

PM USA Mission Exploration Project

Red Team

Final Presentation

June 27, 2000

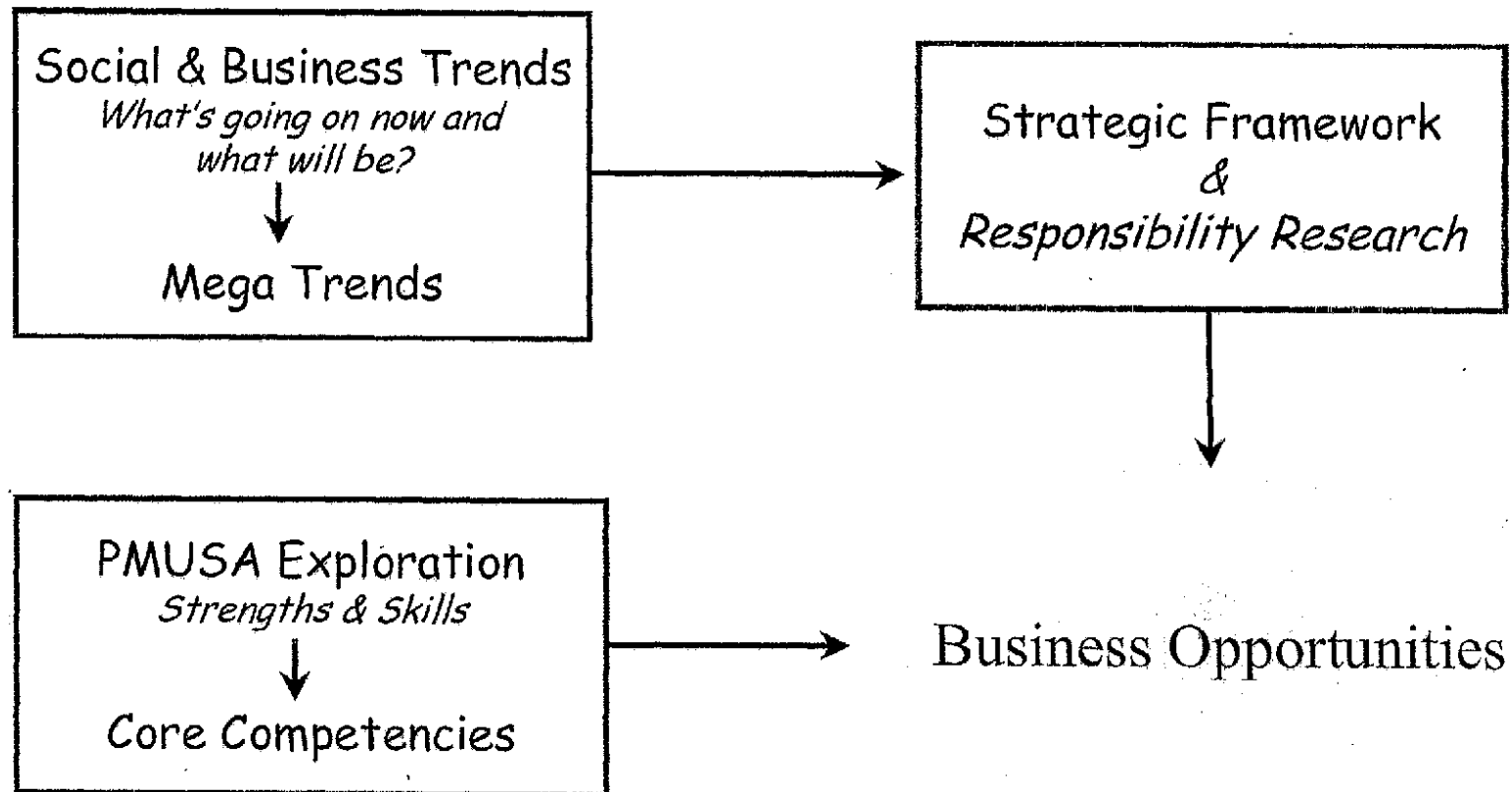
PM USA Mission

To be the most responsible,
effective and respected
developer, manufacturer and
marketer of consumer products
made for adults

Agenda

- ◆ Methodology
- ◆ Mega Trends
- ◆ Core Competencies
- ◆ Responsibility Research
- ◆ Strategic Framework
- ◆ New Business Opportunities

Methodology



Methodology

Phase I

- ◆ Eight week exploration of the external environment to determine mega trends. We specifically explored emerging trends in business, consumers, society, technology, government and regulation
- ◆ During this phase we conducted 96 interviews with a variety of individuals including:
 - ❖ Business Leaders
 - ❖ Societal Leaders
 - ❖ Think Tanks
 - ❖ Political Activists and Lobbyists
 - ❖ Academicians
 - ❖ Business Partners/Consultants

Phase II

- ◆ Five week exploration of PM internal processes and initiatives, resulting in an assessment of skills and competencies
- ◆ During this phase we conducted 94 interviews with PM employees, retailers, distributors, vendors and business consultants

Phase III

- ◆ Conducted responsibility research and created a strategic framework
- ◆ Five week synthesis of mega trends and core competencies to determine future business opportunities

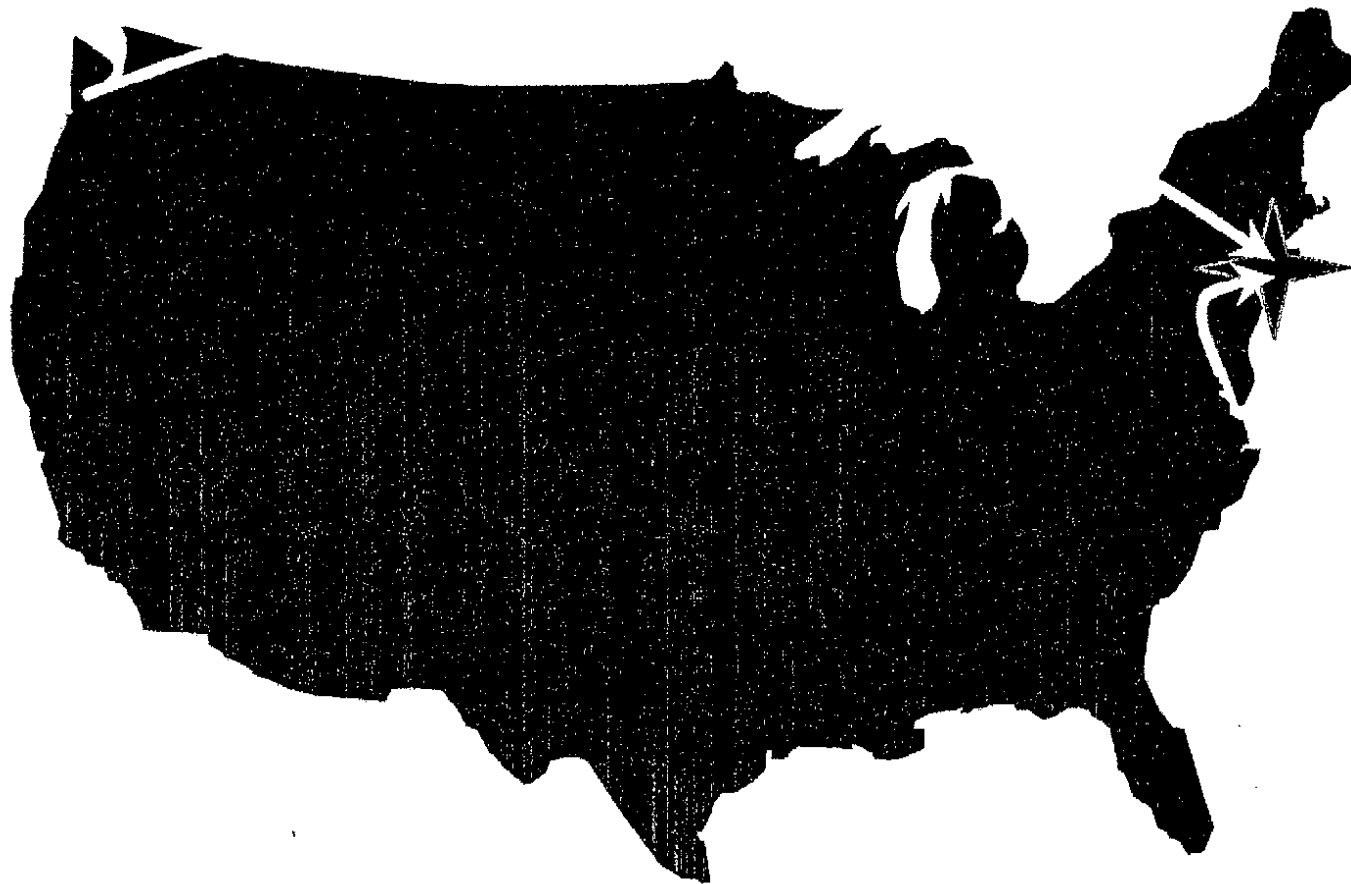
The Journey Begins...



The Journey Begins...



The Journey Begins...



Doral Tuscan

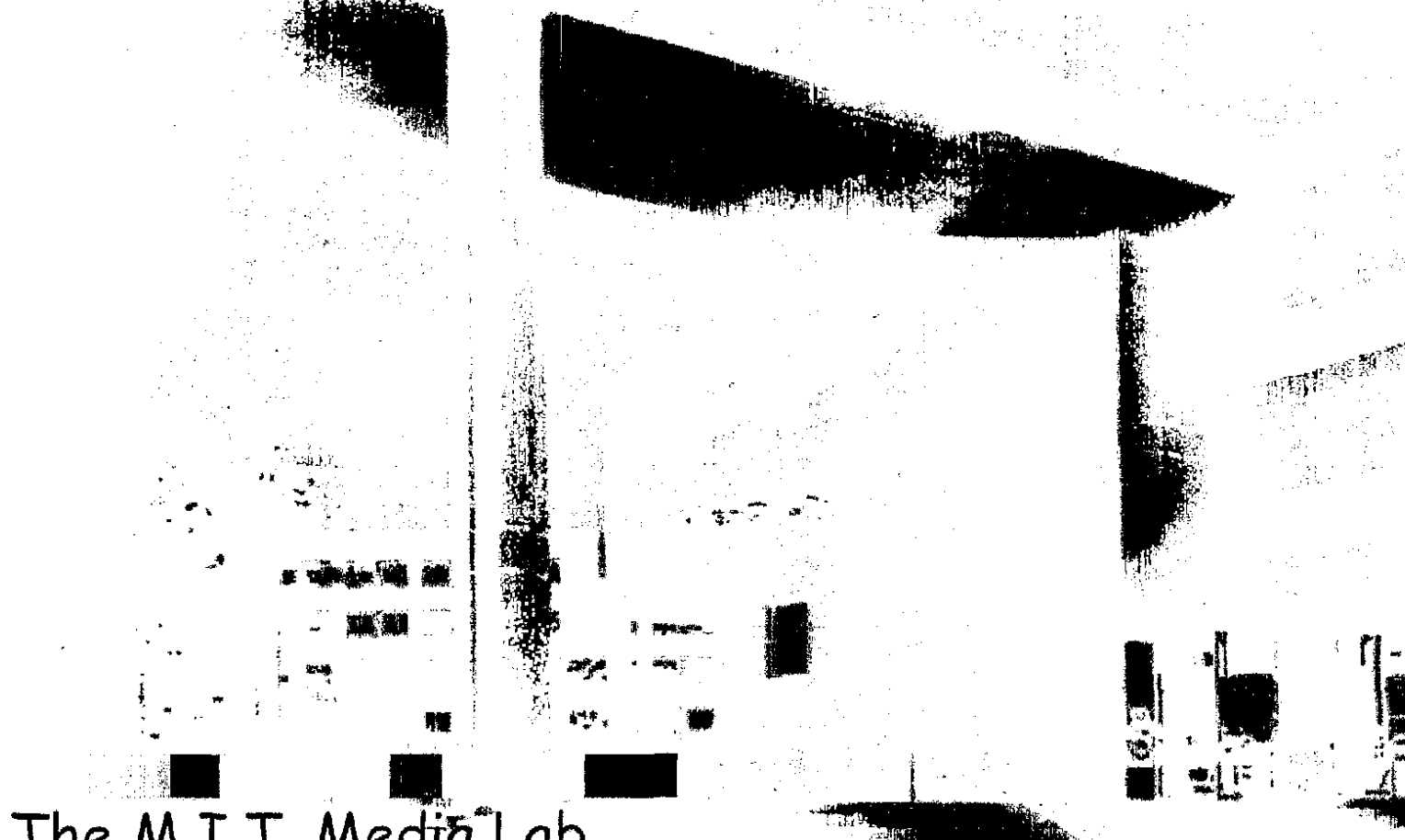


The Journey Begins...



The Journey Begins...

The Journey Begins...

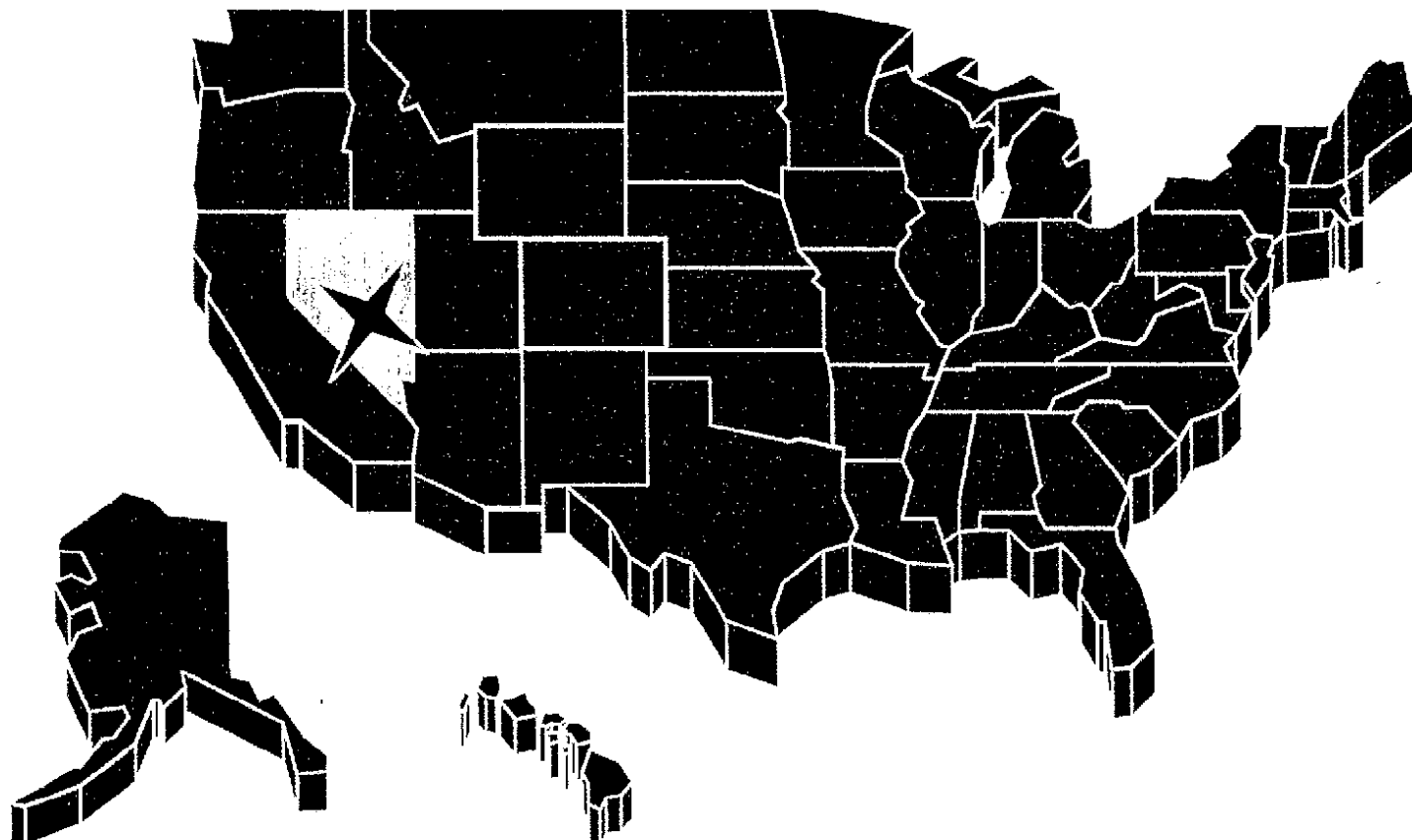


The M.I.T. Media Lab

The Journey Begins...



The Journey Begins...



Our First Discovery...

Mega Trends

Mega Trends

Well Being

People Power

A New
Diversity

Child
Centeredness

Global
Localization

Business
Reconfiguration

Quantum Leap

People Power

...who is in charge now !

Balance of power is shifting from business & government to individuals

Drivers

- ◆ Ease of access to information
- ◆ Economic prosperity
- ◆ Technology enabled networking

Implications

- ◆ Increased need for transparency
- ◆ Personalization & customization
- ◆ Increased consumer choice
...increased competition
- ◆ Emerging new business & operating models
(e-bay.com and priceline.com)
- ◆ Higher expectation of responsibility & accountability from government & business (demand for safety and privacy)
- ◆ Increased fragmentation of society
(grass roots movements based on

People Power

...who is in charge now !

MP3.com...Empowering Individuals
to Promote their Own Music

A Privacy Firestorm at DoubleClick

Admission: \$100
 Scholarship: \$50
 Customer: \$200

7-10-68
7-10-68
7-10-68

Welcome to Mercata...
Now you can use the power of
group buying to purchase
name brand products

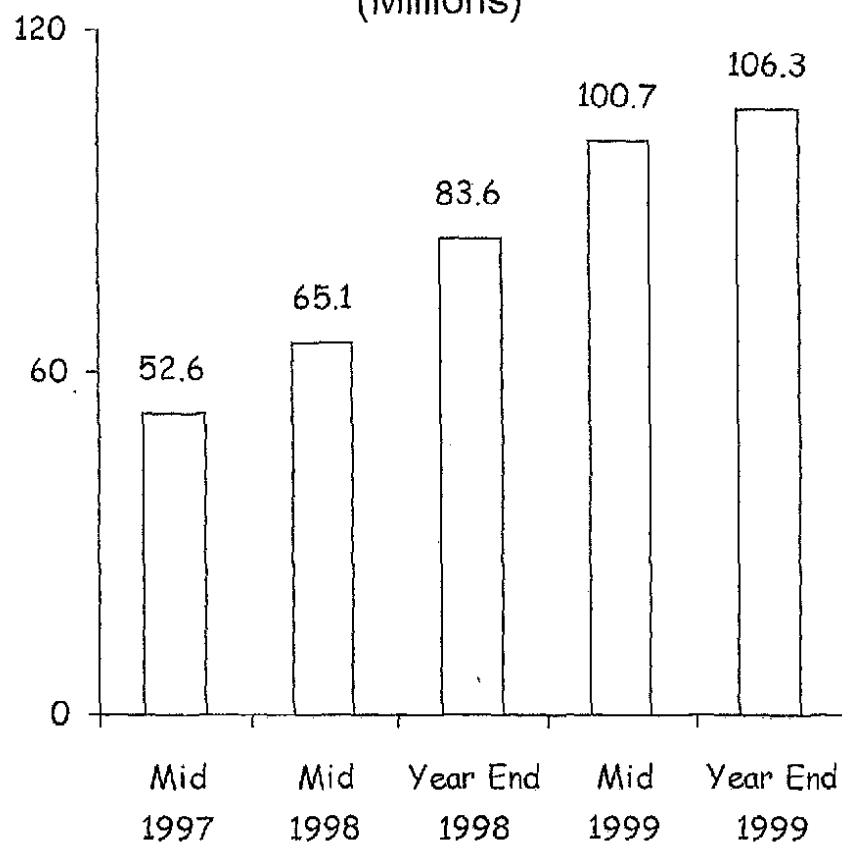
of

People Power

...who is in charge now !

US Internet Users

(Millions)



- ◆ 53% of adults use the Internet
- ◆ 47% of households have access

New Users in the Future

- ◆ 35% of non-users will be online in the foreseeable future (35-40 million additional users)
- ◆ 60% of new users will be women
- ◆ Less than \$40k annual income households will account for 52% of new users (currently only 29% of users in this bracket)
- ◆ Users will be willing to pay \$19 per month, an increase from past surveys

Source: Internet User Trends, YE 1999, The Strategis Group

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 18

2081409507

Well Being

...a holistic approach to life

People want to make balanced & personalized choices regarding work, family, leisure, health, spirituality & environment - and continually strive to grow & reinvent.

Drivers

- ◆ Complexity and stress
- ◆ Increasing prosperity and awareness
- ◆ Demographic shifts (aging, female, multi-culturalism)
- ◆ Access to information
- ◆ Changing family structures and values
- ◆ Technological and scientific breakthroughs
- ◆ Globalization

Implications

- ◆ Focus on prevention (health & environment)
- ◆ Acceptance of regulation to ensure safety & protection
- ◆ Personalized lifestyle choices vs. mass appeal
- ◆ Expectation of business involvement in communities
- ◆ Demand for transparency, disclosure & accountability
- ◆ Demand for new experiences - increasing mobility, diverse work experiences, demand for leisure & wellness products & services

Well Being

...a holistic approach to life

*As medicine and medical research
continue to advance, the
focus of the medical industry are
extending the life span of the individual*

Want a CAT Scan? Step right up...

