

**Remarks by Antonio Marques  
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**Investor Day  
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**(SLIDE 1.)**

Thank you, Nick. Good afternoon, Ladies and Gentlemen, all those present here and those joining us via the webcast.

**(SLIDE 2.)**

I will begin today's presentation with an Operations overview. Next, I will describe our contribution to PMI's leadership in innovation and explain our performance and sustainability initiatives. I will close my presentation with how we contribute to the increasing profitability of PMI through effective cost management and our focus on engaging our organization.

I will be happy to answer your questions after concluding my remarks.

**(SLIDE 3.)**

In Operations we are committed to the manufacturing of superior quality products in a safe, cost effective and sustainable manner.

We expect to contain our annual Cost of Goods Sold increases in the range of 1% to 3%, excluding currency, volume/mix and costs related to Reduced-Risk Products. We will do this through efficient supply chain management, productivity improvements and the optimization of our manufacturing footprint. We continue to proactively develop technology-driven solutions and use innovation to enhance our portfolio to grow margins and market share.

**(SLIDE 4.)**

Operations employs over 55,000 people worldwide, with some 17,000 working in our machine-made cigarette operations and nearly 27,000 working directly in our hand-rolled operations in Indonesia. Combined, they represent about 80% of our labor force. The remaining 20% are employed in fixed manufacturing and other areas, such as Leaf Processing, Product Development and our Operations Center in Switzerland.

In 2013, we supplied the markets with the equivalent of 913 billion cigarettes representing a complex portfolio of over 4,000 Products on Market. Our Cost of Goods Sold was \$10.4 billion and represented 61% of PMI's total cost base.

**(SLIDE 5.)**

Our products are currently manufactured in 53 facilities around the world, of which 41 are machine-made cigarette manufacturing facilities. The 12 remaining produce hand-rolled cigarettes, other tobacco products, also known as "OTP", or process semi-finished products for our cigarette manufacturing facilities.

In addition, we have agreements with 23 third-party manufacturers and 38 third-party cigarette hand-rolling operators in Indonesia.

This year, we announced that we would build a new Reduced-Risk Products manufacturing facility near Bologna, Italy, that will provide an annual capacity of up to 30 billion units. We expect the factory to be fully operational by the end of 2016.

**(SLIDE 6.)**

I will now describe our contribution to PMI's leadership in innovation.

**(SLIDE 7.)**

Over the past two years, we have experienced a shift between traditional cigarette formats, like standard king size in soft, flip-top and round-corner packs, to innovative formats. During this period, we have seen a 52% increase in formats like slims, super slims and a variety of novel pack formats, such as the D-Shape and re-sealable pack and our investments support this strong growth. Also worth noting is the growth in our OTP volume by 15%, reflecting our focus on this category.

**(SLIDE 8.)**

We continue to drive the development of relevant innovation at the component level by ensuring we are guided by our adult smoker insights.

We are also developing technologies and features which address the needs of our adult smokers, such as ash control, low smoke and smell, flavor delivery, and eco materials.

These individual components, such as filters, blends and pack formats, themselves do not make a product. This is why we have introduced a separate process to ensure that as well as a component pipeline, we have a product pipeline approach that covers all our major corporate brands. This involves the rigorous consumer

testing of component combinations that bring to life propositions in each of our focused development areas. Using lead markets to test the most resonating combinations, we can then refine and perfect the consumer offers prior to a widespread roll-out. This is all part of identifying and fine-tuning fewer options with broad appeal and the greatest chance of market success.

**(SLIDE 9.)**

At the same time, and to make room for the right new introductions, we have a specification rationalization program which is already in its third year. A lean portfolio is essential to drive the required focus both in the market place and in our production facilities. In 2013, more than 500 products were either delisted or morphed into larger brands to leverage a stronger brand equity. Even with over 300 new launches, this still resulted in a 6% overall reduction in the number of Products on Market.

In addition, we reduced the number of blends by over 7% and the number of filter specifications by over 12%. This brought greater organizational focus and manufacturing efficiency.

We have set a minimum target of a 5% per year reduction in for the period 2014 to 2016 and we are well on track to achieve this objective.

**(SLIDE 10.)**

Here are two examples of innovation in product development. First, the *Chesterfield* progressive line launched in Russia and Ukraine in the first quarter of 2014. This D-shaped slims offer incorporates ash control and less smoke/smell features to support the product positioning.

