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2012
INVESTOR DAY

Investor Day – Operations Lausanne, June 22, 2012

Martin King

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The World of Operations

- Operations overview
- Leaf, direct materials and productivity
- Supply chain optimization
- Innovation focus and quality leadership
- Environment, Health & Safety programs
- Employee development
- Key takeaways



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Operations Overview

PMI Operates Cigarette and Non-Cigarette Manufacturing Facilities Worldwide



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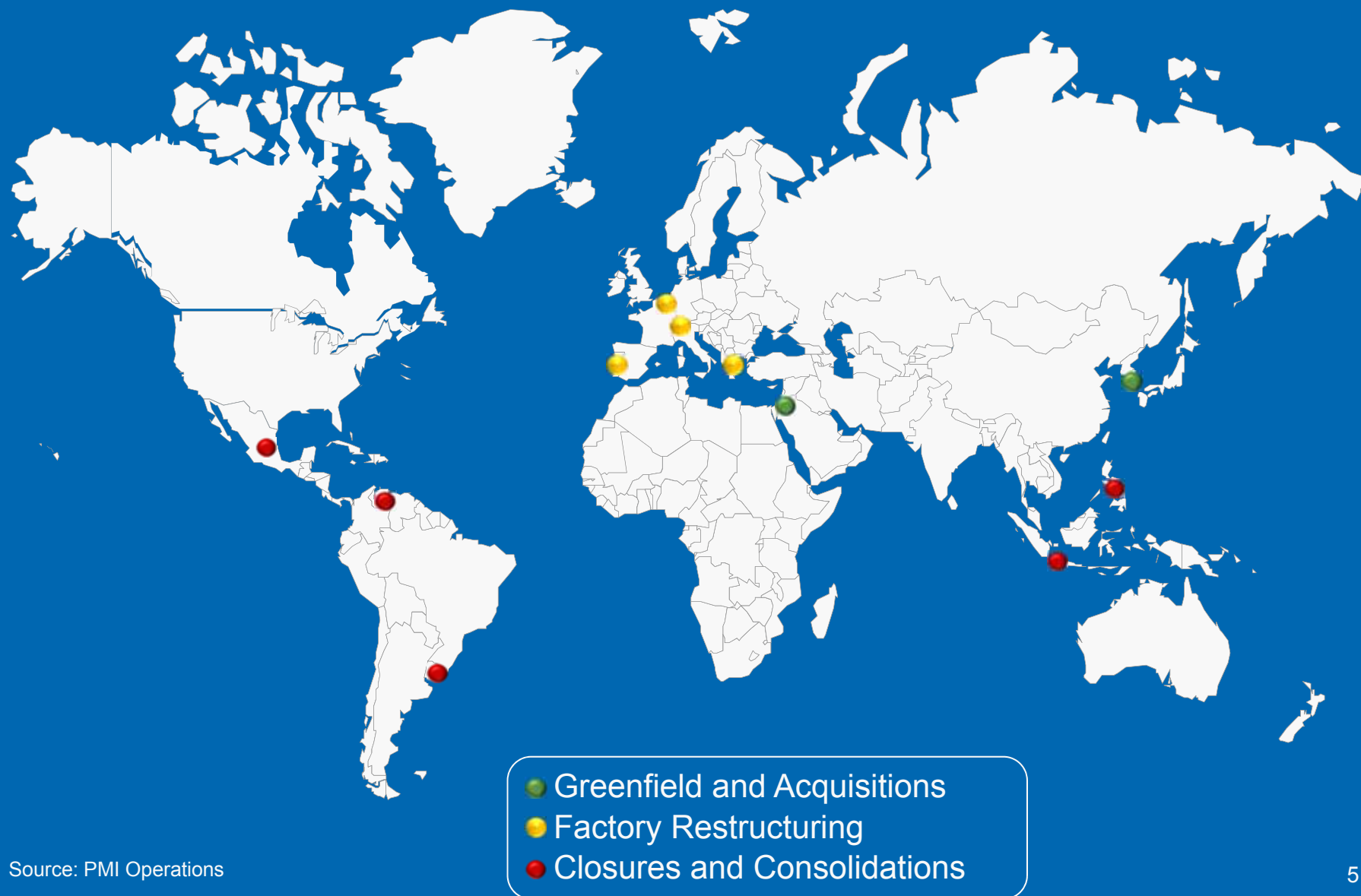
Source: PMI Financials

- 56 manufacturing facilities
- Cooperation with 21 Third-Party Manufacturers (TPMs) and 38 Third-Party Operators (TPOs)



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Manufacturing Facilities Footprint Optimization

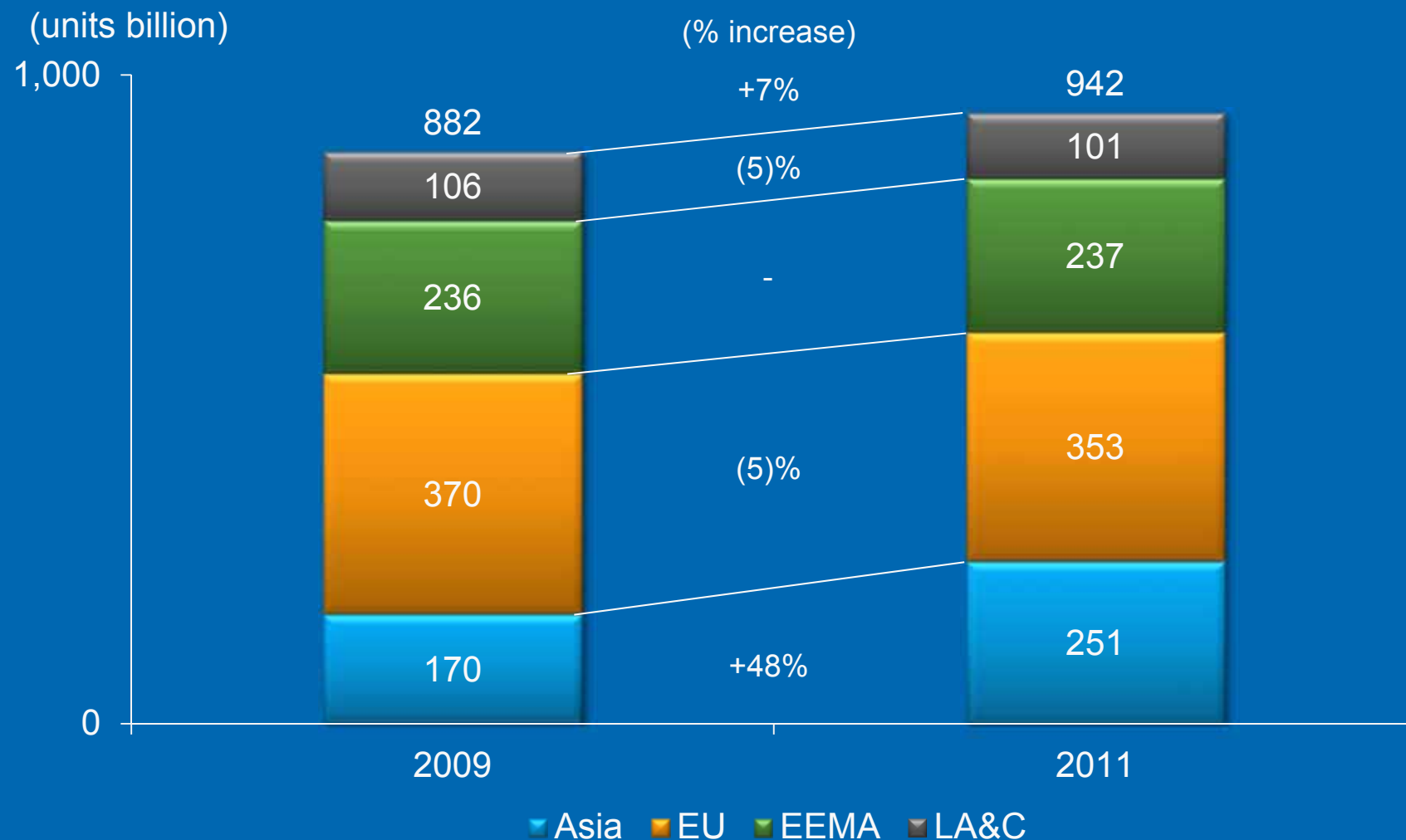


Source: PMI Operations

Total Tobacco Sales Volume by Production Source



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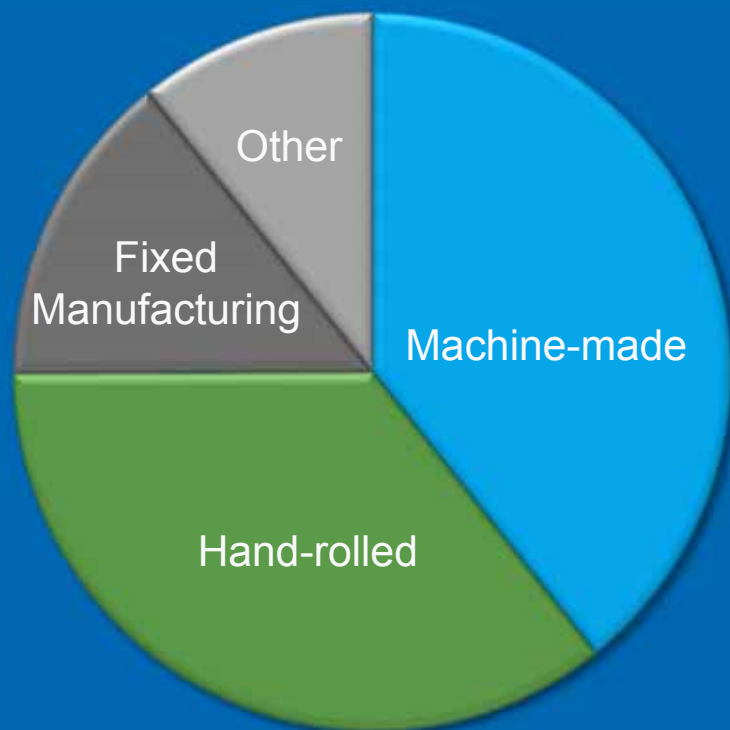
Note: Volume includes TPMs
Source: PMI Operations Finance



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Over 50,000 People Work in Operations