Medical labs offer tests on demand
for those willing to pay

*Boomers Begin to Look
Beyond the Good Life To the
'Good Death'*

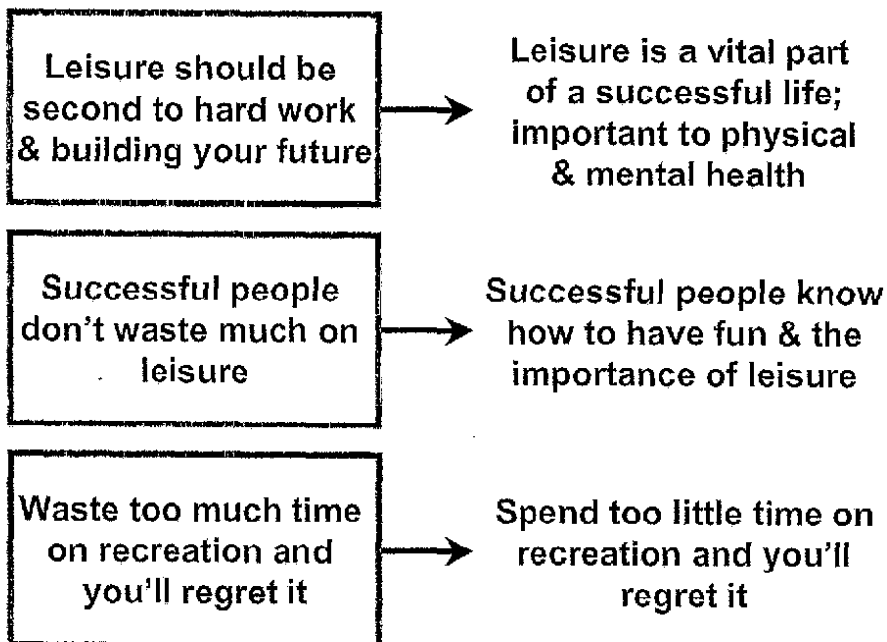
*Natural foods are
estimated to be a
\$16+ billion dollar industry
growing at double digits
annually*

Well Being

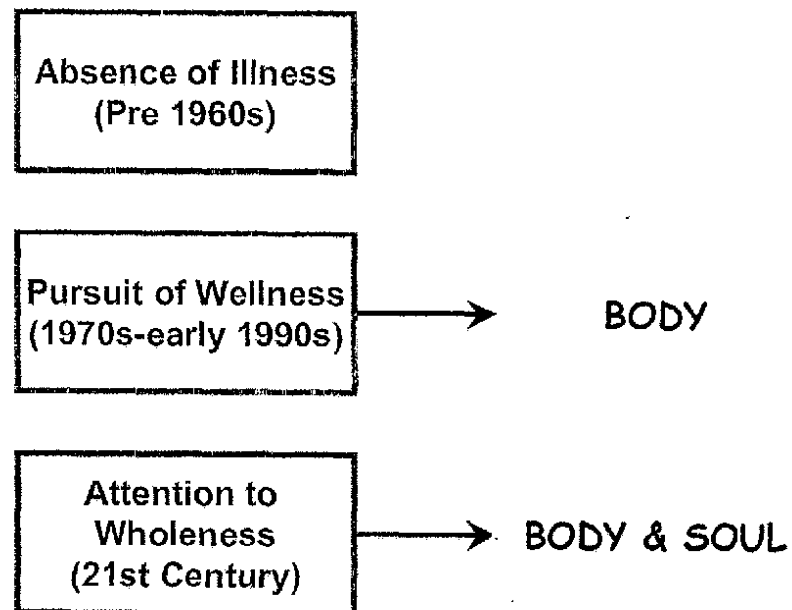
...a holistic approach to life

Leisure Redefined

<u>Old View</u>	<u>New View</u>
-----------------	-----------------



Over the past 40 years... From Health and Well Being Defined As



Source: DYG Scan, 12/99

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 21

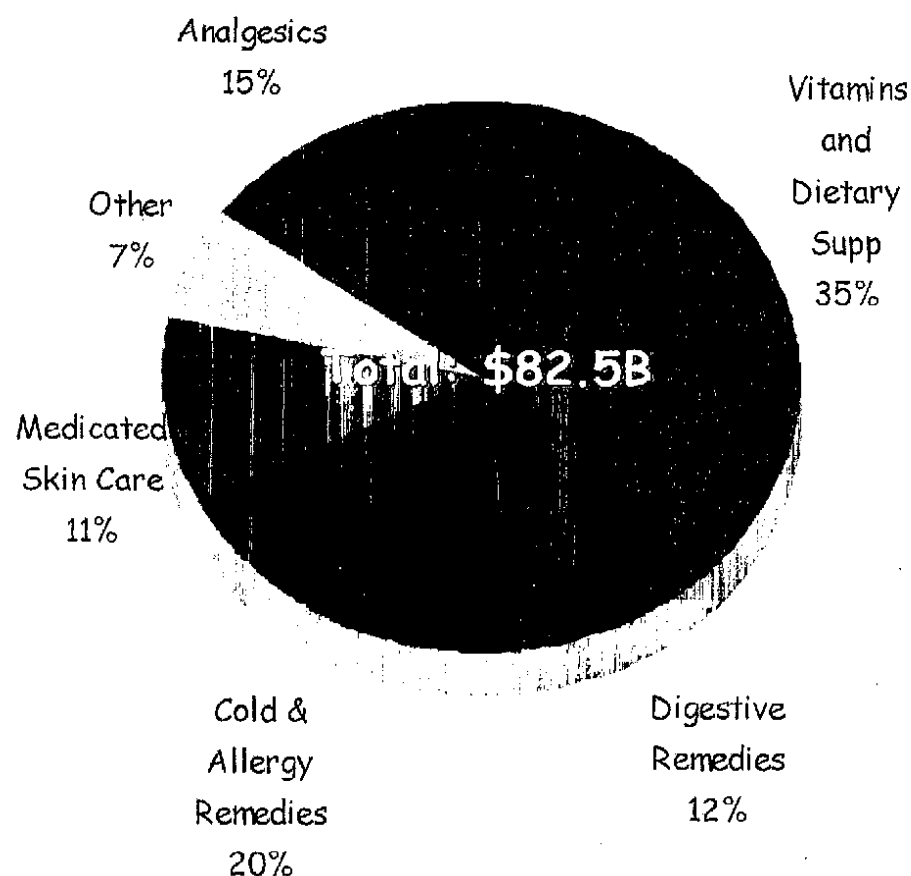
2081409510

Well Being

...a holistic approach to life

Health Care Products (World Market, 1999)

- ◆ \$82.5 billion spent on over-the-counter medicines
- ◆ Vitamins and dietary supplements were 1/3 of the OTC world market
- ◆ Most popular in North America and Europe, where alternative medicine is gaining ground



Source: Economist, 6/3/00; Euromonitor

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 22

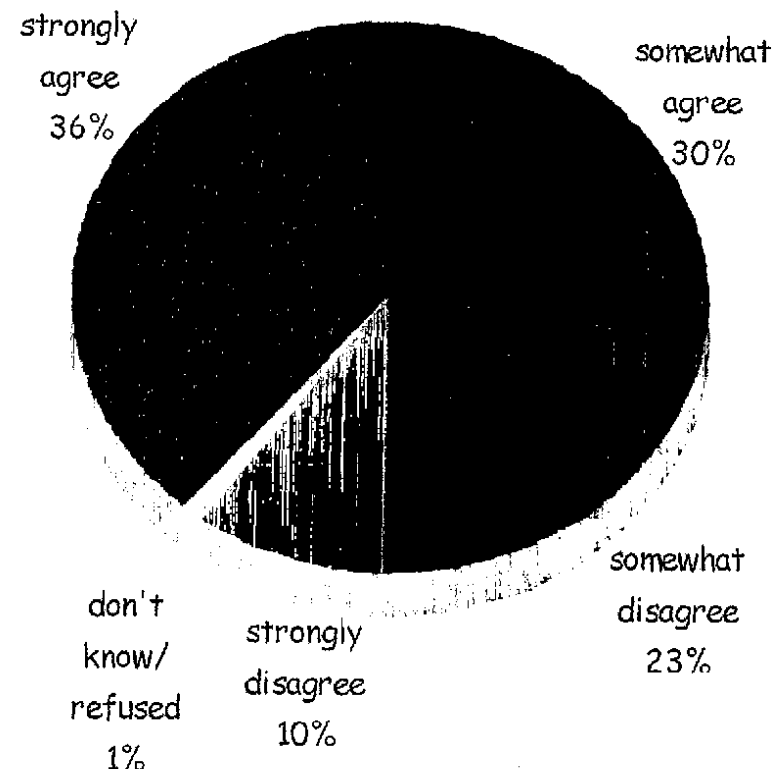
2081409511

Well Being

...a holistic approach to life

"If there is a suspicion that a certain product causes harm to the environment or endangers human health, I would avoid the product, even if there is no scientific evidence that it causes any harm."

Better Safe Than Sorry



Source: Economist, 6/3/00; Euromonitor

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 23

2081409512

Well Being

...a holistic approach to life

Traditional Initiatives: Offered by at
Least 50% of U.S. Companies

- ◆ *401 (K) retirement*
- ◆ Tuition reimbursement
- ◆ Unpaid leave, non FMLA
- ◆ *Casual dress*
- ◆ Part-time work
- ◆ Flexible spending account
- ◆ Employee Assistance Program
- ◆ FSA (health care)
- ◆ Personal days
- ◆ *Job skills training*
- ◆ Unpaid leave beyond FMLA
- ◆ Payroll savings
- ◆ Paid sick days for others
- ◆ Unpaid personal days
- ◆ *Cultural diversity training*
- ◆ *Leadership training*
- ◆ Stress management counseling
- ◆ *Pre-retirement counseling*

Future Work/Life Initiatives:
Considered by U.S. Companies

- ◆ *Long-term care insurance*
- ◆ Paid time off
- ◆ *Financial planning*
- ◆ *Telecommuting*
- ◆ *Back-up care*
- ◆ *Near-site child care center*
- ◆ *On-site child care center*
- ◆ *Consortium child care center*
- ◆ Work/life seminars
- ◆ Work/life newsletters
- ◆ Flexible work guidelines
- ◆ *Domestic partner medical*

Opportunity to balance work and personal life identified by 68% of a sample of recent or soon to be college graduates as extremely or very important in their decision about whether to work for a company.

Source: The National Report on Work & Family, January 1999

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 24

A New Diversity

...beyond race, gender & ethnicity

The fabric of the U.S. society is changing dramatically.

Drivers

- ◆ Continued rising influence of women, seniors, kids, Hispanics and Asians, family structures and alternative lifestyles
- ◆ Increasing prosperity and awareness, regardless of race, gender and ethnicity
- ◆ Increased internet penetration and connectivity based on common interests and values
- ◆ Growing number of special interest groups

Implications

- ◆ Challenge of assimilating diverse, multi-cultural groups
- ◆ Challenge for government and business policy makers to deal with demographic and cognitive diversity
- ◆ Global ethnic networks and micro-communities as a major force for economic development
- ◆ Need for increased understanding of consumers based on diverse and complex needs - demand for personalization and customization

A New Diversity

...beyond race, gender & ethnicity

Million Mom March - Message to Washington
Stand together to tell Congress, state houses
and city councils that "enough is enough".
We will not be silent any longer

Home Prices Out of Reach For
Many,
Survey Finds

AT&T Helps Bridge Digital
Divide with \$1.4 Million Dollar
Grant for Technology
Leadership Program

Forget flipping houses: Students can
keep straight the road deals to
salaries of \$50,000 to \$70,000

A New Diversity

...beyond race, gender & ethnicity



"SANDWICH GENERATION": People caring for young children AND elder parents

- ◆ Pre-boomers and first-wave boomers
- ◆ 9.2 million today but increasing
- ◆ 72% women; most work full or part time
- ◆ Face high expenses - day care for children and parents as well as college savings and fees

MARRIAGE

- ◆ The marriage rate has dropped from 68% in 1970 to 56% in 1998, but...
- ◆ Census predicts 79.3% of families will be headed by married couples in 2010, up from 78.9% today
- ◆ By 2010 the number of single women heading families will increase to 12.4 million, up 7%

Source: Find SVP 4/00; US Census, 1998

Confidential - For Exploratory Purposes Only MEP/Red

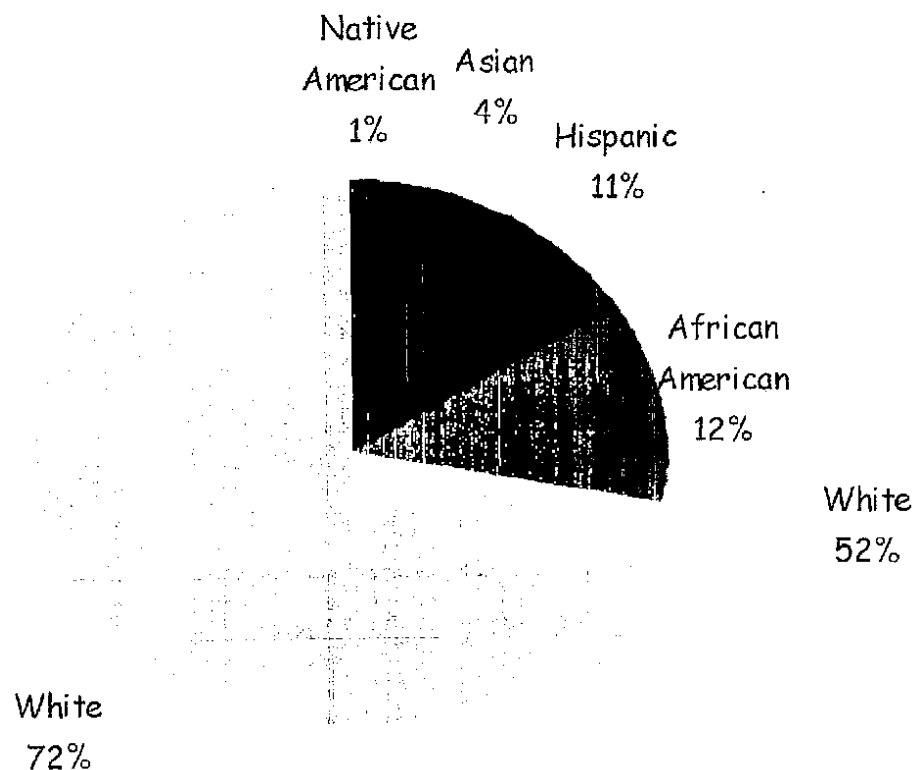
6/27/00 27

2081409516

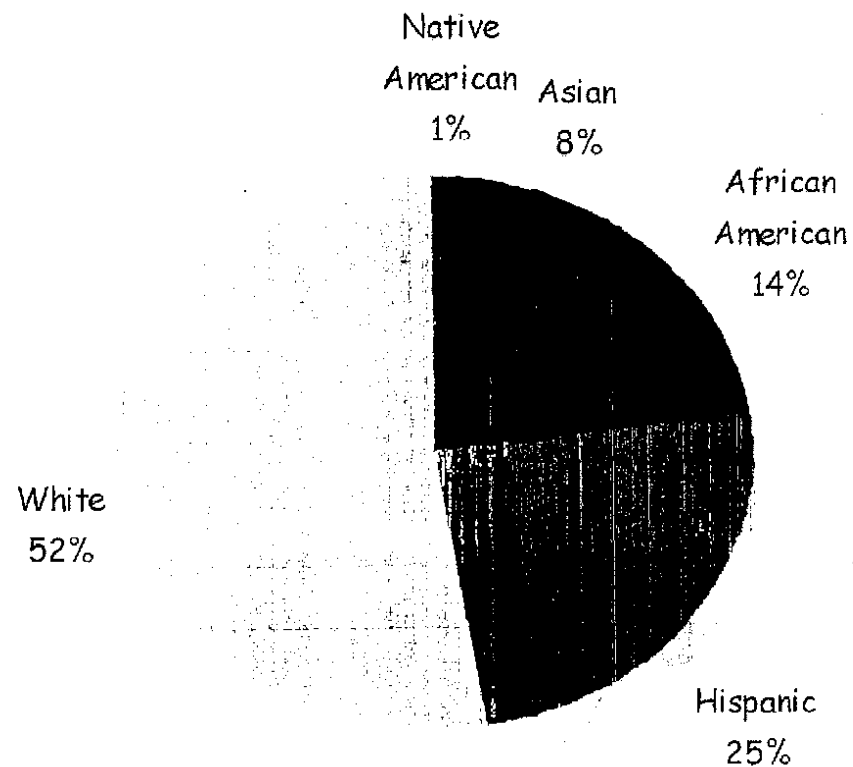
A New Diversity

...beyond race, gender & ethnicity

Year 2000



Year 2050



Source: Find SVP 4/00; US Census

Confidential - For Exploratory Purposes Only MEP/Rad

6/27/00

28

2081409517

Child Centeredness

...kid's rule! ...parents, policy, society

Children are driving societal, political, and business platforms surrounding safety, protection, education and marketing.

Drivers

- ◆ Increase in single parent homes
- ◆ Usage of children in political and social agendas (tobacco, guns, education)
- ◆ Ease of kids' access to information
- ◆ Increasing uncertainty of future living standards (global competition, multi-culturalism)
- ◆ Increase in economic prosperity of kids

Implications

- ◆ Society's willingness to accept government intervention relating to children's safety, security and education
- ◆ Need for business to address child welfare through their products, services, employees and corporate responsibility (flexible work hours, home offices, etc.)
- ◆ Increase in kids' influence on families purchasing decisions
- ◆ Increasing social and political debate to define kids vs. adults roles

Mega Trends

Child Centeredness

...kid's rule! ...parents, policy, society

Million Mom March -
To Protect Our Children

Age No Object as
Ford, Toyota Aim
Cars at Boomers'
Children

Targeting the
Kindergarten Parents
friendly not only
try to attract parents
but also loyalty

OFFSPRING

Magazine for Smart parenting

PAMPERS.com

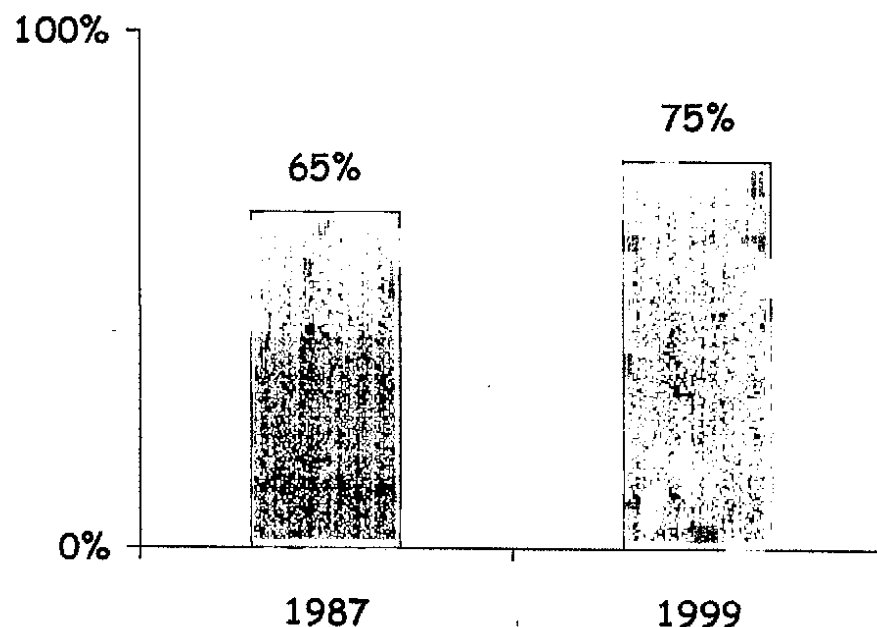
**E.P.A. Citing Risks to Children
Signs Accord to Limit Insecticide**

Child Centeredness

...kid's rule! ...parents, policy, society

"Sacrifice for the Children"

(% strongly agree)



- ◆ Growing trend of putting the children's needs ahead of one's own needs
- ◆ Dominant social value transforming adult behavior and choices - from how money is spent to public policy concerns

Source: DYG Scan

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 31

2081409520

Global Localization

...a global local-area-network

An increasingly borderless global world that is fostering an explosion of local and virtual communities.

Drivers

- ◆ Ease of access to information (reduced cost, increased penetration)
- ◆ Global business alliances, mergers and acquisitions
- ◆ Economic prosperity
- ◆ Network economy
- ◆ Globalization

Implications

- ◆ Increase in nationalism and importance of local identity
- ◆ Need for global vision and local strategies
- ◆ Increased network communities formed around areas of interest (e.g. lifestyle and values)
- ◆ Increased collaboration between business, government and communities
- ◆ Seamless global communication

Global Localization

...a global local-area-network

INTERNET USAGE IN THE TOP 15 COUNTRIES

Online Population in Millions, 1999		Total Population in Millions, 1999		Percentage of Total Population Online	
U.S.	110.8		273		40.6%
Japan	18.2		126		14.4%
U.K.	13.9		59		23.6%
Canada	13.3		31		42.9%
Germany	12.3		82		15.0%
Australia	6.8		19		35.8%
Brazil	6.8		172		4.0%
China	6.3		1,247		0.5%
France	5.7		59		9.7%
South Korea	5.7		47		12.1%
Taiwan	4.8		22		21.8%
Italy	4.7		57		8.4%
Sweden	3.9		9		43.3%
Netherlands	2.9		16		18.1%
Spain	2.9		39		7.4%

TOTAL POPULATION DATA ARE JULY 1999 ESTIMATES.

SOURCE: COMPUTER INDUSTRY ALMANAC, CENTRAL INTELLIGENCE AGENCY

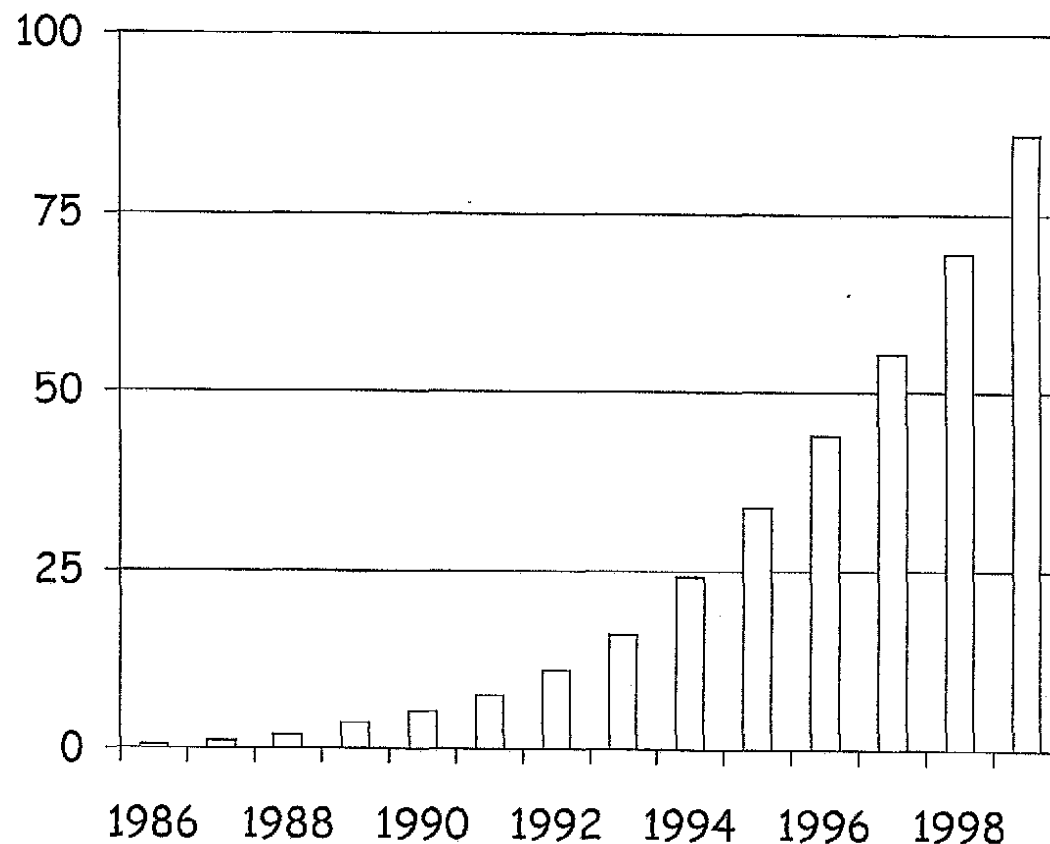
22081409522

Global Localization

...a global local-area-network

- ◆ By 2005 there will be one billion fixed-line and one billion mobile phones worldwide.
- ◆ Finland already has more mobiles than fixed-line, and the rest of Europe is catching up. (The Economist "World in 2000")
- ◆ In 1927 a 3 minute call from New York to London cost \$250.00 (1990 \$ equivalent), today that same call can be made for less than \$0.30. The same information can be transmitted via e-mail for no effective charge.