Second, the *Marlboro* Eco Zip pack with its patented, innovative opening developed for our additive free launches in Europe.

**(SLIDE 11.)**

Another example of innovation is the *Parliament Carat* premium proposition, including the first 90mm cigarette with a 7.0mm diameter in a “bevel edge” pack format. This product was successfully launched in Russia, Ukraine and the Middle East at the end of 2012.

**(SLIDE 12.)**

We continue to invest in further enhancing the premiumness of our products. For example, in the GCC with the introduction of the innovative *Marlboro SmartSeal* across the brand family.

This world first launch received extremely positive consumer reaction. In Saudi Arabia, *Marlboro* volumes grew by 22.7% year to date May, 2014 versus the same period in 2013.

**(SLIDE 13.)**

To support the growing complexity and variety of packs, we are increasing the number of multi-format packing lines that are capable of changing pack formats three to eight times faster compared to traditional machines, depending on the type of change. As an example, we can change cigarette length or the number of cigarettes per pack in 50 hours compared to 400 hours with traditional machines.

In addition, we are engaging with our equipment suppliers to support the development of innovative and flexible equipment platforms. Overall, this will result in the accelerated launches of new innovative products in the market and increase our success rate with new formats.

**(SLIDE 14.)**

I will now discuss our capital expenditures. In 2013, we spent \$1.2 billion in capital expenditures, out of which 56% was invested to support the innovation and growth of our current portfolio and the development of our Reduced-Risk Products. As you can see, the investment in these categories has increased significantly over the last two years and we expect investments in RRP's to increase going forward. The category "Other Operations" includes ongoing maintenance and replacements, as well as investments made to meet regulation or compliance-driven initiatives.

**(SLIDE 15.)**

In Bologna, a pilot plant with an annual production capacity of 5 billion *HeatSticks* tobacco sticks is near completion. It will serve as a production facility for the initial market launches. PMI previously announced an investment of up to 500 million Euros over the next three years in its first Reduced-Risk Products manufacturing facility. This factory will be ready to start production in early 2016 and will support the further roll-out of these new products.

We selected this location to take advantage of the proximity to our state-of-the art filter factory, Bologna University and technical colleges. This gives us access to a qualified workforce as well as many high-tech engineering companies.

**(SLIDE 16.)**

I will now share with you our performance and sustainability initiatives.

**(SLIDE 17.)**

Continuously improving product quality is one of our most important goals. This slide shows one of our internal quality metrics, the Market Visual Quality Index. Using a wide range of consumer sensitive parameters, the index compares our pack and cigarette quality to that of our competitors. Our sample covers more than 85% of our total cigarette volume.

The results show that our products outperform the competition in 87% of the audited markets. In the remaining 13%, our products are not statistically different compared to those of competitors. Moreover, this is a significant improvement compared to the results of 2010.

**(SLIDE 18.)**

Another key goal of Operations is safety. In 2010 we set an ambitious target to reduce our lost-time injuries, or “LTI”, by 50% within four years. As you can see, we successfully achieved this target within three years.

When it comes to safety performance we are world-class, and in 2013, 43, or over 80%, of our manufacturing facilities operated without an LTI.

**(SLIDE 19.)**

I will now share with you our efforts in the area of tobacco and environmental sustainability. We are committed to identifying and addressing child labor, and other labor abuses, as well as achieving safe and fair working conditions on all farms where we source tobacco.

We continue the roll-out of the PMI Agricultural Labor Practices, or “ALP”, program that outlines the labor practices, principles and standards we expect to be met on all farms where we, or our suppliers, have contracts to grow tobacco.

In 2012, the first full year of our ALP program, we established a strong foundation by adapting our internal systems and processes, applying the ALP program, and training employees worldwide. By the end of 2013, more than 3,700 field technicians received training, and 98% of approximately 500,000 farmers across 30 countries were enrolled in the program. We are at the start of this important journey and we are aware that much more needs to be done. Third-parties, such as the U.S. Department of Labor, already recognize our tangible actions and progress. The results of third-party assessments are published on our website.