2011 Headcount (%)



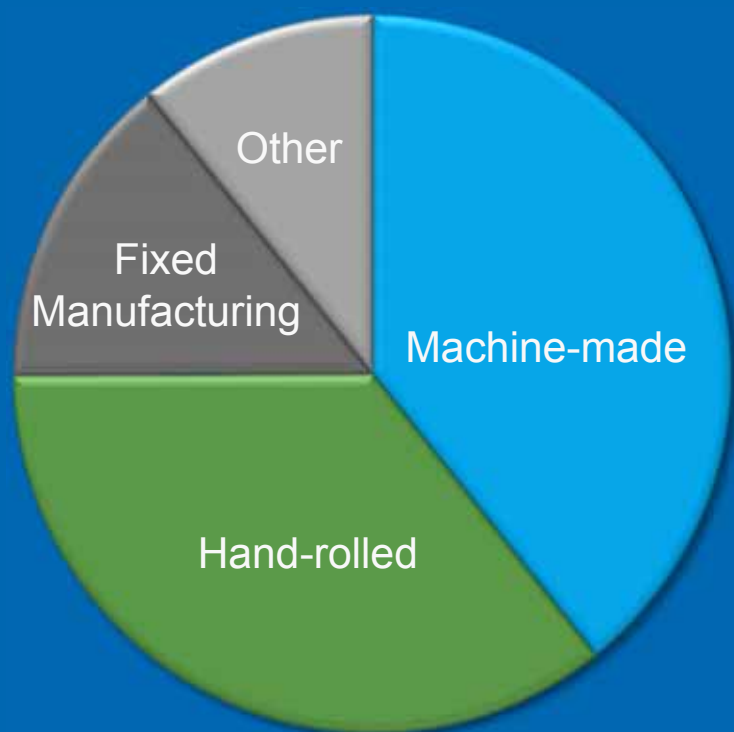
Source: PMI Operations Finance



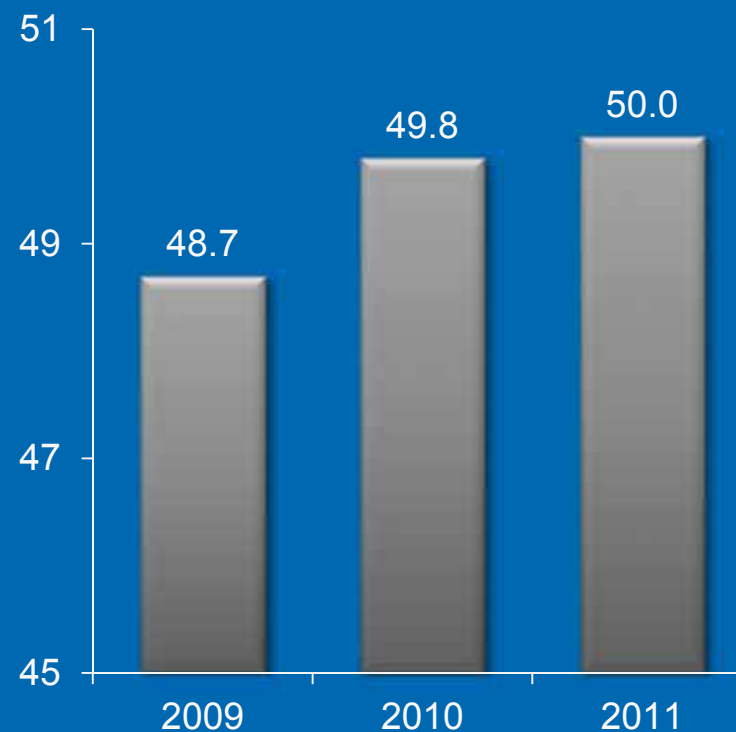
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Over 50,000 People Work in Operations

2011 Headcount
(%)



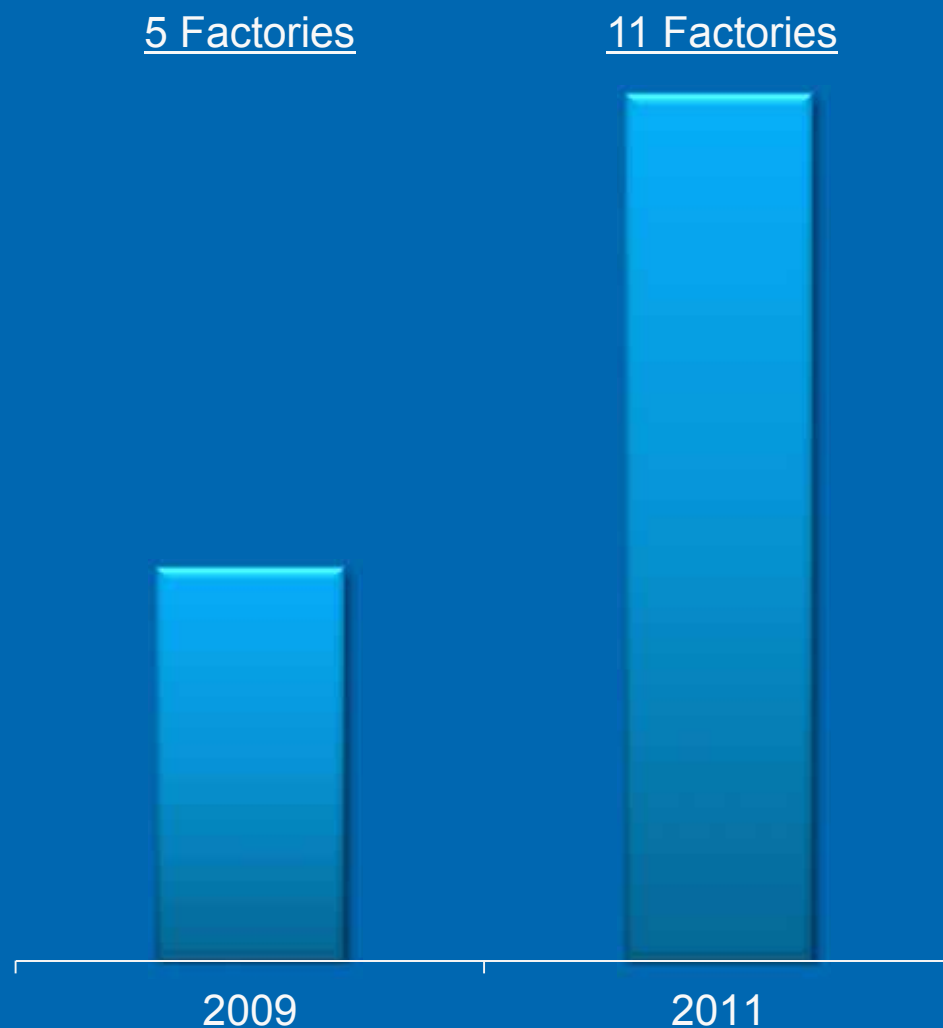
**Cigarettes (units million equivalent)
per Variable Headcount**
EU Region





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Japan Sales Volume by Production Center

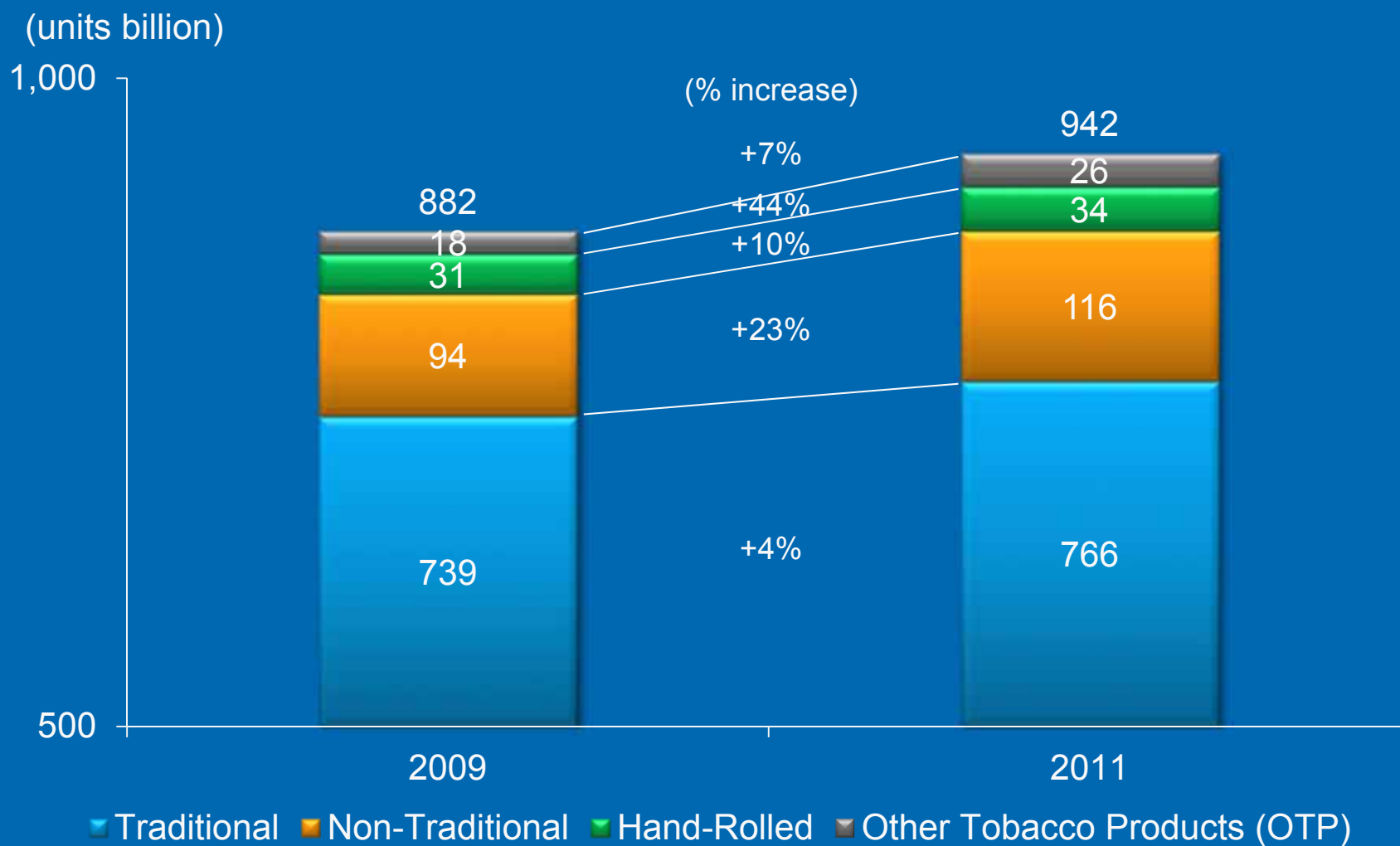


- 222 cargo charter flights and 848 commercial cargo flights
- The use of three airports
- The lease of six temporary bonded warehouses
- Trade service level of 99%



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Total Tobacco Sales Volume by Production Type



