



PHILIP MORRIS

LIMITED

ABN 65 004 694 428

CORPORATE AFFAIRS DIVISION

252 Chesterville Road, Moorabbin Victoria 3189

Telephone: (61 3) 8531 1000 Facsimile: (61 3) 8531 1955

Key Business Facts

Philip Morris began operations in Australia in 1954. The Australian Philip Morris affiliate was the first tobacco manufacturing operation outside the U.S.A. Currently Philip Morris Limited (PML) is the only manufacturer of cigarettes in Victoria and the second largest in Australia with a current market share of 37.8 per cent¹.

PML produces quality tobacco products for the domestic Australian market and its cigarette brand portfolio includes brands such as *Peter Jackson*, *Alpine*, *Longbeach*, *choice* and *Marlboro*. In addition, PML manufactures tobacco products for a number of international markets including New Zealand and the Pacific Islands. PML also manufactures cut filler for South Korea.

PML is an affiliate of Philip Morris International Inc. (PMI), an operating company of Altria Group Inc., that manages the world's leading international cigarette business outside the United States. PMI's affiliates manufacture, market, sell and distribute high quality cigarettes in more than 160 countries and territories around the world.

Employees - PML employs over 800 people in Australia, in Operations, Engineering, I.T., Marketing, Sales, Finance and Human Resources.

PML Factory - PML's head office and manufacturing facility are located at Moorabbin, in suburban Melbourne, with Sales and Distribution offices across Australia. Our affiliate, Philip Morris New Zealand distributes PML manufactured products in New Zealand. In 2005, the factory produced 9.6 billion cigarettes and in 2006, 8.5 billion cigarettes². In 2007 we expect to produce approximately 8.8 billion cigarettes.

In 2005, we commenced a major redevelopment of the PML Moorabbin site, including a significant investment in new machinery. The redevelopment will be completed by the end of 2008, with capital investment expected to be in excess of \$100 million (US\$83 million). This will significantly increase the capacity of the factory, as well as improve quality.

Australian Exports: In 2006, 5.3 per cent of PML's cigarette volume was used in Duty Free and exported to New Zealand, East Timor and a number of Pacific Islands (Christmas Island, Cocos Island, Cook Islands, Fiji, French Polynesia, Kiribati, Nauru, New Caledonia, Norfolk Islands, Vanuatu and Western Samoa).

Excise paid: In 2006, PML paid \$1.9 billion (US\$1.6 billion) in excise to the Australian Government. Excise is currently set at \$240.31 (US\$199.46) per thousand sticks. In addition, PML paid \$82 million (US\$68 million) in corporate income tax during 2006.

¹ May year to date, PricewaterhouseCoopers Industry Exchange

² Production was higher in 2005 in order to cater for the factory redevelopment in 2006

Current status on trade in tobacco products between Australia and Japan

- The current WTO bound rate for cigarettes imported into Japan is 8.5% of CIF plus 290.70 Yen per thousand cigarettes. Since 1987, the Government of Japan has suspended the imposition of import duties on cigarettes from all WTO member countries.
- This effectively allows the importation of cigarettes into Japan at a zero tariff rate.
- However as the import duty is only suspended, it is possible for the Japanese Government to re-introduce tariff rates on cigarette imports, resulting in an unpredictable business environment for importers of tobacco products into Japan, such as Philip Morris.
- Japan Tobacco Inc. has approximately 65% market share of Japanese cigarette market and has a monopoly on local production.
- The current WTO bound rate for cigarettes imported into Australia is 0% for all WTO member countries.

Request

- As part of the Free Trade Agreement between Australia and Japan, PML seeks to maintain the current zero-tariff treatment on cigarettes by including cigarette in the Free Trade Agreement.
- PML recommends that the Australian Government requests zero % duty on manufactured cigarettes (HS Code 24.02.20) exported from Australia to Japan. This is the same rate as currently applied on cigarettes imported into Japan from WTO members, and this is the same import tariff rate permanently offered by Australia on cigarettes imported from Japan.
- PML affiliates currently manufacture cigarettes for import into Japan from the United States and Switzerland. Including tobacco products in the Free Trade Agreement between Australia and Japan will provide Philip Morris with the flexibility to considering using Australia as a source of tobacco products for sale in Japan in the future.

Relevant International Experience

- Australia and Thailand: As part of the FTA between Australia and Thailand, Australia secured zero % import tariff rates on cigarettes exported to Thailand as of 2010. Similar to Japan, Thailand has a significant domestic tobacco industry, with a State monopoly on production of cigarettes.
- Japan and Singapore: As part of the FTA between Japan and Singapore, Japan has granted zero % import tariff rates on cigarettes imported from Singapore in Japan.