

Remarks by Steve Parrish

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Good morning everybody, and thank you for taking the time out of your busy schedules to come down to South Carolina. I'd also like to extend a warm welcome to the first-time participants in this annual get-together -- our trade association partners. And my apologies for not being able to be here with you in person.

It's a very exciting time at Philip Morris as we head into the new millennium. And this week, in particular, is a very exciting week for us. Tomorrow, we will roll out the first of a series of television commercials that will run nationally. These commercials will focus on who we are, what we do and what we believe. Additionally, we will launch a corporate web site for the first time that you can access at www.philipmorris.com.

The goal of the campaign and the web site is to better communicate to the public at large and to various stakeholder groups about who we are, what we do and what we believe. It's clear that people don't know or understand Philip Morris very well. For 15 years, we've let ourselves be defined by our critics. The time has come for this to change. We think what we're embarking on is a good strategy -- thanks in large part to many of you who have been encouraging us to do this for a long time.

I'll talk more about the campaign -- and the direction the company is moving in -- a bit later. I also plan to preview a few of the ads for you this morning.

First, I'm quite pleased to report that notwithstanding current litigation, the company is in excellent shape and the future of Philip Morris looks very promising. I couldn't be with you last year because we had just concluded the Master Settlement Agreement. Now, one year later, my view is that living with the MSA has provided us with more opportunities than problems. As we work through the terms of the MSA, we are focused on areas of future growth while at the same time looking for reasonable ways to create a common-sense tobacco policy.

Seeking out these reasonable ways to deal with our various stakeholder groups is what I want to focus on this morning.

The theme of this conference is "Constructive Engagement: Making It Reality." In order to make it a reality, we have to clearly understand what exactly it means.

Constructive engagement means we need to proactively engage in dialog to seek reasonable solutions to the important issues that affect our products and operations and be prepared to mount, when necessary, vigorous strategies to preserve our most fundamental business interests. Constructive engagement is critical if we want to achieve our mission

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which is to respond to and shape a political, regulatory and attitudinal environment that permits the Company to achieve its business objectives.

This implies a number of specific activities for all of our Corporate Affairs units.

First, it means we have to *listen carefully* to criticism and to what our critics and opinion leaders are saying. We also have to take the pulse of the public about our issues, through opinion research. Not just opinion research that tries to find out where they agree with us and where they don't. We need to *understand* what is really on people's minds.

Connected to this is a need to have dialogue processes in place with various groups in society. Sometimes with our critics. Always with political and social leaders. And nothing should be off the table when we talk.

This means we have to engage – we cannot stand back. We have to be out there in conversation about our issues – not just as corporate affairs people but also as business people.

The outcome of this type of dialogue and listening has to be a plan of action. Constructive Engagement requires that we start with a “constructive” approach – trying to see if there is a “win-win” here. Clem Roy was even able to work with Connecticut Attorney General Blumenthal on the grey market issue. Now, they're not drinking buddies, but progress on the issue was made and the bill got signed into law.

Second, we need to identify whether there are genuine concerns requiring solutions, rather than just dismissing criticism, which we have so often done with tobacco issues. Sometimes critics will raise issues that have no basis – an unproven health concern or environmental impact. But sometimes the concerns are both real and meaningfully related to our businesses – such as the annoyances of second-hand smoke, or the problems of alcohol abuse and youth smoking, or unbalanced and unhealthy diets.

We have now had three of our Regional Directors -- Ginny Corwin, Matt Paluszek and Derek Crawford – testify at the state level on the distribution of MSA funds. In Vermont, we have forged a partnership with the Association of Vermont Independent Colleges to help address the very real problem of binge drinking on college campuses. And, in New York, through the efforts of John Boltz and Tom Gosdeck, we formed the New York State Food Group to bring together those who sometimes have conflicting views on food and agribusiness issues.

In these cases, constructive engagement requires that we see how the company can engage usefully in solutions – by changing our practices, by educating our consumers, by catalyzing or supporting others who will take useful actions.

Third, Constructive Engagement will require us to approach issues with the same seriousness and professionalism with which we approach the marketing of our products. So, hypothesize, research and test. Take ideas into test markets. Don't assume that we know all the answers.

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Fourth, we also have to identify with business leadership where our significant business interests lie in the short-term and in the long-term. Solutions that significantly raise our costs or reduce our opportunities to compete effectively are obviously not desirable. We need to know what will have a truly meaningful impact on our business. And we cannot reject ideas simply because they are proposed by outsiders. We have to be very clear about what we truly should care about and why.

Let me assure you – nothing in the Constructive Engagement approach suggests that we will fail to respond vigorously – and even aggressively – to defend our fundamental issues.

This is not a roll-over strategy. It is a pick-your fights carefully strategy. That means that we will try first to find win-win solutions through reason and dialogue, but we will always be prepared to fight hard when fighting hard is what's best for the business.

