

Discussion Draft

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Philip Morris U.S.A.:
Strong Values, Strong Brands,
A Strong Partnership with Virginia

What qualities are necessary for a company to be thought of as a leader in its field? For Philip Morris U.S.A. the answers to that question include: A strong set of core values; a defined mission; the very best brands in the world; a vision for the future; and the creativity to bring this vision to reality.

These are the qualities that make Philip Morris U.S.A. the undisputed leader in the industry.

Underlying our competitive advantages is a culture and a set of values unique to our company that have endured over time. Our culture demands that all of us at Philip Morris U.S.A. be passionate about the business, responsible in our actions and unwilling to settle for less than the best in everything we do.

Our core business is the manufacture and marketing of the highest quality tobacco products for those adults who choose to use them. Our mission is to be the most responsible, effective and respected developer, manufacturer and marketer of consumer products for adults.

Throughout our long and successful history, Philip Morris U.S.A. has taken pride in conducting our business according to the highest standards and has demonstrated an enduring commitment to being a good corporate citizen in the communities where our consumers and employees live and work.

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We think it is critical to our amazing success that we clearly define and articulate the values and principles that guide us -- both to our own employees as well as to others with whom we interact.

Our core values define who we are and how we are committed to conducting our business:

- We believe in operating with integrity, trust and respect, both as individuals and as a company.
- We demonstrate a passion to succeed in every aspect of our business.
- We believe in executing with quality, by understanding and responding to our consumers' preferences.
- We believe in driving creativity into everything we do, resulting in innovation and continuous improvement for our adult consumers.
- We believe in sharing with others, unleashing the tremendous resources of our people as a force for good in the communities in which we live and work.

These values are at the heart of a proud tradition that began in 1847¹ when a London tobacconist named Philip Morris opened an exclusive shop in Bond Street and began producing tobacco in a form that became increasingly popular -- the cigarette.

In 1902, a company bearing his name was incorporated in New York, and in 1919 the company began its partnership with

¹ Legal: For all dates, see PM USA booklet, "Philip Morris and Tobacco: from the beginning".

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the people of Virginia when it was incorporated in Richmond under the name of Philip Morris and Company Ltd., Inc. In those days, the company marketed a variety of premium cigarettes, many of them English imports, such as English Ovals, Oxford Blues and Cambridge.

A brand known initially as English Blend, later as Philip Morris Special Blend became the company's leading cigarette during the Depression and the War years.

Contributing to the success of Special Blend, and helping to keep what was then the nation's smallest tobacco company afloat, was one of the most successful campaigns in advertising history. The "Call for Philip Morris" campaign drew its inspiration from John Roventini, a bellhop working in the lobby of Manhattan's Hotel New Yorker. John Roventini and his distinctive "Callllll For Philip Moreees!" became part of the nation's cultural heritage during some of the most difficult years in its history.

Following World War II consumer tastes began to change and a preference for filter cigarettes emerged. In response, Philip Morris reformulated Marlboro, a brand introduced in 1925 and marketed originally as a cigarette for women, adding a cork-tipped filter and re-packaging the brand in a crush-proof, red-and-white flip-top box.

Designed to appeal to men this time, Marlboro was marketed with a bold, rugged imagery that eventually focused on the American West. The rest is history. In the years that followed, the Marlboro Man and Marlboro Country took their place among the most powerful brand images in the marketplace, not only in American advertising, but in advertising around the world.

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Propelled by the success of Marlboro, Philip Morris U.S.A. overtook the competition in the decades that followed and became the nation's number one cigarette company in 1983. Today Philip Morris is the largest tobacco company in the world and Marlboro the world's most popular brand. Our other cigarette brands include Benson & Hedges, Merit, Virginia Slims, Parliament, Basic, Cambridge and Alpine.

Philip Morris U.S.A. is the domestic tobacco division of Philip Morris Companies Inc., the world's largest producer and marketer of consumer packaged goods. There are five principal operating companies in the Philip Morris family: Kraft Foods, Inc., Miller Brewing Company, Philip Morris International Inc., Philip Morris Incorporated (PM USA) and Philip Morris Capital Corporation. Other major business units include Kraft Foods International, an operating unit of Kraft Foods, Inc.; and Mission Viejo Company, the real estate subsidiary of Philip Morris Capital Corporation.

The Philip Morris family of companies maintains a portfolio of world-famous brand names unmatched by any other consumer products company. In addition to *Marlboro*, our brands include *Post* cereals, *Kraft* cheese, *Oscar Mayer* processed meats, *Maxwell House* coffee, *Miller* beer, *Tombstone* pizza, *Minute Rice*, *Kool Aid* powdered soft drinks and *Jell-O Brand* desserts, among many others.

Philip Morris Companies Inc. conducts operations and markets products in more than 180 countries. We are not only the largest international tobacco company, we are also the second-largest food company and the third-largest brewing

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company in the world.² We have grown by building a remarkable array of powerful premium brands, responding to consumer demand, and creating a solid infrastructure of superior facilities staffed by talented people.