US Mobile Phone Subscribers (Mio)



Source: CTIA Semi Annual Report

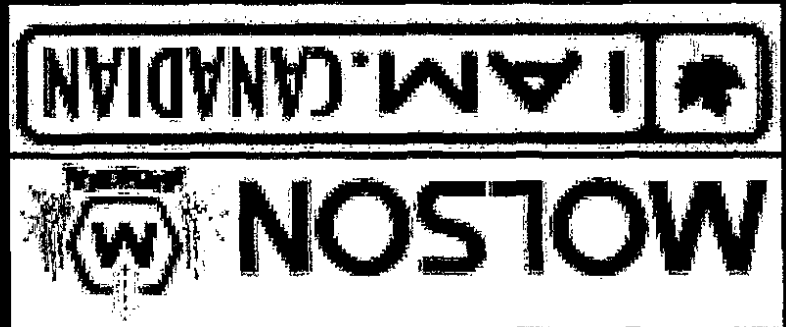
Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 34

2081409523

Global Localization

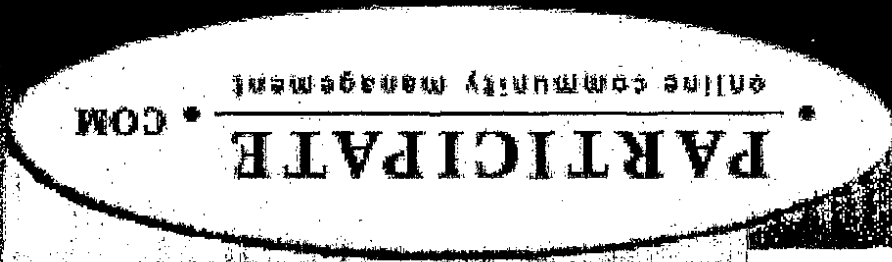
...a global local-area-network



New Site brings Together Latin American Jewish Community



Government Agency
Site to Launch



Business Reconfiguration

...move to a knowledge based economy

An era of strategic alliances and partnerships where the role of suppliers, manufacturers, retailers and stakeholders is being redefined

Drivers

- ◆ Technology and communication advances
- ◆ Ease of access to a global marketplace
- ◆ Informed consumers drive business
- ◆ Global competition requires optimal efficiency

Implications

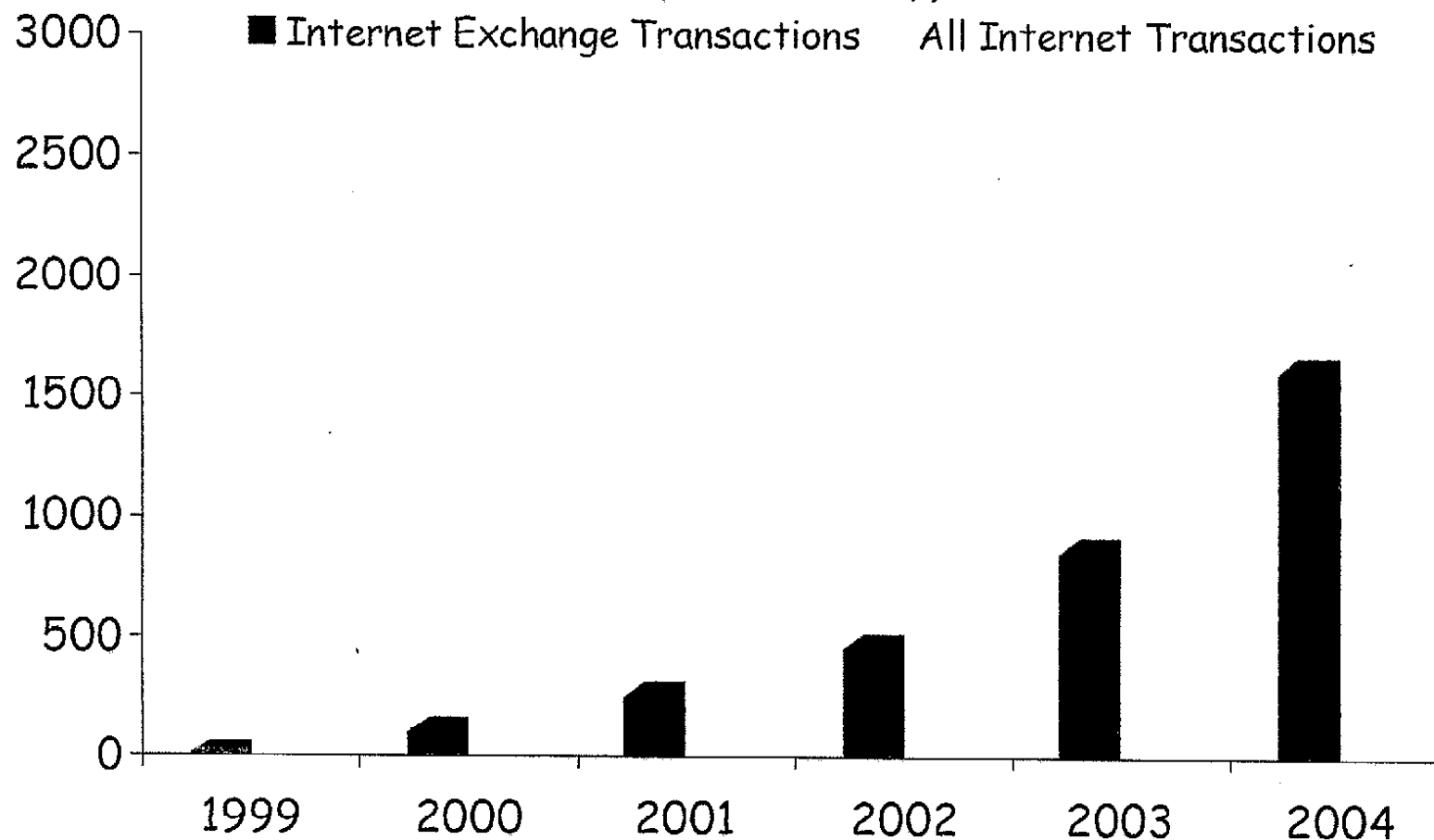
- ◆ Increasingly horizontal value chain: focus on core strengths, partner for the rest
- ◆ Rapid pace of change demands innovation and new product development (agility)
- ◆ Reduced product lifecycle
- ◆ Need for knowledgeable/skilled labor
- ◆ Understand and anticipate the needs of a highly informed consumer

Business Reconfiguration

...move to a knowledge based economy

Internet Exchange Transactions

(Billions US \$)



Source: Internet Exchange 2000, April 24, 2000 - Keenan Vision Inc

Confidential - For Exploratory Purposes Only MEP/Red

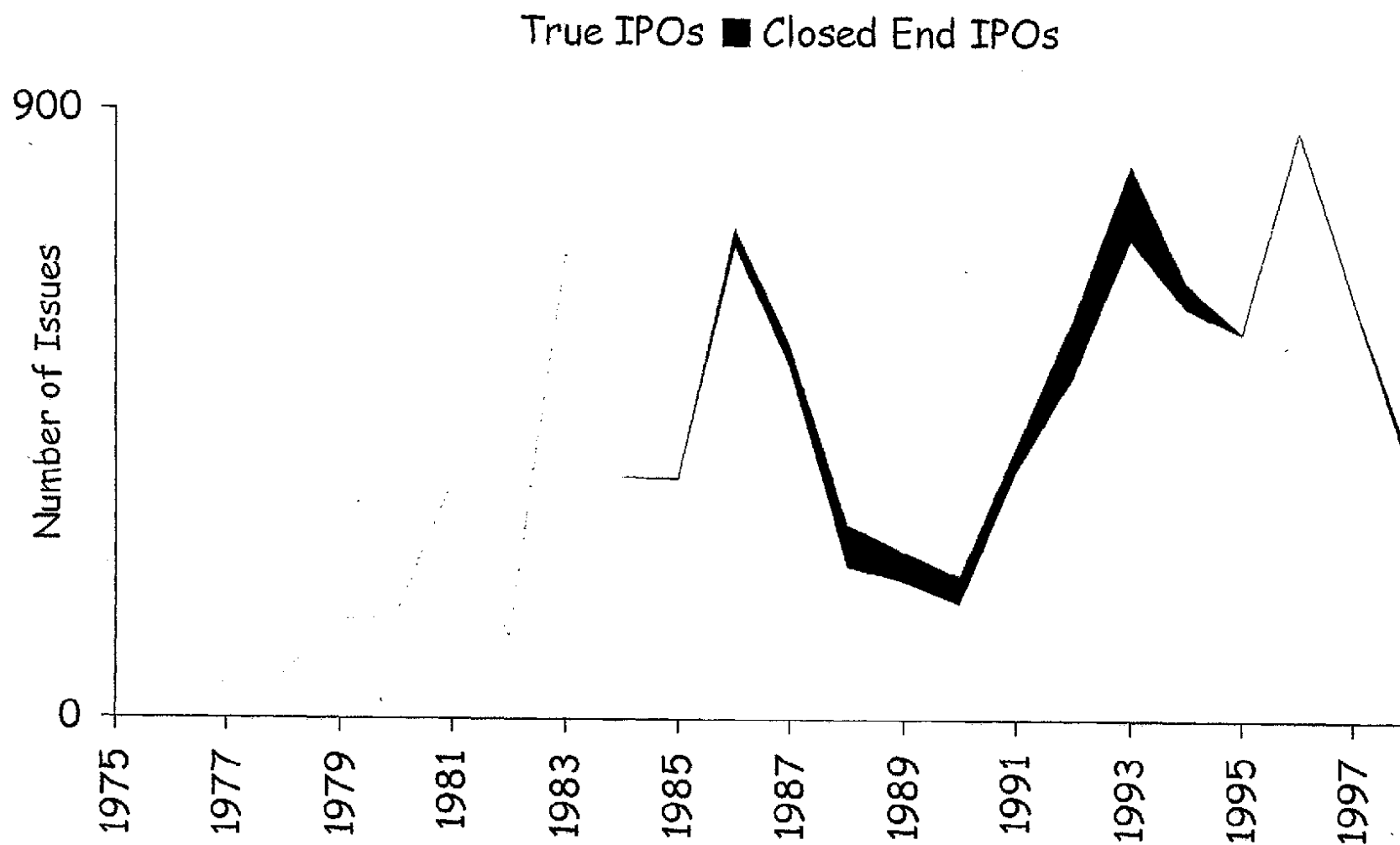
6/27/00

37

2081409526

Business Reconfiguration

...move to a knowledge based economy



Source: 1975-79 Investment Dealers' Digest; 1980-98 Thomas Financial Securities Data

Confidential - For Exploratory Purposes Only MEP/Red

Mega Trends

Business Reconfiguration

...move to a knowledge based economy

AOL.COM

e-STEEL

TIME WARNER

WebMDSM

amazon.com.

WELCOME BOOKS MUSIC DVD & VIDEO ELECTRONICS SOFTWARE TOYS & VIDEO GAMES HEALTH & BEAUTY HOME LIVING AUCTIONS ART & COLLECTIBLES ZSHOPS KITCHEN LAWN & PATIO TOOLS & HARDWARE YOUR ACCOUNT HELP

WELCOME TO DELLTM.COM

Confidential - For Exploratory Purposes Only MEP/Prod

6/27/00

39

2081409528

Quantum Leap

...mega changes at the speed of light

The world is changing rapidly causing fragmentation, complexity and unpredictability in business, government and life.

Drivers

- ◆ Penetration of internet, wireless and other technologies (bio-tech, fiber optics, communication networks)
- ◆ Network economy
- ◆ Computer power (bandwidth)

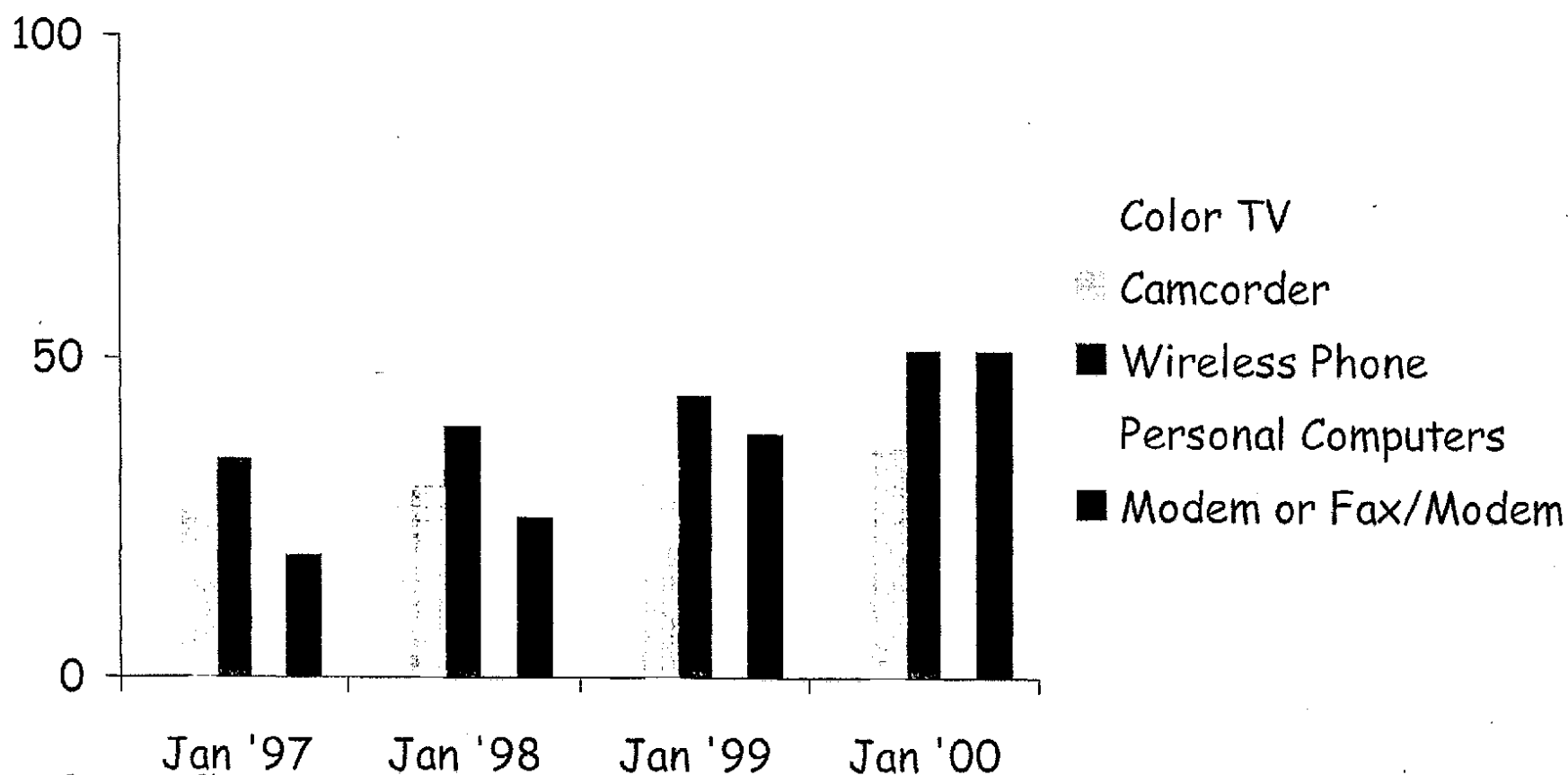
Implications

- ◆ Demand for structure & regulation
- ◆ Business models and government will need to be flexible and agile (workforce)
- ◆ Privacy issues
- ◆ Consumers will need to be flexible & adaptable
- ◆ Digital divide

Quantum Leap

...mega changes at the speed of light

U.S. Penetration of Color TV, PC, Internet, Wireless



Source: Consumer Electronics Association, 2000 survey

Confidential - For Exploratory Purposes Only MEP/Red

2081409530

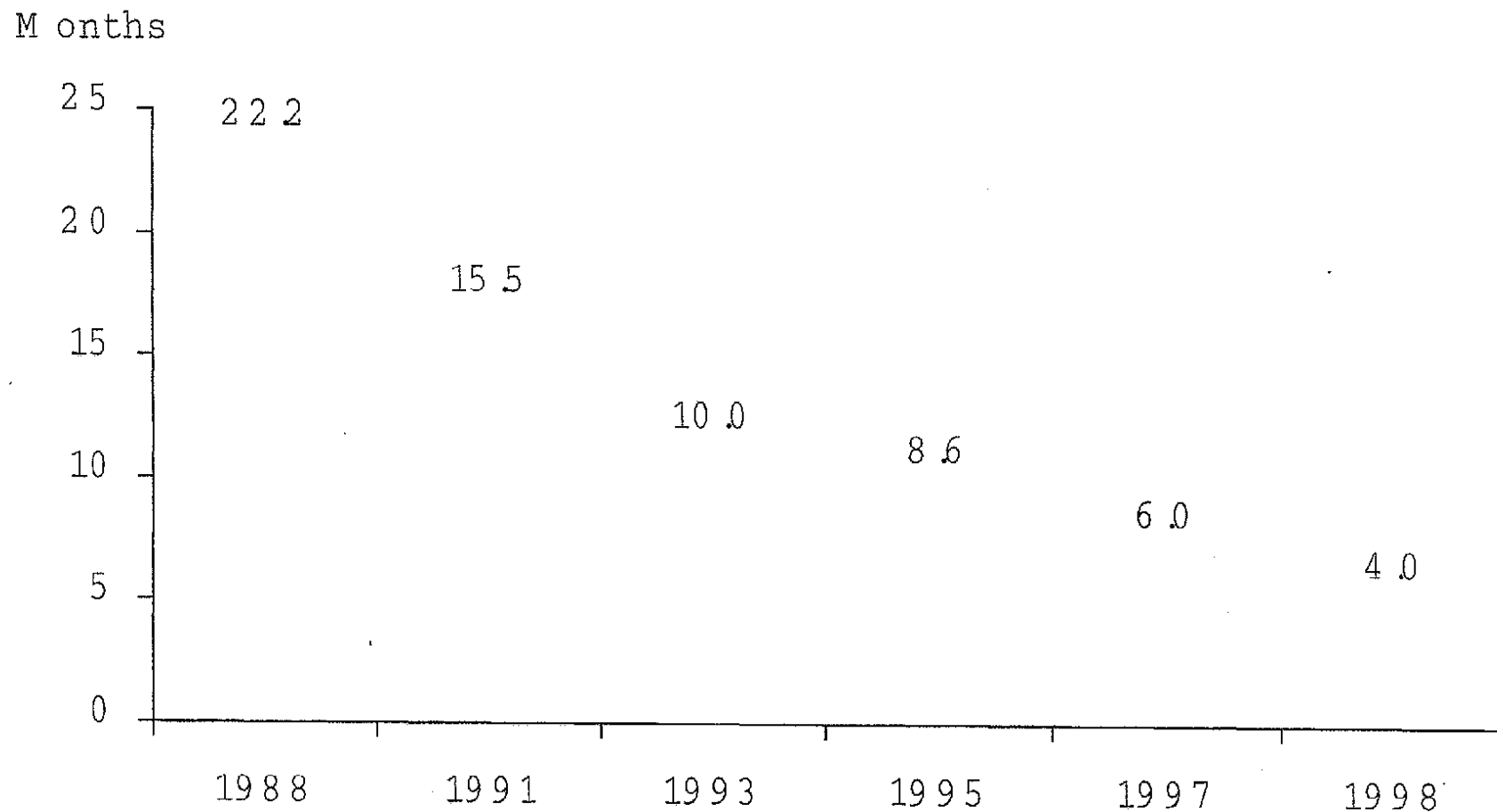
6/27/00

41

Quantum Leap

...mega changes at the speed of light

Average Product Life Cycles: Personal Computers



Source: Haim Mendelson, Stanford Business School, 3/28/00

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 42

2081409531

Quantum Leap

...mega changes at the speed of light

**M-Commerce in Central
and Eastern Europe ahead of US**

**The Genome
Gold Rush**

*Younger, better-educated Americans
turning to online news*

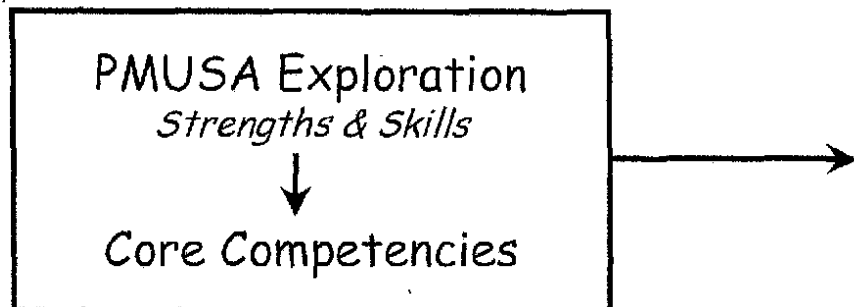
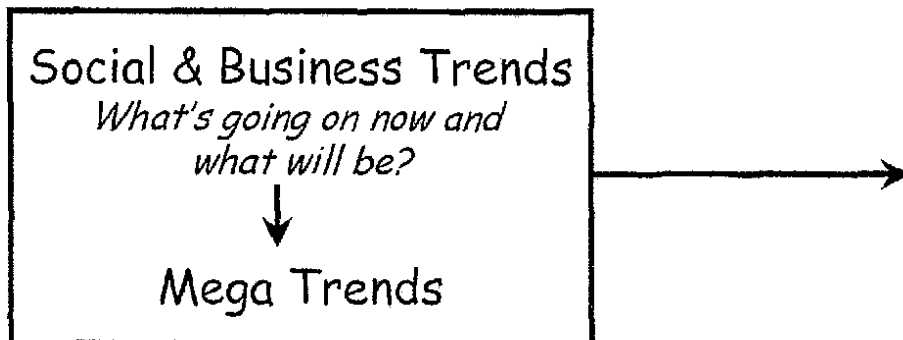
tech employees jumping jobs faster

**Sony
announces portable
PlayStation**

Top 10 List

- ◆ Rapid change requiring agility
- ◆ Diverse and demanding consumers
- ◆ New world, new rules - reform and regulation
- ◆ New social contract - business involvement in communities
- ◆ Empowered individuals - increased activism
- ◆ Voluntary simplicity - well being is supreme
- ◆ Society focuses on children
- ◆ Knowledge is power
- ◆ Increasing use of technology
- ◆ Uncertain, unpredictable global world

Methodology



Methodology

Phase I

- ◆ Eight week exploration of the external environment to determine mega trends. We specifically explored emerging trends in business, consumer, society, technology, government and regulation
- ◆ During this phase we conducted 96 interviews with a variety of individuals including:
 - ❖ Business Leaders
 - ❖ Societal Leaders
 - ❖ Think Tanks
 - ❖ Political Activists and Lobbyists
 - ❖ Academicians
 - ❖ Business Partners/Consultants

Phase II

- ◆ Five week exploration of PM internal processes and initiatives, resulting in an assessment of skills and competencies
- ◆ During this phase we conducted 94 interviews with PM employees, retailers, distributors, vendors and business consultants

Phase III

- ◆ Conducted responsibility research and created a strategic framework
- ◆ Five week synthesis of mega trends and core competencies to determine future business opportunities

The Journey Continues...



Our Second Discovery...

Core Competency

A core competency, as defined by C. K. Prahalad

- ❖ Is difficult for competitors to imitate
- ❖ Makes a contribution to perceived consumer benefits
- ❖ Can be leveraged to a wide variety of markets

- | | |
|------------|--|
| ◆ Honda | Solid expertise in cheap, reliable combustion engines |
| ◆ Marriott | Deep expertise in training, retaining and operating with a low income, non-English speaking workforce |
| ◆ Boeing | Large scale international system integration, which enables suppliers in different countries to design and manufacture parts |
| ◆ Merck | Good working relationship with the FDA helps them internationally when seeking drug approvals |

Core Competencies

Skill/Capability
Skill/Capability
Skill/Capability
Skill/Capability
Skill/Capability

Competency

Skill/Capability
Skill/Capability
Skill/Capability
Skill/Capability
Skill/Capability

Competency

Skill/Capability
Skill/Capability
Skill/Capability
Skill/Capability
Skill/Capability

Competency

Skill/Capability
Skill/Capability
Skill/Capability
Skill/Capability
Skill/Capability

Competency

Core Competency

Core Competency

Core Competency

Core Competencies

Procurement of Materials & Services

- ◆ Purchasing
 - ◆ Financial controls
 - ◆ Negotiation skills
 - ◆ Contract management
 - ◆ Quality management
 - ◆ Specifications management
 - ◆ Global synergies
 - ◆ Communication of strategic direction
- ◆ Market knowledge
- ◆ Managing strategic alliances
 - ◆ Long term strategic partners
- ◆ Ability to identify, recruit and manage a broad based spectrum of alliances
- ◆ In-depth knowledge of our vendor's businesses

Market Intelligence

- ◆ Direct marketing
- ◆ Demand Forecasting
- ◆ Competitive intelligence
- ◆ Business analysis
- ◆ Extensive knowledge of trade class
- ◆ MSA
- ◆ Distribution channel data
- ◆ Global market intelligence
- ◆ Large corporate IT network mgmt
- ◆ Large database management
- ◆ Long-term research partners
 - ◆ Advanced technical skills
 - ◆ Access to leading experts
- ◆ Vendor management
- ◆ Consumer and market research
 - ◆ Purchasing behavior
 - ◆ Smoking preferences
 - ◆ New products
 - ◆ Advertising
 - ◆ Competitive products
 - ◆ Society

Technology Development

- ◆ Capital expenditure & financial analysis
- ◆ Patent and intellectual property
- ◆ Accord, Banded Paper, Sheet product
- ◆ Process automation & technologies
- ◆ Machinery adaptation (electrical, process engineering, packaging)
- ◆ Material science (metallurgy)
- ◆ Ventilation (laser perforation)
- ◆ Filtration
- ◆ Aerosol knowledge (inhaler)
- ◆ Vision inspection
- ◆ Toxicology
- ◆ Alliances
 - ◆ Universities
 - ◆ Research facilities
 - ◆ Business partners

Tobacco Smoke Research

- ◆ Analytical research
- ◆ Complex mixtures analysis
- ◆ Toxicology
- ◆ Combustion
- ◆ Testing methods
- ◆ Smoke chemistry
- ◆ ETS
- ◆ Inhalation
- ◆ Aerosol, physics and chemistry
- ◆ Modeling
- ◆ Research facilities capable of understanding & measuring smoke composition
- ◆ Alliances
 - ◆ Universities
 - ◆ Research facilities
 - ◆ Business partners

Core Competencies

Mass Execution

- ◆ Resource allocation
- ◆ Vendor management
- ◆ Distribution network management
- ◆ Salesforce
 - ◆ Infrastructure
 - ◆ Ability to deal with diverse customer base and venues
 - ◆ Strong technically trained
- ◆ Retail account management
- ◆ Customer relationship management
- ◆ Program development & execution (Sales, Mktg, Corp Affairs, HR)
- ◆ Large technical & management pool
- ◆ Coordination of skills & expertise
- ◆ Market intelligence and database management
- ◆ Deep, imbedded functional knowledge
- ◆ Skills-based training

Distribution Network Mgmt.