**(SLIDE 20.)**

Sustainability in the communities that produce tobacco is a priority for PMI. We have leveraged an Integrated Production System in Africa to help farmers with a more efficient use of land, which leads to increased farmers food supply and income. Farmers are given technical assistance for tobacco production and they

are provided with seeds to produce food crops and fertilizers along with technical advice, all of which allow them to increase productivity.

Tobacco yield per hectare has already more than doubled and the same is happening with maize. We set a minimum target ratio of two kilograms of food to one kilogram of tobacco, which has already been significantly exceeded in Malawi and Kenya.

**(SLIDE 21.)**

Our global programs that are focused on CO<sub>2</sub> and water are built to improve our environmental performance and drive cost savings. The two graphs show our commitments to CO<sub>2</sub> and water use reduction.

The reduced energy consumption, renewable energy strategy and innovative water saving measures have put us on track to achieve challenging targets of a 20% reduction by 2015 from the 2010 base. Additionally, these programs generated \$18.7 million of productivity over three years.

**(SLIDE 22.)**

The Carbon Disclosure Project is the most reputable and credible measure of a company's strategies on climate change.

We have been in the CDP's Global 500 Leadership indices for the last two years and are the highest scoring company in the tobacco sector on disclosure. In 2013, we were the only tobacco company and one of five Global 500 Consumer Staples companies quoted as a CDP Leader with a score of 97%.

**(SLIDE 23.)**

Our high-speed investment program, focused on the acquisition of new generation equipment able to produce up to 20,000 cigarettes per minute, allows us to cascade mid-speed lines and retire low-speed machines. This program resulted in an increase in average machine speed by 10% over the last two years.

**(SLIDE 24.)**

I will now explain how we will keep our annual Cost of Goods Sold increases in the range of 1% to 3%, on the same basis as previously mentioned.

**(SLIDE 25.)**

Our total Cost of Goods Sold in 2013 was \$10.4 billion.

Tobacco leaf and direct materials were the key cost components, with tobacco leaf representing 31% and direct materials 27%. Although it only represents 3% of the total, cloves were a key cost increase driver in 2012 and 2013.

**(SLIDE 26.)**

To secure quality tobacco at predictable prices we take advantage of our sourcing models, our blend optimization initiatives and market conditions. We have well defined agricultural programs to ensure efficient tobacco production and sustainability in the countries where we source tobacco. We have also developed more innovative and efficient tobacco growing approaches to supplement the future supply of quality tobacco.

**(SLIDE 27.)**

In addition to sourcing tobacco from third-party suppliers, PMI has vertically integrated operations in selected markets where it directly contracts farmers to grow tobacco, which is then purchased, processed and packed in PMI-owned or third-party facilities.

Vertically integrated operations were implemented in markets where it makes business sense and helps ensure the sustainability of PMI's tobacco requirements, improve cost efficiency and better align supply and demand.

Overall, vertically integrated operations represented 30% of PMI's 2013 tobacco purchases by quantity. At this stage we believe this is the right level to achieve our strategic objectives.

**(SLIDE 28.)**

Our tobacco leaf purchase price evolution per kilogram shown here includes mix, currency and volume.

Over the last five years, our tobacco leaf price is estimated to have increased by an average of 0.9%, which is significantly below inflation. However, in 2013, prices were 6.1% higher than 2012 mainly due to a lower US crop size caused by unfavorable weather, a lower supply than demand in the oriental type, and our purchase mix.

In 2014, we expect prices to be approximately 4% lower when compared to 2013. This is a result of a larger supply than demand in most markets and a favorable currency translation. Over the next three years, we expect a more balanced market which, combined with productivity initiatives, should allow us to contain price increases to an average of 1% to 1.5% per year.

**(SLIDE 29.)**

Our tobacco leaf purchase price is reflected on our balance sheet in the year we purchase the crop. However, our Cost of Goods Sold is impacted when we use that specific crop in our blends, which is about 10% during the year of purchase and 50% and 40% in the subsequent two years. Consequently, this crop mix, which ensures blend consistency, will also contribute favorably to a lower cost impact over the next two to three years.

**(SLIDE 30.)**

I will now make a few remarks about cloves, which play an important role in our blends in Indonesia.

The cigarette industry in Indonesia is truly unique, driven by the strong preference of adult smokers for kretek cigarettes, which are a blend of tobacco and cloves. In 2013, kreteks accounted for 93% of sales in Indonesia.