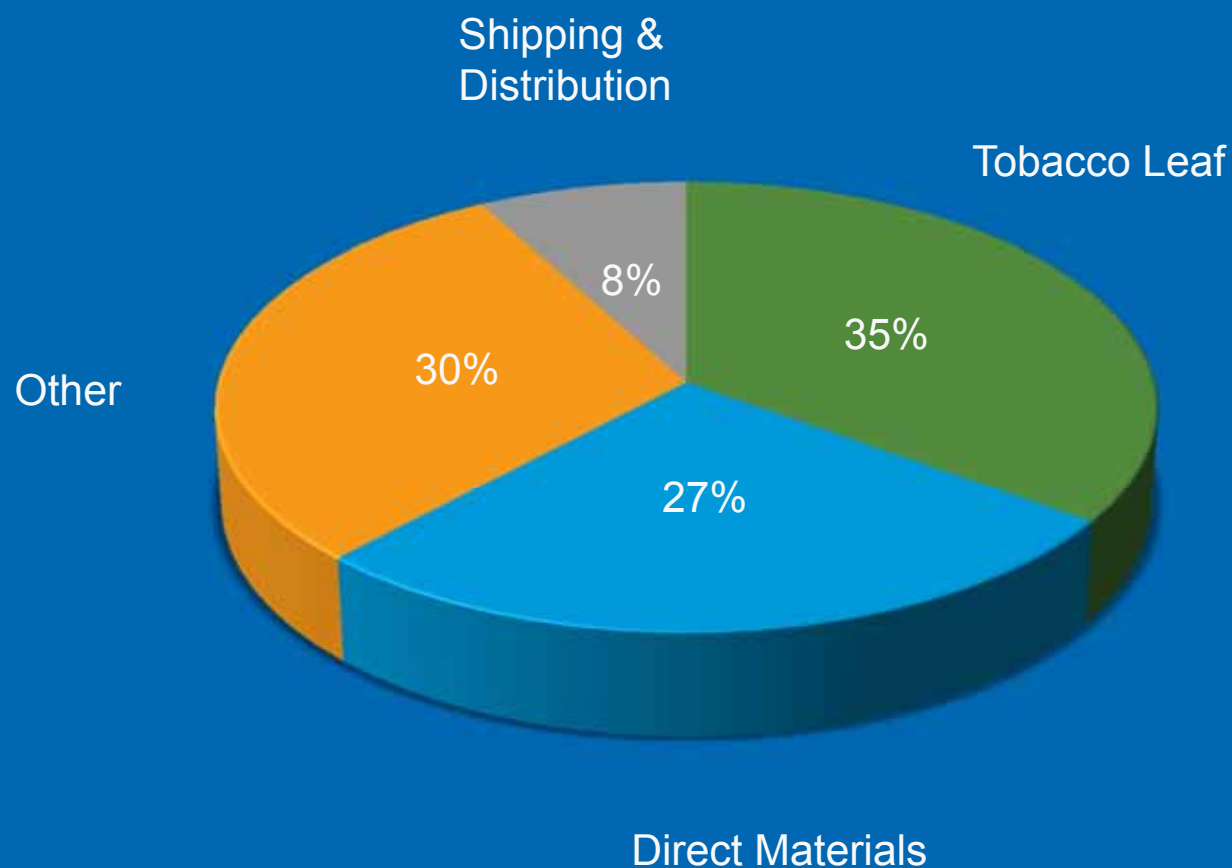
Note: Volume includes TPMs. Traditional format: Pack type: Box, Round-Corner Box and Soft / Diameter: regular / Length: Regular size, Long Size, King Size and 100mm

Source: PMI Operations Finance



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Total 2011 Cost of Sales of \$10.7 billion



Note: Other cost of sales mainly includes employee-related costs, TPM costs and depreciation
Source: PMI Operations Finance



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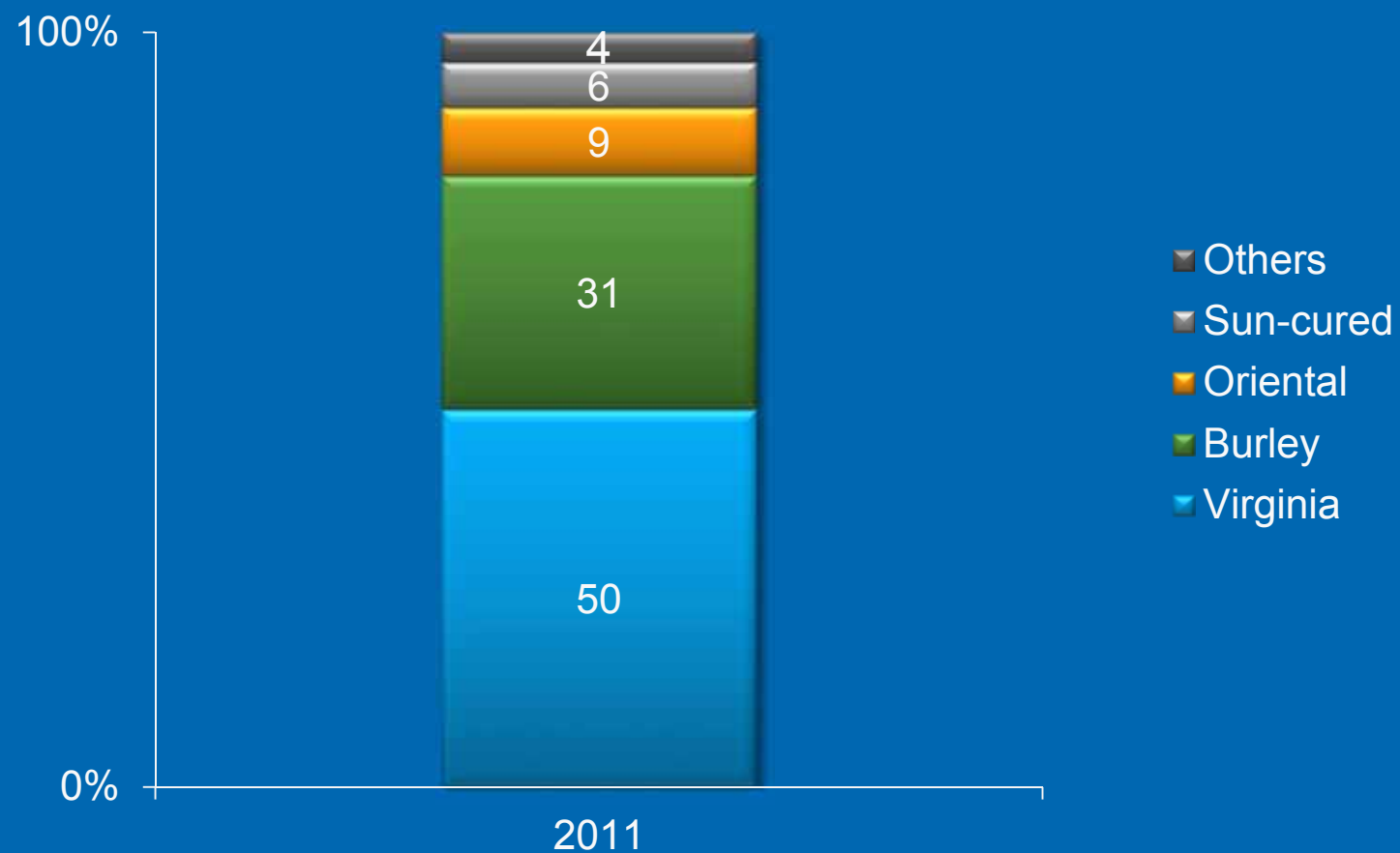
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Leaf, Direct Materials and Productivity