- ◆ Logistics management
- ◆ Trucking network
- ◆ Sales force infrastructure
- ◆ Low cost distribution
- ◆ Ability to mobilize and rally
- ◆ Ability to operate in diverse env't
- ◆ Vendor management
- ◆ Customer relationships
- ◆ Large database management
- ◆ Efficient distribution
- ◆ Negotiation skills
- ◆ Contract negotiation (wholesalers, retailers, merchandising programs)
- ◆ Customer service
- ◆ Payment collection
- ◆ Access to 378,000 retailers
- ◆ Ability to reach 150,000 stores/week
- ◆ Ability to build ally relationships with trade associations

Sensory-based Product Technology

- ◆ Agro processing
 - ◆ Leaf curing, blending, processing
- ◆ Agronomy
- ◆ Packaging
- ◆ Flavors
- ◆ Sensorial testing and interpretation
 - ◆ Internal subjective panels
 - ◆ External testing (POL)
 - ◆ Knowledge of sensory materials
- ◆ Manufacturing technology
 - ◆ Expanded tobacco
 - ◆ Capability to produce sensorial products
 - ◆ Consistently produce uniform products

Brand Management

- ◆ Resource allocation
- ◆ Adult smoker insight
- ◆ Adult smoker loyalty programs
- ◆ Ability to execute a price promotion within 1 week
- ◆ Measuring execution of sales & mktg
- ◆ Negotiation skills
- ◆ Creativity in a restricted env't
- ◆ Direct marketing
- ◆ Event-based marketing
- ◆ Fulfillment
- ◆ Building and maintaining brand images and equity
- ◆ Ability to commercialize big concepts
- ◆ Large scale printing
- ◆ Vendor management
- ◆ Global material procurement & management
- ◆ Point-of-sale
- ◆ Program development and execution
- ◆ Regulatory compliance
- ◆ Product management
- ◆ Mass communication

Core Competencies

Financial Management

- ◆ .8 Day collection process
- ◆ Capital expenditure and financial analysis
- ◆ Our ability to utilize our financial position to maximize cash flow
- ◆ Resource allocation

Mobilization on Issues

- ◆ Resource allocation
- ◆ Lobbying
- ◆ Public issues management
- ◆ Ally development
- ◆ Global market intelligence
- ◆ Network relationship management
 - ◆ Ally groups
 - ◆ Consultants and business partners
 - ◆ Adult smokers
 - ◆ Legal, Regulatory & legislative network on a global scale
 - ◆ Employees
- ◆ Vendor management
- ◆ Ability to identify issues

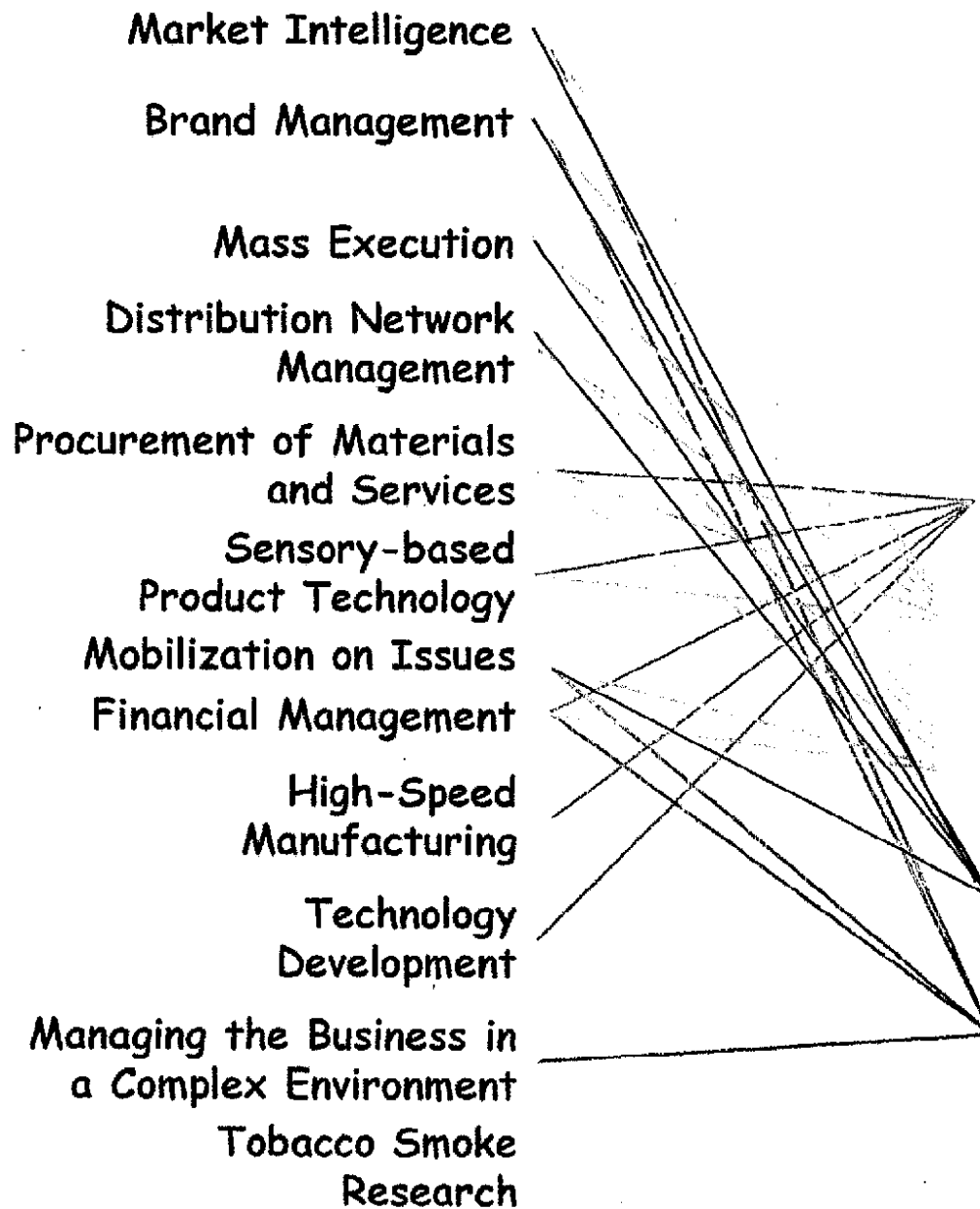
Managing the Business in a Complex Environment

- ◆ Resource allocation
- ◆ Complex contract design & execution
- ◆ Managing litigation (comm. & product)
- ◆ U.S. & global knowledge of statutes and regulation
- ◆ Flexibility in an evolving environment
- ◆ Negotiation skills
- ◆ Network relationship management
 - ◆ Businesses
 - ◆ Vendors
 - ◆ Regulators
 - ◆ Lobbyists
 - ◆ Employees
- ◆ Regulatory compliance
 - ◆ Environmental
 - ◆ Anticipated Quality Systems
 - ◆ Human Resources
 - ◆ Master Settlement Agreement
- ◆ Managing the workforce
 - ◆ Hourly LTA
 - ◆ Deep, imbedded functional knowledge
 - ◆ Training
 - ◆ University relations / recruiting
 - ◆ Resilient/agile/committed employees

High-Speed Manufacturing

- ◆ High volume and multi-component assembly
- ◆ Resource allocation
- ◆ Labor management
- ◆ Complex production planning
- ◆ Logistics management
- ◆ Applied technology in manuf.
 - ◆ Vision inspection systems
 - ◆ Process automation
 - ◆ Machinery adaptation
- ◆ Operation of hi-tech machinery
- ◆ Supply chain management
- ◆ Quality management
- ◆ Specifications management
- ◆ Materials management
- ◆ Technical training
 - ◆ Curriculum development
 - ◆ Computer-based training
- ◆ Patents & intellectual property
- ◆ Production management
- ◆ Regulatory compliance
- ◆ Cost and financial management
- ◆ Facilities management

Core Competencies



Core Competencies

Institutional
Knowledge

Consumer
Experience
Fulfillment

Manufacturing
Systems

Market
Intelligence

Network
Relationship
Mgmt

Large Scale
Programs
& Campaigns

Building
Brand Equity

Network Relationship Management

Financial Management

Customer Relationship

- ♦ Management
- ♦ Retail Accounts
- ♦ Wholesale Accounts

Distribution Network

- ♦ Sales Infrastructure
- ♦ Access to 378,000 Retailers
- ♦ Low Cost Distribution

Mobilization Expertise

- ♦ Lobbying Network
- ♦ Ally Development

*Expertise in developing
long term mutually beneficial
relationships and ability to
utilize a large network of business allies,
strategic partners, vendors and customers
to operate effectively in a
complex business environment*

Market Intelligence

- ♦ Information
Infrastructure
- ♦ Knowledge of Trade
- ♦ Global Market
Intelligence

Institutional Knowledge

- ♦ Regulatory & Legal Expertise
- ♦ Knowledge of Legislative
Processes

Procurement Capabilities

- ♦ Long Term Strategic Partners
- ♦ Global Procurement
Capabilities
- ♦ Quality Management

Vendor Management

Network Relationship Management

Expertise in developing long term mutually beneficial relationships and ability to utilize a large network of business allies, strategic partners, vendors, and customers to operate effectively in a complex business environment.

Examples

- ♦ Access to 378,000 retail stores
- ♦ Ally development and mobilization
- ♦ Long term strategic partnerships (Leo Burnett, Universal Leaf, MSA)

Benefits

- ♦ Defense of adult smokers/industry rights
- ♦ Ubiquity of product and communication

Comparison w/Others

- ♦ Unmatched retail access in the US with a professionally trained salesforce
- ♦ Procurement capabilities similar to other large multinationals

Impact of Potential Disruptions

- ♦ Change in Sales Channel (Internet) or negative perception of association with tobacco may make us less effective

Large Scale Programs & Campaigns

Resource Allocation

Market Intelligence

- ♦ Consumer Research
- ♦ Societal Research
- ♦ Information Infrastructure
- ♦ Competitive Intelligence

Distribution Network

- ♦ Sales Infrastructure
- ♦ Access to 378,000 Retailers
- ♦ Low Cost Distribution

Brand Management

- ♦ Building & Maintaining Equity
- ♦ Direct Marketing
- ♦ Event Marketing

Mobilization Expertise

- ♦ Lobbying Network
- ♦ Issues Management
- ♦ Ally Development

Vendor Management

Logistics Management

Institutional Knowledge

- ♦ Regulatory & Legal Expertise
- ♦ Knowledge of Legislative Processes

Procurement Capabilities

- ♦ Long Term Strategic Partners
- ♦ Global Procurement Capabilities

Mass Execution

- ♦ Deep Functional Expertise
 - ♦ Project Management
 - ♦ Mass Communication

Ability to develop and effectively execute large scale marketing, sales, and public issues campaigns and programs; utilizing our knowledge of adult smoking consumers, markets, society, and institutional framework

Large Scale Programs & Campaigns

Ability to develop and effectively execute large scale marketing, sales, and public issues campaigns and programs; utilizing our global knowledge of adult smokers, markets, society and institutional framework

Examples

- ♦ McCain Bill, 94 Health Care Bill
- ♦ Continuity Program, Bar Nights
- ♦ Retail Leaders, promotions

Benefits

- ♦ Defense of adult smokers/industry rights
- ♦ Adult smokers satisfaction/loyalty

Comparison w/Others

- ♦ Leader in Tobacco Industry
- ♦ Comparable to other companies in scale of marketing programs
- ♦ Similar to Oil, Auto and Defense in influence on public issues

Impact of Potential Disruptions

- ♦ Regulation, marketing restrictions or lower margins may make this core competency less effective

Market Intelligence

Resource Allocation

Market Research

- ♦ Global Knowledge base
- ♦ Long term Research partners
- ♦ Business Analytics
- ♦ Market & Trade knowledge

Societal Research

- ♦ Access to leading experts
- ♦ Qualitative Research
- ♦ Quantitative Research

Institutional Knowledge

- ♦ Regulatory & Legal Expertise
- ♦ Access to leading experts

*Ability to understand
adult consumer, market, and
societal trends
and develop insights
through
research based
capabilities*

Information Infrastructure

- ♦ Management Science Associates
- ♦ Multiple Data Source (IRI, STARS)
- ♦ Large Database Management

Distribution Network

- ♦ Sales Infrastructure
- ♦ Access to 378,000 Retailers
- ♦ Customer Relationships

Consumer Research

- ♦ Large Adult smoker Database
- ♦ Qualitative Research
- ♦ Quantitative Research
- ♦ Advanced Technical Skills

Competitive Intelligence

Market Intelligence

Ability to understand adult consumer, market, and societal trends and develop insights through research based capabilities

Examples

- ♦ Business analytics (Marlboro Friday, price/promotion)
- ♦ Long term market forecasts

Benefits

- ♦ Adult smokers satisfaction
- ♦ Brand loyalty

Comparison w/Others

- ♦ Leader in tobacco industry
- ♦ More information rich than other consumer products companies (per MSA)

Impact of Potential Disruptions

- ♦ Privacy issues may restrict the use of consumer data for direct marketing
- ♦ Significant shift in Internet channel sales may require additional investments

Institutional Knowledge

Resource Allocation

Market Intelligence

- ♦ Societal & Lifestyle Trends
- ♦ Knowledge of Trade
- ♦ Competitive Intelligence

Litigation Expertise

- ♦ Product Liability
- ♦ Commercial
- ♦ Intellectual Property
- ♦ International Laws

Corporate Affairs

- ♦ Community Relations
- ♦ Public Affairs
- ♦ Issues Management

*A deep knowledge
of regulatory,
legal and legislative
processes at state and
federal level; supported by
a large network of
leading experts*

Mobilization

- ♦ Lobbying Network
- ♦ Ally Development
- ♦ Mass Communication

Network Relationships

- ♦ Experts Network
- ♦ Vendor Management
- ♦ Customer Relationships

Legislative Processes

- ♦ Governmental Affairs
- ♦ Access to leading experts
- ♦ Political Action

Regulatory Expertise

- ♦ Product & Marketing
- ♦ Environmental Compliance
- ♦ Global Business Regulations
- ♦ Access to leading experts

Institutional Knowledge

A deep knowledge of regulatory, legal and legislative processes at state and federal level; supported by a large network of leading experts

Examples

- ♦ Product liability litigation
- ♦ McCain Bill

Benefits

- ♦ Defense of adult smokers & industry rights

Comparison w/Others

- ♦ Leader in tobacco industry
- ♦ Leading edge in legislative influence in any industry
- ♦ History of successful litigation defense

Impact of Potential Disruptions

- ♦ Regulation of industry, political realignment, litigation losses may make us less influential and effective

Consumer Experience Fulfillment

Resource Allocation

Market Intelligence

- ♦ Consumer Research
- ♦ Market Research
- ♦ Societal & Lifestyle Trends
- ♦ Adult Smoker Database
- ♦ Competitive Intelligence

Mass Execution

- ♦ Program Management
- ♦ Deep Functional Expertise
- ♦ Logistics Management

Procurement Capability

- ♦ Vendor Management
- ♦ Quality Management
- ♦ Global Procurement Capability

Ability to connect with adult consumer through multiple touch-points, providing consistently high quality products and unique lifestyle experiences

Distribution Network

- ♦ Sales Infrastructure
- ♦ Access to 378,000 Retailers
- ♦ Customer relationships

Brand

Management

- ♦ Direct Marketing
- ♦ Event Marketing
- ♦ Product Management
- ♦ Mass Communication

Institutional Knowledge

- ♦ Regulatory & Legal Expertise

Sensory based Product Technology

- ♦ New Product Development
- ♦ Sensory Testing Capability
- ♦ Manufacturing & Distribution Systems

Consumer Experience Fulfillment

Ability to connect with adult consumers through multiple touch-points, providing consistently high quality products and unique lifestyle experiences

Examples

- ♦ High quality smoking pleasure (taste)
- ♦ Event programs (Bar Nights, Ranch)

Benefits

- ♦ Brand loyalty and connection with brands
- ♦ Consistent delivery of brand image and taste to adult smokers

Comparison w/Others

- ♦ Leader in tobacco industry in providing a quality experience
- ♦ Significant event marketing strength in comparison to other consumer products companies

Impact of Potential Disruptions

- ♦ Further marketing restrictions may make us less effective in this core competency

Building Brand Equity

Financial Management

Mass Execution

- ♦ Program Management
- ♦ Deep Functional Expertise

Distribution Network

- ♦ Sales Infrastructure
- ♦ Access to 378,000 Retailers
- ♦ Low Cost Distribution
- ♦ Customer Relationships

Brand Management

- ♦ Loyalty Programs
- ♦ Direct Marketing
- ♦ Event Based Marketing
- ♦ Mass Communication
- ♦ Product Management
- ♦ Resource Allocation

Market Intelligence

- ♦ Adult Smoker Insight
- ♦ Competitive Intelligence
- ♦ Information Infrastructure
- ♦ Knowledge of Trade
- ♦ Market Intelligence

*Ability to grow brand equity
within the constraints of a difficult
social, political and regulatory
business environment; utilizing
our expertise in
marketing and market intelligence*

Institutional Knowledge

- ♦ Regulatory & Legal Expertise
- ♦ Compliance
- ♦ Issues Management

Vendor Management

Procurement Capabilities

- ♦ Long Term Strategic Partners
- ♦ Global Procurement Capabilities
- ♦ Quality Management
- ♦ Logistics Management

Building Brand Equity

Ability to grow brand equity within the constraints of a difficult social, political, and regulatory environment; utilizing our expertise in marketing and market intelligence

Examples

- ♦ Brand equity in Marlboro, Basic

Benefits

- ♦ Brand loyalty
- ♦ Adult smokers satisfaction

Comparison w/Others

- ♦ Unmatched in any industry with severe marketing restrictions

Impact of Potential Disruptions

- ♦ Further restrictions in marketing may make us less effective in building brand equity
- ♦ Direct marketing efforts need to be strengthened in future

Manufacturing Systems

High Speed Equipment

Production Planning

- ♦ Complex Order Processing
- ♦ Logistics Management
- ♦ Production Scheduling
- ♦ Demand Forecasting

Engineering Capability

- ♦ Vision Inspection Systems
- ♦ Process Control and Sensors
- ♦ Core Engineering Skills

Agro-Processing

- ♦ Leaf Curing and Blending
- ♦ Leaf Processing
- ♦ Tobacco Expansion

Product Design

- ♦ Sensory Testing methods
- ♦ Packaging Technologies
- ♦ Flavor Technologies
- ♦ Cigarette Design
- ♦ Materials Science
- ♦ Products Specifications

Production Management

- ♦ Regulatory Compliance
- ♦ Cost and Financial Management
- ♦ Labor Management
- ♦ Technical Training
- ♦ Facilities Management

Quality Management

- ♦ Competitive Audits
- ♦ Quality Assurance
- ♦ Testing methods and procedures

Supply Chain Management

- ♦ Materials Procurement & Management
- ♦ Strategic Partnerships with Vendors
- ♦ Specifications Management

*Capability to produce
high quality, consistently
uniform, sensory-based packaged
products in high volume;
utilizing automated
manufacturing systems
at very high speed*

Manufacturing Systems

Capability to produce high quality, consistently uniform, sensory-based packaged products in very high volume; using automated manufacturing systems at very high speeds

Examples

- ♦ Cigarette production at 14,000 cigarettes/minute
- ♦ Six sigma of 70 defects/billion

Benefits

- ♦ Lower product costs
- ♦ Delivery of consistent taste to adult smokers

Comparison w/Others

- ♦ Similar to other tobacco companies (except volume)
- ♦ Advanced manufacturing in comparison to other consumer products companies

Impact of Potential Disruptions

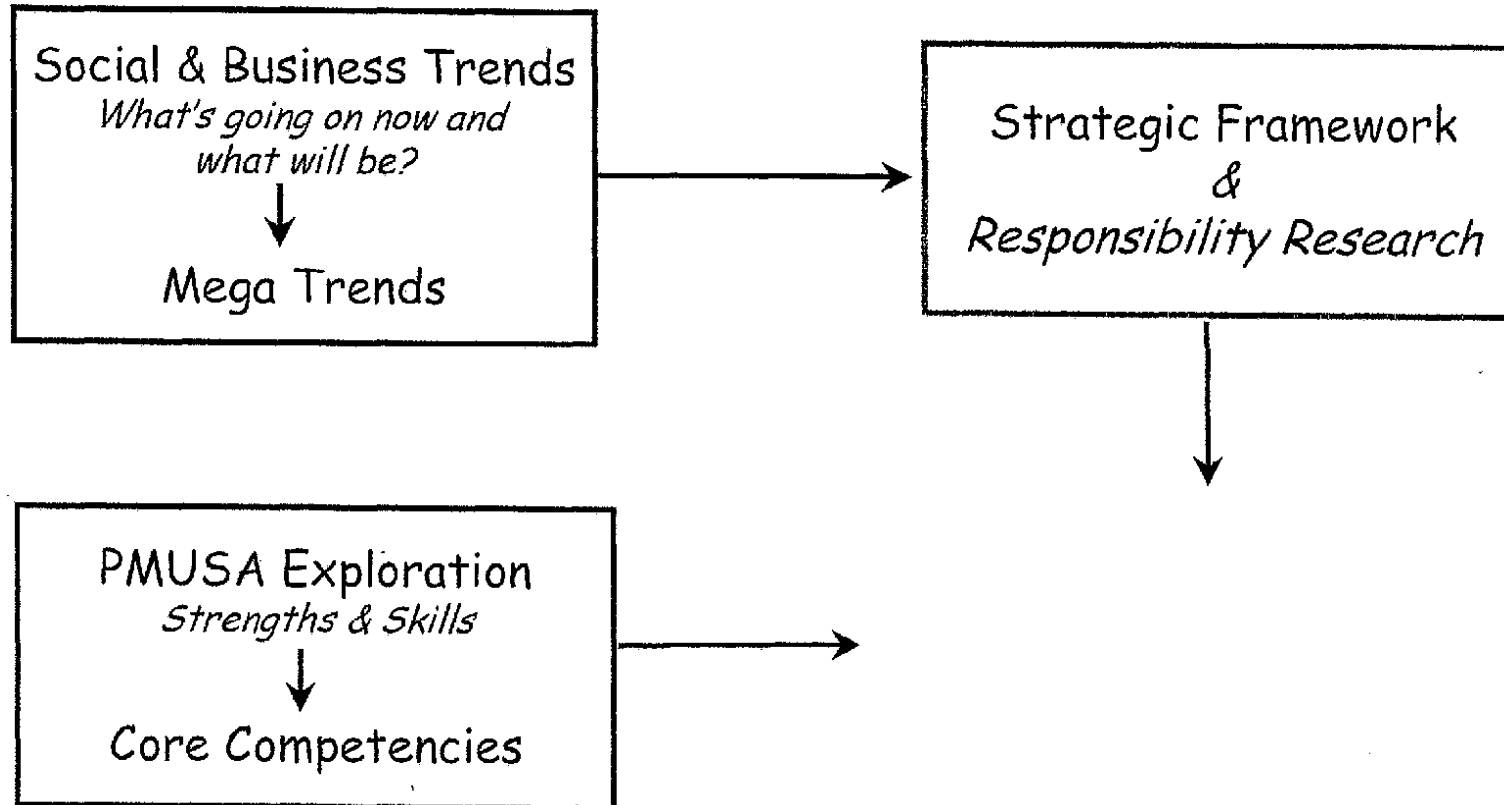
- ♦ Personalization needs, volume declines or need for flexibility may make this a core rigidity

Core Competencies

- ◆ Consistent strengths in our core competencies
 - ❖ Understanding trends and developing insight
(but often slow to respond, forcing us to be reactive)
 - ❖ Scale of what we do or can do, due to our financial resources
(difficult to excel in small, niche needs)
 - ❖ Deep, embedded functional knowledge (silo organization)
 - ❖ Relationships
(often difficult to develop new relationships due to industry issues)

- ◆ Potential discontinuities and disruptions
 - ❖ Regulatory, statutory and marketing restrictions
 - ❖ Social, litigation and political environment
 - ❖ Increasing localized, niche, or personalized consumer needs
 - ❖ Disruptive product innovations from competitors
 - ❖ Significant change in channels (internet sales and marketing)
 - ❖ Substitutes from non-conventional competitors
 - ❖ Reduction in margins

Methodology



Methodology

Phase I

- ◆ Eight week exploration of the external environment to determine mega trends. We specifically explored emerging trends in business, consumer, society, technology, government and regulation
- ◆ During this phase we conducted 96 interviews with a variety of individuals including:
 - ◆ Business Leaders
 - ◆ Societal Leaders
 - ◆ Think Tanks
 - ◆ Political Activists and Lobbyists
 - ◆ Academicians
 - ◆ Business Partners/Consultants

Phase II

- ◆ Five week exploration of PM internal processes and initiatives, resulting in an assessment of skills and competencies
- ◆ During this phase we conducted 94 interviews with PM employees, retailers, distributors, vendors and business consultants

Phase III

- ◆ Conducted responsibility research and created a business development philosophy
- ◆ Five week synthesis of mega trends and core competencies to determine future business opportunities

Additional Insight...