The difference from the past is a change from what has often been an automatic rejection of almost any idea or solution that is proposed. Constructive Engagement is a very different stance – it says listen, consider, think clearly about the real business interests, engage in dialogue, try to find solutions, use research and when you must fight for fundamentals, fight hard.

The advantage of this approach is obvious. When we do have to fight we will fight on firmer ground and in an environment where people will know that we are reasonable and accommodating in general. So when we do fight, others will know, it must be a serious issue for us.

Finally, we must make our other stakeholder groups a priority. Some of you are sitting out here right now. While sometimes we will have to agree to disagree, we are committed to working together with you to confront key issues and solve problems. In the spirit of a true partnership, we want to engage you in our issues, our beliefs and our values and we want to be engaged in yours. We will accomplish this by keeping you fully informed, and by providing you with the ideas and resources to help us represent our mutual interests proudly and confidently.

What I just summed up for you are the operating principles by which the Corporate Affairs Department of Philip Morris functions. Living up to these principles every day, and never losing sight of our critical mission, is crucial to our future business success.

At the state level, we look to you – our state government affairs team – to carry out these objectives. We will continue to provide the support necessary for you to do your jobs. We also look to you as the eyes and ears of Philip Morris at the state and local levels. You need to let us know if there are things we should be doing differently or issues we should be addressing. You've done a great job of this in the past, but now it's even more critical than ever before as we begin reshaping the image of our company.

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Now, let's talk for a moment about this new image.

When we recently stepped back and asked ourselves what we want our future to look like, we reminded ourselves that Philip Morris is not just a tobacco company. We are a consumer products company.

The Philip Morris family of companies includes Kraft, the largest food company in North America and the second largest in the world; and Miller Brewing, the second largest beer company in the U.S. and the third biggest in the world. I know this and you know this, but it's now time for the American public to also find this out.

We are not a caricature, but a company – and we would like to be seen more fully for what and who we really are. I speak not only for the senior executives at Philip Morris, not even just for the nearly 15 million shareholders in our company. I speak as well on behalf of farmers whose families have invested generations in the land, of young workers starting out in one of our offices or factories, of those for whom a job in the Philip Morris family of companies represents a first step on the ladder of the American dream.

We want to go into the next century doing our jobs, building great brands, providing for our families, improving our communities, and increasing the wealth of the literally millions of people who rely on us.

We want to resolve the important issues relating to the manufacturing and sale of cigarettes, as I mentioned earlier. Cigarettes are a controversial product and I'm sure they always will be. But we want to help make progress toward goals that everyone can agree on.

We also want to operate in a stable business environment where endless lawsuits and endless debates have been resolved. We want to live in a world where society is at peace with how we manage our tobacco business.

The theme of our effort is "Working to Make a Difference. The People of Philip Morris."

This is not a "flavor of the month" initiative, nor is it a single program or event. It represents who we are and how we do business. It is how we work within and across our companies and the contributions we make to the communities in which we live and operate. It is how we will build on our past accomplishments to ensure our success in the future.

Nor does it represent a sea of change for us. What is new is that we are now telling our story to a broader audience in new ways – through speeches, brochures, videos and even the television ads that I spoke of earlier. Every one of us needs to be involved too. In the next few months we may call on some of you to give a talk in your part of the country on Philip Morris and who we really are. This effort can work, but only if we all take personal responsibility for its success.

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I now want to give you a sneak preview of some of the ads that will begin running tomorrow. Let's take a look.

(SHOW SELECTED ADS)

This is a national ad campaign. It's a lot of money to spend to let people know who we really are at Philip Morris. But it's very important to us to improve our image not for image's sake, but to achieve important business objectives.

We understand that some people may respond negatively to these ads, and even say they are just another public relations ploy by Philip Morris. That's o.k. We're prepared for this criticism, and we can't let it stop us -- or scare us into keeping quiet. We must continue to move forward. An important part of this effort is our new website. I urge you to check it out as it speaks very clearly about our company, its people and its principles.

Part of working on this image also deals with setting new standards and managing the controversial issues in a better way than we have in the past. Together, these efforts should help us regain the confidence of the American public.

I want to reiterate (and reemphasize) that our approach will be quite different from what we have ever done before:

- We will not simply reject or ignore criticism. Even the wildest accusations can gain attention and credibility if we don't quickly and aggressively respond to them.
- We will pay closer attention to public concerns and, most importantly, address those concerns when they are genuine.
- We will make every effort to understand the individuals and groups who are driving public opinion in an effort to reach common ground on as many of the issues as possible; and
- We will reach out, engage our critics and speak often and honestly -- and not concede the airwaves to those who seek to characterize us as uncaring, unconcerned and untrustworthy.

That is Constructive Engagement. Once again I want to thank you very much for joining us in beautiful Hilton Head.

Thank you

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