

**ATTORNEYS GENERAL OF
THE TOBACCO GROWER STATES**

State of Alabama
State of Florida
State of Georgia
State of Indiana
Commonwealth of Kentucky
State of Maryland
State of Missouri

State of North Carolina
State of Ohio
Commonwealth of Pennsylvania
State of South Carolina
State of Tennessee
Commonwealth of Virginia
State of West Virginia

October 8, 2003

Ronald S. Milstein
Vice President, General Counsel and Secretary
Lorillard Tobacco Company
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Greensboro, NC 27408

Neil E. Mellen
Senior Counsel, Law Department
Brown & Williamson Tobacco
401 South 4th Avenue, Suite 200
Louisville, KY 40202

Tommy J. Payne
Executive Vice President External Relations
RJ Reynolds Tobacco Company
401 N. Main Street
Winston-Salem, NC 27102

**Re: Failure to Make National Tobacco Grower Settlement Trust
Contributions on September 30, 2003**

Gentlemen:

J.P. Morgan Chase Bank, the Trustee (“Trustee”) for the National Tobacco Grower Settlement Trust (“Phase II Trust”), has informed our respective States that your companies did not make quarterly contributions to the Phase II Trust on September 30, 2003 as the Phase II Trust Agreement requires. We understand that each of you has also received the attached letter dated September 30, 2003 from the Trustee indicating that there is no standstill agreement and that under the terms of the Trust, the amounts are due and payable immediately.

It is our understanding that your reasons for not making the payments are twofold. You have indicated that your companies take the collective position that proposed tobacco buy out bills currently introduced in Congress constitute Grower Governmental Obligations that would trigger a Tax Offset Adjustment under the Trust Agreement. In addition, we understand you are proposing an Amendment to the current Trust provisions that would validate your unilateral actions. Our response is set forth below.

Ronald S. Milstein, Vice President, General Counsel and Secretary
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Please note Schedule A of The Phase II Trust Agreement provides at A-5 that the Tobacco Manufacturers (“Settlers”) who fund the Phase II Trust may offset payment obligations under the Agreement “upon the occurrence of any change in a law or regulation or other governmental provision that leads to a new or an increase in an existing, federal or state excise tax on Cigarettes, or any other tax, fee, assessment, or financial obligation of any kind ...” if such a change provides “direct payments to Tobacco growers or Tobacco Quota Owners.” (Emphasis added.)

The undersigned Attorneys General of tobacco growing States believe it is clear that proposed legislation is not an “occurrence of any change” as that phrase is used in the Trust Agreement. In fact there have been numerous proposed tobacco buy out bills for several years and you have never before used speculation over whether these bills would become law as a reason to withhold your Phase II Trust payments.

Furthermore, Schedule A of the Trust Agreement provides that 25% of each Settlor’s share of the Annual Payments is due on or before September 30 of each payment year. The Trust Agreement makes no provision for depositing those shares into escrow.

With respect to your proposed amendment, you are simply attempting to cure your breach and you cite no basis in the existing Trust to support your position. As you are aware given the delicate economic environment facing the Grower states and the Growers, unjustifiably withholding these funds even for a short period of time may cause irreparable harm.

In view of your clear and unilateral breach of the Phase II Trust Agreement, we must join the Trustee and ask you to honor the Trust terms by making the September 30, 2003, payment with interest immediately and by continuing to make payments in accordance with the terms of the Trust Agreement.