What does responsibility mean?

Additional Insight...

◆ Research Design

- ❖ Soccer Moms (30-45)
- ❖ Males & Females (35-55)
- ❖ Males & Females (21-25)

◆ Focus Groups

- ❖ Four groups non-smokers
- ❖ Three groups non-smokers & smokers
- ❖ Two groups smokers

◆ Geographies

- ❖ Los Angeles, CA
- ❖ Chicago, IL
- ❖ Tampa, FL

Additional Insight...

The Admired, The Responsible, & The Irresponsible

- ◆ Apple Computers
- ◆ Coca-Cola
- ◆ Disney
- ◆ Johnson & Johnson

Responsible Companies

=

Demonstrate Integrity
& Act Ethically

- ◆ MacNeil (Tylenol)

Irresponsible Companies

=

Deny Culpability
Don't Change
Get Bad Press

- ◆ Exxon
- ◆ Dow
- ◆ "Tobacco Companies"

Source: MEPR Focus Groups, Marketing Perception, 5/23-25/00

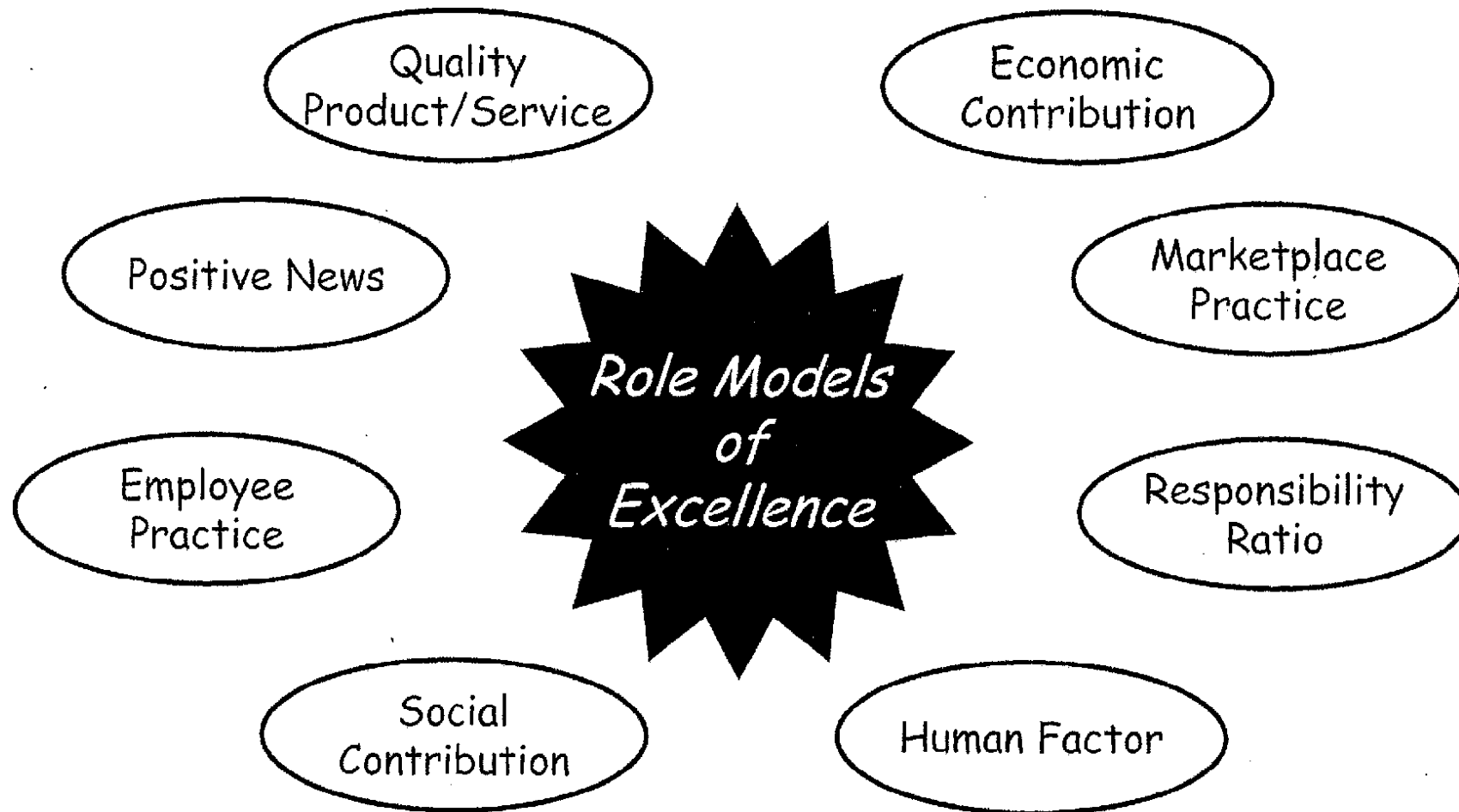
Confidential - For Explanatory Purposes Only MEPR/Red

6/27/00 74

2081409563

Additional Insight...

Public Expectations



Source: MEPR Focus Groups, Marketing Perception, 5/23-25/00

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00

75

2081409564

Additional Insight...

Responsible Companies

- ◆ Put safety first (people, product, environment)
- ◆ Do their best to avoid harming (people, environment)
- ◆ Stand behind their promises (product, services)
- ◆ If a problem exists, admit it, correct it pro-actively
- ◆ Are honest (product and business practices)

Summary: Demonstrate integrity & act ethically

- It's how problems are handled that matters
- And, not being the known cause of the problem

Additional Insight...

Tobacco Industry Perceived to be Irresponsible

- ◆ Too much time and press exposure to denying the issues
- ◆ The impression that the "settlement" was forced on them, not a pro-active solution
- ◆ And, perception that they are STILL lobbying Congress to avoid further regulation
- ◆ Often, PM is mentioned specifically because that is the tobacco company name most familiar to the public

Source: MEPR Focus Groups, Marketing Perception, 5/23-25/00

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 77

2081409566

Additional Insight...

Perspectives on PM

- ◆ Makes a product that can harm; some say the only way to regain "acting responsibly" is to stop selling the product, or fix it to not do harm
- ◆ In the news too much, too long -- all negative
- ◆ Deny: "the raised hands" still loom large
- ◆ Dishonesty: "spiking" is believed as truth
- ◆ "Repairs" were force, not pro-active ("got busted")
- ◆ Current commercials are "smoke screens" to try to recover, not because PM truly believes any of it
- ◆ Believe corporate good works (aware from ads) are motivated by trying to recover image, not because the company is truly committed to charitable or social precepts
- ◆ Better smoking (public place) environment is only because government took on the mantle of responsibility; PM wouldn't have done this on their own

Source: MEPR Focus Groups, Marketing Perception, 5/23-25/00

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 78

2081409567

Additional Insight...

Perspectives on PM

- ◆ Some can admire PM
 - ❖ Excellent marketing and advertising
 - ❖ Excellent at being profitable
 - ❖ Suspect pay well and have great benefits
- ◆ Most consumers admit no opinion on PM as a company
 - ❖ Personal attitudes on smoking
 - ❖ Media coverage
- ◆ Very few would think "acting responsibly" is part of PM USA's mission statement

Additional Insight...

Discontinuity

◆ *Can a company that makes a controversial product be seen as an admired company if they fulfill the requirements?*

❖ No

- Some say, even if they act responsibly in other ways, if the nature of the product is harmful, then the company is acting irresponsibly by marketing that product, and therefore, cannot be admired nor considered "responsible"

❖ Yes

- Some say, as long as they act responsibly

Additional Insight...

What is "Acting Responsibly" for a Tobacco Company?

- ◆ Some say because they believe the product harms everyone, there is no way the company can be seen as "responsible" or admired
- ◆ Some say maybe if tobacco companies do what they can to encourage courteous smoking, pick up litter -- take responsibility for adult smokers actions
- ◆ Some (including non-smokers & smokers) say the issue is personal choice, and tobacco companies are perceived as irresponsible not for the product, but for their public behavior

Source: MEPR Focus Groups, Marketing Perception, 5/23-25/00

Confidential - For Exploratory Purposes Only MEPR/Red

6/27/00 81

2081409570

The Enlightenment...

Strategic Framework

- ◆ A strategic framework was created based on:
 - ❖ Mega trends
 - ❖ Focus group research on "Responsibility"
- ◆ Applicable to other industries

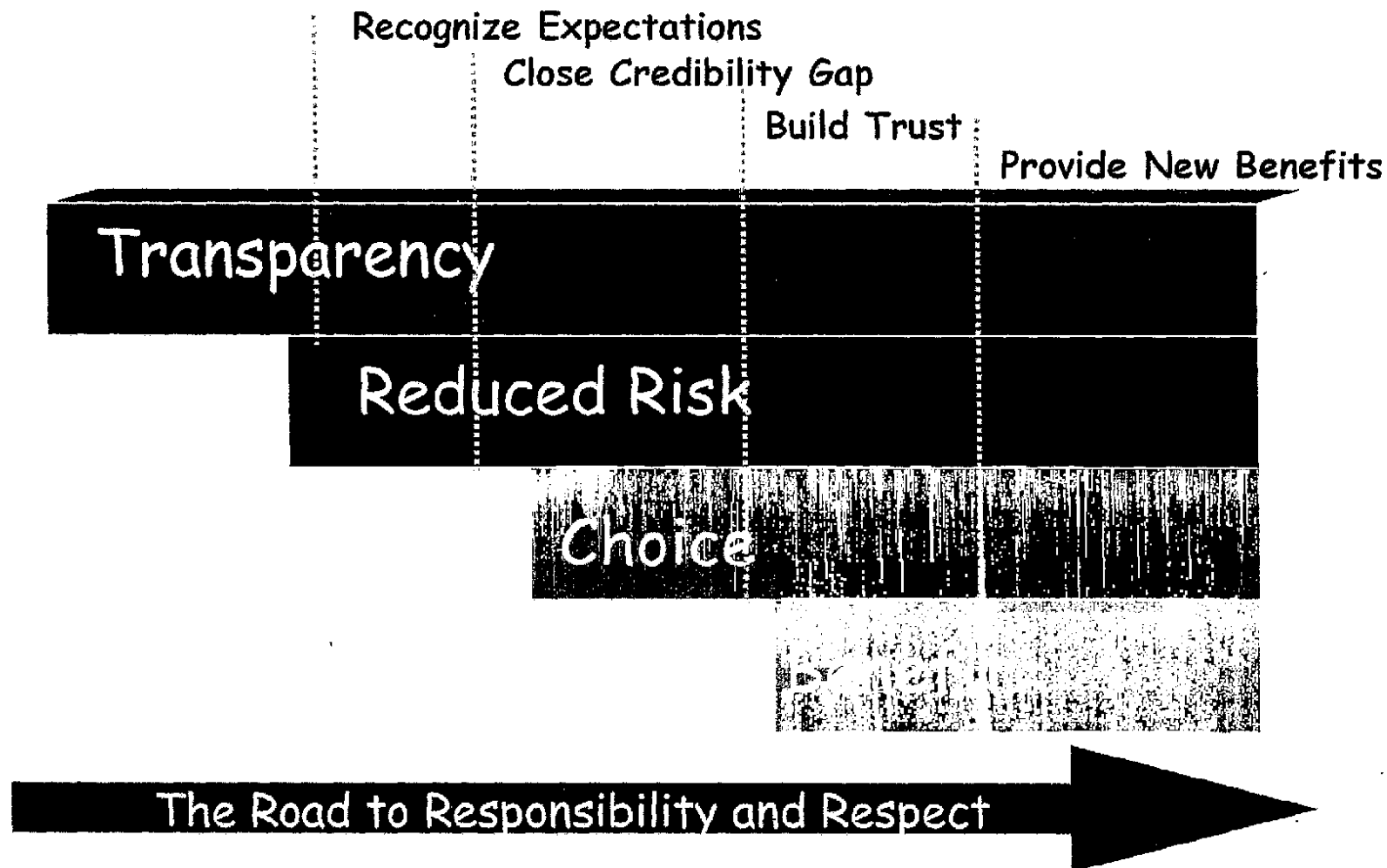
The Enlightenment...

Strategic Framework

- ◆ The four pillars of this framework are:
 - ❖ Transparency for all stakeholders at all levels of business
 - ❖ Maximum possible level of safety in products & services; and protection for employees & the environment
 - ❖ Informed choices for all stakeholders
 - ❖ Meaningful benefits for all stakeholders through business innovation & creativity

The Enlightenment...

PM USA's Strategic Framework



The Enlightenment...

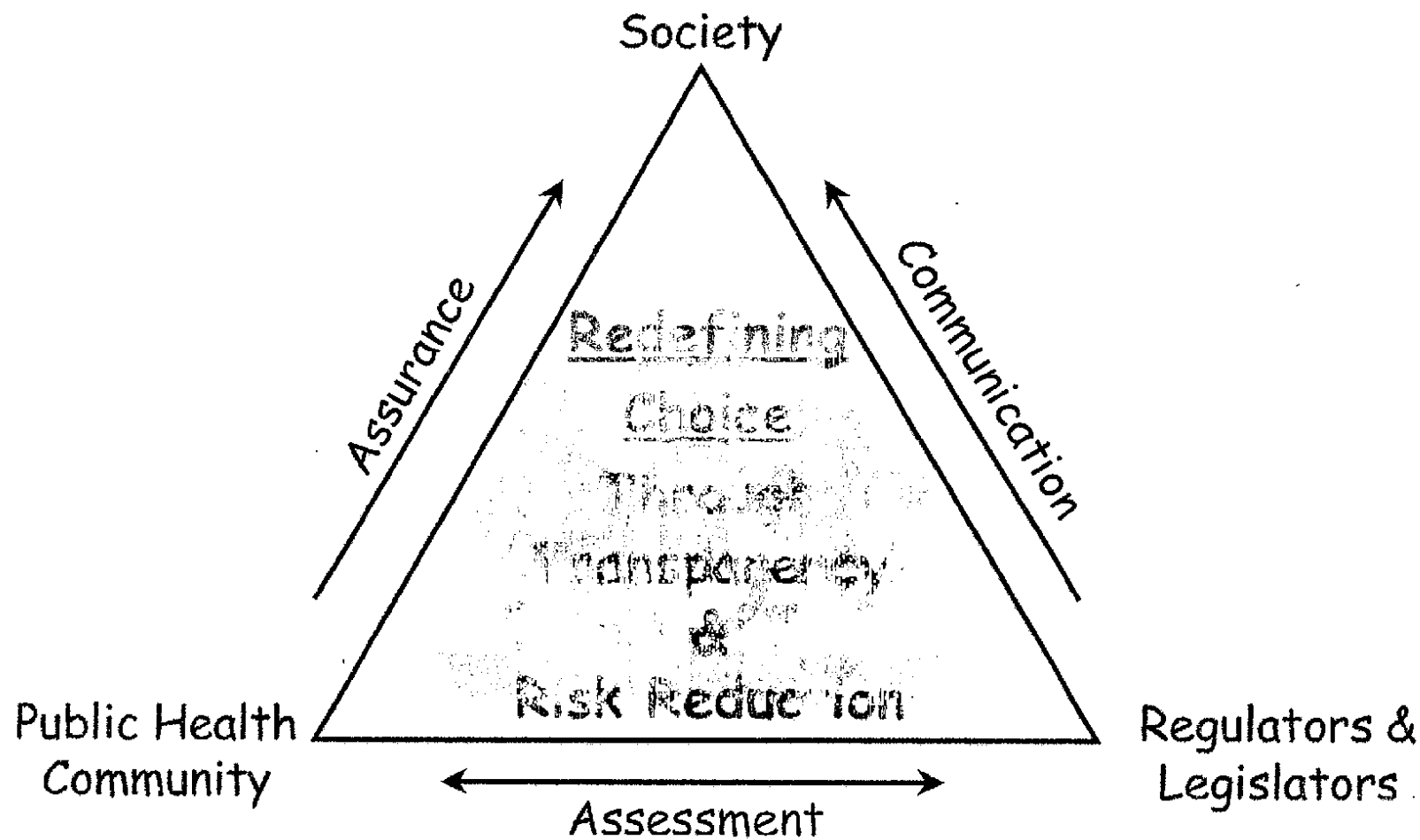
PM USA's Strategic Framework

◆ Societal Expectations:

- ❖ Overall reduction in the consumption of our products
 - Elimination of youth smoking
 - Reduction in adult consumption
- ❖ Overall reduction in the risks associated with our products
 - Complete information on product risks
 - Reduced risk products
 - Solutions for ETS
- ❖ Accountability and transparency in addressing tobacco issues
 - Transformation from "Big Tobacco" to "Responsible Corporate Citizen"
 - Helping public health community/regulators address tobacco issues

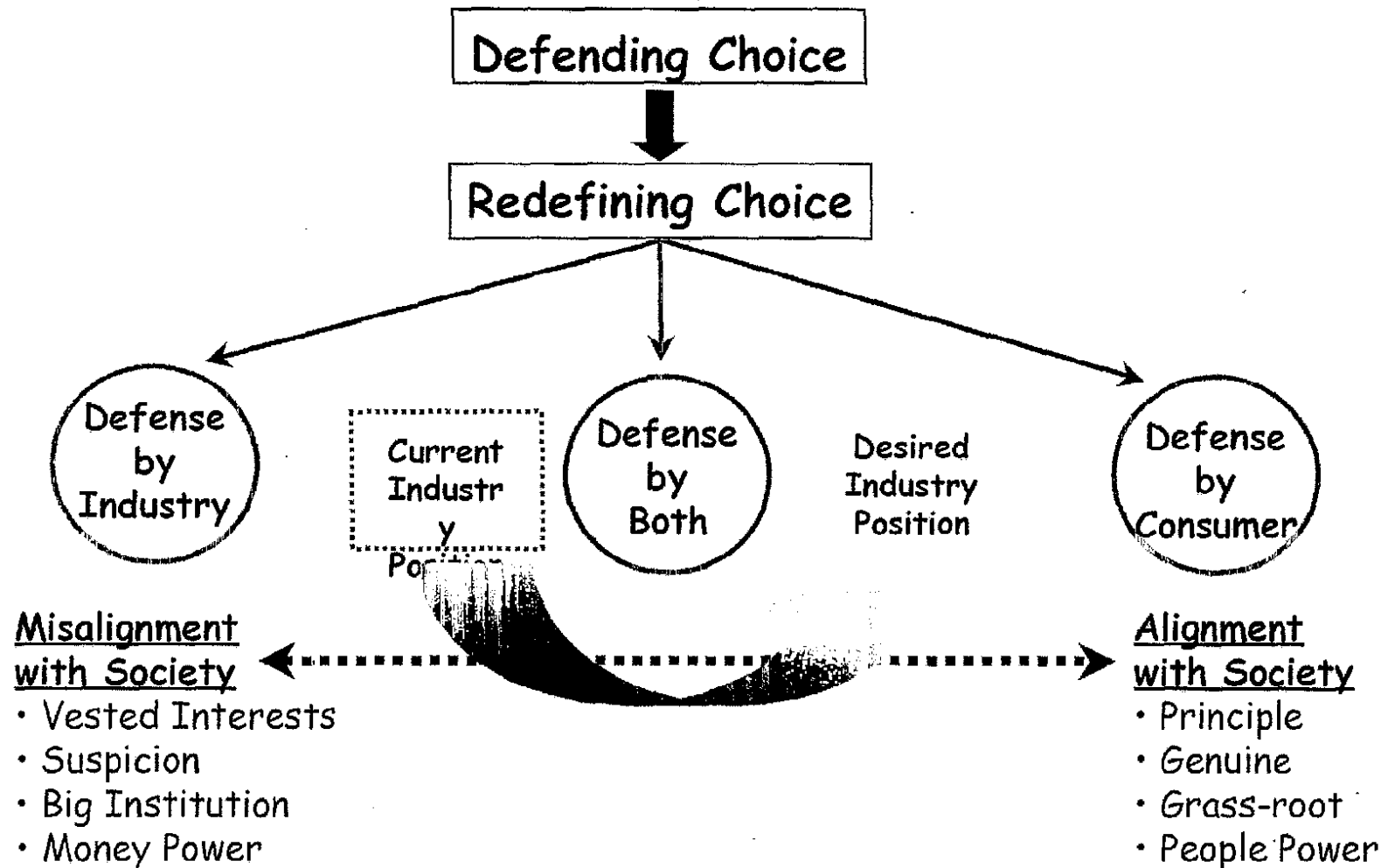
The Enlightenment...