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PMI Leaf Purchases by Type

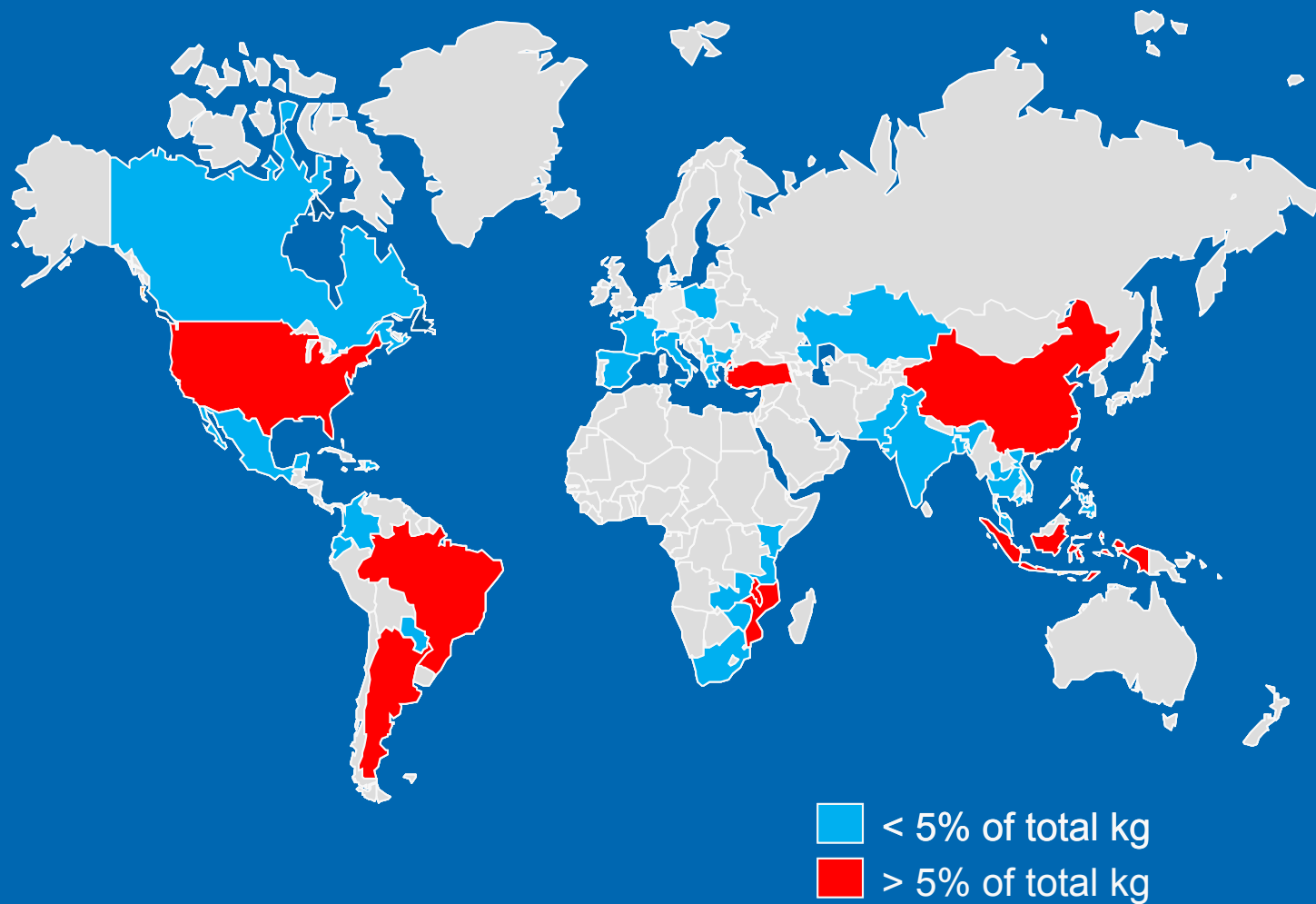


Source: PMI Leaf



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Geographic Leaf Sourcing

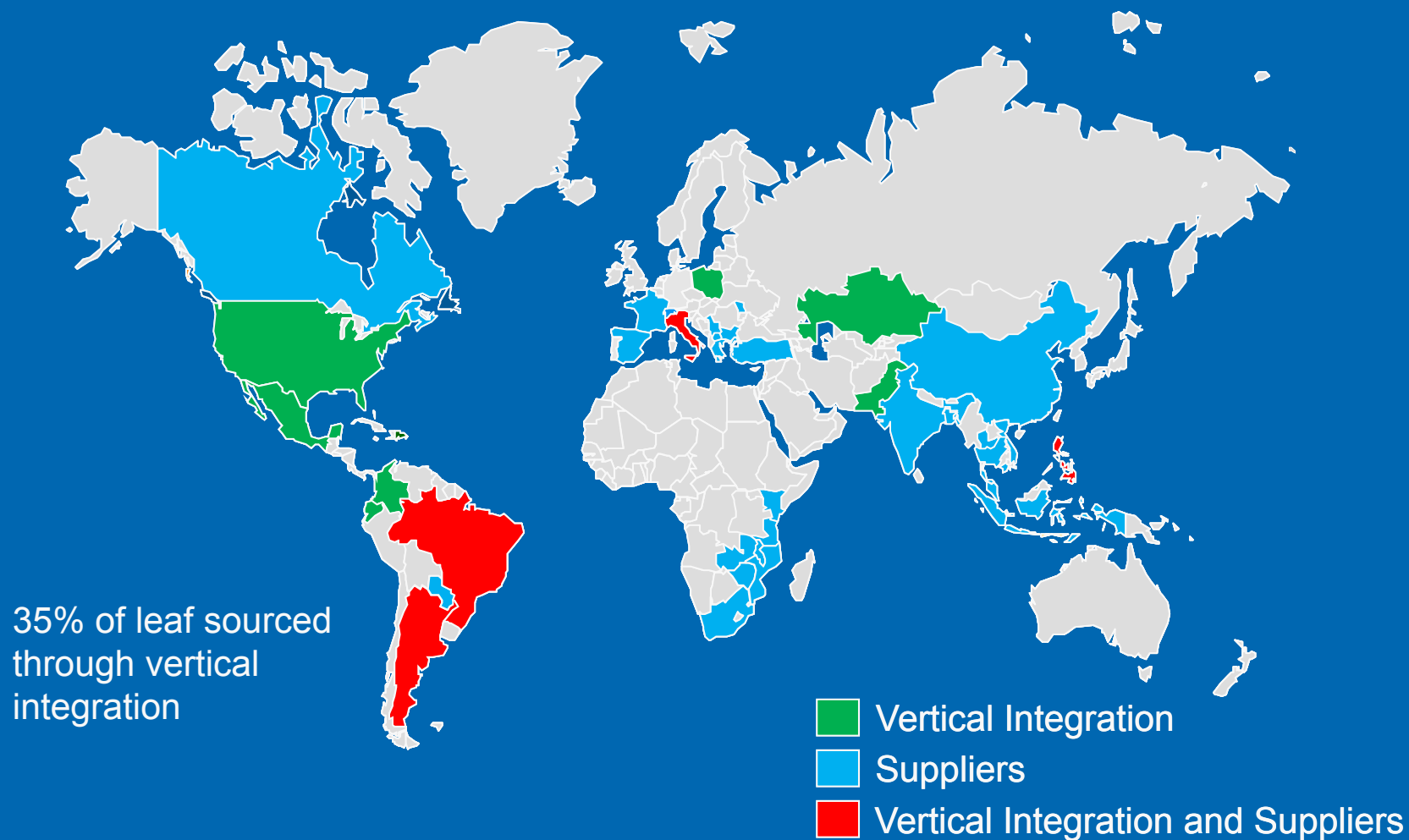


Source: PMI Operations Finance



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Leaf Sourcing Model





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Leaf Vertical Integration in Brazil

- In Q2 2010, PMI signed separate agreements with Alliance One and Universal Leaf to vertically integrate leaf sourcing in Brazil
- New operation provides approximately 50% of our purchases in Brazil and 10% of PMI's global leaf requirements
- Total PMI green leaf vertical integration increased to 35% in 2011
- Successful first year of operation and second year crop being delivered

Leaf Vertical Integration in Brazil

Key Objectives



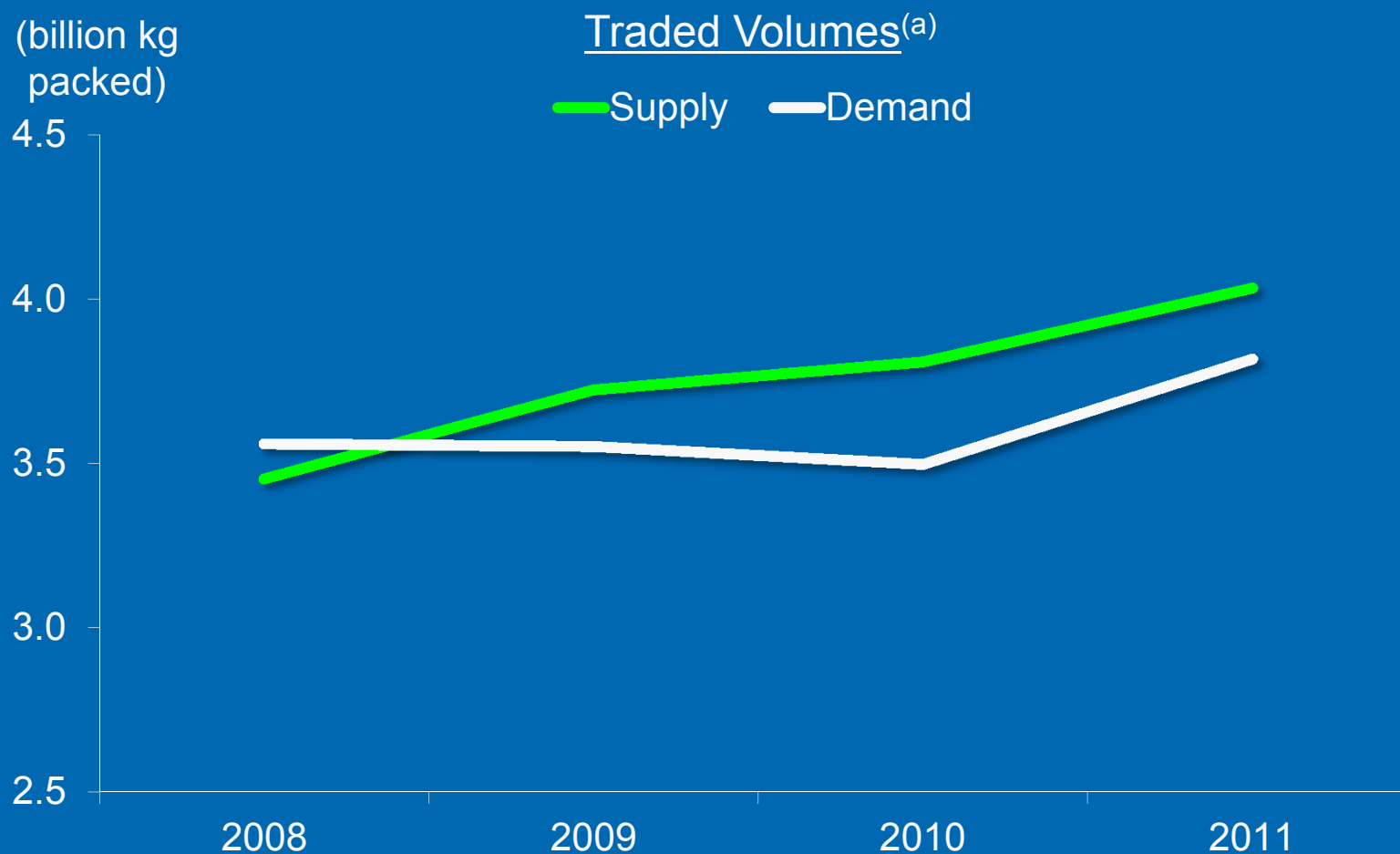
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- Better alignment of the crop to our demand
- Better control on product quality and integrity
- Cost efficiency, predictability and transparency
- Greater positive impact on the sustainability of tobacco-growing communities



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Leaf Supply and Demand



(a) Supply = Production + Supplier inventories; Demand = Consumption – Manufacturers inventory reduction

Note: Including China

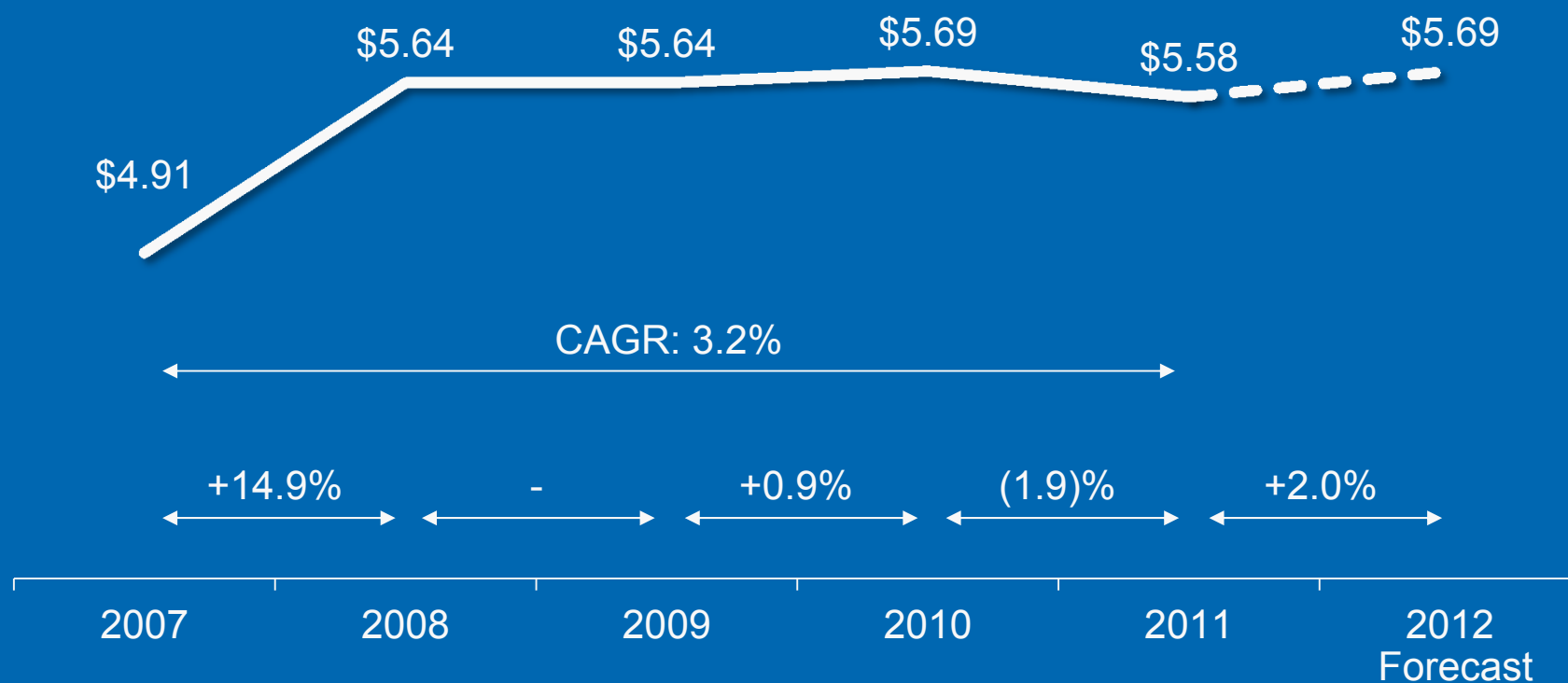
Source: PMI Leaf, based on latest available data from a number of internal and external sources



