



PHILIP MORRIS

I N T E R N A T I O N A L

Leo McLoughlin

Managing Director

PMI Affiliates in Russia

Moscow, 30 September 2008

Agenda

- **Tobacco Business Environment**
- **PMI Strategies in Russia**
- **Brand Portfolio Development**
- **Infrastructure / Field Execution**
- **Conclusions**
- **Questions & Answers**

Safe Harbor Provisions

- **The presentation may contain projections of future results and other forward-looking statements that involve a number of risks and uncertainties and are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995**
- **PMI is subject to risks detailed from time to time in its publicly filed documents, including the Quarterly Report on Form 10-Q for the period ended June 30, 2008. PMI does not undertake to update any forward-looking statements that it may make from time to time in the course of its public disclosure obligations**

PMI History in Russia

- 1974 - Partnership with Soviet tobacco sector**
- 1991 - Joint-venture for local production**
 - Export order for 22 billion cigarettes**
- 1993 - National sales force / Krasnodar factory (“PM Kuban”)**
- 1998 - St. Petersburg green-field factory (“PM Izhora”)**

➔ PMI knows the Russian market and adult smokers

Management Team



Leo McLOUGHLIN
Managing Director, PMI Affiliates



Sergey SLIPCHENKO
Director Marketing

Patrick BRUNEL
Director Finance, Admin & IS



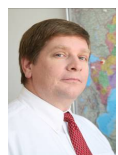
Daniel RICHARDS
Director Planning & BD

Artyom CHERNIS
*General Manager
Field Operations*



Julia BONDARENKO
Assistant General Counsel

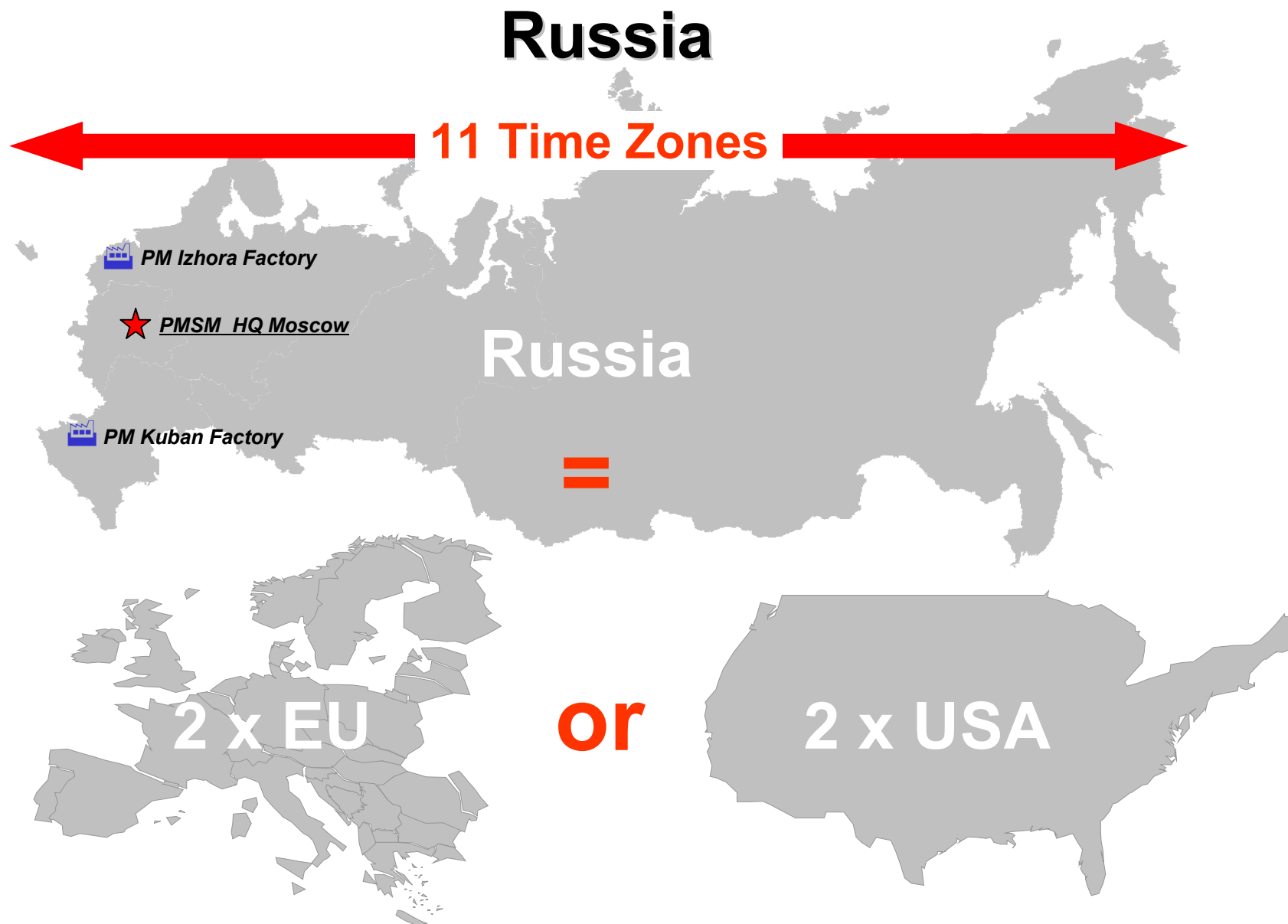
Nicholas FLOROS
Director Operations



Brian HARRISON
Director Human Resources

Alexey KIM
Director Corporate Affairs





Market Profile



PM Izhora Factory



PM Kuban Factory



ECONOMIC INDICATORS - 2007

Real GDP growth	8.1%
GDP / capita	\$9,100
Inflation (Average)	9.1%
RUB / USD (Average)	25.58