Some of those people live right here in Virginia. Philip Morris U.S.A. alone employs more than 8,000 people in Virginia³ and, in addition to its own payroll, purchases approximately \$1.2 billion annually from more than 1,000 Virginia companies. Philip Morris U.S.A. plays an integral role in community life, not just by contributing to the economy, but also through our long tradition of support for Virginia arts, educational organizations.

In recent years, for example, we have helped to support the fight against hunger by making donations to six hunger-relief groups through our "Helping the Helpers" campaign. We have been a leading corporate supporter of the Richmond Ballet. We made a half-million dollar grant to Virginia Commonwealth University's School of Engineering. And both Philip Morris U.S.A. and its employees have contributed millions to Virginia community organizations through the United Way.

² Legal: See PM USA Recruitment Brochure, p. 4, legally approved, in press.

³ Legal: For Virginia economic info, see The Virginia Economic Impacts of Philip Morris U.S.A., An Overview, prepared by the Bureau of Business Research of the College of William & Mary.

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At Philip Morris U.S.A. we think about more than just business processes. We think in terms of what it means to be good parents, good neighbors and good citizens of our communities. As a member of the Philip Morris family of companies, we're proud to be among the largest corporate contributors in the fight against hunger and the nation's leading corporate supporter of the arts. Philip Morris Companies Inc. is also a prominent supporter of programs that help to educate kids, protect the environment and aid victims of domestic violence.

We make our contributions, not just by writing checks, but by being active participants in the well-being of our communities. For example, employees across the country participate in our "PM Cares Day," spending a full workday painting schools, serving food in soup kitchens, helping single mothers finish their high school studies, and helping to build houses with Habitat for Humanity, among many other volunteer efforts.

Our employees are an amazing group of people. We have one of the most diverse work forces -- and supplier bases -- of any large company in the U.S., and we're constantly working to increase that diversity. As our society becomes more diverse so do our customers, and we believe it is both good business and good policy to reflect the diversity of our customers in our corporate culture.

Our commitment to diversity is just one aspect of our overall commitment to the highest standards of corporate responsibility. We know that tobacco is a controversial product and that we must be responsible in ensuring that our product is used by adults who choose to smoke -- and only adults.

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For many decades Philip Morris U.S.A. has had strict internal policies in place to ensure that our cigarette marketing does not appeal to minors. Nevertheless, we felt it was time to embark on a more substantial, long-term and comprehensive youth smoking prevention effort.

We therefore created a Department of Youth Smoking Prevention to take an aggressive, proactive course in dealing with the issue. The initiative takes a four pronged approach: Communication, Education, Community Action and Access.

The first phase of the Communication strategy was launched last December when Philip Morris began airing national television ads designed to convince kids that smoking is not cool. Radio, print and other types of ads will soon follow, some aimed at helping parents to influence their kids not to smoke.

The Education strategy will identify school and community-based curricula that could help reduce youth smoking, while the Community Action component will seek to form partnerships with leading youth and other organizations involved in youth development.

As part of our Access initiatives, Philip Morris U.S.A. will continue to support it's Action Against Access program, first launched in June of 1995, that seeks to limit retail access to face-to-face transactions where proof of age can be verified. We will also continue to support the Coalition for Responsible Tobacco Retailing's "We Card" education and training program.

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Philip Morris is committed to making a meaningful contribution to youth smoking prevention, and as long as there is a youth smoking issue we will support that commitment.

Just as we are committed to ensuring that kids don't smoke, we are equally committed to protecting the rights of adults who choose to smoke.

We want to make sure that our adult consumers are treated fairly, that they continue to have opportunities to choose to smoke in comfortable, attractive and accommodating settings. At the same time, we want to address the concerns of non-smokers who may be annoyed by tobacco smoke in the air.

Our goal is to encourage a range of options for businesses and individuals -- smokers and non-smokers -- options that respect the wishes of smokers and non-smokers alike and allow business owners to decide how best to accommodate their customers' preferences. And we believe that technology offers the most reasonable and effective tools for achieving this goal.

In Richmond, for example, operators of the Hitching Post restaurant in the Richmond International Airport have taken advantage of state-of-the-art ventilation technology to create a comfortable environment for all of their customers, regardless of smoking preference. The Hitching Post is a thriving, popular establishment at the Richmond airport, demonstrating that accommodation is not only a very reasonable policy, but that it makes good business sense, too.

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At Philip Morris we know that our actions -- the many things we do to make and market our superior products, to contribute to our communities, to prevent youth smoking, encourage diversity and ensure fairness for our consumers - - speak louder than words.

We take great pride in our culture and our values. And we are also proud of our long association with the state of Virginia, which has nourished our growth and influenced the development of our principles and our core values for the past eighty years.

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