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Leaf Purchase Price Evolution

Average \$ per packed kg

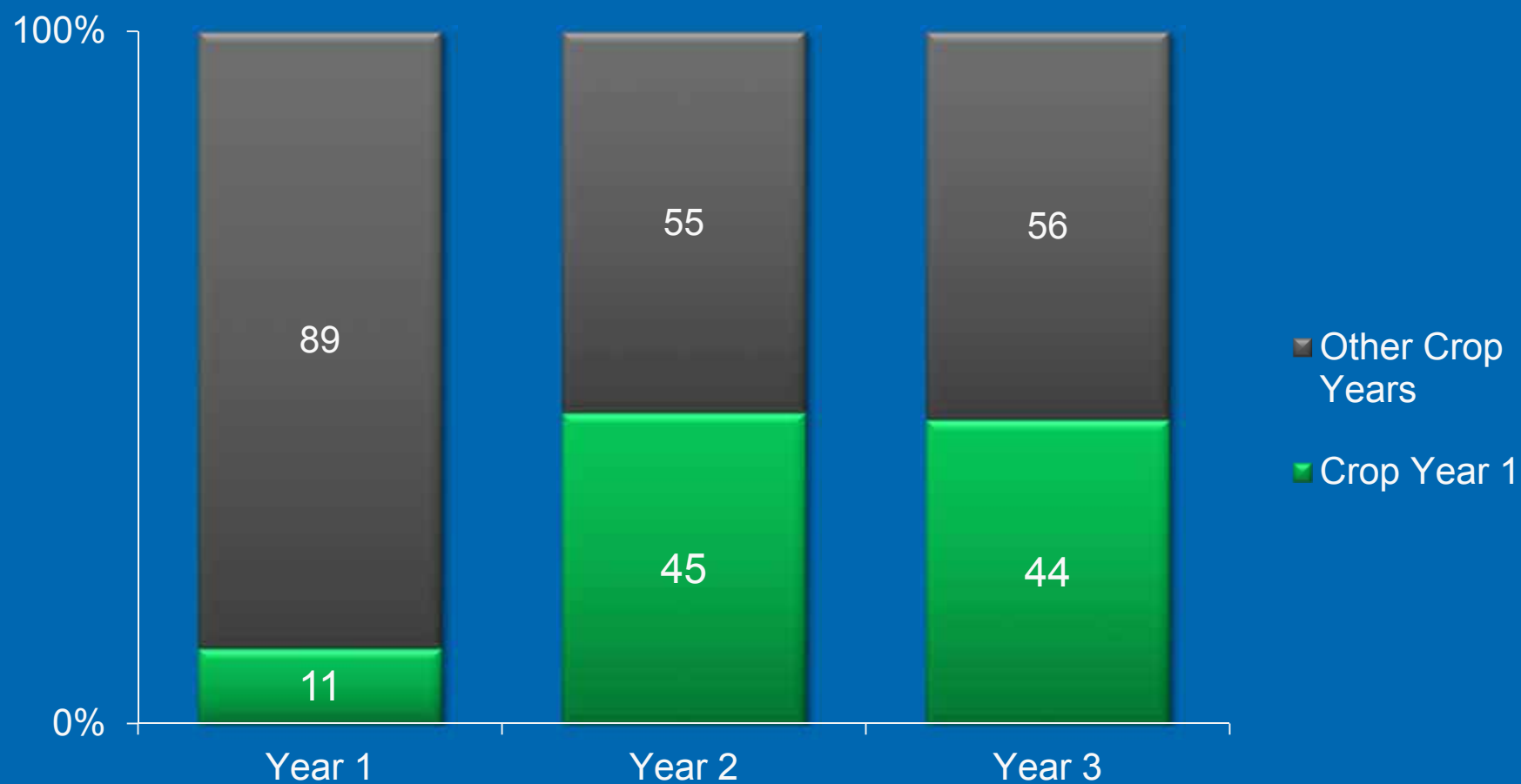


Source: PMI Operations Finance



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Leaf Crop Usage Illustration



Source: PMI Leaf



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Leaf Strategy

- Secure availability of volumes, quality and predictability of prices
- Promote the growth of high quality tobacco under conditions that help protect the environment and promote sustainable crops
- Implement comprehensive Agricultural Labor Practices (ALP) Code



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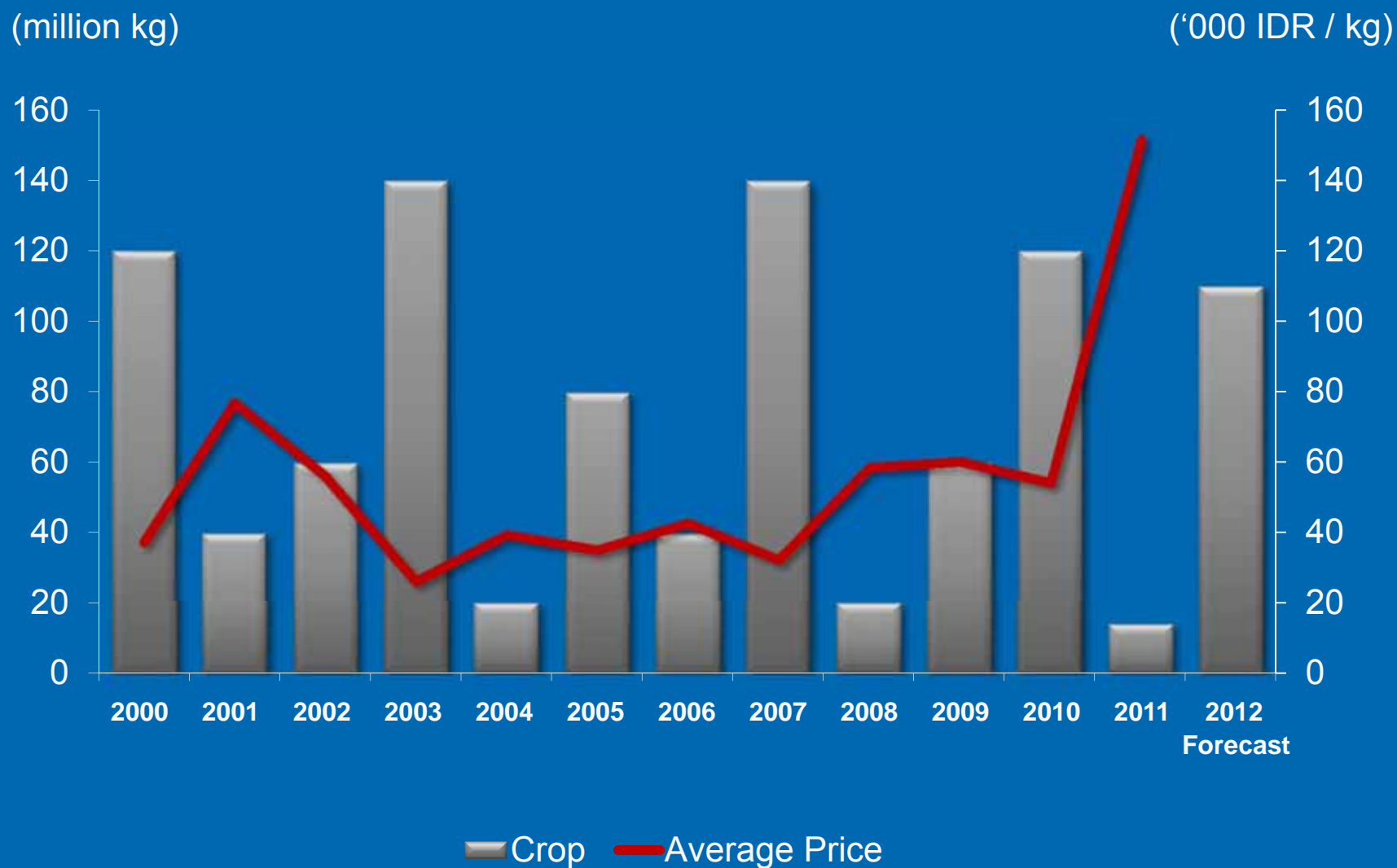
Agricultural Labor Practices

- Progressively eliminate child labor and other labor abuses
- Implementing ALP Code where we source tobacco
- Trained 2,600+ field technicians to reach 500,000+ farmers
- Positive feedback from stakeholders
- Progress report on our website later this summer



