
Commitments and contingencies (note 10)				
RJRN Holdings' obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures*.....	1,327	--	953	--
Stockholders' equity:				
Preferred stock.....	205	--	520	--
Common stock (1998--328,385,148 shares issued, 1997-- 327,158,090 shares issued).....	3	--	3	--
Paid-in capital.....	9,004	10,862	9,690	11,492
Retained earnings (accumulated deficit).....	(577)	(516)	--	--
Accumulated other comprehensive income.....	(460)	(460)	(413)	(413)
Treasury stock, at cost.....	(100)	--	(100)	--
Other stockholders' equity.....	(61)	--	(69)	--
<b>TOTAL STOCKHOLDERS' EQUITY.....</b>	<b>8,014</b>	<b>9,886</b>	<b>9,631</b>	<b>11,079</b>
	<b>\$ 28,892</b>	<b>\$ 28,863</b>	<b>\$ 30,678</b>	<b>\$ 30,657</b>

</TABLE>

\* The sole assets of the subsidiary trusts are junior subordinated debentures of RJRN Holdings. The outstanding junior subordinated debentures have aggregate principal amounts of approximately \$978 and \$385 million, annual interest rates of 10% and 9 1/2%, and mature in December 2044 and September 2047, respectively. The preferred securities will be mandatorily redeemed upon redemption of the junior subordinated debentures.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

F-5

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME  
(DOLLARS IN MILLIONS)

<S>	CAPITAL STOCK*	PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	OTHER
Balance at January 1, 1996.....	\$ 547	\$ 10,118	\$ --	\$ (184)	\$ --	\$ (152)
Net income.....			611			
Foreign currency translation, net of tax expense of \$17 million.....				(45)		
Minimum pension liability, net of tax benefit of \$2 million.....				(4)		
Total comprehensive income.....						
Retirement of 431,757 shares of ESOP preferred stock.....	(7)					
Issuance of 775,366 shares of common stock....		18				
Repurchase of 3,377,300 shares of common stock.....					(100)	
Cancellation of 9,000 shares of common stock.....						
Dividends.....		(97)	(611)			
ESOP note payments received.....						34
Other.....		11				9
Balance at December 31, 1996.....	540	10,050	--	(233)	(100)	(109)
Net income.....			381			
Foreign currency translation, net of tax expense of \$12 million.....				(170)		
Minimum pension liability, net of tax benefit of \$5 million.....				(10)		

Total comprehensive income.....						
Retirement of 843,970 shares of ESOP preferred stock.....	(14)					
Conversion of 26,675,000 shares of Series C preferred stock into 53,350,000 shares of common stock.....	(3)	3				
Issuance of 405,532 shares of common stock....		10				
Cancellation of 171,750 shares of common stock.....		(5)				
Dividends.....	(361)		(381)			
ESOP note payments received.....						36
Other.....		(7)				4
Balance at December 31, 1997.....	523	9,690	--	(413)	(100)	(69)
Net loss.....			(577)			
Foreign currency translation, net of tax benefit of \$6 million.....				(50)		
Minimum pension liability, net of tax expense of \$1 million.....				3		
Total comprehensive income (loss).....						
Retirement of 895,983 shares of ESOP preferred stock.....	(14)					
Redemption of 12,043,940 shares of Series B preferred stock.....	(301)					
Issuance of 1,264,058 shares of common stock.....		41				
Cancellation of 37,000 shares of common stock.....		(1)				
Dividends.....		(704)				
ESOP note payments received.....						33
Other.....		(22)				(25)
Balance at December 31, 1998.....	\$ 208	\$ 9,004	\$ (577)	\$ (460)	\$ (100)	\$ (61)

<CAPTION>

	TOTAL	COMPREHENSIVE INCOME
<S>	<C>	<C>
Balance at January 1, 1996.....	\$ 10,329	
Net income.....	611	\$ 611
Foreign currency translation, net of tax expense of \$17 million.....	(45)	(45)
Minimum pension liability, net of tax benefit of \$2 million.....	(4)	(4)
Total comprehensive income.....		\$ 562
Retirement of 431,757 shares of ESOP preferred stock.....	(7)	
Issuance of 775,366 shares of common stock....	18	
Repurchase of 3,377,300 shares of common stock.....	(100)	
Cancellation of 9,000 shares of common stock.....	--	
Dividends.....	(708)	
ESOP note payments received.....	34	
Other.....	20	
Balance at December 31, 1996.....	10,148	
Net income.....	381	\$ 381
Foreign currency translation, net of tax expense of \$12 million.....	(170)	(170)
Minimum pension liability, net of tax benefit of \$5 million.....	(10)	(10)
Total comprehensive income.....		\$ 201
Retirement of 843,970 shares of ESOP preferred stock.....	(14)	
Conversion of 26,675,000 shares of Series C preferred stock into 53,350,000 shares of common stock.....	--	
Issuance of 405,532 shares of common stock....	10	
Cancellation of 171,750 shares of common stock.....	(5)	
Dividends.....	(742)	
ESOP note payments received.....	36	
Other.....	(3)	



Balance at December 31, 1997.....	9,631		
Net loss.....	(577)	\$	(577)
Foreign currency translation, net of tax benefit of \$6 million.....	(50)		(50)
Minimum pension liability, net of tax expense of \$1 million.....	3		3
			-----
Total comprehensive income (loss).....		\$	(624)
			-----
			-----
Retirement of 895,983 shares of ESOP preferred stock.....	(14)		
Redemption of 12,043,940 shares of Series B preferred stock.....	(301)		
Issuance of 1,264,058 shares of common stock.....	41		
Cancellation of 37,000 shares of common stock.....	(1)		
Dividends.....	(704)		
ESOP note payments received.....	33		
Other.....	(47)		
			-----
Balance at December 31, 1998.....	\$	8,014	
			-----
			-----

</TABLE>

\* Includes \$3 million of common stock for each reporting period presented. The number of shares of common stock, par value \$.01, authorized at December 31, 1998 was 440,000,000. Common shares outstanding: 1998- 325,007,848 and 1997- 323,780,790.

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of RJR Nabisco Holdings Corp. ("RJRN Holdings"), its wholly-owned subsidiary RJR Nabisco, Inc. ("RJRN") and their majority-owned subsidiaries, including 80.6% of Nabisco Holdings Corp. ("Nabisco Holdings") and its wholly-owned subsidiary, Nabisco, Inc. ("Nabisco").

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior years' amounts have been reclassified to conform to the 1998 presentation.

Unless otherwise noted, all dollar amounts presented are in millions except per share amounts.

CASH EQUIVALENTS

Cash equivalents include all short-term, highly liquid investments that are readily convertible to known amounts of cash and that have original maturities of three months or less.

INVENTORIES

Inventories are stated at the lower of cost or market. The cost of U.S. tobacco inventories is determined principally under the LIFO method. The cost of remaining inventories is determined principally under the FIFO, specific lot and weighted average methods. In accordance with recognized industry practice, stocks of tobacco, which must be cured for more than one year, are classified as current assets.

DEPRECIATION AND AMORTIZATION AND VALUATION OF INTANGIBLES

Property, plant and equipment are depreciated by the straight-line method over the estimated useful lives of the assets.

Goodwill and trademarks are amortized using the straight-line method,

principally over 40 years. Management periodically evaluates the recoverability of goodwill and trademarks. The carrying value of goodwill and trademarks would be reduced if it is probable that management's best estimate of future operating income before amortization of goodwill and trademarks from related operations, on an undiscounted basis, will be less than the carrying value over the remaining amortization period.

#### OTHER INCOME (EXPENSE), NET

Interest income, certain gains and losses on foreign currency transactions, financing-related fees and other items of a financial nature are included in "Other income (expense), net".

#### INCOME TAXES

Income taxes are calculated for RJRN on a separate return basis.

#### ADVERTISING AND RESEARCH AND DEVELOPMENT

Advertising and research and development costs are expensed as incurred.

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#### NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) INTEREST RATE ARRANGEMENTS

For interest rate swaps, the differential to be paid or received is accrued and recognized in interest expense and may change as market interest rates change. For purchased interest rate caps, the premium paid is amortized to interest expense over the term of the cap and any amounts receivable are accrued as a reduction of interest expense. If an arrangement is terminated prior to maturity, the gain or loss is recognized over the remaining original life of the arrangement if the item hedged remains outstanding, or immediately, if the item hedged does not remain outstanding. If the arrangement is not terminated prior to maturity, but the underlying hedged item is no longer outstanding, the interest rate arrangement is marked to market and any unrealized gain or loss is recognized immediately.

#### FOREIGN CURRENCY ARRANGEMENTS

Forward foreign exchange contracts are carried at fair value on the consolidated balance sheets. The corresponding gains or losses on those contracts entered into to hedge firm commitments are deferred on the consolidated balance sheets as well and included in the basis of the underlying hedged transaction when settled. To the extent that the underlying hedged foreign currency transaction does not occur, the gains and losses deferred are recognized in earnings immediately. Gains or losses on those contracts entered into to hedge foreign currency exposure of existing assets and liabilities are generally recognized in income currently, along with the related translation gains or losses recognized from the remeasurement of the assets or liabilities hedged.

Translation gains or losses resulting from foreign-denominated borrowings that are accounted for as hedges of certain foreign currency net investments result in charges or credits to the cumulative translation adjustments account in stockholders' equity.

#### COMMODITY CONTRACTS

Changes in the market value of commodity contracts are recorded as an addition to, or reduction from, the raw material inventory cost. Market value changes are recorded in cost of products sold when the related finished products are sold. Due to wide fluctuations in the market prices for various agricultural commodities, futures contracts are frequently entered into to hedge the price risk associated with anticipated purchases. The amount of hedging losses deferred as of December 31, 1998 and 1997 were \$5 million and \$7 million, respectively.

#### RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

On January 1, 1998, RJRN Holdings and RJRN adopted Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income ("SFAS No. 130"), which established standards for reporting and displaying comprehensive income and its components. Comprehensive income is defined as the change in stockholders' equity during a period from transactions from nonowner sources and primarily includes net income (loss), foreign currency translation adjustments and minimum pension liability adjustments. The components of comprehensive income are displayed in the consolidated statements of stockholders' equity. The adoption of SFAS No. 130 did not have a material effect on RJRN Holdings' or RJRN's financial position or results of operations.

In the fourth quarter of 1998, RJRN Holdings and RJRN adopted Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS No. 131"), which established standards

for the way in which information about operating segments is reported. SFAS No. 131 also established standards for related disclosures about products and services, geographic areas and major customers. See note 15 for disclosures required by SFAS No. 131. The

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

adoption of SFAS No. 131 did not have a material effect on RJRN Holdings' or RJRN's financial position or results of operations.

RJRN Holdings and RJRN also adopted Statement of Financial Accounting Standards No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits ("SFAS No. 132") during 1998. SFAS No. 132 standardized the disclosure requirements for pensions and other postretirement benefits, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis and eliminates certain requirements from other accounting standards no longer deemed useful. It does not change the measurement or recognition of these plans. See note 14 for disclosures required by SFAS No. 132. The adoption of SFAS No. 132 did not have a material effect on RJRN Holdings' or RJRN's financial position or results of operations.

During 1998, RJRN Holdings and RJRN also adopted Statement of Position ("SOP") No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, which requires certain costs incurred in connection with developing or obtaining internal-use software to be capitalized and other costs to be expensed. The adoption of SOP No. 98-1 had no material effect on RJRN Holdings' or RJRN's financial position or results of operations.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

During 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"), which must be adopted by January 1, 2000, with early adoption permitted. SFAS No. 133 requires that all derivative financial instruments be recorded on the consolidated balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. RJRN Holdings and RJRN have not yet determined the timing of adoption or the impact that adoption or subsequent application of SFAS No. 133 will have on their financial position or results of operations.

In April 1998, the American Institute of Certified Public Accountants' Accounting Standards Executive Committee ("AcSEC") issued SOP No. 98-5, Reporting on the Costs of Start-Up Activities. SOP No. 98-5 establishes standards on accounting for start-up and organization costs and, in general, requires such costs to be expensed as incurred. This standard is required to be adopted on January 1, 1999. The adoption of SOP No. 98-5 is not expected to have a material effect on RJRN Holdings' or RJRN's financial position or results of operations.

NOTE 2--RESTRUCTURING

1998 CHARGES

In the second and fourth quarters of 1998, Nabisco recorded restructuring charges of \$406 million (\$216 million after-tax, net of minority interest) and \$124 million (\$75 million after-tax, net of minority interest), respectively. These restructuring programs were undertaken to streamline operations and improve profitability and will include workforce reductions of approximately 6,500 employees. The restructuring programs will require cash expenditures of approximately \$205 million primarily to be spent in 1999. In addition, the programs will require additional expenses of approximately \$134 million, of which \$56 million (\$27 million after-tax, net of minority interest) was incurred in 1998. These restructuring related expenses are principally for implementation and integration of the programs and include costs for relocation of employees and equipment and training.

NOTE 2--RESTRUCTURING (CONTINUED)

The key elements of the 1998 restructuring programs include:

<TABLE>

<CAPTION>

	SEVERANCE AND BENEFITS	CONTRACT TERMINATIONS	ASSETS TO BE DISPOSED OF	OTHER EXIT COSTS	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Sales force reorganizations.....	\$ 37	\$ 3	\$ --	\$ --	\$ 40

Distribution reorganizations.....	16	8	9	--	33
Staff reductions.....	83	--	3	--	86
Manufacturing cost reduction initiatives.....	22	--	8	--	30
Plant closures.....	46	3	217	15	281
Product line rationalizations.....	4	4	20	32	60
	----	---	----	---	-----
Total restructuring charges.....	\$ 208	\$ 18	\$ 257	\$ 47	\$ 530
	----	---	----	---	-----
	----	---	----	---	-----

</TABLE>

- Sales force reorganizations consist of \$35 million for Biscuit to reorganize its direct store delivery sales force to improve its effectiveness and \$5 million for the International Food Group, principally Latin America.
- Distribution reorganizations consist of plans to exit a number of domestic and international distribution and warehouse facilities, principally \$19 million for Biscuit and \$14 million for the International Food Group.
- Staff reductions consist of headquarters and operating unit realignments, functional consolidations and eliminations of positions throughout Nabisco. Amounts are: \$37 million for the U.S. Foods Group; \$26 million for International headquarters, Canada and other foreign units; \$15 million for corporate headquarters; and \$8 million for Biscuit.
- Manufacturing cost reduction initiatives consist of a number of domestic and international programs to increase productivity, principally \$19 million for Biscuit and \$7 million for Canada.
- Plant closure accruals are for the closure and future sale of 18 production facilities in order to improve manufacturing efficiencies and reduce costs. Amounts by operating segment are: Biscuit \$217 million; U.S. Foods Group \$12 million; and International Food Group \$52 million. As of December 31, 1998, production had ceased in 6 facilities which are being actively marketed for sale. Other exit costs consist of incremental costs to be incurred prior to sale.
- Product line rationalizations consist of exit costs to discontinue a number of domestic and international product lines. Other exit costs are principally write-offs for disposals of various discontinued products. Amounts by operating segment are: U.S. Foods Group \$34 million; Biscuit \$14 million; and International Food Group \$12 million.

As of December 31, 1998, \$61 million of charges were applied against restructuring reserves as follows: \$34 million for 2,000 employees severed, \$3 million for contract terminations, \$12 million for asset disposals and \$12 million for other exit costs. Of the charges applied against the restructuring reserves, cash expenditures amounted to \$39 million.

In the fourth quarter of 1998, Reynolds International recorded a net pre-tax restructuring charge of \$55 million to retool its operations in Russia and other countries in the CIS region in response to continuing depressed economic conditions in these countries. The pre-tax charge, which had no associated income tax benefit, includes severance and related benefits associated with a workforce reduction of 2,900 employees of approximately \$19 million as well as the rationalization of manufacturing facilities of

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NOTE 2--RESTRUCTURING (CONTINUED)

\$54 million. This program will require cash expenditures of \$25 million and is expected to be completed in 1999. All cash requirements are expected to be funded from operations. In the fourth quarter of 1998, the 1997 restructuring accrual was reduced by \$18 million due primarily to changes in severance and related benefit estimates of certain international accruals.

The workforce reductions relate to employees at certain manufacturing facilities and a headquarters location (8 locations in total) in the CIS region. The rationalization of manufacturing facilities consist primarily of: (i) the closing of a facility in Azerbaijan, where Reynolds International will exit all operations (\$23 million); (ii) the closing of a warehouse and manufacturing facility in St. Petersburg (\$15 million); and (iii) the closing of a facility in Lviv (\$15 million). Each of the tasks began in January 1999 and are expected to be substantially completed as follows: the Azerbaijan closing -- the fourth quarter of 1999; the St. Petersburg closings -- the third quarter of 1999; and the Lviv closing -- the first quarter of 1999. The types of costs that will be expensed with respect to these exit activities primarily include the write-down of facilities and equipment held for sale to fair value and the write-off of equipment to be abandoned (\$48 million) and contract and lease termination costs

(\$5 million). The facilities will continue in operation until the closing dates to minimize losses.

None of the 1998 Reynolds International restructuring accruals were utilized during the year ended December 31, 1998.

1997 CHARGES

RJRN Holdings recorded a pre-tax restructuring expense of \$301 million (\$235 million after-tax) in the fourth quarter of 1997 to reorganize its worldwide tobacco operations. The 1997 restructuring program was undertaken to enhance RJRN Holdings' competitive position and improve its long-term earnings growth prospects.

The components of the \$301 million charge were as follows:

<TABLE>  
<CAPTION>

	INTERNATIONAL	DOMESTIC	TOTAL
	-----	-----	-----
<S>	<C>	<C>	<C>
Employee severance and related benefits.....	\$ 142	\$ 30	\$ 172
Rationalization of manufacturing operations.....	42	30	72
Disposal of non-strategic investments.....	33	--	33
Contract termination and other costs.....	4	20	24
	-----	---	-----
	\$ 221	\$ 80	\$ 301
	-----	---	-----
	-----	---	-----

</TABLE>

For international tobacco, the employee severance and related benefits pertained to workforce reductions of 2,600 employees at various manufacturing facilities, headquarters and regional support centers (21 locations worldwide in total). These benefits are being paid over a period of more than one year under Reynolds International's severance policy, which is based on length of service provided by the terminated employees.

The rationalization of certain manufacturing operations consisted of the following: (i) the closing of the Berlin, Germany and Turku, Finland manufacturing facilities in connection with the consolidation of manufacturing operations into Trier, Germany (\$16 million and \$13 million, respectively); (ii) the closing of Reynolds International's stemmery operations in Tilsonburg, Canada (\$2 million); (iii) the closing of a leased manufacturing facility in Hong Kong (\$6 million); and (iv) the downsizing of a manufacturing facility in Montreal, Canada (\$5 million). Each of these tasks began in either December 1997 or January 1998 and were or are expected to be substantially completed as follows: Tilsonburg and Montreal, Canada and Hong Kong -- December 1997; Berlin, Germany -- January 1999; and Turku, Finland -- the second quarter of 1999. Reynolds International expects all outstanding tasks to be substantially completed as

NOTE 2--RESTRUCTURING (CONTINUED)

originally planned. The types of costs that were expensed with respect to these exit activities included the write-down of buildings and surplus equipment held for sale to fair value and the write-off of equipment to be abandoned.

The contract terminations and other costs primarily represented the write-down of office equipment and fixtures and other exit costs as a result of office floor space reductions, the consolidation of certain offices and the abandonment of lease obligations in Italy, Kenya, Dubai and the United Kingdom.

The disposal of non-strategic investments consisted of the following: the exits of a distribution company in Poland (\$7 million) and operations in Vietnam (\$8 million), India (\$6 million), Armavir, Russia (\$6 million) and Hungary (\$6 million). The disposals were or are expected to be substantially completed as follows: Hungary -- the fourth quarter 1998; India -- the first quarter 1999; Armavir, Russia and Poland -- the second quarter 1999; and Vietnam -- the third quarter 1999. Reynolds International began the process of disposing of each of the non-strategic investments during 1998. The following is a summary of the status of certain investments that will not be disposed of until 1999. The sale of Armavir, Russia, which was to take place in 1998, could not be completed and instead Armavir, Russia will now be abandoned; the transfer of ownership of the Polish distribution company will take place on April 21, 1999 even though Reynolds International had an agreement to sell this operation on April 7, 1998; and the closing of the Vietnam operations was subject to a lengthy approval process by the Vietnamese government even though Reynolds International had a contract for sale in the third quarter of 1998. Accordingly, although the sale of some of the non-strategic investments was not scheduled to close until late 1998 or beyond, management had the ability to close these facilities on the commitment date. As noted above, Reynolds International had contracts to sell most of these investments in 1998, however, many of the sales are subject to

lengthy regulatory reviews. The facilities continue in operation until the closing dates only to minimize the losses. If any of the planned sales are not consummated, management is prepared to abandon the investment, as was the case with the Armavir transaction described above.

For domestic tobacco, the employee severance and related benefits pertained to workforce reductions of 192 full-time positions and 217 seasonal positions at a manufacturing facility and staff related areas. The severed employees were primarily employed at RJRT's Brook Cove, North Carolina Stemmary which was closed. The rationalization of certain manufacturing operations primarily relates to the closing of RJRT's Brook Cove, North Carolina Stemmary which took place in February 1998, after RJRT finished processing tobacco purchased from the 1997 burley crop. Beginning with the 1998 flue-cured crop, RJRT began contracting with an outside third party to do its leaf processing. The type of costs that were expensed with respect to the exit of this activity included the write-down of the building and equipment held for sale to fair value and the write-off of equipment to be abandoned.

The contract termination and other costs for RJRT represented a loss on the termination of a contractual obligation. During 1997, management decided and committed to a plan of termination of a leaf supply contract at a price below RJRT's contract price. The loss represents the shortfall between the contract cost and the amount that was recovered upon the sale of the leaf inventory. RJRT, acting as a broker, exercised all of its remaining obligations under a leaf supply contract and immediately transferred title to a third party without taking possession of the tobacco.

Of the \$301 million total tobacco charge, cash outlays will aggregate approximately \$180 million. The program is expected to be completed in late 1999.

In addition to the above restructuring charge, approximately \$89 million was recognized in operating expenses for international tobacco for implementation and integration expenses, principally training and relocation of employees and equipment.

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NOTE 2--RESTRUCTURING (CONTINUED)

For the year ended December 31, 1998, \$183 million of the 1997 worldwide tobacco restructuring accruals were utilized as follows: \$90 million for employee severance and related benefits, \$59 million for rationalization of manufacturing operations, \$12 million for disposal of non-strategic investments, and \$22 million for contract terminations and other costs. Of the charges applied against the restructuring reserve in 1998, cash expenditures amounted to \$115 million, which were provided from operations.

1996 CHARGES

Nabisco recorded a restructuring charge of \$428 million (\$241 million after-tax, net of minority interest) in the second quarter of 1996. The restructuring program was undertaken to streamline operations and improve profitability and was substantially completed during 1997. The \$428 million restructuring charge required cash expenditures of \$238 million. In addition to the restructuring charge, the program required additional 1996 expenditures of \$97 million for implementation and integration expenses, principally for relocation of employees and equipment and training.

The major cost components of the \$428 million restructuring charge (see table below) were for domestic and international severance and benefits related to workforce reductions totaling approximately 5,700 employees; product line rationalization losses resulting from disposals of equipment (\$91 million) and packaging materials (\$25 million) related to the elimination of more than 300 stock keeping units of slow moving products; losses to write-down the carrying values of several non-strategic product lines prior to sale, including \$30 million for intangibles, \$3 million for inventory and \$2 million for property; contract termination costs related to the termination of manufacturing supply and distribution contracts; and losses from disposals of property related to international plant closures and domestic and international facility reorganizations, including \$19 million for property, \$2 million for plant closure costs and \$1 million for the disposal of inventory.

The major cost components of the restructuring charge and changes in estimates and charges are summarized below. Severance benefits increased \$30 million over the original estimate due to higher than anticipated costs associated with Biscuit's sales force reorganization. Estimated product line disposals decreased \$15 million due to the decision not to sell a small regional brand. Estimated costs for product line rationalizations, contract terminations and facility reorganizations were also changed due to different actual costs.

<TABLE>  
<CAPTION>

JUNE 1996	CHANGE IN	ADJUSTED	PAYMENTS	BALANCE	PAYMENTS	BALANCE
PROVISION	ESTIMATE	PROVISION	& CHARGES	12-31-97	& CHARGES	12-31-98

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Severance and benefits.....	\$ 194	\$ 30	\$ 224	\$ (197)	\$ 27	\$ (25)	\$ 2	
Product line rationalizations..	116	4	120	(117)	3	(3)	--	
Product line disposals.....	51	(15)	36	(36)	--	--	--	
Contract terminations.....	45	(15)	30	(29)	1	(1)	--	
Plant closures and facility reorganizations.....	22	(4)	18	(12)	6	(6)	--	
Total.....	\$ 428	\$ --	\$ 428	\$ (391)	\$ 37	\$ (35)	\$ 2	

</TABLE>

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NOTE 3--OPERATIONS

TOBACCO SETTLEMENT AND RELATED EXPENSES

RJRT recorded pre-tax charges totaling \$1.442 billion during 1998 for tobacco settlement and related expenses as follows:

<S>	<C>
Multi-state settlement agreement.....	\$ 620
Minnesota settlement agreement.....	312
"Most favored nation" adjustments for previously settled states....	145
Rationalization of manufacturing operations.....	214
Employee severance and related benefits.....	151
	-----
	\$ 1,442
	-----
	-----

</TABLE>

For a discussion regarding the provisions of the multi-state settlement, the Minnesota settlement and the most favored nation adjustments see note 10. The rationalization of manufacturing operations primarily represents a charge to write-down the book value of RJRT's production facility and certain equipment in Winston-Salem, North Carolina to fair value. The employee severance and related benefits expense represents a charge for workforce reductions totaling approximately 1,300 employees. These charges were in response to the changing business conditions which could result from the multi-state settlement agreement signed in November 1998. RJRT anticipates that the November price increase, which was necessary to satisfy its ongoing annual payment obligations under the multi-state settlement agreement, is likely to adversely affect volume and its results of operations.

Cash expenditures related to the termination of employees is anticipated to be approximately \$100 million and will be paid from operations into the year 2000. As of December 31, 1998, \$268 million of the accrual was utilized as follows: \$54 million for severance and related benefits and \$214 million for rationalization of manufacturing operations.

RJRT recorded pre-tax charges totaling \$359 million during 1997 related to settlement agreements reached with the Florida, Mississippi and Texas state attorneys general and in certain class action cases. See note 10 for further discussion.

FOOD BUSINESSES SOLD AND EXITED

Cost of products sold in 1998 was reduced by a \$14 million net gain (\$1 million after-tax, net of minority interest) related to businesses sold and non-strategic businesses exited in the third quarter. Businesses sold include the College Inn brand of canned broths, the U.S. and Canadian tablespreads and U.S. egg substitute businesses (formerly included in the U.S. Foods Group operating segment) and the Del Monte brand canned vegetable business in Venezuela (formerly included in the International Food Group operating segment) for net proceeds of approximately \$550 million, and the costs of exiting certain non-strategic businesses.

In 1997, Nabisco sold certain domestic regional brands (formerly included in the U.S. Foods Group) which resulted in a pre-tax gain of \$32 million. In addition non-recurring pre-tax expenses of \$31 million were recorded for the write-down of certain assets of a business held for sale, the reorganization of the U.S. Foods Group selling organization and the relocation of the International Food Group headquarters.

Net sales for 1998 and 1997 from all divestitures in both years by Nabisco were \$298 million and \$632 million, respectively. Operating company contribution for 1998 and 1997 from divested businesses was \$39 million and \$99 million, respectively.

## NOTE 4--EARNINGS PER SHARE

The components of the calculation of earnings per share for income (loss) before extraordinary items are as follows:

<TABLE>  
<CAPTION>

<S>	YEARS ENDED DECEMBER 31					
	1998		1997		1996	
	<C> BASIC	<C> DILUTED	<C> BASIC	<C> DILUTED	<C> BASIC	<C> DILUTED
Income (loss) applicable to common stock before extraordinary item:						
Income (loss) before extraordinary item.....	\$ (577)	\$ (577)	\$ 402	\$ 402	\$ 611	\$ 611
Preferred stock dividends.....	(40)	(40)	(44)	(44)	(43)	(43)
Adjustment for the dilutive effect of Nabisco Holdings' stock options.....	--	--	--	(3)	--	--
	\$ (617)	\$ (617)	\$ 358	\$ 355	\$ 568	\$ 568
Weighted average number of common and common equivalent shares outstanding (in thousands):						
Common shares outstanding.....	323,853	323,853	323,787	323,787	324,917	324,917
Assumed exercise of RJRN Holdings' stock options.....	--	--	--	1,531	--	1,030
	323,853	323,853	323,787	325,318	324,917	325,947

</TABLE>

Shares of ESOP convertible preferred stock of 12,818,967, 13,714,950 and 14,558,920 were not included in computing diluted earnings per share for 1998, 1997 and 1996, respectively, because the effect would have been antidilutive.

## NOTE 5--INVENTORIES

At December 31, 1998 and 1997, approximately \$492 million and \$592 million, respectively, of domestic tobacco inventories was valued under the LIFO method. The current cost of LIFO inventories at December 31, 1998 and 1997 was greater than the amount at which these inventories were carried on the consolidated balance sheets by \$169 million and \$151 million, respectively.

For the years ended December 31, 1998, 1997 and 1996, net income was increased by approximately \$18 million, \$14 million and \$35 million, respectively, as a result of LIFO inventory liquidations. The LIFO liquidations resulted from programs to reduce domestic leaf durations consistent with forecasts of future operating requirements.

## NOTE 6--SHORT-TERM BORROWINGS AND BORROWING ARRANGEMENTS

<TABLE>  
<CAPTION>

<S>	1998		1997	
	<C>	<C>	<C>	<C>
	AMOUNT OUTSTANDING	AVERAGE YEAR-END INTEREST RATE	AMOUNT OUTSTANDING	AVERAGE YEAR-END INTEREST RATE
Nabisco Holdings:				
Domestic commercial paper (see note 9).....	\$ 174	5.7%	\$ 1,991	6.2%
International commercial paper.....	9	7.2%	26	4.1%
Notes payable to banks.....	59	8.2%	154	8.2%
Other (see note 9).....	--	--	50	5.8%
	242		2,221	
Amount reclassified as long-term debt (see note 9).....	(174)		(2,041)	
Total Nabisco Holdings.....	68		180	



RJRN:				
Domestic commercial paper (see note 9).....	33	6.4%	--	--
Notes payable to banks.....	192	6.6%	181	6.4%
	-----		-----	
	225		181	
Amount reclassified as long-term debt (see note 9).....	(33)		--	
	-----		-----	
Total RJRN.....	192		181	
	-----		-----	
Total short-term borrowings.....	\$ 260		\$ 361	
	-----		-----	

</TABLE>

RJRN maintains a three-year \$2.146 billion revolving credit facility and a 364-day \$212 million credit facility primarily to support commercial paper issuances. The commitments under the revolving credit facility decline to approximately \$1.7 billion in the final year. Borrowings under the revolving credit facility bear interest at rates which vary with the prime rate or LIBOR. Borrowings under the 364-day credit facility bear interest at rates which vary with LIBOR.

Nabisco maintains a four-year \$1.5 billion revolving credit facility and a 364-day \$1.11 billion credit facility primarily to support commercial paper issuances. At the end of the 364-day period, any borrowings outstanding under the 364-day credit facility are convertible into a three-year term loan at Nabisco's option. The commitments under the revolving credit facility decline to approximately \$1.46 billion in the final year. Borrowings under the revolving credit facility bear interest at rates which vary with the prime rate or LIBOR. Borrowings outstanding under the 364-day credit facility bear interest at rates which vary with LIBOR.

Based on RJRN's and Nabisco's intention and ability to continue to refinance for more than one year the amount of their respective domestic commercial paper and revolving credit agreement borrowings and certain other borrowings through their separate long-term revolving credit facilities, such borrowings were reclassified as long-term debt.

Distributions and the payment of dividends by RJRN Holdings are subject to certain restrictions under certain financing agreements and debt instruments of RJRN Holdings and RJRN and their subsidiaries. The financing agreements generally restrict cumulative common and preferred dividends and distributions, limit the ability to incur indebtedness, engage in transactions with stockholders and affiliates, create liens, sell or dispose of certain assets and certain subsidiaries' stock, issue certain equity securities and engage in certain mergers or consolidations.

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NOTE 6--SHORT-TERM BORROWINGS AND BORROWING ARRANGEMENTS (CONTINUED)

Nabisco's credit agreements, among other things, generally restrict common and preferred dividends and distributions, limit loans and advances by Nabisco Holdings and its subsidiaries to RJRN, limit the ability to incur indebtedness, engage in transactions with stockholders and affiliates, create liens, acquire, sell or dispose of certain assets and securities and engage in certain mergers or consolidations.

NOTE 7--ACCRUED LIABILITIES

<TABLE>  
<CAPTION>

	1998	1997
	-----	-----
<S>	<C>	<C>
Payroll and employee benefits.....	\$ 564	\$ 595
Marketing and advertising.....	535	424
Excise taxes.....	220	205
Restructuring.....	388	368
Dividends.....	183	186
Tobacco settlement and related accruals.....	610	177
Accrued interest.....	192	163
Other.....	654	632
	-----	-----
	\$ 3,346	\$ 2,750
	-----	-----

</TABLE>

NOTE 8--INCOME TAXES

The provision (benefit) for income taxes consisted of the following:

<TABLE>

<CAPTION>  
YEARS ENDED DECEMBER 31

	1998	1997	1996
<S>	<C>	<C>	<C>
Current:			
Federal.....	\$ 338	\$ 482	\$ 471
Foreign and other.....	197	231	234
	-----	-----	-----
	535	713	705
	-----	-----	-----
Deferred:			
Federal.....	(569)	(139)	(147)
Foreign and other.....	11	(44)	27
	-----	-----	-----
	(558)	(183)	(120)
	-----	-----	-----
Provision (benefit) for income taxes.....	\$ (23)	\$ 530	\$ 585
	-----	-----	-----
	-----	-----	-----

</TABLE>

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NOTE 8--INCOME TAXES (CONTINUED)

The components of the deferred income tax liability disclosed on the consolidated balance sheets included the following:

<TABLE>  
<CAPTION>

	1998	1997
<S>	<C>	<C>
Deferred tax assets:		
Pension and other postretirement liabilities.....	\$ (419)	\$ (418)
Restructuring and other accrued liabilities.....	(393)	(247)
	-----	-----
Total deferred tax assets before valuation allowance.....	(812)	(665)
Valuation allowance.....	85	79
	-----	-----
Net deferred tax assets.....	(727)	(586)
	-----	-----
Deferred tax liabilities:		
Property and equipment.....	828	921
Trademarks.....	2,518	2,624
Other.....	543	565
	-----	-----
Total deferred tax liabilities.....	3,889	4,110
	-----	-----
Net deferred income taxes.....	\$ 3,162	\$ 3,524
	-----	-----
	-----	-----

</TABLE>

Pre-tax income (loss) for domestic and foreign operations consisted of the following:

<TABLE>  
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Domestic (includes U.S. exports).....	\$ (887)	\$ 651	\$ 554
Foreign.....	273	365	645
	-----	-----	-----
Pre-tax income (loss).....	\$ (614)	\$ 1,016	\$ 1,199
	-----	-----	-----
	-----	-----	-----

</TABLE>

The differences between the provision (benefit) for income taxes and income taxes computed at statutory U.S. federal income tax rates are explained as follows:

<TABLE>  
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Income taxes computed at statutory U.S. federal income tax rates.....	\$ (215)	\$ 356	\$ 420
State and local income taxes, net of federal tax benefits.....	25	44	55
Goodwill amortization.....	126	126	132
Taxes on foreign operations at rates different than statutory			

U.S. federal rate.....	83	14	(9)
Exempt foreign sales corporation earnings.....	(25)	(5)	(7)
Other items, net.....	(17)	(5)	(6)
	-----	-----	-----
Provision (benefit) for income taxes.....	\$ (23)	\$ 530	\$ 585
	-----	-----	-----
Effective tax rate.....	3.7%	52.2%	48.8%
	-----	-----	-----

</TABLE>

At December 31, 1998, there was \$2.05 billion of accumulated and undistributed income of foreign subsidiaries. These earnings were reinvested by management abroad indefinitely. Accordingly, no applicable U.S. federal deferred income taxes have been provided nor is a determination of the amount of unrecognized U.S. federal deferred income taxes practicable.

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NOTE 9--LONG-TERM DEBT

<TABLE>  
<CAPTION>

	1998	1997
	-----	-----
<S>	<C>	<C>
Nabisco Holdings:		
Short-term borrowings, reclassified.....	\$ 174	\$ 2,041
5.38-8.3% notes, due 1999 through 2015.....	2,142	2,146
6.0-6.375% puttable/callable notes, due 2011 through 2035.....	998	--
6.24% pound sterling notes due 2001.....	163	--
Other indebtedness.....	260	168
Current maturities of long-term debt.....	(118)	(21)
	-----	-----
Total Nabisco Holdings long-term debt.....	3,619	4,334
	-----	-----
RJRN:		
Short-term borrowings, reclassified.....	33	--
6.80-9.25% notes, due 1999 through 2013.....	4,444	4,443
5.375-10% foreign currency debt, due 2000 to 2001.....	414	469
Other indebtedness.....	252	222
Current maturities of long-term debt.....	(107)	(12)
	-----	-----
Total RJRN long-term debt.....	5,036	5,122
	-----	-----
Total long-term debt.....	\$ 8,655	\$ 9,456
	-----	-----

</TABLE>

The payment of long-term debt through December 31, 2003 is as follows:  
2000--\$797; 2001--\$761; 2002-- \$1,523 and 2003--\$816.

In July 1997, RJRN repaid commercial paper borrowings with proceeds from the issuance of \$150 million 8 1/4% notes due 2004 and \$200 million 8 1/2% notes due 2007. In August 1997, Nabisco issued \$200 million of floating rate notes (5.38% as of December 31, 1998) due 2009, which are puttable and callable in August 1999.

In December 1997, Nabisco refinanced \$432 million of 8.3% notes due 1999 and \$541 million of 8% notes due 2000 with short-term borrowings. An extraordinary loss of approximately \$43 million (\$21 million after-tax, net of minority interest, or \$.06 per basic and diluted common share of RJRN Holdings) was recorded related to this transaction. These short-term borrowings were refinanced in January 1998 with \$1 billion long-term notes. The terms of these notes are as follows: \$400 million of 6% notes due 2011 which are puttable and callable in 2001; \$300 million of 6 1/8% notes due 2033 which are puttable and callable in 2003; and \$300 million of 6 3/8% notes due 2035 which are puttable and callable in 2005. Unless the notes are put, the interest rates are reset on the respective put or call date to achieve a yield to maturity of 5.75% to 6.07%, plus in each case, Nabisco's future credit spread on treasury notes of comparable maturities. The \$1,039 million in proceeds from these notes, which includes \$41 million as compensation for the sale of call options, were used to repay commercial paper borrowings.

In August 1998, a newly formed wholly-owned subsidiary trust of RJRN Holdings issued \$374 million principal amount of preferred securities. The proceeds from the sale of the preferred securities and the original capital contribution were invested by the trust in approximately \$385 million principal amount of 9 1/2% junior subordinated debentures of RJRN Holdings. The junior subordinated debentures are redeemable by RJRN Holdings at \$25 per debenture on

or after September 30, 2003 and are due in September 2047. Cash distributions on the preferred securities are cumulative at an annual rate of 9 1/2% of the liquidation amount of \$25 per security and are payable quarterly in arrears. In October 1998, RJRN Holdings used \$301 million of the proceeds from the issuance of the junior subordinated debentures to redeem its outstanding Series B preferred stock.

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NOTE 9--LONG-TERM DEBT (CONTINUED)

Junior subordinated debentures of \$978 million issued by a subsidiary trust of RJRN Holdings in 1995 may be redeemed at RJRN Holdings' election at \$25 per debenture on or after August 19, 1998 and are due in December 2044. Cash distributions on the preferred securities, which were issued by the subsidiary in exchange for an equal amount of RJRN Holdings Series B preferred stock, are cumulative at an annual rate of 10% of the liquidation amount of \$25 per security and are payable quarterly in arrears.

At December 31, 1998, approximately \$4.9 billion of total debt (short-term borrowings and long-term debt, including current maturities) was owed by RJRN and approximately \$4.2 billion was owed by its subsidiaries.

The estimated fair value of RJRN Holdings' consolidated long-term debt as of December 31, 1998 and 1997 was approximately \$9.0 billion and \$9.8 billion, respectively, based on available market quotes, discounted cash flows and book values, as appropriate.

RJRN Holdings manages overall interest rate exposure by adjusting the mix of floating rate debt and fixed rate debt for both RJRN and Nabisco. As part of managing such interest rate exposures, RJRN and Nabisco may enter into various interest rate arrangements from time to time. See note 11 for further information regarding interest rate arrangements.

NOTE 10--COMMITMENTS AND CONTINGENCIES

TOBACCO LITIGATION

OVERVIEW. Various legal actions, proceedings and claims are pending or may be instituted against R.J. Reynolds Tobacco Company ("RJRT") or its affiliates (including, with increasing frequency, RJRN and RJRN Holdings) or indemnitees, including those claiming that lung cancer and other diseases as well as addiction have resulted from the use of or exposure to RJRT's tobacco products. During 1998, 334 new actions were served against RJRT and/or its affiliates or indemnitees and 183 such actions were dismissed or otherwise resolved in favor of RJRT and/or its affiliates or indemnitees without trial. There have been noteworthy increases in the number of these cases pending. On December 31, 1998, there were 664 active cases pending, as compared with 516 on December 31, 1997, 234 on December 31, 1996 and 134 on December 31, 1995. As of March 15, 1999, 658 active cases were pending against RJRT and/or its affiliates or indemnitees: 653 in the United States; two in Canada; one in each of the Marshall Islands, Nigeria and Puerto Rico.

The U.S. cases are pending in 42 U.S. states and the District of Columbia. The breakdown is as follows: 126 in West Virginia; 122 in Florida; 109 in New York; 53 in California; 29 in Massachusetts; 24 in Louisiana; 17 in Pennsylvania; 16 in Tennessee; 15 in Texas; 14 in the District of Columbia; 12 in Alabama; 11 in New Jersey; nine in each of Illinois and Mississippi; six in each of Iowa and Ohio; five in each of Indiana, Maryland and Minnesota; four in each of Arkansas, Georgia, Missouri, Nevada, Oklahoma, Rhode Island and Virginia; three in each of Arizona and New Mexico; two in each of Colorado, Hawaii, Kansas, Kentucky, Michigan, North Carolina, North Dakota, South Carolina, South Dakota, Utah and Washington; one in each of Nebraska, New Hampshire, Oregon and Wisconsin. Of the 653 active U.S. cases, 136 are pending in federal court, 512 in state court and, five in tribal court. Most of these cases were brought by individual plaintiffs, but an increasing number, discussed below, seek recovery on behalf of third parties or large classes of claimants.

THEORIES OF RECOVERY. The plaintiffs in these actions seek recovery on a variety of legal theories, including, among others, strict liability in tort, design defect, negligence, special duty, voluntary undertaking, breach of warranty, failure to warn, fraud, misrepresentation, unfair trade practices, conspiracy, aiding and abetting, unjust enrichment, antitrust, Racketeer Influenced and Corrupt Organization Act ("RICO"),

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NOTE 10--COMMITMENTS AND CONTINGENCIES (CONTINUED)

indemnity, medical monitoring and common law public nuisance. Punitive damages, often in amounts ranging into the hundreds of millions or even billions of dollars, are specifically pleaded in a number of cases in addition to compensatory and other damages. Fourteen of the 653 active cases in the United States involve alleged non-smokers claiming injuries purportedly resulting from exposure to environmental tobacco smoke. Fifty-eight cases purport to be class

actions on behalf of thousands of individuals. Purported classes include individuals claiming to be addicted to cigarettes, individuals and their estates claiming illness and death from cigarette smoking, persons making claims based on alleged exposure to environmental tobacco smoke, African-American smokers claiming their civil rights have been violated by the sale of menthol cigarettes, purchasers of cigarettes claiming to have been defrauded and seeking to recover their costs, and Blue Cross/Blue Shield subscribers seeking reimbursement for premiums paid. Approximately 111 of the active cases seek, INTER ALIA, recovery of the cost of Medicaid payments or other health-related costs paid for treatment of individuals suffering from diseases or conditions allegedly related to tobacco use. Nine, brought by entities administering asbestos liability, seek contribution for the costs of settlements and judgments.

DEFENSES. The defenses raised by RJRT and/or its affiliates, where applicable, include preemption by the Federal Cigarette Labeling and Advertising Act of some or all such claims arising after 1969; the lack of any defect in the product; assumption of the risk; contributory or comparative fault; lack of proximate cause; and statutes of limitations or repose; and, in the health care cost recovery cases (discussed below), additional statutory, equitable and other defenses. RJRN and RJRN Holdings have asserted additional defenses, including jurisdictional defenses, in many of these cases in which they are named.

INDUSTRY TRIAL RESULTS. Juries have found for plaintiffs in five smoking and health cases in which RJRT was not a defendant. In one such case, no damages were awarded and the judgment was affirmed on appeal. The jury awarded plaintiffs \$400,000 in another such case, CIPOLLONE V. LIGGETT GROUP, INC., but the award was overturned on appeal and the case was subsequently dismissed. In the third such case, on August 9, 1996, a Florida jury awarded damages of \$750,000 to an individual plaintiff. That case, CARTER V. BROWN & WILLIAMSON, was overturned on appeal on June 22, 1998. In another Florida case brought by the same attorney, WIDDICK V. BROWN & WILLIAMSON, a state court jury awarded the plaintiff approximately \$1 million in compensatory and punitive damages on June 10, 1998. On January 29, 1999, the Florida Court of Appeals reversed this verdict and ordered a new trial in a different location (Palm Beach County). On February 9-10, 1999, in HENLEY V. PHILIP MORRIS, INC., a San Francisco state court jury awarded an individual smoker \$1.5 million in compensatory damages and \$50 million in punitive damages. Philip Morris will file motions with the trial judge requesting that the verdict be set aside and/or reduced. Depending upon the outcome of those motions, Philip Morris may appeal the judgment.

On May 5, 1997, in an individual case filed against RJRT, brought by the same attorney who represented plaintiffs in the CARTER and WIDDICK cases, a Florida state court jury found no RJRT liability (CONNOR V. R. J. REYNOLDS TOBACCO CO.). On October 31, 1997, in still another case (KARBIWNYK V. R.J. REYNOLDS TOBACCO COMPANY) brought by the same attorney, another Florida state court jury found no RJRT liability. On March 19, 1998, an Indiana state court found for RJRT, RJRN Holdings and other defendants in an individual case, DUNN V. RJR NABISCO HOLDINGS CORP., in which plaintiffs sought damages for the alleged harm caused to a non-smoker by environmental tobacco smoke. Finally, on March 18, 1999, the jury in an Ohio federal district court found for the defendants, including RJRT, on all counts in a class-action union trust-fund case, IRONWORKERS LOCAL 17 V. PHILIP MORRIS.

CERTAIN CLASS-ACTION SUITS. In May 1996, in an early class action case, CASTANO V. AMERICAN TOBACCO COMPANY, the Fifth Circuit Court of Appeals overturned the certification of a purported nationwide class of persons whose claims related to alleged addiction to tobacco. Since this ruling by the Fifth Circuit, most purported class-action suits have sought certification of statewide rather than nationwide classes.

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NOTE 10--COMMITMENTS AND CONTINGENCIES (CONTINUED)

Putative class-action suits based on claims similar to those asserted in CASTANO have been brought in state and, in a few instances, federal courts in Alabama, Arkansas, California, the District of Columbia (D.C. court), Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Michigan, Minnesota, New Mexico, Nevada, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, West Virginia and Wisconsin. A putative class action filed in Tennessee seeks reimbursement of Blue Cross/Blue Shield premiums paid by subscribers throughout the United States. On October 19, 1998, a putative class action was filed in federal court in Philadelphia, Pennsylvania, on behalf of "all living Black Americans who have purchased or consumed menthol tobacco products since 1954 (including minors through their legal representatives)" seeking redress of alleged violations of the plaintiffs' civil rights. A purported class action suit against RJRT in Texas claims that the marketing of "lights" and "ultralight" cigarettes is deceptive. Similar claims have been made in other lawsuits. Other types of class-action suits have also been filed in additional jurisdictions and there are also putative class action suits pending in Canada, Puerto Rico and Nigeria. Most of these suits assert claims on behalf of classes of individuals who claim to be addicted, injured, or at greater risk of injury by the use of tobacco or exposure to environmental tobacco smoke, or are the

legal survivors of such persons.

Despite the marked increase of purported class actions brought against tobacco companies, very few purported class actions have been certified, or if certified, have survived on appeal. Class certification was granted, however, by a Maryland state court in RICHARDSON V. PHILIP MORRIS. That decision is being reviewed by the Maryland Court of Appeals. In addition, on November 5, 1998 a Louisiana state appeals court affirmed the certification of a medical monitoring and/or smoking cessation class of Louisiana residents who were smokers on or before May 24, 1996 (SCOTT V. AMERICAN TOBACCO COMPANY). On February 26, 1999, the Louisiana Supreme Court denied the defendants' petition for writ of certiorari and/or review. Finally, defendants settled another class-action suit, BROIN V. PHILIP MORRIS, in October, 1997. This settlement was challenged but was approved by the Florida Court of Appeals on March 24, 1999.

Trial is underway in a class-action suit pending in Florida, ENGLE V. R. J. REYNOLDS TOBACCO COMPANY, in which a class consisting of Florida residents or their survivors who claim to have diseases or medical conditions caused by their alleged "addiction" to cigarettes has been certified. The trial is divided into three phases. The initial phase, which includes common issues related to liability and general causation, entitlement to punitive damages and possibly the basis or ratio for assessment of punitive damages, is expected to last several months, but even if potential liability is confirmed in this phase of the trial, no actual liability would be established until the subsequent phases which could last for some years.

HEALTH-CARE COST RECOVERY CASES. In June 1994, the Mississippi attorney general brought an action, MOORE V. AMERICAN TOBACCO COMPANY, against various industry members including RJRT. This case was brought on behalf of the state to recover state funds paid for healthcare and medical and other assistance to state citizens suffering from diseases and conditions allegedly related to tobacco use. By making the State the plaintiff in the case and basing its claims on economic loss rather than personal injury, the State sought to avoid the defenses otherwise available against an individual plaintiff. Following the filing of the MOORE case, most other states, through their attorneys general and/or other state agencies, sued RJRT and other U.S. cigarette manufacturers based on similar theories. The first four of these cases scheduled to come to trial, those of Mississippi, Florida, Texas and Minnesota, were settled by separate agreements between the state and the cigarette manufacturer defendants in each case.

On November 23, 1998, the major U.S. cigarette manufacturers, including RJRT, entered into a Master Settlement Agreement ("MSA") with attorneys general representing the remaining 46 states, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, American Samoa and the Northern Marianas (the "Settling States"). The MSA settles all the health-care cost recovery actions brought by the Settling States and contains releases of certain additional present and future claims.

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NOTE 10--COMMITMENTS AND CONTINGENCIES (CONTINUED)

The MSA calls for the tobacco companies to pay the settling states an initial payment of \$2.4 billion (allocated among the companies on the basis of relative market capitalization) and four subsequent additional annual initial payments starting in 2000 (allocated among the companies on the basis of relative market share) of up to approximately \$2.5 billion, \$2.5 billion, \$2.6 billion and \$2.7 billion, respectively. It also requires perpetual annual payments, increasing from \$4.5 billion in April 2000 to \$8 billion in 2004 and further to \$9.0 billion in 2018 and thereafter. Ten additional payments of \$861 million are due annually beginning in April 2008.

Except for the first initial payment, all payments made under the MSA are allocated among the participating manufacturers based on their relative market shares. In addition, most payments to be made under the MSA after 1999 are subject to a number of adjustments, most frequently adjustments based on inflation (the greater of 3% or the rise in the consumer price index) and on changes in the volume of cigarettes sold each year. Certain payments are also subject to adjustments to account for payments to previously settling states and for the impact, if any, on the signatory tobacco companies of competitive disadvantages vis-a-vis non-settling manufacturers as a result of the settlement. Furthermore, certain payments are subject to set-off against payments that cigarette companies might be required to make to the federal government that are paid over to the settling states for uses related to this MSA. Finally, if judicial approval is not obtained in any state, there would be an adjustment deducting for the share of a payment allocable to that state.

The tobacco companies have also agreed to (a) make a one-time payment of \$50 million on March 31, 1999 to establish a fund for enforcement of the MSA and laws relating to tobacco products and (b) fund activities of the National Association of Attorneys General relating to the MSA at the cost of \$150,000 per year for ten years.

In addition, the MSA calls for the creation of a national foundation which

would establish public education and other programs and conduct or sponsor research to reduce youth smoking and to understand and educate the public about diseases associated with tobacco-product use. The tobacco companies would fund the establishment of the foundation with 10 annual payments of \$25 million commencing March 31, 1999, further payments of \$250 million on March 31, 1999 and \$300 million annually thereafter for four years and additional annual payments of \$300 million beginning in 2004 if, during the year preceding the year when payment is due, participating manufacturers collectively accounted for at least 99.05% of the cigarette market.

The manufacturers also agree to pay the litigation costs, including government attorneys fees, of the attorneys general's offices relating to the settled cases and, subject to certain quarterly and annual payment caps, the costs and fees of outside counsel to the settling states. Outside counsel fees are to be determined either by arbitration or in accordance with a negotiated fee procedure. Awards determined by arbitration will be paid subject to an aggregate annual cap for all these (and certain other) settled cases in each year of \$500 million. Fees set by the negotiated fee procedure would be subject to an annual cap of \$250 million, and will not exceed a total of \$1.25 billion.

The MSA also contains provisions restricting the marketing of cigarettes. Among these are restrictions or prohibitions on the following: use of cartoon characters; use of brand name sponsorships and brand name non-tobacco products; outdoor and transit brand advertising; payments for product placement; free sampling; and lobbying. The MSA would require the dissolution of The Tobacco Institute, the Council for Tobacco Research and the Center for Indoor Air Research and place restrictions on the establishment of any replacement organizations.

The MSA, when judicially approved, will release RJRT (and certain of its indemnitees), RJRN and RJRN Holdings from: (i) all claims of the settling states (and their respective political subdivisions and

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NOTE 10--COMMITMENTS AND CONTINGENCIES (CONTINUED)

other recipients of state health-care funds) relating to past conduct arising out of the use, sale, distribution, manufacture, development, advertising, marketing or health effects of, the exposure to, or research, statements or warnings about, tobacco products; and (ii) all monetary claims relating to future conduct arising out of the use of, or exposure to, tobacco products which have been manufactured in the ordinary course of business.

RJRT's share of the first payment of \$2.4 billion is \$163.2 million which was charged to expense in the fourth quarter of 1998 and was paid from general corporate funds. The financial effects of the MSA on RJRT, RJRN and RJRN Holdings are difficult to predict, but the MSA may have a significant negative impact on operating results, cash flows and financial condition in the future. The financial effects depend, among other things, on the impact of increased cigarette prices (needed to cover the cost of these payments), proposed marketing restrictions, increased funding of anti-smoking educational programs, the amount and kind of additional requirements that may be imposed on the industry by state and national legislation and regulation, and the effect on RJRT's payment obligations of such variables as inflation, sales volumes, the level of operating profits and RJRT's competitive position in the industry. The effect of the MSA, if any, on existing claims, or the number and type of additional lawsuits filed against RJRT in the future, is also difficult to predict at this time.

The MSA becomes effective on the earlier of June 30, 2000 or the date on which final approval of the settlement has been obtained in courts of 80% of the Settling States (both by number and percentage share of the settlement payments due). As of February 19, 1999, final approval had been obtained in 31 of the necessary 42 Settling States having percentage shares equal to 41.7% of the percentage shares of payments due.

Payments for all tobacco litigation settlement agreements currently in effect will be approximately \$1.6 billion in 1999 and will be funded through price increases. Payments in future years will approximate \$2.0 billion per year, but these payments will be subject to, among other things, the volume of cigarettes sold by RJRT, RJRT's market share and inflation adjustments.

As part of the MSA, the tobacco companies agreed to work with tobacco growers to address the possible adverse economic impact on growers of the MSA. RJRT, with the other major manufacturers, has agreed in principle to participate in funding a \$5.15 billion trust fund to be administered by the tobacco-growing states. Details of these arrangements are not yet established but it is expected that RJRT's payment obligations will be met over a number of years and will be subject to adjustments for several factors, including inflation, U.S. aggregate cigarette volumes and market share.