PM USA's Strategic Framework



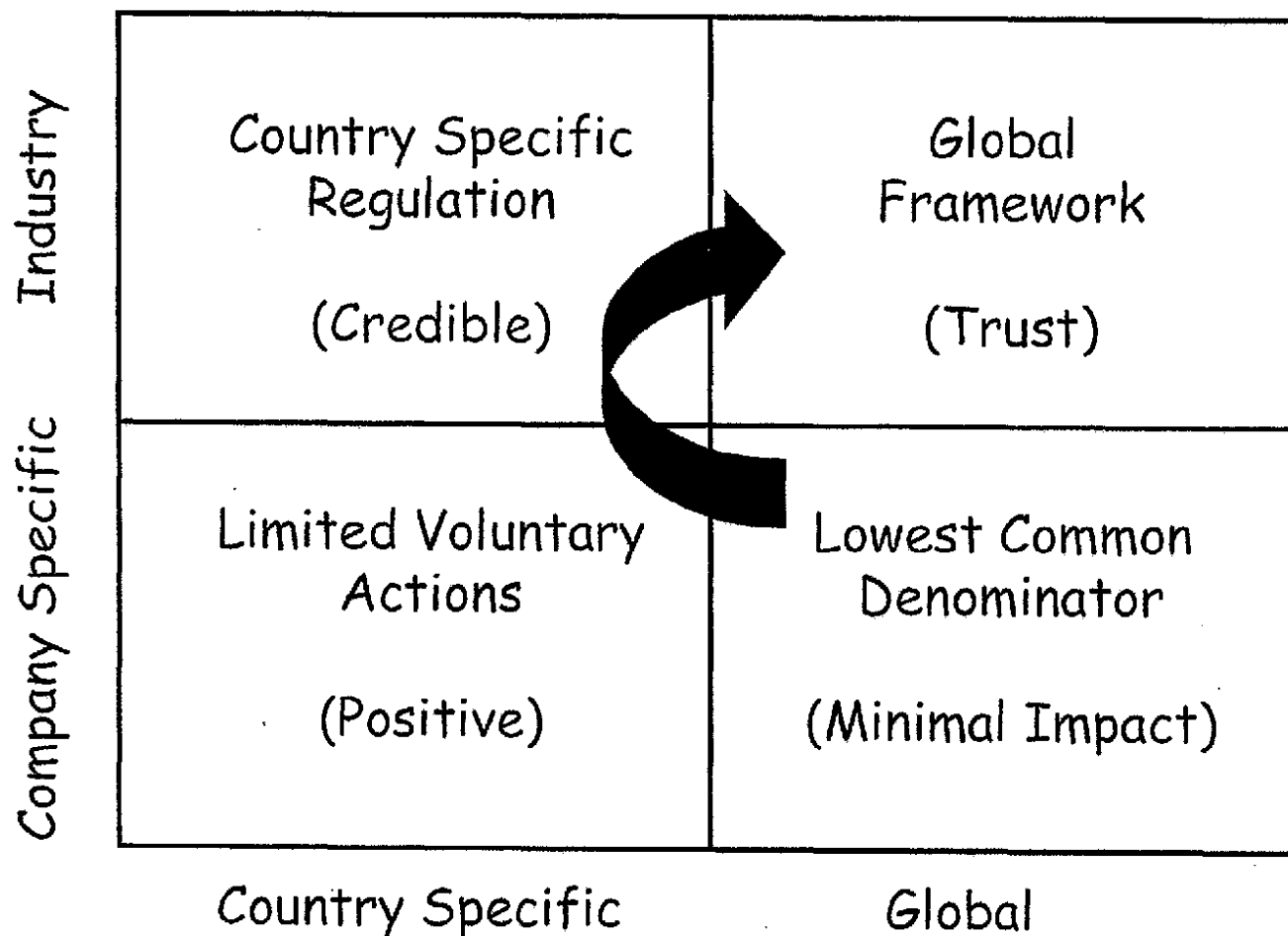
The Enlightenment...

PM USA's Strategic Framework



The Enlightenment...

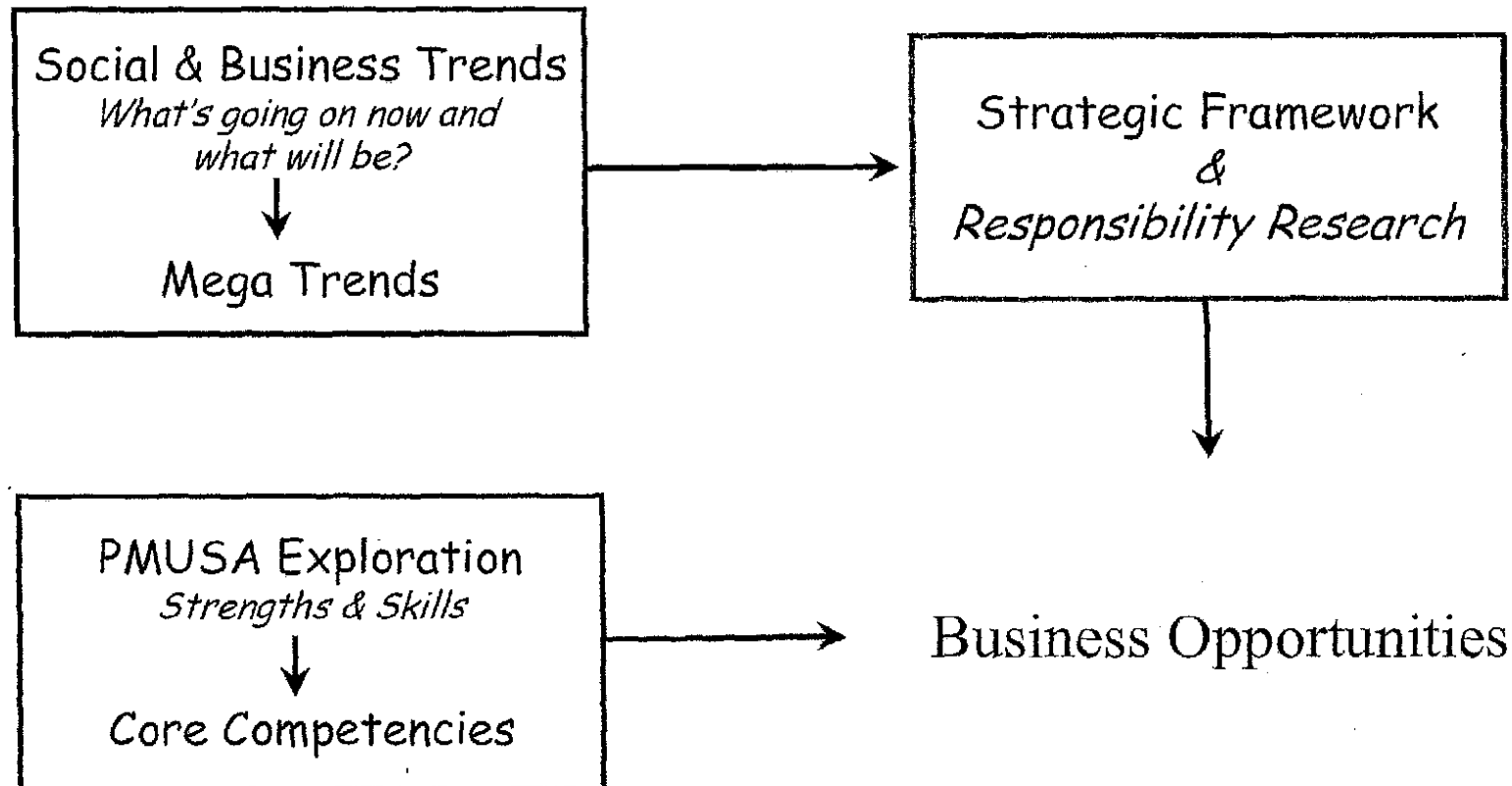
PM USA's Strategic Framework



Strategic Considerations

- ◆ Is there a way to bring transparency to our lobbying and government affairs work? Will it help our transformation from "Big Tobacco" to "Responsible Corporate Citizen"?
- ◆ How can we provide more information to adult smokers about the health risk of our product?
- ◆ What internal and external processes can be put in place to proactively anticipate and respond to emerging societal issues?
- ◆ How can we expand research capabilities in the development of reduced risk product as they are so crucial to our future? How do we build a stronger network of external alliances to be successful in our efforts?
- ◆ How do we further enhance the dialogue with our employees to keep them involved in our efforts to build trust and credibility?
- ◆ Are we taking enough business risk to shape the future?

Methodology



Our Core Business Tomorrow . . .

Youth Smoking
Prevention

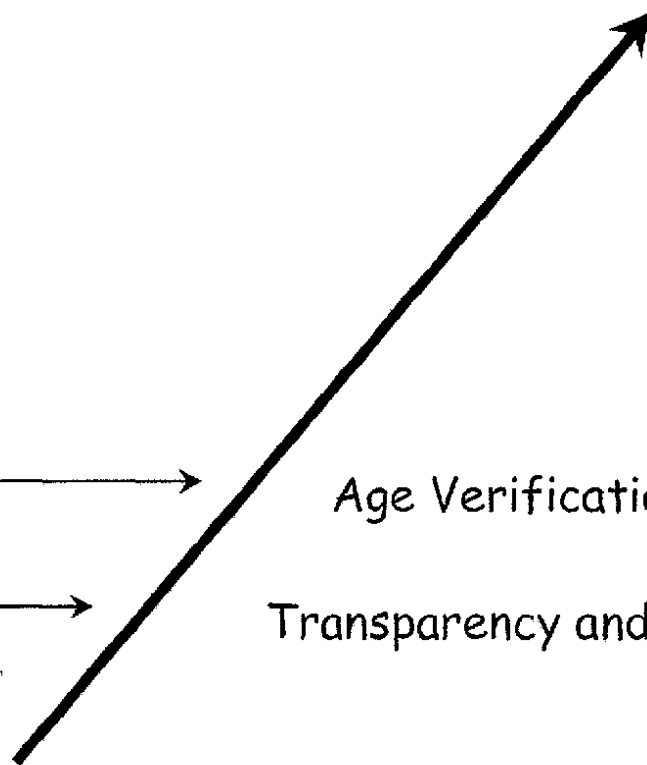


Age Verification/Retail Automation

Redefined
Choice

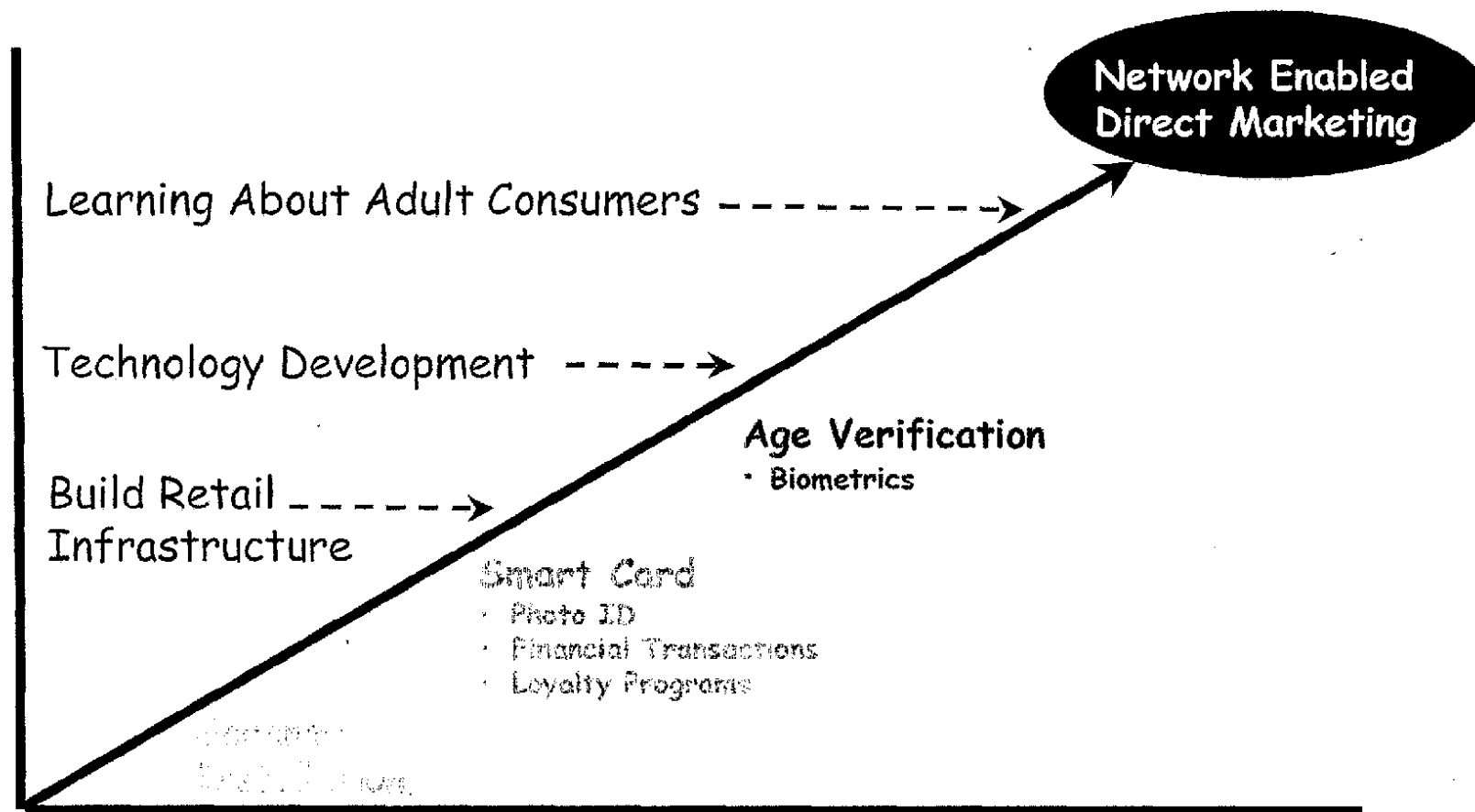


Transparency and Risk Reduction



Retail Automation

What Are We Proposing?



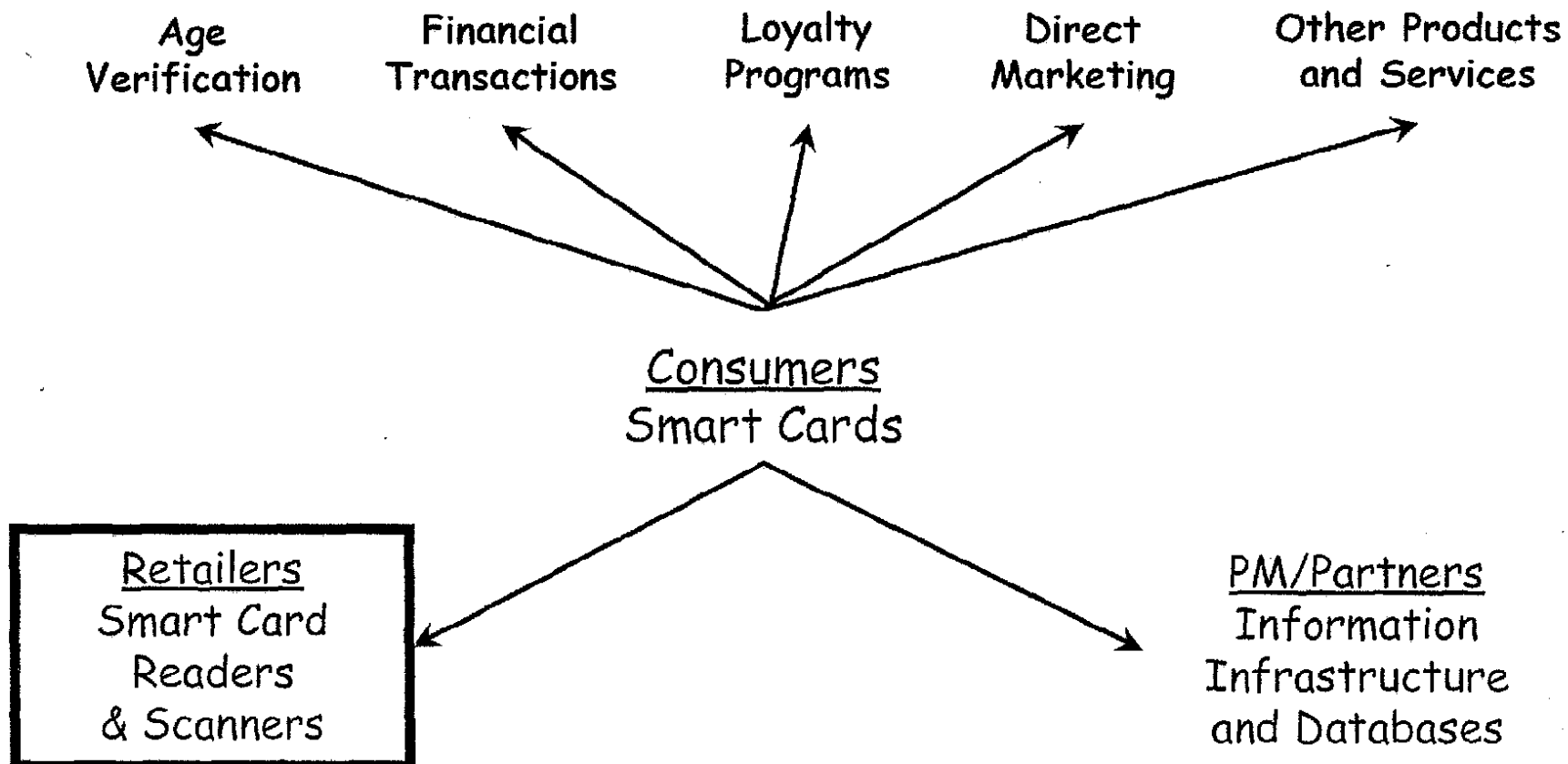
Retail Automation

What Are We Proposing?

- ◆ To effectively address "access control" issues, widespread adoption of smart card technology is critical
 - ❖ Fast adoption by our adult consumers may lead to widespread adoption by the entire tobacco category
- ◆ The proposed infrastructure needs to be open to other categories at retail
- ◆ In order to achieve faster adoption, adult smokers and retailers will need meaningful incentives

Retail Automation

What Are We Proposing?



Retail Automation

Benefits

Adult Consumers

- ♦ Convenience due to packaging of payment, promotions, and loyalty programs
- ♦ Improved transaction & data security
- ♦ New benefits

Retailers

- ♦ Adult consumer loyalty
- ♦ Better inventory management
- ♦ Aid in age verification

Philip Morris USA

- ♦ New revenue streams
- ♦ Direct marketing capability
- ♦ Adult smoker loyalty
- ♦ Expanded knowledge of adult consumers
- ♦ Improved efficiency in promotions
- ♦ Improved demand forecasting
- ♦ Potential synergies with other operating companies
- ♦ Public opinion

Retail Automation

How Will It Work?

- ◆ Strategic alliances and partnerships
 - ❖ Service providers (financial, database, etc.)
 - ❖ Technology providers (smart card technology, biometrics)
- ◆ Open access to other categories for faster adoption of technology at retail
- ◆ PM provides value in marketing smart card technology to consumers and retailers

Retail Automation

How Will We Generate Revenues?

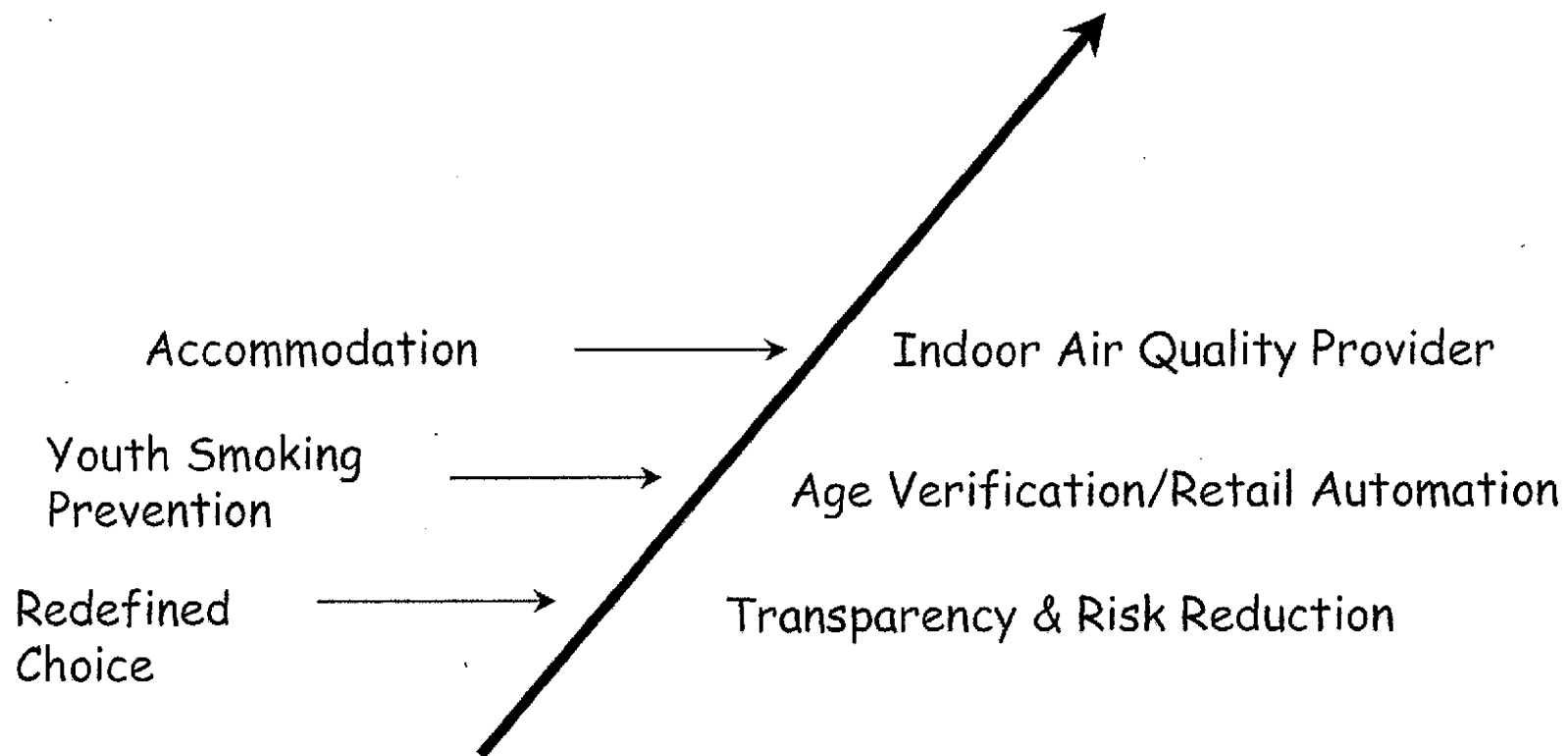
- ◆ Shared revenues with service providers?
 - ❖ Retail transaction fee
 - ❖ License fee from other users of infrastructure
- ◆ Revenues from increased consumer loyalty
- ◆ Savings from personalized promotions and improved efficiency in operations

Retail Automation

Why Should "We" Do It?