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Clove Crop and Price



Source: HM Sampoerna Tbk



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Clove Strategy

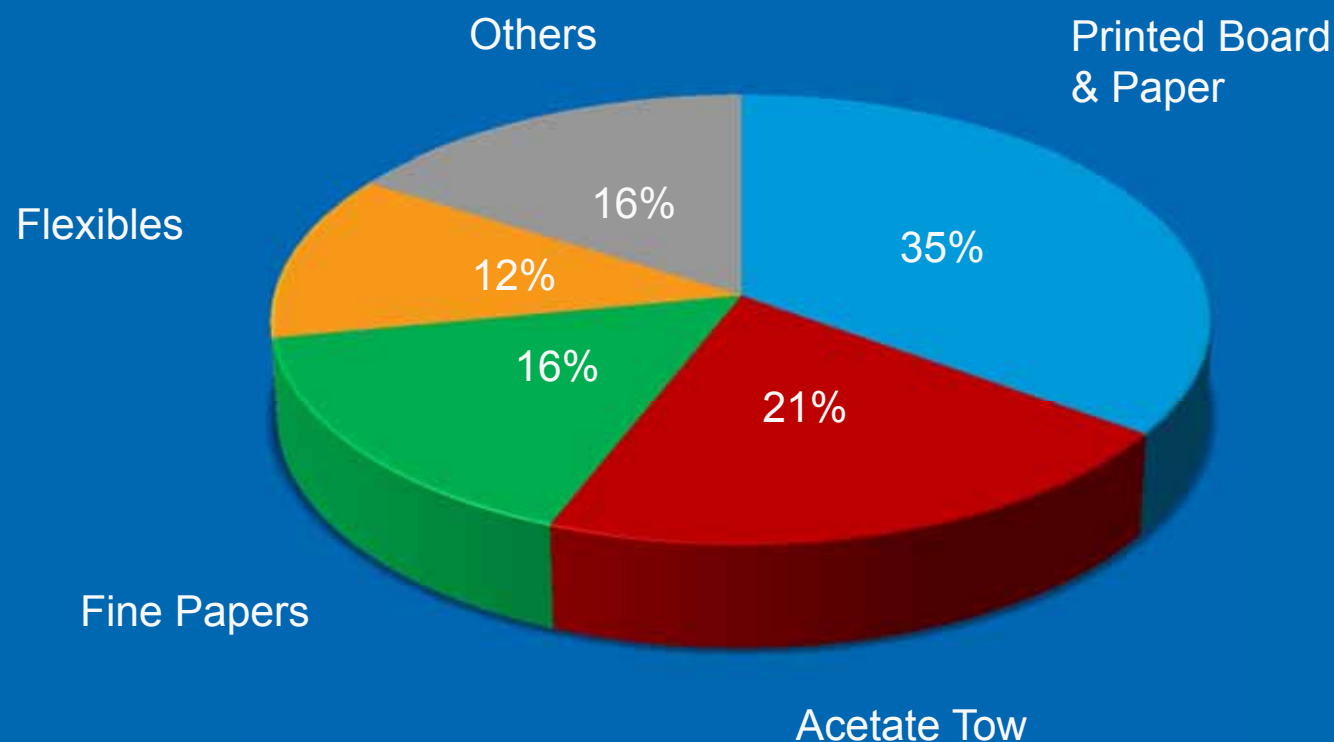
- Secure availability of volumes during large crop years
- Focus on yield improvement through technical assistance at farmer level
- Continue clove tree distribution (3.6 million since 2006)



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Key Direct Materials Categories

- Three main categories represent 72%
- 2011 spend: approximately \$2.8 billion



Note: Flexibles mainly represent wrapping films, inner liner and tear tape. Others primarily reflect shipping cases, filtration materials and ingredients
Source: PMI Procurement



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Challenges in Direct Materials Procurement

- Increasing complexity
- Growing requirements for innovation
- Supply base footprint development in Asia
- Price volatility in some categories and supply/demand balance



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Direct Materials Strategy

- Supply security and speed-to-market
- Cost competitiveness and predictability
- Supplier relationship management
- Access to innovation

Reduced Cigarette Ignition Propensity

A Success Story



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- Over 200 billion cigarettes with 1,200+ specifications converted in the EU in 2011
- On-going projects to improve adult smoker satisfaction while complying with regulatory standards
- Supply secured through long-term commitments
- Well-managed transition with no out-of-stock



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Indirect Materials and Services

- 2011 spend of approximately \$5.6 billion
- 65% of spend is non-Operations
- Significant and growing contributor to productivity program
- Strengthen organizational capabilities to create more efficient processes that deliver ongoing productivity

Note: Indirect materials and services mainly includes marketing and sales, facility services and supplies, logistics, professional services, fleet & travel and IS

Source: PMI Procurement

2012 Gross Productivity and Cost Savings Target: \$300 million (Pre-Tax)



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Total



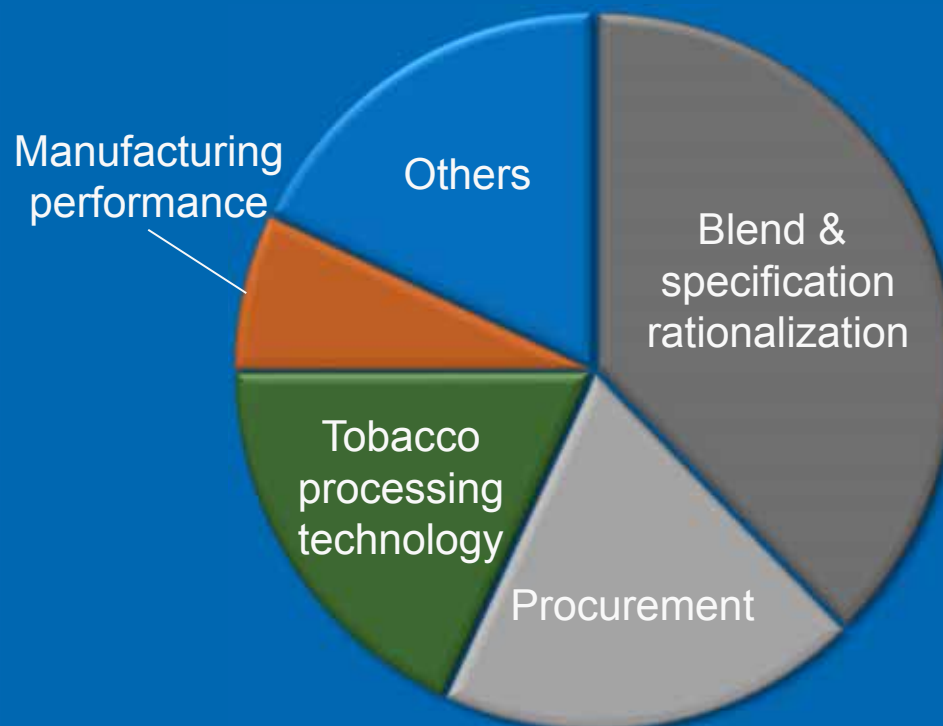
Source: PMI Operations Finance

2012 Gross Productivity and Cost Savings Target: \$300 million (Pre-Tax)

Total



Operations Contribution





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Supply Chain Optimization



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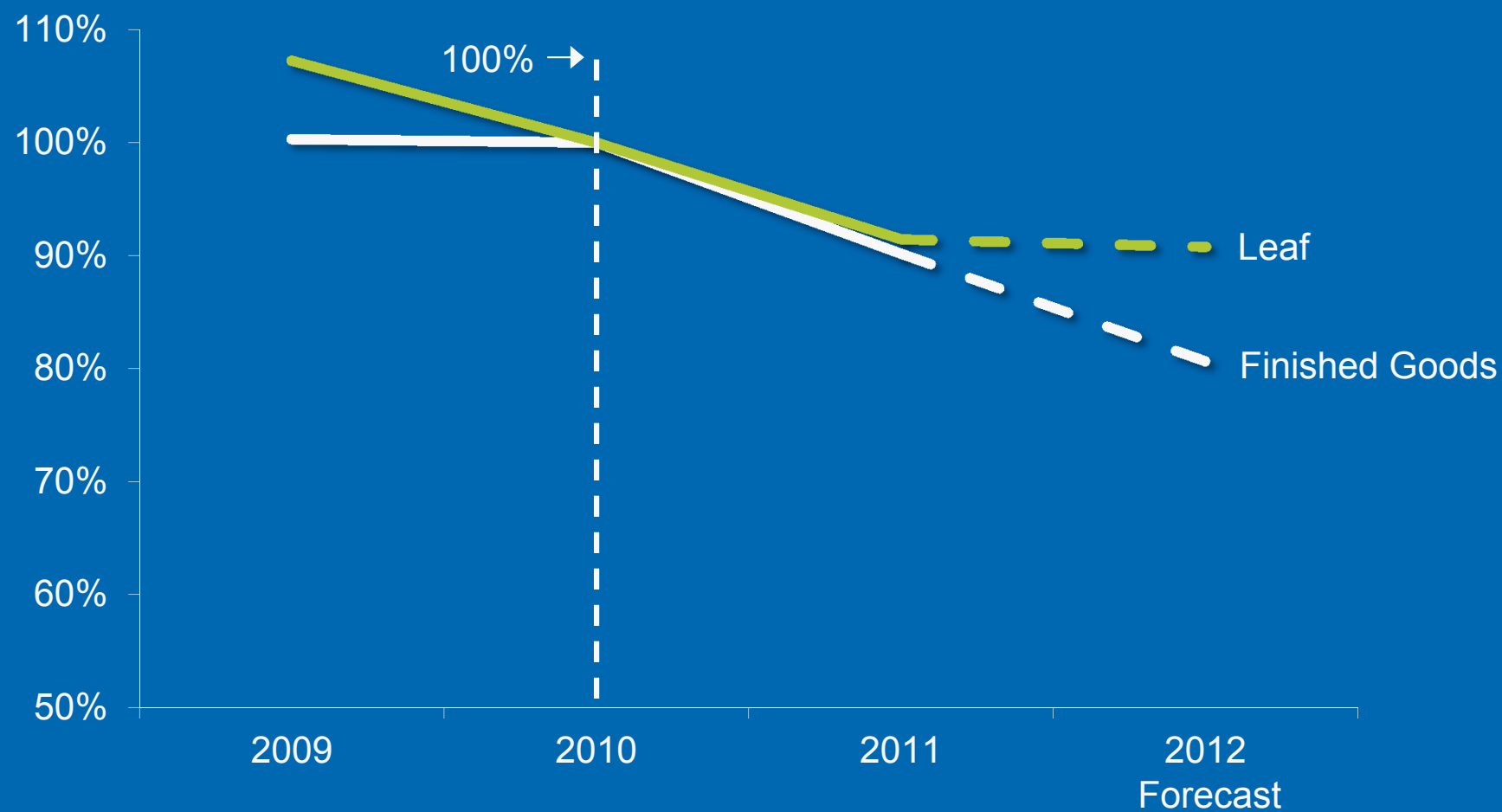
Leverage an Integrated and Agile Supply Chain

- Optimize inventory-related working capital
- Integrate supply chain from markets to suppliers
- Manage supply chain and sourcing risks