UNION CASES. Although the MSA settled some of the most potentially burdensome healthcare cost recovery actions, many other such cases have been brought by other types of plaintiffs. Approximately 73 lawsuits have been

brought by union trust funds against cigarette manufacturers and others in the past two years. The funds seek recovery of payments made by them for medical expenses of their participants-- union members and their dependents allegedly injured by cigarettes. The claims in these cases are almost identical, and more than 30 of the cases purport to be class actions on behalf of all union trust funds in a particular state.

The defendants in these actions argue, among other things, the settled law that one who pays an injured person's medical expenses is legally too remote to maintain an action against the person allegedly responsible for the injury. In addition, they argue that the traditional subrogation remedy cannot be supplanted by a direct right of action for the trust fund that strips defendants of the defenses they would ordinarily have against the injured individual.

The majority of courts that have decided motions in these union cases support the tobacco defendants position on "remoteness" and have dismissed all or most of the claims against the industry on motions to

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NOTE 10--COMMITMENTS AND CONTINGENCIES (CONTINUED)

dismiss. There are a few notable exceptions to this trend. In two such cases that are being scheduled together, LABORERS LOCAL 17 V. PHILIP MORRIS and UNITED FEDERATION OF TEACHERS V. PHILIP MORRIS, a New York federal district court, on March 26, 1998, granted defendants' motions to dismiss state and federal antitrust and unjust enrichment claims but denied motions to dismiss claims asserted under RICO and those based on fraud and breach of special duty. This decision was appealed to the Second Circuit Court of Appeals which heard oral argument on February 4, 1999. Another case, STEAMFITTERS LOCAL UNION 420 V. PHILIP MORRIS, has been appealed to the Third Circuit Court of Appeals and was argued a week prior to the Second Circuit hearing. Also surviving motions to dismiss, NORTHWEST LABORERS V. PHILIP MORRIS, filed in federal court in Washington, was certified as a class action and is currently scheduled for trial in September of 1999.

The first union case to survive motions to dismiss and go to trial was IRON WORKERS LOCAL NO. 17 V. PHILIP MORRIS. This case, in which a class of approximately 111 union trust funds was certified by a federal district court in Ohio, went to trial on February 22, 1999 on the counts that survived motions to dismiss-- state and federal RICO and civil conspiracy. The federal RICO claim was dismissed during the trial, and after the conclusion of plaintiffs' case, the court directed a verdict dismissing RJRN and RJRN Holdings from the case. On March 18, 1999, the jury in this case returned a unanimous verdict for the defendants on all surviving counts.

OTHER HEALTH-CARE COST RECOVERY AND AGGREGATED CLAIMS PLAINTIFFS. Similar cases have been filed by Native American tribes, five in tribal courts and one putative class action in San Diego Superior Court. Four groups of health care insurers as well as a private entity that purported to self-insure its employee health care programs have also advanced claims similar to those found in the union cost recovery actions. Two of these "insurer" cases, WILLIAMS & DRAKE V. AMERICAN TOBACCO, and REGENCE BLUESHIELD V. PHILIP MORRIS, were dismissed on "remoteness" grounds by federal district courts in Pennsylvania and Washington respectively. Two foreign countries have also brought health-care cost recovery suits in U.S. courts. Other cost recovery suits have been brought by, among others, local governmental jurisdictions, foreign governments, tax payers (on behalf of a governmental jurisdiction), a university and a hospital. Finally, nine actions have been filed against RJRT by asbestos companies and/or asbestos-related trust funds based on the theory that the plaintiffs "overpaid" claims brought against them to the extent that tobacco use, not asbestos exposure, was the cause of the alleged personal injuries for which they paid compensation. There have been, to date, no rulings on motions to dismiss these asbestos actions.

RECENT AND SCHEDULED TRIALS. As of March 19, 1999, there were 13 cases scheduled for trial in 1999 against RJRT alleging injuries relating to tobacco. Two of these cases, in which RJRT is a party, are currently in progress: the ENGLE case in Florida; and NEWCOMB V. R.J. REYNOLDS TOBACCO COMPANY, which is one of four consolidated individual cases being tried together in Memphis, Tennessee. Cases against other tobacco company defendants are also scheduled for trial in 1999 and thereafter. Although trial schedules are subject to change and many cases are dismissed before trial, it is likely that there will be an increased number of tobacco cases, some involving claims for possibly billions of dollars, against RJRT and RJRN coming to trial over the next year as compared to prior years when trials in these cases were less frequent.

OTHER DEVELOPMENTS. On May 28, 1997, a suit was filed against RJRT in the U.S. District Court for the Northern District of Georgia, FARR V. R.J. REYNOLDS TOBACCO COMPANY, alleging claims under Title VII and the Equal Pay Act. The suit was brought on behalf of female RJRT employees and applicants for employment in the "southeast sales region," seeking equitable relief, back pay and lost benefits, as well as punitive damages, based on allegations that plaintiffs had been denied employment, desirable job assignments, training, promotion and equal pay. On plaintiffs' motion, all class action allegations in this case were



dismissed without prejudice in February 1999.

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NOTE 10--COMMITMENTS AND CONTINGENCIES (CONTINUED)

RJRT is aware of certain grand jury investigations being conducted in New York and Washington, D.C. which relate to the cigarette business. In addition, RJRT received a document subpoena date September 17, 1998, from a federal grand jury convened in the Eastern District of Pennsylvania by the Antitrust Division of the Department of Justice. RJRT understands that the grand jury is investigating possible violations of the antitrust laws related to tobacco leaf buying practices. RJRT is responding to the subpoena.

On December 22, 1998, a now inactive tobacco subsidiary that was part of Reynolds International's business, Northern Brands International, Inc. ("NBI"), entered into a plea agreement with the United States Attorney for the Northern District of New York. NBI was charged with aiding and abetting certain customers who brought merchandise into the United States "by means of false and fraudulent practices. . . ." NBI agreed to pay a \$10 million forfeiture and a \$5.2 million fine and special assessment. In the plea agreement, the U.S. Attorney agreed not to bring additional criminal charges in the Northern District against NBI or its corporate affiliates (including RJRN, RJRT and Reynolds International) for actions (from 1985 through 1998) that are related to those that gave rise to the agreement. RJR-MacDonald, Reynolds International's operating company in Canada, is cooperating with an investigation now being conducted by the Royal Canadian Mounted Police relating to the same events that gave rise to the NBI investigation. Management cannot predict whether any other authorities in the United States or Canada will seek to take further actions with regard to these events.

For a further discussion of litigation affecting the tobacco business see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Tobacco--Governmental Activity."

ENVIRONMENTAL MATTERS

The U.S. Government and various state and local governments have enacted or adopted laws and regulations concerning protection of the environment. The regulations promulgated by the Environmental Protection Agency and other governmental agencies under various statutes have resulted in, and will likely continue to result in, substantial expenditures for pollution control, waste treatment, plant modification and similar activities.

In April 1995, RJRN Holdings was named a potentially responsible party (a "PRP") with certain third parties under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") with respect to a superfund site at which a former subsidiary of RJRN had operations. RJRN has also been named in an insurance coverage suit brought by another company named as a PRP at this site. In this lawsuit, DEL MONTE FRESH PRODUCE V. FIREMEN'S FUND INSURANCE, filed August 13, 1997 in the First Circuit Court of the State of Hawaii, the plaintiff seeks declaratory judgment that it is entitled to insurance coverage for the site or, in the alternative, that RJRN is obligated to indemnify Del Monte under the terms of the agreement by which RJRN sold that company in 1989. The Fireman's Fund Insurance Company has filed a motion for summary judgment that has not yet been heard.

Certain subsidiaries of RJRN Holdings and RJRN have also been named as PRPs with third parties or may have indemnification obligations with respect to a number of additional sites. Liability under CERCLA is joint and several.

RJRN Holdings' and RJRN's subsidiaries have been engaged in a continuing program to assure compliance with U.S., state and local laws and regulations. Although it is difficult to identify precisely the portion of capital expenditures or other costs attributable to compliance with environmental laws and to estimate the cost of resolving these CERCLA matters, RJRN Holdings and RJRN do not expect such

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NOTE 10--COMMITMENTS AND CONTINGENCIES (CONTINUED)

expenditures or other costs to have a material adverse effect on the business or financial condition of RJRN Holdings and RJRN and their subsidiaries taken as a whole.

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Litigation is subject to many uncertainties and it is possible that some of the tobacco-related legal actions, proceedings or claims could be decided against RJRT or its affiliates (including RJRN Holdings and RJRN) or indemnitees. Determinations of liability or adverse rulings against other cigarette manufacturers that are defendants in similar actions, even if such rulings are not final, could adversely affect the litigation against RJRT or its affiliates or indemnitees and could encourage an increase in the number of such claims. There have been a number of political, legislative, regulatory, and

other developments relating to the tobacco industry and cigarette smoking that have received wide media attention, including the Master Settlement Agreement referred to above. These developments may negatively affect the outcomes of tobacco-related legal actions and encourage the commencement of additional similar litigation.

Although it is impossible to predict the outcome of such events on pending litigation and the rate at which new lawsuits are filed against RJRT, RJRN and RJRN Holdings, a significant increase in litigation and/or in adverse outcomes for tobacco defendants could have an adverse effect on any one or all of these entities. RJRT, RJRN and RJRN Holdings each believe that they have a number of valid defenses to any such actions and intend to defend such actions vigorously.

RJRN Holdings and RJRN believe, that notwithstanding the quality of defenses available to them and RJRT in litigation matters, it is possible that the results of operations or cash flows of RJRN Holdings or RJRN in particular quarterly or annual periods or the financial condition of RJRN Holdings and RJRN could be materially affected by the ultimate outcome of certain pending litigation matters (including litigation costs). Management is unable to predict the outcome of the litigation or to derive a meaningful estimate of the amount or range of any possible loss in any particular quarterly or annual period or in the aggregate.

For more detailed information about the class action and health care cost recovery suits pending against RJRT and its affiliates and indemnitees, see exhibit 99 to this Form 10-K, a copy of which will be provided free of charge to persons requesting it in writing and addressed to Worldwide Communications, RJR Nabisco Holdings Corp., 1301 Avenue of the Americas, New York, NY 10019 or by phone to 800-RJR-NAB3.

COMMITMENTS

At December 31, 1998, commitments totalled approximately \$800 million, principally for minimum operating leases, the purchase of leaf tobacco inventories and other contractual arrangements.

NOTE 11--FINANCIAL INSTRUMENTS

INTEREST RATE ARRANGEMENTS

At December 31, 1998, Nabisco had outstanding interest rate caps at an aggregate notional principal amount of \$700 million expiring in June 1999 and outstanding interest rate swaps at a notional principal amount of \$565 million. These swaps expire as follows: \$463 million in 1999; \$29 million in 2003; and \$73 million in 2004. At December 31, 1997, similar arrangements for \$300 million were outstanding.

In November 1997, Nabisco locked in the value of the anticipated call premium associated with the call option feature included in the \$1.0 billion of puttable/callable notes issued in January 1998. This was accomplished by selling \$900 million of notional principal call options on the yield to maturity for the applicable U.S. Treasury securities on the applicable puttable/callable date. Nabisco also sold \$600 million

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NOTE 11--FINANCIAL INSTRUMENTS (CONTINUED)

notional principal amount of U. S. Treasury securities to lock in the anticipated initial interest rates on these notes. These arrangements were settled in January 1998 when the notes were issued.

The carrying amounts and estimated fair values of interest rate arrangements entered into as of December 31, 1998 and 1997 were as follows:

<TABLE>  
<CAPTION>

	1998		1997	
	ASSETS/ (LIABILITIES)		ASSETS/ (LIABILITIES)	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Variable interest rate pay swaps.....	\$ --	\$ 11	\$ --	\$ (1)
Interest rate caps.....	\$ --	\$ --	\$ 1	\$ --
U.S. Treasury locks.....	\$ --	\$ --	\$ --	\$ (3)
Written call options.....	\$ --	\$ --	\$ --	\$ (13)

</TABLE>

FOREIGN CURRENCY ARRANGEMENTS

RJRN Holdings' subsidiaries have significant exposure to foreign exchange transactions in currencies other than their functional currencies. Exposures primarily include the U.S. dollar, German mark, French franc, British pound,

Italian lira, Japanese yen, Swiss franc, Hong Kong dollar, Singapore dollar, Finnish markka, Canadian dollar, Spanish peseta, Dutch guilder, Brazilian real, Malaysian ringgit, Indonesian rupiah, Russian rouble, Romanian leu, and Turkish lira. Whenever possible, RJRN Holdings' policy is to net exposures and utilize natural offsets to minimize the effects of foreign currency transactions on cash flows; otherwise, consideration is given to foreign currency arrangements to protect RJRN Holdings and its subsidiaries from risk that the eventual dollar cash flows resulting from transactions with international parties will be adversely affected by changes in exchange rates. In addition, consideration is given to foreign currency arrangements to hedge foreign currency exposures on existing assets and liabilities, including certain international debt.

At December 31, 1998 and 1997, RJRN Holdings and its subsidiaries had approximately \$279 million and \$472 million, respectively, of outstanding foreign exchange contracts with banks in which foreign currencies (primarily the Swiss franc, Spanish peseta, British pound, Finnish markka, Canadian dollar, Italian lira and the German mark) were purchased, and approximately \$161 million and \$267 million, respectively, of outstanding foreign exchange contracts in which foreign currencies (primarily the Japanese yen, Spanish peseta, Hong Kong dollar, Brazilian real and Indonesian rupiah) were sold. The weighted average maturity of the arrangements outstanding at December 31, 1998 approximated four and one-half months.

At December 31, 1998 and 1997, the net carrying values and estimated fair values of foreign currency arrangements entered into were as follows:

<TABLE>  
<CAPTION>

	1998		1997	
	ASSETS/(LIABILITIES)		ASSETS/(LIABILITIES)	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Forward foreign exchange contracts to purchase foreign currencies.....	\$ (3)	\$ (2)	\$ 3	\$ 1
Forward foreign exchange contracts to sell foreign currencies.....	\$ (7)	\$ (10)	\$ 14	\$ 15

</TABLE>

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NOTE 11--FINANCIAL INSTRUMENTS (CONTINUED)  
MARKET AND CREDIT RISK

The above interest rate and foreign currency arrangements entered into involve, to varying degrees, elements of market risk as a result of potential changes in future interest and foreign currency exchange rates. To the extent that the financial instruments entered into remain outstanding as effective hedges of existing interest rate and foreign currency exposure, the impact of such potential changes in future interest rates and foreign currency exchange rates on the financial instruments entered into would offset the related impact on the items being hedged. Also, RJRN Holdings and its subsidiaries may be exposed to credit losses in the event of non-performance by the counterparties to these financial instruments. However, RJRN Holdings and its subsidiaries continually monitor their positions and the credit ratings of their counterparties and therefore, do not anticipate any non-performance.

There are no significant concentrations of credit risk with any individual counterparties or groups of counterparties as a result of any financial instruments entered into including those financial instruments discussed above.

NOTE 12--CAPITAL STOCK AND PAID-IN CAPITAL

The outstanding capital stock of RJRN Holdings at December 31, 1998 consisted of common stock and ESOP convertible preferred stock (stated value of \$16 per share). All classes of preferred stock of RJRN Holdings (150,000,000 shares authorized at December 31, 1998) rank senior to common stock as to dividends and liquidation preferences.

RJRN Holdings redeemed its Series B preferred stock (12,044 shares issued and outstanding at December 31, 1997) on October 13, 1998, resulting in the redemption of its Series B depository shares (12,043,940 outstanding at December 31, 1997) at \$25 per Series B depository share plus accrued and unpaid dividends. Each share of Series B preferred stock paid cash dividends of \$2,312.50 per share per annum until the shares were redeemed.

RJRN Holdings and its subsidiaries sponsor a defined contribution plan in which matching contributions to eligible employees are made in the form of ESOP preferred stock. Every five shares of ESOP preferred stock (12,818,967 and 13,714,950 shares issued and outstanding at December 31, 1998 and 1997,

respectively) is generally convertible into one share of common stock of RJRN Holdings, and bears cumulative dividends at 7.8125% of stated value per annum at least until April 10, 1999, payable semi-annually in arrears. The ESOP preferred stock is redeemable at the option of RJRN Holdings on or after April 10, 1999 at an initial redemption price of \$16.25 per share. The redemption price declines thereafter to \$16 per share on April 10, 2001, plus accrued and unpaid dividends. RJRN Holdings matches \$.50 for every pre-tax dollar contributed by each eligible employee, up to a maximum of 6% of the employee's pay. The shares of ESOP preferred stock are allocated to employees at either a floor value of \$16 per share or the fair market value of one-fifth of a share of common stock, whichever is higher. Unallocated shares totalled 2,142,175 and 4,182,985 at December 31, 1998 and 1997, respectively. During 1998, 1997 and 1996, approximately \$28 million, \$32 million and \$28 million, respectively, was contributed to the ESOP by RJRN Holdings and approximately \$17 million, \$18 million and \$18 million, respectively, of ESOP dividends were used to service the ESOP's debt to RJRN Holdings that was incurred in connection with the initial formation of the ESOP.

NOTE 13--STOCK PLANS

RJRN Holdings' 1989 stock plan provides for grants of options to purchase common stock of RJRN Holdings to non-employee directors, directors and key employees. A maximum of 6,000,000 shares may be issued under this plan. The options granted under the plan generally vest over three years, are separately

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NOTE 13--STOCK PLANS (CONTINUED)

exercisable for primarily ten years from the date of grant and are exercisable at a price that is generally the fair market value of the stock at the grant date.

RJRN Holdings' 1990 long-term incentive plan ("LTIP") provides for grants of incentive stock options, other stock options, stock appreciation rights, restricted stock, purchase stock, dividend equivalent rights, performance units, performance shares and other stock-based grants to key employees. A maximum of 33,000,000 shares of common stock of RJRN Holdings may be issued under the LTIP. The options granted under the plan generally vest over three years, are exercisable for 10-15 years from date of grant, and are exercisable at a price that is generally the fair market value of the stock at the grant date. As of December 31, 1998, purchase stock, stock options other than incentive stock options, restricted stock and other stock-based grants have been granted under the LTIP.

Nabisco Holdings' 1994 long-term incentive plan is similar to the LTIP except that stock-based awards are denominated in shares of Class A common stock of Nabisco Holdings.

The changes in stock options under RJRN Holdings' stock plans are as follows:

<TABLE>  
<CAPTION>

	1998		1997		1996	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of year.....	17,378,041	\$ 29.54	17,783,323	\$ 29.54	14,855,935	\$ 28.40
Options granted.....	657,536	35.78	589,600	32.37	3,792,447	34.57
Options exercised.....	(271,458)	26.37	(396,363)	25.81	(595,112)	25.68
Options cancelled.....	(274,008)	35.87	(598,519)	34.68	(269,947)	31.41
Balance at end of year.....	17,490,111	29.72	17,378,041	29.54	17,783,323	29.54
Exercisable at end of year.....	15,393,538	29.05	5,683,937	31.09	4,618,935	30.46

</TABLE>

The changes in stock options under Nabisco Holdings' stock plan are as follows:

<TABLE>  
<CAPTION>

	1998		1997		1996	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE

	OPTIONS	PRICE	OPTIONS	PRICE	OPTIONS	PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of year.....	14,159,527	\$ 30.15	11,727,881	\$ 28.57	8,909,663	\$ 26.77
Options granted.....	2,830,983	45.51	2,758,500	37.22	3,114,200	33.83
Options exercised.....	(832,534)	27.50	--	--	--	--
Options cancelled.....	(643,735)	38.59	(326,854)	33.13	(295,982)	29.73
Balance at end of year.....	15,514,241	32.75	14,159,527	30.15	11,727,881	28.57
Exercisable at end of year.....	7,805,633	26.67	--	--	--	--

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NOTE 13--STOCK PLANS (CONTINUED)

Additional information at December 31, 1998 with respect to options under RJRN Holdings' and Nabisco Holdings' stock plans is as follows:

	RJRN HOLDINGS	NABISCO HOLDINGS
<S>	<C>	<C>
Option price range at end of year.....	\$ 22.82-52.50	\$ 24.50-52.88
Shares of common stock available for future grant.....	14,512,688	12,183,572
Weighted-average remaining contractual life of outstanding options at end of year.....	9.8 years	9.6 years

RJRN Holdings and its subsidiaries recognize and measure compensation costs related to employee stock plans utilizing the intrinsic value based method. Had compensation expense been determined based upon the fair value of awards granted during 1998, 1997 and 1996, RJRN Holdings' net income (loss) and earnings (loss) per share would have been as follows:

	1998		1997		1996	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net income (loss).....	\$ (577)	\$ (602)	\$ 381	\$ 354	\$ 611	\$ 591
Basic earnings (loss) per share.....	\$ (1.91)	\$ (1.98)	\$ 1.05	\$ 0.96	\$ 1.75	\$ 1.69
Diluted earnings (loss) per share.....	\$ (1.91)	\$ (1.98)	\$ 1.03	\$ 0.94	\$ 1.74	\$ 1.68
Weighted-average grant date fair value of RJRN Holdings' options granted during the year.....	--	\$ 7.33	--	\$ 6.79	--	\$ 7.06
Weighted-average grant date fair value of Nabisco Holdings' options granted during the year.....	--	\$ 14.27	--	\$ 12.55	--	\$ 11.00

For options granted, fair value was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	1998		1997		1996	
	RJRN HOLDINGS	NABISCO HOLDINGS	RJRN HOLDINGS	NABISCO HOLDINGS	RJRN HOLDINGS	NABISCO HOLDINGS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Dividend yield.....	5.8%	1.7%	5.8%	1.7%	5.3%	1.9%
Expected volatility.....	31%	23%	31%	23%	29%	24%
Risk-free interest rate.....	5.8%	5.7%	6.4%	6.6%	6.2%	6.4%
Expected option life (years).....	5	7	5	7	5	7

In 1998, RJRN Holdings granted 992,600 shares of restricted stock to eligible employees. These shares may not be disposed of or otherwise transferred during the restricted period, generally three to five years. Restrictions on the stock, net of forfeitures, lapse as follows: 2001--57,123 shares, 2002--57,123 shares, 2003--640,354 shares and thereafter--200,000 shares. The market price of the stock at the grant date was charged to stockholders' equity as unearned compensation and will be subsequently amortized over the periods during which the restrictions lapse. Compensation expense of approximately \$6 million was recorded in 1998. The unamortized portion remaining in stockholders' equity at

December 31, 1998 was \$26 million.

NOTE 14--RETIREMENT BENEFITS

RJRN and its subsidiaries sponsor a number of non-contributory defined benefit pension plans covering most U.S. and certain foreign employees. Additionally, RJRN and its subsidiaries participate in

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NOTE 14--RETIREMENT BENEFITS (CONTINUED)

several multi-employer plans, which provide benefits to certain union employees, and defined contribution plans, which provide benefits to certain employees in foreign countries. RJRN also provides certain health and life insurance benefits for retired employees and their dependents. In 1998, RJRN adopted SFAS No. 132. All the information is presented accordingly.

<TABLE>  
<CAPTION>

AS OF DECEMBER 31	PENSION BENEFITS		POSTRETIREMENT BENEFITS	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
<b>CHANGE IN BENEFIT OBLIGATION</b>				
Obligation at beginning of year.....	\$ 4,406	\$ 3,986	\$ 1,155	\$ 1,054
Service cost.....	98	86	14	14
Interest cost.....	300	291	76	76
Actuarial loss.....	177	411	3	81
Plan amendments.....	(5)	11	--	--
Currency exchange.....	(16)	(34)	(4)	(3)
Benefits paid.....	(383)	(345)	(83)	(67)
Obligation at end of year.....	\$ 4,577	\$ 4,406	\$ 1,161	\$ 1,155
<b>CHANGE IN PLAN ASSETS</b>				
Fair value of plan assets at beginning of year.....	\$ 3,787	\$ 3,523	\$ --	\$ --
Actual return on plan assets.....	362	493	--	--
Employer contributions.....	113	110	83	67
Participants' contributions.....	2	2	--	--
Currency exchange.....	(28)	(18)	--	--
Benefits paid.....	(370)	(323)	(83)	(67)
Fair value of plan assets at end of year.....	\$ 3,866	\$ 3,787	\$ --	\$ --
<b>FUNDED STATUS</b>				
Funded status.....	\$ (711)	\$ (619)	\$ (1,161)	\$ (1,155)
Unrecognized transition (asset) obligation.....	5	4	(26)	(32)
Unrecognized prior service cost.....	2	8	--	--
Unrecognized loss.....	308	168	175	174
Net amount recognized.....	\$ (396)	\$ (439)	\$ (1,012)	\$ (1,013)
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost.....	\$ 69	\$ 57	\$ --	\$ --
Accrued benefit liability.....	(502)	(542)	(1,012)	(1,013)
Intangible asset.....	6	10	--	--
Accumulated other comprehensive income.....	31	36	--	--
Net amount recognized.....	\$ (396)	\$ (439)	\$ (1,012)	\$ (1,013)

</TABLE>

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NOTE 14--RETIREMENT BENEFITS (CONTINUED)

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$3.97 billion, \$3.57 billion and \$3.16 billion, respectively, as of December 31, 1998 and \$3.78 billion, \$3.43 billion and \$3.13 billion, respectively, as of December 31, 1997.

The components of net periodic benefit cost are as follows:

<TABLE>  
<CAPTION>

YEARS ENDED DECEMBER 31	PENSION BENEFITS			POSTRETIREMENT BENEFITS		
	1998	1997	1996	1998	1997	1996

<S>	<C>	<C>	<C>	<C>	<C>	<C>
Service cost.....	\$ 98	\$ 86	\$ 96	\$ 14	\$ 14	\$ 16
Interest cost.....	300	291	281	76	76	72
Expected return on plan assets.....	(330)	(307)	(290)	--	--	--
Amortization of transition asset.....	--	--	--	(8)	(8)	(8)
Amortization of net loss.....	--	--	4	3	--	--
Net periodic benefit cost.....	\$ 68	\$ 70	\$ 91	\$ 85	\$ 82	\$ 80

</TABLE>

The total expense for all multi-employer and other defined contribution plans was \$37 million, \$39 million and \$42 million for the years ended December 31, 1998, 1997 and 1996, respectively.

The principal pension and postretirement benefit plans used the following weighted average actuarial assumptions as of December 31:

<TABLE>  
<CAPTION>

	1998	1997
<S>	<C>	<C>
Discount rate.....	6.78%	7.04%
Expected return on plan assets.....	9.35%	9.37%
Rate of compensation increase.....	4.72%	4.75%

</TABLE>

The assumed health care cost rate is 6.0% in 1998 and 5.5% in 1999, declining to 5% by the year 2000 and remaining at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

<TABLE>  
<CAPTION>

	1-PERCENTAGE- POINT INCREASE	1-PERCENTAGE- POINT DECREASE
<S>	<C>	<C>
Effect on postretirement benefit cost.....	\$ 9	\$ (4)
Effect on postretirement benefit obligation.....	67	(61)

</TABLE>

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NOTE 15--SEGMENT INFORMATION

The following information is presented in accordance with SFAS No. 131, which was adopted by RJRN Holdings and RJRN in the fourth quarter of 1998.

RJRN Holdings is a holding company whose subsidiaries are engaged principally in the manufacture, distribution and sale of tobacco products, cookies, crackers, and other food products. RJRN Holdings is organized and reports its results of operations in five operating segments: R.J. Reynolds Tobacco, Reynolds International, Nabisco Biscuit, the U.S. Foods Group and the International Food Group which are segregated by both product and geographic location.

R.J. Reynolds Tobacco manufactures, markets and sells cigarettes in the United States. Its largest brands include Doral, Winston, Camel and Salem. Reynolds International operates in over 170 markets around the world. It markets nearly 100 brands of cigarettes of which Winston, Camel and Salem are its international leaders. A portion of Reynolds International's product is made in the United States, with the remainder manufactured in owned or joint venture facilities or through licensing agreements outside the United States. See note 10 for information regarding legislation and other matters affecting the domestic and international cigarette industry.

RJRN's 80.6%-owned subsidiary, Nabisco Holdings, manufactures and markets cookies, crackers, non-chocolate candy and gum products, nuts and snacks and other specialty products under several brand names in the United States, Canada, Europe, Asia, and Latin America. Nabisco Biscuit manufactures and markets cookies and crackers in the United States. Nabisco Biscuit's leading cookie brands include Oreo, Chips Ahoy!, SnackWell's and Newtons. Its leading cracker brands include Ritz, Premium, Triscuit, Air Crisps and Wheat Thins. The U.S. Foods Group represents Nabisco Holdings' non-biscuit food operations in the United States and manufactures and markets sauces and condiments, pet snacks, hot cereals, dry mix desserts, gelatins, non-chocolate candy, gum, nuts and salty snacks. It sells to major grocery chains, national drug and mass merchandisers, convenience channels and warehouse clubs through a direct sales force. It also sells to retail grocery chains and regional mass merchandisers

through independent brokers. The International Food Group conducts Nabisco Holdings' operations outside the United States, primarily in markets in Canada and Latin America and certain markets in Europe, the Middle East, Africa and Asia. Nabisco International primarily produces and markets biscuits, powdered desserts and dry mixes, baking powder, pasta, juices, and milk products in these regions. See note 3 for details of businesses divested and exited.

The accounting policies of the reportable operating segments are the same as those described in note 1. RJRN Holdings management evaluates the performance of its operating segments based upon ongoing Operating Company Contribution ("OCC"). OCC for each reportable segment is operating income before amortization of trademarks and goodwill, restructuring expenses and other items deemed unusual by management. These items include initial, upfront tobacco settlement and related costs in 1998 and 1997, the net gain on Food businesses divested and exited during 1998 and restructuring related costs in 1998, 1997 and 1996, and are described further in notes 2, 3 and 10.

See notes 2 and 3 regarding significant non-cash expenses recorded relating to restructurings affecting all operating segments and tobacco settlement and related charges affecting the R.J. Reynolds Tobacco operating segment.

Net sales from one customer of both the R.J. Reynolds Tobacco and the Nabisco foods operating segments were approximately 11.5% of consolidated net sales for the year ended December 31, 1998.

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NOTE 15--SEGMENT INFORMATION (CONTINUED)  
SEGMENT PROFIT/(LOSS) AND ASSET INFORMATION:

YEARS ENDED DECEMBER 31	1998	1997	1996
<S>	<C>	<C>	<C>
Net sales from external customers:			
R.J. Reynolds Tobacco.....	\$ 5,568	\$ 4,895	\$ 4,551
Reynolds International.....	3,069	3,428	3,623
Nabisco Biscuit.....	3,542	3,545	3,677
U.S. Foods Group.....	2,334	2,604	2,638
International Food Group.....	2,524	2,585	2,574
Consolidated net sales from external customers.....	\$ 17,037	\$ 17,057	\$ 17,063
Ongoing OCC:			
R.J. Reynolds Tobacco.....	\$ 1,620	\$ 1,510	\$ 1,450
Reynolds International.....	468	670	803
Nabisco Biscuit.....	542	691	600
U.S. Foods Group.....	339	386	379
International Food Group.....	206	231	248
Corporate.....	(79)	(70)	(67)
Consolidated OCC.....	\$ 3,096	\$ 3,418	\$ 3,413
Depreciation:			
R.J. Reynolds Tobacco.....	\$ 130	\$ 140	\$ 166
Reynolds International.....	101	85	100
Nabisco Biscuit.....	146	148	149
U.S. Foods Group.....	46	49	49
International Food Group.....	81	80	72
Corporate.....	2	2	2
Consolidated depreciation.....	\$ 506	\$ 504	\$ 538

</TABLE>

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NOTE 15--SEGMENT INFORMATION (CONTINUED)

YEARS ENDED DECEMBER 31	1998	1997	1996
<S>	<C>	<C>	<C>
Additions to long-lived assets:			
R.J. Reynolds Tobacco.....	\$ 46	\$ 57	\$ 62
Reynolds International.....	189	314	241
Nabisco Biscuit.....	188	206	190
U.S. Foods Group.....	49	64	89



International Food Group.....	103	122	158
Corporate.....	1	--	1
	-----	-----	-----
Consolidated additions to long-lived assets.....	\$ 576	\$ 763	\$ 741
	-----	-----	-----

</TABLE>

<TABLE>

<CAPTION>  
AS OF DECEMBER 31

	1998	1997	
	-----	-----	
<S>	<C>	<C>	<C>
Segment assets:			
R.J. Reynolds Tobacco.....	\$ 1,808	\$ 2,231	
Reynolds International.....	3,422	3,502	
Nabisco Biscuit.....	2,079	2,273	
U.S. Foods Group.....	816	1,116	
International Food Group.....	2,550	2,737	
Unallocated intangibles, net(1).....	17,684	18,483	
Corporate.....	533	336	
	-----	-----	
Total segment assets.....	\$ 28,892	\$ 30,678	
	-----	-----	

</TABLE>

(1) Represents unallocated goodwill, trademarks and tradename resulting from the 1989 leveraged buyout of RJRN.

A reconciliation of consolidated OCC to consolidated income (loss) before income taxes is as follows:

<TABLE>

<CAPTION>  
YEARS ENDED DECEMBER 31

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Ongoing OCC.....	\$ 3,096	\$ 3,418	\$ 3,413
Items excluded from OCC:			
Goodwill and trademark amortization.....	(629)	(634)	(636)
Interest and debt expense.....	(880)	(912)	(927)
Other income (expense), net.....	(132)	(107)	(126)
Tobacco settlement and related expenses.....	(1,442)	(359)	--
Restructuring expenses and related costs.....	(641)	(390)	(525)
Net gain on divested food businesses.....	14	--	--
	-----	-----	-----
Income (loss) before income taxes.....	\$ (614)	\$ 1,016	\$ 1,199
	-----	-----	-----

</TABLE>

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NOTE 15--SEGMENT INFORMATION (CONTINUED)  
SEGMENT GEOGRAPHIC INFORMATION:

<TABLE>

<CAPTION>

	REVENUES			NET LONG-LIVED ASSETS	
	1998	1997	1996	1998	1997
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
United States.....	\$ 11,435	\$ 11,038	\$ 10,860	\$ 3,135	\$ 3,746
Canada.....	629	662	675	236	250
Brazil.....	543	567	610	179	218
Spain.....	454	414	483	116	109
Russia.....	310	300	152	266	188
Argentina.....	284	308	319	202	199
Japan.....	279	311	330	4	4
Germany.....	209	204	263	282	265
France.....	188	186	246	3	2
Mexico.....	122	109	94	33	39
Other foreign countries.....	2,584	2,958	3,031	842	919
	-----	-----	-----	-----	-----
Total.....	\$ 17,037	\$ 17,057	\$ 17,063	\$ 5,298	\$ 5,939
	-----	-----	-----	-----	-----

</TABLE>

	YEARS ENDED DECEMBER 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
Advertising expense.....	\$ 617	\$ 603	\$ 544
Research and development expense.....	188	178	191
Rent expense.....	173	182	167

	AS OF DECEMBER 31		
	1998	1997	
<S>	<C>	<C>	<C>
Accumulated other comprehensive income (loss):			
Cumulative translation adjustment.....	\$ (441)	\$ (391)	
Minimum pension liability.....	(19)	(22)	
Total accumulated other comprehensive income (loss).....	\$ (460)	\$ (413)	

&lt;/TABLE&gt;

Total comprehensive income (loss) for RJRN for the years ended December 31, 1998, 1997 and 1996 was \$(563) million, \$253 million and \$617 million, respectively. Other comprehensive income includes cumulative translation and minimum pension liability adjustments for all periods.

## NOTE 17--QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	FIRST	SECOND	THIRD	FOURTH
<S>	<C>	<C>	<C>	<C>
1998 (1)				
Net sales.....	\$ 3,947	\$ 4,292	\$ 4,328	\$ 4,470
Operating income (loss).....	262	73	582	(519)
Income (loss) before extraordinary item.....	(20)	(130)	158	(585)
Net income (loss).....	(20)	(130)	158	(585)
Per share data:(3)				
Basic income (loss) per share before extraordinary item.....	\$ (.10)	\$ (.44)	\$ .45	\$ (1.83)
Diluted income (loss) per share before extraordinary item.....	(.10)	(.44)	.45	(1.83)
Common stock dividends declared.....	.5125	.5125	.5125	.5125
Market price of common stock				
--high.....	\$ 38 1/16	\$ 31 5/16	\$ 27 3/8	\$ 31 15/16
--low.....	30	23 1/2	21 5/16	24
--close.....	31 5/16	23 3/4	25 3/16	29 11/16

&lt;/TABLE&gt;

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## NOTE 17--QUARTERLY RESULTS OF OPERATIONS (UNAUDITED) (CONTINUED)

	FIRST	SECOND	THIRD	FOURTH
<S>	<C>	<C>	<C>	<C>
1997 (2)				
Net sales.....	\$ 3,779	\$ 4,286	\$ 4,409	\$ 4,583
Operating income.....	653	716	484	182
Income (loss) before extraordinary item.....	213	243	122	(176)
Net income (loss).....	213	243	122	(197)
Per share data:(3)				
Basic income (loss) per share before extraordinary item.....	\$ .62	\$ .72	\$ .34	\$ (.58)
Diluted income (loss) per share before extraordinary item.....	.62	.71	.34	(.58)
Common stock dividends declared.....	.5125	.5125	.5125	.5125
Market price of common stock				
--high.....	\$ 38 7/8	\$ 36 1/2	\$ 36 1/8	\$ 37 15/16
--low.....	30 5/8	27	29 9/16	29 7/8
--close.....	32 1/4	33	34 3/8	37 1/2

&lt;/TABLE&gt;

(1) The first quarter of 1998 includes \$312 million (\$199 million after-tax) related to the agreements reached by RJRT with the state of Minnesota and Blue Cross and Blue Shield of Minnesota, as well as other settlement related costs.

The second quarter of 1998 includes restructuring and related expenses of

\$412 million (\$219 million after-tax, net of minority interest) related to the food business and \$145 million (\$97 million after-tax) of additional tobacco settlement charges relating to certain prior state settlement agreements.

The fourth quarter of 1998 includes \$159 million (\$93 million after-tax, net of minority interest) of restructuring and related expenses related to the food business, \$55 million (no income tax benefit) of net restructuring expenses related to the international tobacco business and \$985 million (\$632 million after-tax) of tobacco settlement and related charges relating to the domestic tobacco business.

- (2) The third quarter of 1997 includes \$219 million (\$133 million after-tax) related to the settlement agreements reached by RJRT with the Florida and Mississippi state attorneys general and in certain class action cases.

The fourth quarter of 1997 includes \$301 million (\$235 million after-tax) of restructuring expense and approximately \$89 million (\$78 million after-tax) of restructuring-related expenses at the tobacco operations and \$140 million (\$85 million after-tax) related to the settlement agreement reached by RJRT with the Texas state attorney general.

- (3) Earnings per share is computed independently for each of the periods presented; therefore, the sum of the earnings per share amounts for the quarters may not equal the total for the year.

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NOTE 18--SUBSEQUENT EVENTS

On March 9, 1999, RJRN and RJRT entered into a definitive agreement to sell the international tobacco business for approximately \$8 billion, including the assumption of approximately \$200 million of net debt, to Japan Tobacco Inc. ("Japan Tobacco"). Under the terms of the agreement, Japan Tobacco will acquire substantially all of the business including intellectual property rights of Reynolds International, including the international rights to the Camel, Winston and Salem brand names. Proceeds from the sale will be used to reduce debt and for general corporate purposes, which is expected to substantially strengthen the financial position of RJRT. The sale is subject to certain regulatory conditions and receipt of certain consents from RJRN's bondholders.

Also on March 9, 1999, RJRN Holdings announced that its board of directors had approved a plan to separate the domestic tobacco business conducted by RJRT, from the food business conducted by operating subsidiaries of Nabisco Holdings. Under the plan, the separation of the businesses will be accomplished by a tax-free spin-off to RJRN Holdings shareholders of shares in the domestic tobacco business.

Upon completion of the spin-off, RJRN Holdings will be renamed Nabisco Group Holdings and continue to exist as a holding company, owning 80.5% of Nabisco Holdings. The re-named Nabisco Group Holdings and Nabisco Holdings will each continue to trade as separate companies on the New York Stock Exchange and shares of tobacco company stock will also trade separately. The separation is subject to final board approval and bondholder consent and is expected to occur following completion of the sale of the international tobacco business.

The unaudited pro forma information below reflects adjustments to the historical results of operations and financial condition of RJRN Holdings and RJRN. The unaudited pro forma balance sheet gives effect to the following transactions as if they occurred on December 31, 1998, as applicable: (i) the sale of Reynolds International and application of the net proceeds to reduce debt and for general corporate purposes; (ii) the issuance of new debt by RJRN; (iii) the dividend of Nabisco Holdings from RJRN to RJRN Holdings; and (iv) the spin-off of RJRN to RJRN Holdings' shareholders. The unaudited pro forma income statement gives effect to the above transactions and the adjustment to selling, advertising, administrative and general expenses to reflect the estimated level of RJRN's administrative expenses after the completion of the RJRN spin-off, as if the transactions occurred on January 1, 1998. No adjustment has been made for one-time or non-recurring items in the unaudited pro forma income statement.

Management believes that the assumptions used provide a reasonable basis on which to present the pro forma consolidated financial data based on transactions and events that are currently probable to occur. THE UNAUDITED PRO FORMA FINANCIAL STATEMENTS OF RJRN HOLDINGS AND RJRN ARE PROVIDED FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED TO BE INDICATIVE OF THE RESULTS OF OPERATIONS OR FINANCIAL POSITION HAD THE TRANSACTIONS AND EVENTS DESCRIBED ABOVE BEEN CONSUMMATED ON THE DATES ASSUMED AND DO NOT PROJECT THE RESULTS OF OPERATIONS OR FINANCIAL POSITION FOR ANY FUTURE DATE OR PERIOD.

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NOTE 18--SUBSEQUENT EVENTS (CONTINUED)

<TABLE>  
<CAPTION>

DECEMBER 31, 1998

	RJRN HOLDINGS	RJRN
	(UNAUDITED)	
<S>	<C>	<C>
<b>ASSETS</b>		
Cash and cash equivalents.....	\$ 173	\$ 298
Accounts and other receivables, net.....	522	163
Inventories.....	753	529
Prepaid expenses and excise taxes.....	70	411
	-----	-----
Total current assets.....	1,518	1,401
	-----	-----
Property, plant and equipment, net.....	2,947	1,115
Trademarks, net.....	3,368	3,176
Goodwill, net.....	3,182	7,844
Other assets and deferred charges.....	82	125
	-----	-----
Total assets.....	\$ 11,097	\$ 13,661
	-----	-----
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Short-term borrowings.....	\$ 68	\$ 28
Accounts payable and accrued liabilities.....	1,638	1,527
Current maturities of long-term debt.....	118	--
Income taxes accrued.....	20	165
	-----	-----
Total current liabilities.....	1,844	1,720
	-----	-----
Long-term debt (less current maturities).....	3,619	1,435
Minority interest in Nabisco Holdings.....	752	--
Other noncurrent liabilities.....	704	1,349
Deferred income taxes.....	1,271	1,457
Total stockholders' equity.....	2,907	7,700
	-----	-----
Total liabilities and stockholders' equity.....	\$ 11,097	\$ 13,661
	-----	-----

<CAPTION>

YEAR ENDED DECEMBER 31,  
1998

	RJRN HOLDINGS	RJRN
	(UNAUDITED)	
<S>	<C>	<C>
Net sales.....	\$ 8,400	\$ 5,716
Costs and expenses.....	7,366	5,514
Amortization of trademarks and goodwill.....	221	366
Restructuring expense.....	530	--
	-----	-----
Operating income (loss).....	283	(164)
Interest expense and other income (expense), net.....	(325)	(124)
Income tax provision (benefit).....	36	(23)
Minority interest.....	14	--
	-----	-----
Loss from continuing operations.....	\$ (64)	\$ (265)
	-----	-----

</TABLE>

Costs and expenses for RJRN include \$1.442 billion of tobacco settlement and related costs. See notes 3 and 10 for further discussion.

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SCHEDULE I

RJR NABISCO HOLDINGS CORP.  
SCHEDULE I--CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(DOLLARS IN MILLIONS)

<TABLE>

<CAPTION>

YEARS ENDED DECEMBER 31	1998	1997	1996
<S>	<C>	<C>	<C>
Interest and debt expense.....	\$ (108)	\$ (98)	\$ (98)

Other income (expense), net.....	2	7	6
Loss before income taxes.....	(106)	(91)	(92)
Benefit for income taxes.....	(42)	(36)	(34)
Loss before equity in income (loss) from subsidiaries.....	(64)	(55)	(58)
Equity in income (loss) from subsidiaries, net of income taxes.....	(513)	457	669
Income (loss) before extraordinary item.....	(577)	402	611
Extraordinary item--loss on early extinguishment of debt of subsidiary, net of income taxes.....	--	(21)	--
Net income (loss).....	(577)	381	611
Equity in other comprehensive income (loss) of subsidiaries:			
Foreign currency translation adjustments.....	(50)	(170)	(45)
Minimum pension liability adjustments.....	3	(10)	(4)
Equity in other comprehensive income (loss) of subsidiaries.....	(47)	(180)	(49)
Comprehensive income (loss).....	\$ (624)	\$ 201	\$ 562

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL INFORMATION.

S-1

SCHEDULE I

RJR NABISCO HOLDINGS CORP.  
SCHEDULE I--CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED STATEMENTS OF CASH FLOWS  
(DOLLARS IN MILLIONS)

YEARS ENDED DECEMBER 31	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:			
Net income (loss).....	\$ (577)	\$ 381	\$ 611
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Deferred income tax provision (benefit).....	--	1	(6)
Extraordinary item.....	--	43	--
Equity in income (loss) from subsidiaries, net of income taxes.....	513	(457)	(669)
Dividends received from subsidiary.....	607	834	1,108
Other, net.....	(20)	16	(2)
Total adjustments.....	1,100	437	431
Net cash flows from operating activities.....	523	818	1,042
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:			
Proceeds from issuance of junior subordinated debentures.....	385	--	--
Redemption of Series B preferred stock.....	(301)	--	--
Repurchase of common stock.....	--	--	(100)
Dividends paid on common and preferred stock.....	(706)	(721)	(686)
Other, net--primarily intercompany transfers and payments.....	100	(98)	(257)
Net cash flows used in financing activities.....	(522)	(819)	(1,043)
Net change in cash and cash equivalents.....	1	(1)	(1)
Cash and cash equivalents at beginning of period.....	--	1	2
Cash and cash equivalents at end of period.....	\$ 1	\$ --	\$ 1

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL INFORMATION.

S-2

SCHEDULE I

RJR NABISCO HOLDINGS CORP.  
SCHEDULE I--CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED BALANCE SHEETS  
(DOLLARS IN MILLIONS)

<TABLE>  
 <CAPTION>  
 DECEMBER 31

	1998	1997
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 1	\$ --
Accounts and notes receivable, net.....	16	4
TOTAL CURRENT ASSETS.....	17	4
Investment in subsidiaries.....	9,937	11,115
Other assets.....	12	17
	\$ 9,966	\$ 11,136
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities.....	\$ 191	\$ 178
Income taxes accrued.....	7	33
TOTAL CURRENT LIABILITIES.....	198	211
Intercompany payable, net.....	322	229
Other noncurrent liabilities.....	--	18
Deferred income taxes.....	64	64
Junior subordinated debentures.....	1,368	983
Commitments and contingencies (note D)		
Stockholders' equity:		
Preferred stock.....	205	520
Common stock--(1998--328,385,148 shares issued, 1997--327,158,090 shares issued).....	3	3
Paid-in capital.....	9,004	9,690
Retained earnings (accumulated deficit).....	(577)	--
Accumulated other comprehensive income:		
Cumulative translation adjustments.....	(441)	(391)
Minimum pension liability.....	(19)	(22)
Accumulated other comprehensive income.....	(460)	(413)
Treasury stock, at cost.....	(100)	(100)
Other stockholders' equity.....	(61)	(69)
TOTAL STOCKHOLDERS' EQUITY.....	8,014	9,631
	\$ 9,966	\$ 11,136

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL INFORMATION.

S-3

SCHEDULE I

RJR NABISCO HOLDINGS CORP.  
 SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
 NOTES TO CONDENSED FINANCIAL INFORMATION

NOTE A--BASIS OF PRESENTATION

Certain prior years' amounts have been reclassified to conform to the 1998 presentation.

See note 18 to the consolidated financial statements regarding the pending sale by RJRN and RJRT of the international tobacco business and the separation of the domestic tobacco and food businesses.

NOTE B--SUPPLEMENTAL CASH FLOWS INFORMATION

For information regarding certain non-cash financing activities, see note 9 to the consolidated financial statements.

NOTE C--JUNIOR SUBORDINATED DEBENTURES

See note 9 to the consolidated financial statements for information regarding the issuance of the junior subordinated debentures.

RJRN Holdings' obligations under the junior subordinated debentures are unsecured and subordinate to all senior indebtedness of RJRN Holdings, but junior to all future stock issuances and stock guarantees. As of December 31, 1998, RJRN Holdings had no senior indebtedness other than its guarantee of RJRN's obligations under RJRN's credit agreements. RJRN Holdings guarantees all distributions made by its subsidiary trusts, subordinate to any distributions to any senior debenture holders and junior subordinated debenture holders.

Interest on the junior subordinated debentures is payable quarterly in arrears. The junior subordinated debentures may be redeemed by RJRN Holdings on or after August 19, 1998 and September 30, 2003 and mature in December 2044 and September 2047. Covenants applicable to the junior subordinated debentures limit RJRN Holdings' ability to enter into certain capital stock transactions, among other things, if RJRN Holdings is in default of any payments or guarantees with respect to the junior subordinated debentures.

NOTE D--COMMITMENTS AND CONTINGENCIES

RJRN Holdings has guaranteed the indebtedness of RJRN under RJRN's credit facilities.

For disclosure of additional contingent liabilities and commitments, see note 10 to the consolidated financial statements.

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SCHEDULE I

RJR NABISCO, INC.  
 SCHEDULE I--CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
 CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
 (DOLLARS IN MILLIONS)

<TABLE>  
 <CAPTION>  
 YEARS ENDED DECEMBER 31

	1998	1997	1996
Administrative expenses.....	\$ (11)	\$ (5)	\$ (5)
Interest and debt expense.....	(426)	(433)	(454)
Other income, net.....	923	942	956
Income before income taxes.....	486	504	497
Provision for income taxes.....	130	173	169
Income before equity in income from subsidiaries.....	356	331	328
Equity in income (loss) from subsidiaries, net of income taxes.....	(872)	123	338
Income (loss) before extraordinary item.....	(516)	454	666
Extraordinary item-loss on early extinguishment of debt of a subsidiary, net of income taxes and minority interest.....	--	(21)	--
Net income (loss).....	(516)	433	666
Other comprehensive income (loss):			
Equity in other comprehensive income of subsidiaries.....	(37)	(202)	(71)
Foreign currency translation adjustments.....	(11)	22	23
Minimum pension liability adjustments.....	1	--	(1)
Other comprehensive income (loss).....	(47)	(180)	(49)
Comprehensive income (loss).....	\$ (563)	\$ 253	\$ 617

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL INFORMATION.

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SCHEDULE I

RJR NABISCO, INC.  
 SCHEDULE I--CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
 CONDENSED STATEMENTS OF CASH FLOWS  
 (DOLLARS IN MILLIONS)

<TABLE>  
 <CAPTION>  
 YEARS ENDED DECEMBER 31

	1998	1997	1996
	<C>	<C>	<C>

CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss).....	\$ (516)	\$ 433	\$ 666
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Deferred income tax provision (benefit).....	(31)	7	(8)
Extraordinary item.....	--	43	--
Equity in income (loss) from subsidiaries, net of income taxes.....	872	(123)	(338)
Dividends received from subsidiary.....	149	141	125
Other, net.....	(101)	1	20
Total adjustments.....	889	69	(201)
Net cash flows from operating activities.....	373	502	465
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:			
Capital expenditures.....	(1)	--	(1)
Net cash flows used in investing activities.....	(1)	--	(1)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt.....	--	345	--
Repayments of long-term debt.....	(68)	(28)	(118)
Increase (decrease) in short-term borrowings.....	33	(295)	53
Dividends paid to parent.....	(607)	(834)	(1,108)
Other, net--primarily intercompany transfers and payments.....	170	437	717
Net cash flows used in financing activities.....	(472)	(375)	(456)
Net change in cash and cash equivalents.....	(100)	127	8
Cash and cash equivalents at beginning of period.....	140	13	5
Cash and cash equivalents at end of period.....	\$ 40	\$ 140	\$ 13

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL INFORMATION.

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SCHEDULE I

RJR NABISCO, INC.  
SCHEDULE I--CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED BALANCE SHEETS  
(DOLLARS IN MILLIONS)

<TABLE>		
<CAPTION>		
DECEMBER 31	1998	1997
	<C>	<C>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	\$ 40	\$ 140
Accounts and notes receivable.....	37	40
Prepaid expenses.....	8	6
TOTAL CURRENT ASSETS.....	85	186
Intercompany receivable, net.....	10,637	10,802
Investment in subsidiaries.....	4,736	5,815
Property, plant and equipment, net.....	3	5
Other assets.....	84	56
	\$ 15,545	\$ 16,864
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities.....	\$ 160	\$ 171
Current maturities of long-term debt.....	62	--
Income taxes accrued.....	5	42
TOTAL CURRENT LIABILITIES.....	227	213
Long-term debt (less current maturities).....	4,861	4,944
Other noncurrent liabilities.....	44	54
Deferred income taxes.....	527	574
Commitments and contingencies (note C)		
Stockholder's equity:		
Paid-in capital.....	10,862	11,492



Retained earnings (accumulated deficit).....	(516)	--
Accumulated other comprehensive income:		
Cumulative translation adjustments.....	(441)	(391)
Minimum pension liability.....	(19)	(22)
	-----	-----
Accumulated other comprehensive income.....	(460)	(413)
	-----	-----
TOTAL STOCKHOLDER'S EQUITY.....	9,886	11,079
	-----	-----
	\$ 15,545	\$ 16,864
	-----	-----
	-----	-----

</TABLE>

SEE NOTES TO CONDENSED FINANCIAL INFORMATION.

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SCHEDULE I

RJR NABISCO, INC.  
SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
NOTES TO CONDENSED FINANCIAL INFORMATION

NOTE A--BASIS OF PRESENTATION

Certain prior years' amounts have been reclassified to conform to the 1998 presentation.

See note 18 to the consolidated financial statements regarding the pending sale by RJRN and RJRT of the international tobacco business and the separation of the domestic tobacco and food businesses.

NOTE B--SUPPLEMENTAL CASH FLOWS INFORMATION

For information regarding certain non-cash financing activities, see note 9 to the consolidated financial statements.

NOTE C--COMMITMENTS AND CONTINGENCIES

RJRN has guaranteed most of the indebtedness of its international tobacco subsidiaries. Japan Tobacco has covenanted to use commercially reasonable efforts to effect the release of these guarantees. For disclosure of contingent liabilities and commitments, see note 10 to the consolidated financial statements.

-----  
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EXHIBIT INDEX

<TABLE>  
<CAPTION>  
EXHIBIT NO.

-----  
<S>            <C>

- \*3.1(a) Composite of the Amended and Restated Certificate of Incorporation of RJR Nabisco Holdings Corp. as amended to and including December 16, 1998.
- 3.1(b) Certificate of Retirement of certain shares of Series B Cumulative Preferred Stock, filed October 11, 1995 (incorporated by reference to Exhibit 3.1(m) of the Registrants' Annual Report on Form 10-K for the fiscal year ended December 31, 1995, File No.'s I-10215 and I-6388, filed on February 22, 1996 (the "1995 Form 10-K").
- \*3.1(c) Certificate of Retirement of Remaining Shares of Series B Cumulative Preferred Stock of RJR Nabisco Holdings, dated December 16, 1998.
- \*3.1(d) Certificate of Retirement of Series C Conversion Preferred Stock of RJR Nabisco Holdings, dated December 16, 1998.
- \*3.2 By-Laws of RJR Nabisco Holdings Corp. as Amended Effective November 11, 1998.
- 3.3 A composite of the Certificate of Incorporation of RJR Nabisco, Inc., as amended to May 13, 1994 (incorporated by reference to Exhibit 3.3(d) of the Registrants' Annual Report on Form 10-K for the fiscal year ended December 31, 1994, File No.'s I- 10215 and I-6388 filed on February 23, 1995 (the "1994 Form 10-K").
- 3.4 By-Laws of RJR Nabisco, Inc. as Amended Effective December 15, 1997 (incorporated by reference to Exhibit 3.4 of the Registrants' Annual Report on Form 10-K for the fiscal year ended December 31, 1997, File No.'s I-10215 and I-6388, filed on March 27, 1997 (the "1997 Form 10-K").
- 4.1 Amended and Restated Indenture, dated as of July 24, 1995, between RJR Nabisco, Inc. and Citibank,

N.A., dated as of July 24, 1995 (incorporated by reference to Exhibit 4.1 to the Quarterly Report on Form 10-Q of RJR Nabisco Holdings Corp. and RJR Nabisco, Inc. for the fiscal quarter ended June 30, 1995 (the "Second Quarter 1995 10-Q"))).