INDUSTRY / DEMOGRAPHIC DATA - 2007

Industry shipments	387 bio
Avg. daily consumption	16.4 cig

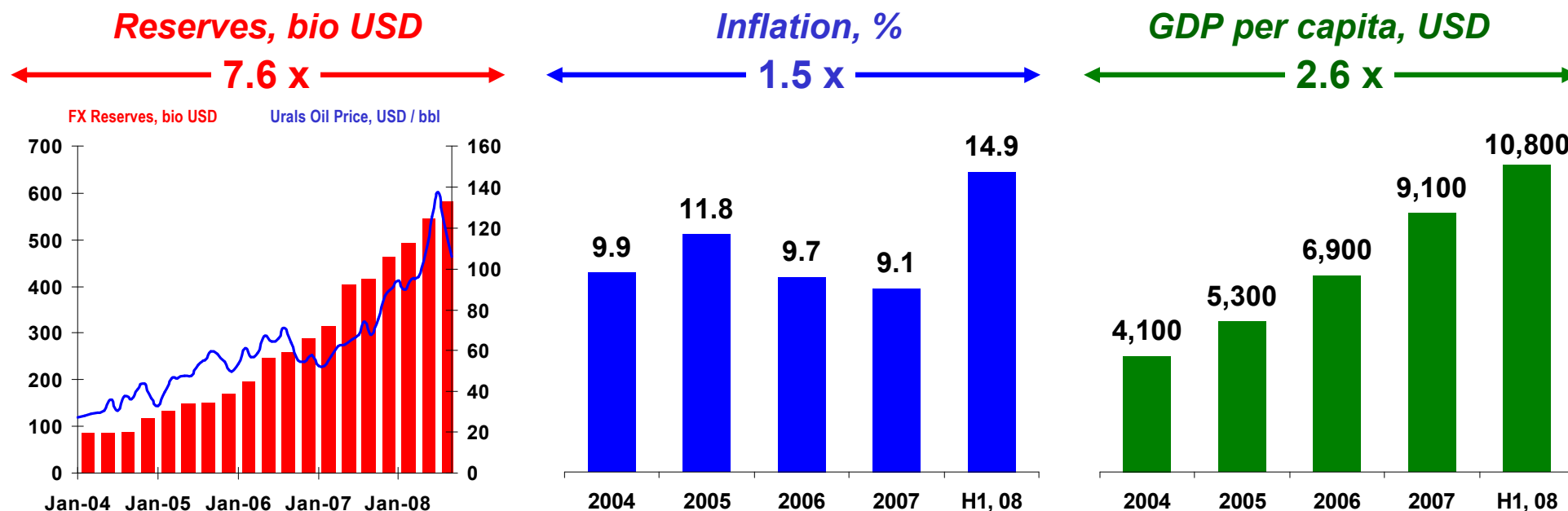
MANUFACTURER SHARES - 2008 H1

Japan Tobacco (JT)	35%
Philip Morris (PMI)	27%
BAT	20%
Imperial	11%

Smoking incidence (GCTS)	42.6%
Male	60.4%
Female	26.8%
LA (min. 18) – 24 (“YAS”)	40.3%