Inventory Duration Development

Year-End Inventory Duration

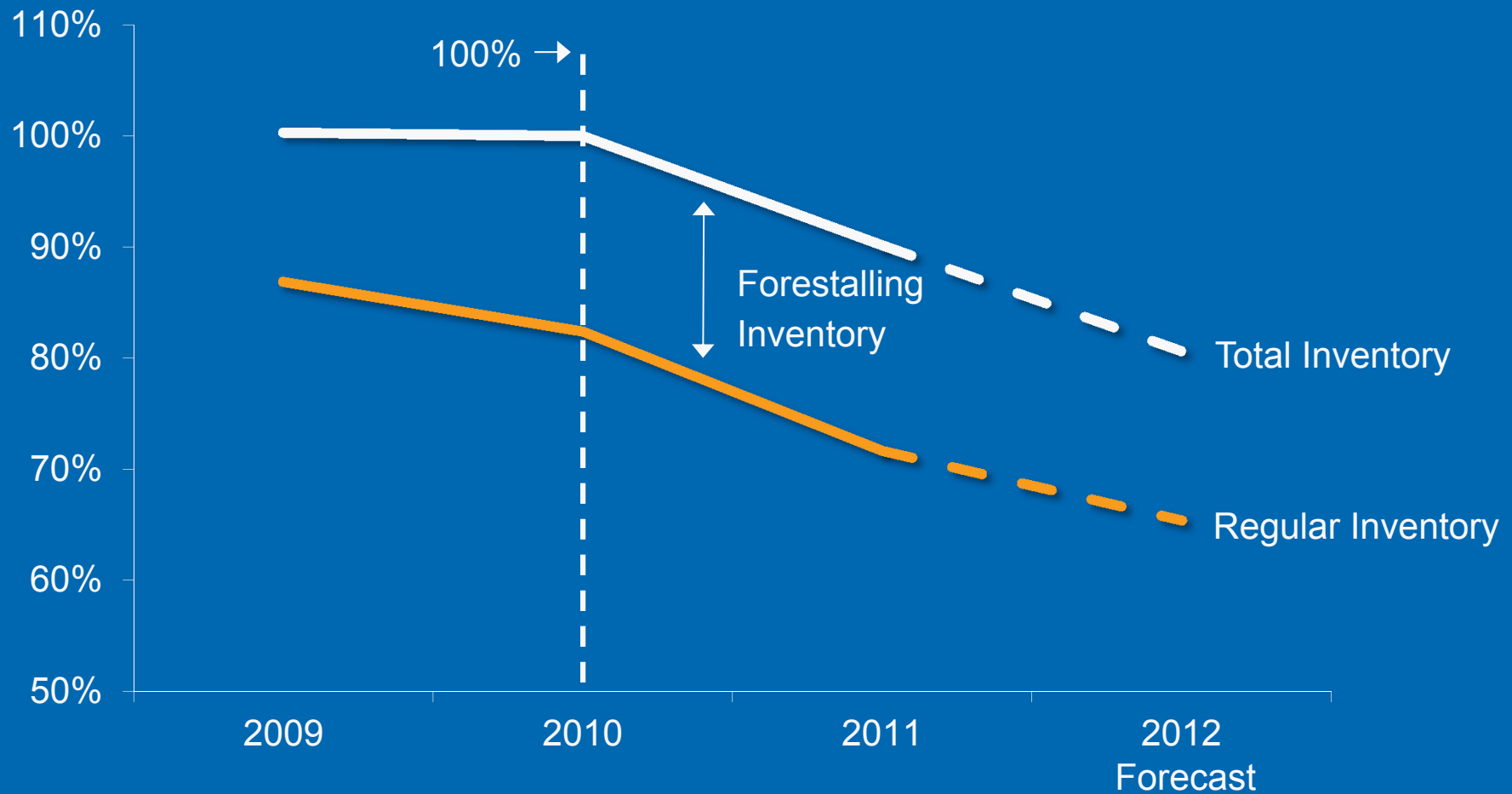


Finished Goods Inventory Duration Development



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Year-End Inventory Duration



Source: PMI Operations Finance

SCIPIO: Key to Reducing Finished Goods Inventories



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- Provides visibility on finished goods inventories and links demand and supply planning
- Rolled out in 26 factories and 107 markets, covering 74% of global tobacco volume
- Expects to cover 85% of global tobacco volume by 2013
- Complemented by inventory diagnostics, demand planning and forecasting and strengthened Sales & Operations Planning processes

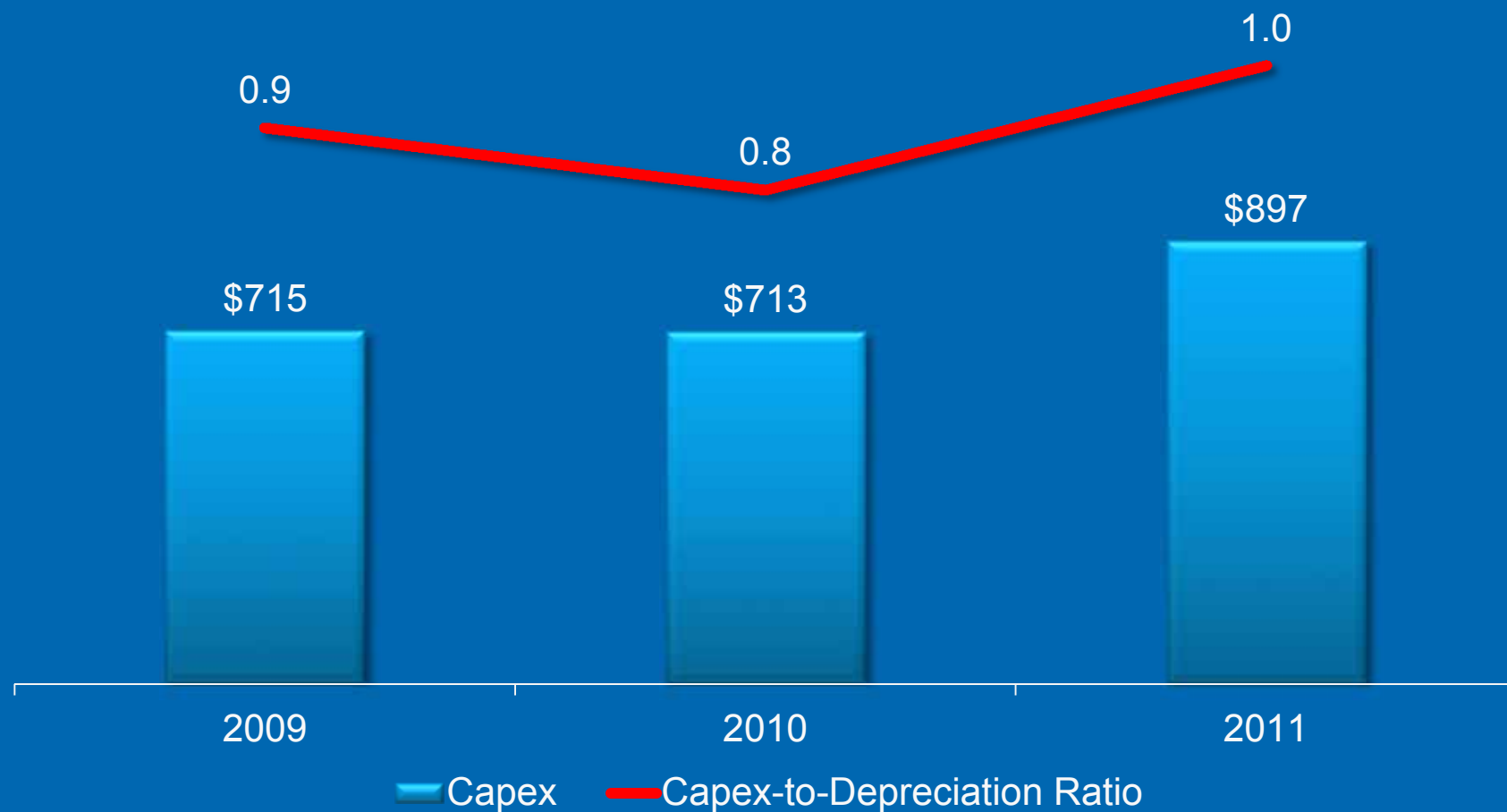
Note: SCIPIO stands for Supply Chain Initiatives on Process and Inventory Optimization
Source: PMI Supply Chain



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Capital Investments

(\$ million)



Source: PMI Operations Finance



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High-Speed Investment Program

- Investment over the next three years in new generation equipment capable of producing 20,000 cigarettes per minute
- Cascade equipment and make optimal use of existing assets
- Proactively create a pool of equipment to aid innovation, quality, speed-to-market and productivity



Source: PMI Engineering



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Innovation Focus and Quality Leadership



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Focused Innovation

- Innovation pipeline anchored to adult smoker preferences
- Six-month cycle of concept evaluation
- Best concepts selected for development
- Ensures a continuously filled and refined pipeline



Source: PMI Product Development



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Specification Rationalization Program

- Supports focused commercial approach to sales
- Global program for specifications and SKU rationalization supported by three pillars:
 - Focus – “Develop once, deploy widely”
 - Master – Smart solutions to balance complexity/flexibility ratio of new features
 - Minimize – Eliminate unnecessary complexity where it adds no adult smoker benefit
- Target 20% reduction in unique specifications by 2014



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Supporting *Marlboro* New Architecture

Flavor Line

153 launches and revamps

Tactile surface treatment

Sliding lid pack



Gold Line

265 launches and revamps

Tactile surface treatment

Expanded to slims and super slims



Fresh Line

79 launches and revamps

Tailored menthol blends

New filter technology

Expanded range of menthol offers





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PMI Continues to Deliver Innovation



Expanded portfolio of capsule products
41 new launches in 2011

- Fresh-to-Fresh
- Hybrid
- Capsule + Carbon Filter
- 14 different tar alternatives from 1mg in *Marlboro* and *Lark* to 14mg in *Sampoerna*



