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INTERNATIONAL

2012  
INVESTOR DAY

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## Investor Day Lausanne, June 21, 2012

André Calantzopoulos  
*Chief Operating Officer*  
Philip Morris International



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# Agenda

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- Industry Overview
- Competitive Landscape
- Fiscal & Regulatory Environment
- Regional Overview
- Opportunities:
  - Commercial Organization
  - Reduction of Illicit Trade
  - Business Development
- Next Generation Products / MRTPs
- Key Takeaways

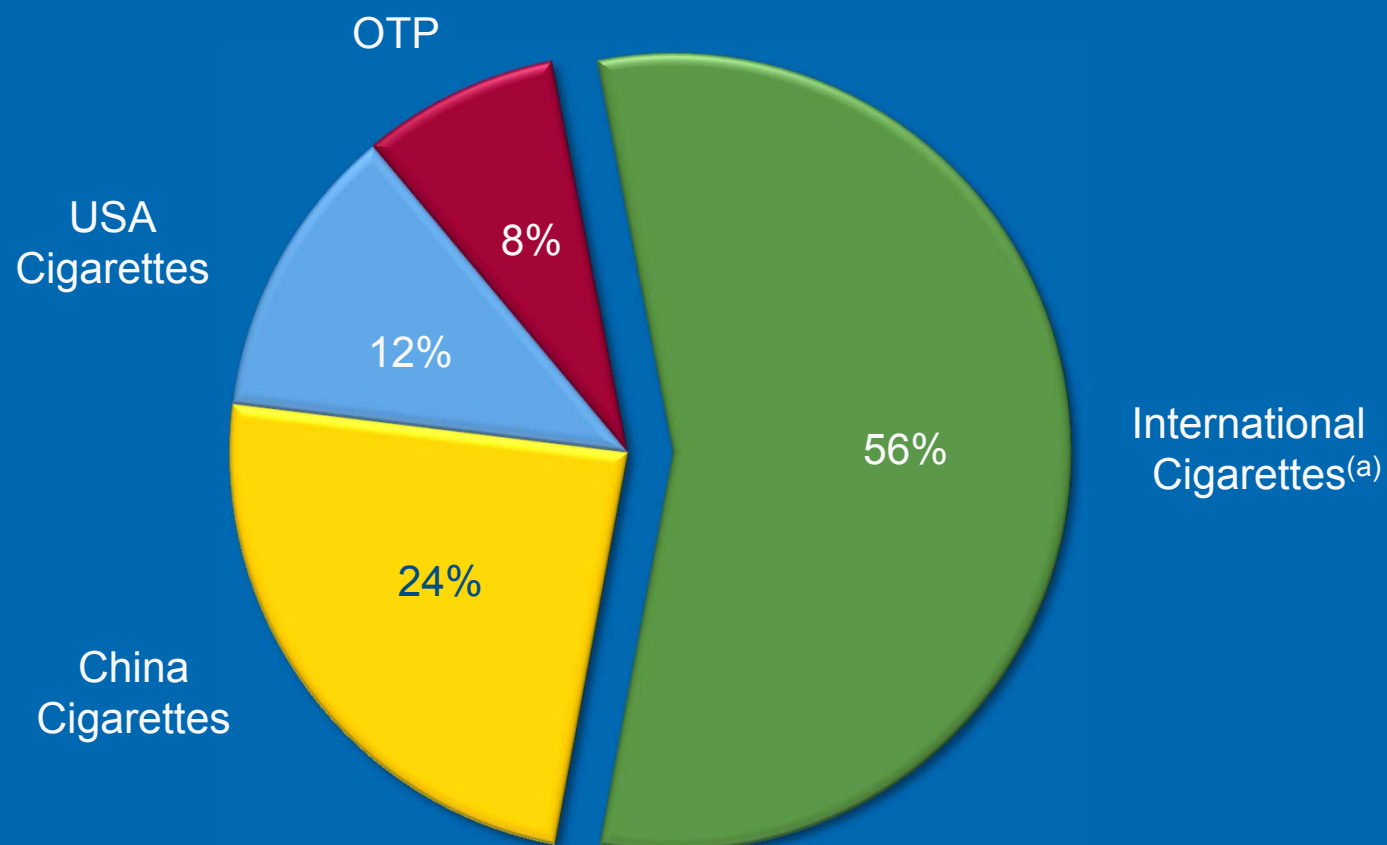


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# Tobacco Industry Retail Sales Value 2011