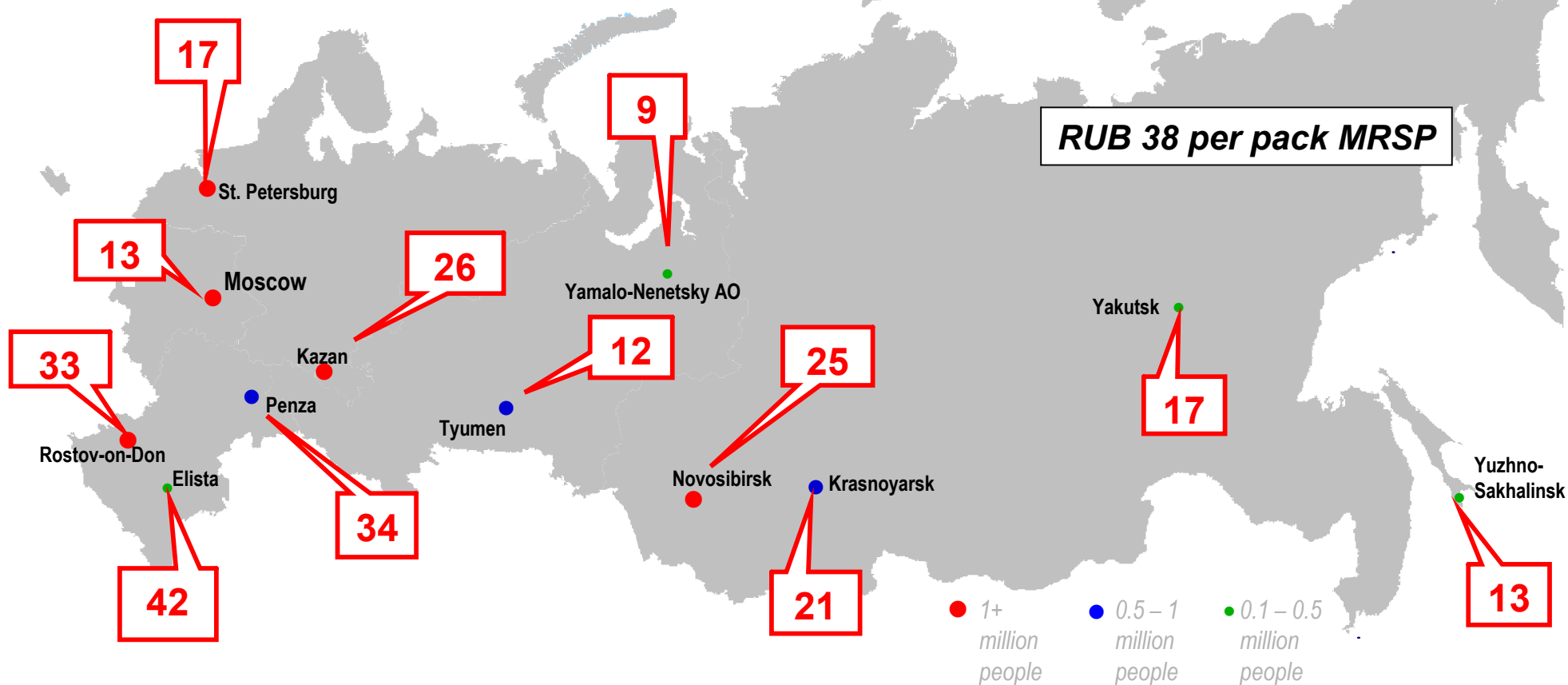
Source: Rosstat, AC Nielsen (GCTS), Business Analytica Market Audit (manufacturer shares), PMI Estimates.

Economic Environment



- **Hard currency reserves hedge economy**
- **Inflation a current concern**
- **Real GDP is rising fast**

Minutes of Work to Buy *Marlboro* (2008)



➔ Significant variations in consumer purchasing power

Tobacco Regulation

- **One set of federal product regulations**
- **One federal advertising code**
- **One federal excise tax regime**

- **Regulation increasing**
... but expected to remain reasonable, manageable

➔ Level playing field

Excise Taxation

- **Reform in January 2007**
- **Predominantly specific structure**
- **Minimum excise taxes**
- **Maximum retail selling prices**

