

Cost Basis Adjustments

Dear Ralston-Ralston Purina Group Shareholder:

Enclosed is your certificate for Ralcorp-Holdings, Inc. Common Stock ("Ralcorp Stock") which is being issued to you in connection with the spin-off of the Company's domestic cereal, baby food, Bremmer crackers and cookies, resort and coupon redemption businesses (the "Spin-off"). The Spin-off was approved by the Company's Board of Directors on March 24, 1994 and became effective on March 31, 1994. One share of Ralcorp Stock is being distributed for each three shares of the Company's \$.10 par value Ralston-Ralston Purina Group Common Stock ("RPG Stock") held by you on March 31, 1994.

We have received a ruling from the IRS that the issuance of shares of stock as a result of the Spin-off is not taxable to shareholders for federal income tax purposes. However, federal income tax law requires the allocation of the tax basis of your RPG Stock at the time of the Spin-off ("old RPG basis") between your retained RPG Stock and the new Ralcorp Stock in proportion to the relative fair market values of each. For this purpose, the fair market value of the RPG Stock and the Ralcorp Stock may be based on the average of their respective closing prices for the first three days of trading after the Spin-off.

Based upon the New York Stock Exchange trading on April 4, 5 and 6, the fair market value for basis allocation purposes of a share of RPG Stock is \$37.75 and a share of Ralcorp Stock is \$15.00 or \$5.00 for 1/3 share of Ralcorp Stock. Accordingly, the percentage of old RPG basis assigned to the RPG Stock is 88.3% and the percentage assigned to the Ralcorp Stock is 11.7%.

For example, assume your tax basis for 99 shares of RPG common Stock owned immediately before the Spin-off is \$3,000. Using the allocation percentages, your basis in the 99 shares of RPG Stock would become \$2,649 and your basis in the 33 shares of Ralcorp Stock received as a result of the spin-off with respect to such RPG Stock would be \$351.

You will receive cash in lieu of any fractional shares of Ralcorp Stock. Such cash is treated for federal income tax purposes, as an amount realized on the sale of a fractional share, and the resulting gain or loss must be reported on your federal income tax return. Your taxable gain or loss from such sale is the difference between the cash received and the basis of the fractional share computed under the formula presented above.

For example, if you held 100 shares of RPG Stock immediately before the Spin-off, you would receive 33 shares of Ralcorp Stock plus \$5.00 in lieu of 1/3 of a share of Ralcorp Stock. Assuming your tax basis in the 100 shares of Ralcorp Stock was \$3,000, under the above-described allocation formula, your basis in 33 1/3 shares of Ralcorp Stock would be \$351, and your basis in the 1/3 share of Ralcorp (converted to cash) would be \$3.51. Your resulting gain in respect of the fractional shares would be \$1.49 (\$5.00 - \$3.51).

For capital gains purposes, your holding period for Ralcorp Stock includes your holding period for the RPG shares.

Please note that tax consequences different from those described above may apply to RPG shareholders receiving Ralcorp Stock in the Spin-off with respect to employee awards of restricted RPG Stock.

Your tax advisor can provide further guidance and any additional information which you may need.

The enclosed certificate will serve as your permanent certificate. We urge you to keep all of your stock certificates in a safe and secure place. The replacement of lost or destroyed certificates can be costly and inconvenient. Also, be sure to notify the Company of any changes in your address so that all dividends and other shareholder mailings may reach you promptly and safely.