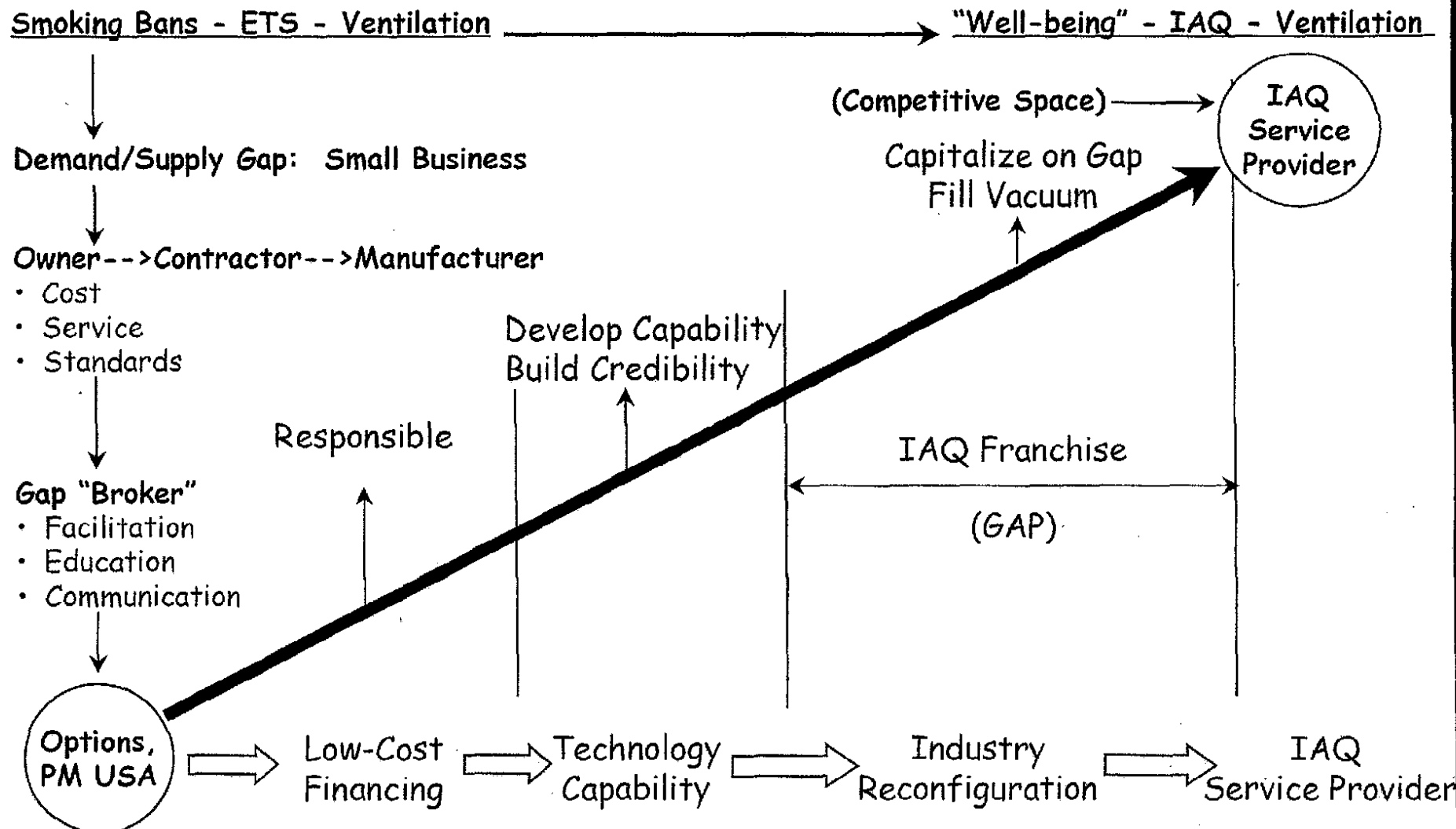
- ◆ Extensive knowledge of retail and adult smokers
- ◆ "Access control" issue for tobacco category
- ◆ Demonstration of responsible retailing
- ◆ Strategic investment
 - ❖ Direct marketing capabilities - personalized promotions and communications to adult consumers
 - ❖ Vehicle for understanding consumer behavior for future opportunities
- ◆ Leadership opportunity to shape future direction

Our Core Business Tomorrow...



Clearing the Air

From constructive engagement to revenue generation



Clearing the Air

How Will It Work?

2000 > 831,000 Restaurants
\$376B in Sales

1999 > 67,000
Contracting Firms

HVAC Industry
1997 > \$68B

**Small Business
Owners**

Contractors
(assessment, installation,
maintenance)

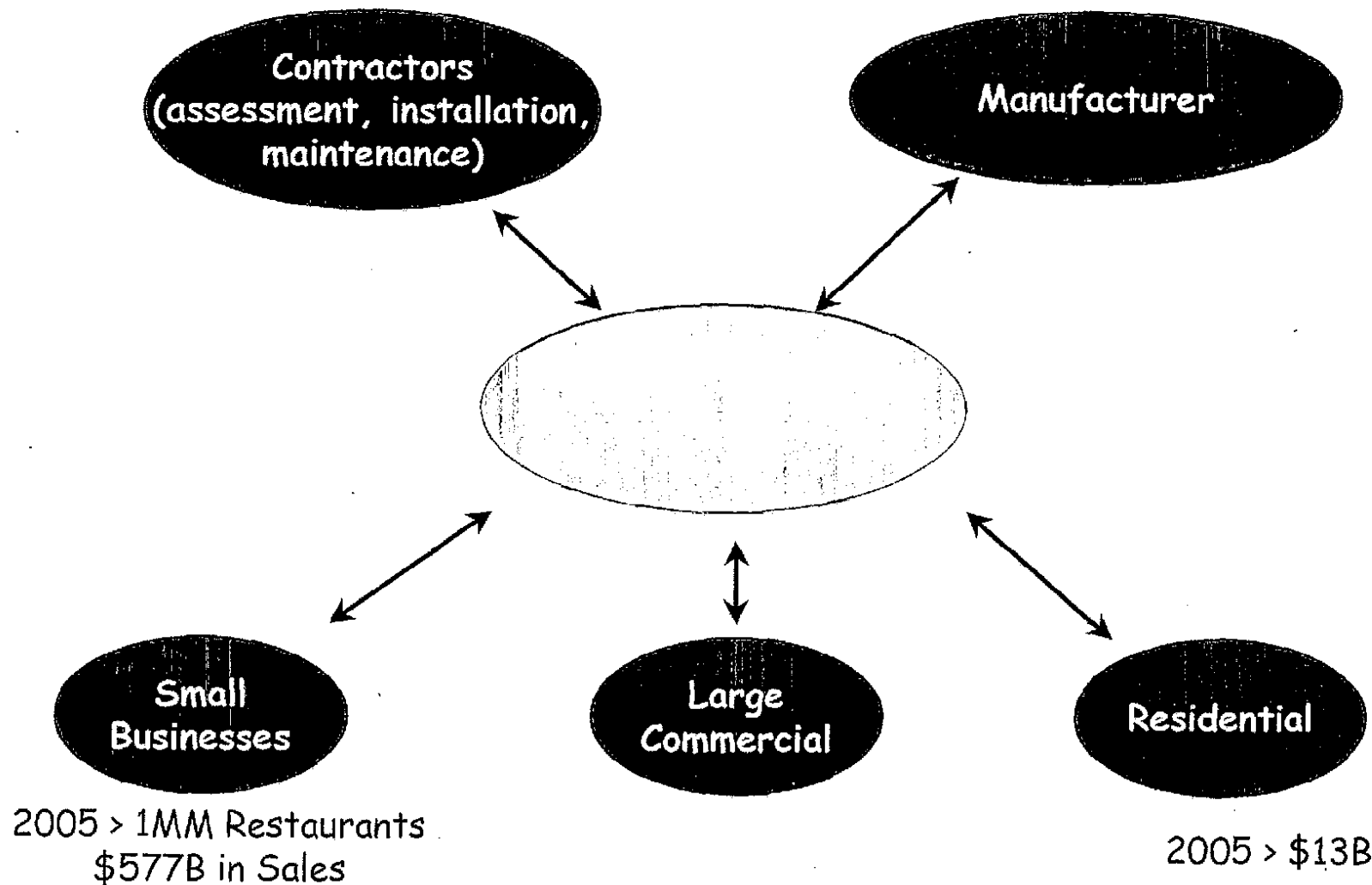
Manufacturer

Consumers

Service Options
Financing, Marketing
& Maintenance

Clearing the Air

How Will It Work?



Clearing the Air

Why Should We Do It?

- ◆ Credible entry by addressing ETS, opportunity to position ourselves to service the anticipated demand for IAQ
- ◆ Stem the flow of smoking bans and preserve smokers' choice to smoke in bars and restaurants
- ◆ Established Network Relationship with various associations and HVAC manufacturers including:
 - ❖ National Restaurant Association
 - ❖ Air Conditioning Contractors of America
 - ❖ National Energy Management Institute
 - ❖ Honeywell
 - ❖ Trane
- ◆ Deep knowledge in smoke constituents and smoke movements

Clearing the Air

What are the Benefits?

Consumers

(small businesses, large commercial, residential)
=====

- ◆ Competitive financing options
- ◆ Competitive pricing
- ◆ Increased traffic through loyalty program
- ◆ Convenience
- ◆ Pleasant environment

Franchise Owners

=====

- ◆ HQ Marketing
- ◆ Education/Training
- ◆ Networking forum
- ◆ Increased business opportunities

PM USA

=====

- ◆ Entry into new arena
- ◆ Increased adult consumer loyalty
- ◆ Franchise fee
- ◆ Public opinion

Clearing the Air

... Our Vision in 2010

◆ When purchasing a house, a buyer will be looking for:

Convenience

Safety

Well Being

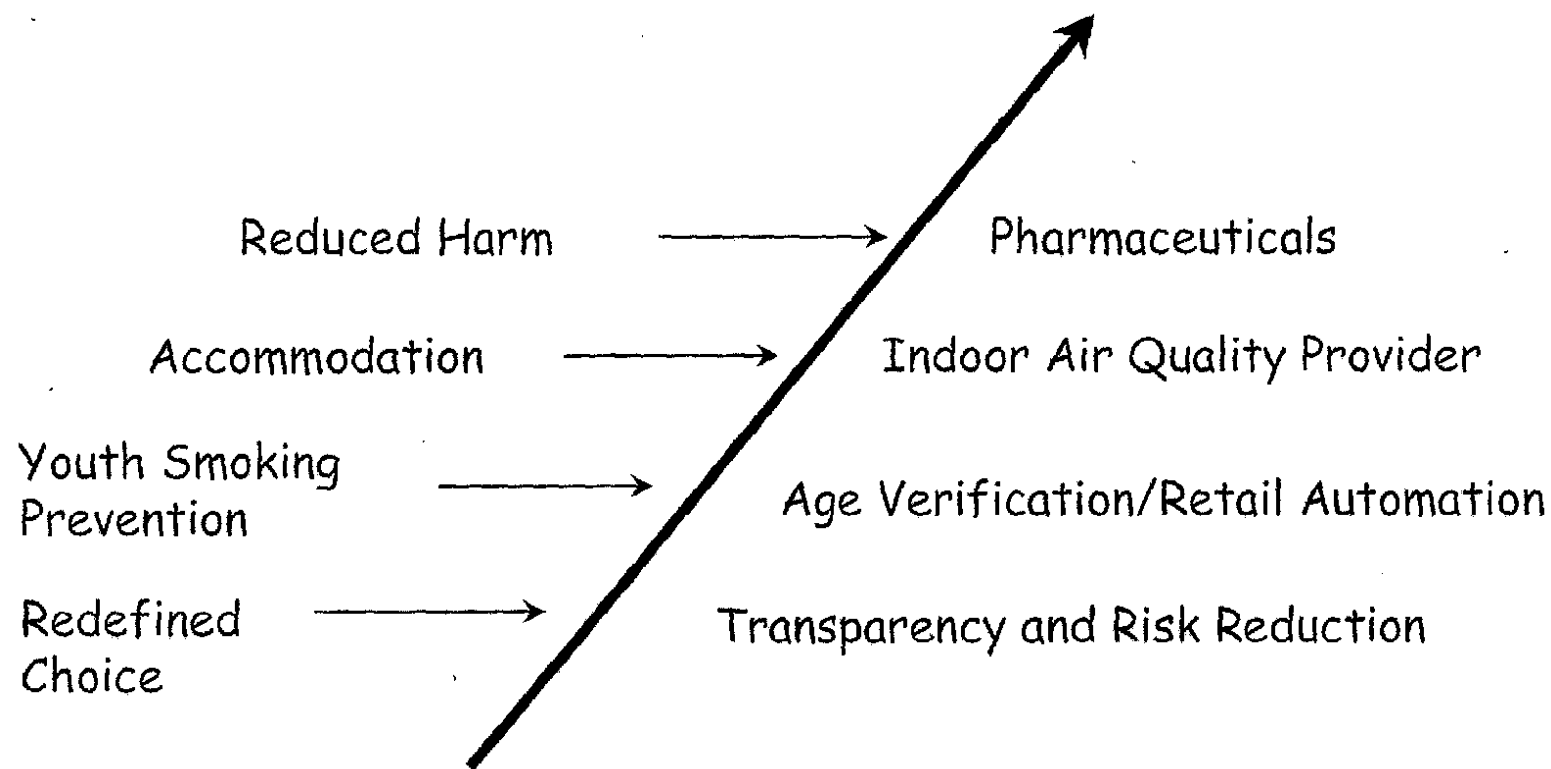
Sprinkler System

Security System

Clean Air System

PM will be the number one name that comes to
mind
in connection with IAQ

Our Core Business Tomorrow...



Pharmaceutical Exploration

- ◆ We are in a mature, declining market
- ◆ The pharmaceutical industry represents:
 - ❖ Competitive Space
 - ❖ Sustainable Growth

Tobacco
Company



Pharmaceutical
Company

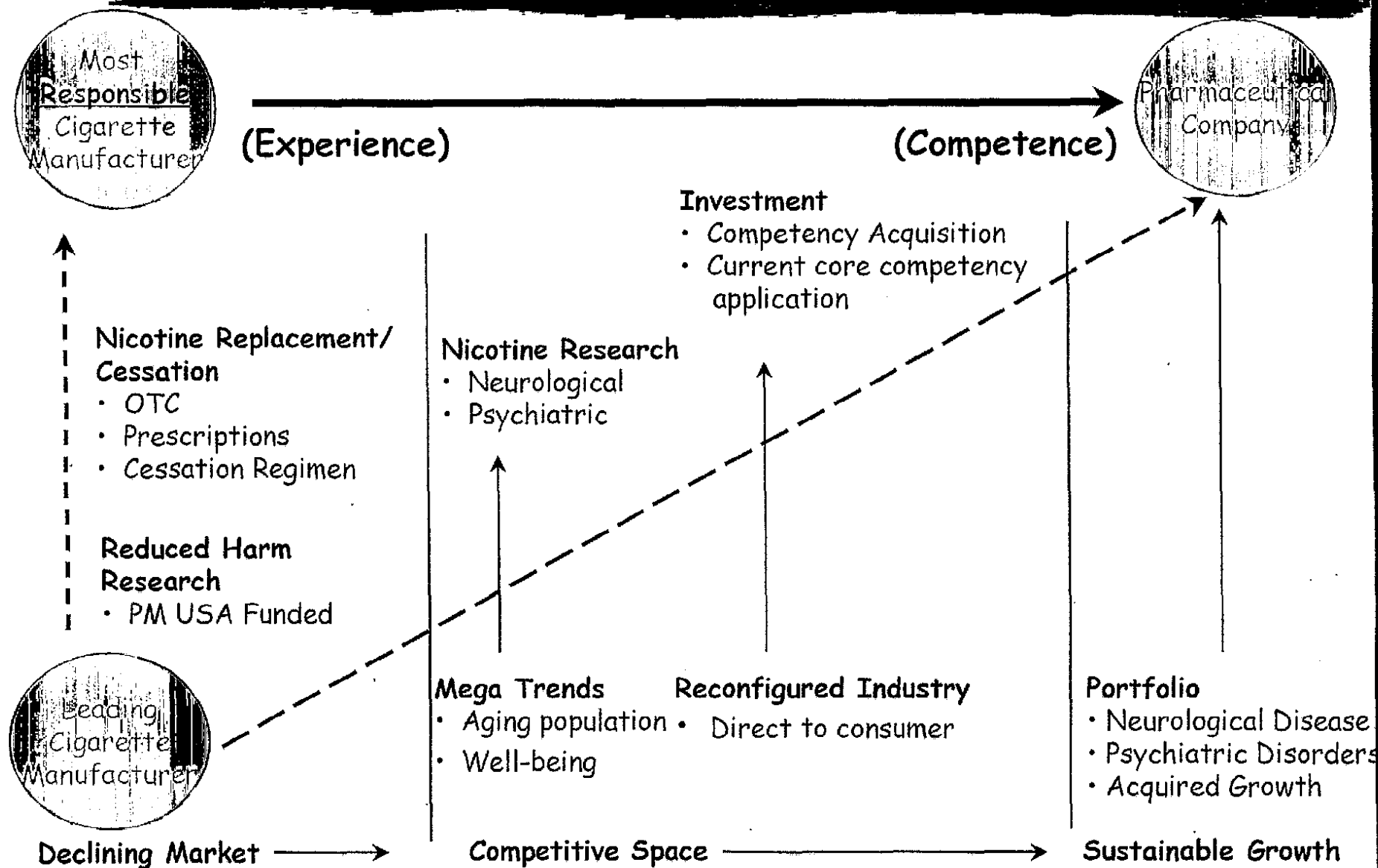
How?

Responsible



Wellness

Pharmaceutical Exploration



Pharmaceutical Exploration

Key Considerations

- ◆ What is responsible?
 - ❖ Reduced harm
 - Smoking & Health Research
 - Superior cessation options
- ◆ What is competitive space and unserved market in the short-term?
 - ❖ Adults who want to quit
- ◆ What is competitive space and unserved market in the longer-term?
 - ❖ Aging population worldwide, particularly susceptible to neurological diseases
 - ❖ Searching for sense of well-being
 - ❖ Nicotine-based pharmaceuticals
- ◆ What will our critics say?
- ◆ Is it possible?
 - ❖ Skills, competencies and some core competencies make the pathway possible
 - ❖ Competitors in the tobacco industry
 - ❖ We can acquire competencies based on financial resources
- ◆ What is the long-term benefit?
 - ❖ Sustainable, profitable future

Pharmaceutical Exploration

Situational Analysis

◆ Summary:

❖ Mature Declining Market

- Anticipated reduction in consumption among adults

❖ Public Expectations

- Provide reduced harm

❖ Smoking Cessation Market

- According to surveys, many adult consumers may want to quit but need assistance
- Existing cessation therapies require repeated attempts, according to various reports on cessation success rates
- Nicotine-replacement therapy cessation manufacturers are seeking extended use
- One manufacturer owns the majority of the cessation products in the market

❖ Healthcare Technologies

- Major advances are being made in medical technologies, especially in genetics and bio-technology
- The pharmaceutical industry at \$300 billion today worldwide, is expected to sustain growth for at least the next five years at a rate of 8-10%
- Drug therapy development is being driven (in part) by the anticipated explosion of an aging population.

Pharmaceutical Exploration

Situational Analysis

◆ Summary cont.

❖ Nicotine-Based Pharmaceuticals

- Nicotine has been shown to have an impact on diseases that specifically impact the elderly as well as psychiatric disorders and mental health. Pharmaceutical Industry Reconfiguration
- Pharmaceutical --> Medical Practitioner is now Pharmaceutical --> Consumer --> Medical Practitioner
- DTC increased 38% in one year and is expected to be major force in industry growth

❖ Tobacco Industry Competitive Framework

- Philip Morris has built a base of nicotine research over the years, including:
 - Smoking behavior and effects on the brain
 - Pharmacology of Nicotine
 - Sensorial properties
- RJR has already launched a nicotine-research specific entity
- Japan Tobacco continues to build its pharmaceutical division

Pharmaceutical Exploration

What Are We Proposing?

- ◆ Philip Morris pursues long-term creation of core competencies to develop a new PM subsidiary focused on pharmaceutical product development, which is a highly sustainable market.
- ◆ In line with our mission, focus on entering the market in a responsible way to support our core tobacco business
 - ❖ Focus on pharmaceutical therapy development within areas we already have knowledge
 - ❖ Generate new revenue streams and acquire competencies via strategic acquisition
 - ❖ Invest to achieve long-term, sustainable growth

Pharmaceutical Exploration

How Can That Be Accomplished?

- ◆ Philip Morris USA's mission is to be the most responsible, effective and respected, developer, manufacturer and marketer of consumer products made for adults.
- ◆ As a responsible, effective and respected manufacturer of cigarettes, which are a risky product, Philip Morris should consider:
 - Funding third-party research on smoking and health to conduct further research on the association between cigarette smoking and potential health impacts
 - Use existing skills, capabilities and competencies to develop a superior smoking cessation product therapy, which can help those adults who may believe they are addicted to quite smoking if they want to.
 - Consider alliance with market leader

Pharmaceutical Exploration

How Can That Be Accomplished?

◆ Given:

- ❖ PM USA's investment in nicotine research over many years;
 - Indications that nicotine may have an impact on neurological disease and psychiatric disorders;
 - Clear demographic trends of the long-term (10-20 plus years) need for pharmaceuticals that address an aging population (as well as stress), Philip Morris should consider:
 - Ramping-up relationships and strategic alliances with relevant researchers in the field of neurological disease and psychiatric disorders to more clearly define the impact of nicotine
 - Pursuing additional patents on nicotine analogs and research on delivery techniques

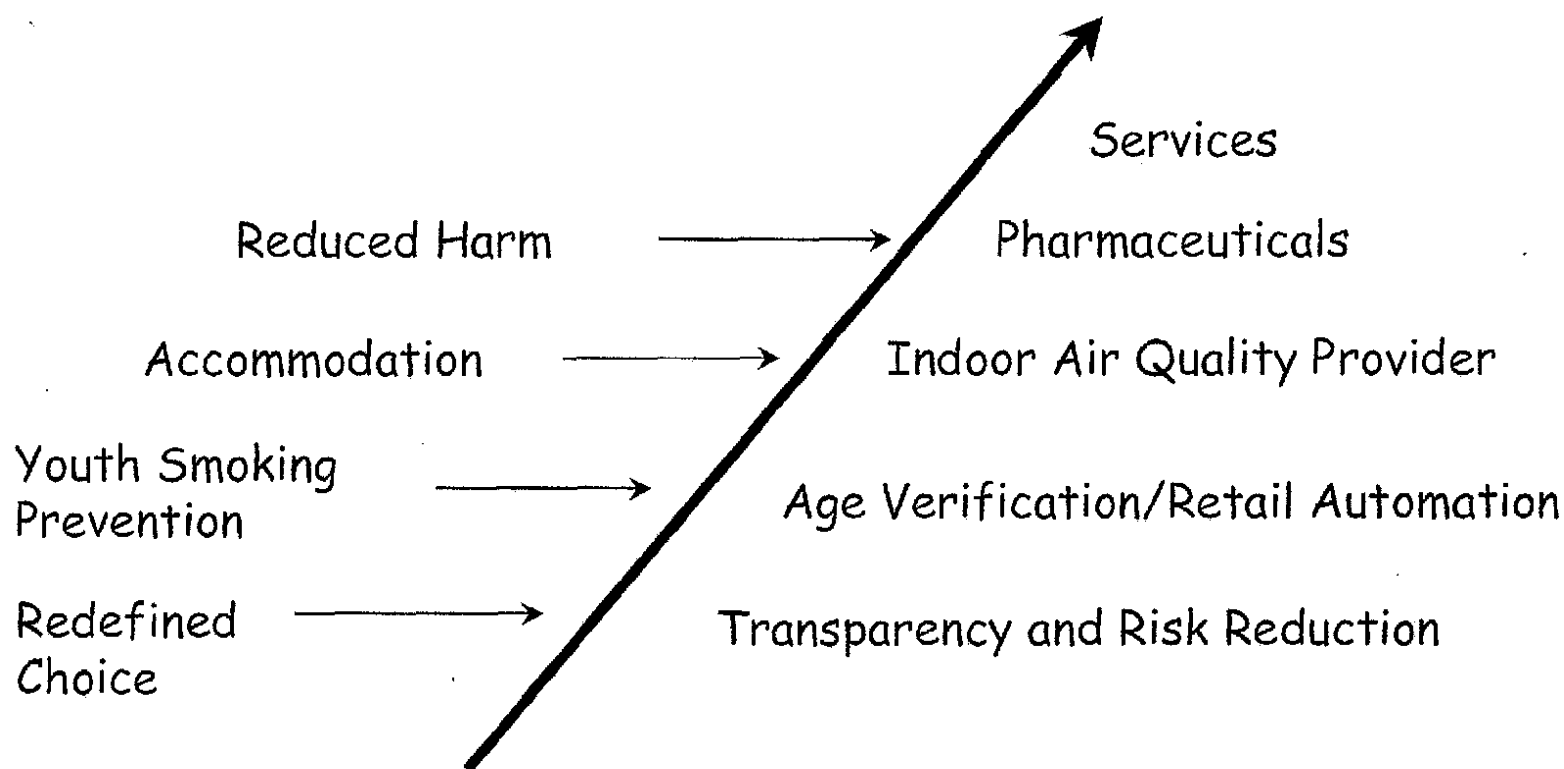
Pharmaceutical Exploration

How Can That Be Accomplished?

◆ Given:

- ❖ PM's capabilities, skills, competencies and core competencies; and
- ❖ The reconfiguration of the pharmaceutical industry, PM should consider:
 - Acquire small pharmaceutical manufacturers within a strategic set of established criteria to generate new revenue streams; and
 - Acquire competencies needed to create a pharmaceutical capability

Our Core Business Tomorrow...