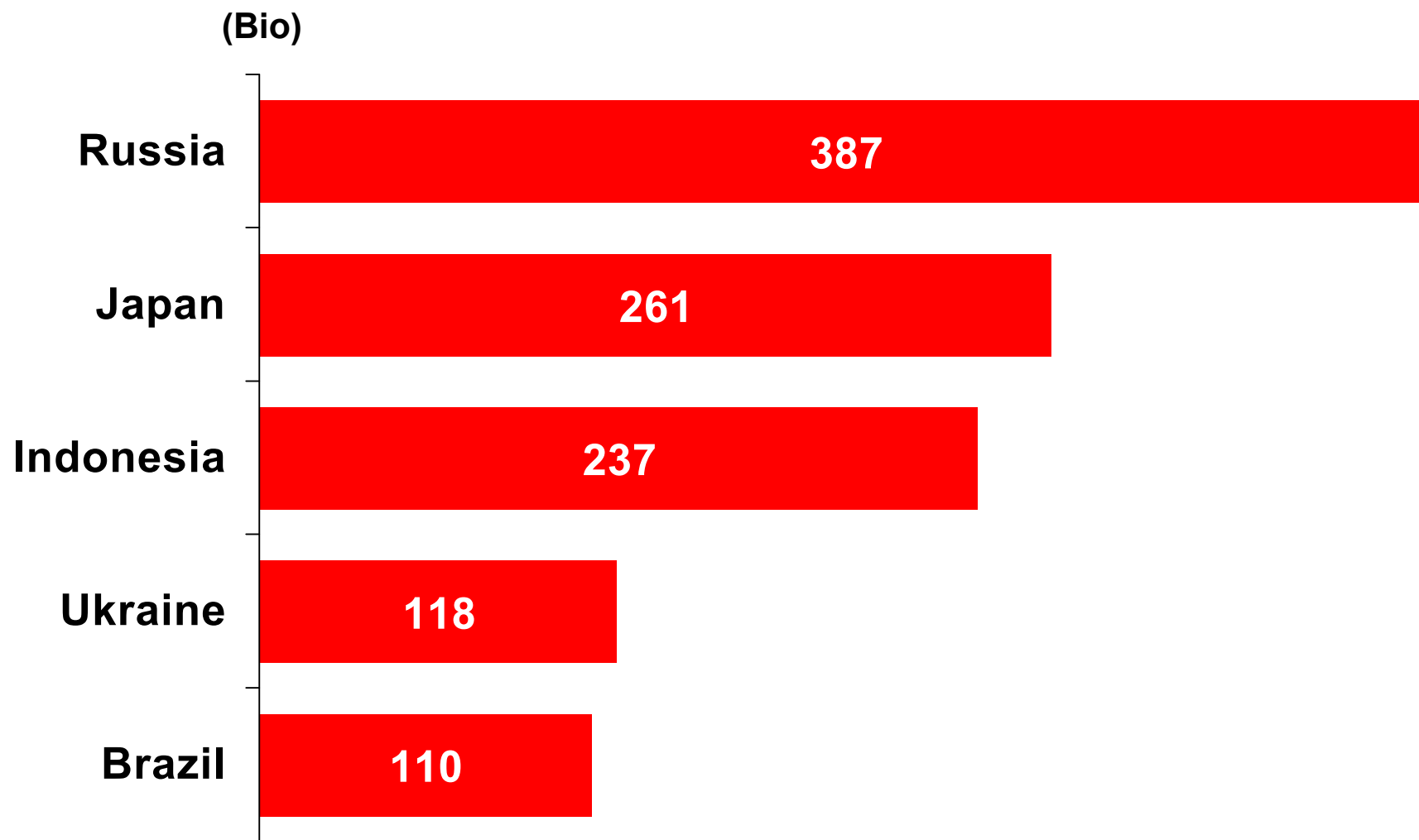
➔ Helps safeguard Government revenues

Excise Taxes

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Ad Valorem	8% NEFP	5% MRSP	5.5%	6.0%	6.5%	7.0%
Specific (RUR/000)	78	100	120	150	180	216
Min. (RUR/000)	25% NEFP	115	142	177	216	260
Fully Specific Below (RUR/pack)		6.00	8.00	9.00	11.10	12.60

→ Predictability

Leading International Markets (2007)



Source: PMI (GIMS) estimates. Note: excludes China.

Key Market Trends

Medium Plus Price
(> USD 0.80 per Pack)

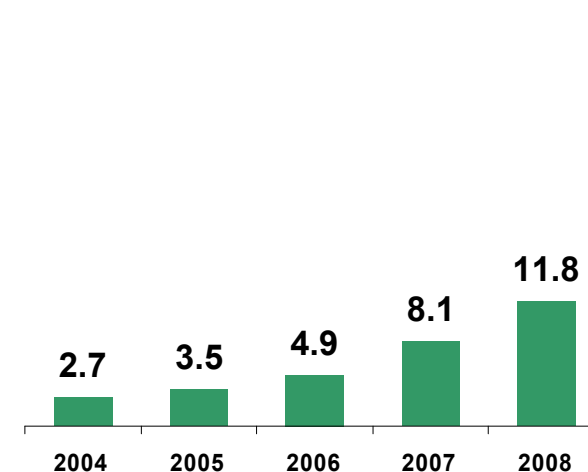
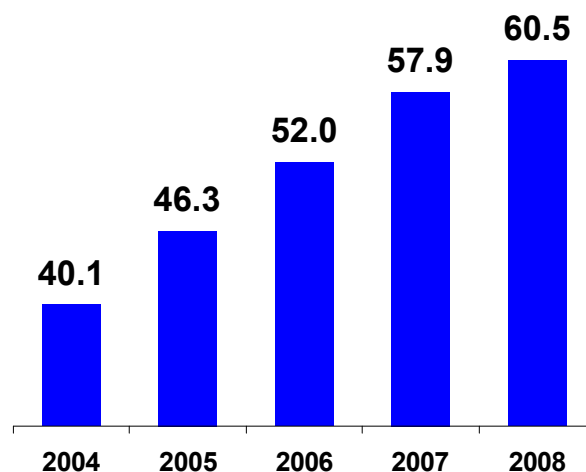
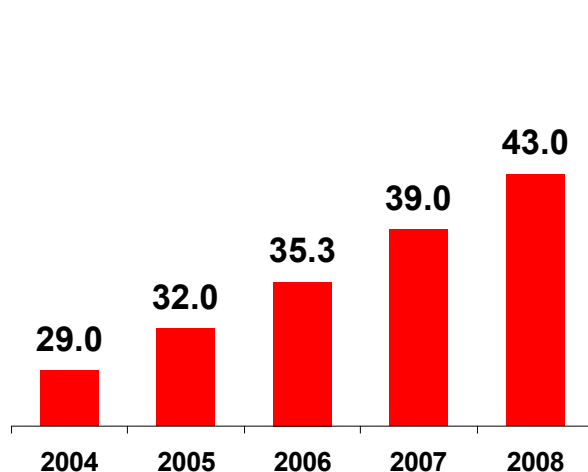
Lighter Taste