- 4.2 Indenture (the "TOPrS Indenture"), dated as of September 21, 1995, between RJR Nabisco Holdings Corp. and the Bank of New York (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-4 of RJR Nabisco Holdings Corp. and RJR Nabisco Holdings Capital Trust I, Registration Nos. 33-60415 and 33-60415-01, filed June 20, 1995 (the "TOPrS Registration Statement")).
- 4.3 Form of First Supplemental Indenture to the TOPrS Indenture (incorporated by reference to Exhibit 4.2 to the TOPrS Registration Statement).
- 4.4 Form of Amended and Restated Declaration of Trust of RJR Nabisco Holdings Capital Trust I (incorporated by reference to Exhibit 4.5 to the TOPrS Registration Statement).
- 4.5 Form of Preferred Security of RJR Nabisco Holdings Capital Trust I (included in Exhibit 4.4 above).
- 4.6 Form of Junior Subordinated Debenture (included in Exhibit 4.2 above).
- 4.7 Form of Guarantee Agreement with respect to Preferred Securities between RJR Nabisco Holdings Corp. and the Bank of New York as the Guarantee Trustee (incorporated by reference to Exhibit 4.8 to the TOPrS Registration Statement).
- 4.8 Form of Second Supplemental Indenture to the TOPrS Indenture (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-3 of RJR Nabisco Holdings Corp. and RJR Nabisco Holdings Capital Trusts II-IV, File No. 333-60811, filed on August 6, 1998 (the "TOPrS II-VI Registration Statement"))).

</TABLE>

<TABLE>  
<CAPTION>  
EXHIBIT NO.

- | <S>  | <C>   |
|------|---|
| 4.9  | Form of Amended and Restated Declaration of Trust of RJR Nabisco Holdings Capital Trust II (incorporated by reference to Exhibit 4.5 to the TOPrS II-VI Registration Statement).  |
| 4.10 | Form of Preferred Security of RJR Nabisco Holdings Capital Trust II (included in Exhibit 4.9 above).  |
| 4.11 | Form of Junior Subordinated Debenture (included in Exhibit 4.8 above).  |
| 4.12 | Form of Guarantee Agreement with respect to Preferred Securities between RJR Nabisco Holdings Corp. and the Bank of New York as the Guarantee Trustee (incorporated by reference to Exhibit 4.15 to the TOPrS II-VI Registration Statement).  |
| 4.13 | Indenture, dated as of June 5, 1995, between Nabisco, Inc. and Citibank, N.A., (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registration Statement on Form S-4 of Nabisco, Inc., Registration No. 33-90224, filed March 29, 1995).   |
| 4.14 | Agreement of Resignation, Appointment and Acceptance, dated as of July 27, 1998, by and among RJR Nabisco, Inc., Citibank, N.A. and The Bank of New York in connection with the Amended and Restated Indenture, dated as of July 24, 1995, between RJR Nabisco, Inc. and Citibank, N.A. (incorporated by reference to Exhibit 4.1 to the Registrants' Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1998, filed August 14, 1998 (the "Second Quarter 1998 Form 10-Q")). |
| 4.15 | The Registrants agree to furnish copies of any instrument defining the rights of holders of long-term debt of the Registrants and their consolidated subsidiaries that does not exceed 10 percent of the total assets of the Registrants and their consolidated subsidiaries to the Commission upon request.  |
| 10.1 | Credit Agreement (the "Three Year Credit Agreement"), dated as of April 28, 1995, among RJR Nabisco, Inc., as Borrower, RJR Nabisco Holdings Corp., as Guarantor, Bankers Trust Company, The Chase Manhattan Bank, N.A., Chemical Bank, Citibank, N.A. and The Fuji Bank, Limited, as Senior Managing Agents, and various lending institutions (incorporated by reference to Exhibit 10.1 to the Second Quarter 1995 Form 10-Q).  |
| 10.2 | Credit Agreement (the "364 Day Credit Agreement"), dated as of April 28, 1995, among RJR Nabisco, Inc., as Borrower, RJR Nabisco Holdings Corp., as Guarantor, Bankers Trust Company, The Chase Manhattan Bank, N.A., Chemical Bank, Citibank, N.A. and The Fuji Bank, Limited, as Senior Managing Agents, and various lending institutions (incorporated by reference to Exhibit 10.2 to the Second Quarter 1995 Form 10-Q).   |
| 10.3 | Agreement and Waiver to the Three Year Credit Agreement and the 364 Day Credit Agreement (collectively, the "RJRN Credit Agreements"), dated as of July 27, 1995 (incorporated by reference to Exhibit 10.5 to the Second Quarter 1995 Form 10-Q).  |
| 10.4 | First Amendment, dated as of September 12, 1995, to the RJRN Credit Agreements (incorporated by reference to Exhibit 10.1 to the Registrants' Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1995 filed October 31, 1995 (the "Third Quarter 1995 Form 10-Q")).   |
| 10.5 | Second Amendment, dated as of June 3, 1996, to the 364 Day Credit Agreement (incorporated by reference to Exhibit 10.1 to the Registrants' Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1996 filed July 31, 1996 (the "Second Quarter 1996 Form 10-Q")).   |
| 10.6 | Second Amendment to the Three Year Credit Agreement and Third Amendment to the 364 Day Credit   |

Agreement, dated as of January 31, 1997 (incorporated by reference to Exhibit 10.6 to the Registrants' Annual Report on Form 10-K for the fiscal year ended December 31, 1996, filed March 14, 1997 (the "1996 Form 10-K")).

</TABLE>

<TABLE>  
<CAPTION>  
EXHIBIT NO.

-----  
<S>

<C>

- 10.7 Fourth Amendment to the 364 Day Credit Agreement, dated as of April 4, 1997 (incorporated by reference to Exhibit 10.6 to the Registrants' Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 1997, filed August 8, 1997 (the "Second Quarter 1997 Form 10-Q")).
- 10.8 Third Amendment to the Three Year Credit Agreement and Fifth Amendment to the 364 Day Credit Agreement, dated as of September 29, 1997 (incorporated by reference to Exhibit 10.1 to the Registrants' Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1997, filed November 5, 1997 (the "Third Quarter 1997 Form 10-Q")).
- 10.9 Fourth Amendment to the Three Year Credit Agreement and Sixth Amendment to the 364 Day Credit Agreement, dated as of December 5, 1997 (incorporated by reference to Exhibit 10.9 to the 1997 Form 10-K).
- 10.10 Fifth Amendment to the Three Year Credit Agreement and Seventh Amendment to the 364 Day Credit Agreement, dated as of February 13, 1998 (incorporated by reference to Exhibit 10.10 to the 1997 Form 10-K).
- 10.11 Eighth Amendment to the 364 Day Credit Agreement, dated as of April 2, 1998 (incorporated by reference to Exhibit 10.1 to the Second Quarter 1998 Form 10-Q).
- 10.12 Sixth Amendment to the Three Year Credit Agreement and Ninth Amendment to the 364 Day Credit Agreement, dated as of June 8, 1998 (incorporated by reference to Exhibit 10.2 to the Second Quarter 1998 Form 10-Q).
- 10.13 Seventh Amendment to the Three Year Credit Agreement and Tenth Amendment to the 364 Day Credit Agreement, dated as of August 14, 1998 (incorporated by reference to Exhibit 10.1 to the Registrants' Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1998, filed November 12, 1998 (the "Third Quarter 1998 Form 10-Q")).
- \*10.14 Eighth Amendment to the Three Year Credit Agreement and Eleventh Amendment to the 364 Day Credit Agreement, dated as of December 18, 1998.
- 10.15 Credit Agreement (the "Five Year Nabisco Credit Agreement"), dated as of October 31, 1996, among Nabisco, Inc., as Borrower, Nabisco Holdings Corp., as Guarantor, Bankers Trust Company, The Chase Manhattan Bank, Citibank, N.A. and The Fuji Bank, Limited, as Senior Managing Agents, and various lending institutions (incorporated by reference to Exhibit 10.7 to the 1996 Form 10-K).
- 10.16 Credit Agreement (the "364 Day Nabisco Credit Agreement"), dated as of October 31, 1996, among Nabisco, Inc., as Borrower, Nabisco Holdings Corp., as Guarantor, Bankers Trust Company, The Chase Manhattan Bank, Citibank, N.A. and The Fuji Bank, Limited, as Senior Managing Agents, and various lending institutions (incorporated by reference to Exhibit 10.8 to the 1996 Form 10-K).
- 10.17 First Amendment to the 364 Day Nabisco Credit Agreement, dated as of September 18, 1997 (incorporated by reference to Exhibit 10.13 to the 1997 Form 10-K).
- 10.18 First Amendment to the Five Year Nabisco Credit Agreement and Second Amendment to the 364 Day Nabisco Credit Agreement, dated as of May 19, 1998 (incorporated by reference to Exhibit 10.3 to the Second Quarter 1998 Form 10-Q).
- 10.19 Third Amendment to the 364 Day Credit Agreement, dated as of September 25, 1998 (incorporated by reference to Exhibit 10.1 to the Nabisco Holdings Corp. and Nabisco, Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1998, filed November 12, 1998).

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- \*10.20 Purchase Agreement dated March 9, 1999 among R.J. Reynolds Tobacco Company, RJR Nabisco, Inc. and Japan Tobacco Inc.
- 10.21 RJR Nabisco, Inc. Annual Incentive Award Plan, as amended and restated effective January 1, 1997 (incorporated by reference to Exhibit 10.2 of the Third Quarter 1997 Form 10-Q).
- 10.21 RJR Nabisco Holdings Corp. 1990 Long Term Incentive Plan as amended and restated effective April 16, 1997 (incorporated by reference to Exhibit 10.1 of the Second Quarter 1997 Form 10-Q).
- 10.22 Form of Deferred Stock Unit Agreement between RJR Nabisco Holdings Corp. and the Director named therein dated as of April 16, 1997 (incorporated by reference to Exhibit 10.2 of the Second Quarter 1997 Form 10-Q).
- 10.23 Form of Deferred Stock Unit Agreement, dated May 13, 1998, between various unnamed grantees and RJR Nabisco Holdings Corp. in connection with the Equity Incentive Award Plan for Directors and Key

Employees of RJR Nabisco Holdings Corp. and Subsidiaries (incorporated by reference to Exhibit 10.4 to the Second Quarter 1998 Form 10-Q).

- 10.24 Form of Stock Option Agreement, dated May 13, 1998, between various unnamed optionees and RJR Nabisco Holdings Corp. in connection with the Equity Incentive Award Plan for Directors and Key Employees of RJR Nabisco Holdings Corp. and Subsidiaries (incorporated by reference to Exhibit 10.5 to the Second Quarter 1998 Form 10-Q).
- 10.25 Retention Trust Agreement, dated May 13, 1998 by and between RJR Nabisco, Inc. and Wachovia Bank, N.A. (incorporated by reference to Exhibit 10.6 to the Second Quarter 1998 Form 10-Q).
- 10.26 Form of Non-Qualified Stock Option Agreement between RJR Nabisco Holdings Corp. and the Director named therein dated as of April 16, 1997 (incorporated by reference to Exhibit 10.3 of the Second Quarter 1997 Form 10-Q).
- 10.27 Form of Performance Unit Agreement between RJR Nabisco Holdings Corp. and the grantee named therein (1997 grant--1 year period) dated as of February 28, 1997 (incorporated by reference to Exhibit 10.4 of the Second Quarter 1997 Form 10-Q).
- 10.28 Form of Performance Unit Agreement between RJR Nabisco Holdings Corp. and the grantee named therein (1998 grant--1 year period) dated as of February 6, 1998 (incorporated by reference to Exhibit 10.3 to the Registrants' Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1998, filed May 15, 1998 (the "First Quarter 1998 Form 10-Q")).
- 10.29 Form of Restricted Stock Unit Agreement between RJR Nabisco Holdings Corp. and the grantee named therein dated as of June 16, 1997 (incorporated by reference to Exhibit 10.5 of the Second Quarter 1997 Form 10-Q).
- 10.30 Intentionally left blank
- 10.31 Form of Performance Appreciation Right Agreement between RJR Nabisco Holdings Corp. and the grantee named therein (incorporated by reference to Exhibit 10.2 of the First Quarter 1997 Form 10-Q).
- 10.32 Form of Performance Appreciation Right Agreement between RJR Nabisco Holdings Corp. and the grantee named therein (1998 Grant) (incorporated by reference to Exhibit 10.8 to the First Quarter 1998 Form 10-Q).
- 10.33 Restricted Stock Unit Agreement dated March 24, 1997 between RJR Nabisco Holdings Corp. and David B. Rickard (incorporated by reference to Exhibit 10.3 of the First Quarter 1997 Form 10-Q).

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- 10.34 Form of Performance Unit Agreement between RJR Nabisco Holdings Corp. and the grantee named therein (1996; three-year period) (incorporated by reference to Exhibit 10.2 of the Registrants' Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1996, filed on May 1, 1996 (the "First Quarter 1996 Form 10-Q")).
- 10.35 Form of Non-Qualified Stock Option Agreement between RJR Nabisco Holdings Corp. and the grantee named therein (1996 grant-regular) incorporated by reference to Exhibit 10.3 of the First Quarter 1996 Form 10-Q.
- 10.36 Form of Non-Qualified Stock Option Agreement between RJR Nabisco Holdings Corp. and the grantee named therein (1996 grant-insider) (incorporated by reference to Exhibit 10.4 of the First Quarter 1996 Form 10-Q).
- 10.37 Form of Non-Qualified Stock Option Agreement between RJR Nabisco Holdings Corp. and the grantee named therein (1996 grant-executive) (incorporated by reference to Exhibit 10.5 of the First Quarter 1996 Form 10-Q).
- 10.38 Amendment to Form of Non-Qualified Stock Option Agreement between RJR Nabisco Holdings Corp. and the grantee named therein (1996 grant-insider) (incorporated by reference to Exhibit 10.5 to the Second Quarter 1996 Form 10-Q).
- 10.39 Retirement Trust Agreement, made as of October 12, 1988, between RJR Nabisco, Inc. and Wachovia Bank and Trust Company, N.A. (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-4 of RJR Holdings Corp. and RJR Holdings Group, Inc., Registration No. 33-27894, filed April 5, 1989, as amended (the "Form S-4, Registration No. 33-27894")).
- 10.40 Trust Agreement between RJR Nabisco, Inc. and Wachovia Bank and Trust Company, N.A., Trustee, dated January 27, 1989 (incorporated by reference to Exhibit 10(d)(iv) to the Registrants' Annual Report on Form 10-K for the fiscal year ended December 31, 1988, filed March 9, 1989 (the "1988 Form 10-K")).
- 10.41 Master Trust Agreement, as amended and restated as of October 12, 1988, between RJR Nabisco, Inc. and Wachovia Bank and Trust Company, N.A. (incorporated by reference to Exhibit 10.18 to the Form S-4, Registration No. 33-27894).
- 10.42(a) Amendment No. 1 to Master Trust Agreement, dated January 27, 1989 (incorporated by reference to Exhibit 10(g)(ii) to the 1988 Form 10-K).
- 10.42(b) Amendment No. 2 to Master Trust Agreement, dated January 27, 1989 (incorporated by reference to

Exhibit 10(g) (iii) to the 1988 Form 10-K).

- 10.43 Excess Benefit Master Trust Agreement, as amended and restated as of October 12, 1988, between RJR Nabisco, Inc. and Wachovia Bank and Trust Company, N.A. (incorporated by reference to Exhibit 10.21 to the Form S-4, Registration No. 33-27894).
- 10.44 Amendment No. 1 to Excess Benefit Master Trust Agreement, dated January 27, 1989 (incorporated by reference to Exhibit 10(h) (ii) to the 1988 Form 10-K).
- 10.45 RJR Nabisco, Inc. Supplemental Executive Retirement Plan, as amended on July 21, 1988 (incorporated by reference to Exhibit 10.32 to the Form S-4, Registration No. 33-27894).
- 10.46(a) Amendment to Supplemental Executive Retirement Plan, dated November 23, 1988 (incorporated by reference to Exhibit 10(m) (ii) to the 1988 Form 10-K).
- 10.46(b) Amendment No. 2 to Supplemental Executive Retirement Plan, dated January 27, 1989 (incorporated by reference to Exhibit 10(m) (iii) to the 1988 Form 10-K).

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- 10.46(c) Amendment to Supplemental Executive Retirement Plan, dated April 10, 1993 (incorporated by reference to the Registrants' Annual Report on Form 10-K for the fiscal year ended December 31, 1993, File No.'s I- 10215 and I-6388 filed on February 24, 1994 (the "1993 Form 10-K")).
- 10.47 Amended and Restated Employment Agreement (dated June 1, 1996) by and between R.J. Reynolds International B.V. and Pierre de Labouchere (incorporated by reference to Exhibit 10.1 to the Registrants' Quarterly Report on Form 10-Q for the Third Quarter ended September 30, 1996, filed November 1, 1996 (the "Third Quarter 1996 Form 10-Q")).  
  
Non-Qualified Stock Option Agreement between RJR Nabisco Holdings Corp. and James M. Kilts, dated as of January 2, 1998 (incorporated by reference to Exhibit 10.6 to the First Quarter 1998 Form 10-Q).
- 10.48 Engagement Agreement (dated March 3, 1995) between RJR Nabisco Holdings Corp. and Steven F. Goldstone (incorporated by reference to Exhibit 10.38 of the 1995 Form 10-K).
- 10.49 Amended and Restated Employment Agreement (dated December 5, 1995) by and among RJR Nabisco Holdings Corp., and RJR Nabisco, Inc. and Steven F. Goldstone (incorporated by reference to Exhibit 10.40 of the 1995 Form 10-K).
- 10.50 Contingent Performance Share Agreement (dated December 5, 1995) between RJR Nabisco Holdings Corp. and Steven F. Goldstone (incorporated by reference to Exhibit 10.42 of the 1995 Form 10-K).
- 10.51 Secured Promissory Note (dated December 5, 1995) of Steven F. Goldstone in favor of RJR Nabisco Holdings Corp. (incorporated by reference to Exhibit 10.43 of the 1995 Form 10-K).
- 10.52 Secured Promissory Note (dated May 15, 1996) of Steven F. Goldstone in favor of Nabisco Holdings Corp. (incorporated by reference to Exhibit 10.6 to the Third Quarter 1996 Form 10-Q).
- 10.53 Non-Qualified Stock Option Agreement dated January 10, 1997 between RJR Nabisco Holdings Corp. and Steven F. Goldstone (incorporated by reference to Exhibit 10.1 of the Registrants' Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1997, filed May 13, 1997 (the "First Quarter 1997 Form 10-Q"))
- 10.54 Restricted Stock Agreement between RJR Nabisco Holdings Corp. and Steven F. Goldstone, dated as of January 15, 1998 (incorporated by reference to Exhibit 10.1 to the First Quarter 1998 Form 10-Q).
- 10.55 Non-Qualified Stock Option Agreement between Nabisco Holdings Corp. and Steven F. Goldstone, dated as of January 15, 1998 (incorporated by reference to Exhibit 10.2 to the First Quarter 1998 Form 10-Q).
- \*10.56 Amendment to Contingent Performance Share Agreement (dated October 14, 1998) between RJR Nabisco Holdings Corp. and Steven F. Goldstone.
- 10.57 Letter Agreement by and among Nabisco Holdings Corp., Nabisco, Inc., RJR Nabisco Holdings Corp., RJR Nabisco, Inc. and H. John Greeniaus, dated as of January 21, 1998 (incorporated by reference to Exhibit 10.4 to the First Quarter 1998 Form 10-Q).
- 10.58 Amended and Restated Employment Agreement (dated January 1, 1997) among RJR Nabisco Holdings Corp., RJR Nabisco, Inc. and Steven F. Goldstone (incorporated by reference to Exhibit 10.7 to the First Quarter 1998 Form 10-Q).

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- 10.59 Restricted Stock Agreement between RJR Nabisco Holdings Corp. and David B. Rickard, dated as of January 15, 1998 (incorporated by reference to Exhibit 10.9 to the First Quarter 1998 Form 10-Q).
- 10.60 Non-Qualified Stock Option Agreement between RJR Nabisco Holdings Corp. and David B. Rickard, dated

as of January 15, 1998 (incorporated by reference to Exhibit 10.10 to the First Quarter 1998 Form 10-Q).

- 10.61 Employment Agreement (dated January 15, 1998) among RJR Nabisco Holdings Corp., RJR Nabisco, Inc. and William L. Rosoff (incorporated by reference to Exhibit 10.5 to the First Quarter 1998 Form 10-Q).
- 10.62 Restricted Stock Agreement between RJR Nabisco Holdings Corp. and William L. Rosoff, dated as of January 15, 1998 (incorporated by reference to Exhibit 10.11 to the First Quarter 1998 Form 10-Q).
- 10.63 Non-Qualified Stock Option Agreement between RJR Nabisco Holdings Corp. and William L. Rosoff, dated as of January 15, 1998 (incorporated by reference to Exhibit 10.12 to the First Quarter 1998 Form 10-Q).
- 10.64 Amendment dated December 5, 1995 to Employment Agreement between RJR Nabisco Holdings Corp. and Andrew J. Schindler (incorporated by reference to Exhibit 10.44 of the Registrants' 1995 Form 10-K).
- 10.65 Participation Agreement RJR Nabisco, Inc. Supplemental Executive Retirement Plan for Andrew J. Schindler dated December 28, 1995 (incorporated by reference to Exhibit 10.45 of the Registrants' 1995 Form 10-K).
- 10.66 Amended and Restated Deferred Compensation Plan for RJR Directors (dated as of September 1, 1996) (incorporated by reference to Exhibit 10.2 of the Third Quarter 1996 Form 10-Q).
- 10.67 Amended and Restated Equity Incentive Award Plan for Directors and Key Employees of RJR Nabisco Holdings Corp. and Subsidiaries (dated as of September 1, 1996) (incorporated by reference to Exhibit 10.3 to the Third Quarter 1996 Form 10-Q).
- 10.68 Performance Unit Program under RJR Nabisco Holdings Corp. 1990 Long Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the First Quarter 1994 Form 10-Q).
- 10.69 Amendment to Non-Qualified Stock Option Agreements dated prior to October 11, 1995 (incorporated by reference to Exhibit 10.75 of the 1995 Form 10-K).
- 10.70 Form of Non-Qualified Stock Option Agreement dated April 27, 1995 between RJR Nabisco Holdings Corp. and the grantee named therein (Reissued options) (incorporated by reference to Exhibit 10.77 of the 1995 Form 10-K).
- 10.71 Form of Non-Qualified Stock Option Agreement dated April 27, 1995 between RJR Nabisco Holdings Corp. and the grantee named therein (Premium options) (incorporated by reference to Exhibit 10.78 of the 1995 Form 10-K).
- 10.72 Form of Non-Qualified Stock Option Agreement between RJR Nabisco Holdings Corp. and the grantee named therein (incorporated by reference to Exhibit 10.79 of the 1995 Form 10-K).
- 10.73 Form of Deferred Stock Unit Agreement between RJR Nabisco Holdings Corp. and the grantee named therein dated as of May 31, 1996 (incorporated by reference to Exhibit 10.5 to the Third Quarter 1996 Form 10-Q).

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- 10.74 Amendment dated July 10, 1995 to Executive Equity Program Agreement under the 1990 Long Term Incentive Plan between RJR Nabisco Holdings Corp. and the grantee named therein (incorporated by reference to Exhibit 10.82 of the 1995 Form 10-K).
- 10.75 Form of Employment Agreement dated October 11, 1995 (incorporated by reference to Exhibit 10.83 of the 1995 Form 10-K).
- 10.76 Form of Employment Agreement dated November 1, 1995 (incorporated by reference to Exhibit 10.84 of the 1995 Form 10-K).
- 10.77 Form of Non-Qualified Stock Option Agreement between RJR Nabisco Holdings Corp., and Director named therein (Election version) (incorporated by reference to Exhibit 10.86 of the 1995 Form 10-K).
- 10.78 Form of Non-Qualified Stock Option Agreement between RJR Nabisco Holdings Corp., and Director named therein (Annual version) (incorporated by reference to Exhibit 10.87 of the 1995 Form 10-K).
- \*12.1 RJR Nabisco Holdings Corp. Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends/Deficiency in the Coverage of Combined Fixed Charges and Preferred Stock Dividends By Earnings Before Fixed Charges for each of the periods within the five year period ended December 31, 1998.
- \*12.2 RJR Nabisco Holdings Corp. Computation of Ratio of Earnings to Fixed Charges/ Deficiency in the Coverage of Fixed Charges By Earnings Before Fixed Charges for each of the periods within the five year period ended December 31, 1998.
- \*12.3 RJR Nabisco, Inc. Computation of Ratio of Earnings to Fixed Charges/Deficiency in the Coverage of Fixed Charges By Earnings Before Fixed Charges for each of the periods within the five year period ended December 31, 1998.
- \*21. Subsidiaries of the Registrants.

- \*23. Consent of Independent Auditors.
- \*24. Powers of Attorney.
- \*27.1 Financial Data Schedule of RJR Nabisco Holdings Corp.
- \*27.2 Financial Data Schedule of RJR Nabisco, Inc.
- \*99 Expanded Litigation Disclosure.
- 99.1 Settlement Agreement dated August 25, 1997, between the State of Florida and settling defendants in The State of Florida v. American Tobacco Company (incorporated by reference to Exhibit 2 to the Registrants' Current Report on Form 8-K dated August 25, 1997).
- 99.2 Settlement Agreement dated January 16, 1998, between the State of Texas and settling defendants in The State of Texas v. American Tobacco Company (incorporated by reference to Exhibit 2 to the Registrants' Current Report on Form 8-K dated January 16, 1998).
- 99.3 Settlement Agreement and Release in re: The State of Minnesota, et al., v. Philip Morris, et al., by and among the State of Minnesota, Blue Cross and Blue Shield of Minnesota and the various tobacco-company defendants named therein, dated as of May 8, 1998 (incorporated by reference to Exhibit 99.1 to the First Quarter 1998 Form 10-Q).

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| 99.4  | Settlement Agreement and Stipulation for Entry of Consent Judgement in re: The State of Minnesota, et al., v. Philip Morris, et al., by and among the State of Minnesota, Blue Cross and Blue Shield of Minnesota and the various tobacco-company defendants named therein, dated as of May 8, 1998 (incorporated by reference to Exhibit 99.2 to the First Quarter 1998 Form 10-Q).  |
| 99.5  | Form of Consent Judgement by Judge Kenneth J. Fitzpatrick, Judge of District Court in re: The State of Minnesota, et al., v. Philip Morris, et al. (incorporated by reference to Exhibit 99.3 to the First Quarter 1998 Form 10-Q).   |
| 99.6  | Agreement to Pay State of Minnesota Attorneys' Fees and Costs by and among the State of Minnesota and various tobacco companies, dated as of May 8, 1998 (incorporated by reference to Exhibit 99.4 to the First Quarter 1998 Form 10-Q).   |
| 99.7  | Agreement to Pay Blue Cross and Blue Shield of Minnesota Attorneys' Fees and Costs by and among Blue Cross and Blue Shield of Minnesota and various tobacco companies, dated as of May 8, 1998 (incorporated by reference to Exhibit 99.5 to the First Quarter 1998 Form 10-Q).   |
| 99.8  | Mississippi Fee Payment Agreement, dated as of July 2, 1998, by and among Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation and (collectively, the "Mississippi Defendants"), the State of Mississippi ("Mississippi") and Mississippi's private counsel named therein (the "Mississippi Counsel") in connection with Moore v. The American Tobacco Company, et al., Mississippi Litigation No. 94-1429 (the "Mississippi Action") (incorporated by reference to Exhibit 99.1 to the Second Quarter 1998 Form 10-Q).            |
| 99.9  | Stipulation of Amendment to Settlement Agreement and for Entry of Agreed Order, dated July 2, 1998, by and among the Mississippi Defendants, Mississippi and the Mississippi Counsel in connection with the Mississippi Action (incorporated by reference to Exhibit 99.2 to the Second Quarter 1998 Form 10-Q).  |
| 99.10 | Texas Fee Payment Agreement, dated as of July 24, 1998, by and among Philip Morris Incorporated, R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, Lorillard Tobacco Company and United States Tobacco Company (collectively, the "Texas Defendants"), the State of Texas ("Texas") and Texas' private counsel named therein (the "Texas Counsel") in connection with Texas v. The American Tobacco Company, et al., Texas Litigation No. 5-96CV-91 (the "Texas Action") (incorporated by reference to Exhibit 99.3 to the Second Quarter 1998 Form 10-Q). |
| 99.11 | Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree, dated July 24, 1998, by and among the Texas Defendants, Texas and the Texas private counsel in connection with the Texas Action (incorporated by reference to Exhibit 99.4 to the Second Quarter 1998 Form 10-Q).   |
| 99.12 | Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree, dated September 11, 1998 by and among the State of Florida and the tobacco companies named therein (incorporated by reference to Exhibit 99.1 to the Third Quarter 1998 Form 10-Q).   |
| 99.13 | Florida Fee Payment Agreement, dated September 11, 1998, by and among the State of Florida, various Florida counsel and the tobacco companies named therein (incorporated by reference to Exhibit 99.2 to the Third Quarter 1998 Form 10-Q).  |
| 99.14 | Form of MFN Escrow Agreement by and among, the State of Florida, the tobacco companies named therein and a bank acting as escrow agent (incorporated by reference to Exhibit 99.31 to the Third Quarter 1998 Form 10-Q).  |

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99.15	Master Settlement Agreement (the "MSA") dated November 23, 1998, between the Settling States named in the MSA and the Participating Manufacturers also named therein (incorporated by reference to Exhibit 4 to the Registrants' Current Report on Form 8-K dated November 23, 1998).

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\* Filed herewith.



RESTATED

CERTIFICATE OF INCORPORATION

OF

RJR NABISCO HOLDINGS CORP.

(Originally incorporated as RJR Holdings Corp. on October 25, 1988)

ARTICLE FIRST

The name of the Corporation is RJR Nabisco Holdings Corp.

ARTICLE SECOND

The registered office and registered agent of the Corporation is The Prentice-Hall Corporation System, Inc., 1013 Centre Road, City of Wilmington, County of New Castle, Delaware, 19805.

ARTICLE THIRD

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

ARTICLE FOURTH

The total number of shares of capital stock that the Corporation is authorized to issue is 590,000,000 shares of which 440,000,000 shares are Common Stock, par value \$.01 each, and 150,000,000 shares of which are shares of preferred stock, par value \$.01 each (hereinafter referred to as "Preferred Stock"). The Preferred Stock may be issued from time to time in one or more series with such distinctive designations as may be stated in the resolution or resolutions providing for the issue of such stock from time to time adopted by the Board of Directors or a duly authorized committee thereof. The resolution or resolutions providing for the issue of shares of a particular series shall fix, subject to applicable laws and the provisions of this ARTICLE FOURTH, for each such series the number of shares constituting such series and the designations and powers, preferences and relative participating, optional or other special rights and qualifications, limitations or restrictions thereof, including, without limiting the generality of the foregoing, such provisions as may be desired concerning voting, redemption, dividends, dissolution or the distribution of assets, conversion or exchange, and such other subjects or matters as may be fixed by resolution or resolutions of the Board of Directors or a duly authorized committee thereof under the General Corporation Law of the

State of Delaware. The number of authorized shares of any class or classes of stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the Common Stock of the Corporation irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of the State of Delaware or any corresponding provision hereafter enacted.

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The following is a statement of the number, designation, powers, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions of the ESOP Convertible Preferred Stock of the Corporation:

(1) Designation; Issuance. (i) The designation of the series of Preferred Stock authorized by this resolution shall be "ESOP Convertible Preferred Stock" (the "ESOP Convertible Preferred Stock") consisting of 15,625,000 shares. The stated value of the ESOP Convertible Preferred Stock shall be \$16.00 per share, which value does not represent a determination by the Board of Directors for the purposes of the capital accounts.

(ii) Shares of ESOP Convertible Preferred Stock shall be issued only to a trustee acting on behalf of an employee stock ownership plan or other employee benefit plan of the Corporation. In the event of any transfer of shares of ESOP Convertible Preferred Stock except for (a) any transfer to any such plan trustee or (b) any transfer to, or with respect to, a participant in any such plan to, or with respect to, whom ESOP Convertible Preferred Stock is distributed by any such plan trustee in satisfaction of the distribution requirements of any such plan or any investment elections provided to participants pursuant to any such plan, unless the Corporation shall have otherwise previously consented to such transfer, the shares of ESOP Convertible Preferred Stock so transferred, upon such transfer and without any further action by the Corporation or the holder, shall be automatically converted into shares of Common Stock (as defined in paragraph (2) hereof) on the terms otherwise provided for the conversion of shares of ESOP Convertible Preferred Stock into shares of Common Stock pursuant to paragraph (7) hereof and no such transferee shall have any of the powers (including voting powers), preferences and relative, participating, optional or special rights ascribed to shares of ESOP Convertible Preferred Stock hereunder but, rather, only the powers (including voting powers) and rights pertaining to the Common Stock into which such shares of ESOP Convertible Preferred Stock shall be so converted. Certificates representing shares of ESOP Convertible Preferred Stock shall be legended to reflect such restrictions on transfer. Notwithstanding the foregoing provisions of this paragraph (1)(ii), shares of ESOP Convertible Preferred Stock (a) shall be redeemable by the Corporation upon the terms and conditions provided by paragraphs (5), (6) and (9) hereof and (b) may be converted into shares of Common Stock as provided by paragraph (7) hereof and the shares of Common Stock issued upon such conversion may be transferred by the holder thereof as permitted by law.

(2) Rank. The ESOP Convertible Preferred Stock shall, with respect to dividend rights and rights on liquidation, winding up and dissolution, rank prior to the Common Stock, par value \$0.01 per share (the "Common Stock"), of the Corporation. All equity securities of the Corporation to which the ESOP Convertible Preferred Stock ranks prior, including the Common Stock, are collectively referred to herein as the "Junior Securities," all equity securities of the Corporation with which the ESOP Convertible Preferred Stock ranks on a parity are collectively referred to herein as the "Parity Securities" and all equity securities of the Corporation (other than convertible debt securities) to which the ESOP Convertible Preferred Stock ranks junior, whether with respect to dividends or upon liquidation, dissolution, winding-up or otherwise, are collectively referred to herein as the "Senior Securities." The ESOP Convertible Preferred Stock shall be subject to the creation of Junior Securities, Parity Securities and Senior Securities.

(3) Dividends. (i) (a) Subject to paragraph (3) (i) (b), the holders of the shares of ESOP Convertible Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available for the payment of dividends, dividends initially at the rate of 7.8125% of the stated value (\$1.25) per share per annum (the "Dividend Rate"), and no more. Subject to paragraph (3) (i) (b), such dividends shall be payable in semi-annual payments, one half on January 2, (or, at the option of the

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Corporation, the preceding December 27) and one half on July 2 of each year commencing with January 2, 1992 (or, at the option of the Corporation, December 27, 1991) (each of such dates being a "Dividend Payment Date"), in preference to dividends on the Junior Securities. Subject to paragraph (3) (i) (b), such dividends shall be paid to the holders of record at the close of business on the tenth business day immediately preceding each Dividend Payment Date (each of such dates being a "Dividend Payment Record Date"). Subject to paragraph (3) (i) (b), each of such semi-annual dividends shall be fully cumulative and shall accrue (whether or not declared), without interest, from the previous Dividend Payment Date, except that with respect to the first dividend, such dividend shall accrue from the date of initial issuance. Dividends payable for the first dividend period and any partial dividend period (excluding for this purpose dividends paid on December 27 in lieu of January 2) shall be calculated on the basis of a 360-day year of twelve 30-day months.

(b) Notwithstanding anything to the contrary in paragraph (3) (i) (a), in the event that after the eighth (8th) anniversary of the initial date of issuance, for at least twenty (20) trading days within any period of thirty (30) consecutive trading days (such thirty (30) day period being hereinafter referred to as the "Adjustment Period"), the closing price on the New York Stock Exchange Consolidated Tape (or any successor composite tape reporting transactions on national securities exchanges) or, if such a composite tape shall not be in use or shall not report transactions in the Common Stock, the last reported sales price regular way on the principal national securities exchange on which the

Common Stock is listed or admitted to trading (which shall be the national securities exchange on which the greatest number of shares of Common Stock has been traded during such Adjustment Period) or, if there is no transaction on any such day in any such situation, the mean of the bid and asked prices on such day or, if the Common Stock is not listed or admitted to trading on any such exchange, the closing price, if reported, or, if the closing price is not reported, the average of the closing bid and asked prices as reported by the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") or a similar source selected from time to time by the Corporation for the purpose, of the Common Stock equals or exceeds one hundred percent (100%) of the Conversion Price (as defined in paragraph (7) hereof) (giving effect to any adjustments required by paragraph (7) hereof), the Corporation may elect, in its sole discretion, to cease to pay dividends on the ESOP Convertible Preferred Stock on the Dividend Payment Dates at the Dividend Rate. Notice of the Corporation's election to discontinue paying dividends on the ESOP Convertible Preferred Stock at the Dividend Rate shall be given within ten (10) trading days of the conclusion of the Adjustment Period. Upon the Corporation giving notice of its election as set forth above, the Dividend Rate shall cease to be effective as the applicable rate for subsequent ESOP Convertible Preferred Stock dividend periods commencing the next succeeding regular Dividend Payment Date (the "Adjustment Date") provided that following the payment of the dividend due pursuant to paragraph (3)(i)(a) on such date there shall be no cumulative dividends on the ESOP Convertible Preferred Stock remaining accrued and unpaid. Notice shall be given by first class mail, postage prepaid, to each holder of record as of the conclusion of the Adjustment Period of the shares at such holder's address as the same appears on the stock register of the Corporation.

Commencing on the Adjustment Date, dividends, if any, on the ESOP Convertible Preferred Stock will be payable, when, as and if declared, in amounts equal to such dividends as may be declared and paid on the Common Stock, if any, multiplied by the number of shares of Common Stock issuable upon the conversion of the ESOP Convertible Preferred Stock on the record date or record dates for such Common Stock dividends (calculated quarterly if dividends are then paid quarterly on the Common Stock, without interest), and no more. After the Adjustment Date, dividends, if any, on the ESOP Convertible Preferred Stock will be paid on the next succeeding Common Stock dividend payment date and thereafter semi-annually on the same date as Common Stock dividends are paid; provided, however, that the dividends payable in respect of the first ESOP Convertible Preferred Stock dividend payment period following the Adjustment Date shall be adjusted as set forth in paragraph (3)(a) to the extent that the number of

days in such dividend payment period is less than the number of days in the corresponding Common Stock quarterly dividend payment period. The record dates for such ESOP Convertible Preferred Stock dividends shall be the same date as may be established as the record date for the corresponding Common Stock

dividend. Notwithstanding the foregoing, in the event that a Common Stock dividend is paid in respect of the initial quarterly period comprising any semi-annual dividend payment period for the ESOP Convertible Preferred Stock but no dividend is declared and paid in respect of the Common Stock for the second quarterly period comprising any such semi-annual dividend payment period for the ESOP Convertible Preferred Stock, a dividend equal to the dividend paid on the Common Stock for the initial quarterly period and no more shall be paid on the ESOP Convertible Preferred Stock on the date 90 days from the date that the last dividend was paid on the Common Stock (or, if such date is not a business day, on the next succeeding business day) and the record date for such dividend on the ESOP Convertible Preferred Stock shall be the date 90 days from the record date in respect of such last dividend paid on the Common Stock (or, if such date is not a business day, on the next succeeding business day). In the event that no dividends are paid on the Common Stock in respect of the two calendar quarters comprising an ESOP Convertible Preferred Stock dividend payment period, no dividends will be payable or paid on the ESOP Convertible Preferred Stock in respect of such period. Notwithstanding anything to the contrary contained herein, no dividends shall be payable pursuant to this paragraph (3) (i) (b) to the extent that the corresponding Common Stock dividend is paid other than in cash.

(ii) All dividends paid with respect to shares of the ESOP Convertible Preferred Stock pursuant to paragraph (3) (i) hereof shall be paid pro rata to the holders entitled thereto.

(iii) Prior to the Adjustment Date, no full dividends shall be declared by the Board of Directors or paid or set apart for payment by the Corporation on any Parity Securities for any period unless full dividends calculated in accordance with paragraph (3) (i) have been or contemporaneously are declared and paid or declared and a sum set apart sufficient for such payment on the ESOP Convertible Preferred Stock for all dividend periods terminating on or prior to the date of payment, or setting apart for payment, of such full dividends on such Parity Securities. Prior to the Adjustment Date, if any dividends are not paid in full as aforesaid upon the shares of the ESOP Convertible Preferred Stock and any other Parity Securities, all dividends declared upon shares of the ESOP Convertible Preferred Stock and any other Parity Securities shall be declared pro rata so that the amount of dividends declared per share of the ESOP Convertible Preferred Stock and such Parity Securities shall in all cases bear to each other the same ratio that accrued dividends per share on the ESOP Convertible Preferred Stock and such Parity Securities bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the ESOP Convertible Preferred Stock or any other Parity Securities which may be in arrears. Any dividend not paid pursuant to paragraph (3) (i) (a) hereof or this paragraph (3) (iii) shall be fully cumulative and shall accrue (whether or not declared), without interest, as set forth in paragraph (3) (i) (a) hereof. On and after the Adjustment Date, dividends on the ESOP Convertible Preferred Stock shall cease to be cumulative.

(iv) (a) Holders of shares of the ESOP Convertible Preferred Stock shall be entitled to receive the dividends provided for in paragraph (3) (i) hereof in preference to and in priority over any dividends upon any of the

Junior Securities.

(b) So long as any shares of the ESOP Convertible Preferred Stock are outstanding, the Board of Directors shall not declare, and the Corporation shall not pay or set apart for payment any dividend on any of the Junior Securities or make any payment on account of, or set apart for payment money for a sinking or other similar fund for, the repurchase, redemption or other retirement of, any of the Junior Securities or Parity Securities or any warrants, rights or options

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exercisable for or convertible into any of the Junior Securities or Parity Securities (other than purchases or redemptions pursuant to or in accordance with employee stock subscription agreements entered into between the Corporation and certain of its or its subsidiaries' directors, officers and key employees and purchases and redemptions pursuant to employee benefit plans and other than the repurchase, redemption or other retirement of any Parity Securities or any warrants, rights or options exercisable for or convertible into any of the Parity Securities made pursuant to the requirements of paragraph (5)(ii) hereof and other than the repurchase, redemption or other retirement of debentures or other debt securities that are convertible or exchangeable into any of the Junior Securities or Parity Securities), or make any distribution in respect of the Junior Securities, either directly or indirectly, and whether in cash, obligations or shares of the Corporation or other property (other than distributions or dividends in Junior Securities to the holders of Junior Securities), and shall not permit any corporation or other entity directly or indirectly controlled by the Corporation to purchase or redeem any of the Junior Securities or Parity Securities or any warrants, rights, calls or options exercisable for or convertible into any of the Junior Securities or Parity Securities (other than purchases or redemptions pursuant to or in accordance with employee stock subscription agreements entered into between the Corporation and certain of its or its subsidiaries' directors, officers and key employees and purchases and redemptions pursuant to employee benefit plans and other than the repurchase, redemption or other retirement of any Parity Securities or any warrants, rights or options exercisable for or convertible into any of the Parity Securities made pursuant to the requirements of paragraph (5)(ii) hereof and other than the repurchase, redemption or other retirement of debentures or other debt securities that are convertible or exchangeable into any of the Junior Securities or Parity Securities) unless prior to or concurrently with such declaration, payment, setting apart for payment, repurchase, redemption or other retirement or distribution, as the case may be, any and all accrued and unpaid dividends on shares of the ESOP Convertible Preferred Stock not paid on the dates provided for in paragraph (3)(i) hereof (including any and all accrued dividends not paid by reason of the terms and conditions of paragraph (3)(i)(a) or paragraph (3)(iii) hereof but excluding any and all accrued dividends not yet payable by reason of the terms and conditions of paragraph (3)(i)(b) hereof) shall have been or be paid.

(v) Subject to the foregoing provisions of this paragraph (3) and

paragraph (7) (vi) (c), the Board of Directors may declare and the Corporation may pay or set apart for payment dividends and other distributions on any of the Junior Securities or Parity Securities, and may repurchase, redeem or otherwise retire any of the Junior Securities or Parity Securities or any warrants, rights or options exercisable for or convertible into any of the Junior Securities or Parity Securities, and the holders of the shares of the ESOP Convertible Preferred Stock shall not be entitled to share therein.

(4) Liquidation Preference. (i) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of shares of ESOP Convertible Preferred Stock then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders an amount in cash equal to \$16.00 for each share outstanding, plus an amount in cash equal to any and all accrued but unpaid dividends thereon to the date of liquidation, dissolution or winding up before any payment shall be made or any assets distributed to the holders of any of the Junior Securities; provided, however, that for the purposes of this paragraph (4) (i), to the extent that after the Adjustment Date dividends have been declared and paid on the Common Stock and the corresponding dividend has not yet been paid on the ESOP Convertible Preferred Stock, the amount to be paid in respect of the ESOP Convertible Preferred Stock in accordance with paragraph (3) (i) (b) in light of the declaration and payment of such dividend on the Common Stock shall be deemed to be an accrued but unpaid dividend. If the assets of the Corporation are not sufficient to pay in full the liquidation payments payable to the holders of outstanding shares of the ESOP Convertible Preferred Stock and any Parity Securities, then the holders of all such shares shall share ratably in such distribution of assets in accordance with the amount which would be payable on such distribution if the amounts to which the holders

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of outstanding shares of ESOP Convertible Preferred Stock and the holders of outstanding shares of such Parity Securities are entitled were paid in full. Except as provided in this paragraph (4) (i), holders of ESOP Convertible Preferred Stock shall not be entitled to any distribution in the event of liquidation, dissolution or winding up of the affairs of the Corporation.

(ii) For the purposes of this paragraph (4), neither the voluntary sale, conveyance, lease, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Corporation nor the consolidation or merger of the Corporation with or into one or more other corporations nor the consolidation or merger of one or more corporations with or into the Corporation shall be deemed to be a voluntary or involuntary liquidation, dissolution or winding up.

(5) Redemption. (i) The Corporation may redeem at its option the ESOP Convertible Preferred Stock, at any time in whole or from time to time in part after the eighth (8th) anniversary of the initial date of issuance or on or before said date if permitted by paragraphs (5) (iv) through (5) (viii) or

paragraph (9) at the redemption price per share set forth below, together with accrued and unpaid dividends thereon to the date of redemption (or, if pursuant to paragraphs (5)(iv), (5)(v), (5)(vii) and (5)(viii), at the redemption price set forth therein), without interest, to the extent the Corporation shall have funds legally available for such payment. For the purposes of this paragraph (5)(i), to the extent that after the Adjustment Date dividends have been declared and paid on the Common Stock and the corresponding dividend has not yet been paid on the ESOP Convertible Preferred Stock, the amount to be paid in respect of the ESOP Convertible Preferred Stock in accordance with paragraph (3)(i)(b) in light of the declaration and payment of such dividend on the Common Stock shall be deemed to be an accrued but unpaid dividend.

If redeemed during the 12 month period beginning on April 10 in each of the years set forth below, the redemption price per share shall be as follows:

<TABLE>

<CAPTION>

	YEAR	REDEMPTION PRICE PER SHARE
	----	-----
<S>		<C>
	1991	\$17.250
	1992	17.125
	1993	17.000
	1994	16.875
	1995	16.750
	1996	16.625
	1997	16.500
	1998	16.375
	1999	16.250
	2000	16.125
	2001 and thereafter	16.000

</TABLE>

(ii) So long as any shares of the ESOP Convertible Preferred Stock are outstanding, any repurchase, redemption or other retirement of any Parity Securities or any warrants, rights or options exercisable for or convertible into any of the Parity Securities (other than the repurchase, redemption or other retirement of debentures or other debt securities that are convertible or exchangeable into any Parity Securities) must be made on a pro rata basis with the ESOP Convertible Preferred Stock so that the total redemption prices of the shares redeemed of ESOP Convertible Preferred Stock and such Parity Securities shall in all cases bear to each other the same ratio that the total redemption prices of all shares outstanding on the applicable date of ESOP Convertible Preferred Stock and such Parity Securities bear to each other, unless prior to or concurrently with such repurchase, redemption or other retirement, as the case may be, any and all accrued and unpaid dividends on shares of the ESOP Convertible Preferred Stock not paid on the dates provided for in paragraph (3)(i) hereof (including any and all accrued dividends not paid by reason of the terms and conditions of paragraph (3)(i) or paragraph (3)(iii) hereof) shall have been or be paid.



(iii) Shares of ESOP Convertible Preferred Stock that have been issued and reacquired in any manner, including shares purchased or redeemed or exchanged or converted, shall (upon compliance with any applicable provisions of the laws of the State of Delaware) have the status of authorized and unissued shares of the class of Preferred Stock undesignated as to series and may be redesignated and reissued as part of any series of the Preferred Stock.

(iv) In the event of a change in the federal tax law or regulations of the United States of America or of an interpretation or application of such law or regulations or of a determination by a court of competent jurisdiction, which in any case has the effect of precluding the Corporation from claiming (other than for purposes of calculating any alternative minimum tax) any of the tax deductions for dividends paid on the ESOP Convertible Preferred Stock when such dividends are used as provided under Section 404(k)(2) of the Internal Revenue Code of 1986, as amended (the "Code"), as in effect on the date shares of ESOP Convertible Preferred Stock are initially issued, the Corporation may, in its sole discretion and notwithstanding anything to the contrary in paragraph (5)(i) hereof, elect to redeem any or all of the ESOP Convertible Preferred Stock for (a) the amount payable in respect of such shares upon liquidation of the Corporation pursuant to paragraph (4) hereof, if such election is made within one year of the occurrence of such event or (b) the amount payable in respect of such shares as set forth in paragraph (5)(i) hereof, if such election is made after one year from the occurrence of such event.

(v) In the event that the Corporation certifies to the holders of the ESOP Convertible Preferred Stock that the Corporation has determined in good faith that either the RJR Nabisco Capital Accumulation Plan, as amended as of March 15, 1991, as the same may be further amended, or any successor plan (the "Plan") is not qualified within the meaning of Section 401(a) of the Code or the RJR Nabisco Employee Stock Ownership Program forming a part thereof, as the same may be amended, or any successor program (the "Program"), is not an "employee stock ownership plan" within the meaning of Section 4975(e)(7) of the Code, the Corporation may, in its sole discretion and notwithstanding anything to the contrary in paragraph (5)(i) hereof, elect to redeem any or all of the ESOP Convertible Preferred Stock for (a) the amount payable in respect of such shares upon liquidation of the Corporation pursuant to paragraph (4) hereof, if such election is made within one year of the occurrence of such event or (b) the amount payable in respect of such shares as set forth in paragraph (5)(i) hereof, if such election is made after one year from the occurrence of such event.

(vi) In the event that the Plan or the Program is, or contributions thereto are, expressly terminated by the Corporation, the Corporation may, in its sole discretion and notwithstanding anything to the contrary in paragraph (5)(i) hereof, elect to redeem any or all the ESOP Convertible Preferred Stock for the amount payable in respect of such shares as set forth in paragraph (5)(i) hereof.

(vii) In the event and to the extent that redemption of shares of ESOP Convertible Preferred Stock is necessary or appropriate to provide for the distributions required to be made under, or to satisfy an investment election provided to participants in accordance with, the Program, the Corporation may, in its sole discretion and notwithstanding anything to the contrary in paragraph (5)(i) hereof, elect to redeem any or all ESOP Convertible Preferred Stock for the amount payable in respect of such shares upon liquidation of the Corporation pursuant to paragraph (4) hereof.

(viii) In the event and to the extent that shares of ESOP Convertible Preferred Stock are transferred to a participant in the Plan, the Corporation may, in its sole discretion and notwithstanding anything to the contrary in paragraph (5)(i) hereof, elect to redeem such shares of ESOP Convertible Preferred Stock for the amount payable in respect of such shares upon liquidation of the Corporation pursuant to paragraph (4) hereof.

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(ix) In the event and to the extent that the Corporation is required under Section 409(h)(1)(B) of the Code or any successor provision of law to redeem shares of ESOP Convertible Preferred Stock, the Corporation shall, notwithstanding anything to the contrary contained in paragraph (5)(i) hereof, redeem such shares of ESOP Convertible Preferred Stock for the amount equal to the greater of (i) the value as of the applicable valuation date (as determined under the Program) of the shares of Common Stock into which such shares of ESOP Convertible Preferred Stock are convertible as of such date or (ii) the amount payable in respect of such shares of upon liquidation of the Corporation pursuant to paragraph (4) hereof.

(x) Notwithstanding anything to the contrary contained herein, subject to the final sentence of this paragraph (5)(x), if there is, or if as a result of any redemption pursuant to paragraph (5)(ix) hereof there would be, a default or event of default under any debt instrument or agreement of the Corporation or any of its subsidiaries or any other material obligation of the Company or any of its subsidiaries, or an impairment of capital or violation of the General Corporation Law of the State of Delaware (collectively, an "Event"), then any such redemption shall be deferred until the first business day that such redemption may occur without any such Event existing or resulting. If at any time consummation of any redemptions to be made by the Corporation pursuant to paragraph (5)(ix) would result in an Event, then the Corporation shall make redemptions of shares of ESOP Convertible Preferred Stock pro rata (on the basis of the proportion of the number of shares of ESOP Convertible Preferred Stock which each holder shall have specified to be redeemed for the maximum number of shares of ESOP Convertible Preferred Stock permitted without resulting in an Event; provided, however, that the provisions of the first sentence of this paragraph (5)(x) shall apply in respect of all shares of ESOP Convertible Preferred Stock not redeemed. Until all of such ESOP Convertible Preferred Stock is redeemed and paid for by the Corporation, the shares of ESOP Convertible

Preferred Stock which are required to be redeemed under Section 409(h)(1)(B) of the Code or any successor provision of law which are not redeemed in accordance with this paragraph (5)(x) shall have priority, on a pro rata basis, over other redemptions by the Corporation pursuant to this paragraph (5). Notwithstanding the terms of this paragraph (5)(x) or paragraph (5)(ix), to the extent the deferral provided for by this paragraph (5)(x) would not be permitted by the Code or the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any successor provision of law, the provisions of paragraph (5)(ix) shall, to the extent permitted by the Code and ERISA, be of no force or effect where an Event would occur without regard to such deferral.

(xi) The Corporation, at its option, may make payment of the redemption price required to be paid upon redemption of shares of ESOP Convertible Preferred Stock (other than pursuant to paragraph (9)(iv)) in cash or in shares of Common Stock, or in securities of comparable value that constitute "qualifying employer securities" with respect to a holder of ESOP Convertible Preferred Stock within the meaning of Section 409(1) of the Code and Section 407(d)(5) of ERISA or any successor provisions of law ("Qualifying Employer Securities") or in any combination of such shares, Qualifying Employer Securities and cash, any such shares and Qualifying Employer Securities to be valued for such purpose at their Fair Market Value (as defined in paragraph (7)(vi)(e) hereof) as of the date of redemption.

(6) Procedure for Redemption. (i) In the event that fewer than all the outstanding shares of ESOP Convertible Preferred Stock are to be redeemed other than pursuant to paragraph (5)(vii), (5)(viii) or (5)(ix) or paragraph (9)(iv), the number of shares to be redeemed shall be determined by the Board of Directors and the shares to be redeemed shall be selected pro rata, except that in any redemption of fewer than all the outstanding shares of ESOP Convertible Preferred Stock, the Corporation may redeem all shares held by any holders of a number of shares not to exceed 100, including all shares held by holders who, after giving effect to such redemption, would hold less than 100 shares, as may be specified by the Corporation.