Indonesia produces around 75% of the world's cloves and Sampoerna is one of the largest buyers of domestic cloves. The importation of cloves is prohibited, although the ban was temporarily lifted in 2011 when the domestic crop was short.

Clove production is primarily concentrated in the Java, Bali and Sulawesi regions. With over one million farmers, the production base is large and highly fragmented.

**(SLIDE 31.)**

Weather conditions and agricultural and harvesting practices significantly impact clove tree physiology and, as a result, the production cycle and crop size. In addition, clove prices from the previous year may have an impact on clove harvesting and thus the crop size of the subsequent year.

The average crop size between 2005 and 2010 was about 75 million kilos per year. In 2011, there was a very small crop as a result of unfavorable weather conditions. In addition, the total cigarette market continued to expand, which led to a threefold price increase. However, for the last two years and the forecast for the 2014 crop average production is 90 million kilos, which is in line with estimated demand.

We expect price stability for the coming years due to an increased crop size and reduced demand for hand-rolled kretek cigarettes, which use over 50% more clove than machine-made kretek cigarettes.

**(SLIDE 32.)**

To improve the sustainability of the clove crops and farmer yield, we established technical assistance and buying centers in the main clove producing areas in 2012. About 40,000 farmers have been contracted and training sessions on good

agricultural practices have been implemented. Our goal is to triple this by 2017, which represents about 50% of our requirements. We continue to distribute clove plants to farmers, an initiative we started in 2006. So far, more than six million plants have been distributed and, going forward, we plan an additional two million per year. Over the long term, we will implement new technologies for the industrial production of cloves.

**(SLIDE 33.)**

In addition to tobacco leaf and cloves, we purchase a wide variety of direct materials that in 2013 accounted for approximately \$2.8 billion. Three main categories represented 70% of our direct materials purchases. The largest category, representing approximately 34%, is printed board and paper followed by acetate tow, a key component of cigarette filters. The category "Others" combines a variety of materials such as shipping cases and ingredients.

**(SLIDE 34.)**

Key challenges in direct materials procurement come from increasing complexity, driven by the growing requirements for innovation in our brand portfolio and the related need for new and specialized materials.

We have a solid strategy in place to maintain a competitive supplier base across all categories and benefit from economies of scale, since more than 80% of our spend is centrally managed.

Of utmost importance is our rigorous approach to category and supplier relationship management. We leverage a sound mix of annual and multi-year agreements, depending on market conditions.

There is a close interaction with the entire supplier base to adjust to regulation changes and the evolution of industry volume.

**(SLIDE 35.)**

The compound annual growth rate of direct materials average price increases is projected to be 1.2% since 2010. It peaked at 3.7% in 2011, driven by price increases in menthol, board and shipping cases. Price increases have been partially offset by year-on-year productivity.

Going forward, through a mix of annual and multi-year agreements, the latter which represents about 70% of the total spending, and balanced geographical sourcing, we expect to maintain direct material price increases in line with our historical average.

**(SLIDE 36.)**

Supply security is systematically evaluated at all levels of the organization through an ISO-based methodology. Seventy-one distinct risks are assessed across various dimensions and mitigation plans are in place.

We have business continuity plans for identified supply and product sourcing risks. We have special situations management teams to address potential business continuity threats, such as physical supply disruption or import/export restrictions.

**(SLIDE 37.)**

Employee-related costs represent another significant category in the overall Cost of Goods Sold. Our continuous focus on performance, automation and efficiency helps increase our organizational effectiveness, as evidenced by our improved labor productivity.

This chart shows machine-made cigarettes and OTP production per headcount over the last two years. As you can see, we improved by almost 7%, from 39.9 to 42.6 million units per headcount. This is thanks to improvements in the EEMA, Asia and Latin America and Canada Regions. In the EU Region, we saw a decline in productivity due to the volume decrease between 2011 and 2013 that we are addressing through the optimization of our footprint.

**(SLIDE 38.)**

I will now highlight some initiatives that represent our proactive strategy to continuously improve our manufacturing efficiency.

In the EU Region, we initiated consultations in April 2014 on a proposal to discontinue cigarette production in the Netherlands, our largest factory with an annual capacity of 94 billion cigarettes.