Slims Diameter

← 1.5 x →

← 1.5 x →

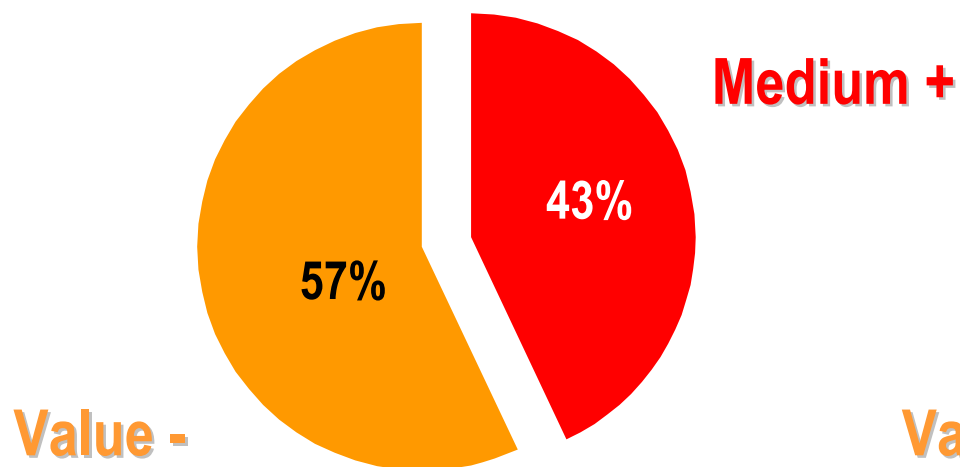
← 4.4 x →



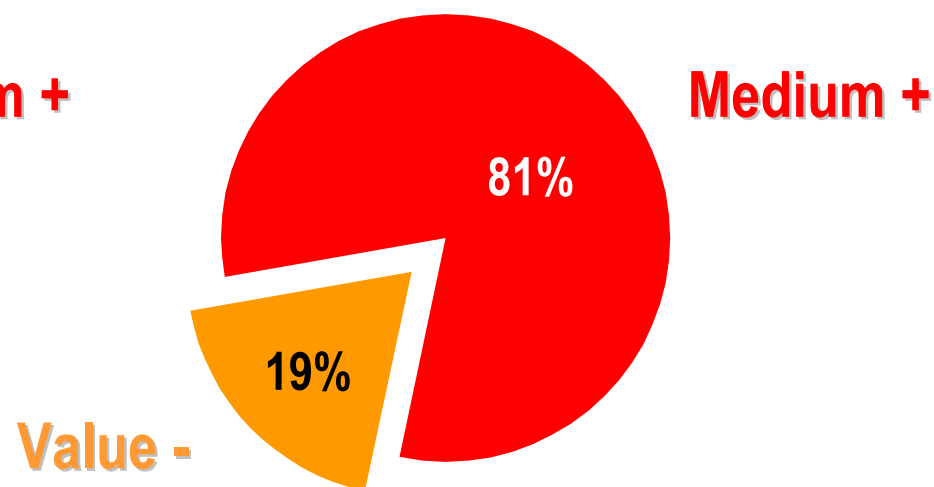
→ Key trends: up-trading, lighter taste, new features

Medium Plus Segment - Margins

Industry Volume



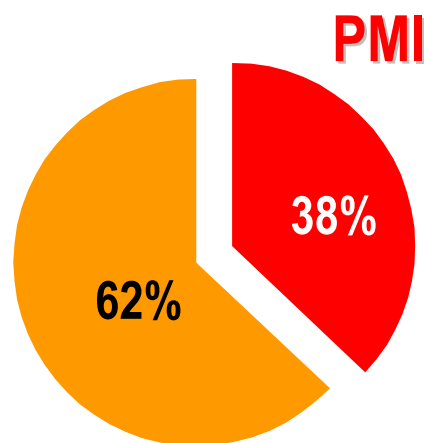
Manufacturer Margin (E)