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(ii) In the event the Corporation shall redeem shares of ESOP Convertible Preferred Stock other than pursuant to paragraph 5(vii), 5(viii) or (5)(ix) or paragraph (9)(iv), subject to applicable law, written notice of such redemption shall be given by first class mail, postage prepaid, mailed not less than 20 days nor more than 60 days prior to the redemption date, to each holder of record of the shares to be redeemed at such holder's address as the same appears on the stock register of the Corporation; provided, however, that no failure to give such notice nor any defect therein shall affect the validity of the proceeding for the redemption of any shares of ESOP Convertible Preferred Stock to be redeemed except as to the holder to whom the Corporation has failed to give said notice or except as to the holder whose notice was defective. Each such notice shall state: (a) the redemption date; (b) the number of shares of ESOP Convertible Preferred Stock to be redeemed and, if less than all the shares

held by such holder are to be redeemed from such holder, the number of shares to be redeemed from such holder; (c) the redemption price; (d) that shares of ESOP Convertible Preferred Stock called for redemption may be converted in accordance with, and subject to the terms of, paragraph (7) hereof at any time prior to the date fixed for redemption (unless the Corporation shall default in payment of the redemption price, in which case such right shall not terminate at such date); (e) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; (f) the method and form of payment of the redemption price; and (g) that dividends on the shares to be redeemed will cease to accrue on such redemption date.

(iii) Notice having been mailed as aforesaid, from and after the redemption date (unless default shall be made by the Corporation in providing cash, Qualifying Employer Securities or shares of Common Stock for the payment of the redemption price of the shares called for redemption) dividends on the shares of ESOP Convertible Preferred Stock so called for redemption, to the extent theretofore accruing, shall cease to accrue and said shares shall no longer be deemed to be outstanding and shall have the status of authorized but unissued shares of Preferred Stock, undesignated as to series, and all rights of the holders thereof as holders of the ESOP Convertible Preferred Stock (except the right to receive from the Corporation the redemption price and any and all accrued and unpaid dividends) shall cease. Upon surrender in accordance with said notice of the certificates for any shares so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of the Corporation shall so require and the notice shall so state), such shares shall be redeemed by the Corporation at the redemption price aforesaid together with payment of any and all accrued and unpaid dividends, without interest. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the holder thereof.

(7) Conversion. (i) Upon the terms and in the manner set forth in this paragraph (7) and subject to the provisions for adjustment contained in paragraph (7)(vi), each share of the ESOP Convertible Preferred Stock shall be convertible, at the option of the holder thereof at any time, upon surrender to the Corporation of the certificates for the shares to be converted, into a number of fully paid and nonassessable shares of Common Stock equal to the aggregate stated value of the ESOP Convertible Preferred Stock to be converted divided by a conversion price (the "Conversion Price") of \$80.00; provided, however, that the right to convert shares of ESOP Convertible Preferred Stock that have been called for redemption pursuant to paragraphs (5), (6) and (9)(iii) shall terminate at the close of business on the date fixed for redemption, unless the Corporation shall default in making payment of the amount payable upon such redemption and provided, further, that the right to convert shares of ESOP Convertible Preferred Stock as to which a notice of redemption has been delivered pursuant to paragraph (9)(iv) shall terminate at the close of business on the fifth (5th) business day prior to the consummation of the transaction described in paragraph (9)(ii), unless the Corporation or the successor of the Corporation shall default in making payment of the amount payable upon such redemption.

(ii) In order to convert shares of the ESOP Convertible Preferred Stock, the holder thereof shall (a) deliver a properly completed and duly executed written notice of election to convert specifying the number of the shares of the ESOP Convertible Preferred Stock to be converted and the name or names in which such holder wishes the certificate or certificates for shares of Common Stock to be issued to the Corporation at its principal office or at the office of any agency which may be maintained for such purpose (the "Conversion Agent"), (b) surrender the certificate for such shares of ESOP Convertible Preferred Stock to the Corporation or the Conversion Agent, accompanied, if so required by the Corporation or the Conversion Agent, by a written instrument or instruments of transfer in form reasonably satisfactory to the Corporation or the Conversion Agent duly executed by the holder or his attorney duly authorized in writing, and (c) pay any transfer or similar tax required by paragraph (7) (viii).

(iii) (a) Conversion shall be deemed to have been effected at the close of business on the date (the "Conversion Date") on which the Corporation or the Conversion Agent shall have received the notice of election to convert, the surrendered certificate, any required payments and all other required documents. Immediately upon conversion, the rights of the holders of converted shares of ESOP Convertible Preferred Stock shall cease and the persons entitled to receive the shares of Common Stock upon the conversion of such shares of ESOP Convertible Preferred Stock shall be treated for all purposes as having become the record owners of such shares of Common Stock but no allowance or adjustment shall be made in respect of dividends payable to holders of Common Stock of record on any date prior to the Conversion Date. Conversion shall be at the Conversion Price in effect at such time on such date, unless the stock transfer books of the Corporation shall be closed on that date, in which event such person or persons shall be deemed to have become such holder or holders of record of the Common Stock at the close of business on the next succeeding day on which such stock transfer books are open, but such conversion shall be at the Conversion Price in effect on the date upon which such shares shall have been surrendered and such notice and any required payments received by the Corporation.

(b) As promptly as practicable after the Conversion Date, the Corporation shall deliver or cause to be delivered at the office or agency of the Conversion Agent, to or upon the written order of the holder of the surrendered shares of ESOP Convertible Preferred Stock, a certificate or certificates representing the number of fully paid and nonassessable shares of Common Stock into which such shares of ESOP Convertible Preferred Stock have been converted in accordance with the provisions of this paragraph (7), and any cash payable in respect of fractional shares as provided in paragraph (7) (iv).

(c) Upon the surrender of a certificate representing shares of ESOP Convertible Preferred Stock that is converted in part, the Corporation shall issue or cause to be issued for the holder a new certificate representing shares

of ESOP Convertible Preferred Stock equal in number to the unconverted portion of the shares of ESOP Convertible Preferred Stock represented by the certificate so surrendered.

(iv) (a) No fractional shares or scrip representing fractional shares of Common Stock shall be issued upon the conversion of any shares of ESOP Convertible Preferred Stock. Instead of any fractional interest in a share of Common Stock which would otherwise be deliverable upon the conversion of a share of ESOP Convertible Preferred Stock, the Corporation shall either (A) pay to the holder of such share (a "Fractional Shareholder") an amount in cash (computed to the nearest cent) equal to the Fair Market Value thereof (as defined in paragraph (7)(vi)(e)) on the business day next preceding the Conversion Date or (B) follow the procedures set forth in paragraph (7)(iv)(b). If more than one share shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate stated value of the shares of ESOP Convertible Preferred Stock so surrendered.

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(b) The Corporation may, in lieu of paying cash to Fractional Shareholders as provided in paragraph (7)(iv)(a), issue, in full payment of the Corporation's obligation with respect to such fractional interests, shares of Common Stock equal to the aggregate of such fractional interests of such Fractional Shareholder and other Fractional Shareholders (aggregated over a reasonable period of time, but not in any event more than 20 business days, and rounded upwards to the nearest whole share) to an agent (which, without limiting the generality of the foregoing, may be the trustee under the Plan or Program, the Corporation or the Conversion Agent) (the "Transfer Agent") appointed by the Corporation for such Fractional Shareholders for sale promptly by the Transfer Agent on behalf of the Fractional Shareholders. The Transfer Agent will remit promptly to such Fractional Shareholders their proportionate interest in the net proceeds (following the deduction of applicable transaction costs and computed to the nearest cent) from such sale.

(v) The holders of shares of ESOP Convertible Preferred Stock at the close of business on a record date for an ESOP Convertible Preferred Stock dividend (including a Dividend Payment Record Date) shall be entitled to receive the dividend payable on such shares (except that holders of shares called for redemption on a redemption date occurring between such record date and the corresponding dividend payment date (including a corresponding Dividend Payment Date) shall not be entitled to receive such dividend on such dividend payment date (including a Dividend Payment Date) but instead will receive accrued and unpaid dividends to such redemption date) on the corresponding dividend payment date (including a Dividend Payment Date) notwithstanding the conversion thereof or the Corporation's default in payment of the dividend due on such dividend payment date (including a Dividend Payment Date).

(vi) The Conversion Price shall be subject to adjustment as follows:

(a) If the Corporation shall (v) declare or pay a dividend on its outstanding Common Stock in shares of Common Stock or make a distribution to all holders of its Common Stock in shares of Common Stock, (w) subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock, (x) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock or (y) issue by reclassification of its shares of Common Stock other securities of the Corporation, then the Conversion Price in effect immediately prior thereto shall be adjusted so that the holder of any shares of ESOP Convertible Preferred Stock thereafter converted shall be entitled to receive the number and kind of shares of Common Stock or other securities that the holder would have owned or have been entitled to receive after the happening of any of the events described above had such shares of ESOP Convertible Preferred Stock been converted immediately prior to the happening of such event or any record date with respect thereto. An adjustment made pursuant to this paragraph (7) (vi) (a) shall become effective on the date of the dividend payment, subdivision, combination or issuance retroactive to the record date with respect thereto, if any, for such event. Such adjustment shall be made successively.

(b) If the Corporation shall issue to all holders of its Common Stock rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock at a price per share that is lower than the then Fair Market Value per share of Common Stock (as defined in paragraph (7) (vi) (e) below) at the record date mentioned below, the Conversion Price shall be adjusted in accordance with the following formula:

$$AC = CX \frac{O + \frac{NXP}{M}}{O + N}$$

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where

AC = the adjusted Conversion Price.

C = the current Conversion Price.

O = the number of shares of Common Stock outstanding on the issue date.

N = the number of additional shares of Common Stock offered.

P = the offering price per share of the additional shares.

M = the Fair Market Value per share of Common Stock on the issue date.

The adjustment shall be made successively whenever any such rights, options, warrants or convertible or exchangeable securities are issued, and shall become effective immediately after the record date for the determination of stockholders entitled to receive the rights, options, warrants or convertible or

exchangeable securities. Upon the expiration of any such rights, options, warrants or convertible or exchangeable securities, if any thereof shall not have been exercised, then the Conversion Price shall be increased by the amount of the initial adjustment of the Conversion Price pursuant to this paragraph (7) (vi) (b) in respect of such expired rights, options, warrants or convertible or exchangeable securities.

(c) In case the Corporation shall distribute to all holders of its outstanding Common Stock any shares of capital stock of the Corporation (other than Common Stock) or evidences of its indebtedness or assets (excluding ordinary cash dividends, which may be an initial cash dividend, payable out of consolidated earnings or earned surplus (both of which to be calculated for these purposes excluding charges for amortization of goodwill and other intangibles) and dividends or distributions referred to in paragraphs (7) (vi) (a) and (b) above and, after the Adjustment Date, excluding all cash dividends) or rights or warrants to subscribe for or purchase any of its securities (excluding those referred to in paragraph (7) (vi) (b) above) (any of the foregoing being hereinafter in this paragraph (7) (vi) (c) called the "Securities or Assets"), then in each such case, unless the Corporation elects to reserve shares or other units of such Securities or Assets for distribution to the holders of the ESOP Convertible Preferred Stock upon the conversion of the shares of ESOP Convertible Preferred Stock so that any such holder converting shares of ESOP Convertible Preferred Stock will receive upon such conversion, in addition to the shares of the Common Stock to which such holder is entitled, the amount and kind of such Securities or Assets which such holder would have received if such holder had, immediately prior to the record date for the distribution of the Securities or Assets, converted its shares of ESOP Convertible Preferred Stock into Common Stock, the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the date of such distribution by a fraction of which the numerator shall be the Fair Market Value per share (as defined in paragraph (7) (vi) (e) below) of the Common Stock on the record date mentioned below less the then fair market value (as determined by the Board of Directors, whose determination shall, if made in good faith, be conclusive, final and binding) of the portion of the capital stock or assets or evidences of indebtedness so distributed or of such rights or warrants applicable to one share of Common Stock, and of which the denominator shall be the Fair Market Value per share of the Common Stock on such record date. Such adjustment shall become effective immediately after the record date for the determination of stockholders entitled to receive such distribution, except as provided in paragraph (7) (vi) (h) below.

(d) If the Corporation shall, after the date hereof, sell and issue any shares of Common Stock, rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock (excluding (i) shares of Common Stock, rights, options, warrants or convertible or exchangeable securities containing the right to



subscribe for or purchase shares of Common Stock issued in any of the transactions described in paragraphs (7)(vi)(a) and (7)(vi)(b) above; (ii) stock options and shares of Common Stock issued to, or issuable upon the exercise of stock options granted to or to be granted to, employees or directors of the Corporation or its subsidiaries; (iii) shares of Common Stock issuable upon exercise of warrants previously issued; (iv) shares issued upon conversion of the Senior Converting Debentures Due 2009 of the Corporation; and (v) shares issued upon conversion of shares of ESOP Convertible Preferred Stock), at a price per share (determined, in the case of rights, options, warrants or convertible or exchangeable securities, by dividing (x) the total amount received or receivable by the Corporation in consideration of the sale and issuance of such rights, options, warrants or convertible or exchangeable securities, plus the total consideration payable to the Corporation upon exercise or conversion or exchange thereof, by (y) the total number of shares of Common Stock covered by such rights, options, warrants or convertible or exchangeable securities) that is lower than the then Fair Market Value per share of Common Stock immediately prior to such sale and issuance, then in each case the Conversion Price shall be adjusted in accordance with the following formula:

$$AC = CX \frac{O + \left( \frac{NXP}{M} \right)}{O + N}$$

where

AC = the adjusted Conversion Price.

C = the current Conversion Price.

O = the number of shares of Common Stock outstanding on the issue date.

N = the number of additional shares of Common Stock offered.

P = the offering price per share of the additional shares.

M = the Fair Market Value per share of Common Stock on the issue date.

For the purposes of such adjustments, the shares of Common Stock which the holder of any such rights, options, warrants, or convertible or exchangeable securities shall be entitled to subscribe for or purchase shall be deemed to be issued and outstanding as of the date of such sale and issuance, and the consideration received or receivable by the Corporation therefor shall be deemed to be the consideration received or receivable by the Corporation (plus any discounts or commissions in connection therewith) for such rights, options, warrants or convertible or exchangeable securities, plus the consideration or premiums stated in such rights, options, warrants or convertible or exchangeable securities to be paid for the shares of Common Stock purchasable thereby. In case the Corporation shall (i) sell and issue shares of Common Stock for a consideration consisting, in whole or in part, of property other than cash or its equivalent or (ii) sell and issue shares of Common Stock together with one or more other securities as part of a unit at a price per unit, then in determining the "price per share" and the "consideration received or receivable by the Corporation" for purposes of the first sentence and the immediately

preceding sentence of this paragraph (7) (vii) (d), the Board of Directors shall determine, in its discretion, the fair market value of said property or the shares of Common Stock then being sold as part of such unit, as the case may be, and such determinations, if made in good faith, shall be conclusive, final and binding. The adjustment shall be made successively whenever any such shares of Common Stock, rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock are issued for less than the Fair Market Value, subject to the exceptions noted above, and shall become effective immediately after the issue date.

Notwithstanding the foregoing, no adjustments of any kind under this paragraph (7) (vi) (d) shall be made with respect to the sale and issuance by the Corporation of any shares of Common Stock, rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock in connection with either (1) an underwritten public offering or (2) any transaction as to which the Corporation has received a written opinion of a nationally recognized investment bank stating that the transaction is fair to the Corporation from a financial point of view.

(e) For the purposes of any computation under paragraphs (7) (vi) (b), (c) and (d) and for the purposes of paragraphs (5) (xi), (7) (iv) (a) and (9) (iii), the Fair Market Value as to shares of Common Stock or any other class of capital stock or securities of the Corporation or any other issuer that are traded shall at any date shall be deemed to be the average of the daily closing prices for the twenty (20) consecutive trading days commencing on the thirtieth (30th) trading day prior to the date in question. The closing price for each day shall be (x) if the shares of Common Stock or any other class of capital stock or securities of the Corporation or any other issuer are listed or admitted to trading on a national securities exchange, the closing price on the New York Stock Exchange Consolidated Tape (or any successor composite tape reporting transactions on national securities exchanges) or, if such a composite tape shall not be in use or shall not report transactions in such securities, the last reported sales price regular way on the principal national securities exchange on which such securities are listed or admitted to trading (which shall be the national securities exchange on which the greatest number of shares of stock or the greatest aggregate principal amount of debt securities has been traded during such twenty (20) consecutive trading days), or, if there is no transaction on any such day in any such situation, the mean of the bid and asked prices on such day, or (y) if such securities are not listed or admitted to trading on any such exchange, the closing price, if reported, or, if the closing price is not reported, the average of the closing bid and asked prices as reported by NASDAQ or a similar source selected from time to time by the Corporation for the purpose. In the event such closing prices are unavailable, the Fair Market Value shall be deemed to be, subject to applicable law, the fair market value as determined in good faith by the Board of Directors, on the basis of such relevant factors as it in good faith considers, in the reasonable judgment of the Board of Directors, appropriate.

(f) No adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least 1% of such price; provided, however, that any adjustments which by reason of this paragraph (7) (vi) (f) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this paragraph (7) (vi) shall be made to the nearest one-hundredth of a cent or to the nearest one-hundredth of a share, as the case may be.

(g) For the purposes of this paragraph (7) (vi) and paragraph (7) (ix), the term "shares of Common Stock" shall mean (x) the class of stock designated as the Common Stock of the Corporation at the date hereof or (y) any other class of stock resulting from successive changes or reclassifications of such shares consisting solely of changes in par value, or from no par value to par value. In the event that at any time, as a result of an adjustment made pursuant to paragraphs (7) (vi) (a) or (c) above, the holders of ESOP Convertible Preferred Stock shall become entitled to receive any securities other than shares of Common Stock, thereafter the number of such other securities so issuable upon conversion of the shares of ESOP Convertible Preferred Stock shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the shares of ESOP Convertible Preferred Stock contained in this paragraph (7) (vi).

(h) Notwithstanding the foregoing, in any case in which this paragraph (7) (vi) provides that an adjustment shall become effective immediately after a record date for an event,

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the Corporation may defer until the occurrence of such event (A) issuing to the holder of any share of ESOP Convertible Preferred Stock converted after such record date and before the occurrence of such event the additional shares of Common Stock issuable upon such conversion before giving effect to such adjustment and (B) paying to such holder any amount in cash in lieu of any fraction pursuant to paragraph (7) (iv).

(i) If the Corporation shall make any dividend or distribution on the Common Stock or issue any Common Stock, other capital stock or other security of the Corporation or any rights or warrants to purchase or acquire any such security, which transaction does not result in an adjustment to the Conversion Price pursuant to the foregoing provisions of this paragraph (7) (vi), the Board of Directors of the Corporation may consider whether such action is of such a nature that an adjustment to the Conversion Price should equitably be made in respect of such transaction. If in such case the Board of Directors of the Corporation determines that an adjustment to the Conversion Price should be made, an adjustment shall be made effective as of such date as is determined by the Board of Directors of the Corporation. The determination of the Board of Directors of the Corporation as to whether an adjustment to the Conversion Price should be made pursuant to the foregoing provisions of this paragraph

(7) (vi) (i), and, if so, as to what adjustment should be made and when, shall be conclusive, final and binding on the Corporation and all stockholders of the Corporation. The Corporation shall be entitled to make such additional adjustments in the Conversion Price, in addition to those required by the foregoing provisions of this paragraph (7) (vi), as shall be necessary in order that any dividend or distribution in shares of capital stock of the Corporation, subdivision, reclassification or combination of shares of stock of the Corporation or any recapitalization of the Corporation shall not be taxable to holders of the Common Stock.

(vii) Whenever the Conversion Price is adjusted as herein provided, the Chief Financial Officer, Treasurer or Controller of the Corporation shall compute the adjusted Conversion Price in accordance with the foregoing provisions and shall prepare a certificate setting forth such adjusted Conversion Price and showing in reasonable detail the facts upon which such adjustment is based, which certificate shall be conclusive, final and binding evidence of the correctness of the adjustment. A copy of such certificate shall be filed promptly with any Conversion Agent. Promptly after delivery of any such certificate, the Corporation shall prepare a notice of such adjustment of the Conversion Price setting forth the adjusted Conversion Price and the date on which such adjustment becomes effective and shall mail such notice of such adjustment of the Conversion Price to the holder of each share of ESOP Convertible Preferred Stock at his last address as shown on the stock books of the Corporation.

(viii) The Corporation will pay any and all documentary, stamp or similar issue or transfer taxes payable in respect of the issue or delivery of shares of Common Stock on the conversion of shares of ESOP Convertible Preferred Stock; provided, however, that the Corporation shall not be required to pay any tax which may be payable in respect of any registration of transfer involved in the issue or delivery of shares of Common Stock in a name other than that of the registered holder of ESOP Convertible Preferred Stock converted or to be converted, and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

(ix) (a) The Corporation shall at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued Common Stock or its issued Common Stock held in its treasury, or both, for the purpose of effecting the conversion of the ESOP Convertible Preferred Stock, the full number of shares of Common Stock then deliverable upon the conversion of all outstanding shares of the ESOP Convertible Preferred Stock.

(b) Before taking any action which would cause an adjustment reducing the Conversion Price below the then par value (if any) of the Common Stock issuable upon conversion of the ESOP Convertible Preferred Stock, the

Corporation will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Corporation may validly and legally issue fully paid and nonassessable shares of such Common Stock at such adjusted Conversion Price.

(8) Voting Rights. (i) The holders of record of shares of ESOP Convertible Preferred Stock shall not be entitled to any voting rights except as hereinafter provided in this paragraph (8) or as otherwise provided by law. The holders of ESOP Convertible Preferred Stock shall be entitled to vote on all matters submitted to a vote of the holders of Common Stock of the Corporation, voting together with the holders of Common Stock as one class; provided, however, that the ESOP Convertible Preferred Stock shall not be entitled to vote on any increase or decrease in the number of authorized shares of any class or classes of stock. Each share of the ESOP Convertible Preferred Stock shall be entitled to the number of votes equal to the number of shares of Common Stock into which such share of ESOP Convertible Preferred Stock could be converted on the record date for determining the stockholders entitled to vote, rounded to the nearest one-tenth of a vote; it being understood that whenever the Conversion Price is adjusted as provided in paragraph (7) hereof, the voting rights of the ESOP Convertible Preferred Stock shall also be similarly adjusted.

(ii) So long as any shares of the ESOP Convertible Preferred Stock are outstanding (except when notice of the redemption of all outstanding shares of ESOP Convertible Preferred Stock has been given pursuant to paragraphs (5) and (6) or paragraph (9)(iii) and cash, Qualifying Employer Securities or shares of Common Stock have been deposited in trust for such redemption), the Corporation shall not, without the affirmative vote or consent of the holders of at least a majority of the shares of ESOP Convertible Preferred Stock and any other series of Preferred Stock entitled to vote thereon at the time outstanding voting or consenting, as the case may be, together as one class, given in person or by proxy, either in writing or by resolution adopted at an annual or special meeting called for the purpose, amend the Certificate of Incorporation or this Certificate of Designation so as to affect materially and adversely the specified rights, preferences, privileges or voting rights of shares of ESOP Convertible Preferred Stock.

(iii) (a) The creation, authorization or issuance of any shares of any Junior Securities, Parity Securities or Senior Securities, (b) the creation of any indebtedness of any kind of the Corporation, or (c) subject to paragraph (8)(i), the increase or decrease in the amount of authorized capital stock of any class, including Preferred Stock, shall not require the consent of the holders of ESOP Convertible Preferred Stock and shall not be deemed to affect materially and adversely the rights, preferences, privileges or voting rights of shares of ESOP Convertible Preferred Stock.

(9) Consolidation, Merger, etc. (i) In the event that the Corporation shall consummate any consolidation or merger or similar transaction, however named, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged solely for or changed, reclassified or converted solely into shares of any successor or resulting company (including the Corporation) that constitute Qualifying Employer Securities that are common stock or common equity

with respect to a holder of ESOP Convertible Preferred Stock within the meaning of Section 409(1) of the Code and Section 407(d)(5) of ERISA, or any successor provision of law, and, if applicable, for a cash payment in lieu of fractional shares, if any, then, in such event, the shares of ESOP Convertible Preferred Stock of such holder shall be converted into or exchanged for and shall become preferred shares of such successor or resulting company, having in respect of such company insofar as possible (taking into account, without limitation, any

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requirements relating to the listing of such preferred shares on any national securities exchange or the qualification of such preferred shares for trading in any over-the-counter market) the same powers, preferences and relative, participating, optional or other special rights (including the redemption rights provided by paragraphs (5) and (6) hereof and this paragraph (9)), and the qualifications, limitations or restrictions thereon, that the ESOP Convertible Preferred Stock had immediately prior to such transaction; provided, however, that after such transaction each share of stock into which the ESOP Convertible Preferred Stock is so converted or for which it is exchanged shall be convertible, pursuant to the terms and conditions provided by paragraph (7) hereof, into the number and kind of Qualifying Employer Securities receivable by a holder of the number of shares of Common Stock into which such shares of ESOP Convertible Preferred Stock could have been converted pursuant to paragraph (7) hereof immediately prior to such transaction and provided, further, that if by virtue of the structure of such transaction, a holder of Common Stock is required to make an election with respect to the nature and kind of consideration to be received in such transaction, then such election shall be deemed to be solely for Qualifying Employer Securities (together, if applicable, with a cash payment in lieu of fractional shares) with the effect provided above on the basis of the number and kind of Qualifying Employer Securities receivable by a holder of the number of shares of Common Stock into which the shares of ESOP Convertible Preferred Stock could have been converted pursuant to paragraph (7) hereof immediately prior to such transaction (it being understood that if the kind or amount of Qualifying Employer Securities receivable in respect of each share of Common Stock upon such transaction is not the same for each such share, then the kind and amount of Qualifying Employer Securities deemed to be receivable in respect of each share of Common Stock for purposes of this proviso shall be the kind and amount so receivable per share of Common Stock by a plurality of such shares). The rights of the ESOP Convertible Preferred Stock as preferred shares of such successor resulting company shall successively be subject to adjustments pursuant to paragraph (7) hereof after any such transaction as nearly equivalent to the adjustments provided for by such paragraph prior to such transaction.

(ii) In the event that the Corporation shall consummate any consolidation or merger or similar transaction, however named, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged for or changed, reclassified or converted into other shares or securities or cash or any other property, or any combination thereof, other than any such

consideration which is constituted solely of Qualifying Employer Securities that are common stock or common equity (as referred to in paragraph (9) (i)) and cash payments, if applicable, in lieu of fractional shares, outstanding shares of ESOP Convertible Preferred Stock shall, without any action on the part of the Corporation or any holder thereof but subject to paragraph (9) (iii) and (9) (iv), be automatically converted immediately prior to the consummation of such merger, consolidation or similar transaction into shares of Common Stock at the conversion rate then in effect so that each share of ESOP Convertible Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of shares, securities, cash or other property (payable in like kind) receivable by a holder of the number of shares of Common Stock into which such shares of ESOP Convertible Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election as to the kind or amount of shares, securities, cash or other property receivable upon such transaction (provided that, if the kind or amount of shares, securities, cash or other property receivable upon such transaction is not the same for each non-electing share, then the kind and amount of shares, securities, cash or other property receivable upon such transaction for each non-electing share shall be the kind and amount so receivable per share by a plurality of non-electing shares).

(iii) In the event the Corporation shall enter into any agreement providing for any consolidation or merger or similar transaction described in paragraph (9) (ii), then the Corporation shall as soon as practicable thereafter (and in any event at least ten (10) business days before

consummation of such transaction) give notice of such agreement and the material terms thereof to each holder of ESOP Convertible Preferred Stock and the Corporation shall have the right to elect, to the extent permitted by applicable law, by written notice to the holders, to redeem such ESOP Convertible Preferred Stock upon consummation of such transaction (if and when such transaction is consummated), out of funds legally available therefor, in lieu of any cash or other securities which such holder would otherwise be entitled to receive under paragraph (9) (ii) hereof, for the amount payable in respect of shares of ESOP Convertible Preferred Stock upon a redemption by the Corporation pursuant to paragraph (5) (i) hereof, which amount may be paid in cash or in shares of Common Stock or common stock of the successor of the Corporation or in Qualifying Employer Securities of the Corporation or the successor of the Corporation or in any combination thereof, any such shares and Qualifying Employer Securities to be valued for such purpose at their Fair Market Value (as defined in paragraph (7) (vi) (e)). No such notice of redemption shall be effective unless given to the holders prior to the close of business of the tenth (10th) business day prior to consummation of such transaction, unless the holders shall waive such prior notice, but any notice or redemption so given prior to such time may be withdrawn by notice of withdrawal given to the holders prior to the close of business on the tenth (10th) business day prior to consummation of such

transaction.

(iv) In the event the Corporation shall enter into any agreement providing for any consolidation or merger or similar transaction described in paragraph (9)(ii) and the Corporation shall not elect pursuant to paragraph (9)(iii) to redeem the ESOP Convertible Preferred Stock, to the extent permitted by applicable law, each such holder shall have the right to elect, by written notice to the Corporation, to receive, upon consummation of such transaction (if and when such transaction is consummated), out of funds legally available therefor, from the Corporation or the successor of the Corporation, in redemption of such ESOP Convertible Preferred Stock, in lieu of any cash or other securities which such holder would otherwise be entitled to receive under paragraph (9)(ii) hereof, a cash payment equal to the amount payable in respect of shares of ESOP Convertible Preferred Stock upon a redemption by the Corporation pursuant to paragraph (5)(i) hereof. No such notice of redemption shall be effective unless given to the Corporation prior to the close of business of the fifth (5th) business day prior to consummation of such transaction, unless the Corporation or the successor of the Corporation shall waive such prior notice, but any notice or redemption so given prior to such time may be withdrawn by notice of withdrawal given to the Corporation prior to the close of business on the fifth (5th) business day prior to consummation of such transaction.

(10) Limitations. Except as may otherwise be required by law, the shares of ESOP Convertible Preferred Stock shall not have any powers, preferences or relative, participating, optional or other special rights other than those specifically set forth in this resolution (as such resolution may be amended from time to time) or otherwise in the Certificate of Incorporation of the Corporation.

#### ARTICLE FIFTH

The Board of Directors of the Corporation, acting by majority vote, may alter, amend or repeal the By-Laws of the Corporation.

#### ARTICLE SIXTH

Except as otherwise provided by the Delaware General Corporation Law as the same exists or may hereafter be amended, no director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. Any repeal or modification of this Article SIXTH by the stockholders of the Corporation shall not

adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.



IN WITNESS WHEREOF, this Restated Certificate of Incorporation, which restates and integrates but does not further amend the provisions of the Corporation's Restated Certificate of Incorporation, as heretofore amended and supplemented, there being no discrepancy between these provisions and the provisions of this Restated Certificate of Incorporation, and having been duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware, has been executed this \_\_\_\_ day of December, 1998.

RJR NABISCO HOLDINGS CORP.

By:

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H. Colin McBride  
Senior Vice President and Secretary

[CORPORATE SEAL]

Attest:

By:

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Suzanne P. Jenney  
Assistant Secretary

CERTIFICATE OF RETIREMENT  
OF REMAINING SHARES OF  
SERIES B CUMULATIVE PREFERRED STOCK  
OF  
RJR NABISCO HOLDINGS CORP.

(PURSUANT TO SECTION 243 OF THE  
DELAWARE GENERAL CORPORATION LAW)

In accordance with Section 243 of the General Corporation Law of the State of Delaware, RJR Nabisco Holdings Corp., a Delaware corporation (the "Corporation"), does hereby certify that the following resolutions respecting its Series B Cumulative Preferred Stock were duly adopted by the Corporation's Board of Directors:

RESOLVED, that, following the redemption of 12,043.94 (Twelve Thousand Forty-Three and Ninety Four One-Hundredths) shares of the Corporation's Series B Cumulative Preferred Stock (the "Series B Cumulative Preferred Stock") on October 13, 1998 (the "Redemption Date"), such shares of Series B Cumulative Preferred Stock will be retired and the reissuance of any such shares of Series B Cumulative Preferred Stock will be prohibited under the Corporation's Amended and Restated Certificate of Incorporation; and

RESOLVED, that, upon such retirement of 12,043.94 shares of Series B Cumulative Preferred Stock effective on the Redemption Date, the officers of the Corporation are hereby authorized, empowered and directed to file with the Secretary of State of the State of Delaware a certificate pursuant to Section 243 of the General Corporation Law of the State of Delaware setting forth these resolutions in order to eliminate the remaining authorized shares of Series B Cumulative Preferred Stock.

IN WITNESS WHEREOF, RJR Nabisco Holdings Corp. has caused this Certificate to be signed by H. Colin McBride, its Senior Vice President & Secretary, and attested by Suzanne P. Jenney, its Assistant Secretary, this \_\_\_\_ day of December, 1998.

By: \_\_\_\_\_

H. Colin McBride  
Senior Vice President & Secretary

ATTEST:  
  
\_\_\_\_\_

Suzanne P. Jenney  
Assistant Secretary

CERTIFICATE OF RETIREMENT  
OF  
SERIES C CONVERSION PREFERRED STOCK  
OF  
RJR NABISCO HOLDINGS CORP.

(PURSUANT TO SECTION 243 OF THE  
DELAWARE GENERAL CORPORATION LAW)

In accordance with Section 243 of the General Corporation Law of the State of Delaware, RJR Nabisco Holdings Corp., a Delaware corporation (the "Corporation"), does hereby certify that the following resolutions respecting its Series C Conversion Preferred Stock were duly adopted by the Corporation's Board of Directors:

RESOLVED, that, following the conversion of all shares of the Company's Series C Conversion Preferred Stock (the "Series C Conversion Preferred Stock") into shares of Common Stock on May 15, 1997 (the "Conversion Date"), all of the authorized shares of Series C Conversion Preferred Stock will be retired and the reissuance of any shares of Series C Conversion Preferred Stock as part of such series of Preferred Stock will be prohibited under the Company's Amended and Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"); and

RESOLVED, that, upon such retirement of all of the authorized shares of Series C Conversion Preferred Stock effective on the Conversion Date, the officers of the Company are hereby authorized, empowered and directed to file with the Secretary of State of the State of Delaware a certificate pursuant to Section 243 of the General Corporation Law of the State of Delaware setting forth these resolutions in order to eliminate from the Certificate of Incorporation all reference to the Series C Conversion Preferred Stock.

IN WITNESS WHEREOF, RJR Nabisco Holdings Corp. has caused this Certificate to be signed by H. Colin McBride, its Senior Vice President and Secretary, and attested by Suzanne P. Jenney, its Assistant Secretary, this \_\_\_\_ day of \_\_\_\_\_, 1998.

By: \_\_\_\_\_

H. Colin McBride  
Senior Vice President & Secretary

ATTEST:  
  
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Suzanne P. Jenney  
Assistant Secretary

RJR NABISCO HOLDINGS CORP.

BY-LAWS

As Amended Effective November 11, 1998

ARTICLE I

MEETINGS OF STOCKHOLDERS  
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Section 1. PLACE OF MEETINGS. Meetings of stockholders of the Corporation shall be held at such place either within or without the State of Delaware as the Board of Directors may determine.

Section 2. ANNUAL AND SPECIAL MEETINGS. Annual meetings of stockholders shall be held, at a date, time and place fixed by the Board of Directors and stated in the notice of meeting, to elect a Board of Directors and to transact such other business as may properly come before the meeting. Special meetings of stockholders may be called by the Chairman for any purpose and shall be called by the Chairman or the Secretary if directed by the Board of Directors or requested in writing by holders of not less than 25% of the common stock of the Corporation. Each such stockholder request shall state the purpose of the proposed meeting.

Section 3. NOTICE. Except as otherwise provided by law or by the Certificate of Incorporation, written notice shall be given to each stockholder entitled to vote at least 10 and not more than 60 days before each meeting of stockholders, such notice to include the time, date and place of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

Section 4. QUORUM. At any meeting of stockholders, the holders of record, present in person or by proxy, of a majority of the Corporation's stock issued and outstanding and entitled to vote shall constitute a quorum for the transaction of business, except as otherwise provided by law or by the Certificate of Incorporation. In the absence of a quorum, any officer entitled to preside at or to act as secretary of the meeting shall have power to adjourn the meeting from time to time until a quorum is present.

Section 5. CONDUCT OF MEETING AND ORDER OF BUSINESS. The

Chairman or, at the Chairman's request, the Chief Executive Officer, shall act as chairman at all meetings of stockholders. The Secretary of the Corporation or, in his or her absence, an Assistant Secretary shall act as secretary at all meetings of stockholders. The chairman of the meeting shall have the right and authority to determine and maintain the rules, regulations and procedures for the proper conduct of the meeting, including but not limited to restricting entry to the meeting after it has commenced, maintaining order and the safety of those in attendance, opening and closing the polls for voting, dismissing business not properly submitted, and limiting time allowed for discussion of the business of the meeting.

Business to be conducted at annual meetings of stockholders shall be limited to that properly submitted to the meeting either by or at the direction of the Board of Directors or by any stockholder of the Corporation who shall be entitled to vote at such meeting and who complies with the notice requirements set forth in Section 6 of this Article I. If the chairman of the meeting shall determine that any business was not properly submitted in accordance with the terms of Section 6 of this Article I, he or she shall declare to the meeting that such business was not properly submitted and would not be transacted at that meeting.

Section 6. ADVANCE NOTICE OF STOCKHOLDER PROPOSALS. In order to properly submit any business to an annual meeting of stockholders, a stockholder must give timely notice in writing to the Secretary of the Corporation. To be considered timely, a stockholder's notice must be delivered either in person or by United States certified mail, postage prepaid, and received at the principal executive offices of the Corporation (a) not less than 60 days nor more than 90 days before the first anniversary of the Corporation's last annual meeting of stockholders or (b) if no annual meeting was held in the previous year or the date of the applicable annual meeting has been changed by more than 30 days from such anniversary date, not less than a reasonable time, as determined by the Board of Directors, prior to the date of the applicable annual meeting. In no event shall the public announcement of a postponement or adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above.

Nomination of persons for election to the Board of Directors may be made by the Board of Directors or any committee designated by the Board of Directors or by any stockholder entitled to vote for the election of directors at the applicable meeting of stockholders. However, nominations other than those made by the Board of Directors or its designated committee must comply with the procedures set forth in this Section 6, and no person shall be eligible for election as

a director unless nominated in accordance with the terms of this Section 6.

A stockholder may nominate a person or persons for election to the Board of Directors by giving written notice to the Secretary of the

Corporation in accordance with the procedures set forth above. In addition to the timeliness requirements set forth above for notice to the Corporation by a stockholder of business to be submitted at an annual meeting of stockholders, with respect to any special meeting of stockholders called for the election of directors, written notice must be delivered in the manner specified above and not later than the close of business on the seventh day following the date on which notice of such meeting is first given to stockholders.

The Secretary of the Corporation shall deliver any stockholder proposals and nominations received in a timely manner for review by the Board of Directors or a committee designated by the Board of Directors.

A stockholder's notice to submit business to an annual meeting of stockholders shall set forth (i) the name and address of the stockholder, (ii) the class and number of shares of stock beneficially owned by such stockholder, (iii) the name in which such shares are registered on the stock transfer books of the Corporation, (iv) a representation that the stockholder intends to appear at the meeting in person or by proxy to submit the business specified in such notice, (v) any material interest of the stockholder in the business to be submitted and (vi) a brief description of the business desired to be submitted to the annual meeting, including the complete text of any resolutions to be presented at the annual meeting, and the reasons for conducting such business at the annual meeting. In addition, the stockholder making such proposal shall promptly provide any other information reasonably requested by the Corporation.

In addition to the information required above to be given by a stockholder who intends to submit business to a meeting of stockholders, if the business to be submitted is the nomination of a person or persons for election to the Board of Directors then such stockholder's notice must also set forth, as to each person whom the stockholder proposes to nominate for election as a director, (a) the name, age, business address and, if known, residence address of such person, (b) the principal occupation or employment of such person, (c) the class and number of shares of stock of the Corporation which are beneficially owned by such person, (d) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors or is otherwise required by the rules and regulations of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended, (e) the

written consent of such person to be named in the proxy statement as a nominee and to serve as a director if elected and (f) a description of all arrangements or understandings between such stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such stockholder.

Any person nominated for election as director by the Board of Directors or any committee designated by the Board of Directors shall, upon the request of the Board of Directors or such committee, furnish to the Secretary of



the Corporation all such information pertaining to such person that is required to be set forth in a stockholder's notice of nomination.

Notwithstanding the foregoing provisions of this Section 6, a stockholder who seeks to have any proposal included in the Corporation's proxy statement shall comply with the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended.

Section 7. VOTING. Except as otherwise provided by law or by the Certificate of Incorporation, all matters submitted to a meeting of stockholders shall be decided by vote of the holders of record, present in person or by proxy, of a majority of the Corporation's stock issued and outstanding and entitled to vote.

A proxy shall be executed in writing by the stockholder or by his or her duly authorized attorney-in-fact and shall be delivered to the secretary of the meeting at or prior to the time designated by the chairman of the meeting. No stockholder may designate more than four persons to act on his or her behalf at a meeting of stockholders.

Section 8. INSPECTORS OF ELECTION. Prior to any meeting of stockholders, the Board of Directors shall appoint one or more inspectors to act at the meeting and make a written report thereof in accordance with the Delaware General Corporation Law. The Board of Directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath to execute faithfully the duties of inspector with strict impartiality and according to the best of his or her ability.

## ARTICLE II

### DIRECTORS

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Section 1. NUMBER, ELECTION AND REMOVAL OF DIRECTORS. The number of Directors that shall constitute the Board of Directors shall be not less than one nor more than seventeen. The first Board of Directors shall consist of three Directors. Thereafter, within the limits specified above, the number of Directors shall be determined by the Board of Directors or by the stockholders. The Directors shall be elected by the stockholders at their annual meeting and shall serve until the next annual meeting of stockholders and until their successors are elected and shall qualify. Vacancies and newly created directorships resulting from any increase in the number of Directors may be filled by a majority of the Directors then in office, although less than a quorum, or by the sole remaining Director or by the stockholders, and any Director so chosen shall serve until the next annual meeting of stockholders and until his or her successor shall be elected and shall qualify. A Director may be removed with or without cause by the stockholders.

Section 2. MEETINGS. Regular meetings of the Board of Directors shall be held at such times and places as may from time to time be fixed by the Board of Directors or as may be specified in a notice of meeting. Special meetings of the Board of Directors may be held at any time upon the call of the Chairman or the Chief Executive Officer and shall be called by the Chairman, the Chief Executive Officer or the Secretary if directed by the Board of Directors. A meeting of the Board of Directors may be held without notice immediately after the annual meeting of stockholders. Notice need not be given of regular or special meetings of the Board of Directors.

Section 3. QUORUM. One-third of the total number of Directors shall constitute a quorum for the transaction of business. If a quorum is not present at any meeting of the Board of Directors, the Directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until such a quorum is present. Except as otherwise provided by law, the Certificate of Incorporation of the Corporation, these By-Laws or any contract or agreement to which the Corporation is a party, the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors.

Section 4. EXECUTIVE COMMITTEE. The Board of Directors, by

resolution adopted by a majority of the entire Board, may appoint from among its members an Executive Committee consisting of the Chief Executive Officer, if such officer is a member of the Board of Directors, or the Chairman, if the Chief Executive Officer is not a member of the Board of Directors, and at least two other Directors. Meetings of the Executive Committee shall be held without notice at such dates, times and places as shall be determined by the Executive Committee. The Executive Committee shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation that are permitted by law to be exercised by a committee of the Board of Directors, including the power to declare dividends, to authorize the issuance of stock and to adopt a certificate of ownership and merger of parent corporation and subsidiary or subsidiaries; provided, however, that the Executive Committee shall not have the power or authority of the Board of Directors in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation with respect to the Corporation, recommending to the stockholders the sale, lease or exchange of all or substantially all the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, amending the By-Laws of the Corporation or adopting a certificate of ownership and merger of the Corporation (other than a certificate of ownership and merger of parent corporation and subsidiary or subsidiaries). The majority of the members of the Executive Committee shall constitute a quorum. Minutes shall be kept of the proceedings of the Executive Committee, which shall be reported at meetings of the Board of Directors. The Executive Committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors of the Corporation, fix any of the

preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series.

Section 5. OTHER COMMITTEES OF DIRECTORS. The Board of Directors may, by resolution adopted by a majority of the Board of Directors, designate one or more other committees to have and exercise such power and authority as the Board of Directors shall specify. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or she or they constitute a quorum, may unanimously appoint another Director to act at the meeting in place of any such absent or disqualified member.

### ARTICLE III

#### OFFICERS

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Section 1. DESCRIPTION AND TERMS. The officers of the Corporation shall be the Chairman, the Chief Executive Officer, a President, a Secretary, a Treasurer and such other additional officers with such titles as the Board of Directors shall determine, all of whom shall be chosen by and serve at the pleasure of the Board of Directors; provided that the Chief Executive Officer may appoint Senior Vice Presidents, Vice Presidents or Assistant Officers at his or her discretion. Subject to such limitations as may be imposed by the Board of Directors, the Chief Executive Officer shall have full executive power and authority with respect to the Corporation. The President, if separate from the Chief Executive Officer, shall have such powers and authority as the Chief Executive Officer may determine. If the Chief Executive Officer is absent or incapacitated, the Executive Committee shall determine the person who shall have all the power and authority of the Chief Executive Officer. Other officers shall have the usual powers and shall perform all the usual duties incident to their respective offices. All officers shall be subject to the supervision and direction of the Board of Directors. The authority, duties or responsibilities of any officer of the Corporation may be suspended by the Chief Executive Officer with or without cause. Any officer elected or appointed by the Board of Directors may be removed by the Board of Directors with or without cause. Subject to such limitations as the Board of Directors may provide, each officer may further delegate to any other officer or any employee or agent of the Corporation such portions of his or her authority as the officer shall deem appropriate, subject to such limitation as the officer shall specify, and may revoke such authority at any time.

Section 2. STOCKHOLDER CONSENTS AND PROXIES. The Chairman, the Chief Executive Officer, each Vice Chairman, the President, the Secretary and

the Treasurer, or any one of them, shall have the power and authority on behalf of the Corporation to execute any stockholders' consents or proxies and to attend and act and vote in person or by proxy at any meetings of stockholders of any corporation in which the Corporation may own stock, and at any such meetings shall possess and may exercise any and all of the rights and powers incident to the ownership of such stock which as the owner thereof the Corporation might have possessed and executed if present. The Board of Directors by resolution from time to time may confer like powers upon any other officer.

#### ARTICLE IV

##### INDEMNIFICATION

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To the fullest extent permitted by the Delaware General Corporation Law, the Corporation shall indemnify any current or former Director or officer of the Corporation and may, at the discretion of the Board of Directors, indemnify any current or former employee or agent of the Corporation against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with any threatened, pending or completed action, suit or proceeding brought by or in the right of the Corporation or otherwise, to which he or she was or is a party or is threatened to be made a party by reason of his or her current or former position with the Corporation or by reason of the fact that he or she is or was serving, at the request of the Corporation, as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. The right to indemnification conferred in this Article shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such action, suit or proceeding in advance of its final disposition unless such action, suit or proceeding was initiated by the person seeking advances of expenses or was brought by or in the right of the Corporation with the approval of the Board of Directors or the Chief Executive Officer; provided however, that if the Delaware General Corporation Law then so requires, the payment of such expenses incurred by a Director or officer of the Corporation in advance of the final disposition of such action, suit or proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such Director or officer, to repay all amounts so advanced if it should be determined ultimately that such Director or officer is not entitled to be indemnified under this Article or otherwise.

#### ARTICLE V

##### GENERAL PROVISIONS

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Section 1. NOTICES. Whenever any statute, the Certificate of Incorporation or these By-Laws require notice to be given to any Director or stockholder, such notice is to be given in writing by mail, addressed to such Director or stockholder at his or her address as it appears on the records of the Corporation, with postage thereon prepaid. Such notice shall be deemed to have been given when it is deposited in the United States mail. Notice to Directors may also be given by telegram or facsimile transmission or be delivered personally or by telephone.

Section 2. FISCAL YEAR. The fiscal year of the Corporation shall be fixed by the Board of Directors.

Section 3. CERTIFICATES OF STOCK. Certificates representing shares of the Corporation shall be signed by the Chairman or the Chief Executive Officer and by the Secretary or an Assistant Secretary. Any and all signatures on such certificates, including signatures of officers, transfer agents and registrars, may be facsimile.

EIGHTH AMENDMENT TO THE 3 YEAR CREDIT AGREEMENT

ELEVENTH AMENDMENT TO THE 364 DAY CREDIT AGREEMENT

EIGHTH AMENDMENT, dated as of December 4, 1998, among RJR NABISCO HOLDINGS CORP., a Delaware corporation ("Holdings"), RJR NABISCO, INC., a Delaware corporation (the "Borrower"), and the lending institutions party to the 3 Year Credit Agreement referred to below and ELEVENTH AMENDMENT, dated as of December 4, 1998, among Holdings, the Borrower and the lending institutions party to the 364 Day Credit Agreement referred to below (collectively, the "Amendment"). All capitalized terms used herein and not otherwise defined herein shall have the respective meanings provided such terms in the respective Credit Agreements (as defined below).

W I T N E S S E T H:

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WHEREAS, Holdings, the Borrower and various lending institutions (the "3 Year Banks") are parties to a Credit Agreement, dated as of April 28, 1995, with respect to initial Commitments aggregating \$2,750,000,000 on such date (as in effect on the date hereof, the "3 Year Credit Agreement");

WHEREAS, Holdings, the Borrower and various lending institutions (the "364 Day Banks" and, together with the 3 Year Banks, the "Banks") are parties to a Credit Agreement, dated as of April 28, 1995, with respect to initial Commitments aggregating \$750,000,000 on such date (as in effect on the date hereof, the "364 Day Credit Agreement" and, together with the 3 Year Credit Agreement, the "Credit Agreements");

WHEREAS, Holdings, the Borrower and the 3 Year Banks wish to enter into the agreements with respect to the 3 Year Credit Agreement as herein provided; and

WHEREAS, Holdings, the Borrower and the 364 Day Banks wish to enter into the agreements with respect to the 364 Day Credit Agreement as herein provided;

NOW, THEREFORE, it is agreed:

I. AMENDMENTS TO THE 3 YEAR CREDIT AGREEMENT.

1. Section 8.07 of the 3 Year Credit Agreement is hereby amended by deleting the amount "\$6,700,000,000" appearing in said Section and inserting the amount "\$5,800,000,000" in lieu thereof.

2. Section 8.08 of the 3 Year Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

"PERIOD -----	RATIO -----
Initial Borrowing Date to and including December 31, 1995	1.60:1
January 1, 1996 to and including December 31, 1997	1.50:1
January 1, 1998 to and including December 31, 1998	1.40:1
Thereafter	1.25:1".

3. Section 8.09 of the 3 Year Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

"PERIOD -----	RATIO -----
Initial Borrowing Date to and including December 31, 1995	2.60:1
January 1, 1996 to and including December 31, 1996	2.55:1
January 1, 1997 to and including December 31, 1997	2.40:1
January 1, 1998 to and including June 30, 1998	2.50:1
July 1, 1998 to and including September 30, 1998	2.40:1
October 1, 1998 to and including	

December 31, 1998	2.80:1
Thereafter	3.00:1".

4. Section 8.10 of the 3 Year Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

"PERIOD -----	RATIO -----
Initial Borrowing Date to and including December 31, 1996	3.50:1
January 1, 1997 to and including December 31, 1997	3.75:1
January 1, 1998 to and including September 30, 1998	3.50:1
October 1, 1998 to and including December 31, 1998	3.25:1
Thereafter	3.15:1".

5. The definition of "Adjusted Operating Income" appearing in Section 10 of the 3 Year Credit Agreement is hereby amended by (x) deleting the word "and" appearing at the end of clause (viii) of the proviso contained therein and inserting a comma in lieu thereof and (y) inserting the following new clauses (x) and (xi) at the end of said definition:

", (x) Adjusted Operating Income shall be adjusted by adding thereto the amount of all expenses accrued by Holdings and its Subsidiaries during any Test Period pursuant to (i) the comprehensive settlement agreement, dated on or about November 23, 1998, among R.J. Reynolds Tobacco Company, certain other tobacco companies, and various states and territories to the extent (and only to the extent) (I) the aggregate amount of all payments made by Holdings and its Subsidiaries pursuant to the aforementioned agreements (and for which an adjustment to Adjusted Operating Income is made) does not exceed \$650,000,000 and (II) the amount of such payments are deducted in any determination of Adjusted Operating Income and (xi) for all purposes, for any period which includes the fourth quarter of Holdings' 1998 fiscal year, there shall be excluded in determining



Adjusted Operating Income any pre-tax restructuring expense and related expenses and adjustments recorded or accrued in the fourth quarter of Holdings' 1998 fiscal year which serve to reduce operating income of Holdings and/or its Subsidiaries in such fiscal

quarter, to the extent (and only to the extent) the aggregate amount attributable pursuant to this clause (xi) does not exceed \$440,000,000."

6. The definition of "Cumulative Adjusted Cash Net Income" appearing in Section 10 of the 3 Year Credit Agreement is hereby amended by inserting the following text at the end of said definition:

"plus (vi) the amount of all charges (determined on an after-tax basis) taken by Holdings and its Subsidiaries to account for expenses accrued by Holdings and its Subsidiaries pursuant to the settlement agreements referred to in clauses (x) and (xi) of the definition of "Adjusted Operating Income", to the extent (and only to the extent) that (i) the aggregate amount of such charges taken by Holdings and its Subsidiaries (as determined on an after-tax basis) does not exceed \$715,000,000 and (ii) such charges are deducted in any determination of Cumulative Adjusted Cash Net Income".

7. The definition of "Applicable Facility Fee Percentage" appearing in Section 10 of the 3 Year Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

Period -----	Applicable Facility Fee Percentage -----
Level I Period	.500%
Level II Period	.400%
Level III Period	.350%
Level IV Period	.225%
Level V Period	.200%
Level VI Period	.175%

8. The definition of "Applicable Eurodollar Margin" appearing in Section 10 of the 3 Year Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

"Period -----	Applicable Eurodollar Margin -----
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Level I Period	1.500%
Level II Period	1.350%

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Level III Period	1.150%
Level IV Period	0.650%
Level V Period	0.550%
Level VI Period	0.450%

9. The definition of "Applicable Reference Rate Margin" appearing in Section 10 of the 3 Year Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

"Period -----	Applicable Reference Rate Margin -----
Level I Period	1.000%
Level II Period	0.850%
Level III Period	0.650%
Level IV Period	0.150%
Level V Period	0.050%
Level VI Period	0%

10. The definition of "Applicable Utilization Fee Percentage" appearing in Section 10 of the 3 Year Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

"Period -----	Applicable Utilization Fee Percentage -----
Level I Period	0.250%
Level II Period	0.250%
Level III Period	0.250%
Level IV Period	0.125%
Level V Period	0%

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Level VI Period	0%
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11. Section 10 of the 3 Year Credit Agreement is hereby further amended by (i) deleting the definitions of "Increased Investment Grade Period", "Increased Investment Grade Rating", "Maximum Investment Grade Period", "Maximum Investment Grade Rating", "Minimum Investment Grade Period", "Minimum Investment Grade Rating" and "NIG Period" appearing in said Section in their entirety and (ii) inserting the following definitions in appropriate alphabetical order in said Section:

"Level I Period" shall mean any period during which the Credit Rating is at all times below the Level II Rating.

"Level II Period" shall mean any period during which the Credit Rating is at all times the Level II Rating.

"Level III Period" shall mean any period during which the Credit Rating is at all times the Level III Rating.

"Level IV Period" shall mean any period during which the Credit Rating is at all times the Level IV Rating.

"Level V Period" shall mean any period during which the Credit Rating is at all times the Level V Rating.

"Level VI Period" shall mean any period during which the Credit Rating is, or is at any level above, the Level VI Rating.

"Level II Rating" shall mean the rating established by each Rating Agency as being one rating level immediately below the Level III Rating, it being understood that as of the date of this Agreement the "Level II Rating" of S&P is BB and the "Level II Rating" of Moody's is Ba2.

"Level III Rating" shall mean the rating established by each Rating Agency as being one rating level immediately below the Level IV Rating, it being understood that as of the date of this Agreement the "Level III Rating" of S&P is BB+ and the "Level III Rating" of Moody's is Ba1.

"Level IV Rating" shall mean the rating established by each Rating Agency as being one rating level immediately below the Level V Rating, it being understood that as of the date of this Agreement the "Level IV Rating" of S&P is BBB- and the "Level IV Rating" of Moody's is Baa3.

"Level V Rating" shall mean the rating established by each Rating Agency as being one rating level immediately below the Level VI Rating, it being understood that as of the date of this Agreement the "Level V Rating" of S&P is BBB and the "Level V Rating" of Moody's is Baa2.

"Level VI Rating" shall mean the rating established by each Rating Agency as being one rating level immediately above the Level V Rating, it being understood that as of the date of this Agreement the "Level VI Rating" of S&P is BBB+ and the "Level VI Rating" of Moody's is Baal.