New concept for personalization

- Twistable filter
- Adjust taste intensity



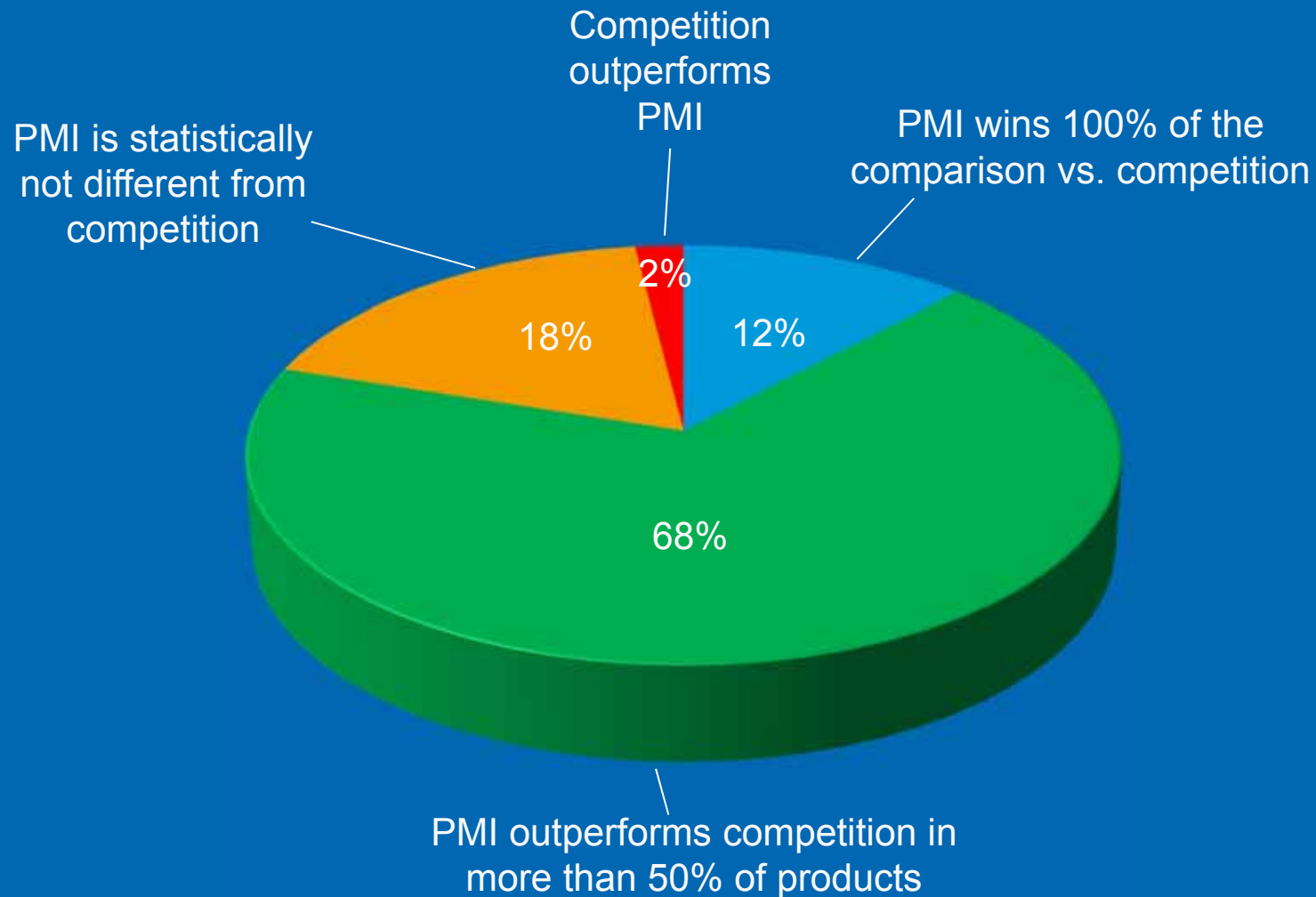
New technology

- Fresnel lens
- First time applied to tobacco packaging
- High quality, high impact design

PMI outperforms competition quality in key markets in 2011



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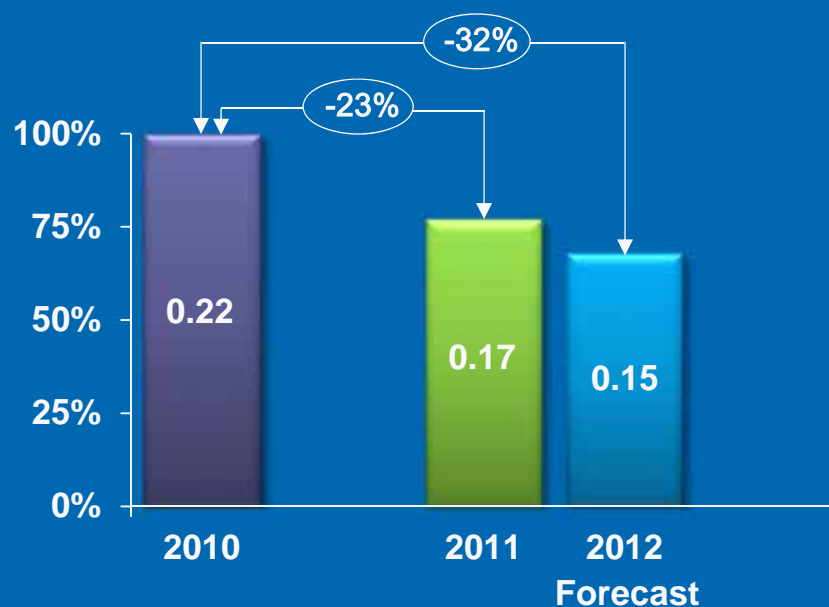
Environment, Health and Safety (EHS) Programs



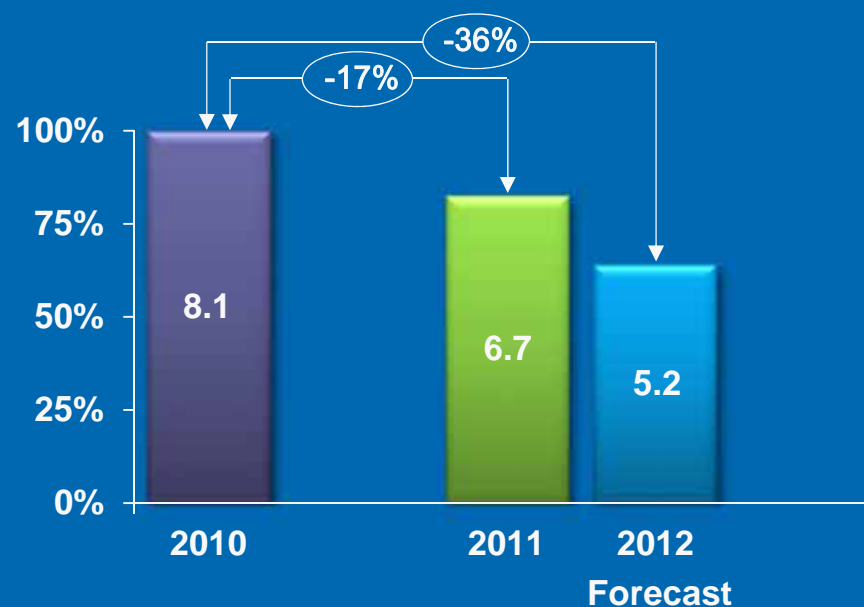
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EHS Performance – Safety

Manufacturing Lost Time Injury Rate^(a)



Fleet Crash Rate^(b)



(a) Number of injuries in every 200,000 working hours

(b) Crashes per million kilometers driven

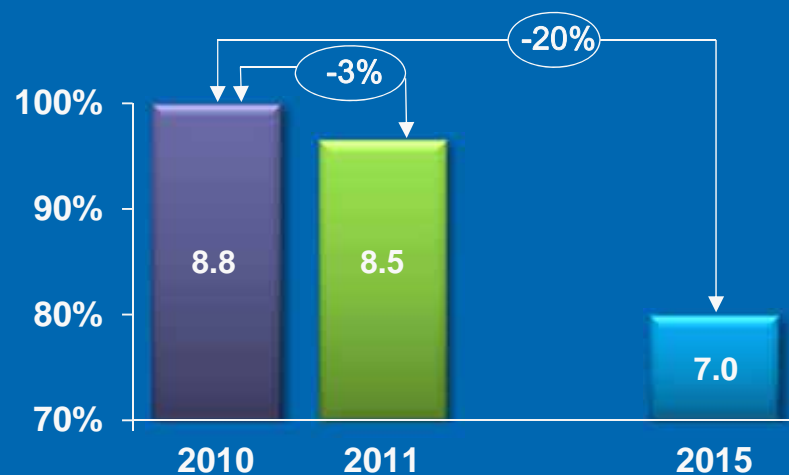
Source: PMI Environment, Health and Safety



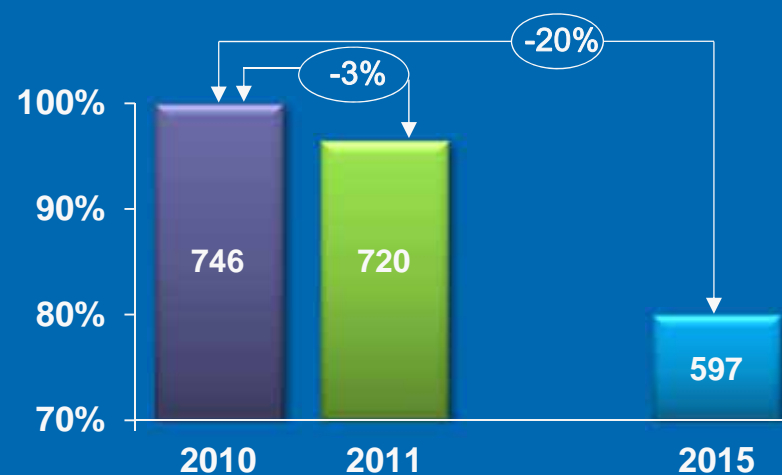
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EHS Manufacturing Performance – Environment

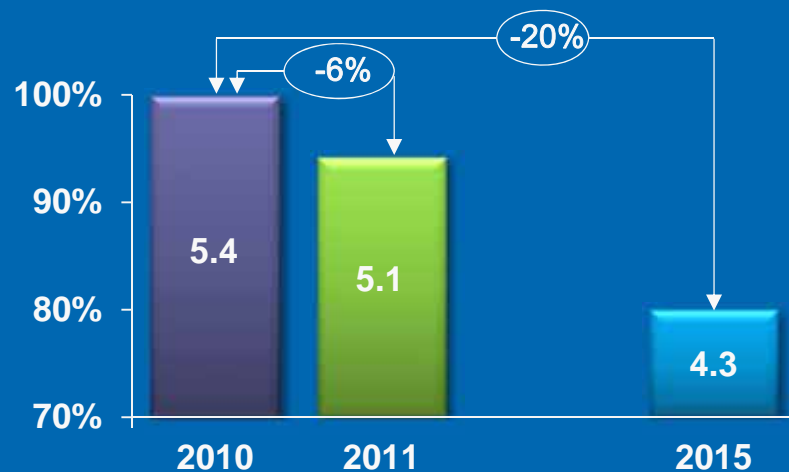
Energy per million cigarettes



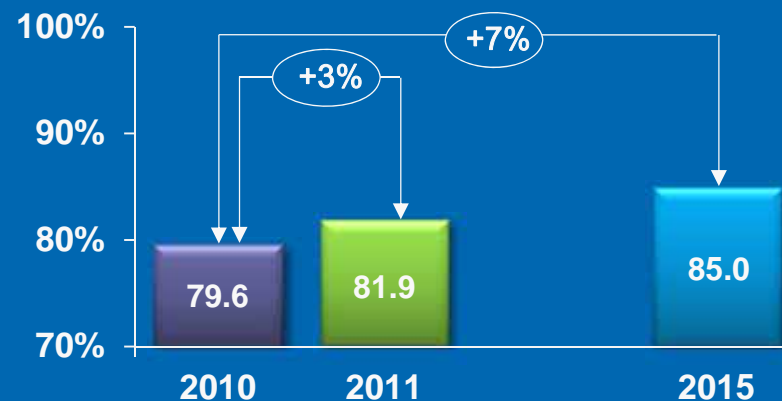
CO₂ per million cigarettes



Water per million cigarettes



Recycling Rate



Source: PMI Environment, Health and Safety



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Employee Development

Operations Performance and Engagement: OPEN



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OPEN is the way we conduct business in Operations:

- Empowering and developing the people and the organization
- Standardizing processes using “Lean” techniques
- Generating a continuous improvement culture



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Key Takeaways



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Key Takeaways

- We will work to maintain cost leadership in our industry
- We will reduce our inventories and increase the integration of our supply chain
- We will continue to innovate our products and deliver the best quality
- We will continuously develop and engage our employees to address our challenges



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Questions & Answers



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Reconciliations of non-GAAP measures included in this presentation to the most comparable GAAP measures are provided on our website at: www.pmi.com/2012InvestorDay/RecSlides