➔ Margin on 1 pack of M+ = 6 packs of V-

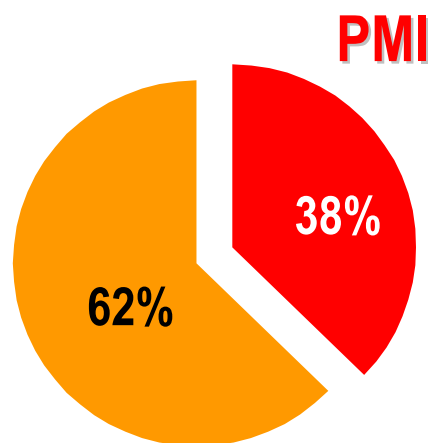
PMI Price Segment Shares

Premium



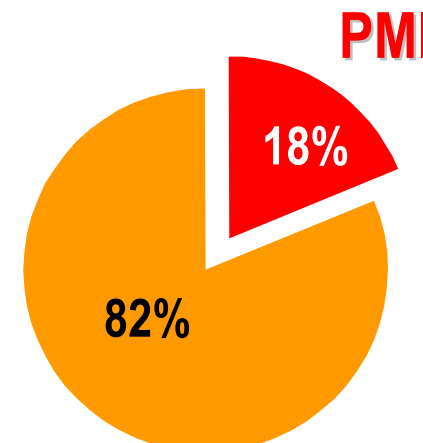
Segment SOM 18%

Medium



Segment SOM 25%

Value -



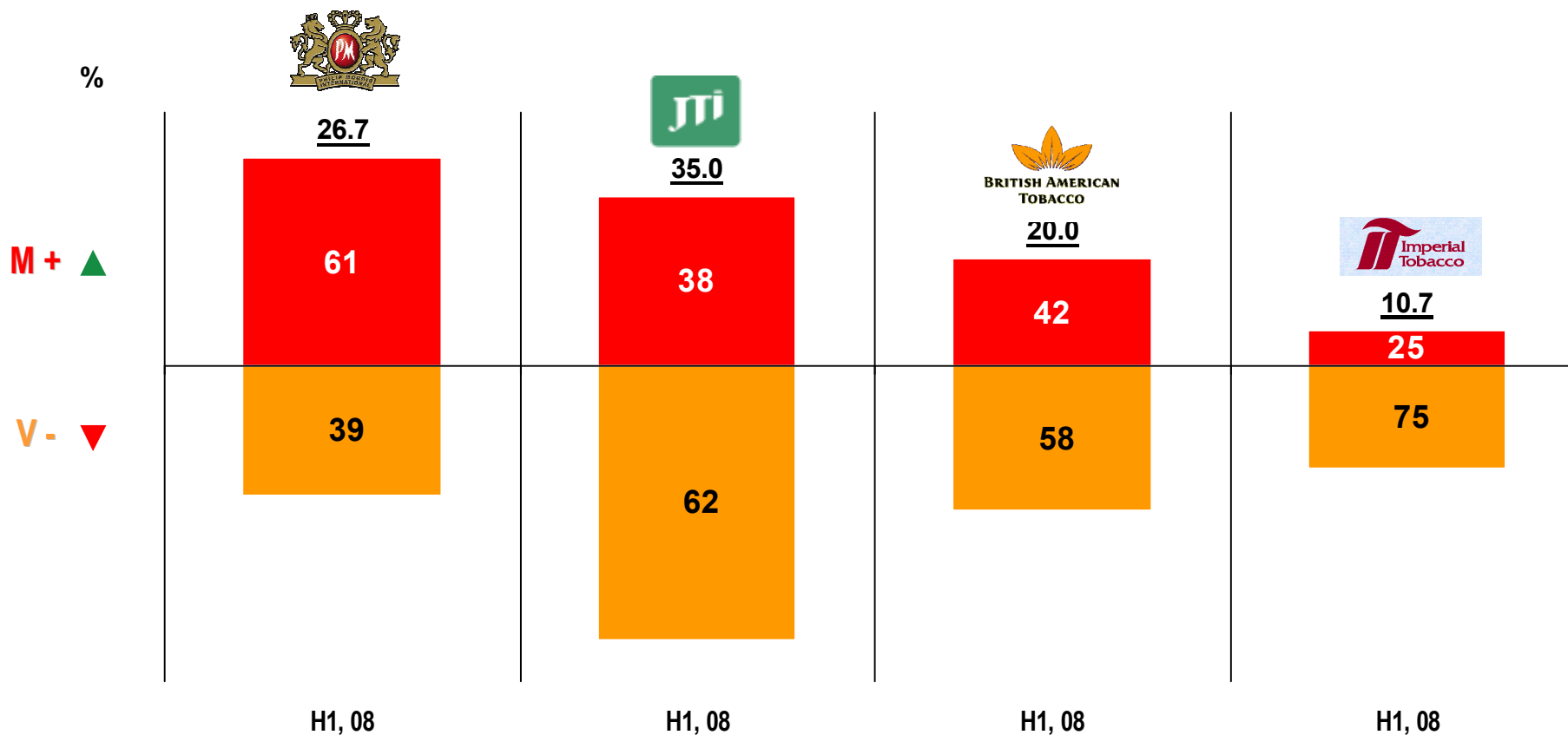
Segment SOM 57%

→ PMI leads in Medium Plus price segment

SOM: share of market

Source: Business Analytica Market Audit – YTD June 2008.

Relative Price Positioning



➔ PMI focuses on the growing Medium Plus price segment

PMI Russia Performance - First Half 2008

- **Shipment volume increased by 8%**
- **Key brands performed strongly**
- **Estimated market share stable at 26.7%**
- **Brand mix improvement**
- **Significantly higher profitability**

Key PMI Strategies

- **Develop Medium + portfolio**
 - Continuous innovation ... product / packaging improvements

 - **Adapt / improve execution**
 - Scale / efficiency ... flexibility
 - Organizational depth

 - **Focus on margins**
 - Revenue enhancement
 - Cost controls and productivity savings
- ➔ Deliver sustainable profit growth**

Innovation - Technology

- **Unique four chamber filter including tobacco plug**
- **Flavorful alternative building on the *Marlboro* heritage**
- **Innovative slide pack**
- **+RUB 5 / pack vs. *Marlboro KS***

Innovation - Slims

- **Designer packaging**
- **Compact king size**
- **Tactile “Jewelled” pack**

Innovation - *Parliament*

Innovation - PMI Portfolio

Premium ≥ \$1.10	<i>Marlboro</i>	<i>Parliament</i>	<i>Virginia Slims</i>
Medium \$0.80 - \$1.10	<i>Chesterfield</i>	<i>Muratti</i>	<i>L&M</i>
Value \$0.50 - \$0.80	<i>Bond Street</i>	<i>Next</i>	<i>Apollo-Soyuz</i>
Low < \$0.50	<i>Next</i>	<i>Optima</i>	<i>Apollo-Soyuz</i>