## II. AMENDMENTS TO THE 364 DAY CREDIT AGREEMENT.

1. Section 8.07 of the 364 Day Credit Agreement is hereby amended by deleting the amount "\$6,700,000,000" appearing in said Section and inserting the amount "\$5,800,000,000" in lieu thereof.

2. Section 8.08 of the 364 Day Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

"Period -----	Ratio -----
Initial Borrowing Date to and including December 31, 1995	1.60:1
January 1, 1996 to and including December 31, 1997	1.50:1
January 1, 1998 to and including December 31, 1998	1.40:1
Thereafter	1.25:1".

3. Section 8.09 of the 364 Day Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

"Period -----	Ratio -----
Initial Borrowing Date to and including December 31, 1995	2.60:1
January 1, 1996 to and including December 31, 1996	2.55:1
January 1, 1997 to and including December 31, 1997	2.40:1

January 1, 1998 to and including June 30, 1998	2.50:1
July 1, 1998 to and including September 30, 1998	2.40:1
October 1, 1998 to and including December 31, 1998	2.80:1
Thereafter	3.00:1".

4. Section 8.10 of the 364 Day Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

"Period -----	Ratio -----
Initial Borrowing Date to and including December 31, 1996	3.50:1
January 1, 1997 to and including December 31, 1997	3.75:1
January 1, 1998 to and including September 30, 1998	3.50:1
October 1, 1998 to and including December 31, 1998	3.25:1
Thereafter	3.15:1".

5. The definition of "Adjusted Operating Income" appearing in Section 10 of the 364 Day Credit Agreement is hereby amended by (x) deleting the word "and" appearing at the end of clause (viii) of the proviso contained therein and inserting a comma in lieu thereof and (y) inserting the following new clauses (x) and (xi) at the end of said definition:

", (x) Adjusted Operating Income shall be adjusted by adding thereto the

amount of all expenses accrued by Holdings and its Subsidiaries during any Test Period pursuant to (i) the comprehensive settlement agreement, dated on or about November 23, 1998, among R.J. Reynolds Tobacco Company, certain other tobacco companies, and various states and territories to the extent (and only to the extent) (I) the aggregate amount of all payments

made by Holdings and its Subsidiaries pursuant to the aforementioned agreements (and for which an adjustment to Adjusted Operating Income is made) does not exceed \$650,000,000 and (II) the amount of such payments are deducted in any determination of Adjusted Operating Income and (xi) for all purposes, for any period which includes the fourth quarter of Holdings' 1998 fiscal year, there shall be excluded in determining Adjusted Operating Income any pre-tax restructuring expense and related expenses and adjustments recorded or accrued in the fourth quarter of Holdings' 1998 fiscal year which serve to reduce operating income of Holdings and/or its Subsidiaries in such fiscal quarter, to the extent (and only to the extent) the aggregate amount attributable pursuant to this clause (xi) does not exceed \$440,000,000."

6. The definition of "Cumulative Adjusted Cash Net Income" appearing in Section 10 of the 364 Day Credit Agreement is hereby amended by inserting the following text at the end of said definition:

"plus (vi) the amount of all charges (determined on an after-tax basis) taken by Holdings and its Subsidiaries to account for expenses accrued by Holdings and its Subsidiaries pursuant to the settlement agreements referred to in clauses (x) and (xi) of the definition of "Adjusted Operating Income", to the extent (and only to the extent) that (i) the aggregate amount of such charges taken by Holdings and its Subsidiaries (as determined on an after-tax basis) does not exceed \$715,000,000 and (ii) such charges are deducted in any determination of Cumulative Adjusted Cash Net Income".

7. Section 2.01(a) of the 364 Day Credit Agreement is hereby amended by inserting the word "Applicable" immediately prior to the phrase "Facility Fee Percentage" appearing in said Section.

8. The definition of "Applicable Eurodollar Margin" appearing in Section 10 of the 364 Day Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

"Period -----	Applicable Eurodollar Margin -----
Level I Period	1.500%
Level II Period	1.400%

Level III Period	1.200%
Level IV Period	0.700%
Level V Period	0.575%
Level VI Period	0.450%

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9. The definition of "Applicable Reference Rate Margin" appearing in Section 10 of the 364 Day Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

"Period -----	Applicable Reference Rate Margin -----
Level I Period	1.000%
Level II Period	0.900%
Level III Period	0.700%
Level IV Period	0.200%
Level V Period	0.075%
Level VI Period	0%

10. The definition of "Applicable Utilization Fee Percentage" appearing in Section 10 of the 364 Day Credit Agreement is hereby amended by deleting the table appearing therein in its entirety and inserting the following new table in lieu thereof:

"Period -----	Applicable Utilization Fee Percentage -----
Level I Period	0.250%
Level II Period	0.250%
Level III Period	0.250%
Level IV Period	0.125%
Level V Period	0%
Level VI Period	0%

11. Section 10 of the 364 Day Credit Agreement is hereby further amended by (i) deleting the definitions of "Facility Fee Percentage", "Increased Investment Grade Period", "Increased Investment Grade Rating", "Maximum Investment Grade Period", "Maximum Investment Grade Rating", "Minimum Investment Grade Period", "Minimum Investment Grade Rating" and "NIG Period" appearing in said Section in their entirety and (ii) inserting the following definitions in appropriate alphabetical order in said Section:

"Applicable Facility Fee Percentage" shall mean, at any time during a period set forth below, the percentage set forth opposite such period below:

Period -----	Applicable Facility Fee Percentage -----
Level I Period	.500%
Level II Period	.350%
Level III Period	.300%
Level IV Period	.175%
Level V Period	.175%
Level VI Period	.175%

"Level I Period" shall mean any period during which the Credit Rating is at all times below the Level II Rating.

"Level II Period" shall mean any period during which the Credit Rating is at all times the Level II Rating.

"Level III Period" shall mean any period during which the Credit Rating is at all times the Level III Rating.

"Level IV Period" shall mean any period during which the Credit Rating is at all times the Level IV Rating.

"Level V Period" shall mean any period during which the Credit Rating is at all times the Level V Rating.

"Level VI Period" shall mean any period during which the Credit Rating is, or is at any level above, the Level VI Rating.

"Level II Rating" shall mean the rating established by each Rating Agency as being one rating level immediately below the Level III Rating, it being understood that as of the date of this Agreement the "Level II Rating" of S&P is BB and the "Level II Rating" of Moody's is Ba2.

"Level III Rating" shall mean the rating established by each Rating Agency as being one rating level immediately below the Level IV Rating, it being understood that as of the date of this Agreement the "Level III Rating" of S&P is BB+ and the "Level III Rating" of Moody's is Ba1.

"Level IV Rating" shall mean the rating established by each Rating Agency as being one rating level immediately below the Level V Rating, it being understood that as of the



date of this Agreement the "Level IV Rating" of S&P is BBB- and the "Level IV Rating" of Moody's is Baa3.

"Level V Rating" shall mean the rating established by each Rating Agency as being one rating level immediately below the Level VI Rating, it being understood that as of the date of this Agreement the "Level V Rating" of S&P is BBB and the "Level V Rating" of Moody's is Baa2.

"Level VI Rating" shall mean the rating established by each Rating Agency as being one rating level immediately above the Level V Rating, it being understood that as of the date of this Agreement the "Level VI Rating" of S&P is BBB+ and the "Level VI Rating" of Moody's is Baa1.

### III. MISCELLANEOUS PROVISIONS.

1. In order to induce the Banks to enter into this Amendment, each Credit Party hereby (i) makes each of the representations, warranties and agreements contained in Section 6 of each Credit Agreement and (ii) represents and warrants that there exists no Default or Event of Default, in each case on the date hereof and on the Amendment Effective Date, both before and after giving effect to this Amendment.

2. This Amendment is limited as specified and shall not constitute a modification, acceptance or waiver of any other provision of either Credit Agreement or any other Credit Document (as defined in each Credit Agreement).

3. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which counterparts when executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with Holdings and the Payments Administrator.

4. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

5. This Amendment shall become effective as of the date first written above on the date (the "Amendment Effective Date") when (I) (i) each of the Credit Parties, (ii) 3 Year Banks constituting Required Banks under the 3 Year Credit Agreement and (iii) 364 Day Banks constituting Required Banks under the 364 Day Credit Agreement, shall have signed a copy hereof (whether the same or different copies) and shall have delivered (including by way of facsimile transmission) the same to White & Case, 1155 Avenue of the Americas, New York, New York 10036, Attention: Alan Avery (Facsimile No.: (212) 354-8113), (II) each 364 Day Bank which shall have signed and delivered a copy of this Amendment prior to the close of business on December 18, 1998 in accordance with clause (I) above shall have received an amendment fee equal to 1/4 of 1% on the

Commitment (as defined in the 364 Day Credit Agreement) of such 364 Day Bank as in effect on such date, and (III) each 3 Year Bank which shall have signed and delivered a copy of this Amendment prior to the close of business on

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December 18, 1998 in accordance with clause (I) above shall have received an amendment fee equal to (x) in the case of a 3 Year Bank with a Maturity Date of June 6, 2001, 1/4 of 1% on the Commitment (as defined in the 3 Year Credit Agreement) of such 3 Year Bank as in effect on such date, (y) in the case of a 3 Year Bank with a Maturity Date of June 6, 2000, 0.16% on the Commitment (as defined in the 3 Year Credit Agreement) of such 3 Year Bank as in effect on such date and (z) in the case of a 3 Year Bank with a Maturity Date of June 6, 1999, 0.08% on the Commitment (as defined in the 3 Year Credit Agreement) of such 3 Year Bank as in effect on such date. After transmitting its executed signature page to White & Case as provided above, each of the Banks shall deliver executed hard copies of this Amendment to White & Case, Attention: Alan Avery at the address provided above.

\* \* \*

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IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

RJR NABISCO HOLDINGS CORP.

By

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Title:

RJR NABISCO, INC.

By

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Title:

RJRN BCA BANK Signatures Pages Follow

By

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Title:

PURCHASE AGREEMENT

dated as of

March 9, 1999

among

R. J. REYNOLDS TOBACCO COMPANY

RJR NABISCO, INC.

and

JAPAN TOBACCO INC.

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PURCHASE AGREEMENT

PURCHASE AGREEMENT dated as of March 9, 1999 among Japan Tobacco Inc., a Japanese corporation ("BUYER"), R. J. REYNOLDS TOBACCO COMPANY, a New Jersey corporation ("RJRT"), and RJR NABISCO, INC., a Delaware corporation ("RJRN" and, together with RJRT, the "SELLERS").

W I T N E S S E T H :

WHEREAS, Sellers (and certain of their direct or indirect subsidiaries) are the record and beneficial owners of the Shares (as defined below) of each of the RJRI Companies (as defined below) and desire to sell the Shares and the Purchased Assets (as defined below) to Buyer, and Buyer desires to (or to have one or more of its direct or indirect subsidiaries) purchase the Shares of each of the RJRI Companies and the Purchased Assets from Sellers (or their direct or indirect subsidiaries), upon the terms and subject to the conditions set forth below;

WHEREAS, it is contemplated that Sellers and Buyer will enter into agreements on and as of the Closing Date providing for the sale, conveyance, transfer, assignment and delivery of (i) the Purchased IPRs (as defined below), substantially in the form attached hereto as Exhibit A (the "IPR AGREEMENT") and (ii) the Puerto Rico Plant (as defined below) pursuant to an agreement (the "TRANSFER AGREEMENT") containing terms and conditions reasonably acceptable to Sellers and Buyer providing for the transfer of all of the assets and assumption of all of the liabilities, in each case relating to the Puerto Rico Plant and reflected on the Closing Balance Sheet (as defined below);

WHEREAS, the RJRI Companies conduct an international business involving (i) the manufacture, marketing, sale and distribution of tobacco products for sale outside of the United States (as defined below), (ii) the manufacture of tobacco products in Puerto Rico for export outside of the United States and (iii) a brand diversification business outside the United States (collectively, the "BUSINESS");

WHEREAS, it is contemplated that Buyer and Sellers (and/or their Affiliates, as appropriate) will enter into a Production Agreement on and as of

the Closing Date having terms and conditions substantially similar to those set forth on the term sheet attached as Exhibit B hereto (the "PRODUCTION AGREEMENT") for the supply of tobacco products by Sellers' Group (as defined below) to Buyer, its

Affiliates (as defined below) or the RJRI Group (as defined below) for use in the Business following the Closing; and

WHEREAS, it is contemplated that Buyer and Sellers (and/or their Affiliates, as appropriate) will enter into a Transitional Services Agreement on and as of the Closing Date having terms and conditions substantially similar to those set forth on the term sheet attached as Exhibit C hereto (the "TRANSITIONAL SERVICES AGREEMENT") relating to certain services to be performed by members of Sellers' Group for the benefit of Buyer, its Affiliates or the RJRI Group following the Closing to permit an orderly transition of ownership of the Business.

The parties hereto agree as follows:

## ARTICLE 1

### DEFINITIONS

SECTION 1.1. DEFINITIONS. (a) The following terms, as used herein, have the following meanings:

"AFFILIATE" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such Person; PROVIDED that none of the RJRI Companies or any Subsidiary shall be considered an Affiliate of Sellers or Buyer, but shall be considered an Affiliate of Buyer immediately after the Closing Date and FURTHER PROVIDED that the Government of Japan shall not be considered an Affiliate of Buyer. For purposes of this definition, the term "CONTROL" (including the correlative terms "CONTROLLING", "CONTROLLED BY" and "UNDER COMMON CONTROL WITH") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

"BALANCE SHEET" means the audited combined balance sheet of the RJRI Group as of December 31, 1998.

"BALANCE SHEET DATE" means December 31, 1998.

"BUSINESS DAY" means any day other than a Saturday, Sunday or one on which banks are authorized or required by law to close in New York, New York or in Tokyo, Japan.



"CAPITAL STOCK" means the capital stock of each of the RJRI Companies set forth on Exhibit D hereto.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980.

"CLOSING DATE" means the date of the Closing.

"CODE" means the Internal Revenue Code of 1986.

"CONFIDENTIALITY AGREEMENT" means the confidentiality agreement between RJRN and Buyer dated December 14, 1998.

"DISCLOSURE LETTER" means the letter from Sellers to Buyer that is identified as the disclosure letter and that is dated the date of this Agreement, as such letter may be revised after the date hereof in the manner contemplated by Section 13.11.

"ENVIRONMENTAL LAWS" means any federal, state, local or foreign law (including, without limitation, common law), treaty, judicial decision, regulation, rule, judgment, order, decree, injunction, permit or governmental restriction or any agreement with any Governmental Entity relating to the environment, the effect of the environment on human health and safety or to pollutants, contaminants, wastes or chemicals or any toxic, radioactive, ignitable, corrosive, reactive or otherwise hazardous substances, wastes or materials.

"ENVIRONMENTAL LIABILITIES" means any and all liabilities arising in connection with or in any way relating to the Business (as currently or previously conducted), the RJRI Group or any activities or operations occurring or conducted at the real property used or held for use in the conduct of the Business (together with all buildings, fixtures and improvements thereon and, also including, without limitation, offsite disposal), whether accrued, contingent, absolute, determined, determinable or otherwise, which arise under or relate to any Environmental Law, whether now or hereinafter in effect, (including, without limitation, any matter disclosed or required to be disclosed in the Disclosure Letter pursuant to Section 3.18).

"EXCLUDED LIABILITIES" means any and all liabilities, whether accrued, contingent, absolute, determined, determinable or otherwise, arising out of or related to the matters described in paragraphs 22, 23 or 24 of Section 3.13 of the Disclosure Letter or otherwise arising out of or related to activities of Northern Brands International, Inc. or its employees.

"GAAP" means generally accepted accounting principles in the United States.

"GOVERNMENTAL ENTITY" means any government or any state, department or other political subdivision thereof, or any governmental body, agency, authority (including, without limitation, any central bank or taxing authority) or instrumentality (including, without limitation, any court or tribunal) in any jurisdiction exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"HAZARDOUS SUBSTANCES" means any pollutant, contaminant or any toxic, radioactive or otherwise hazardous substance, as such terms are defined in, or identified pursuant to, any Environmental Law.

"HSR ACT" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

"INTELLECTUAL PROPERTY RIGHT" means any trademark, service mark, trade name, trade dress, invention, patent, trade secret, copyright, rights in designs, know-how (including any registrations or applications for registration of any of the foregoing) or any other similar type of proprietary intellectual property right.

"KNOWLEDGE OF SELLERS", "SELLERS' KNOWLEDGE" or any other similar knowledge qualification in this Agreement means to the actual knowledge of any senior vice president or more senior executive officer of R. J. Reynolds International B.V. (Hilversum), Geneva branch.

"LIEN" means, with respect to any property or asset, any mortgage, lien, pledge, charge, security interest or encumbrance in respect of such property or asset.

"MATERIAL ADVERSE EFFECT" means a material adverse effect on the financial condition, business, assets, liabilities or results of operations of the Business taken as a whole, except any such effect resulting from or arising in connection with (i) any of the Transaction Documents, the transactions contemplated by the Transaction Documents or the announcement thereof, (ii) changes or conditions (including changes in GAAP, law, regulation or judicial or other interpretation) affecting the tobacco industry generally or any particular markets in which the Business is operated, (iii) changes in economic, financial market, regulatory or political conditions generally or in particular markets in which the Business is operated or (iv) any matters disclosed in the Disclosure Letter.

"1934 ACT" means the Securities Exchange Act of 1934.

"PERSON" means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof

(or any equivalent in any jurisdiction).

"PUERTO RICO PLANT" means the real property, and personal property appurtenant thereto, located in Puerto Rico currently used in the operation of the Business primarily in connection with (i) the manufacture of tobacco products and (ii) the sale, marketing and distribution of tobacco products outside the United States, but shall exclude the real property, and personal property appurtenant thereto, located in Puerto Rico currently used by the Sellers' Group or the RJRI Group exclusively in connection with the sale, marketing and distribution of tobacco products in the United States.

"PURCHASED ASSETS" means the Purchased IPRs and the Puerto Rico Plant.

"PURCHASED IPRS" means the Intellectual Property Rights identified on Schedule 1.01(a).

"RJRI COMPANIES" means the companies listed on Exhibit D hereto.

"RJRI GROUP" means the RJRI Companies and their Subsidiaries.

"RJRI LIABILITIES" means all debts, obligations, contracts and liabilities of any member of either the RJRI Group or the Sellers' Group (or any predecessor of any member of either the RJRI Group or the Sellers' Group or any prior owner of all or part of their businesses or assets) of any kind, character or description (whether known or unknown, accrued, absolute, contingent, indirect or derivative, or otherwise) in any way relating to or arising out of the conduct of the Business, in whole or in part, including without limitation, (i) all liabilities set forth on the Closing Balance Sheet; (ii) all liabilities relating to any Sellers' Group Guarantee remaining outstanding after the Closing; (iii) all Environmental Liabilities; (iv) all liabilities and obligations arising out of any action, suit, investigation or proceeding before any arbitrator or Governmental Entity listed in the Disclosure Letter; (v) all liabilities and obligations arising out of any action, suit, investigation or proceedings before any arbitrator or Governmental Entity which may at any time (whether past, present or future) be made, commenced, asserted or pursued that in any way are based upon or arise from tobacco products of any description consumed or intended to be consumed outside of the United States, including, without limitation, all such liabilities and obligations relating to or arising in any way from (A) the manufacture, marketing, development,

advertising, research, distribution or sale of such products on or before the Closing Date and (B) any statement or other actions or omissions of any member of either the RJRI Group or the Sellers' Group (or any predecessor of any member of either the RJRI Group or the Sellers' Group or any prior owner of all or part of their businesses or assets) made or occurring on or before the Closing Date relating to such products, (vi) all liabilities and obligations relating to any products manufactured or sold by the Business at any time, including without

limitation all warranty obligations and product liabilities and any liability or obligation relating to the health effects of, or exposure to, any products manufactured or sold by the Business at any time and (vii) except as expressly provided in Article 9, all liabilities or obligations relating to employee benefits or compensation arrangements existing on or prior to the Closing Date with respect to any employee or former employee of the Business. Notwithstanding the foregoing, "RJRI LIABILITIES" shall exclude the liabilities for which Buyer or its Affiliates are expressly indemnified by Sellers pursuant to this Agreement.

"SELLERS' GROUP" means Sellers and their respective Affiliates (exclusive of any member of the RJRI Group).

"SELLERS' GROUP GUARANTEES" means the guarantees by members of Sellers' Group of indebtedness of any member of the RJRI Group listed on Schedule 6.03.

"SELLERS PRODUCT LIABILITIES" means all liabilities and obligations of any member of either the RJRI Group or the Sellers' Group (or any predecessor of any member of either the RJRI Group or the Sellers' Group or any prior owner of all or part of their businesses or assets) of any kind, character or description (whether known or unknown, accrued, absolute, contingent, indirect or derivative, or otherwise) arising out of any action, suit, investigation or proceeding before any arbitrator or Governmental Entity which may at any time (whether past, present or future) be made, commenced, asserted or pursued that are in any way based upon or arise from tobacco products of any description consumed or intended to be consumed in the United States (exclusive of any such liabilities and obligations in any way based upon or arising from the manufacture, marketing, development, advertising, research, distribution or sale of tobacco products by Buyer or its Affiliates on or before the Closing Date), including, without limitation, all such liabilities and obligations relating to or arising in any way from (A) the manufacture, marketing, development, advertising, research, distribution or sale of such products on or before the Closing Date and (B) any statement or other actions or omissions of any member of either the RJRI Group or the Sellers' Group (or any predecessor of any member of either the RJRI Group or the Sellers'

Group or any prior owner of all or part of their businesses or assets) made or occurring on or before the Closing Date.

"SHARES" means the shares of Capital Stock referred to in Exhibit D hereto.

"SPECIAL PURPOSE ACCOUNTING BASIS" means the basis of accounting and reporting for special purpose financial presentations. The Special Purpose Accounting Basis shall conform with GAAP, applied on a basis consistent with those used in preparing the Pro Forma Balance Sheet (except as may be indicated in the notes thereto), except that: (i) accounting standards which become

effective after December 31, 1998 will not be adopted; (ii) intangible assets (including, without limitation, goodwill, patents, trademarks, deferred expenses and unamortized debt discount) will not be amortized or otherwise adjusted subsequent to December 31, 1998 and (iii) any currency translation adjustments recorded on the Pro Forma Balance Sheet will not be adjusted subsequent to December 31, 1998.

"SUBSIDIARY" means any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by any of the RJRI Companies.

"TRANSACTION DOCUMENTS" means, this Agreement, the Production Agreement, the Transitional Services Agreement, the IPR Agreement, the Transfer Agreement and the documents referred to in Sections 2.03(b) and (c).

"UNITED STATES" means the United States of America and each of its territories, commonwealths and possessions (including, without limitation, Puerto Rico) but shall not include U.S. embassies and consulates, U.S. military installations located outside the United States and worldwide duty-free sales.

Any reference in this Agreement to a statute shall be to such statute, as in effect on the date of this Agreement, and to the rules and regulations promulgated thereunder.

(b) Each of the following terms is defined in the Section set forth opposite such term:

TERM	SECTION
Applicable Tax Rate	8.05
Base Stockholder's Equity	2.05

TERM	SECTION
Business	Recitals
Buyer	Preamble
Claim	11.03
Closing	2.03
Closing Balance Sheet	2.04
Closing Stockholder's Equity	2.04
Company Intellectual Property Rights	3.15
Company Securities	3.05
Damages	11.02
Final Stockholder's Equity	2.05
Indemnified Party	11.03
Indemnifying Party	11.03

Loss	8.05
Post-Closing Tax Period	8.01
Potential Contributor	11.05
Pre-Closing Tax Period	8.01
Production Agreement	Recitals
Pro Forma Balance Sheet	3.08
Purchase Price	2.01
Returns	8.02
RJRI Company Securities	3.05
RJRN	Preamble
RJRT	Preamble
Sellers	Preamble
Subsidiary Securities	3.07
Tax	8.01
Tax Benefit	8.05
Taxing Authority	8.01
Third Party Claim	11.03
Trademark Agreement	Recitals
Transitional Services Agreement	Recitals

## ARTICLE 2

### PURCHASE AND SALE

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SECTION 2.1. PURCHASE AND SALE. Except as otherwise provided below, upon the terms and subject to the conditions of this Agreement, at Closing, (i) Sellers agree to sell, or to cause one or more of their direct or indirect subsidiaries to sell to Buyer, and Buyer agrees to purchase (or to cause one or more of its direct or indirect subsidiaries to purchase) from Sellers or such subsidiary or subsidiaries, the Shares free from all Liens and together with all rights attaching thereto and (ii) Buyer agrees to acquire or to cause one or more of its direct or indirect subsidiaries to acquire, and Sellers agree to sell, convey, transfer, assign and deliver, or cause to be sold, conveyed, transferred, assigned and delivered, to Buyer free and clear of all Liens (except as indicated in Section 3.15 of the Disclosure Letter) (x) all of the right, title and interest in, to and under the Purchased IPRs contemplated to be transferred pursuant to the IPR Agreement and (y) all of the right, title and interest of any member of the Sellers' Group in and to the Puerto Rico Plant pursuant to the Transfer Agreement.

SECTION 2.2. PURCHASE PRICE. The purchase price for the Shares and Purchased Assets (the "PURCHASE PRICE") is \$7,832,539,000.00 in cash. The Purchase Price shall be paid as provided in Section 2.03 and shall be subject to adjustment as provided in Section 2.05.

SECTION 2.3. CLOSING. The closing (the "CLOSING") of the purchase and sale of the Shares and the Purchased Assets shall take place at the offices of

Davis Polk & Wardwell, 450 Lexington Avenue, New York, New York (or such other location as mutually agreed), as soon as possible, but in no event later than eight Business Days, after satisfaction of the conditions set forth in Article 10, or at such other time or place as Buyer and Sellers may agree. At the Closing:

(a) Buyer shall deliver to Sellers \$7,832,539,000.00 in immediately available funds by wire transfer to an account of Sellers or one or more of their Affiliates with a bank in New York City designated by Sellers. Sellers shall designate this bank by notice to Buyer, not later than five Business Days prior to the Closing Date.

(b) Sellers shall deliver to Buyer certificates for the Shares duly endorsed or accompanied by stock powers duly endorsed in blank or such other documents as may be required to effect transfer thereof in any applicable jurisdiction.

(c) Sellers and Buyer (or their respective Affiliates) shall enter into, or have previously entered into, each of the Transaction Documents, and, subject to the provisions hereof, Sellers shall deliver to Buyer such deeds, bills of sale, endorsements, consents, assignments and other good

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and sufficient instruments of conveyance and assignment as the parties and their respective counsel shall deem reasonably necessary to vest in Buyer all right, title and interest in, to and under the Purchased Assets.

SECTION 2.4. CLOSING BALANCE SHEET. (a) As promptly as practicable, but no later than 60 days after the Closing Date, Sellers will cause to be prepared and delivered to Buyer the Closing Balance Sheet and a certificate based on such Closing Balance Sheet setting forth Sellers' calculation of Closing Stockholder's Equity. The Closing Balance Sheet (the "CLOSING BALANCE SHEET") shall (x) fairly present the pro forma combined financial position of the RJRI Group as at the close of business on the Closing Date in accordance with the Special Purpose Accounting Basis and assumptions, adjustments and accounting policies and practices otherwise consistent with those used in preparing the Pro Forma Balance Sheet (as defined in Section 3.08) and (y) include line items consistent with those in the Pro Forma Balance Sheet. "CLOSING STOCKHOLDER'S EQUITY" means the combined stockholder's equity of the RJRI Group as shown on the Closing Balance Sheet, including the effect of the cancellation of intercompany accounts pursuant to Section 7.04 but excluding (A) the effect (including the tax effect) of any act, event or transaction occurring on or after the Closing Date and not in the ordinary course of the operation of the Business, (B) any accounting for deferred income tax assets or liabilities, (C) any write up or write down of assets (other than current assets) from their historic depreciated or amortized carrying cost to reflect any higher or lower

market value and (D) any reserves established on or after the Closing Date for any contingent liabilities that are reflected in the Disclosure Letter or that were otherwise previously disclosed to Buyer. The parties acknowledge and agree that the Purchase Price takes into account the stockholders' equity reflected on the RJRI Pro Forma Balance Sheet and that the sole adjustment contemplated by Section 2.05 is to reflect the change in stockholders' equity of the RJRI Companies solely as a result of operations of the Business from the Balance Sheet Date to the Closing Date inclusive of all transactions and all changes in facts and circumstances actually occurring between the two dates.

(b) If Buyer disagrees with Sellers' calculation of Closing Stockholder's Equity delivered pursuant to Section 2.04(a), Buyer may, within 20 days after delivery of the documents referred to in Section 2.04(a), deliver a notice to Sellers disagreeing with such calculation and setting forth Buyer's calculation of such amount. Any such notice of disagreement shall specify those items or amounts as to which Buyer disagrees, and Buyer shall be deemed to have agreed with all other items and amounts contained in the Closing Balance Sheet and the calculation of Closing Stockholder's Equity delivered pursuant to Section 2.04(a).

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(c) If a notice of disagreement is duly delivered pursuant to Section 2.04(b), Buyer and Sellers shall, during the 15 days following such delivery, use their best efforts to reach agreement on the disputed items or amounts in order to determine, as may be required, the amount of Closing Stockholder's Equity, which amount shall not be more than the amount thereof shown in Sellers' calculations delivered pursuant to Section 2.04(a) nor less than the amount thereof shown in Buyer's calculation delivered pursuant to Section 2.04(b). If, during such period, Buyer and Sellers are unable to reach such agreement, they shall promptly thereafter cause independent accountants of internationally recognized standing reasonably satisfactory to Buyer and Sellers (who shall not have any material relationship with Buyer or Sellers), promptly to review this Agreement and the disputed items or amounts for the purpose of calculating Closing Stockholder's Equity. In making such calculation, such independent accountants shall consider only those items or amounts in the Closing Balance Sheet or Sellers' calculation of Closing Stockholder's Equity as to which Buyer has disagreed. Such independent accountants shall deliver to Buyer and Sellers, as promptly as practicable, a report setting forth such calculation. Such report shall be final and binding upon Buyer and Sellers. The cost of such review and report shall be borne (i) by Sellers if the difference between Final Stockholder's Equity and Sellers' calculation of Closing Stockholder's Equity delivered pursuant to Section 2.04(a) is greater than the difference between Final Stockholder's Equity and Buyer's calculation of Closing Stockholder's Equity delivered pursuant to Section 2.04(b), (ii) by Buyer if the first such difference is less than the second such difference and (iii) otherwise equally by Buyer and Sellers. If Buyer and Sellers are unable to agree on the selection of independent accountants pursuant to this Section within five days of one or both of the Buyer and Sellers having first nominated independent accountants for



this purpose, then either Buyer or Sellers may give written notice of intention to submit the selection of such accountants to the American Arbitration Association in New York City, it being understood that the American Arbitration Association will be instructed to select independent accountants of internationally recognized standing from among the "big five" internationally recognized firms. The selection of independent accountants by the American Arbitration Association shall be binding on the parties.

(d) Buyer and Sellers agree that they will, and agree to cause their respective independent accountants and the members of the RJRI Group to, cooperate and assist in the preparation of the Closing Balance Sheet and the calculation of Closing Stockholder's Equity and in the conduct of the audits and reviews referred to in this Section 2.04, including without limitation, the making available to the extent necessary of books, records, work papers and personnel.

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SECTION 2.5. ADJUSTMENT OF PURCHASE PRICE. (a) If Base Stockholder's Equity exceeds Final Stockholder's Equity, Sellers shall pay to Buyer, as an adjustment to the Purchase Price, in the manner and with interest as provided in Section 2.05(b), the amount of such excess. If Final Stockholder's Equity exceeds Base Stockholder's Equity, Buyer shall pay to Sellers, in the manner and with interest as provided in Section 2.05(b), the amount of such excess. "BASE STOCKHOLDER'S EQUITY" means \$2,338,627,000.00. "FINAL STOCKHOLDER'S EQUITY" means the Closing Stockholder's Equity (i) as shown in Sellers' calculation delivered pursuant to Section 2.04(a), if no notice of disagreement with respect thereto is duly delivered pursuant to Section 2.04(b) or (ii) if such a notice of disagreement is delivered, (A) as agreed by Buyer and Sellers pursuant to Section 2.04(c) or (B) in the absence of such agreement, as shown in the independent accountant's calculation delivered pursuant to Section 2.04(c); PROVIDED that in no event shall Final Stockholder's Equity be more than Sellers' calculation of Closing Stockholder's Equity delivered pursuant to Section 2.04(a) or less than Buyer's calculation of Closing Stockholder's Equity delivered pursuant to Section 2.04(b). Any adjustment to the Purchase Price shall be allocated PRO RATA among the Shares.

(b) Any payment pursuant to Section 2.05(a) shall be made at a mutually convenient time and place within 10 days after the Final Stockholder's Equity has been determined by delivery by Buyer or Sellers, as the case may be, of a certified or official bank check payable in immediately available funds to the other party or by causing such payments to be credited to such account of such other party as may be designated by such other party. The amount of any payment to be made pursuant to this Section 2.05 shall bear interest from and including the Closing Date to but excluding the date of payment at a rate per annum equal to the Prime Rate as published in the Wall Street Journal, Eastern Edition in effect from time to time during the period from the Closing Date to the date of payment. Such interest shall be payable at the same time as the payment to which it relates and shall be calculated daily on the basis of a year

of 365 days and the actual number of days elapsed.

SECTION 2.6. ALLOCATION OF PURCHASE PRICE. Sellers and Buyer agree that the Purchase Price shall be allocated as follows: (i) \$5,065,069,000.00 to the Shares, (ii) \$2,600,000,000.00 to the Purchased IPRs owned by members of the Sellers' Group, and (iii) \$167,470,000.00 to certain other assets. Sellers and Buyer agree to act in accordance with the foregoing allocation in the preparation of financial statements and filing of all Tax returns. The allocation of the Purchase Price among the Shares and certain other assets is set forth on Exhibit E hereto.

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### ARTICLE 3

#### REPRESENTATIONS AND WARRANTIES OF SELLERS

Except as set forth in the Disclosure Letter, Sellers jointly and severally represent and warrant to Buyer as of the date hereof and as of the Closing Date (unless and to the extent any such representation or warranty speaks specifically as of an earlier date, in which case, as of such earlier date) that:

SECTION 3.1. CORPORATE EXISTENCE AND POWER. Each Seller and each member of the RJRI Group is a business entity duly organized, validly existing and (with respect to those jurisdictions recognizing the concept of good standing) in good standing under the laws of its jurisdiction of organization and has all powers and all governmental licenses, authorizations, permits, consents and approvals required to carry on its business as now conducted, except for those powers, licenses, authorizations, permits, consents and approvals the absence of which would not have a Material Adverse Effect. Each member of the RJRI Group is duly qualified to do business and is in good standing in each jurisdiction where such qualification is necessary, except for those jurisdictions where failure to be so qualified or in good standing would not, individually or in the aggregate, have a Material Adverse Effect.

SECTION 3.2. CORPORATE AUTHORIZATION. The execution, delivery and performance by each Seller and each of its direct or indirect subsidiaries that is selling Shares to the Buyer pursuant to Section 2.01 of the Transaction Documents and the consummation of the transactions contemplated hereby and thereby are within the corporate powers of that Seller and each of its direct or indirect subsidiaries that is selling Shares to the Buyer pursuant to Section 2.01 and have been duly authorized by all necessary corporate action on the part of that Seller or that subsidiary, as the case may be. The Transaction Documents constitute valid and binding agreements of each Seller that is a party thereto.

SECTION 3.3. GOVERNMENTAL AUTHORIZATION. The execution, delivery and performance by each Seller and each of its direct or indirect subsidiaries that is selling Shares to the Buyer pursuant to Section 2.01 of the Transaction

Documents and the consummation of the transactions contemplated thereby require no action by or in respect of, or filing with, any Governmental Entity other than (i) compliance with any applicable requirements of the HSR Act and Council Regulation (EC) No. 4064/89 of the Council of the European Union (or the requirements of any national authority within the European Community to whom

the acquisition of the Shares and the Purchased Assets (or any part thereof) is referred pursuant to Article 9(3) of such regulation); (ii) compliance with any applicable requirements of the 1934 Act; (iii) compliance with any applicable requirements of the Investment Canada Act and the Competition Act of Canada; (iv) compliance with any other similar law or measure under which any Governmental Entity of competent jurisdiction regulates or controls the purchase or sale of any entity or assets; (v) any such action or filing needed to effect the transfer of the Purchased IPRs; (vi) any notice filing required by any jurisdiction as a result of the transfer of ownership of any RJRI Company; (vii) the filing of appropriate documents with the relevant stock exchange authorities or other self-regulatory organizations in other jurisdictions in which any member of the RJRI Group is qualified to do business; and (viii) any such action or filing which, if not obtained or made, would not have a Material Adverse Effect.

SECTION 3.4. NONCONTRAVENTION. The execution, delivery and performance by each Seller, each of its direct or indirect subsidiaries that is selling Shares to the Buyer pursuant to Section 2.01 or each member of the RJRI Group of the Transaction Documents (to the extent that it is a party thereto) and the consummation of the transactions contemplated hereby and thereby do not and will not (i) violate the organizational documents of either Seller, each of its direct or indirect subsidiaries that is selling Shares to the Buyer pursuant to Section 2.01 or such member of the RJRI Group, (ii) assuming compliance with the matters referred to in Section 3.03, violate any applicable law, rule, regulation, judgment, injunction, order or decree, except for any such violations as would not reasonably be expected to have a Material Adverse Effect, (iii) except as to matters that would not reasonably be expected to have a Material Adverse Effect, require any consent or other action by any Person under, constitute a default under, or give rise to any right of termination, cancellation or acceleration of any right or obligation of such member of the RJRI Group or to a loss of any benefit to which such member of the RJRI Group is entitled under any provision of any agreement or other instrument binding upon such member of the RJRI Group or (iv) result in the creation or imposition of any Lien on any Purchased Asset or any asset of such member of the RJRI Group.

SECTION 3.5. CAPITALIZATION. The Disclosure Letter sets forth the authorized capital stock of the RJRI Companies. All outstanding shares of capital stock of each RJRI Company have been duly authorized and validly issued and are fully paid and each outstanding share of capital stock of each RJRI Company which is incorporated in a State of the United States is non-assessable. The Disclosure Letter sets forth all outstanding (i) shares of capital stock or

voting securities of any RJRI Company, (ii) securities of any RJRI Company convertible into or exchangeable for shares of capital stock or voting securities of such RJRI

Company and (iii) options or other rights to acquire from any RJRI Company, or other obligation of any RJRI Company to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of such RJRI Company (the items in clauses 3.05(i), 3.05(ii) and 3.05(iii) being referred to collectively as the "RJRI COMPANY SECURITIES"). There are no outstanding obligations of any member of the RJRI Group to repurchase, redeem or otherwise acquire any RJRI Company Securities.

SECTION 3.6. OWNERSHIP OF SHARES. Sellers, or one or more of their direct or indirect subsidiaries, are the record and beneficial owner of the Shares, free and clear of any Lien, and will transfer and deliver to Buyer at the Closing valid title to the Shares free and clear of any Lien.

SECTION 3.7. SUBSIDIARIES. All Subsidiaries and their respective jurisdictions of incorporation or organization are identified in the Disclosure Letter. All of the outstanding capital stock or other voting securities of each Subsidiary is owned by the RJRI Companies, directly or indirectly, free and clear of any Lien. There are no outstanding (i) securities of any member of the RJRI Group convertible into or exchangeable for shares of capital stock or voting securities of any Subsidiary or (ii) options or other rights to acquire from any member of the RJRI Group, or other obligation of any member of the RJRI Group to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of any Subsidiary (the items in clauses 3.07(a)(i) and 3.07(a)(ii) being referred to collectively as the "SUBSIDIARY SECURITIES"). There are no outstanding obligations of any member of the RJRI Group to repurchase, redeem or otherwise acquire any outstanding Subsidiary Securities.

SECTION 3.8. FINANCIAL STATEMENTS. (a The audited combined balance sheet as of December 31, 1998 and the related audited combined statements of income and cash flows for the year ended December 31, 1998 of R.J. Reynolds International and related companies fairly present, in conformity with GAAP applied on a consistent basis (except as may be indicated in the notes thereto), the combined financial position of the RJRI Group as of the date thereof and their combined results of operations and cash flows for the period then ended and are consistent with the books and records of the RJRI Group. The parties understand and acknowledge that there are certain differences between, on the one hand, the financial position and results of operations and cash flows of the RJRI Group as presented in the audited financial statements as of and for the period ended December 31, 1998 and, on the other hand, the pro forma financial position and results of operations and cash flows of the RJRI Group reflecting certain differences in the assets and liabilities being transferred pursuant to this

Agreement, the principal differences being specified in the notes to the Pro Forma Financial Statements.

(b The pro forma combined balance sheet as of December 31, 1998 (the "PRO FORMA BALANCE SHEET") and the related combined statements of income and cash flows for the year ended December 31, 1998 (together with the Pro Forma Balance Sheet, the "PRO FORMA FINANCIAL STATEMENTS") of the RJRI Group fairly present the combined pro forma financial position of the RJRI Group as of the date thereof and their combined pro forma results of operations and cash flows for the year then ended, in each case in conformity with GAAP applied on a consistent basis (except as may be indicated in the notes thereto) as modified by the adjustments and assumptions specified in the notes thereto.

(c The historical entity financial statements of the RJRI Companies for the period from 1996 to 1998 included in binders 1, 2, 4, 5, 6 and 7 of the financial data contained in the data room and made available to Buyer are the internal management basis financial statements of those entities prepared by management and relied upon in conducting the Business in the ordinary course.

SECTION 3.9. ABSENCE OF CERTAIN CHANGES. Since the Balance Sheet Date, the Business has been conducted in the ordinary course consistent with past practices and there has not been:

(a) any event, occurrence or development that has had a Material Adverse Effect;

(b) any amendment of any material term of any outstanding security of any member of the RJRI Group;

(c) any incurrence, assumption or guarantee by any member of the RJRI Group of any indebtedness for borrowed money other than under an existing credit facility (or any refinancing thereof) of any member of the RJRI Group and in the ordinary course of business consistent with past practices;

(d) any making of any material loan, advance or capital contributions to or investment in any Person other than intercompany loans or advances and other than loans, advances or capital contributions to or investments made in the ordinary course of business consistent with past practices or pursuant to existing commitments or agreements;

(e any transaction or commitment made, or any contract or agreement entered into, by any member of the RJRI Group relating to its assets or business, in either case, material to the Business, taken as a whole, other than transactions and commitments in the ordinary course of business consistent with past practices and those contemplated by the Transaction Documents;

(f any material change in any method of accounting or accounting practice by any member of the RJRI Group except for any such change required by reason of a concurrent change in GAAP;

(g any (i) material employment, deferred compensation, severance, retirement or other similar agreement entered into with any director or executive officer of any member of the RJRI Group (or any amendment to any such existing agreement), (ii) grant of any material severance or termination pay to any director or executive officer of any member of the RJRI Group that would be an obligation of Buyer or any member of the RJRI Group after the Closing Date or (iii) material change in compensation or other benefits payable to any director or executive officer of the RJRI Group pursuant to any severance or retirement plan or policies thereof, in each case other than (x) in the ordinary course of business consistent with past practices, (y) pursuant to agreements or policies existing on the date hereof or (z) consistent in magnitude and character with terms of agreements or policies with respect to individuals with comparable positions or responsibilities;

(h lapse, abandonment, sale or other disposal of any Intellectual Property Right of the Business, except (i) in accordance with the terms thereof (other than as a result of breach thereof by any member of the RJRI Group) or (ii) where the lapse, abandonment, sale or other disposal thereof would not have a Material Adverse Effect; or

(i agreement or arrangement to take any of the actions specified in this Section 3.09, except as expressly contemplated by any of the Transaction Documents.

SECTION 3.10. NO UNDISCLOSED MATERIAL LIABILITIES. There are no liabilities of the RJRI Group of any kind, other than:

(a liabilities provided for in the Balance Sheet or disclosed in the notes thereto;

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(b liabilities not required under GAAP to be shown or disclosed on the Balance Sheet;

(c liabilities disclosed in, relating to or arising under any agreements, instruments or other matters disclosed in the Disclosure Letter;

(d liabilities incurred in the ordinary course of business since the Balance Sheet Date;

(e liabilities arising from or related to matters affecting the tobacco industry generally; or

(f other undisclosed liabilities that, individually or in the aggregate, would not have a Material Adverse Effect.

SECTION 3.11. INTERCOMPANY ACCOUNTS. (ai The Disclosure Letter contains a complete list of all intercompany balances of at least \$1 million as of the Balance Sheet Date between any member of the Sellers' Group, on the one hand, and any member of the RJRI Group, on the other hand. Since the Balance Sheet Date, there has not been any accrual of liability by any member of the RJRI Group to any member of the Sellers' Group or other transaction between any member of the RJRI Group and any member of the Sellers' Group, except in the ordinary course of business of the RJRI Group consistent with past practice.

(b The intercompany accounts referred to in Section 7.04 of the Disclosure Letter represent obligations for goods and services provided on terms reasonably consistent with those that could be obtained on a reasonable commercial basis from a third party, and those intercompany accounts are reflected on the Pro Forma Balance Sheet. There were no other intercompany accounts reflected as liabilities on the Pro Forma Balance Sheet that will be capitalized on the Closing Balance Sheet.

SECTION 3.12. MATERIAL CONTRACTS. (ai No member of the RJRI Group is a party to or bound by:

(i any lease (whether of real or personal property) providing for annual rental payments of \$1 million or more that cannot be terminated on not more than one year's notice without payment by any member of the RJRI Group of any material penalty;

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(ii any agreement for the purchase of materials, supplies, goods, services, equipment or other assets providing for annual payments by any member of the RJRI Group of \$5 million or more that cannot be terminated on not more than one year's notice without payment by any member of the RJRI Group of any material penalty;

(iii any sales, distribution or other similar agreement providing for the sale by any member of the RJRI Group of materials, supplies, goods, services, equipment or other assets that provides for

annual payments to the RJRI Group of \$5 million or more that cannot be terminated on not more than one year's notice without payment by any member of the RJRI Group of any material penalty;

(iv any material partnership, joint venture or other similar agreement or arrangement;

(v any agreement relating to the acquisition or disposition of any material business (whether by merger, sale of stock, sale of assets or otherwise);

(vi any agreement relating to indebtedness for borrowed money or the deferred purchase price of property (in either case, whether incurred, assumed, guaranteed or secured by any asset), except any such agreement (A) with an aggregate outstanding principal amount not exceeding \$5 million or (B) entered into subsequent to the date of this Agreement as permitted by Section 3.09(c);

(vii any material agreement that imposes a material limitation on the freedom of any member of the RJRI Group to compete in the tobacco products business;

(viii any material agreement (other than a Transaction Document) with any member of the Sellers' Group that will continue to be in effect following the Closing;

(ix any other agreement, commitment, arrangement or plan not made in the ordinary course of business that is material to the RJRI Group, taken as a whole; or

(x any derivative transaction, other than those in the ordinary course of business.

(b Each agreement, contract, plan, lease, arrangement or commitment required to be disclosed pursuant to this Section 3.12 is a valid and binding agreement of the member of the RJRI Group which is a party thereto, and is in full force and effect, and no member of the RJRI Group or, to the knowledge of Sellers, any other party thereto is in default or breach in any respect under the terms of any such agreement, contract, plan, lease, arrangement or commitment, except for such defaults or breaches as would not have a Material Adverse Effect.

SECTION 3.13. LITIGATION. To Sellers' knowledge, there is no action, suit or proceeding pending against any member of the RJRI Group or any of their respective properties or against any member of the Sellers' Group relating to the Business before any arbitrator or Governmental Entity that is reasonably likely to have a Material Adverse Effect or that, as of the date of this



Agreement, in any manner challenges or seeks to prevent, enjoin, alter or materially delay the transactions contemplated by this Agreement and, to the Sellers' knowledge, as of the date hereof, no such action, suit or proceeding is threatened in writing against any member of the RJRI Group.

SECTION 3.14. COMPLIANCE WITH LAWS AND COURT ORDERS. To Sellers' knowledge, no member of the RJRI Group is in violation of any applicable law, rule, regulation, judgment, injunction, order or decree, except for violations that have not had and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

SECTION 3.15. INTELLECTUAL PROPERTY. (a) The Disclosure Letter contains a list of all material Intellectual Property Rights owned or licensed and used or held for use by any member of the RJRI Group, and Schedule 1.01(a) contains a list of all Purchased IPRs (collectively, the "BUSINESS IPRs"). To the knowledge of Sellers, members of the Sellers' Group or the RJRI Group own the entire right, title and interest in and to each of the Business IPRs, free and clear of any outstanding judgment, injunction, order, decree or Liens, including, without limitation, licenses, registered user agreements and covenants by Sellers not to sue third Persons, except in each case for such matters as would not, individually or in the aggregate, have a Material Adverse Effect. To the knowledge of Sellers, each of the Business IPRs is subsisting and has not been adjudged invalid, unregistrable or unenforceable, in whole or in part.

(b) To the knowledge of Sellers, neither Seller has received notice of any claims, either asserted or threatened, that the use, sale, testing, promotion or distribution of any of the Business IPRs infringes or otherwise violates the rights of any third Person, except in each case for such matters as would not, individually or in the aggregate, have a Material Adverse Effect. Sellers make no

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warranty that they have carried out any search to attempt to determine whether any such third Person rights exist.

(c) Buyer agrees that Sellers shall not be liable to Buyer as a result of Buyer's use of the Business IPRs for any damage or costs incurred or paid by Buyer to any third Person for any claims, judgments or settlements that are asserted or notified after the Closing.

SECTION 3.16. INSURANCE COVERAGE. Sellers have made available to Buyer a list and summary of all insurance policies and fidelity bonds relating to the assets, business, operations, employees, officers or directors of any member of the RJRI Group. There are no material claims by any member of the RJRI Group pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds or in respect of which such underwriters have reserved their rights.

SECTION 3.17. FINDERS' FEES. Except for Morgan Stanley & Co. Incorporated and Merrill Lynch, Pierce, Fenner & Smith Incorporated, whose fees will be paid by Sellers, there is no investment banker, broker, finder or other intermediary that has been retained by or is authorized to act on behalf of Sellers or the RJRI Group who might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement.

SECTION 3.18. ENVIRONMENTAL MATTERS. Except as to matters that would not reasonably be expected to have a Material Adverse Effect, to the knowledge of Sellers:

(a no written notice, request for information, order, complaint or penalty has been received by any Seller or member of the RJRI Group, and there are no judicial, administrative or other actions, suits or proceedings pending or threatened which allege a violation of any Environmental Law, in each case relating to any member of the RJRI Group, the Puerto Rico Plant or the Business and arising out of any Environmental Law;

(b each member of the RJRI Group and the Puerto Rico Plant has all environmental permits necessary for its operations to comply with all applicable Environmental Laws and is in compliance with the terms of such permits and with all other applicable Environmental Laws; and

(c there has been no written environmental audit conducted within the past five years by Sellers or any member of the RJRI Group of any property currently owned or leased by any member of the RJRI Group

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or of the Puerto Rico Plant that has not been delivered to Buyer prior to the date hereof.

SECTION 3.19. YEAR 2000 COMPLIANCE. (ai To the knowledge of Sellers, there is no failure to be Year 2000 Compliant of any system (including any system belonging to any of the RJRI Group's material suppliers) that would have, or be reasonably expected to have, a Material Adverse Effect. "YEAR 2000 COMPLIANT" means the ability of the applicable system or item to (i) receive, record, store, provide, recognize and process all date and time data from during, into and between the twentieth and twenty-first centuries, the years 1999 and 2000 and (ii) accurately perform all date-dependent calculations and operations (including, without limitation, mathematical operations, sorting, comparing and reporting) from, during, into and between the twentieth and twenty-first centuries, the years 1999 and 2000 and all leap years.

(b Any reprogramming required to make Year 2000 Compliant all of the RJRI Group's internal systems that are material to the business or operations of

the RJRI Group, including, without limitation, computer hardware systems, software applications, firmware, equipment containing embedded microchips and other embedded systems, and the testing of all such systems and items, as so reprogrammed, is currently expected to be completed by September 30, 1999.

SECTION 3.20. NECESSARY PROPERTY. The Purchased Assets and the assets of, and the real property leased by, the members of the RJRI Group constitute all of the assets and properties, now used, usable or otherwise necessary or appropriate for the conduct of the Business after the Closing by Buyer in the manner and to the extent that the Business is presently conducted. A member of the RJRI Group (or a member of the Sellers' Group in the case of the Puerto Rico Plant) has the necessary legal rights to use the real property used or held for use in the Business and the buildings, structures, fixtures and improvements situated thereon, in each case free and clear of all Liens except as would not materially interfere with the use thereof in the conduct of the Business in accordance with past practice. The RJRI Group has the benefit of all necessary rights to enable the full enjoyment of all such assets and property and to utilize each such asset and property for the purposes of the Business as currently conducted, except for such rights the absence of which will not have a Material Adverse Effect.

SECTION 3.21. SELLERS' GROUP. All of the representations and warranties set forth in this Article 3 concerning the debts, obligations, contracts and liabilities of the RJRI Group are also made as to Sellers' Group (or any predecessor of any member of the Sellers' Group or the RJRI Group or any prior owner of all or part of their businesses or assets) to the extent (and only to the

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extent) such debts, obligations, contracts and liabilities relate to or arise out of conduct of the Business, in whole or in part.

#### ARTICLE 4

##### REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Sellers as of the date hereof and as of the Closing Date that:

SECTION 4.1. CORPORATE EXISTENCE AND POWER. Buyer is a corporation duly incorporated, validly existing and in good standing under the laws of Japan and has all corporate powers and all material governmental licenses, authorizations, permits, consents and approvals required to carry on its business as now conducted.

SECTION 4.2. CORPORATE AUTHORIZATION. The execution, delivery and performance by Buyer of the Transaction Documents and the consummation of the transactions contemplated thereby are within the corporate powers of Buyer and

have been duly authorized by all necessary corporate action on the part of Buyer. The Transaction Documents constitute valid and binding agreements of Buyer.

SECTION 4.3. GOVERNMENTAL AUTHORIZATION. The execution, delivery and performance by Buyer of the Transaction Documents and the consummation of the transactions contemplated thereby require no material action by or in respect of, or material filing with, any Governmental Entity other than (i) compliance with any applicable requirements of the HSR Act and Council Regulation (EC) No. 4064/89 of the Council of the European Union (or the requirements of any national authority within the European Community to whom the acquisition of the Shares and the Purchased Assets (or any part thereof) is referred pursuant to Article 9(3) of such regulation); (ii) compliance with any applicable requirements of the Investment Canada Act and the Competition Act of Canada; (iii) compliance with any other similar law or other measure under which any Governmental Entity of competent jurisdiction regulates or controls the purchase or sale of any entity or assets; (iv) compliance with Japanese antitrust regulations and the Japanese Foreign Exchange and Foreign Trade Law and (v) the filing of appropriate documents with the relevant stock exchange authorities or other self-regulatory organizations in other jurisdictions in which any member of the RJRI Group is qualified to do business.

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SECTION 4.4. NONCONTRAVENTION. The execution, delivery and performance by Buyer of the Transaction Documents and the consummation of the transactions contemplated thereby do not and will not (i) violate the certificate of incorporation or bylaws of Buyer, (ii) assuming compliance with the matters referred to in Section 4.03, violate any applicable law, rule, regulation, judgment, injunction, order or decree, (iii) require any consent or other action by any Person under, constitute a default under, or give rise to any right of termination, cancellation or acceleration of any right or obligation of Buyer or to a loss of any benefit to which Buyer is entitled under any provision of any agreement or other instrument binding upon Buyer or (iv) result in the creation or imposition of any material Lien on any asset of Buyer.

SECTION 4.5. FINANCING. Buyer has, or will have prior to the Closing, sufficient cash, available lines of credit or other sources of immediately available funds to enable it to make payment of the Purchase Price and any other amounts to be paid by it hereunder.

SECTION 4.6. PURCHASE FOR INVESTMENT. Buyer is purchasing the Shares for investment for its own account and not with a view to, or for sale in connection with, any distribution thereof. Buyer (either alone or together with its advisors) has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the Shares and is capable of bearing the economic risks of such investment.

SECTION 4.7. LITIGATION. There is no action, suit, investigation or

proceeding pending against, or to the knowledge of Buyer threatened against or affecting, Buyer before any arbitrator or Governmental Entity which in any manner challenges or seeks to prevent, enjoin, alter or materially delay the transactions contemplated by the Transaction Documents.

SECTION 4.8. FINDERS' FEES. Except for Salomon Smith Barney Inc., whose fees will be paid by Buyer, there is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of Buyer who might be entitled to any fee or commission from Sellers or any of its Affiliates upon consummation of the transactions contemplated by this Agreement.