Distribution and Marketing Services

Potential Opportunity

- ◆ Offer Philip Morris USA's vast sales and distribution network and marketing expertise under a marketing and/or distribution alliance for non-tobacco categories
- ◆ Higher margin products that can be sold through existing PM USA channels, especially convenience stores
 - ❖ Companies that lack effective sales and distribution network, and marketing expertise (foreign brands, 3rd or 4th player in the market, private labels)
 - ❖ Domestic and international markets

Distribution and Marketing Services

Potential Opportunities

- ◆ Marketing and distribution alliances for domestic and international markets for higher margin products such as:
 - ❖ Batteries (Sanyo, Ray-o-vac, others)
 - ❖ Blades/razors (ASR, Bic, others)
 - ❖ Others? (photographic film)

Distribution and Marketing Services

Potential Opportunity - Batteries

- ◆ Worldwide demand for batteries is projected to increase due to growth of electronic hand-held devices (source: IDC)
 - ❖ Unit shipments growth for hand-held devices - from 2 million in 1995 to estimated 17 million in 2000
 - ❖ Average household now owns 20 devices, versus 2 in 1977
- ◆ Worldwide battery market is estimated at ~\$20 billion (retail) - with North America at \$6.5 billion (source: ML estimates)
- ◆ Domestic battery industry sales have grown robustly with 1999 sales up 10.0% (source: IRI)
- ◆ The competitive situation (percent volume share) is:
 - ❖ Gillette (Duracell) -- 38%
 - ❖ Ralston Purina (Eveready) -- 31%
 - ❖ Ray-O-Vac -- 19%
 - ❖ Private Label -- 10%

Source: IRI

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 119

2081409608

Distribution and Marketing Services

Potential Opportunity - Blades and Razors

- ◆ Further growth in this category is expected due to growth in emerging market and female shaving systems
- ◆ Total US market estimated at \$1.5 billion (source: IRI)
- ◆ The competitive situation (percent volume share) is:
 - ❖ Gillette -- 50%
 - ❖ Warner Lambert (Schick) -- 15%
 - ❖ Bic -- 19%
 - ❖ Private Label -- 10%

Source: IRI

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 120

2081409609

Distribution and Marketing Services

Benefits

- ◆ New business opportunities to utilize sales and distribution network in future
 - ❖ Decreasing tobacco volumes
 - ❖ CRM and other automation projects
- ◆ New revenue streams
- ◆ Widen knowledge of other categories for future business opportunities
- ◆ Further enhance current strategic partnerships and develop new ones

Additional Services

PM Venture Fund

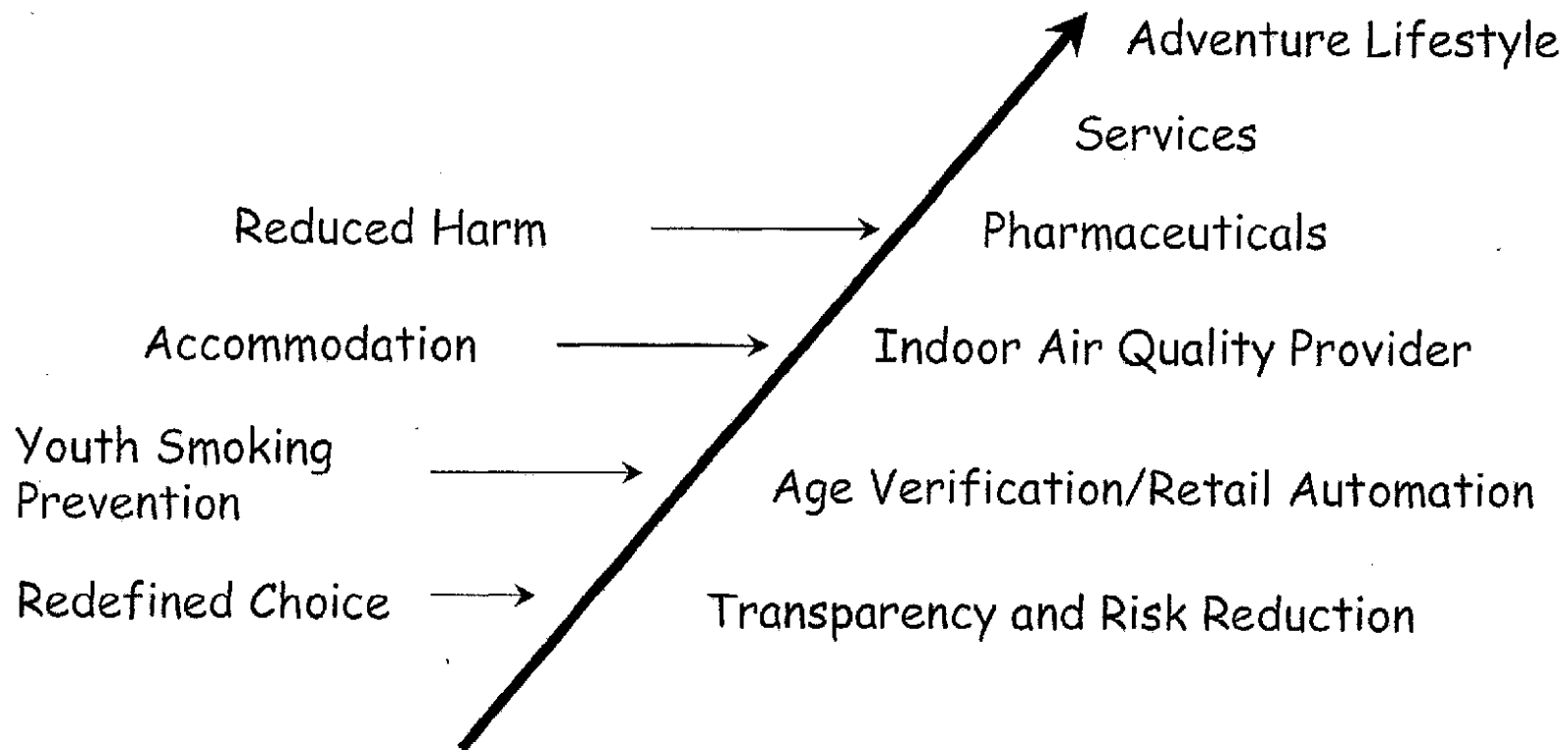
- ◆ A venture capital fund to screen and invest in relevant businesses and technologies for PM Companies:
 - ❖ Age verification
 - ❖ Bio-technologies and pharmaceuticals
 - ❖ Ventilation / IAQ
 - ❖ E-Commerce opportunities in retail, distribution, etc.
- ◆ Other large multinationals are aggressively seeking new technologies and businesses through venture investing (GE, Chrysler, J & J, Visa International, Cisco)

Additional Services

PM Shopping Network

- ◆ A Philip Morris Shopping Network that offers discounted products and services to employees and family members:
 - ❖ Financial products/services (Am Express, Citibank)
 - ❖ Vacation and travel (airlines, ranch, racing)
 - ❖ Kraft and Miller products
 - ❖ Employee-to-employee and PM-to-employee auctions
- ◆ Potential for extension to other operating companies and business partners
- ◆ Utilizes PM's global procurement capabilities

Our Core Business Tomorrow...



Adult Lifestyle Experiences

...A chance of a lifetime adventure

Business Opportunity

- ◆ Travel and tourism is the nation's third largest retail sales industry
 - ❖ Direct travel spending in the U.S. reached nearly \$519 billion dollars, 5.6% of the nation's GDP, in 1999
 - ❖ Industry employed 1 out of every 16 U.S. residents in 1999
- ◆ Travel is part of the American psyche enhanced by technology
 - ❖ For domestic travelers, outdoor activities are #2, shopping is #1 and visiting museums is # 3
 - ❖ Travel has increased 41 percent from 1988-1998
 - ❖ Vacation travel increased 35% from 1988-1998 and accounts for 60% of travel
 - ❖ The average length of a vacation is 4.6 nights

Source: Travel Industry Association of America

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 125

2081409614

Adult Lifestyle Experiences

...A chance of a lifetime adventure

Business Opportunity

- ◆ Adventure travel has now become one of the fastest-growing segments
 - ❖ Unlike other forms of recreation, adventure travel offers a unique opportunity in which participants become more experienced and pursue extended scales of "adventurous endeavors." (Ewert 1989)
 - ❖ Activity, experience, and environment have been identified as key variables to compose a definition of adventure travel and should be integrated with other components such as motivation, risk, and performance.
 - ❖ Most commonly provided outdoor adventure travel activities include: dog sledding, rafting, skiing, fishing, mountain biking, snow shoeing, horseback riding, mountain climbing, hiking, snowmobiling, etc.

Source: Definition of Adventure Travel Framework-H. H. Sung

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 126

2081409615

Adult Lifestyle Experiences

...A chance of a lifetime adventure

Business Opportunity

- ◆ Adventure travelers are everywhere
 - ❖ One-half of U.S. adults, or 98 million people, have taken an adventure trip in the past five years
 - ❖ Adventure travel spending in 1998 was approximately \$230B
 - ❖ Adventure travelers are more likely to be young, single and employed
 - ❖ Mature travelers (age 55 and older) account for 14% of all soft adventure travelers and 9% of all hard adventure travelers

Source: Travel Industry Association of America

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00 127

2081409616

New Business Opportunities

Adult Lifestyle Experiences

...A chance of a lifetime adventure



- ◆ Build an integrated adventure planning segment which provide unique experiences to an adult population. These experiences appeal to the emotional state of well being.

The Ranch Experience

*Provide the opportunity to experience the West in a way that you have never experienced it before. Party, Play, Slow Down or Relax...
Just Make it What You Want it to be*



Opportunities

- ◆ Utilize acquired ranch as a "test market" to determine appropriate costs and demand for the product
- ◆ Tap into the "ranch experience" segment through a developed site acquisition strategy and expand our current capabilities

Benefits

- ◆ Highest quality
- ◆ Unique experiences
- ◆ Wholesome environment
- ◆ High level customer service
- ◆ Personalization
- ◆ Website
 - ❖ Book your trip
 - ❖ Chat-rooms
 - ❖ Virtual experiences

The Racing Experience

*Provide the one and only experience of getting behind the wheel
of 3 different machines*



Opportunities

- ◆ Tap into existing market utilizing added capacity of current experiences and expand our current capabilities
- ◆ Utilize network relationship management core competency to develop important strategic alliances with Penske Motorsports, racing magazines, tire and oil companies, etc., to implement our expansion strategy

Benefits

- ◆ Highest quality
- ◆ Variety of experiences

Adventure Magazine

Launch an "Unlimited" like Magazine as a national paid for publication to the adventurous at heart



Opportunities

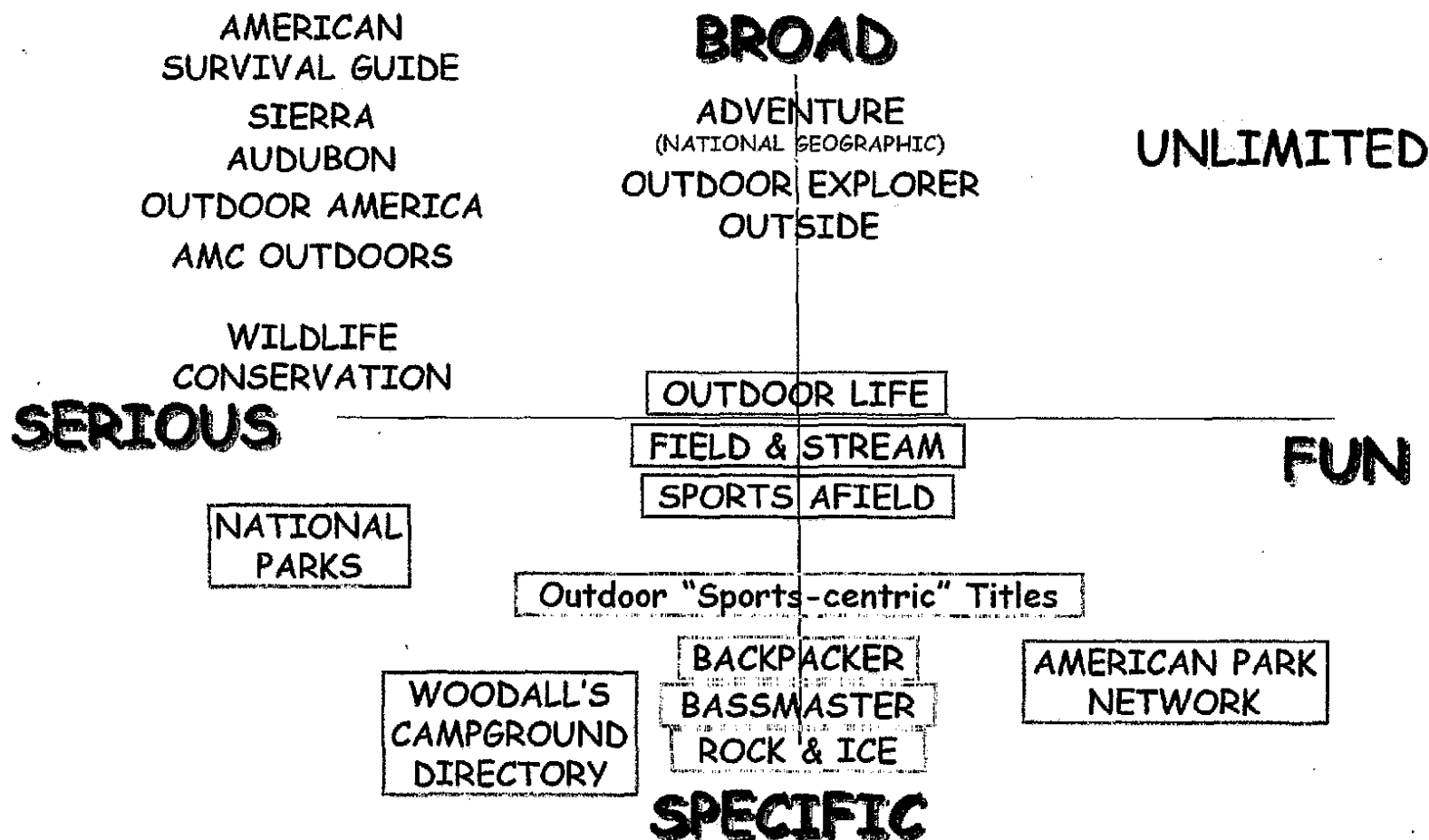
- ◆ Provide a magazine geared to adventurous men and women who seek action, adventure and good times
- ◆ Compared to other adventure-type publications, it is the only one which is broad and fun at the same time
- ◆ Costs would be offset by increased advertising from outside companies

Benefits

- ◆ Personalized information
- ◆ Internet accessibility and participation
- ◆ Personal connectivity

Adventure Magazine

Launch an "Unlimited" like Magazine as a national paid for publication to the adventurous at heart



Source: PM Marketing

Confidential - For Exploratory Purposes Only MEP/Red

6/27/00

132

2081409621

Adult Lifestyle Experiences

...A chance of a lifetime adventure

Reasons For Success



- ◆ Consistent with mega trends of Well Being and People Power
 - ❖ Increasing prosperity and awareness
 - ❖ Need for balance and personalized choices
 - ❖ Demand for new experiences
- ◆ Leverage core competencies of:
 - ❖ Consumer Experience Fulfillment
 - ❖ Executing Large Scale Programs
 - ❖ Network Relationship Management
 - ❖ Market and Societal Intelligence and
 - ❖ Building Brand Equity
- ◆ Existing experiences with the ranch, racing school, and magazine have been extremely positive

Adult Lifestyle Experiences

...A chance of a lifetime adventure

Future Ideas



- ◆ Expand the lifestyle experience into other areas
 - ❖ Hotels
 - ❖ Rodeos
 - ❖ Spas
 - ❖ International Markets

A Strategic Architecture

- ◆ The road to responsibility and respect has several milestones on the way:
 - ❖ Build credibility and trust through actions
 - ❖ Present a leadership model for corporate responsibility to society
 - ❖ Create new businesses to respond to changing societal and adult consumer needs
 - ❖ Demonstrate marketplace success

A Strategic Architecture

Current Core Competencies

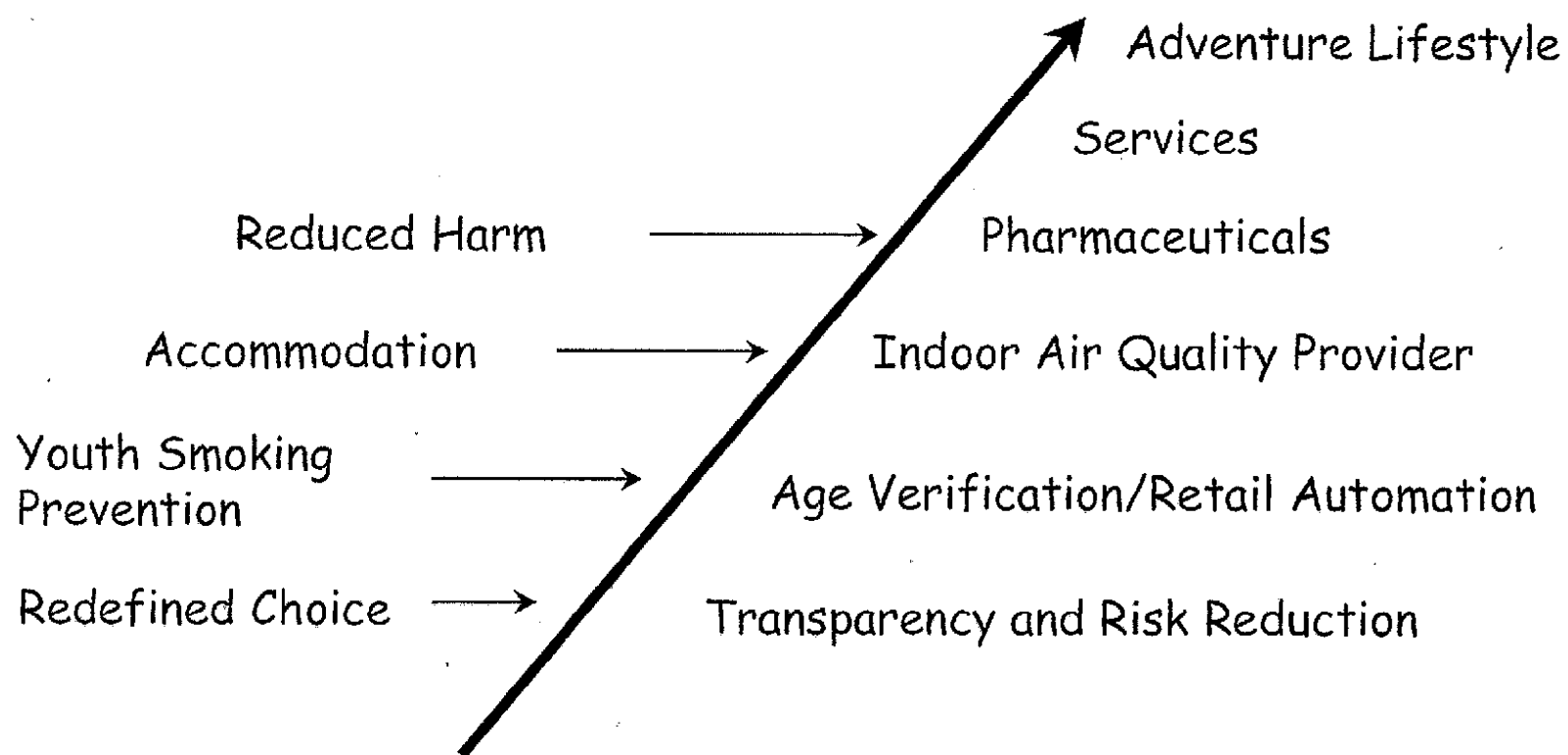
- ◆ Large Programs & Campaigns
- ◆ Building Brand Equity
- ◆ Consumer Experience Fulfillment
- ◆ Market Intelligence
- ◆ Network Relationship Mgmt
- ◆ Manufacturing Systems
- ◆ Institutional Knowledge

New or Developmental Core Competencies

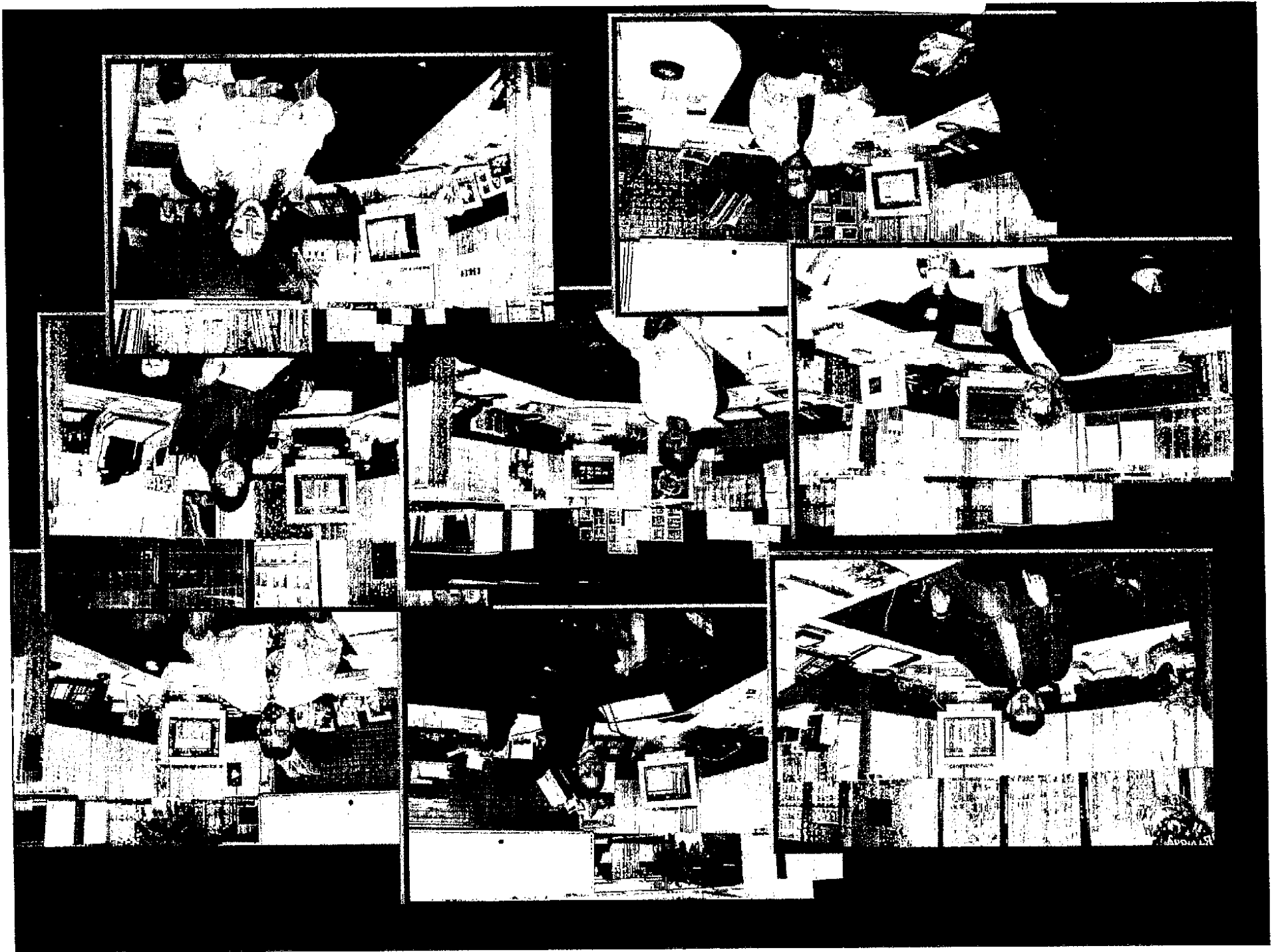
- ◆ Service Delivery
- ◆ Direct Marketing/ Personalization
- ◆ Consumer Lending
- ◆ Indoor Air Quality
- ◆ Franchise Management
- ◆ Medical Research
- ◆ Pharmaceutical Development

Our Core Business Tomorrow...

Leading Lifestyle Company



2081409627



2081409628