Parliament

- **The luxury prestige brand in Russia**
- **Unique recessed filter**
- **Above premium pricing**
- **Volume in Russia +20% in first half of 2008**

Marlboro

- ***Marlboro Filter Plus*** is generating additional volume and enhancing brand equity
- Unique marketing and promotional platforms
- Rising popularity among “Young Adult Smokers”
- Volume in Russia +18% in first half of 2008

Chesterfield

- **Authenticity, quality**
- **Modern packaging**
- **Top of Medium pricing**
- **Volume in Russia +41% in first half of 2008**

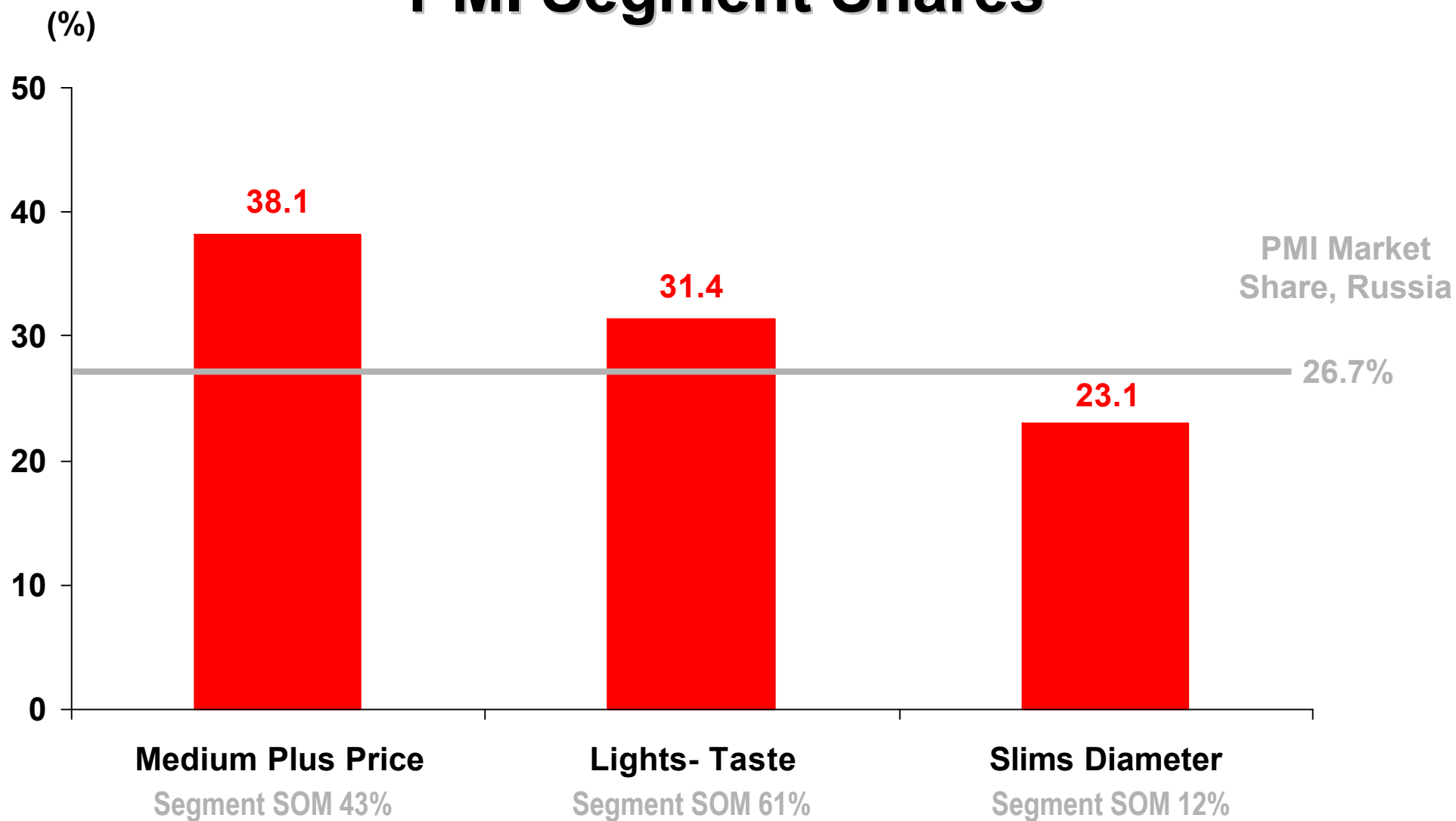
L&M

- **Repositioned as “the progressive international mid-price brand delivering smooth taste”**
- **Triple filter, modern pack, new communications**
- **Re-launched in second half of 2007**
- **Slimmer line extensions**
- **Volume contraction more than compensated by *Chesterfield* and other PMI brands**

Bond Street

- **Affordable quality**
- **Modern packaging**
- **Value pricing**
- **Volume in Russia +15% in first half of 2008**

PMI Segment Shares



Source: Business Analytica Market Audit – YTD June 2008.