SECTION 4.9. INSPECTIONS; NO OTHER REPRESENTATIONS. Buyer is knowledgeable about the tobacco products industry, is an informed and sophisticated purchaser, and has engaged expert advisors, experienced in the evaluation and purchase of companies such as members of the RJRI Group as contemplated hereunder. Buyer has undertaken such investigation and has been provided with and has evaluated such documents and information as it has

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deemed necessary to enable it to make an informed and intelligent decision with respect to the execution, delivery and performance of the Transaction Documents. Buyer acknowledges that Sellers have given Buyer sufficient access to the key employees, documents and facilities of the RJRI Group. Buyer will undertake prior to Closing such further investigation and request such additional documents and information as it deems necessary. Buyer agrees to accept the Shares and the Purchased Assets in the condition they are in on the Closing Date based upon its own inspection, examination and determination with respect thereto as to all matters, and without reliance upon any express or implied representations or warranties of any nature made by or on behalf of or imputed to Sellers, except as expressly set forth in the Transaction Documents. Without limiting the generality of the foregoing, Buyer acknowledges that Sellers make no representation or warranty with respect to (i) any projections, estimates or budgets delivered to or made available to Buyer of future revenues, future results of operations (or any component thereof), future cash flows or future financial condition (or any component thereof) of the Business or the future business and operations of the Business or (ii) any other information or documents made available to Buyer or its counsel, accountants or advisors with respect to the RJRI Companies or the Subsidiaries or their respective businesses or operations, except as expressly set forth in this Agreement.

## ARTICLE 5

### COVENANTS OF SELLERS

Each Seller agrees that:

SECTION 5.1. CONDUCT OF THE RJRI COMPANIES. Except as set forth in

Section 3.09 of the Disclosure Letter delivered on and as of the date hereof (without regard to any changes made to the Disclosure Letter pursuant to Section 13.11), from the date hereof until the Closing Date, Sellers shall cause the members of the RJRI Group to conduct their businesses in the ordinary course consistent with past practice and to use reasonable efforts to (x) preserve intact their business organizations and relationships with third parties and to keep available the services of their present officers and employees and (y) maintain satisfactory relations with suppliers, contractors, distributors, licensors, licensees, customers and others having business relationships with it. Without limiting the generality of the foregoing, from the date hereof until the Closing Date, Sellers will not permit any member of the RJRI Group to:

(a except as provided in the Transaction Documents, adopt or propose any change in its organizational documents;

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(b merge or consolidate with any Person (other than with another member of the RJRI Group) or acquire a material amount of assets from any other Person other than in the ordinary course of business consistent with past practice;

(c sell, lease, license or otherwise dispose of any material assets or property except (i) pursuant to existing contracts or commitments, (ii) to or with another member of the RJRI Group or (iii) in the ordinary course consistent with past practice;

(d incur any indebtedness for borrowed money or guarantee any such indebtedness or issue or sell any debt securities or guarantee any debt securities of others, other than in the ordinary course of business consistent with past practice;

(e other than in the ordinary course of business consistent with past practice, enter into any material contract or modify, terminate or waive any right under any material contract;

(f increase the compensation payable to its directors, executive officers or employees, except for increases in accordance with past practices, or grant any severance or termination pay (other than pursuant to existing agreements) to any director, executive officer or other employee, or establish, adopt, enter into or amend any plan, agreement, trust, fund, policy or arrangement for the benefit of any director, executive officer or employee; PROVIDED that the foregoing will not apply to actions taken in respect of non-executive officers and employees in the ordinary course of business consistent with past practice; or

(g agree or commit to do any of the foregoing.

Each Seller will not take, and will not permit any member of the RJRI Group to take, any action that would make any representation or warranty of Sellers hereunder inaccurate in any material respect at the Closing Date such that the closing condition set forth in Section 10.02(a)(ii) would not be satisfied as of such date. Notwithstanding anything to the contrary herein, the parties acknowledge that Sellers may cause RJR Macdonald Inc. to be (i) contributed to a new Dutch B.V. (the stock of which will be sold to Buyer at Closing) and (ii) redomiciled as a Nova Scotia unlimited liability company prior to the Closing.

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SECTION 5.2. ACCESS TO INFORMATION. (ai From the date hereof until the Closing Date, Sellers will (i) give, and will cause members of the RJRI Group to give, Buyer, its counsel, financial advisors, auditors and other authorized representatives reasonable access to the offices, properties, books and records of members of the RJRI Group and to the books and records of Sellers relating to members of the RJRI Group, (ii) furnish, and will cause members of the RJRI Group to furnish, to Buyer, its counsel, financial advisors, auditors and other authorized representatives such financial and operating data and other information relating to members of the RJRI Group as such Persons may reasonably request and (iii) instruct the employees, counsel and financial advisors of Sellers and members of the RJRI Group to cooperate with Buyer in its investigation of members of the RJRI Group. Any investigation pursuant to this Section shall be conducted in such manner as not to interfere unreasonably with the conduct of the business of Sellers or members of the RJRI Group. Notwithstanding the foregoing, Buyer shall not have access to personnel records of members of the RJRI Group relating to individual performance or evaluation records, medical histories or other information that in Sellers' good faith opinion is sensitive or the disclosure of which could subject any member of the RJRI Group to risk of liability.

(b On and after the Closing Date, each Seller will afford promptly to Buyer and its agents reasonable access to its books of account, financial and other records (including, without limitation, accountant's work papers), information, employees and auditors to the extent necessary or useful for Buyer in connection with any audit, investigation, dispute or litigation or any other reasonable business purpose relating to the RJRI Group; PROVIDED that any such access by Buyer shall not unreasonably interfere with the conduct of the business of Sellers or any member of the RJRI Group. Buyer shall bear all of the out-of-pocket costs and expenses (including, without limitation, attorneys' fees, but excluding reimbursement for general overhead, salaries and employee benefits) reasonably incurred in connection with the foregoing.

SECTION 5.3. RESIGNATIONS. Sellers will deliver to Buyer the resignations of all officers and directors of the RJRI Group who will be officers or directors of either Seller or any of their respective Affiliates after the Closing Date from their positions with each member of the RJRI Group at or prior to the Closing Date.

SECTION 5.4. RELATED AGREEMENTS. At or prior to the Closing, Seller (and/or its Affiliates) will execute and deliver to Buyer each of the Transaction Documents.

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SECTION 5.5. DELIVERY OF DIRECTOR QUALIFYING SHARES. As soon as reasonably practicable after the Closing, Sellers shall transfer (or cause to be transferred) to nominees designated by Buyer all nominee director qualifying or similar shares of capital stock of the RJRI Companies or Subsidiaries (or any other Persons in which members of the RJRI Group are investors) that are held by an employee or director of a member of the RJRI Group as of the Closing Date.

## ARTICLE 6

### COVENANTS OF BUYER

Buyer agrees that:

SECTION 6.1. CONFIDENTIALITY. Prior to the Closing Date and after any termination of this Agreement, Buyer and its Affiliates will hold, and will use their best efforts to cause their respective officers, directors, employees, accountants, counsel, consultants, advisors and agents to hold, in confidence, unless compelled to disclose by judicial or administrative process or by other requirements of law, all confidential documents and information concerning members of the RJRI Group furnished to Buyer or its Affiliates in connection with the transactions contemplated by this Agreement, except to the extent that such information can be shown to have been (i) previously known on a nonconfidential basis by Buyer, (ii) in the public domain through no fault of Buyer or (iii) later lawfully acquired by Buyer from sources other than Sellers or the RJRI Group; PROVIDED that Buyer may disclose such information to its officers, directors, employees, accountants, counsel, consultants, advisors and agents in connection with the transactions contemplated by this Agreement so long as such Persons are informed by Buyer of the confidential nature of such information and are directed by Buyer to treat such information confidentially. Buyer shall be responsible for any failure to treat such information confidentially by such Persons. If this Agreement is terminated, Buyer and its Affiliates will, and will use their best efforts to cause their respective officers, directors, employees, accountants, counsel, consultants, advisors and agents to, destroy or deliver to Sellers, upon request, all documents and other materials, and all copies thereof, obtained by Buyer or its Affiliates or on their behalf from Sellers or any member of the RJRI Group in connection with this Agreement that are subject to such confidence.

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SECTION 6.2. RELATED AGREEMENTS. At or prior to the Closing, Buyer (and/or its Affiliates) will execute and deliver to Sellers each of the



SECTION 6.3. GUARANTEES OF RJRI GROUP INDEBTEDNESS. Buyer shall use commercially reasonable efforts to effect the release of all members of Sellers' Group from all obligations under or liability with respect to the Sellers' Group Guarantees of RJRI Group indebtedness.

SECTION 6.4. TRANSFER AND ASSIGNMENT OF PURCHASED IPRS. Buyer shall pay all costs and expenses payable (other than any Taxes based on the income or gains arising to a Seller, member of the Sellers Group or any member of the RJRI Group) necessary to effect the sale, conveyance, transfer, assignment and delivery of the Purchased IPRs to Buyer. To the extent that Buyer requests the assistance of any member of Sellers' Group to effect the foregoing, Buyer shall reimburse such member of Sellers' Group for the cost or expense of rendering such assistance.

## ARTICLE 7

### COVENANTS OF BUYER AND SELLERS

Buyer and Sellers agree that:

SECTION 7.1. BEST EFFORTS; FURTHER ASSURANCES. Subject to the terms and conditions of this Agreement, Buyer and Sellers will use their best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable under applicable laws and regulations to consummate the transactions contemplated by the Transaction Documents, including, without limitation, the taking of any and all steps necessary to avoid or eliminate any impediment under any antitrust, competition or trade regulation law that may be asserted by any Governmental Entity with respect to the transactions contemplated by the Transaction Documents so as to enable consummation thereof to occur as soon as reasonably possible, including, without limitation, the sale, divestiture or disposition of such assets of Buyer, its Affiliates or the RJRI Group as may be required in order to avoid the entry of, or to effect the dissolution of, any injunction, temporary restraining order or other order in any suit or proceeding which would otherwise have the effect of preventing or delaying the consummation of the transactions contemplated by the Transaction Documents. Sellers, prior to the Closing, and Buyer, after the Closing, agree to cause each member of the RJRI Group, to execute and deliver such other documents,

certificates, agreements and other writings and to take such other actions as may be necessary or desirable in order to consummate or implement expeditiously the transactions contemplated by the Transaction Documents.

SECTION 7.2. CERTAIN FILINGS. Sellers and Buyer shall cooperate (i) in determining whether any action by or in respect of, or filing with, any

Governmental Entity is required, or any actions, consents, approvals or waivers are required to be obtained from parties to any material contracts, in connection with the consummation of the transactions contemplated by the Transaction Documents and (ii) in taking such actions or making any such filings, furnishing information required in connection therewith and seeking timely to obtain any such actions, consents, approvals or waivers.

SECTION 7.3. PUBLIC ANNOUNCEMENTS. The parties agree to consult with each other before issuing any press release or making any public statement with respect to the Transaction Documents or the transactions contemplated thereby and, except as may be required by applicable law or any listing agreement with any national securities exchange, will not issue any such press release or make any such public statement prior to such consultation.

SECTION 7.4. INTERCOMPANY ACCOUNTS. Except as provided in Schedule 7.04, all intercompany account balances between a member of Sellers' Group, on the one hand, and a member of the RJRI Group, on the other hand, outstanding at the Closing shall be canceled.

SECTION 7.5. NOTICES OF CERTAIN EVENTS. Each party hereto shall promptly notify each of the other parties hereto of:

(a) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by any of the Transaction Documents;

(b) any notice or other communication from any Governmental Entity in connection with the transactions contemplated by any of the Transaction Documents; and

(c) any actions, suits, claims, investigations or proceedings before any arbitrator or Governmental Entity commenced relating to (i) such party or any of its Affiliates that, (A) if pending on the date of this Agreement, would have been required to have been disclosed pursuant to Section 3.13 (in the case of either Seller) or Section 4.07 (in the case of Buyer) or (B) in any manner challenges or seeks to prevent, enjoin, alter or

materially delay the transactions contemplated by this Agreement, or (ii) the Business that is reasonably likely to have a Material Adverse Effect.

## ARTICLE 8

### TAX MATTERS

SECTION 8.1. TAX DEFINITIONS. The following terms, as used herein, have

the following meanings:

"POST-CLOSING TAX PERIOD" means any Tax period beginning after the Closing Date and, with respect to a Tax period that begins on or before the Closing Date and ends thereafter, the portion of such Tax period beginning after the Closing Date.

"PRE-CLOSING TAX PERIOD" means any Tax period ending on or before the Closing Date and, with respect to a Tax period that begins on or before the Closing Date and ends thereafter, the portion of such Tax period ending on the Closing Date.

"TAX" means any U.S. or non-U.S. federal, state or local tax including, but not limited to, tax on or measured by income or estimated income, alternative or add-on minimum tax, gross receipts, sales, use, ad valorem, franchise, capital stock, transfer, gains, profit, license, withholding, employees' withholding, foreign person withholding, backup withholding, social security, occupation, unemployment, disability, excise, severance, stamp, premium, value added, services, real property, personal property, production, inventory and merchandise, business privilege, windfall profit, customs duty or other tax or other like assessment or charge, together with any interest, penalty, addition to tax or additional amount due from, or in respect of, the RJRI Group imposed by any governmental authority (domestic or foreign) responsible for the imposition collection or administration of any such tax (a "TAXING AUTHORITY").

SECTION 8.2. TAX REPRESENTATIONS. Sellers jointly and severally represent and warrant to Buyer as of the date hereof and as of the Closing Date that, except as set forth in the Balance Sheet (including the notes thereto) or in the Disclosure Letter, (i) all material computations, notices, information, Tax returns, statements, reports and forms (collectively, the "RETURNS") filed or required to be filed with any Taxing Authority on or before the Closing Date with respect to any Pre-Closing Tax Period by, or with respect to, the members of the RJRI Group have been filed (or properly extended) or will be filed on or before the due date

(including extensions) and in all cases were and are, to Sellers' knowledge, materially accurate; (ii) all other Returns required to be filed with respect to the members of the RJRI Group for any Pre-Closing Tax Period (except in relation to any tax period that begins on or before the Closing Date and ends thereafter) will be filed by Sellers when due (taking into account any extension of a required filing date) and will when filed be, to Sellers' knowledge, materially accurate; (iii) the members of the RJRI Group have timely paid or will timely pay all Taxes shown as due and payable on the Returns that have been filed; and (iv) there is no material action, suit, proceeding, investigation, audit or claim now proposed, pending, outstanding or unresolved against or with respect to the members of the RJRI Group in respect of any Tax.

SECTION 8.3. TAX COVENANTS. (a) With respect to the stock of any foreign corporation that is being sold pursuant to this Agreement, Buyer covenants that it will not cause or permit such corporation or any subsidiary or any Affiliate thereof to make any election under Section 338 of the Code with respect to any transaction described in this Agreement without the prior written consent of Sellers.

(b) Buyer covenants that it will not cause or permit any member of the RJRI Group or any Affiliate thereof to take or omit to take any action that would, prior to January 1, 2000, (i) result in the sale or deemed sale for U.S. tax purposes by any member of the RJRI Group, or any subsidiary of such member, that constitutes a certain foreign entity within the meaning of U.S. Treasury Regulations Section 301.7701-2(b)(8), of any stock in a corporation which it owns, (ii) result in the distribution or deemed distribution for U.S. tax purposes, of any amounts with respect to the stock of any member of the RJRI Group that constitutes a certain foreign entity within the meaning of U.S. Treasury Regulations Section 301.7701-2(b)(8), or (iii) at any time, increase Sellers' indemnification obligations under Section 8.05 of this Agreement.

(c) Buyer shall promptly pay or shall cause prompt payment to be made to Sellers of all refunds of Taxes and interest thereon received by Buyer, any Affiliate of Buyer, or any member of the RJRI Group attributable to Taxes paid by Sellers, or any member of the RJRI Group (or any predecessor or Affiliate of Sellers) with respect to any Pre-Closing Tax Period.

(d) All transfer, documentary, sales, use, stamp, registration and other similar taxes and fees (including any penalties and interest) incurred in connection with this Agreement (including any real property transfer tax and any similar tax) shall be borne and paid by Buyer (other than penalties or interest attributable to the delay or default of a Seller or a subsidiary of a Seller), and Buyer will, at its

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own expense, file all necessary tax returns and other documentation with respect to all similar taxes and fees, and, if required by applicable law, Sellers will, and will cause their Affiliates to, join in the execution of any such tax returns and other documentation.

SECTION 8.4. COOPERATION ON TAX MATTERS. (a) Buyer and Sellers agree to furnish or cause to be furnished to each other, upon request, as promptly as practicable, such information (including access to books and records) and assistance (including access to officers, directors, employees and agents) relating to the RJRI Group as is reasonably requested for the filing of any return, for the preparation for any audit, and for the prosecution or defense of any claim, suit or proceeding relating to any proposed adjustment. Buyer and Sellers agree to retain or cause to be retained all books and records pertinent to members of the RJRI Group until the applicable period for assessment under

applicable law (giving effect to any and all extensions or waivers) has expired, and to abide by or cause the abidance with all record retention agreements entered into with any Taxing Authority. The RJRI Companies agree to give Sellers reasonable notice prior to transferring, discarding or destroying any such books and records relating to Tax matters and, if any Sellers so requests, the RJRI Companies shall allow Sellers to take possession of such books and records. Buyer and Sellers shall cooperate with each other in the conduct of any audit or other proceedings involving the RJRI Companies for any Tax purposes and each shall execute and deliver such powers of attorney and other documents as are necessary to carry out the intent of this subsection.

(b) Buyer and Sellers further agree, upon request, to provide the other party with all information that either party may be required to report pursuant to the Code and all Treasury Department Regulations promulgated thereunder. Prior to a Seller filing any Return for any Pre-Closing Tax Period, such Seller shall permit Buyer or Buyer's advisors to review the Return, and will as far as possible take into account any reasonable comments made by Buyer or Buyer's advisors before filing the Return.

SECTION 8.5. INDEMNIFICATION BY SELLERS. (a) Sellers hereby jointly and severally indemnify Buyer and its Affiliates against and agree to hold them harmless from any (i) Tax of or imposed on any member of the RJRI Group (except to the extent such Tax was reflected as a liability on the Closing Balance Sheet) and (ii) liabilities, costs and expenses (including, without limitation, reasonable expenses of investigation and attorneys' fees and expenses), arising out of or incident to the imposition, assessment or assertion of any Tax, including those incurred in the contest in good faith in appropriate proceedings relating to the imposition, assessment or assertion of any Tax, in each case with respect to

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any Pre-Closing Tax Period and in each case incurred or suffered by Buyer, any of its Affiliates or, effective upon the Closing, any member of the RJRI Group (the sum of 8.05(a)(i) and 8.05(a)(ii) being referred to as a "LOSS").

(b) For purposes of this Section 8.05, in the case of any Taxes that are imposed on a periodic basis and are payable for a Tax period that includes (but does not end on) the Closing Date, the portion of the Tax related to the portion of the Tax period ending on and including the Closing Date shall be deemed equal to the amount that would be payable if the relevant Tax period ended on and included the Closing Date. All determinations necessary to give effect to the foregoing allocations shall be made in a manner consistent with prior practice of the RJRI Group.

(c) If Sellers' indemnification obligation under this Section 8.05 arises in respect of an adjustment that makes allowable to Buyer, any of its Affiliates or, effective upon the Closing, any member of the RJRI Group any deduction, amortization, exclusion from income or other allowance (a "TAX

BENEFIT") which would not, but for such adjustment, be allowable, then any payment by Sellers to Buyer shall be an amount equal to (x) the amount otherwise due but for this subsection 8.05(c), minus (y) the Tax Benefit actually realized multiplied (i) by the maximum federal or state, as the case may be, corporate tax rate in effect at the time such Tax Benefit is actually realized by Buyer, any of its Affiliates, or any member of the RJRI Group (as the case may be) or (ii) in the case of a credit, by 100 percent.

(d) Any payment by Sellers pursuant to this Section 8.05 shall be made not later than 30 days after receipt by Sellers of written notice from Buyer stating that any Loss has been paid by Buyer, any of its Affiliates or, effective upon the Closing, any member of the RJRI Group and the amount thereof and of the indemnity payment requested.

(e) If any claim or demand for Taxes in respect of which indemnity may be sought pursuant to this Section 8.05 is asserted in writing against Buyer, any of its Affiliates or, effective upon the Closing, any member of the RJRI Group, Buyer shall notify Sellers of such claim or demand within 10 days of receipt thereof, or such earlier time as would allow Sellers to respond to Buyer in a timely manner with respect to such claim or demand, and shall give Sellers such information with respect thereto as Sellers may reasonably request. Sellers may discharge, at any time, their indemnification obligation under this Section 8.05 by paying to Buyer the amount of the applicable Loss, calculated on the date of such payment. Sellers may, at their own expense, participate in and, upon notice to Buyer, assume the defense of any such claim, suit, action, litigation or proceeding

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(including any Tax audit). If Sellers assume such defense, Buyer shall have the right (but not the duty) to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by Sellers. Whether or not Sellers choose to defend or prosecute any claim, all of the parties hereto shall cooperate in the defense or prosecution thereof.

(f) Sellers shall not be liable under this Section 8.05 for (i) any Tax the payment of which was made without Sellers' prior written consent or (ii) any settlements effected without the consent of Sellers, which consent shall not in either case be unreasonably withheld or delayed, or resulting from any claim, suit, action, litigation or proceeding in which Sellers were not given an opportunity to participate.

## ARTICLE 9

### EMPLOYEE BENEFIT

SECTION 9.1. DEFINITIONS. (a) The following terms, as used herein, have the following meanings:

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA AFFILIATE" of any entity means any other entity which, together with such entity, would be treated as a single employer under Section 414 of the Code.

"EMPLOYEE PLAN" means any written employment, severance, international expatriate allowance and expense reimbursement programs, perquisite plan, or similar contract or arrangement or any plan, policy, fund, program or contract or arrangement providing for compensation, bonus, profit-sharing, stock option, or other stock related rights or other forms of incentive or deferred compensation, vacation benefits, holiday pay benefits, insurance coverage (including any self-insured arrangements), health or medical benefits, sick or disability benefits, workers' compensation, supplemental unemployment benefits, severance benefits and post-employment or retirement benefits (including compensation, pension, health, medical or life insurance or other benefits) that (i) is not a Seller Plan, (ii) is entered into, maintained, administered or contributed to, as the case may be, by any member of the RJRI Group and (iii) covers any current or former employee of any member of the RJRI

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Group; PROVIDED, HOWEVER, that the Puerto Rico Pension Plan shall be deemed an Employee Plan for purposes of this Agreement.

"PUERTO RICO PENSION PLAN" means the Retirement Plan for Hourly Rated Employees of RJ Reynolds Tobacco Company (a Delaware corporation), at Yabucoa, Puerto Rico.

"RJRI EMPLOYEE" means (i) each individual primarily employed by any member of the RJRI Group as of the Closing Date, (ii) each individual whose last employer prior to the Closing Date was a member of the RJRI Group and (iii) the U.S. RJRI Employees.

"SELLERS' PLAN" means any written employment, severance or similar contract or arrangement or any plan, policy, fund, program or contract or arrangement providing for compensation, bonus, profit-sharing, stock option, or other stock related rights or other forms of incentive or deferred compensation, vacation benefits, insurance coverage (including any self-insured arrangements), health or medical benefits, disability benefits, workers' compensation, supplemental unemployment benefits, severance benefits and post-employment or retirement benefits (including compensation, pension, health, medical or life insurance or other benefits) that (i) is entered into, maintained, administered or contributed to, as the case may be, by Sellers or any of their Affiliates and (ii) covers any current or former employee of Sellers or any of their Affiliates; PROVIDED, HOWEVER, that the Puerto Rico Pension Plan shall not be deemed a Sellers' Plan for purposes of this Agreement.

"SELLERS' BONUS PLANS" means the RJR Nabisco, Inc. Annual Incentive Award Plan, which is also referred to as the Profit Sharing Incentive Plan.

"SELLERS' U.S. INDIVIDUAL ACCOUNT PLANS" means the RJR Nabisco Capital Investment Plan, the Savings and Investment Plan for Employees of R.J.R. Reynolds Tobacco Company in Puerto Rico and any successor plans thereto.

"SELLERS' U.S. PENSION PLANS" mean any tax-qualified defined benefit plans subject to Title IV of ERISA maintained or contributed to at any time by Sellers or any of their Affiliates, other than the Puerto Rico Pension Plan, and any successor plans thereto.

"U.S. RJRI EMPLOYEES" means the employees performing services for the Business who are located in United States or Puerto Rico and are set forth as such in the Disclosure Letter.

(b) Each of the following terms is defined in the section set forth opposite such term:

<TABLE>	<CAPTION>	TERM	SECTION
<S>			<C>
		Bonus Year	9.06
		Buyer Individual Account Plan	9.05
		Direct Rollover	9.05
		LTIP	9.06
		Target Amount	9.06

SECTION 9.2. REPRESENTATIONS. (a) The Disclosure Letter identifies each material Employee Plan and Sellers' Plan in which any RJRI Employees participate. Sellers have made available to Buyer details of such Employee Plans and Sellers' Plans reasonably sufficient to enable Buyer to determine the material liabilities under them. With such exceptions as would not have a Material Adverse Effect and except as set forth in the Disclosure Letter:

(i) each such Employee Plan is in compliance with the provisions of the applicable laws of each applicable jurisdiction;

(ii) all contributions to, and payments from and with respect to (including, without limitation, insurance premiums), such Employee Plan that may have been required to be made in accordance with the terms of any such Employee Plan and, when applicable, the law of the jurisdiction in which such Plan is maintained, have been timely made;



(iii) no such Employee Plan will require the payment to any RJRI Employee of any money or other property or rights or accelerate or provide any other material rights or benefits to any RJRI Employee solely as a result of the transactions contemplated by this Agreement;

(iv) each such Employee Plan has been administered at all times in accordance with its terms and there are no pending investigations by any governmental agency involving any such Employee Plan, no claims pending or threatened in writing (except for claims for benefits payable in the normal operation of such Employee Plan), nor are there any suits or proceedings against such Employee Plan asserting any rights or claims to benefits under such Employee Plan which will give rise to any material liability;

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(v) no Employee Plan is (A) a Multiemployer Plan (as defined in Section 3(37) of ERISA) subject to Title IV of ERISA, (B), other than the Puerto Rico Pension Plan, a pension plan (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA or (C) maintained in connection with any trust described in Section 501(c)(9) of the Code; and

(vi) the Puerto Rico Pension Plan and any other Employee Plan which covers any current or former employees of any member of the RJRI Group which, as a matter of current Sellers' or Affiliate or RJRI Group practice, is funded or which is required to be so funded by law (and whether by means of a book reserve or otherwise) has been funded to the extent required to comply with the currently applicable local statutes or regulations.

(b) None of Sellers or any of their Affiliates has incurred, or reasonably expects to incur prior to the Closing Date, (i) any material liability under Title IV of ERISA arising in connection with the termination of, or a complete or partial withdrawal from, any Sellers' Plan covered or previously covered by Title IV of ERISA or (ii) any material liability under Section 4971 of the Code that in either case could reasonably be expected to become a liability of any member of the RJRI Group or Buyer or any of its ERISA Affiliates after the Closing Date.

SECTION 9.3. RJRI EMPLOYEES. (a) Except as otherwise provided in this Section 9.03, for a period of not less than 12 months from the Closing Date, Buyer agrees to make employee benefits available to each RJRI Employee while such employee remains an employee of Buyer or any member of the RJRI Group. Such employee benefits shall include, without limitation, benefits of the types provided under Employee Plans and Sellers' Plans comparable in the aggregate to such benefits made available to such RJRI Employees immediately prior to the Closing Date, PROVIDED, HOWEVER, that Buyer shall make available for such period post-employment welfare benefits to all RJRI Employees and all other individuals

who were receiving such benefits from any member of the RJRI Group immediately prior to the Closing Date comparable to such benefits made available to such individuals immediately prior to such date.

(b) Buyer agrees that each RJRI Employee shall be treated for purposes of participation and vesting under Buyer's pension or retirement plans, and for all purposes, under any other plan or arrangement, including, without limitation, any international assignment, severance or vacation plan, maintained by Buyer on or after the Closing Date, as having service with Buyer for the entire period of such RJRI Employee's period of employment with Sellers, or any of their Affiliates or any member of the RJRI Group.

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(c) Buyer shall provide coverage for all U.S. RJRI Employees working at least 20 hours per week under a group health plan or plans fulfilling the requirements of Section 4980B(f)(2)(B)(iv)(I) of the Code. Any and all waiting periods and pre-existing condition limitations in Buyer's health insurance plans shall be waived for all RJRI Employees, except to the extent they apply at the Closing Date under the applicable Sellers' Plan or Employee Plan. Expenses incurred by RJRI Employees under Sellers' medical and dental plans during the year that includes the Closing Date shall be taken into account for purposes of satisfying the deductible, coinsurance and out-of-pocket provisions of Buyer's medical and dental plans for such year. Sellers shall retain liability for all medical or dental claims incurred prior to the Closing Date by any U.S. RJRI Employee (or his or her beneficiary) and Buyer and the RJRI Group shall be responsible for all medical or dental claims incurred on and after the Closing Date by any RJRI Employee (or his or her beneficiary) to the extent that Sellers would have been liable for such claims. For purposes of this Section 9.03(c), a medical or dental claim shall be deemed "incurred" when the relevant service is provided or item is purchased.

(d) Buyer shall cause the RJRI Companies to fulfill all obligations, and to assume all obligations of Sellers, under the employee agreements between Sellers or any member of the RJRI Group and the RJRI Employees listed in Schedule 9.03(d) in accordance with their terms.

(e) Each RJRI Employee who ceases to be employed by Buyer within the twelve-month period beginning on the Closing Date shall be entitled to a severance benefit to be paid by Buyer and determined in accordance with the rules of the applicable Employee Plan or Sellers' Plan, taking into account the past service recognition provisions of Section 9.03(b); provided that this Section 9.03(c) shall not apply to the RJRI Employees referred to in Section 9.03(d).

(f) Buyer shall assume, or shall cause a member of the RJRI Group to assume, on and effective as of the Closing Date, all assets and liabilities of the Puerto Rico Pension Plan.

(g) Buyer shall indemnify Sellers against any Damages (as defined in Section 11.02 hereof) attributable to Buyer on or after the Closing Date and which Sellers may incur in relation to any act or omission of Buyer in relation to an RJRI Employee occurring after the Closing Date which gives rise to a claim against Sellers (whether statutory, contractual or otherwise).

(h) Sellers shall indemnify Buyer against any Damages, except to the extent assumed by Buyer or any member of the RJRI Group pursuant to this

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Article 9, that any member of the RJRI Group or Buyer or any of its ERISA Affiliates may incur after the Closing Date in respect of any Sellers' Plan. The indemnification obligation set forth herein shall not be subject to the amount set forth in Section 11.02(a) (x) hereof.

(i) Sellers and Buyer shall give each other such assistance as either may reasonably require to comply with any applicable laws or regulations in relation to the RJRI Employees. In particular, Buyer and Sellers shall make available to each other such information as will enable each to carry out their duties under such applicable laws or regulations.

SECTION 9.4. SELLERS' U.S. PENSION PLANS. Sellers shall retain (or a designated Affiliate of Sellers shall retain or assume) all liabilities and obligations in respect of benefits accrued by RJRI Employees under Sellers' U.S. Pension Plans. Effective as of the Closing Date, each RJRI Employee shall cease to accrue any benefits under Sellers' U.S. Pension Plans. No assets of Sellers' U.S. Pension Plans shall be transferred to Buyer or any member of the RJRI Group or to any plan of Buyer or of any member of the RJRI Group.

SECTION 9.5. SELLERS' U.S. INDIVIDUAL ACCOUNT PLANS. On or promptly following the Closing Date, Sellers shall take such action as may be necessary, if any, to permit each RJRI Employee to exercise his or her rights to distribution of such RJRI Employee's vested account balances under Sellers' U.S. Individual Account Plans, if any, or to effect at any time a tax-free rollover of the taxable portion of the account balances (to the extent permitted by law) into an eligible retirement plan (within the meaning of Section 401(a) (31) of the Code) (a "DIRECT ROLLOVER") maintained by Buyer (the "BUYER INDIVIDUAL ACCOUNT PLAN") or to an individual retirement account. Sellers and Buyer shall cooperate to facilitate any such distribution or rollover and to effect a Direct Rollover for those participants who elect to roll over their account balances directly into the Buyer Individual Account Plan; PROVIDED that nothing in this Section 9.05 shall obligate the Buyer Individual Account Plan to accept a Direct Rollover unless Buyer is satisfied that any such Direct Rollover is described in Section 401(k) (10) (A) of the Code.

SECTION 9.6. PERFORMANCE APPRECIATION RIGHTS. (a) Buyer shall cause each member of the RJRI Group that is, on the Closing Date, an employer of an RJRI Employee who immediately prior to the Closing Date is a participant in

Sellers' Bonus Plans in respect to the fiscal year in which the Closing Date occurs (the "BONUS YEAR"), to pay to such RJRI Employee a bonus in respect of such Bonus Year in an amount equal to the amount ("TARGET AMOUNT"), which amount shall be deemed not to exceed \$25 million, that would be payable for such year assuming 100% attainment of relevant target performance. Such payments shall

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be made not later than 30 days after the end of the Bonus Year. An amount equal to the Target Amount multiplied by a fraction, the numerator of which is the number of full or partial calendar months in the Bonus Year prior to the Closing Date and the denominator of which is 12, shall be accrued on the Closing Balance Sheet.

(b) Sellers shall retain all obligations and liabilities under the RJR Nabisco Holdings, Corp. 1990 Long-Term Incentive Plan ("LTIP"). Buyer shall provide Sellers with such information relating to RJRI Employees as Sellers shall reasonably request relating to the LTIP and Sellers' obligations thereunder.

## ARTICLE 10

### CONDITIONS TO CLOSING

SECTION 10.1. CONDITIONS TO OBLIGATIONS OF BUYER AND SELLERS. The obligations of Buyer and Sellers to consummate the Closing are subject to the satisfaction of the following conditions:

(a) (i) Any applicable waiting period under the HSR Act relating to the transactions contemplated hereby shall have expired or been terminated, the Commission of the European Communities shall have declared the transactions contemplated hereby compatible with the common market under Council Regulation (EC) No. 4064/89, or such approval shall have been deemed to have been granted (and any national authority within the European Community to whom such transactions (or any part thereof) have been referred pursuant to Article 9(3) of such regulation shall have granted any clearance or given any consent required) and (iii) any applicable requirements of the Investment Canada Act and the Competition Act of Canada shall have been satisfied.

(b) No provision of any applicable law or regulation and no judgment, or preliminary or permanent injunction, order or decree shall prohibit the consummation of the Closing or shall in any way materially limit, restrict, burden or otherwise impede the use of the Purchase Price by Sellers or their Affiliates.

(c) All material actions by or in respect of, material filings with, and any applicable requirements of, any Governmental Entity required to permit the consummation of the Closing shall have been taken, made, obtained or satisfied, except for any such actions or filings the failure to take, make or

obtain which would not have a Material Adverse Effect.

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(d) Each of the Transaction Documents shall have been duly executed and delivered by the parties thereto and such agreements shall be in full force and effect upon Closing.

SECTION 10.2. CONDITIONS TO OBLIGATIONS OF BUYER. The obligation of Buyer to consummate the Closing is subject to the satisfaction of the following further conditions:

(a) (i) Sellers shall have performed in all material respects all of their obligations under the Transaction Documents required to be performed by them on or prior to the Closing Date, (ii) the representations and warranties of Sellers contained in the Transaction Documents and in any certificate or other writing delivered by Sellers pursuant hereto that are qualified by materiality or Material Adverse Effect shall be true and all other such representations and warranties of Sellers shall be true in all material respects, in each case at and as of the Closing Date (unless and to the extent that any such representation or warranty speaks specifically as of an earlier date, in which case, at and as of such earlier date) as if made at and as of the Closing Date (or such earlier date) and Buyer shall have received a certificate signed by the General Counsel of RJRN to the foregoing effect.

(b) Buyer shall have received all documents it may reasonably request relating to the existence of Sellers, the RJRI Companies and the Subsidiaries and the authority of Sellers for the Transaction Documents, all in form and substance reasonably satisfactory to Buyer.

SECTION 10.3. CONDITIONS TO OBLIGATIONS OF SELLERS. The obligation of Sellers to consummate the Closing is subject to the satisfaction of the following further conditions:

(a) (i) Buyer shall have performed in all material respects all of its obligations under the Transaction Documents required to be performed by it at or prior to the Closing Date, the representations and warranties of Buyer contained in the Transaction Documents and in any certificate or other writing delivered by Buyer pursuant thereto shall be true in all material respects at and as of the Closing Date (unless and to the extent that any such representation or warranty speaks specifically as of an earlier date, in which case, at and as of such earlier date) as if made at and as of the Closing Date (or such earlier date) and Sellers shall have received a certificate signed by the General Counsel of Buyer to the foregoing effect.

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(b) Sellers shall have received all documents they may reasonably

request relating to the existence of Buyer and the authority of Buyer for the Transaction Documents, all in form and substance reasonably satisfactory to Sellers.

(c) RJRN shall have completed a consent solicitation on commercially reasonable terms and conditions pursuant to which RJRN shall have obtained consent for amendments or waivers under the debt instruments listed on Schedule 10.03(c) permitting the transactions contemplated hereby together with the proposed separation of RJRN's food business from its tobacco business, as contemplated in RJRN's press release dated March 9, 1999.

## ARTICLE 11

### SURVIVAL; INDEMNIFICATION

SECTION 11.1. SURVIVAL. The covenants, agreements, representations and warranties contained in Articles 8 and 9 shall survive until expiration of the statute of limitations applicable to the matters covered thereby (giving effect to any waiver, mitigation or extension thereof). The representations and warranties in Sections 3.01, 3.02, 3.06, 3.07, 3.15, 3.18, 3.20 and 4.09 shall survive for three years after the Closing Date, and all other representations and warranties contained herein (except for those contained in Articles 8 and 9) shall survive for one year after the Closing Date. The covenants and agreements contained herein (except for those contained in Articles 8 and 9) shall survive for the period indicated therein or, if not so indicated, indefinitely. Notwithstanding the foregoing, any covenant, agreement, representation or warranty in respect of which indemnity may be sought under this Agreement shall survive the time at which it would otherwise terminate pursuant to the foregoing, if BONA FIDE notice of such inaccuracy or breach giving rise to such right of indemnity specifying with particularity (x) the covenant, agreement, representation or warranty in this Agreement in respect of which indemnity may be sought and (y) the facts and circumstances giving rise to such right shall have been given to the party against whom such indemnity may be sought prior to such time.

SECTION 11.2. INDEMNIFICATION. (a) Sellers hereby jointly and severally indemnify Buyer, its Affiliates and the members of the RJRI Group and, if applicable, their respective directors, officers, agents, employees, successors and assigns against and agree to hold each of them harmless from any and all assessments, penalties, fines, damages, losses, liabilities and expenses (including,

without limitation, reasonable expenses of investigation and reasonable attorneys' fees and expenses in connection with any action, suit or proceeding ("DAMAGES") incurred or suffered by Buyer, any of its Affiliates or any member of the RJRI Group or their respective directors, officers, agents, employees, successors and assigns arising out of:

(i) any misrepresentation or breach of warranty made by the Sellers' Group to Buyer or any of its Affiliates pursuant to the Transaction Documents, or breach of warranty, made by the Sellers' Group pursuant to the Transaction Documents (other than pursuant to Article 8 of this Agreement), PROVIDED that, with respect to any Damages incurred or suffered by Buyer or any of its Affiliates or any member of the RJRI Group arising out of any misrepresentation or breach of warranty, Sellers shall not be liable under this Section 11.02(a) (i) unless the aggregate amount of Damages exceeds \$50,000,000 (and then only to the extent of such excess);

(ii) any breach of covenant or agreement made or to be performed by the Sellers' Group pursuant to the Transaction Documents (other than pursuant to Article 8 of this Agreement);

(iii) Sellers Product Liabilities; or

(iv) Excluded Liabilities.

(b) Buyer hereby indemnifies each member of the Sellers' Group and, if applicable, their respective directors, officers, agents, employees, successors and assigns against and agrees to hold each of them harmless from any and all Damages incurred or suffered by any member of the Sellers' Group or their respective directors, officers, agents, employees, successors and assigns arising out of:

(i) any misrepresentation or breach of warranty made or to be performed by Buyer or its Affiliates pursuant to the Transaction Documents (other than pursuant to Article 8 of this Agreement), PROVIDED that, with respect to any Damages incurred or suffered by the Sellers' Group arising out of any misrepresentations or breach of warranty, Buyer shall not be liable under this Section 11.02(b) (i) unless the aggregate amount of Damages exceeds \$50,000,000 (and then only to the extent of such excess);

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(ii) any breach of covenant or agreement made or to be performed by Buyer or its Affiliates pursuant to the Transaction Documents (other than pursuant to Article 8 of this Agreement); or

(iii) any RJRI Liabilities.

; PROVIDED that it is understood that Sellers will first pursue any claims under this Section 11.02(b) against members of the RJRI Group before making claims against Buyer, and that Buyer will only be secondarily liable for such claims.

(c) The monetary thresholds set forth in this Section 11.02 have been

negotiated for the special purpose of the provision to which they relate and are not to be taken as evidence of the level of "materiality" for purposes of any statutory or common law which may be applicable to the transactions contemplated by this Agreement under which a level of materiality might be an issue.

SECTION 11.3. PROCEDURES. (a) The party seeking indemnification under Article 8 or 9 or Section 11.02 (the "INDEMNIFIED PARTY") agrees to give prompt notice to the party against whom indemnity is sought (the "INDEMNIFYING PARTY") of the assertion of any claim, or the commencement of any suit, action or proceeding ("Claim") in respect of which indemnity may be sought under such Section or Article and will provide the Indemnifying Party such information with respect thereto as the Indemnifying Party may reasonably request. The failure so to notify the Indemnifying Party shall not relieve the Indemnifying Party of its obligations hereunder, except to the extent such failure shall have materially prejudiced the Indemnifying Party.

(b) The Indemnifying Party shall be entitled to participate in the defense of any Claim asserted by any third party ("THIRD PARTY CLAIM") and, subject to the limitations set forth in this Section, shall be entitled to (and at the request of the Indemnifying Party shall) control and appoint lead counsel for such defense, in each case at its expense. The Indemnified Party shall obtain the written consent of the Indemnifying Party before entering into any settlement of any Third Party Claim.

(c) If the Indemnifying Party shall assume the control of the defense of any Third Party Claim in accordance with the provisions of this Section 11.03, the Indemnifying Party shall obtain the prior written consent of the Indemnified Party before entering into any settlement of such Third Party Claim, if the settlement does not release the Indemnified Party from all liabilities and obligations with respect to such Third Party Claim or the settlement imposes injunctive or other equitable relief against the Indemnified Party and the

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Indemnified Party shall be entitled to participate in the defense of such Third Party Claim and to employ separate counsel of its choice for such purpose. The fees and expenses of such separate counsel shall be paid by the Indemnified Party.

(d) Each party shall cooperate, and cause their respective Affiliates to cooperate, in the defense or prosecution of any Third Party Claim (and any Excluded Liability) and shall furnish or cause to be furnished such records, information and testimony, and attend such conferences, discovery proceedings, hearings, trials or appeals, as may be reasonably requested in connection therewith to the same extent as if no indemnification were provided hereunder. The Indemnifying Party shall bear the reasonable out-of-pocket expenses of such cooperation.

SECTION 11.4. CALCULATION OF DAMAGES. (a) The amount of any Damages



payable under Article 8 or 9 or Section 11.02 by the Indemnifying Party shall be net of any amounts recovered or recoverable by the Indemnified Party under applicable insurance policies and any Tax Benefit realized by the Indemnified Party arising from the incurrence or payment of any such Damages. In computing the amount of any such Tax Benefit, the Indemnified Party shall be deemed fully to utilize, at the highest marginal tax rate then in effect, all Tax items arising from the incurrence or payment of any indemnified Damages.

(b) The Indemnifying Party shall not be liable under Article 8 or 9 or Section 11.02 for any (i) Damages relating to any matter to the extent that (A) there is included in the Closing Balance Sheet a specific liability or reserve relating to such matter or the Indemnified Party has otherwise been compensated for such matter pursuant to the Purchase Price adjustment under Section 2.05, consequential Damages or Damages for lost profits. For the purposes of this Agreement, Damages shall not be determined through any multiple of earnings approach or variant thereof and shall take account of the time value of money.

(c) Notwithstanding any other provision of this Agreement to the contrary, if on the Closing Date the Indemnified Party knows of any information that would cause one or more of the representations and warranties made by the Indemnifying Party to be inaccurate, the Indemnified Party shall have no right or remedy after the Closing with respect to such inaccuracy and shall be deemed to have waived its rights to indemnification in respect thereof.

SECTION 11.5. ASSIGNMENT OF CLAIMS. If the Indemnified Party receives any payment from an Indemnifying Party in respect of any Damages pursuant to Section 11.02 and the Indemnified Party could have recovered all or a part of such Damages from a third party (a "POTENTIAL CONTRIBUTOR") based on the underlying

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Claim asserted against the Indemnifying Party, the Indemnified Party shall assign such of its rights to proceed against the Potential Contributor as are necessary to permit the Indemnifying Party to recover from the Potential Contributor the amount of such payment.

SECTION 11.6. EXCLUSIVITY OF REMEDIES. Except as specifically set forth in this Agreement, effective as of the Closing, each party (on behalf of itself and its Affiliates) waives any rights and claims it (or its Affiliates) may have against the other party or its Affiliates, whether in law or in equity, relating to the Business or the Shares or the transactions contemplated by the Transaction Documents. The rights and claims waived include, without limitation, claims for contribution or other rights of recovery arising out of or relating to any Environmental Law, claims for breach of contract, breach of representation or warranty, negligent misrepresentation and all other claims for breach of duty. After the Closing, Articles 8 and 9 and Section 11.02 will provide the exclusive remedy for any misrepresentation, breach of warranty, covenant or other agreement or other claim arising out of the Transaction

Documents or the transactions contemplated thereby.

## ARTICLE 12

### TERMINATION

SECTION 12.1. GROUNDS FOR TERMINATION. This Agreement may be terminated at any time prior to the Closing:

(a) by mutual written agreement of Sellers and Buyer;

(b) by either Sellers or Buyer if the Closing shall not have been consummated on or before December 31, 1999; or

(c) by either Sellers or Buyer if consummation of the transactions contemplated hereby would violate any nonappealable final order, decree or judgment of any Governmental Entity having competent jurisdiction.

The party desiring to terminate this Agreement pursuant to clauses 12.01(b) or 12.01(c) shall give notice of such termination to the other party.

If all conditions to consummation of the Closing are satisfied other than the condition set forth in Section 10.03(c), and this Agreement is terminated due solely to the failure to satisfy or waive the condition set forth in Section 10.03(c),

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then if one or both Sellers enter into an agreement within 6 months after termination of this Agreement providing for the sale of the Business to another buyer and such sale is subsequently consummated (the "ALTERNATIVE SALE"), the Sellers will pay to Buyer an amount equal to the net after-tax excess of the gross purchase price received by Sellers in the Alternative Sale (assuming no assumption of debt) over \$8,000,000,000.

SECTION 12.2. EFFECT OF TERMINATION. If this Agreement is terminated as permitted by Section 12.01 or 13.11, such termination shall be without liability of any party (or any stockholder, director, officer, employee, agent, consultant or representative of such party) to the other parties to this Agreement; PROVIDED that if such termination shall result from the (i) willful failure of any party to fulfill a condition to the performance of the obligations of the other parties or (ii) failure to perform a covenant of this Agreement, such party shall be fully liable for any and all Damages incurred or suffered by the other parties as a result of such failure or breach. The provisions of Sections 6.01, 13.03, 13.05, 13.06 and 13.07 shall survive any termination hereof pursuant to Section 12.01 or 13.11.

## ARTICLE 13

MISCELLANEOUS

SECTION 13.1. NOTICES. All notices, requests and other communications to any party hereunder shall be in writing (including facsimile transmission) and shall be given,

if to Buyer, to:

Japan Tobacco Inc.  
2-2-1 Toranomom, Minato-ku  
Tokyo, Japan  
Attention: Mr. Hiroshi Kimura  
Fax: 011 813 5572 1469

with a copy to:

Gilbert, Segall and Young LLP  
430 Park Avenue  
New York, New York 10022  
Attention: Neal N. Beaton, Esq.

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Fax: (212) 644-4051

and

Baker & McKenzie  
100 New Bridge Street  
London EC4V 6JA England

Attention: Hugh Stewart, Esq.  
Fax: 011 44 171 919 1999

if to Sellers, to:

RJR Nabisco, Inc.  
1301 Avenue of the Americas  
New York, NY 10019  
Attention: William L. Rosoff, Esq.  
Fax: (212) 969-9917

with a copy to:

R.J. Reynolds Tobacco Company  
401 North Main Street  
Winston-Salem, NC 27102  
Attention: Charles A. Blixt, Esq.

Fax: (336) 741-5449

and

Davis Polk & Wardwell  
450 Lexington Avenue  
New York, NY 10017

Attention: David W. Ferguson, Esq.  
Fax: (212) 450-4800

All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5 p.m. in the place of receipt and such day is a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed not to have been received until the next succeeding business day in the place of receipt.

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SECTION 13.2. AMENDMENTS AND WAIVERS. (a) Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by each party to this Agreement, or in the case of a waiver, by the party against whom the waiver is to be effective.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 13.3. EXPENSES. Except as expressly provided in this Agreement, all costs and expenses incurred in connection with this Agreement shall be paid by the party incurring such cost or expense.

SECTION 13.4. SUCCESSORS AND ASSIGNS. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; PROVIDED that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of each other party hereto, except that Buyer may assign any or all of its rights or delegate any or all of its obligations hereunder to an Affiliate of Buyer without the prior written consent of any of Sellers PROVIDED, HOWEVER, that such Affiliate shall agree in writing to be bound by the terms and conditions of this Agreement. Such assignment or delegation shall in no way limit or relieve Buyer of any of its obligations hereunder. Nothing in this Agreement, expressed or implied, is intended to confer upon any Person (including any employee or former employee) other than Buyer, Sellers and, to the extent provided herein, their respective Affiliates, any rights or remedies

under or by reason of this Agreement. Further, no provision of this Agreement shall create any such rights in any such Persons in respect of any benefit plans, programs, policies and arrangements (to include fringe benefits) or any plan or arrangement which may be established by Buyer or any of its Affiliates.

SECTION 13.5. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the law of the State of New York, without regard to the conflicts of law rules of such state.

SECTION 13.6. JURISDICTION. Except as otherwise expressly provided in this Agreement, the parties hereto agree that any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby may be

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brought exclusively in the United States District Court for the Southern District of New York or any other New York State court sitting in the Borough of Manhattan, New York City, and each of the parties hereby consents to the jurisdiction of such courts (and of the appropriate appellate courts therefrom) in any such suit, action or proceeding and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such suit, action or proceeding in any such court or that any such suit, action or proceeding which is brought in any such court has been brought in an inconvenient forum. Process in any such suit, action or proceeding may be served on any party anywhere in the world, whether within or without the jurisdiction of any such court. Without limiting the foregoing, each party agrees that service of process on such party as provided in Section 13.01 shall be deemed effective service of process on such party.

SECTION 13.7. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 13.8. COUNTERPARTS; THIRD PARTY BENEFICIARIES. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other parties hereto. No provision of this Agreement is intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

SECTION 13.9. ENTIRE AGREEMENT. The Transaction Documents constitute the entire agreement among the parties with respect to the subject matter of this Agreement and supersede all prior agreements including the Confidentiality Agreement and understandings, both oral and written, among the parties with respect to the subject matter of this Agreement.

SECTION 13.10. CAPTIONS. The captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof.

SECTION 13.11. DISCLOSURE LETTER. (a) Sellers may revise the Disclosure Letter with respect to matters arising (or that become known to Sellers) after February 1, 1999 by delivering a revised Disclosure Letter to Buyer at any time prior to the fifth Business Day before the Closing Date. Buyer shall have the right to review the revised Disclosure Letter for a period of five Business Days after

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receipt thereof. At any time within such five-Business Day time period, Buyer shall have the right to terminate this Agreement by delivery of a notice to Sellers if the revised information (x) reflects a Material Adverse Effect as compared with the comparable information contained in the original Disclosure Letter and (y) could not reasonably have been expected to result from any condition, event, document or other matter disclosed in the original Disclosure Letter. This notice, if given, shall specify the information forming the basis for the decision to terminate. Sellers shall have five Business Days after receipt of such notice to review with Buyer the information forming the basis for the decision to terminate and to attempt to agree on corrective measures, if any. If the parties cannot agree on corrective measures within such five-Business Day period, then this Agreement shall terminate. If this Agreement is not terminated as permitted by this Section, Buyer shall be deemed to have accepted such revisions, and the Disclosure Letter attached to this Agreement as of the date hereof shall be deemed to be amended by the revised Disclosure Letter.

(b) The parties acknowledge and agree that the Disclosure Letter may include certain items and information solely for informational purposes for the convenience of Buyer and the disclosure by Sellers of any matter in the Disclosure Letter shall not be deemed to constitute an acknowledgment by Sellers that the matter is required to be disclosed by the terms of this Agreement or that the matter is material.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

JAPAN TOBACCO INC.

By:

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Name: Katsuhiko Honda  
Title: Senior Executive Vice President

RJR NABISCO, INC.

By:

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Name: Steven F. Goldstone  
Title: Chairman and Chief Executive  
Officer

R. J. REYNOLDS TOBACCO COMPANY

By:

-----  
Name:  
Title:

EXHIBIT A

[FORM OF IPR AGREEMENT]

EXHIBIT B

PRODUCTION AGREEMENT TERM SHEET

SUBJECT MATTER

RJRT will produce finished and packaged cigarettes, ready for distribution and sale to customers of RJRI and blended tobacco in accordance with the specifications provided by Buyer and will supply packaging materials to RJRI manufacturing facilities; provided that such specifications shall not require RJRT to replace or reconfigure its currently used machinery and equipment. RJRT will also provide related servicing and scheduling services.

TERM

The agreement will be in effect until December 31, 2001 and will continue thereafter unless terminated by either party on one-year's notice.

QUANTITIES

The quantities to be produced by RJRT for the period from the Closing to the end of 1999 will be substantially the same as the quantities the current plan provides for that period. (The current plan for the full 1999 year provides for a total of approximately 21,848,000,000 cigarettes and approximately 31,593,000 lb. of blended tobacco.) The quantities in each succeeding year shall be projected by Buyer pursuant to an agreed forecasting schedule. Unless otherwise

agreed by the parties, the quantity to be produced in any succeeding year shall not vary by more 10% from the quantities produced in the next preceding year, subject to further adjustment to reflect changes in consumer market demand.

#### PRICE

Buyer will pay RJRT its fully-allocated cost incurred in the manufacturing of the cigarettes, blended tobacco and packaging materials (collectively, "PRODUCTS") plus an agreed profit margin.

#### WARRANTIES

RJRT will warrant that the Products will be manufactured in accordance with specifications supplied by Buyer. However, RJRT will not be required to make any other warranties, express or implied, and Buyer will indemnify RJRT for all liabilities related to the Products or the use of or exposure to the Products.

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#### RAW MATERIALS

If requested by Buyer, RJRT will (i) buy all raw materials necessary to manufacture the Products on behalf of Buyer and bill Buyer for the cost of such materials in accordance with normal billing procedures, (ii) continue current arrangements pursuant to which RJRT buys raw materials for itself and RJRI and allocates to RJRI the applicable percentage of the raw materials, or (iii) utilize raw materials furnished to it by Buyer.

#### GOVERNING LAW

New York

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EXHIBIT C

### TRANSITIONAL SERVICES AGREEMENT TERM SHEET

#### SUBJECT MATTER

RJRT (or, if specifically indicated, RJRN or R.J. Reynolds Tobacco International, Inc., a Delaware corporation ("RJRTI")) is prepared to supply the following services to Buyer:

#### LEGAL

(i) Trademark registration and application maintenance services and patent registration and application services.



(ii) Continued product liability defense assistance.

#### MANUFACTURING/OPERATIONAL/LEAF SUPPLY.

(i) Engineering support (provision of services by the engineering group in Winston-Salem to RJRI on a project basis).

(ii) Dedicated packaging support (ensuring that various RJRI packaging graphics are maintained).

(iii) Quality assurance (making available a QA group for the international production).