In the Asia region, we announced plans to cease cigarette production in Australia by the end of 2014 and transition this production to our affiliate in South Korea. In Malaysia, we closed a cigarette-making facility in 2013. In Indonesia, we continue to centralize machine-made facilities, by reducing from six different locations to two. In addition, we have also recently announced the closure of two out of our seven in-house hand-rolled facilities to reflect the shift in demand from hand-rolled to machine-made cigarettes.

In the Latin America and Canada Region, we adjusted our footprint with the closure of the Guatemala and Curacao cigarette factories in 2012. In 2013, we consolidated our operations in Mexico from two facilities into one based in Guadalajara.

**(SLIDE 39.)**

Productivity initiatives are part of our continuous effort to manage costs. I would like to share with you how Operations contributes to PMI's productivity.

In 2013, PMI surpassed its annual gross productivity and cost savings target of \$300 million. This year PMI's pre-tax target is again \$300 million, of which 70% is Operations-related. The remainder is related to indirect materials and services, including marketing materials. We have been strengthening the organizational capabilities in the procurement of indirect materials, creating more efficient processes and expanding them throughout the company. As a result we are progressively increasing the contribution of this category to our overall productivity.

We are focused on the identification of new productivity initiatives and have created a mindset where it is part of everyone's job to identify, propose and implement productivity opportunities, both large and small. The major areas are specification rationalization, procurement, tobacco processing technology, and continuous improvements in manufacturing performance.

For the next three years, we expect to maintain Operations-related productivity savings at a similar level.

**(SLIDE 40.)**

In 2013, our Cost of Goods Sold increased by 3.8% over the previous year, excluding the impact of currency movements and changes in volume/mix. The stabilization of tobacco leaf and clove prices, combined with our sustainable productivity pipeline, should bring the annual rate of increase within a 1% to 3% range over the next three years on the same basis as previously mentioned. It is important to mention that, in 2014, our Cost of Goods Sold will also reflect the impact of the change to PMI's new business structure in Egypt announced in January, 2014.

**(SLIDE 41.)**

In addition to our efforts to manage costs, we are focused on delivering working capital improvements. This chart illustrates the 2010 to our forecasted 2014 estimated inventory duration development of tobacco leaf and regular finished goods inventory. We have developed systems and processes designed to create visibility and transparency across our supply chain to improve our inventory durations. We estimate that the inventory duration reductions shown on this chart will result in a reduction of approximately \$600 million in working capital over this period, partially offsetting cost increases, excise tax rates and other elements.

Going forward, we will continue to deliver improvements in regular finished goods inventory durations, while maintaining customer service levels and keeping adequate leaf stocks.

**(SLIDE 42.)**

I will now explain how we engage our Operations organization and how that translates into results.

**(SLIDE 43.)**

Effectively managing a global manufacturing footprint with more than 55,000 employees can be a challenge.

OPEN, or Operations Performance and Engagement, is a program we launched in 2009. It is founded on the principles of organizational development by empowering all levels of our organization, the use of process improvement techniques and embracing a culture of continuous improvement. Since the deployment of OPEN, many best practices have been identified and rolled out across our factories and central functions. By driving performance, OPEN is an important enabler of sustainable productivity improvements.

The impact of empowering and focusing on developing our organization is reflected in our employee opinion survey results. This chart clearly demonstrates the progress we have made since 2009 in two key dimensions: employee engagement and managerial effectiveness.

**(SLIDE 44.)**

In an environment with ever increasing complexity, OPEN helps us to quickly adapt and increase manufacturing performance. Our factory in Portugal and our filter facility in Italy offer two examples of how OPEN has improved performance. Portugal has seen a significant improvement in equipment performance despite an increase in the number of brand changes and our affiliate in Italy continues to lower wastage of direct materials despite increased complexity through innovative new formats.

**(SLIDE 45.)**

Going forward, by leveraging our superb workforce, we will maintain industry leadership in safety, quality and sustainability.

We will continue to innovate to enhance our portfolio and grow both margins and market share.

We will build capacity to fulfill Reduced-Risk Product demand.

And we will continue to contribute to PMI's growth strategy by containing annual Cost of Goods Sold increases in a 1% to 3% range, on the same basis as

previously mentioned, through initiatives in tobacco leaf and direct materials, and a focus on productivity and footprint optimization.

Thank you for your interest. I will be happy to answer your questions.