Manufacturing - Scale / Flexibility



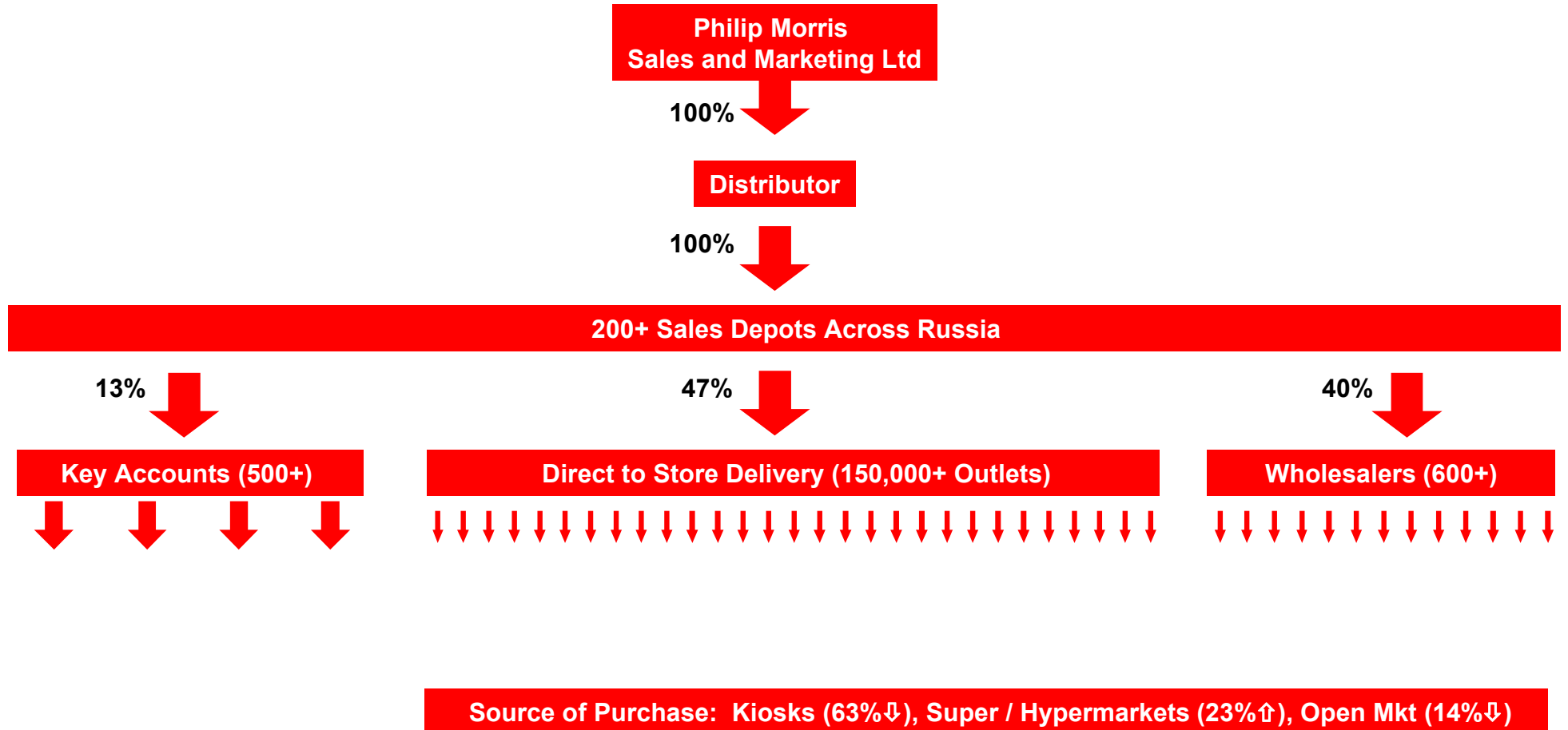
Philip Morris Izhora – St. Petersburg



Philip Morris Kuban – Krasnodar

→ Balanced mass production / mass customization

Product Flow and Retail Environment



Distribution

Scale / focus:

- One distributor nationwide
- Mainly tobacco products
- 16,000 employees
- 200+ depots
- 5,000+ vans
- 150,000+ points of sale

→ Efficient



→ Frees PMI resources for adult consumer work

Field Execution - Scale / Flexibility



➔ National programs ... local, tailored execution

Marketing / Consumer Engagement

- **Digital 1-2-1**
- **Consumer promotions**
- **Direct engagement**
- **Retail communications**

→ Memorable brand experiences for adult smokers

Organizational Depth

Nearly 3,500 employees

- 99% Russian nationals
- 90+% in manufacturing / field
- Seasoned PMI management
- Regional depth of talent
- Training, development plans
- Cross-border / cross functional moves
- Succession planning
- Retention above FMCG norms



Conclusions

- **Russia is the world's second largest cigarette market**
 - Reasonable, predictable fiscal and regulatory environment
- **PMI leads the most profitable, growing segment**
 - Well positioned already to gain from consumer up-trading
 - Portfolio benefiting from innovation, continuous improvement
- **PMI has scale, flexibility and talent to develop the market**
 - State of the art manufacturing; efficient distribution
 - Agile field force for national / local programs
 - Continuous improvement in marketing execution
- **PMI focused intensely on margin improvement**
 - **Increasing ability to deliver sustainable profit growth**



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Thank you