#### RESEARCH & DEVELOPMENT

Services would involve chemical analysis, biological testing, and toxicological testing of some current and proposed products.

#### SCIENCE & REGULATORY AFFAIRS

Services would be provided by a group at RJRT that analyzes scientific and regulatory activities as they pertain to tobacco products worldwide and would include substantiation of data as well as analysis of compliance with various regulatory schemes.

#### FINANCE/TAX

(i) Provision of tax service to RJRI in connection with RJRI's obtaining the duty drawback on cigarettes produced by RJRI in the U.S.

(ii) Collection of duty free receivables.

(iii) Development and maintenance of standard production costs.

#### INSURANCE

Provision of insurance services by RJRN (see the Disclosure Letter).

#### INFORMATION SYSTEMS (IS)

(i) Provision of support and services related to mainframe applications and technical support and allowing continuing usage of some of the mainframes in Winston-Salem (Winton-Salem is one of the IS hubs that services the RJRI IS network).

(ii) Processing of certain payments on behalf of RJRI and maintenance of export billing system.

#### HUMAN RESOURCES (HR)

Provision by RJRTI of support services in Winston-Salem to service the needs of RJRI employees who receive their benefits and pensions as well as some of their salary in the U.S.

SUCH OTHER SERVICES AS ARE CURRENTLY PROVIDED BY RJRT TO RJRI (SUBJECT TO FURTHER DISCUSSION)

RJRT is prepared to purchase the following from Buyer:

(i) Cigarettes manufactured by the Puerto Rico plant for the Puerto Rico domestic tax-paid market for six months after the Closing;

(ii) The number of "Export A" cigarettes manufactured by RJR-Macdonald, Inc. that is substantially the same as the number of such cigarettes currently purchased by RJRT; and

(iii) Cast sheet from the Trier factory.

#### TERM

Buyer will have the right to terminate any service on three months' notice. Sellers will have the right to terminate any service on three months' notice at any time after the first anniversary of the Purchase Agreement.

#### PRICE

Each party will pay to the other its fully-allocated cost incurred in the provision of goods or services described above plus an agreed profit margin.

3

#### WARRANTIES

RJRT will warrant that the services covered by this Agreement will be provided in accordance with the specifications supplied by Buyer. However, RJRT will not be required to make any other warranties, express or implied, and Buyer will indemnify RJRT for all liabilities related to such services.

#### GOVERNING LAW

New York

4

EXHIBIT D

## CORPORATION

JURISDICTION OF  
INCORPORATION

Bisco Services B.V.	Netherlands
Bisco Services SA	Switzerland
CGM-Cooperation Gesellschaft Markendiversifikation GmbH	Germany
GEM: Global Event Management, Ltd.	England
R.J. Reynolds Berhad	Malaysia
R.J. Reynolds Consults Ltd.	Cyprus
R.J. Reynolds (Cyprus) Limited	Cyprus
R.J. Reynolds Espana, S.L.	Spain
R.J. Reynolds Finance S.A.	Switzerland
R.J. Reynolds Iberia, S.L.	Spain
R.J. Reynolds International B.V.	Netherlands
R.J. Reynolds Italia S.r.l.	Italy
R.J. Reynolds/M.C. Tobacco Company, Limited	Japan
R.J. Reynolds Overseas Finance Co. N.V.	Netherlands Antilles
R.J. Reynolds Scandinavia A.B.	Sweden
R.J. Reynolds (SEA) Sdn. Bhd.	Malaysia
R.J. Reynolds (Thailand), Inc.	Delaware
R.J. Reynolds Tobacco AG Dagmersellen	Switzerland
R.J. Reynolds Tobacco B.V.	Netherlands

-----  
CORPORATION-----  
JURISDICTION OF  
INCORPORATION

R.J. Reynolds Tobacco Company (Hong Kong) Limited	Hong Kong
R.J. Reynolds Tobacco Company (Taiwan), Inc.	Delaware

R.J. Reynolds Tobacco Holdings II B.V.	Netherlands
R.J. Reynolds Tobacco International B.V.	Netherlands
R.J. Reynolds Tobacco International (Korea), Inc.	Delaware
R.J. Reynolds Tobacco International (Mexico), Inc.	Delaware
R.J. Reynolds Tobacco International OY	Finland
R.J. Reynolds Tobacco International (Pty) Ltd.	South Africa
R.J. Reynolds Tobacco-Kremenchuk	Ukraine
R.J. Reynolds Tobacco Limited (N.Z.)	New Zealand
R.J. Reynolds Tobacco-LVIV JSC	Ukraine
R.J. Reynolds Tobacco Poland Sp. Zo.o (Ltd.)	Poland
R.J. Reynolds Verwaltungsgesellschaft GmbH	Germany
Reyben Reinsurance Limited	Ireland
Reynolds Manufacturing (Bulgaria) Ltd.	Bulgaria
RJR-Armavirtabak, OAO	Russia

-----  
CORPORATION

-----  
JURISDICTION OF  
INCORPORATION

RJR-Macdonald Inc.(1)	Federal, Canada
RJR Nabisco (Cyprus) Ltd.	Cyprus
RJR Tobacco Yelets OAO	Russia
SIA Marketing and Sales	Latvia
Tanzania Cigarette Company Limited	Tanzania
Transnational Services, Inc.	Delaware
Worldwide Brands, Inc.	Delaware

NOTE: The capitalization and share ownership data for the foregoing companies are set forth in Section 3.05 of the Disclosure Letter.

-----  
(1) Subject to the reorganization described in Section 5.01.

EXHIBIT E

PURCHASE PRICE ALLOCATION

CROSS-REFERENCE TARGET LIST

NOTE: DUE TO THE NUMBER OF TARGETS SOME TARGET NAMES MAY NOT  
APPEAR IN THE TARGET PULL-DOWN LIST.

(This list is for the use of the wordprocessor only, is not a part  
of this document and may be discarded.)

<TABLE>

<CAPTION>

ARTICLE/SECTION                    TARGET NAME

=====

<S>                    <C>

1.....Definitions  
1.01.....def.in.sec  
1.01(a).....def.in.sec.a

2.....purch.sale.art  
2.01.....purch.sale.sec  
2.02.....purch.price  
2.03.....closing  
2.03.....closing.a  
2.03(a).....closing.b  
2.03(c).....closing.c  
2.04.....closing.bal.sheet  
2.04(a).....closing.bal.sheet.a  
2.04(b).....closing.bal.sheet.b  
2.04(c).....closing.bal.sheet.c  
2.04(d).....closing.bal.sheet.d  
2.05.....adj.pp  
2.05(a).....adj.pp.a  
2.05(b).....adj.pp.b  
2.06.....all.pp

3.....rep.warr.sel  
3.01.....corp.ex  
3.02.....corp.auth  
3.03.....gov.auth  
3.04.....noncont  
3.05.....cap  
3.06.....own.sh  
3.07.....sub  
3.08.....fin.st

3.08(a) .....fin.st.a  
3.08(b) .....fin.st.b  
3.08(c) .....fin.st.c  
3.09.....abs.cert.ch  
3.09(a) .....abs.cert.ch.a  
3.09(b) .....abs.cert.ch.b  
3.09(c) .....abs.cert.ch.c  
3.09(d) .....abs.cert.ch.d  
3.09(e) .....abs.cert.ch.e  
3.09(f) .....abs.cert.ch.f  
3.09(g) .....abs.cert.ch.g  
3.09(h) .....abs.cert.ch.h  
3.09(i) .....abs.cert.ch.i  
3.11.....inter.accts  
3.12.....mat.cont  
3.12(a) .....mat.cont.a  
3.12(a) (i) .....mat.cont.a.i  
3.12(a) (ii) .....mat.cont.a.ii  
3.12(a) (iii) .....mat.cont.a.iii  
3.12(a) (iv) .....mat.cont.a.iv  
3.12(a) (ix) .....mat.cont.a.ix  
3.12(a) (v) .....mat.cont.a.v  
3.12(a) (vi) .....mat.cont.a.vi  
3.12(a) (vii) .....mat.cont.a.vii  
3.12(a) (viii) .....mat.cont.a.viii  
3.12(a) (x) .....mat.cont.a.x  
3.12(b) .....mat.cont.b  
3.13.....lit  
3.14.....comp.law  
3.15.....ip  
3.15(a) .....ip.a  
3.15(b) .....ip.b  
3.15(c) .....ip.c  
3.16.....ins.cov  
3.17.....ffee  
3.18.....en.mat  
3.18(a) .....en.mat.a  
3.18(b) .....en.mat.b  
3.18(c) .....en.mat.c  
3.19.....y2k  
3.19(a) .....y2k.a  
3.19(b) .....y2k.b  
3.20.....nec.prop  
  
4.....rep.warr.buy  
4.01.....cor.ex  
4.02.....cor.au  
4.03.....gov.at  
4.04.....nonc  
4.05.....fin  
4.06.....pur.in

4.07.....litig  
4.08.....find.fe  
4.09.....in.no.rep  
  
5.....cov.sell  
5.01.....con.co  
5.01(a).....con.co.a  
5.01(b).....con.co.b  
5.01(c).....con.co.c  
5.01(d).....con.co.d  
5.01(e).....con.co.e  
5.01(f).....con.co.f  
5.01(g).....con.co.g  
5.02.....acc  
5.02(a).....acc.a  
5.02(b).....acc.b  
5.03.....resig  
5.04.....rel.ag  
5.05.....del  
  
6.....cov.buy  
6.01.....  
6.02.....re.agt  
6.03.....gar.ind  
6.04.....transf  
  
7.....cov.buyer  
7.01.....best.eff  
7.02.....cert.fi  
7.03.....pub  
7.04.....iact  
7.05.....not.c  
7.05(a).....not.c.a  
7.05(b).....not.c.b  
7.05(c).....not.c.c  
  
8.....tax.mat  
8.01.....tax.def  
8.02.....tax.reps  
8.03.....tax.covs  
8.03(a).....tax.covs.a  
8.03(b).....tax.covs.b  
8.03(c).....tax.covs.c  
8.03(d).....tax.covs.d  
8.04.....coop  
8.04(a).....coop.a  
8.04(b).....coop.b  
8.05.....ind.se  
8.05(a).....ind.se.a  
8.05(b).....ind.se.b  
8.05(c).....ind.se.c

8.05(d) .....ind.se.d  
8.05(e) .....ind.se.e  
8.05(f) .....ind.se.f

9.....ee.be  
9.01.....ee.be.defs  
9.01(a) .....ee.be.defs.a  
9.01(b) .....ee.be.defs.b  
9.02.....repres  
9.02(a) .....repres.a  
9.02(a) (i) .....repres.a.i  
9.02(a) (ii) .....repres.a.ii  
9.02(a) (iii) .....represe.a.iii  
9.02(a) (iv) .....repres.a.iv  
9.02(a) (v) .....repres.a.v  
9.02(a) (vi) .....repres.a.vi  
9.02(b) .....repres.b  
9.03.....rj.ee  
9.03(a) .....rj.ee.a  
9.03(b) .....rj.ee.b  
9.03(c) .....rj.ee.c  
9.03(d) .....rj.ee.d  
9.03(e) .....rj.ee.e  
9.03(f) .....rj.ee.f  
9.03(g) .....rj.ee.g  
9.03(h) .....rj.ee.h  
9.03(i) .....rj.ee.i  
9.04.....se.pp  
?.....se.pp.a  
?.....se.pp.b  
9.05.....se.ac.p  
9.06.....perf.ri

10.....cond.clo  
10.01.....cond.ob  
10.01(a) .....cond.ob.a  
10.01(a) (i) .....cond.ob.a.i  
10.01(b) .....cond.ob.b  
10.01(c) .....cond.ob.c  
10.01(d) .....cond.ob.d  
10.02.....con.ob  
10.02(a) .....con.ob.a  
10.02(a) (i) .....con.ob.a.i  
10.02(b) .....con.ob.b  
10.03.....co.se  
10.03(a) .....co.se.a  
10.03(b) .....co.se.b  
10.03(c) .....co.se.c

11.....survival.art  
11.01.....survival.sec



11.02.....in  
11.02(a).....in.a  
11.02(b).....in.b  
11.02(c).....in.c  
11.03.....pro  
11.03(a).....pro.a  
11.03(b).....pro.b  
11.03(c).....pro.c  
11.03(d).....pro.d  
11.04.....cal.dam  
11.04(a).....cal.dam.a  
11.04(b).....cal.dam.b  
11.04(c).....cal.dam.c  
11.05.....ass.cl  
11.06.....ex.re

12.....term  
12.01.....grounds  
12.01(a).....grounds.a  
12.01(b).....grounds.b  
12.01(c).....grounds.c  
12.02.....eff.term

13.....misc  
13.01.....not  
13.02.....amend.wa  
13.02(a).....amend.wa.a  
13.02(b).....amend.wa.b  
13.03.....expenses  
13.04.....succ.as  
13.05.....gov.lw  
13.06.....juris  
13.07.....waiv.jr  
13.08.....cnpt  
13.09.....entire  
13.10.....captions  
13.11.....dis.lt  
13.11(a).....dis.lt.a  
13.11(b).....dis.lt.b

</TABLE>

AMENDMENT  
TO  
CONTINGENT PERFORMANCE SHARE AGREEMENT

This is an amendment, effective as of October 14, 1998, to the RJR Nabisco Holdings Corp. 1990 Long Term Incentive Plan Contingent Performance Share Agreement (the "Agreement") dated December 5, 1995 between RJR Nabisco Holdings Corp., a Delaware corporation ("Holdings") and Steven F. Goldstone ("Executive").

In order to enable Holdings to maintain effective incentives to the performance of Executive, it is agreed by and between the parties as follows:

- a) The first sentence of Section 2 of the Agreement shall be amended to read as follows:

For the six-year performance period commencing on December 31, 1995 and ending December 31, 2001 (the "Performance Period"), the Committee has determined that the Performance Objective shall be the following: the average composite closing price of Common Stock of the Company must equal or exceed \$43.75 for any period of 30 consecutive calendar days during the Performance Period as reported in the Wall Street Journal for days that Common Stock of the Company is traded on the New York Stock Exchange.

- b) The first sentence of Section 3 of the Agreement shall be amended to read as follows:

Should the Performance Objective be achieved during the Performance Period either before or after a Change of Control (as defined in the Plan), the Contingent Performance Shares shall vest completely and shall be payable to Grantee, if he is actively employed on December 31, 2001, as soon as practicable after December 31, 2001.

RJR NABISCO HOLDINGS CORP.

By: \_\_\_\_\_

-----



## RJR NABISCO HOLDINGS CORP.

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES  
AND PREFERRED STOCK DIVIDENDS / DEFICIENCY IN THE COVERAGE OF COMBINED  
FIXED CHARGES AND PREFERRED STOCK DIVIDENDS BY EARNINGS BEFORE FIXED CHARGES  
(DOLLARS IN MILLIONS)

<S>	YEARS ENDED DECEMBER 31,				
	<C> 1998	<C> 1997	<C> 1996	<C> 1995	<C> 1994
Earnings before fixed charges:					
Income (loss) before income taxes.....	\$ (614)	\$ 1,016	\$ 1,199	\$ 1,266	\$ 1,375
Less minority interest in pre-tax income (loss) of Nabisco Holdings.....	(6)	142	22	105	--
Adjusted income (loss) before income taxes.....	(608)	874	1,177	1,161	1,375
Interest and debt expense.....	880	912	927	899	1,065
Interest portion of rental expense.....	58	61	56	54	51
Earnings before fixed charges.....	\$ 330	\$ 1,847	\$ 2,160	\$ 2,114	\$ 2,491
Combined fixed charges and preferred stock dividends:					
Interest and debt expense.....	\$ 880	\$ 912	\$ 927	\$ 899	\$ 1,065
Interest portion of rental expense.....	58	61	56	54	51
Capitalized interest.....	3	6	15	12	11
Preferred stock dividends(1).....	53	153	307	411	594
Total fixed charges and preferred stock dividends.....	\$ 994	\$ 1,132	\$ 1,305	\$ 1,376	\$ 1,721
Deficiency in the coverage of combined fixed charges and preferred stock dividends by earnings before fixed charges....	\$ (664)	--	--	--	--
Ratio of earnings to combined fixed charges and preferred stock dividends.....	--	1.6	1.7	1.5	1.4

&lt;/TABLE&gt;

-----

(1) Series B preferred stock dividends have been increased to present their equivalent pre-tax amounts, as applicable.

## RJR NABISCO HOLDINGS CORP.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES / DEFICIENCY  
IN THE COVERAGE OF FIXED CHARGES BY EARNINGS BEFORE FIXED CHARGES

(DOLLARS IN MILLIONS)

<S>	YEARS ENDED DECEMBER 31,				
	<C> 1998	<C> 1997	<C> 1996	<C> 1995	<C> 1994
Earnings before fixed charges:					
Income (loss) before income taxes.....	\$ (614)	\$ 1,016	\$ 1,199	\$ 1,266	\$ 1,375
Less minority interest in pre-tax income (loss) of Nabisco Holdings.....	(6)	142	22	105	--
Adjusted income (loss) before income taxes.....	(608)	874	1,177	1,161	1,375
Interest and debt expense.....	880	912	927	899	1,065
Interest portion of rental expense.....	58	61	56	54	51
Earnings before fixed charges.....	\$ 330	\$ 1,847	\$ 2,160	\$ 2,114	\$ 2,491
Fixed charges:					
Interest and debt expense.....	\$ 880	\$ 912	\$ 927	\$ 899	\$ 1,065
Interest portion of rental expense.....	58	61	56	54	51
Capitalized interest.....	3	6	15	12	11
Total fixed charges.....	\$ 941	\$ 979	\$ 998	\$ 965	\$ 1,127
Deficiency in the coverage of fixed charges by earnings before fixed charges.....	\$ (611)	--	--	--	--
Ratio of earnings to fixed charges.....	--	1.9	2.2	2.2	2.2

&lt;/TABLE&gt;

## RJR NABISCO, INC.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES / DEFICIENCY  
IN THE COVERAGE OF FIXED CHARGES BY EARNINGS BEFORE FIXED CHARGES

(DOLLARS IN MILLIONS)

	YEARS ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Earnings before fixed charges:					
Income (loss) before income taxes.....	\$ (511)	\$ 1,104	\$ 1,288	\$ 1,291	\$ 1,376
Less minority interest in pre-tax income (loss) of Nabisco Holdings.....	(6)	142	22	105	--
Adjusted income (loss) before income taxes.....	(505)	962	1,266	1,186	1,376
Interest and debt expense.....	775	817	832	872	1,065
Interest portion of rental expense.....	58	61	56	54	51
Earnings before fixed charges.....	\$ 328	\$ 1,840	\$ 2,154	\$ 2,112	\$ 2,492
Fixed charges:					
Interest and debt expense.....	\$ 775	\$ 817	\$ 832	\$ 872	\$ 1,065
Interest portion of rental expense.....	58	61	56	54	51
Capitalized interest.....	3	6	15	12	11
Total fixed charges.....	\$ 836	\$ 884	\$ 903	\$ 938	\$ 1,127
Deficiency in the coverage of fixed charges by earnings before fixed charges.....	\$ (508)	--	--	--	--
Ratio of earnings to fixed charges.....	--	2.1	2.4	2.3	2.2

&lt;/TABLE&gt;

## RJR NABISCO HOLDINGS CORP.

<TABLE>  
<CAPTION>

Name of Subsidiary	Date of Incorporation	Place of Incorporation
<S>	<C>	<C>
RJR Nabisco Holdings Corp.	Oct 25, 1988	Delaware
RJR Nabisco, Inc.	Mar 04, 1970	Delaware
ABCO (Poland) Sp. Zo.o	Sept 24, 1991	Poland
Airco IHC, Inc.	Mar 22, 1989	Delaware
AO ISMA (60%) **	Nov 09, 1992	Russia
A/O Nabisco *	Aug 16, 1994	Russia
AO3T Kabisco (90%) ***	Jul 05, 1994	Kazakhstan
Arjay Equipment Corporation	Nov 08, 1968	Delaware
Arjay Holdings, Inc.	May 07, 1984	Delaware
Arrimo Fomento Comercial Ltda. *	Oct 27, 1987	Brazil
Beech-Nut Life Savers (Panama) S.A.	Jul 12, 1963	Panama
Beijing Nabisco Food Company Ltd. (91.9%)	Mar 16, 1995	China
Bisco Services B.V.	Dec 22, 1988	Netherlands
Bisco Services SA	Mar 01, 1998	Switzerland
Camel Racing Inc.-Courses Camel Inc. **	Jun 22, 1989	Federal, Canada
Carnes y Conservas Espanolas, S.A. [CARCESA]	Dec 02, 1975	Spain
Cartera e Inversiones S.A. *	Mar 05, 1979	Peru
CGM-Cooperation GmbH	Jan 15, 1990	Germany
China-American Cigarette Company Limited (50%) ***	May 29, 1984	China
Club Cigarettenfabrik GmbH	Aug 27, 1990	Germany
Comercial Benut, S.A. de C.V. **	Mar 16, 1977	Mexico
Compania Venezolana de Conservas C.A. [COVENCO]	Jul 25, 1969	Venezuela
Consiber, S.A.	Mar 31, 1979	Spain
Covenco Holding C.A.	Nov 26, 1991	Venezuela
Dely, S.A.	Dec 18, 1960	Guatemala
Distribuidora Pan Americana, S.A.	Oct 22, 1974	Panama
Eagle Collection (M) Sdn. Bhd.	Nov 12, 1994	Malaysia
Establecimiento Modelo Terrabusi S.A. (99.2%)	Dec 20, 1929	Argentina
Exhold Limited *	Oct 03, 1989	Liberia
Export "A" Inc.	Mar 31, 1989	Canada
FHS LLC	Apr 02, 1998	Delaware
Fleischmann Corporation, The	Nov 02, 1929	Delaware
Fleischmann International, Inc.	Nov 20, 1944	Delaware
Fleischmann Peruana Inc.	Sep 01, 1939	Delaware
Fleischmann Uruguay S.A.	Mar 09, 1961	Uruguay

\* Inactive

Page 1

\*\* In Liquidation

SUB-Curr

\*\*\* Partnership/Joint Venture/Trust

\*\*\*\* Nameholder

Revised 3/3/99

## RJR NABISCO HOLDINGS CORP.

Name of Subsidiary	Date of Incorporation	Place of Incorporation
Freezer Queen Foods (Canada) Limited	Nov 03, 1967	Ontario, Canada
Fulmer Corporation Limited	May 15, 1981	Bahamas
Galletas Artiach, S.A.	Jul 23, 1932	Spain
Galletas Fontaneda, S.A.	Mar 09, 1967	Spain

Gelatinas Ecuatoriana S.A. (66.7%)	Nov 21, 1978	Ecuador
GEM: Global Event Management, Ltd.	Jun 27, 1991	England
GMB, Inc.	May 09, 1996	N. Carolina
Grupo Gamesa, S.A. de C.V. (1%)	Jul 29, 1981	Mexico
Hanover Servicing, Inc.	Apr 13, 1992	Delaware
Haus Neuerburg GmbH **	Feb 25, 1977	Germany
Hervin Company, The	May 28, 1965	Oregon
Hervin Holdings, Inc.	Mar 29, 1988	Delaware
Industria de Colores y Sabores S.A. *	Jun 21, 1967	Colombia
Industria de Laticinios Gloria Ltda. *	Jan 18, 1978	Brazil
Industria e Comercio de Produtos Alimenticios Cerqueirense Ltda.	May 11, 1971	Brazil
Industrias Alimenticias Maguary Ltda.	May 07, 1953	Brazil
Iracema Industrias de Caju Ltda	Aug 08, 1978	Brazil
Joshua Partners & Co.	Mar 08, 1996	Cyprus
Jupiter Produtos Alimenticios Ltda.	Mar 02, 1962	Brazil
Knox Company, The	Dec 30, 1991	New Jersey
Landers Centro Americana, Fabricantes de Molinos Marca "Corona", S.A. de C.V. (95%) **	Jan 09, 1979	Honduras
Landers y Cia, S.A.	Oct 01, 1951	Colombia
Leite Gloria do Nordeste S.A.	May 16, 1968	Brazil
Life Savers Manufacturing, Inc.	Apr 21, 1976	Delaware
Lowney Inc.	Jan 01, 1983	Federal, Canada
Marbu, S.A.	Oct 26, 1967	Spain
Merola Finance B.V. *	May 09, 1995	Netherlands
MEX Holdings, Ltd.	Nov 27, 1991	Delaware
Modi RJR Limited (50%) ***	Sep 24, 1993	India
NABEC, S.A.	Nov 17, 1982	Ecuador

\* Inactive

Page 2

\*\* In Liquidation

SUB-Curr

\*\*\* Partnership/Joint Venture/Trust

\*\*\*\* Nameholder

Revised 3/3/99

RJR NABISCO HOLDINGS CORP.

Name of Subsidiary	Date of Incorporation	Place of Incorporation
Nabisco Arabia Co. Ltd. (75%) ***	Jan 29, 1996	Saudi Arabia
Nabisco Argentina S.A.	Mar 14, 1994	Argentina
Nabisco Biscuit Manufacturing (Midwest), Inc.	Dec 21, 1988	Delaware
Nabisco Biscuit Manufacturing (West), Inc.	Dec 21, 1988	Delaware
Nabisco Brands Company	Aug 01, 1995	Delaware
Nabisco Brands Holdings Denmark Limited	Apr 17, 1989	Liberia
Nabisco Brands Nominees Limited *	Aug 22, 1983	England
Nabisco Brazil, Inc.	May 10, 1990	Delaware
Nabisco Caribbean Export, Inc.	Jun 13, 1984	Delaware
Nabisco/Cetus Food Biotechnology Research Partnership (80%) ***	Mar 01, 1984	Delaware
Nabisco (China) Limited	Aug 29, 1995	China
Nabisco Chongqing Food Company Ltd. *	Mar 01, 1995	China
Nabisco de Nicaragua, S.A. (60%)	Dec 10, 1965	Nicaragua
Nabisco Direct, Inc.	Aug 23, 1995	Delaware
Nabisco Dominicana, S.A.	Dec 11, 1995	Dom. Repub.
Nabisco England IHC, Inc.	Mar 29, 1989	Delaware
Nabisco Enterprises IHC, Inc.	Mar 22, 1989	Delaware
Nabisco Europe, Middle East and Africa Trading, S.A.	Oct 28, 1992	Spain
Nabisco Financing I, Inc.	July 13, 1998	Delaware
Nabisco Financing II, Inc.	July 13, 1998	Delaware
Nabisco Food (Suzhou) Co. Ltd.	Mar 16, 1995	China
Nabisco Group Ltd.	Jun 02, 1995	Delaware
Nabisco Holdco, Inc.	July 13, 1998	Delaware
Nabisco Holdings Corp. (80.7%)	Apr 21, 1981	Delaware
Nabisco Holdings IHC, Inc.	Mar 22, 1989	Delaware



Nabisco Holdings I B.V.	May 03, 1996	Netherlands
Nabisco Holdings II B.V.	May 28, 1996	Netherlands
Nabisco Hong Kong Limited	Apr 12, 1994	Hong Kong
Nabisco Iberia Lda.	Dec 23, 1916	Portugal
Nabisco Iberia, S.L. (98.85%)	Jul 15, 1993	Spain
Nabisco, Inc.	Feb 03, 1898	New Jersey
Nabisco, Inc. Foreign Sales Corporation	Dec 17, 1991	US Virgin Is.
Nabisco International, Inc.	Jul 29, 1947	Delaware
Nabisco International Limited	Dec 11, 1987	Nevada
Nabisco International Market Development Group, Inc.	Mar 22, 1989	Delaware
Nabisco International M.E./Africa L.L.C. (49%)	?	Dubai, U.A.E.
Nabisco International, S.A.	Nov 26, 1953	Panama
Nabisco Investments, Inc.	Mar 22, 1989	Delaware

\* Inactive  
 \*\* In Liquidation  
 \*\*\* Partnership/Joint Venture/Trust  
 \*\*\*\* Nameholder

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RJR NABISCO HOLDINGS CORP.

Name of Subsidiary	Date of Incorporation	Place of Incorporation
Nabisco (Jamaica) Limited	Jun 16, 1998	Jamaica
Nabisco Korea Ltd.	Feb 10, 1998	Korea
Nabisco Ltd-Nabisco Ltee	Jan 01, 1993	Federal, Canada
Nabisco Music Publishers, Inc.	Mar 24, 1986	Delaware
Nabisco Music Ventures, Inc.	Mar 24, 1986	Delaware
Nabisco (New Zealand) Limited ****	Mar 30, 1990	New Zealand
Nabisco Overseas Financing, Inc.	July 15, 1998	Delaware
Nabisco Partnership ***	July 15, 1998	Delaware
Nabisco Peru S.A.	Jan 28, 1972	Peru
Nabisco Philippines, Inc.	Oct 14, 1997	Philippines
Nabisco Preferred, Inc. (90%)	July 15, 1998	Delaware
Nabisco Royal Argentina LLC	Sep 10, 1998	Delaware
Nabisco Royal Chile Limitada	Mar 22, 1978	Chile
Nabisco Royal de Honduras, S.A.	Jul 22, 1982	Honduras
Nabisco Royal del Ecuador, S.A.	Sep 16, 1977	Ecuador
Nabisco Royal, Inc.	Sep 21, 1951	New York
Nabisco Royal Panama, S.A.	Mar 07, 1979	Panama
Nabisco S.A. de C.V. (99.5%)	Jun 15, 1992	Mexico
Nabisco, S.L. *	Jan 18, 1989	Spain
Nabisco South Africa (Proprietary) Limited (49%)	Jan 02, 1945	South Africa
Nabisco Taiwan Corporation	May 27, 1996	Taiwan
Nabisco Technology Company	Dec 13, 1996	Delaware
Nabisco (Thailand) Limited	Oct 01, 1997	Thailand
Nabisco Trading AG	Aug 02, 1960	Switzerland
Nabisco Tunisia S.A.	Jul 02, 1976	Tunisia
Nabisco Venezuela, C.A.	Nov 26, 1991	Venezuela
National Biscuit Company ****	Jan 17, 1971	Delaware
Northern Brands International, Inc.	Dec 10, 1992	Delaware
OAQ Electronmash (60%)	Mar 31, 1997	Russia
OOO RJR-Trading House	Jan 20, 1998	Russia
Outdoor Traders International S.r.l. **	Jan 17, 1991	Italy
Planters & Biscuits Co.	Jan 01, 1997	Russia
Posto Apolo Ltda.	Dec 05, 1984	Brazil
Productos Confitados Salvavidas de Guatemala, S.A.	Jul 03, 1974	Guatemala
Productos Mayco S.A.I.C.I.F.	May 11, 1962	Argentina
Produtos Alimenticios Fleischmann e Royal Ltda.	Nov 28, 1964	Brazil
Produtos Alimenticios Pilar Ltda.	Jun 23, 1934	Brazil
Produtos Alimenticios Royal S.A.	Jan 01, 1966	Costa Rica
PT Nabisco Foods (70%) ***	Mar 21, 1995	Indonesia

\* Inactive  
 \*\* In Liquidation  
 \*\*\* Partnership/Joint Venture/Trust  
 \*\*\*\* Nameholder

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RJR NABISCO HOLDINGS CORP.

Name of Subsidiary	Date of Incorporation	Place of Incorporation
R. J. Reynolds Berhad (60%)	Jan 29, 1970	Malaysia
R. J. Reynolds (China) Limited	Jun 27, 1997	Hong Kong
R. J. Reynolds (Consults) Limited	Feb 20, 1996	Cyprus
R. J. Reynolds (Cyprus) Limited	Feb 20, 1990	Cyprus
R. J. Reynolds-Da Nang Tobacco Company Limited (70%) ***	Jan 24, 1995	Vietnam
R. J. Reynolds Espana, S.L. (50%)	Dec 16, 1992	Spain
R. J. Reynolds Europe, Inc.	Apr 24, 1992	Delaware
R. J. Reynolds Finance S.A.	Sep 17, 1982	Switzerland
R. J. Reynolds Finland OY	Apr 27, 1994	Finland
R. J. Reynolds Iberia, S.L.	Nov 27, 1996	Spain
R. J. Reynolds, Inc.	Oct 09, 1985	Delaware
R. J. Reynolds International B.V.	Oct 30, 1995	Netherlands
R. J. Reynolds International Finance B.V.	Jan 01, 1997	Netherlands
R. J. Reynolds Italia S.r.l.	Feb 09, 1989	Italy
R. J. Reynolds/M.C. Tobacco Company, Limited (70%)	Jul 01, 1982	Japan
R. J. Reynolds Overseas Finance Co. N.V.	Oct 21, 1977	Neth. Antilles
R. J. Reynolds (PRIVATE) Limited **	Dec 28, 1994	Pakistan
R. J. Reynolds Reklam Ve Pazarlama A.S.	Mar 22, 1990	Turkey
R. J. Reynolds Scandinavia A.B.	Apr 12, 1969	Sweden
R. J. Reynolds (SEA) Sdn. Bhd.	Aug 29, 1992	Malaysia
R. J. Reynolds (Slovakia) Spol. s.r.o. **	Sep 20, 1993	Slovak Republic
R. J. Reynolds (Thailand) Inc.	Aug 06, 1992	Delaware
R. J. Reynolds Tobacco A.G. Dagmersellen	Mar 03, 1966	Switzerland
R. J. Reynolds Tobacco B.V.	Sep 24, 1973	Netherlands
R. J. Reynolds Tobacco Baku (50%)	Oct 17, 1996	Azerbaijan
R. J. Reynolds Tobacco Co.	Aug 08, 1969	Delaware
R. J. Reynolds Tobacco Company	Apr 04, 1899	New Jersey
R. J. Reynolds Tobacco Company (Hong Kong) Limited	Apr 07, 1970	Hong Kong
R. J. Reynolds Tobacco Company, S.A.E.	Apr 27, 1971	Spain
R. J. Reynolds Tobacco Company Sdn. Bhd.	Oct 10, 1973	Malaysia
R. J. Reynolds Tobacco Company (Taiwan), Inc.	Apr 14, 1988	Delaware
R. J. Reynolds Tobacco (Croatia) Ltd. **	Dec 21, 1992	Croatia
R. J. Reynolds Tobacco Foreign Sales Corporation	Dec 19, 1984	US Virgin Is.
R. J. Reynolds Tobacco France S.A.	Aug 21, 1976	France
R. J. Reynolds Tobacco GmbH	Nov 30, 1957	Germany
R. J. Reynolds Tobacco Hellas A.E.B.E.	Sep 24, 1981	Greece
R. J. Reynolds Tobacco Holdings II B.V.	Apr 17, 1985	Holland
R. J. Reynolds Tobacco International B.V.	Sep 02, 1963	Netherlands
R. J. Reynolds Tobacco International (Hong Kong) Limited	Jul 28, 1987	Hong Kong
R. J. Reynolds Tobacco International, Inc.	Jan 12, 1976	Delaware
R. J. Reynolds Tobacco International (Korea), Inc.	Jan 17, 1991	Delaware
R. J. Reynolds Tobacco International (Mexico), Inc.	Jun 24, 1981	Delaware
R. J. Reynolds Tobacco International OY **	Jun 14, 1995	Finland
R. J. Reynolds Tobacco International (Pty) Ltd.	Mar 30, 1998	South Africa
R. J. Reynolds Tobacco International S.A.	Nov 03, 1966	Switzerland

\* Inactive  
 \*\* In Liquidation  
 \*\*\* Partnership/Joint Venture/Trust  
 \*\*\*\* Nameholder

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RJR NABISCO HOLDINGS CORP.

Name of Subsidiary	Date of Incorporation	Place of Incorporation
R. J. Reynolds Tobacco-Kazakhstan (80%) ***	Jun 30, 1994	Kazakhstan
R. J. Reynolds Tobacco-Kremenchuk (92.5%) ***	Jun 10, 1993	Ukraine
R. J. Reynolds Tobacco (Kyiv) JSC	Apr 09, 1993	Ukraine
R. J. Reynolds Tobacco Limited *	Jun 18, 1975	New Zealand
R. J. Reynolds Tobacco Ltd	May 16, 1995	Slovenia
R. J. Reynolds Tobacco Luxembourg S.A.	Feb 07, 1997	Luxembourg
R. J. Reynolds Tobacco-Iviv JSC (97.92%) ***	Oct 28, 1993	Ukraine
R. J. Reynolds Tobacco (MAK) *	Jul 25, 1994	Macedonia
R. J. Reynolds Tobacco (Philippines), Inc.	Apr 22, 1992	Philippines
R. J. Reynolds Tobacco (Poland) Sp. Zo.o.	Jan 07, 1991	Poland
R. J. Reynolds Tobacco Processing (Romania) S.A.	Jul 06, 1993	Romania
R. J. Reynolds Tobacco (Romania) SRL	Jul 06, 1993	Romania
R. J. Reynolds Tobacco (Senegal) Sarl	Apr 01, 1995	Senegal
R. J. Reynolds Tobacco Spol. s.r.o. **	Apr 12, 1991	Czech Republic
R. J. Reynolds Tobacco (UK) Limited	Nov 18, 1980	England
R. J. Reynolds Trading Company Sdn. Bhd.	Nov 06, 1987	Malaysia
R. J. Reynolds Tunisia	Mar 17, 1997	Tunisia
R. J. Reynolds Tutun Sanayi A.S.	Jan 21, 1993	Turkey
R. J. Reynolds Verwaltungsgesellschaft mbH	Feb 28, 1997	Germany
Reyben Reinsurance Limited	Dec 22, 1998	Ireland
Reynolds Manufacturing (Bulgaria) Ltd. (69%) **	Dec 29, 1993	Bulgaria
Reynolds Manufacturing (Romania) S.A. (97%)	Jul 12, 1993	Romania
Reynolds Technologies, Inc.	Mar 01, 1994	Delaware
Reytek Tutun Sanayi ve Ticaret AS	Jun 10, 1986	Turkey
Ritz Biscuit Company Limited ****	Sep 28, 1989	England
RJR-Armavirtabak, OAO (91.25%) ***	Oct 24, 1994	Russia
RJR Comercial Ltda. *	Aug 18, 1977	Brazil
RJR Group, Inc., The	Dec 13, 1985	Delaware
RJR Industries, Inc.	Dec 29, 1975	Delaware
RJR Industries (U.K.) Limited **	Jun 01, 1982	England
RJR-Macdonald Inc.	Sep 12, 1978	Federal, Canada
RJR-Macdonald Investments Inc. **	June 21, 1996	Federal, Canada
RJR Marketing and Sales	Dec 25, 1996	Azerbaijan
RJR Marketing and Sales	Feb 25, 1997	Lithuania
RJR Marketing and Sales JSC	Feb 16, 1995	Russia
RJR Mauritius Private Limited	Sep 27, 1993	Mauritius
RJR Merchandise Marketing Company	Aug 22, 1994	Delaware
RJR Nabisco China Limited	Dec 28, 1979	Hong Kong
RJR Nabisco (Cyprus) Limited	Mar 29, 1990	Cyprus
RJR Nabisco Holdings Capital Trust I (3%) ***	Jun 20, 1995	Delaware
RJR Nabisco Holdings Capital Trust II (3%) ***	Aug 06, 1998	Delaware
RJR-Nabisco Industries, Inc.	Dec 13, 1985	Delaware
RJR Nabisco Securities Ltd.-Titres RJR Nabisco Ltee	Sep 28, 1987	Federal, Canada

\* Inactive

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\*\* In Liquidation

SUB-Curr

\*\*\* Partnership/Joint Venture/Trust

\*\*\*\* Nameholder

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RJR NABISCO HOLDINGS CORP.

Name of Subsidiary	Date of Incorporation	Place of Incorporation
RJR PYOTR	Jun 01, 1997	Russia
RJR Realty Relocation Services, Inc.	Nov 01, 1994	N. Carolina
RJR Sales Co.	Feb 18, 1993	Delaware
RJR Technical Company	May 16, 1991	Delaware
RJR Tobacco Company, Inc.	Dec 30, 1982	N. Carolina

RJR Tobacco Consolidated IHC, Inc.	Mar 22, 1989	Delaware
R.J.R. Tobacco International Holding B.V. [HOLDCO]	Nov 22, 1996	Netherlands
RJR Tobacco Russia **	Dec 05, 1991	Russia
RJR Tobacco Yelets, OAO (82%)	Oct 26, 1994	Russia
RJR Trade Promotion Company	Feb 18, 1993	Delaware
Royal Beech-Nut (Namibia) (PTY) Ltd. *	Aug 08, 1989	South Africa
Royal Holding C.A.	Nov 26, 1991	Venezuela
Royal Productos Alimenticios, C.A.	Jul 26, 1971	Venezuela
Salem Cool Planet Sdn. Bhd. *	Jul 13, 1996	Malaysia
Salem Holidays Sdn. Bhd.	Oct 03, 1994	Malaysia
Salem Power Station Sdn. Bhd.	Sep 18, 1993	Malaysia
Salvavidas S. de R.L. de C.V. **	Mar 30, 1967	Mexico
S. F. Imports, Inc.	May 26, 1994	Delaware
SIA Marketing and Sales	June 18, 1998	Latvia
Smoker's Connection, Inc., The	Feb 18, 1993	Delaware
Smooth Events Inc.-Les Evenements Veloutee Inc.	Jan 26, 1996	Federal, Canada
Sports Marketing Enterprises, Inc. ****	Apr 14, 1988	N. Carolina
STAR Cooperation GmbH **	Jan 29, 1960	Germany
Stella D'oro Biscuit Co., Inc.	Jan 02, 1948	New York
Tabandor S.A. (33.35%)	Feb 28, 1995	Andorra
Tanzania Cigarette Company (51%) ***	Jan 28, 1995	Tanzania
Targacept, Inc.	Mar 07, 1997	Delaware
Tevalca Holding C.A.	Nov 26, 1991	Venezuela
TOO RJR-Petro (96.46%) ***	May 07, 1992	Russia
Transapolo-Transportes Rodoviaros Apolo Ltda.	Oct 24, 1984	Brazil
Transnational Services, Inc.	Jan 06, 1988	Delaware
20th Century Denmark Limited	Mar 06, 1990	Liberia
Vantage Arts Inc.-Arts Vantage Inc. **	Jun 22, 1989	Federal, Canada
West Indies Yeast Company Limited (72%)	Nov 29, 1965	Jamaica
Worldwide Brands, Inc.	Oct 18, 1983	Delaware
Worldwide Brands Inc. Sdn. Bhd.	Mar 30, 1991	Malaysia
Worldwide Brands International (Hong Kong) Limited	Jan 19, 1988	Hong Kong
Yili-Nabisco Biscuit & Food Company Limited (51%) ***	Jan 29, 1985	China

TOTAL: 268

</TABLE>

\* Inactive  
 \*\* In Liquidation  
 \*\*\* Partnership/Joint Venture/Trust  
 \*\*\*\* Nameholder

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 SUB-Curr

Revised 3/3/99

CONSENT OF DELOITTE & TOUCHE LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement Nos. 33-39781, 33-39725, 33-40400, 33-40395, 33-40396, 33-66084, 33-54397, 33-54399, 33-54393 and 33-40702 of RJR Nabisco Holdings Corp. on Form S-8 and Registration Statement Nos. 33-60803 and 333-39995 of RJR Nabisco, Inc. on Form S-3 of our report dated January 27, 1999 (March 25, 1999 as to notes 10 and 18) appearing in this Annual Report on Form 10-K of RJR Nabisco Holdings Corp. and RJR Nabisco, Inc. for the year ended December 31, 1998.

/s/ DELOITTE & TOUCHE LLP  
New York, New York  
March 25, 1999

## POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned, being a director or officer, or both, of each of RJR NABISCO HOLDINGS CORP. and RJR NABISCO, INC., each a Delaware corporation (the "Companies"), do hereby make, constitute and appoint William L. Rosoff, H. Colin McBride, Sara L. Silbiger and David F. Sternlieb, and each of them, attorneys-in-fact and agents of the undersigned with full power and authority of substitution and resubstitution, in any and all capacities, to execute for and on behalf of the undersigned the ANNUAL REPORT ON FORM 10-K of RJR Nabisco Holdings Corp. and RJR Nabisco, Inc., for the fiscal year ended December 31, 1998, and any and all amendments or supplements to the foregoing Annual Report and any other documents and instruments incidental thereto, and to deliver and file the same, with all exhibits thereto, and all documents and instruments in connection therewith, with the Securities and Exchange Commission, and with each exchange on which any class of securities of the Companies is registered, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing that said attorneys-in-fact and agents, and each of them, deem advisable or necessary to enable the Companies to effectuate the intents and purposes hereof, and the undersigned hereby fully ratify and confirm all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has subscribed his or her name, this \_\_\_ day of \_\_\_\_\_, 19\_\_.

/s/ STEVEN F. GOLDSTONE  
-----

Steven F. Goldstone

Chairman of the Board, President,  
Chief Executive Officer and Director

/s/ DAVID B. RICKARD  
-----

David B. Rickard

Senior Vice President and Chief  
Financial Officer

/s/ RICHARD G. RUSSELL  
-----

Richard G. Russell

Senior Vice President and Controller

Page 2

/s/ JOHN T. CHAIN, JR.

Director

-----  
John T. Chain, Jr.

/s/ JULIUS L. CHAMBERS

Director

-----  
Julius L. Chambers

/s/ JOHN L. CLENDENIN

Director

-----  
John L. Clendenin

/s/ RAY J. GROVES

Director

-----  
Ray J. Groves

/s/ FRED H. LANGHAMMER

Director

-----  
Fred H. Langhammer

/s/ H. EUGENE LOCKHART

Director

-----  
H. Eugene Lockhart

/s/ THEODORE E. MARTIN

Director

-----  
Theodore E. Martin

/s/ ROZANNE L. RIDGWAY

Director

-----  
Rozanne L. Ridgway

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THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM RJRN HOLDINGS' CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM RJRN'S CONSOLIDATED FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH STATEMENTS.

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<CIK> 0000083612

<NAME> RJR NABISCO, INC.

<MULTIPLIER> 1,000,000

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<INVENTORY>	2,293
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EXHIBIT 99  
TO THE RJR NABISCO HOLDINGS CORP./RJR NABISCO, INC.  
ANNUAL REPORT  
ON  
FORM 10-K  
AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 27, 1998  
EXPANDED LITIGATION DISCLOSURE

TOBACCO-RELATED LITIGATION

OVERVIEW. Various legal actions, proceedings and claims are pending or may be instituted against R.J. Reynolds Tobacco Company ("RJRT") or its affiliates (including, with increasing frequency, RJRN and RJRN Holdings) or indemnitees, including those claiming that lung cancer and other diseases as well as addiction have resulted from the use of or exposure to RJRT's tobacco products. During 1998, 334 new actions were served against RJRT and/or its affiliates or indemnitees and 183 such actions were dismissed or otherwise resolved in favor of RJRT and/or its affiliates or indemnitees without trial. There have been noteworthy increases in the number of these cases pending. On December 31, 1998, there were 664 active cases pending, as compared with 516 on December 31, 1997, 234 on December 31, 1996 and 134 on December 31, 1995. As of March 15, 1999, 658 active cases were pending against RJRT and/or its affiliates or indemnitees: 653 in the United States; two in Canada; one in each of the Marshall Islands, Nigeria and Puerto Rico.

The U.S. cases are pending in 42 U.S. states and the District of Columbia. The breakdown is as follows: 126 in West Virginia; 122 in Florida; 109 in New York; 53 in California; 29 in Massachusetts; 24 in Louisiana; 17 in Pennsylvania; 16 in Tennessee; 15 in Texas; 14 in the District of Columbia; 12 in Alabama; 11 in New Jersey; nine in each of Illinois and Mississippi; six in each of Iowa and Ohio; five in each of Indiana, Maryland and Minnesota; four in each of Arkansas, Georgia, Missouri, Nevada, Oklahoma, Rhode Island and Virginia; three in each of Arizona and New Mexico; two in each of Colorado, Hawaii, Kansas, Kentucky, Michigan, North Carolina, North Dakota, South Carolina, South Dakota, Utah and Washington; one in each of Nebraska, New Hampshire, Oregon and Wisconsin. Of the 653 active U.S. cases, 136 are pending in federal court, 512 in state court and five in tribal court. Most of these cases were brought by individual plaintiffs, but an increasing number, discussed below, seek recovery on behalf of third parties or large classes of claimants.

THEORIES OF RECOVERY. The plaintiffs in these actions seek recovery on a variety of legal theories, including, among others, strict liability in tort, design defect, negligence, special duty, voluntary undertaking, breach of warranty, failure to warn, fraud, misrepresentation, unfair trade practices, conspiracy, aiding and abetting, unjust enrichment, antitrust, Racketeer Influenced and Corrupt Organization Act ("RICO"), indemnity, medical monitoring

and common law public nuisance. Punitive damages, often in amounts ranging into the hundreds of millions or even billions of dollars, are specifically pleaded in a number of cases in addition to compensatory and other damages. Fourteen of the 653 active cases in the United States involve alleged non-smokers claiming injuries purportedly resulting from exposure to environmental tobacco smoke. Fifty-eight cases purport to be class actions on behalf of thousands of individuals. Purported classes include individuals claiming to be addicted to cigarettes, individuals and their estates claiming illness and death from cigarette smoking, persons making claims based on alleged exposure to environmental tobacco smoke, African-American smokers claiming their civil rights have been violated by the sale of menthol cigarettes, purchasers of cigarettes claiming to have been defrauded and seeking to recover their costs, and Blue Cross/Blue Shield subscribers seeking reimbursement for premiums paid. Approximately 111 of the active cases seek, INTER ALIA, recovery of the cost of Medicaid payments or other health-related costs paid for treatment of individuals suffering from diseases or conditions allegedly related to tobacco use. Nine, brought by entities administering asbestos liability, seek contribution for the costs of settlements and judgments.

DEFENSES. The defenses raised by RJRT and/or its affiliates, where applicable, include preemption by the Federal Cigarette Labeling and Advertising Act of some or all such claims arising after 1969; the lack of any defect in the product; assumption of the risk; contributory or comparative fault; lack of proximate

cause; and statutes of limitations or repose; and, when applicable, additional statutory, equitable, constitutional and other defenses. RJRN and RJRN Holdings have asserted additional defenses, including jurisdictional defenses, in many of these cases in which they are named.

INDUSTRY TRIAL RESULTS. Juries have found for plaintiffs in five smoking and health cases in which RJRT was not a defendant. In one such case, no damages were awarded and the judgment was affirmed on appeal. The jury awarded plaintiffs \$400,000 in another such case, CIPOLLONE V. LIGGETT GROUP, INC., but the award was overturned on appeal and the case was subsequently dismissed. In the third such case, on August 9, 1996, a Florida jury awarded damages of \$750,000 to an individual plaintiff. That case, CARTER V. BROWN & WILLIAMSON, was overturned on appeal on June 22, 1998. In another Florida case brought by the same attorney, WIDDICK V. BROWN & WILLIAMSON, a state court jury awarded the plaintiff approximately \$1 million in compensatory and punitive damages on June 10, 1998. On January 29, 1999, the Florida Court of Appeals reversed this verdict and ordered a new trial in a different location (Palm Beach County). On February 9-10, 1999, in HENLEY V. PHILIP MORRIS, INC., a San Francisco state court jury awarded an individual smoker \$1.5 million in compensatory damages and \$50 million in punitive damages. Philip Morris has stated that it will file motions with the trial judge requesting that the verdict be set aside and/or reduced. Depending upon the outcome of those motions, Philip Morris may appeal the judgment.

On May 5, 1997, in an individual case filed against RJRT, brought by the same attorney who represented plaintiffs in the CARTER and WIDDICK cases, a Florida state court jury found no RJRT liability (CONNOR V. R. J. REYNOLDS TOBACCO CO.). On October 31, 1997, in still another case (KARBIWNYK V. R.J. REYNOLDS TOBACCO COMPANY) brought by the same attorney, another Florida state court jury found no RJRT liability. On March 19, 1998, an Indiana state court found for RJRT, RJRN Holdings and other defendants in an individual case, DUNN V. RJR NABISCO HOLDINGS CORP., in which plaintiffs sought damages for the alleged harm caused to a non-smoker by environmental tobacco smoke. Finally, on March 18, 1999, the jury in an Ohio federal district court found for the defendants, including RJRT, on all counts in a class-action union trust-fund case, IRONWORKERS LOCAL 17 V. PHILIP MORRIS.

#### CLASS ACTIONS

A smoking and health class action against United States cigarette manufacturers including RJRT, in which a class was certified consisting of "all non-smoking flight attendants who are or have been employed by airlines based in the United States" and who are allegedly suffering from exposure to ETS aboard aircraft, BROIN, ET AL. v. PHILIP MORRIS, INC., ET AL., Circuit Court of the Eleventh Judicial Circuit in and for Dade County, Florida, Case No. 91-49738-CA-20, was settled in October 1997. The settlement's principal terms are described in the 1997 Form 10-K. See Item 1, " Business-Tobacco-Litigation Affecting the Cigarette Industry-Interim Agreements." In March 1999, Florida's Third District Court of Appeal approved the settlement.

In another smoking and health class action against United States cigarette manufacturers including RJRT, pending in Florida state court since May 1994, a class has been certified consisting of all Florida citizens and residents and their survivors who have suffered injury "caused by their addiction to cigarettes that contain nicotine." ENGLE, ET AL. v. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Circuit Court of the Eleventh Judicial Circuit in and for Dade County, Florida, Case No. 94-08273-CA-20. Phase 1 of the trial is currently underway.

In March 1994, a smoking and health class action was filed in Alabama state court against three United States cigarette manufacturers including RJRT and was subsequently removed to federal court. LACEY, ET AL. v. LORILLARD TOBACCO COMPANY, INC., ET AL., United States District Court, Northern District of Alabama, Jasper Division, Civil Action No. 94-4-B-0901-J. Plaintiffs, claiming to represent all smokers who had smoked or were smoking cigarettes sold by defendants in the State of Alabama, sought compensatory and punitive damages not to exceed \$48,500 per each class member as well as injunctive relief arising from defendants' alleged failure to disclose additives used in their cigarettes. On January 31, 1997, the judge granted defendants' motion for summary judgment based on preemption by the Cigarette Labeling Act. Plaintiffs did not appeal, and the case has been closed.

In March 1994, a smoking and health class action was filed in federal

district court in Louisiana against United States cigarette manufacturers, including RJRT, and others, including RJRN, seeking certification of a purported class consisting of all United States residents who allege that they are addicted, or are the legal survivors of persons who were addicted, to tobacco products. CASTANO, ET AL. v. THE AMERICAN TOBACCO COMPANY, INC., ET AL., United States District Court, Eastern District of Louisiana, Case No. 94-1044. Plaintiffs alleged that the cigarette manufacturers concealed and/or misrepresented information regarding the addictive nature of nicotine and manipulated the levels of nicotine in their tobacco products to make such products addictive. In February 1995, the trial court certified the class. In May 1996, the Fifth Circuit Court of Appeals reversed the trial court's class certification and remanded the case with instructions that the class allegations be dismissed. The class was decertified. Summary judgment motions against the two remaining named plaintiffs in this case were denied on February 21, 1997. The parties have agreed to move for dismissal of the remaining individual case with a right to replead after November 15, 1998.

In September 1994, a smoking and health class action was filed in federal district court in Louisiana against United States cigarette manufacturers, including RJRT, and others, including RJRN, seeking certification of a purported class of all residents or domiciliaries of the United States who used and became addicted to tobacco products. GRANIER v. THE AMERICAN TOBACCO COMPANY, ET AL., United States District Court, Eastern District of Louisiana, Case No. 94-3096. In November 1994, the plaintiffs' motion to consolidate the case with CASTANO was stayed pending the decision on the issue of class certification in CASTANO. The case remains inactive.

In January 1995, a purported class action was filed in the Ontario Court of Justice, Toronto, Canada against RJR-MacDonald, Inc. and two other Canadian cigarette manufacturers. LETOURNEAU v. ROTHMANS ET AL., Ontario Court of Justice, Toronto, Canada, Court File No. 95-CU-82186 (now captioned CAPUTO v. IMPERIAL TOBACCO LIMITED, ET AL.). The lawsuit seeks damages in the amount of \$1,000,000 (Canadian) per class member and punitive and exemplary damages and an order requiring the funding of rehabilitation centers. Plaintiffs seek certification of a class of persons consisting of all current and former cigarette smokers in Ontario, their families and the estates of deceased smokers. Plaintiffs have filed class certification materials, most recently in January 1997, but no motion has yet been made for class certification.

Following the announcement of the Fifth Circuit's class decertification decision in CASTANO, lawyers for the plaintiffs announced that they would file "state-wide" class actions in state courts. Subsequently, class actions based on claims similar to those in CASTANO (a "nicotine-dependence class action") and, in some cases, claims of physical injury (a "physical injury class action") and medical monitoring were filed in a number of states, as described below.

Immediately prior to the Fifth Circuit's decision in the CASTANO case, a purported nicotine-dependence class action was filed in Indiana state court

against United States cigarette manufacturers, including RJRT, and others, including RJRN Holdings. In June 1996, defendants removed the case to federal court. Plaintiffs' motion to remand the case to state court was granted. NORTON, ET AL. v. RJR NABISCO HOLDINGS CORPORATION, ET AL., Superior Court, Madison County, Indiana, Case No.48D01-9605-CP-0271.

In October 1995, a purported physical injury class action was filed in Florida state court against United States cigarette manufacturers, including RJRT, and others. WALTERS, ET AL. v. BROWN & WILLIAMSON TOBACCO CORP., ET AL., Circuit Court, Fourth Judicial District, Duval County, Florida. RJRT was not served within the 120 days that Florida law provides to effect service.

In May 1996, a purported physical injury and nicotine-dependence class action was filed in Maryland state court against United States cigarette manufacturers, including RJRT, and others, including RJRN. The case was removed by defendants to federal court and was subsequently remanded to state court. RICHARDSON, ET AL. v. PHILIP MORRIS, INC., ET AL., Circuit Court for Baltimore City, No. 96145050. On January 28, 1998, the Circuit Court for Baltimore City granted plaintiffs' motion for class certification. The Maryland Court of Appeals is reviewing defendants' petition for a writ of mandamus seeking reversal of the class certification decision.

In May 1996, a purported nicotine-dependence/medical monitoring class action was filed in Louisiana state court against four United States cigarette manufacturers, including RJRT, and others, including RJRN. SCOTT, ET AL. v. THE AMERICAN TOBACCO COMPANY, INC., ET AL., Civil District Court for the Parish of Orleans, State of Louisiana, Docket No. 96-8461. On April 16, 1997, the Civil District Court of Orleans Parish granted plaintiffs' motion for class certification on behalf of Louisiana residents who require medical monitoring. In the class certification ruling, the court also dismissed the wholesaler defendants from the action. The remaining defendants removed the case to federal court on April 16, 1997. On December 2, 1997, plaintiffs' motion to remand the case to the Civil District Court of Orleans Parish was granted. In November 1998, an intermediate appellate court affirmed the trial court's certification of the medical monitoring class. In February 1999, the Louisiana Supreme Court declined to hear defendants' appeal of the class certification ruling.

In June 1996, a purported nicotine-dependence class action was filed in New York state court against RJRT, RJRN, The Tobacco Institute and The Council for Tobacco Research. HOSKINS, ET AL. v. R.J. REYNOLDS TOBACCO COMPANY, ET AL., Supreme Court of the State of New York, County of New York, Case No. 96110951. In December 1996, defendants filed motions to dismiss the complaint and to deny class certification. On October 28, 1997, the trial court denied defendants' motions to dismiss and granted plaintiffs' motion for class certification. On July 16, 1998, the New York Supreme Court Appellate Division reversed the class certification decision and dismissed all claims. Plaintiffs have appealed this decision.

In June 1996, a purported physical injury and nicotine-dependence class



action was filed in the Superior Court of the District of Columbia against United States cigarette manufacturers, including RJRT, and others, including RJRN. RJRN has been voluntarily dismissed from this case. REED v. PHILIP MORRIS INCORPORATED, ET AL., Superior Court of the District of Columbia, Case No. CA-05070-96. Plaintiffs' motion for class certification was denied on August 18, 1997. Plaintiffs' filed an amended complaint on July 17, 1998, and have renewed their motion for class certification.

In August 1996, a purported nicotine-dependence class action was filed in Pennsylvania state court against United States cigarette manufacturers, including RJRT, and others, including RJRN, and was subsequently removed to federal court. BARNES (formerly ARCH), ET AL. v. THE AMERICAN TOBACCO COMPANY, INC., ET AL., United States District Court for the Eastern District of Pennsylvania, Case No. 96-5903-CN. On August 22, 1997, Judge Clarence Newcomer granted plaintiffs' motion for class certification for medical monitoring. The class definition was: "All current residents of Pennsylvania who are cigarette smokers as of December 1, 1996 and who began smoking before age 19 while they were residents of Pennsylvania." Defendants filed a Motion for Summary Judgment on August 25, 1997 based on plaintiffs' claims for medical monitoring. On October 17, 1997 Judge Newcomer granted defendants' motion for summary judgment against each of the six class representatives (five on statute of limitations grounds and one on a medical monitoring issue). Judge Newcomer also decertified the class, finding that plaintiffs' claims of nicotine-dependence and theories of negligence and strict liability raised too many individual issues for class certification. In November 1998, the United States Court of Appeals for the Third Circuit upheld the trial court's decertification of the class and

dismissal of the case. In March 1999, plaintiffs filed a petition for writ of certiorari to the United States Supreme Court.

In August 1996, a purported nicotine-dependence class action was filed in Alabama state court, on behalf of Alabama and North Carolina residents, against four United States cigarette manufacturers, including RJRT, and others. In September 1996, the case was removed to federal court. LYONS, ET AL. v. THE AMERICAN TOBACCO CO., INC., ET AL., United States District Court for the Southern District of Alabama, Southern Division, Civil Action No. 96-0881-BH-S. Plaintiffs' motion to remand the case to state court was denied.

In August 1996, a purported nicotine-dependence class action was filed in Ohio state court against United States cigarette manufacturers, including RJRT, and others, including RJRN, on behalf of Ohio residents and was subsequently removed to federal court in September, 1996. CHAMBERLAIN, ET AL. v. THE AMERICAN TOBACCO CO., ET AL., United States District Court, Northern District of Ohio, Case No. 1:96CV2005. Plaintiffs' motion to remand the case to state court was denied. Plaintiffs' motion for class certification is pending.

In September 1996, a purported nicotine-dependence class action was filed in Minnesota state court against four United States cigarette manufacturers, including RJRT, and others, including RJRN. The case was removed

by defendants to federal court in September 1996. Plaintiffs' motion to remand the case to state court was denied. THOMPSON/MASEPOHL, ET AL. v. THE AMERICAN TOBACCO CO., INC., ET AL., United States District Court, District of Minnesota, Third Division, Case No. CV3-96-888.

In September 1996, a purported class action was filed in Tennessee state court against four United States cigarette manufacturers, including RJRT, and others, on behalf of all individuals and entities in the United States who have paid premiums to a Blue Cross or Blue Shield organization for medical insurance. The complaint alleges that defendants' actions have resulted in increased medical insurance premiums for all class members and seeks recovery under various consumer protection statutes as well as under theories of breach of special duty and unjust enrichment. This case was removed by defendants to federal court. Plaintiffs' motion to remand the case to state court was granted. PERRY, ET AL. v. PHILIP MORRIS, INC., ET AL., Circuit Court, Coffee County, Tennessee, Case No. 27,960.

In October 1996, a purported nicotine-dependence class action was filed in New Mexico state court against four United States cigarette manufacturers, including RJRT, and others, including RJRN. CONNOR, ET AL. v. THE AMERICAN TOBACCO CO., ET AL., Second Judicial District Court, County of Bernalillo, State of New Mexico, Case No. CV-96-9422. RJRN has been dismissed from this case.

In October 1996, a purported nicotine-dependence class action was filed in federal court in Puerto Rico against four United States cigarette manufacturers, including RJRT, and others. RUIZ, ET AL. v. THE AMERICAN TOBACCO CO., ET AL., United States District Court for the District of Puerto Rico, Civil Action No. 96-2300. Plaintiffs' motion for class certification was denied on March 17, 1998.

In November 1996, a purported nicotine-dependence class action was filed in federal court in Arkansas against United States cigarette manufacturers, including RJRT, and others, including RJRN. HANSEN/MCGINTY, ET AL. v. THE AMERICAN TOBACCO CO., ET AL., United States District Court for the Eastern District of Arkansas, Western Division, Case No. LRC 96-881.

In March 1996, PRO SE prisoners filed a purported class action against United States cigarette manufacturers including RJRT, and others, including RJRN, seeking class certification on behalf of prisoners in two Mississippi prisons based on alleged exposure to ETS. LYLE, ET AL. v. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., United States District Court for the Northern District of Mississippi, Civil Action No. 3:96-CV-268WS. In October 1996, the court issued an order dismissing the action. Plaintiff filed a motion for relief from said dismissal which was denied on December 17, 1996. On March 26, 1997, plaintiff filed a motion for relief from judgment, and the tobacco defendants filed an opposition on April 8, 1997. RJRT has not been served in this case.

In January 1997, a purported nicotine-dependence class action was filed in West Virginia state court against United States cigarette manufacturers,

including RJRT, and others, including RJRN. Despite the fact that RJRT and RJRN had not been served, they joined with other defendants in removing the case to federal court in February 1997. MCCUNE v. THE AMERICAN TOBACCO COMPANY, ET AL., Circuit Court, Kanawha County, West Virginia, Case No. 2:97-0204. Plaintiffs' motion to remand the case was granted on January 30, 1998.

In February 1997, a purported nicotine-dependence class action was filed in Hawaii state court against United States cigarette manufacturers, including RJRT, and others, including RJRN. PETERSON v. THE AMERICAN TOBACCO COMPANY, ET AL., United States District Court for the District of Hawaii, Case No. 97-0490-02. Defendants removed this case in March 1997. Plaintiffs' motion to remand is pending.

In February 1997, a purported nicotine-dependence class action was filed in Kansas state court against United States cigarette manufacturers, including RJRT, and others, including RJRN. This case was removed to federal court in March 1997. EMIG v. THE AMERICAN TOBACCO COMPANY, ET AL., United States District Court, District of Kansas, Case No. 97-1121. In December 1998, the court denied plaintiffs' motion for class certification.

In February 1997, a purported medical monitoring class action was filed in state court in Michigan against United States cigarette manufacturers, including RJRT, and others. BAKER, ET AL. v. AMERICAN TOBACCO, ET AL., Circuit Court, Wayne County, Michigan, Case No. 97-703444. Plaintiff voluntarily dismissed this case on August 21, 1998, and joined the TAYLOR case.

In February 1997, a purported physical injury class action was filed in federal court in Oklahoma against United States cigarette manufacturers, including RJRT, and others. WALLS, ET AL. v. AMERICAN TOBACCO, ET AL., United States District Court for the Northern District of Oklahoma, Case No. 97-CV-218-H. On December 9, 1998, the federal court refused to

certify for class treatment a number of claims, and certified five questions of Oklahoma state law to the Oklahoma Supreme Court.

In March 1997, a purported physical injury class action was filed in state court in West Virginia against United States cigarette manufacturers, including RJRT, and others. Defendants removed this case to federal court in April 1997. Plaintiff filed a First Amended Complaint on September 26 1997, dropping plaintiff Ima Jean Ingle. On March 2, 1998, the case was remanded to state court. MUNCY (formerly INGLE and formerly WOODS), ET AL. v. PHILIP MORRIS INC., ET AL. Circuit Court, McDowell County, West Virginia, Case No. 1:97-0336.

In March 1997, a purported nicotine-dependence class action was filed in state court in Nevada against United States cigarette manufacturers, including RJRT, and others, including RJRN (added via amended complaint). Defendants removed the case to federal court on March 21, 1997. Plaintiffs filed, but withdrew, a motion for remand. SELCER, ET AL. v. R. J. REYNOLDS TOBACCO COMPANY, ET AL., United States District Court, District of Nevada, Case

In April 1997, a purported physical injury class action was filed in Wisconsin state court against United States cigarette manufacturers, including RJRT, and others. Defendants removed the case to federal court in May 1997. Plaintiffs' motion to remand the case to the Circuit Court for Rock County was granted August 27, 1997. Defendants removed the case on diversity grounds on April 17, 1998, and plaintiffs' motion for remand was denied on June 10, 1998. INSOLIA v. PHILIP MORRIS INC., ET AL, United States District Court for the Western District of Wisconsin, Case No. 97-CV-230J. In December 1998, the court denied plaintiffs' motion for class certification.

In April 1997, a purported nicotine-dependence class action was filed in state court in New Jersey against United States cigarette manufacturers, including RJRT, and others, including RJRN. COSENTINO, ET AL. v. PHILIP MORRIS INC., ET AL., Superior Court, Middlesex County, New Jersey, Case No. L-5135-97. This case was consolidated for class certification purposes with KIRSTEIN, Lippincott, Piscitello and Tepper. On October 22, 1998, the court denied plaintiffs' motion for class certification. Plaintiffs filed a motion for leave to appeal on February 26, 1999.

In April 1997, a purported class action was filed in state court in Mississippi against United States cigarette manufacturers, including RJRT, and others, including RJRN. WHITE, ET AL. v. PHILIP MORRIS, INC., ET AL., Chancery Court, Jefferson County, Mississippi, Case No. 97-0053. Plaintiffs filed a motion to dismiss without prejudice on September 18, 1998.

In May 1997, a purported physical injury class action was filed in federal court in Texas against United States cigarette manufacturers, including RJRT, and others. COLE, ET AL. v. THE TOBACCO INSTITUTE, ET AL., United States District Court for the Eastern District of Texas, Case No. 1:97-CV-0256.

In May 1997, a purported physical injury class action was filed in the state court in New York against United States cigarette manufacturers, including RJRT, and others, including RJRN.

GEIGER, ET AL. v. AMERICAN TOBACCO, ET AL., Supreme Court, Queens County, New York, Case No. 010687. In July 1997, the court certified an interim class of all New York smokers with lung and/or throat cancer and their survivors. On July 6, 1998, the New York Appellate Division (Second Department) reversed the trial court's class certification order and remanded the case for discovery and a hearing on class certification.

In May 1997, a purported nicotine-dependence class action was filed in state court in Tennessee against United States cigarette manufacturers, including RJRT, and others, including RJRN. Defendants removed this case to the federal court in June 1997. ANDERSON, ET AL. v. AMERICAN TOBACCO, ET AL., United States District Court, Eastern District of Tennessee, Case No. 3:97-CV-1441. Plaintiffs' motion to remand was denied.

In May 1997, a purported nicotine-dependence class action was filed in state court in New Jersey against United States cigarette manufacturers, including RJRT, and others, including RJRN. KIRSTEIN (formerly ENRIGHT) v. AMERICAN TOBACCO, ET AL. Superior Court, Camden County, New Jersey, Case No. 699. On October 14, 1997, the case was transferred to the Middlesex County Superior Court, and consolidated for class certification purposes with Cosentino, Lippincott, Piscitello and Tepper. On October 22, 1998, the court denied plaintiffs' motion for class certification. Plaintiffs filed a motion for leave to appeal on February 26, 1999.

In May 1997, a purported physical injury class action was filed in state court in Georgia against United States cigarette manufacturers, including RJRT, and others, including RJRN. LYONS v. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., Superior Court, Fulton County, Georgia, Case No. E59346. In December 1998, plaintiffs voluntarily dismissed this case without prejudice.

In May 1997, a purported nicotine-dependence class action was filed in state court in New Jersey against United States cigarette manufacturers, including RJRT, and others, including RJRN. TEPPER, ET AL. v. PHILIP MORRIS INCORPORATED, ET AL., Superior Court, Bergen County, New Jersey, Case No. L-4983-97-E. On October 14, 1997, the case was transferred to Middlesex County Superior Court, and consolidated for class certification purposes with Cosentino, KIRSTEIN, Lippincott and Piscitello. On October 22, 1998, the court denied plaintiffs' motion for class certification. Plaintiffs filed a motion for leave to appeal on February 26, 1999.

In May 1997, a purported physical injury class action was filed in federal court in Illinois against United States cigarette manufacturers, including RJRT, and others, including RJRN. CLAY, ET AL. v. AMERICAN TOBACCO, ET AL., Case No. 97-4167-JPG.

In May 1997, a purported physical injury and nicotine-dependence class action was filed in federal court in Georgia against United States cigarette manufacturers, including RJRT, and others. MCCAULEY v. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., United States District Court for the Northern District of Georgia, Case No. 1:97-cv-1744.

In May 1997, a purported physical injury class action was filed in Michigan state court against United States cigarette manufacturers, including RJRT, and others, including RJRN. TAYLOR, ET AL. v. THE AMERICAN TOBACCO COMPANY, ET AL., Circuit Court, Wayne County, Michigan, Case No. 97-715975.

In June 1997, a purported physical injury/nicotine-dependence class action was filed in state court in New Jersey against United States cigarette manufacturers, including RJRT, and others, including RJRN. LIPPINCOTT v. AMERICAN TOBACCO, ET AL., Superior Court, Camden County, New Jersey, Case No. L-4702-97. On October 14, 1997 the case was transferred to Middlesex County Superior Court, and consolidated for class certification purposes with

Cosentino, Enright, Piscitello and Tepper. On October 22, 1998, the court denied plaintiffs' motion for class certification. Plaintiffs filed a motion for leave to appeal on February 26, 1999.

In June 1997, a purported physical injury class action was filed in state court in Iowa against United States cigarette manufacturers, including RJRT, and others, including RJRN. The case was removed to federal court. BRAMMER, ET AL. v. R. J. REYNOLDS TOBACCO COMPANY, ET AL., United States District Court for the Southern District of Iowa, Case No. 4-97-CV-10461.

In June 1997, a purported physical injury class action was filed in state court in Louisiana against United States cigarette manufacturers, including RJRT, and others, including RJRN. KNOWLES, ET AL. v. AMERICAN TOBACCO, ET AL., District Court, Parish of Orleans, Louisiana, Case No. 97-11517. In December 1998, plaintiffs voluntarily dismissed this case without prejudice.

In June 1997, a purported physical injury class action including those who desire to participate in smoking cessation programs was filed in state court in California against United States cigarette manufacturers, including RJRT, and others, including RJRN. BROWN, ET AL. v. THE AMERICAN TOBACCO COMPANY, ET AL., Superior Court, County of San Diego, California, Case No. 711400.

In July 1997, a purported nicotine-dependence class action was filed in state court in New Jersey against United States cigarette manufacturers, including RJRT, and others, including RJRN. PISCITELLO, ET AL. v. PHILIP MORRIS, INCORPORATED, ET AL., Superior Court, Middlesex County, New Jersey, Case No. MID-L-7378-97. On October 14, 1997, the case was consolidated for class certification purposes with COSENTINO, KIRSTEIN, LIPPINCOTT and TEPPER. On October 22, 1998, the court denied plaintiffs' motion for class certification. Plaintiffs filed a motion for leave to appeal on February 26, 1999.

In July 1997, a purported physical injury class action was filed in state court in Illinois against United States cigarette manufacturers, including RJRT, and others, including RJRN. Defendants removed the case to federal court in December 1997. DALEY, ET AL. v. AMERICAN BRANDS, INC., ET AL., United States District Court, Northern District of Illinois, Case No. 97L07963. On October 27, 1998, the court granted a stay, pending the class certification decision in CLAY.

In September 1997, a purported ETS class action was filed in federal court in New York on behalf of federal prisoners against United States cigarette manufacturers, including RJRT, and others, including RJRN. NWANZE, ET AL. v. PHILIP MORRIS COMPANIES, INC., ET AL., United States District Court for the Southern District of New York, Case No. 97-CIV-7344. RJRT has not been effectively served.

In September 1997, a purported physical injury/nicotine-dependence class action was filed in federal court in Texas against United States cigarette manufacturers, including RJRT, and others. BUSH v. PHILIP MORRIS, INC., ET AL.,

United States District Court for the Eastern District of Texas, Case No. 597CV180. The case is stayed.

In October 1997, a purported physical injury class action was filed in federal court in Tennessee against United States cigarette manufacturers, including RJRT, and others. NEWBORN, ET AL. v. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., United States District Court for the Western District of Tennessee, Case No. 97-2938. Defendants' motion to dismiss is pending.

In October 1997, a purported ETS class action on behalf of casino workers was filed in federal court in Nevada against United States cigarette manufacturers, including RJRT, and others, including RJRN. BADILLO, ET AL. v. AMERICAN TOBACCO, ET AL., United States District Court, District of Nevada, Case No. CV-N-97-00573-DWH.

In November 1997, a purported physical injury class action was filed in federal court in South Carolina against United States cigarette manufacturers, including RJRT, and others, including RJRN. AKSAMIT, ET AL. v. BROWN & WILLIAMSON TOBACCO, ET AL., United States District Court, District of South Carolina, Case No. 6-97-3636-21.

In November 1997, a purported ETS class action was filed in state court in Louisiana. Defendants removed this case to the United States District Court for the Eastern District of Louisiana on December 12, 1997. YOUNG v. AMERICAN TOBACCO COMPANY ET AL., Circuit Court, New Orleans, Louisiana, Case No. 97-19984. The case was remanded to state court on February 2, 1998.

In December 1997, a purported medicare payment recoupment class action was filed in federal court in Texas against United States cigarette manufacturers, including RJRT, and others. MASON, ET AL. v. THE AMERICAN TOBACCO COMPANY, ET AL., United States District Court for the Northern District of Texas, Case No. 7-97CV-293-X.

In December 1997, a purported ETS class action was filed in federal court in Nevada against cigarette manufacturers, including RJRT, and others. DIENNO, ET AL. v. LIGGETT GROUP, INC., ET AL., United States District Court for the District of Nevada, Case No. CV-S-98-489-DWH (RLH) In December 1998, this case was consolidated with the BADILLO case.

In February 1998, a purported physical injury class action was filed in state court in Utah against United States cigarette manufacturers, including RJRT and others, including RJRN.

HERRERA v. AMERICAN TOBACCO, ET AL., District Court, Utah County, Utah, Case No. 9804-3567. The court dismissed this case in October 1998.

In February 1998, a purported class action was filed in federal court

in Utah against United States cigarette manufacturers, including RJRT, and others, including RJRN. JACKSON, ET AL. v. PHILIP MORRIS INCORPORATED (PHILIP MORRIS U.S.A.), ET AL., United States District Court for the District of Utah, Case No.

2:98CV00178B.

In February 1998, a purported physical injury class action was filed against asbestos manufacturers, cigarette manufacturers, including RJRT, and others, including RJRN. PARSONS, ET AL. v. A C & S, INC., ET AL., Circuit Court, Kanawha County, West Virginia, Case No. 98-C-388.

In March 1998, a purported unfair trade practices class action was filed against RJRT, and others, including RJRN, in state court in Pennsylvania, alleging that the labels "light" and "ultralight" on certain of RJRT's cigarettes are misleading. OLIVER, ET AL. v. R.J. REYNOLDS TOBACCO CO., ET AL., Court of Common Pleas, Philadelphia County, Pennsylvania, Case No. 000268.

In April 1998, a purported ETS class action on behalf of casino workers was filed in state court in New Jersey against United States cigarette manufacturers, including RJRT, and others, including RJRN. AVALLONE, ET AL. v. THE AMERICAN TOBACCO CO., ET AL., Superior Court, Middlesex County, New Jersey, Case No. MID-L-488398. The court's decision on class certification is pending.

In April 1998, a purported nicotine-dependence class action was filed in state court in California against United States cigarette manufacturers, including RJRT, and others, including RJRN. DANIELS, ET AL. v. PHILIP MORRIS COMPANIES, INC., ET AL., Superior Court, San Diego County, California, Case No. 719446.

In April 1998, a purported ETS class action was filed in state court in Nevada against United States cigarette manufacturers, including RJRT, and others, including RJRN. Defendants removed the case to federal court on May 20, 1998. CHRISTENSEN v. PHILIP MORRIS COMPANIES, ET AL., United States District Court for the District of Nevada, Case No. CV-S-98-00717-LDG (RLH). No defendants have been served.

In May 1998, a purported medical insurance premium recovery class action was filed in state court in Louisiana against United States cigarette manufacturers, including RJRT, and others, including RJRN. LANDRY, ET AL. v. LOUISIANA HEALTH SERVICE AND INDEMNITY CO., INC., ET AL., United States District Court for the Middle District of Louisiana, Case No. 449932 Div. H. On September 16, 1998, plaintiffs dismissed all tobacco defendants.

In June 1998, a purported class action claiming fraud was filed against United States cigarette manufacturers, including RJRT, and others. CLEARY, ET AL. v. PHILIP MORRIS,

INCORPORATED, Circuit Court, Cook County, Illinois, Case No. 98L06427. On February 3, 1999, the court denied defendants' motion to dismiss.



In June 1998, a purported ETS class action was filed against cigarette manufacturers, including RJRT, and others. COLLIER, ET AL. v. PHILIP MORRIS, INCORPORATED ("PHILIP MORRIS U.S.A."), ET AL., United States District Court for the Southern District of Mississippi, Case No. 1:98cv246BR. In March 1999, plaintiffs filed a motion to voluntarily dismiss this case without prejudice.

In July 1998, a purported nicotine-dependence and physical injury class action was filed in state court in North Carolina against United States cigarette manufacturers, including RJRT, and others, including RJRN. CREEKMORE, ET AL. v. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., Superior Court, Buncombe County, North Carolina, Case No. 98 CV 03403.

In August 1998, a purported physical injury class action was filed in state court in New Mexico against United States cigarette manufacturers, including RJRT. JIMENEZ, ET AL. v. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., District Court, Bernalillo County, New Mexico, Case No. CV-98 08035.

In September 1998, a purported deceptive trade practices class action was filed against RJRT for the marketing of lights and ultralights cigarettes. MOREE, ET AL. v. R. J. REYNOLDS TOBACCO CO., United States District Court for the Eastern District of Texas, Case No. 1:98CV1833.

In October 1998, a purported medical monitoring class action was filed in state court in Pennsylvania against United States cigarette manufacturers, including RJRT, and others, including RJRN. Defendants removed the case to federal court on November 16, 1998. SWEENEY, ET AL. v. AMERICAN TOBACCO COMPANY, ET AL., United States District Court for the Western District of Pennsylvania, Case No. 98-1908.

In October 1998, a purported civil rights class action was filed in federal court in Pennsylvania alleging that United States cigarette manufacturers, including RJRT, and others, including RJRN, engaged in "discriminatory targeting of tobacco products sales to Black Americans." BROWN, ET AL. v. PHILIP MORRIS, INC., United States District Court for the Eastern District of Pennsylvania, Case No. 98-5518.

In October 1998, a purported class action was filed in state court in New Jersey against RJRT and RJRN on behalf of New Jersey residents who purchased and smoked RJRT's light or ultralight cigarettes on or after March 3, 1992. TROMBINO, ET AL. v. R. J. REYNOLDS TOBACCO COMPANY, ET AL., Superior Court, Middlesex County, New Jersey, Case No. L-11263-98.

In November 1998, a purported class action was filed on behalf of all California smokers in state court in California against the State of California and other public entities, as well as against United States cigarette manufacturers, including RJRT, and others. SMOKERS FOR

FAIRNESS, LLC, ET AL. v. THE STATE OF CALIFORNIA, ET AL., Superior Court, Los

Angeles County, California, Case No. BC 198123. Plaintiffs allege, with respect to the tobacco defendants, that the use of tobacco products caused them to become addicted and caused injuries.

In December 1998, a purported nicotine-dependence class action was filed in state court in Missouri against United States cigarette manufacturers, including RJRT, and others. On January 20, 1999, the case was removed to federal court. GATLIN, ET AL. v. THE AMERICAN TOBACCO CO., ET AL., United States District Court for the Eastern District of Missouri, Case No. 982-10021, Division 1.

In December 1998, a purported nicotine-dependence class action was filed in state court in Missouri against United States cigarette manufacturers, including RJRT, and others, including RJRN. JONES, ET AL. v. THE AMERICAN TOBACCO COMPANY, ET AL., Circuit Court, Jackson County, Missouri, Case No. 98-CV-30687, Division 2.

#### HEALTH CARE COST RECOVERY LITIGATION

In certain of the pending proceedings, various local government entities and others seek reimbursement for health care expenditures allegedly caused by tobacco products. The claims asserted in these health care cost recovery actions vary. Generally, plaintiffs assert the equitable claim that the tobacco industry was "unjustly enriched" by plaintiffs' payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. The plaintiffs in these various health care cost recovery actions also assert one or more of the following additional claims: the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under federal or state RICO statutes.

Each plaintiff seeks reimbursement of health care costs. Other relief sought by some, but not all, plaintiffs includes punitive damages, treble damages for alleged antitrust law violations, injunctions prohibiting alleged marketing and sales to minors, disclosure of research, disgorgement of profits, funding of anti-smoking programs, disclosure of nicotine yields and payment of attorney and expert witness fees.

Defenses raised by defendants include failure to state a valid claim, lack of benefit, adequate remedy at law, "unclean hands" (namely, that plaintiffs cannot recover because they participated in, and benefited from, the sale of cigarettes), lack of antitrust injury, federal preemption, lack of proximate cause and statute of limitations. In addition, defendants argue that they should be entitled to "set-off" any alleged damages to the extent a governmental entity benefits economically from the sale of cigarettes through the receipt of excise taxes or otherwise.

Defendants also argue that all of these cases are improper because

plaintiffs must proceed under principles of subrogation and assignment. Under traditional theories of recovery, a payor of medical costs (such as an insurer) can seek recovery of health care costs from a third party solely by "standing in the shoes" of the injured party. Defendants argue that plaintiffs should be required

to bring an action on behalf of each individual health care recipient and should be subject to all defenses available against the allegedly injured party.

The following is a listing of health care cost recovery suits pending as of December 31, 1998, against RJRT and, in some cases RJRN, separated by the type of plaintiff involved:

#### STATE/COMMONWEALTH/TERRITORY

On November 23, 1998, major tobacco manufacturers entered into a Master Settlement Agreement ("MSA") with attorneys general representing forty-six (46) states, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, American Samoa and the Northern Marianas ("Settling States"). The MSA resolves the various health care cost recovery actions brought by the states/commonwealths/territories their various political subdivisions and contains releases of certain additional present and future claims.

#### CITY/COUNTY

Claims similar to those advanced in the state attorney general actions have also been asserted by cities and/or counties in separate actions. It is the industry's position that recovery in any such actions should be subject to the offset provisions of the MSA, and therefore, beyond the potential cost of defending these actions through trial, there should be no additional financial exposure as a result of these cases.

Certain of the city/county cases have already been dismissed in light of the approval in the relevant jurisdictions of the MSA. The city/county cases pending as of December 31, 1998, included:

CITY AND COUNTY OF SAN FRANCISCO v. PHILIP MORRIS, INC., ET AL., United States District Court for the Northern District of California, Case No. C-96-2090 DLJ.

COUNTY OF LOS ANGELES v. R. J. Reynolds Tobacco Company, superior Court, San Diego County, California, Case No. 707651. This case was dismissed with prejudice in December 1998.

THE PEOPLE OF THE STATE OF CALIFORNIA, ET AL. v. PHILIP MORRIS, INCORPORATED, ET AL., Superior Court, San Francisco County, Case No. 980864.

CITY OF NEW YORK, ET AL. v. THE TOBACCO INSTITUTE, ET AL., Supreme Court, New York County, New York, Case No. 406225/96. In January 1999, the court

ruled that the pending motions in this case, including motions to dismiss, were "moot" as this case has been settled as part of the MSA.

COUNTY OF ERIE v. THE TOBACCO INSTITUTE, ET AL., Supreme Court, Erie County, New York, Case No. I 1997/359. In February 1999, the court stayed this action until decision of Erie County's appeal of the New York trial court's approval of the MSA or until further order of the court.

COUNTY OF COOK v. PHILIP MORRIS INCORPORATED, ET AL., Circuit Court, Cook County, Illinois, Case No. 97-L-4550.

CITY OF ST. LOUIS, ET AL. v. AMERICAN TOBACCO COMPANY, INC., ET AL., United States District Court for the Eastern District of Missouri, Case No. 4:98CV02087ERW.

ST. LOUIS COUNTY, MISSOURI v. AMERICAN TOBACCO COMPANY, INC., ET AL., United States District Court for the Eastern District of Missouri, Case No. 4:98CV02104ERW.

#### UNIONS

Approximately 73 lawsuits have been brought by union trust funds against cigarette manufacturers and others in state and federal courts across the country in the past two years. The funds seek recovery on an aggregate basis for their payment of medical expenses of their "participants" - unionized employees and their dependents allegedly injured by cigarettes. The complaints in these cases are substantially identical, and more than 30 of the cases purport to be class actions on behalf of all union funds in a particular state. The union cases pending as of December 31, 1998, include:

THE NORTHWEST LABORERS-EMPLOYERS HEALTH & SECURITY TRUST FUND, ET AL. v. PHILIP MORRIS INC., ET AL., United States District Court for the Western District of Washington, Case No. C97-849-WD. In December 1998, the court denied defendants' motion for judgment on the pleadings. Trial in this case is scheduled for September 7, 1999.

IRON WORKERS UNION INSURANCE FUND, ET AL. v. PHILIP MORRIS, INC., ET AL, United States District Court for the Northern District of Ohio, Case No. 1:97 CV 144. In October 1998, the trial court granted plaintiffs' motion for class certification. The class consists of all Ohio labor health and welfare funds. In February 1999, the Court of Appeals declined to review the trial court's class certification. The trial of this case began on February 22, 1999. After three weeks of trial, on March 18, 1999, a verdict was returned in favor of defendants on all counts.

STATIONARY ENGINEERS LOCAL 39 HEALTH & WELFARE TRUST FUND, ET AL. v. PHILIP MORRIS, INC., et al., United States District Court for the Northern District of California, Case No. C-97-1519-MMC.

KENTUCKY LABORERS DISTRICT COUNCIL HEALTH AND WELFARE TRUST FUND, ET AL. v. PHILIP MORRIS, INC., ET AL, United States District Court for the Western District of Kentucky, Case No. 3:97CV-394-H.

MASSACHUSETTS LABORERS HEALTH AND WELFARE FUND, ET AL, v. PHILIP MORRIS, INC., ET AL., United States District Court, District Court of Massachusetts, Case No. 97-11552-GAO.

HAWAII HEALTH & WELFARE FUND FOR OPERATING ENGINEERS v. PHILIP MORRIS, INC., ET AL., United States District Court, District of Hawaii, Case No. 97-00833. In January 1999, the court granted defendants' motion to dismiss based on the remoteness doctrine.

UNITED FED OF TEACHERS WELFARE FUND, ET AL. v. PHILIP MORRIS, INC., United States District Court for the Southern District of New York, Case No.97CIV4676.

LABORERS LOCAL 17 HEALTH & BENEFIT FUND, ET AL. v. PHILIP MORRIS, INC., United States District Court for the Southern District of New York, Case Number 97CIV4550.

WEST VIRGINIA LABORERS PENSION FUND v. PHILIP MORRIS, INC., ET AL., United States District Court for the Southern District of West Virginia, Case No. 3:97-0708. Trial in this case is scheduled for June 6, 2000.

OREGON LABORERS-EMPLOYERS HEALTH & WELFARE TRUST FUND, ET AL. v. PHILIP MORRIS, INC., ET AL., United States District Court for the District of Oregon, Case No. 9706-04707 Plaintiffs filed a motion for class certification.

LABORERS' AND OPERATING ENGINEERS' UTILITY AGREEMENT HEALTH & WELFARE TRUST FUND v. PHILIP MORRIS, INC., ET AL., United States District Court for the District of Arizona, Case No. 97-1406-PHXSM. In February 1999, the court granted defendants' motion to dismiss for failure to state a claim.

TEAMSTERS NO. 142 HEALTH AND WELFARE TRUST FUND, ET AL. v. PHILIP MORRIS, INC., ET AL., United States District Court for the Northern District of Indiana, Case No. 3:97CV00667RM.

EASTERN STATES HEALTH & WELFARE FUND, ET AL. v. PHILIP MORRIS, INC., ET AL., United States District Court for the Southern District of New York, Case No.97CV7346.

WEST VIRGINIA-OHIO VALLEY AREA I.B.E.W. WELFARE FUND v. AMERICAN TOBACCO COMPANY, ET AL., United States District Court for the Southern District of West Virginia Case No: 97-C-2135. Trial in this case is scheduled for March 7, 2000.

CONSTRUCTION LABORERS OF GREATER ST. LOUIS WELFARE FUND, ET AL. v. PHILIP MORRIS, INC., ET AL., United States District Court For the Eastern

District of Missouri, Case No. 4:97CV02030ERW.

NEW JERSEY CARPENTERS HEALTH FUND, ET AL. v. PHILIP MORRIS, INC.,  
United States District Court for the District of New Jersey, Case No. 97-1728.

RHODE ISLAND LABORERS' HEALTH & WELFARE FUND v. AMERICAN TOBACCO  
COMPANY, United States District Court for the District of Rhode Island, Case No.  
97-500L.

CENTRAL STATES JOINT BOARD HEALTH AND WELFARE TRUST FUND v. PHILIP  
MORRIS, INC., United States District Court for the Northern District of  
Illinois, Case No. 97C8114. In December 1998, the court granted defendants'  
motion to dismiss.

TEXAS CARPENTERS HEALTH BENEFIT FUND, ET AL. v. PHILIP MORRIS, INC.,  
United States District Court for the Eastern District of Texas, Case No.  
97-CV-0625.

CENTRAL LABORERS WELFARE FUND, ET AL. v. PHILIP MORRIS, INC., ET AL.,  
United States District Court for Southern District of Illinois, Case No.  
97-568-WDS.

BAC LOCAL 32 INSURANCE TRUST FUND, ET AL. v. PHILIP MORRIS INC., ET  
AL., United States District Court for the District of Michigan, Case No.  
97-75675.

INTERNATIONAL BROTHERHOOD OF TEAMSTERS LOCAL 734 HEALTH AND WELFARE  
TRUST FUND v. PHILIP MORRIS, INC., ET AL., United States District Court for the  
Northern District of Illinois, Case No. 97C8113. In December 1998, the court  
granted defendants' motion to dismiss.

IBEW LOCAL 363 WELFARE FUND v. PHILIP MORRIS, INC., ET AL., United  
States District Court for the Southern District of New York, Case No. 97CIV9396.

IBEW LOCAL 25 WELFARE FUND v. PHILIP MORRIS, INC., ET AL., United  
States District Court for the Southern District of New York, Case No. 97-9395.

LOCAL 138, 138A, AND 138B INTERNATIONAL UNION OF OPERATING ENGINEERS  
WELFARE FUND v. PHILIP MORRIS, INC., ET AL., United States District Court for  
the Southern District of New York, Case No. 97-9402.

LOCAL 840, INTERNATIONAL BROTHERHOOD OF TEAMSTERS HEALTH & INSURANCE  
FUND v. PHILIP MORRIS, INC., ET AL., United States District Court for the  
Southern District of New York, Case No. 97CIV9398.

PUERTO RICAN ILGWU HEALTH & WELFARE FUND v. PHILIP MORRIS, INC., ET  
AL., United States District Court for the Southern District of New York, Case  
No. 97CV9396.

LONG ISLAND REGIONAL COUNCIL OF CARPENTERS WELFARE FUND v. PHILIP MORRIS, INC., ET AL., Supreme Court of New York for the County of New York, Case No. 97/122258.

UNITED FOOD & COMMERCIAL WORKERS UNION v. PHILIP MORRIS, INC., ET AL., United States District Court for the Northern District of Alabama, Case No. CV-97-1340.

LOCAL 1199 v. PHILIP MORRIS, INC., ET AL., United States District Court for the Southern District of New York, Case No. 97CV9401.

LOCAL 1199 HOME CARE INDUSTRY BENEFIT FUND v. PHILIP MORRIS, INC., ET AL., United States District Court for the Southern District of New York, Case No. 97-9401.

ASBESTOS WORKERS LOCAL 53 HEALTH AND WELFARE FUND, ET AL. v. PHILIP MORRIS, INC., United States District Court for the Eastern District of Louisiana, Case No. 97-1944c/w97-2570.

SCREEN ACTORS GUILD-PRODUCERS HEALTH & WELFARE FUND PLAN, ET AL. v. PHILIP MORRIS, INC., ET AL., Superior Court of California, County of Los Angeles, Case No. BS181603.

DAY CARE COUNCIL\_LOCAL D.C. 1707 WELFARE FUND v. PHILIP MORRIS, INC., ET AL., United States District Court for the Southern District of New York, Case No. 97/606240.

OPERATING ENGINEERS LOCAL 12 HEALTH & WELFARE FUND v. AMERICAN TOBACCO COMPANY, ET AL., Superior Court, Los Angeles County, California, Case No. BC 177968.

STEAMFITTERS LOCAL UNION NO. 614 HEALTH AND WELFARE FUND, ET AL. v. PHILIP MORRIS, INC., ET AL., Circuit Court, Shelby County, Tennessee, Case No. 92260-2.

ARKANSAS CARPENTERS HEALTH & WELFARE FUND v. PHILIP MORRIS, INC., ET AL., United States District Court for the District of Arkansas, Case No. LR-C-97-0754.

CARPENTERS & JOINERS WELFARE FUND, ET AL v. PHILIP MORRIS, INC., ET AL., United States District Court for the District of Minnesota, Case No. 98-515JMR/FLN. Trial in this case is scheduled for March 1, 2000.

NEW MEXICO AND WEST TEXAS MULTI-CRAFT HEALTH & WELFARE FUND, ET AL. v. PHILIP MORRIS, INC., ET AL., District Court, Bernalillo County, New Mexico, Case No. CV-97-0009118. In December 1998, the court dismissed the case with prejudice noting that the "remoteness doctrine was the principle catalyst for this decision."

TEAMSTERS BENEFIT TRUST v. PHILIP MORRIS, INC., ET AL., Superior Court, Alameda County, California, Case No. 796981-5.

NEWSPAPER PERIODICAL DRIVERS LOCAL 921, ET AL. v. PHILIP MORRIS, INC., ET AL., Superior Court, San Mateo County, California, Case No. 404469.

BAY AREA AUTOMOTIVE GROUP WELFARE FUND v. PHILIP MORRIS, INC., ET AL., Superior Court, San Francisco County, California, Case No. 994380.

OPERATING ENGINEERS LOCAL 324 HEALTH CARE FUND, ET AL. v. PHILIP MORRIS, INC., ET AL., Circuit Court, Wayne County, Michigan, Case No. 5:98-CV-60020. In February 1999, the court granted defendants' motion to dismiss.

U.A. LOCAL NO. 343 HEALTH AND WELFARE TRUST FUND v. PHILIP MORRIS, INC., ET AL., Superior Court, Alameda County, California, Case No. 796956-4.

U.A. LOCAL NO. 159 HEALTH AND WELFARE TRUST FUND v. PHILIP MORRIS, INC., ET AL., Superior Court, Alameda County, California, Case No. 796938 8.

SIGN PICTORIAL AND DISPLAY INDUSTRY WELFARE FUND v. PHILIP MORRIS, INC., ET AL., Superior Court, San Francisco County, California, Case No. 994403.

SAN FRANCISCO NEWSPAPER PUBLISHERS AND NORTHERN CALIFORNIA NEWSPAPER GUILD HEALTH & WELFARE TRUST v. PHILIP MORRIS, INC., Superior Court, San Francisco County, California, Case No. 994409.

U.A. LOCAL NO. 467 HEALTH AND WELFARE TRUST FUND v. PHILIP MORRIS, INC., Superior Court, San Mateo County, California, Case No. 404308.

PIPE TRADES DISTRICT COUNCIL NO. 36 HEALTH & WELFARE TRUST FUND v. PHILIP MORRIS, INC., Superior Court, Alameda County, California, Case No. 797130-1.

MILWAUKEE CARPENTER'S DISTRICT COUNCIL HEALTH FUND, WELFARE BENEFIT PLAN AND ITS TRUSTEES v. PHILIP MORRIS, INCORPORATED, Circuit Court, Milwaukee County, Wisconsin, Case No. 98CV001704.

BAY AREA DELIVERY DRIVERS SECURITY FUND v. PHILIP MORRIS, INC., Superior Court, Alameda County, California, Case No. 797589-9.

U.A. LOCAL NO. 393 HEALTH AND WELFARE TRUST FUND v. PHILIP MORRIS, INC., Superior Court, Alameda County, California, Case No. 798474-3.

NORTH COAST TRUST FUND v. PHILIP MORRIS, INC., Superior Court, San Francisco County, California, Case No. 994575.

NORTHERN CALIFORNIA PLASTERERS HEALTH & WELFARE TRUST FUND v. PHILIP MORRIS, INC., Superior Court, San Francisco County, California, Case No. 995226.



NORTHERN CALIFORNIA GENERAL TEAMSTERS SECURITY FUND v. PHILIP MORRIS, INC., Superior Court, Alameda County, California, Case No. 798492 9.

UTAH LABORERS' HEALTH & WELFARE TRUST FUND, ET AL. v. PHILIP MORRIS, INCORPORATED (PHILIP MORRIS U.S.A.), ET AL., United States District Court for the District of Utah, Case No. 2:98CV403C.

NORTHERN CALIFORNIA BAKERY DRIVERS SECURITY FUND v. PHILIP MORRIS, INC., Superior Court, Alameda County, California, Case No. 797362-6.

SERVICE EMPLOYEES INTERNATIONAL UNION HEALTH & WELFARE FUND, ET AL. v. PHILIP MORRIS, INC., ET AL., United States District Court for the District of Columbia, Case No. 1:98CV00704-GK.

CONTRACTORS, LABORERS, TEAMSTERS & ENGINEERS HEALTH & WELFARE PLAN v. PHILIP MORRIS, INC., United States District Court for the District of Nebraska, Case No. 8:98CV364. In February 1999, the court granted defendants' motion to dismiss for failure to state a claim.

MICHAEL H. HOLLAND, ET AL. v. PHILIP MORRIS, INCORPORATED (PHILIP MORRIS U.S.A.), ET AL., United States District Court for the District of Columbia, Case No. 1:98CV01716.

THE NATIONAL ASBESTOS WORKERS MEDICAL FUND, ET AL. v. PHILIP MORRIS INCORPORATED (PHILIP MORRIS U.S.A.), ET AL., United States District Court for the Eastern District of New York, Case No. CV 98 1492. In October 1998, the court denied defendants' motion to dismiss. Trial in this case is scheduled for April 5, 2000.

JOINT BENEFIT TRUST v. PHILIP MORRIS, INC., Superior Court, Alameda County, California, Case No. 799495-5.

NORTHERN CALIFORNIA PIPE TRADES HEALTH AND WELFARE TRUST v. PHILIP MORRIS, INC., Superior Court, Alameda County, California, Case No. 799692-4.

SHOP IRONWORKERS LOCAL 790 WELFARE PLAN v. PHILIP MORRIS, INC., Superior Court, Alameda County, California, Case No. 801309-3.

IBEW LOCAL 595 HEALTH AND WELFARE TRUST FUND v. PHILIP MORRIS, INC., Superior Court, Alameda County, California, Case No. 801292-0.

SAN FRANCISCO CULINARY, BARTENDERS AND SERVICE EMPLOYEES WELFARE FUND v. PHILIP MORRIS, INC., Superior Court, San Francisco County, California, Case No. 996855.

PLASTERING INDUSTRY WELFARE TRUST FUND v. PHILIP MORRIS, INC., Superior Court, San Francisco County, California, Case No. 996189.

NORTHERN CALIFORNIA TILE INDUSTRY HEALTH & WELFARE TRUST FUND v. PHILIP MORRIS, INC., Superior Court, San Francisco County, California, Case No. 996822.

CENTRAL VALLEY PAINTING & DECORATING HEALTH & WELFARE TRUST FUND v. PHILIP MORRIS, INC., Superior Court, San Francisco County, California, Case No. 996262.

CENTRAL COAST TRUST FUND v. PHILIP MORRIS, INC., Superior Court, San Francisco County, California, Case No. 998208.

S.E.I.U. LOCAL 74 WELFARE FUND, ET AL. v. PHILIP MORRIS, INC., United States District Court for the District of Columbia, Case No. 1:98CV01569.

#### INSURERS/SELF-INSURERS

Claims for recovery of health costs have also been filed by four groups of health care insurers, as well as a private entity that purported to operate its employee health care programs on a self-insured basis. The claims advanced in these cases are comparable to those advanced in the union health care cost recovery actions.

The insurer/self insurer cases pending as of December 31, 1998, included:

GROUP HEALTH PLAN, ET AL. v. PHILIP MORRIS INCORPORATED, ET AL., United States District Court for the District of Minnesota, Case No. 98-CV-1036. Trial in this case is scheduled for March 1, 2000.

REGENCE BLUESHIELD, ET AL. v. PHILIP MORRIS, INCORPORATED, ET AL., United States District Court for the Western District of Washington, at Seattle, Case No. C98-0559R. In January 1999, the court granted certain defendants' motion to dismiss for failure to state a claim, holding that plaintiffs do not have standing to bring the action because the alleged injuries are not distinct and separate from the alleged injuries to the health care plan members and are, therefore, too remote.

GREAT LAKES SALES & MARKETING (formerly WILLIAMS & DRAKE COMPANY, INC.), ET AL. v. THE AMERICAN TOBACCO COMPANY, ET AL., United States District Court for the Western District of Pennsylvania, Case No. 98553. In December 1998, the court dismissed this case with prejudice.

BLUE CROSS AND BLUE SHIELD OF NEW JERSEY, INC., ET AL. v. PHILIP MORRIS, INCORPORATED, ET AL., United States District Court for the Eastern District of New York, Case No. CV 98 3287. In February 1999, the court denied certain defendants' motions to dismiss for failure to state a claim and failure to join necessary parties. Trial in this case is scheduled for January 10, 2000.

ARKANSAS BLUE CROSS AND BLUE SHIELD, ET AL. v. PHILIP MORRIS, INCORPORATED, United States District Court for the Northern District of Illinois, Case No. 98 C 2612.

## INDIAN TRIBES

Five Indian tribes have filed actions against the industry in Indian tribal courts. These claims are not affected by the MSA. Motions to dismiss based on lack of subject matter jurisdiction have been briefed and argued in three of these cases. One of the tribal courts has denied the defendants' motion. The motion has been argued and is under submission in two jurisdictions. A sixth Indian tribe, the Pechanga Band, has filed a putative class action in San Diego Superior Court. The Indian Tribe cases pending as of December 31, 1998, included:

MUSCOGEE CREEK NATION v. THE AMERICAN TOBACCO COMPANY, ET AL., Muscogee Creek Tribal Court, Case No. CV 97-27.

CROW CREEK SIOUX TRIBE v. THE AMERICAN TOBACCO COMPANY, ET AL., Tribal Court of the Crow Creek Sioux, Case No. CV 97-09-082.

LOWER BRULE SIOUX NATION v. THE AMERICAN TOBACCO COMPANY, Lower Brule Sioux Tribal Court, Case No. 97-5-0057.

THE STANDING ROCK SIOUX TRIBE v. THE AMERICAN TOBACCO COMPANY, ET AL., Standing Rock Sioux Tribal Court, North Dakota.

THE SISSETON-WAHPETON SIOUX TRIBE v. THE AMERICAN TOBACCO COMPANY, ET AL., Sisseton-Wahpeton Sioux Tribal Court, North Dakota.

PECHANGA BAND OF LUISENO MISSION INDIANS, ET AL. v. PHILIP MORRIS, INC., Superior Court, San Diego County, California, Case No. 725419.

## ASBESTOS CONTRIBUTION

Nine actions have been filed against the Company by asbestos companies and/or related asbestos-related trust funds asserting claims for unjust enrichment, restitution, contribution, indemnity and unfair contribution. These theories are advanced based on the notion that the asbestos entities have "overpaid" claims brought against them to the extent that tobacco use, not asbestos exposure, was the cause of the alleged personal injuries with respect to which they have paid compensation. As with the other health care cost recovery actions, the complaints typically seek to aggregate the alleged damages associated with tens of thousands of underlying claims, without specifically identifying a single individual who claims injury by virtue of tobacco use.

The asbestos contribution actions pending as of December 31, 1998, included:

FALISE, ET AL. v. THE AMERICAN TOBACCO COMPANY, ET AL., United States District Court for the Eastern District of New York, Case No. 97 CV 7640. Trial in this case is scheduled for November 18, 1999.

KEENE CREDITORS TRUST v. BROWN & WILLIAMSON TOBACCO CORPORATION  
SUCCESSOR TO THE AMERICAN TOBACCO COMPANY, ET AL., Supreme Court, New York  
County, New York, Case No. 606479/97.

CONWED CORPORATION, ET AL. v. R. J. REYNOLDS TOBACCO COMPANY, United  
States District Court for the District of Minnesota, Case No. 98-CV-1412. Trial  
in this case is scheduled for March 1, 2000.

RAYMARK INDUSTRIES, INC. v. R. J. REYNOLDS TOBACCO COMPANY, Circuit  
Court, Duval County, Florida, Case No. 97-5254 CA-F.

RAYMARK INDUSTRIES, INC. v. THE AMERICAN TOBACCO COMPANY, ET AL.,  
United States District Court for the Eastern District of New York, Case No.  
98-CV-675.

RAYMARK INDUSTRIES, INC. v. THE AMERICAN TOBACCO COMPANY, ET AL.,  
United States District Court for the Northern District of Georgia, Case No. 1  
97-CV-2711

H. K. PORTER COMPANY, INC. v. THE AMERICAN TOBACCO COMPANY, ET AL.,  
United States District Court for the Eastern District of New York, Case No. CV  
97-7658 (JBW) .

FIBREBOARD CORPORATION, ET AL. v. R. J. Reynolds Tobacco Company, ET  
AL., Superior Court, Alameda County, California, Case No. 791919-8.

THOMAS v. R. J. Reynolds Tobacco Company, ET AL., Circuit Court,  
Jefferson County, Mississippi, Case No. 96-0065. Trial in this case is scheduled  
for an unspecified date in July 2000.

#### INTERNATIONAL

Certain foreign countries have filed lawsuits in United States courts  
asserting claims comparable to those asserted in the domestic health care cost  
recovery actions. The international actions pending as of December 31, 1998,  
included:

THE REPUBLIC OF THE MARSHALL ISLANDS v. THE AMERICAN TOBACCO COMPANY,  
ET AL., High Court, Marshall Islands, Case No. 1997-261.

THE REPUBLIC OF PANAMA v. THE AMERICAN TOBACCO COMPANY, INC., ET AL.,  
United States District Court for the Eastern District of Louisiana, Case No.  
98-17752 F Section 10.

Certain additional cases have been filed against the Company since the  
beginning of the year. These include:

THE REPUBLIC OF BOLIVIA v. PHILIP MORRIS COMPANIES, INC., ET AL.,  
United States District Court for the Southern District of Texas, Case No.

G-99-110. In March 1999, the United States District Court for the Southern District of Texas transferred this case to the United States District Court for the District of Columbia.

THE KINGDOM OF THAILAND v. THE TOBACCO INSTITUTE, ET AL., United States District Court for the Southern District of Texas, Case No. H-99-0320.

THE REPUBLIC OF VENEZUELA v. PHILIP MORRIS COMPANIES, INC., ET AL., United States District Court for the Southern District of Florida, Miami Division, Case No. 99-01943 CA.

#### OTHER

Certain additional health care cost recovery actions, falling into a series of miscellaneous categories, were also pending as of December 31, 1998. These included:

#### TAXPAYERS

BECKOM v. AMERICAN TOBACCO, ET AL., United States District Court for the Eastern District of Tennessee, Case No. 3:97-cv-0436.

STATE EX REL. COYNE, ET AL. v. THE AMERICAN TOBACCO CO., ET AL., United States District Court for the Northern District of Ohio, Case No. 96-2247. Trial in this case is scheduled for May 4, 2000.

DELISA WOODS, ET AL. v. THE AMERICAN TOBACCO COMPANY, ET AL., United States District Court for the Middle District of North Carolina, Case No. 1:98 CV 138.

#### UNIVERSITY

UNIVERSITY OF SOUTH ALABAMA v. THE AMERICAN TOBACCO COMPANY, ET AL., United States District Court for the District of Alabama, Case No. 97-0552-BH-S. In March 1999, the Court of Appeals reversed the trial court's dismissal of this case.

#### HOSPITAL

ALLEGHENY GENERAL HOSPITAL, ET AL. v. PHILIP MORRIS, INC., United States District Court for the Western District of Pennsylvania, Case No. 98-18956.

#### CERTAIN OTHER ACTIONS

Certain additional actions were pending against the company as of December 31, 1998. These included:

#### PROP 65

THE PEOPLE OF THE STATE OF CALIFORNIA, ET AL. v. BROWN & WILLIAMSON TOBACCO CORPORATION, ET AL., Superior Court, San Francisco County, Case No. 996781.

THE PEOPLE OF THE STATE OF CALIFORNIA, ET AL. v. PHILIP MORRIS INCORPORATED, ET AL., Superior Court, Los Angeles County, Case No. BC 19427.

MSA-RELATED

HISE, ET AL. v. PHILIP MORRIS, INCORPORATED, United States District Court for the Northern District of Oklahoma, Case No. 98CV947 C (E) .

VAUGHAN, ET AL. v. JAMES S. GILMORE, III, ET AL., Superior Court, Henrico County, Virginia, Case No. 998147.