(\$ billion)

Total: \$748



(a) Excluding duty free  
Source: PMI estimates

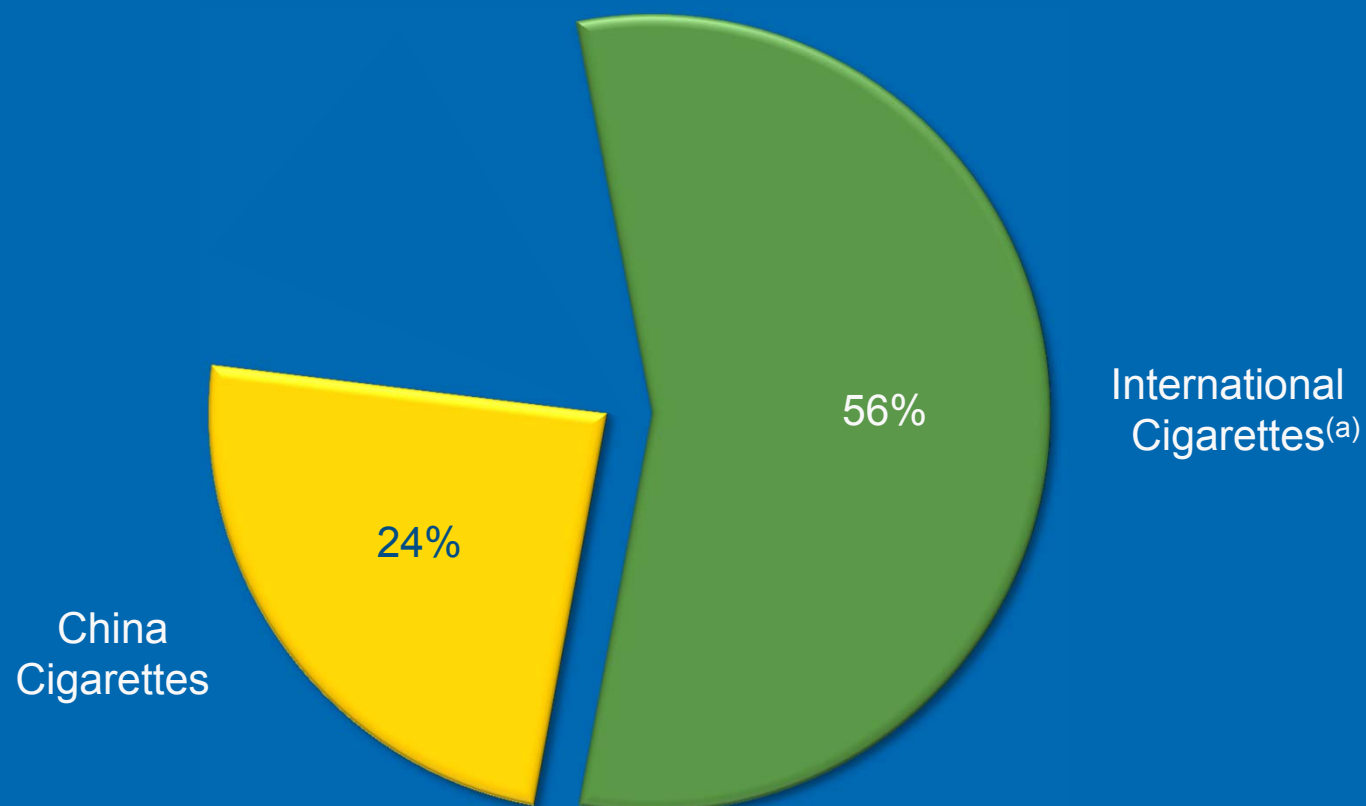


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# Tobacco Industry Retail Sales Value 2011

(\$ billion)

Total: \$598



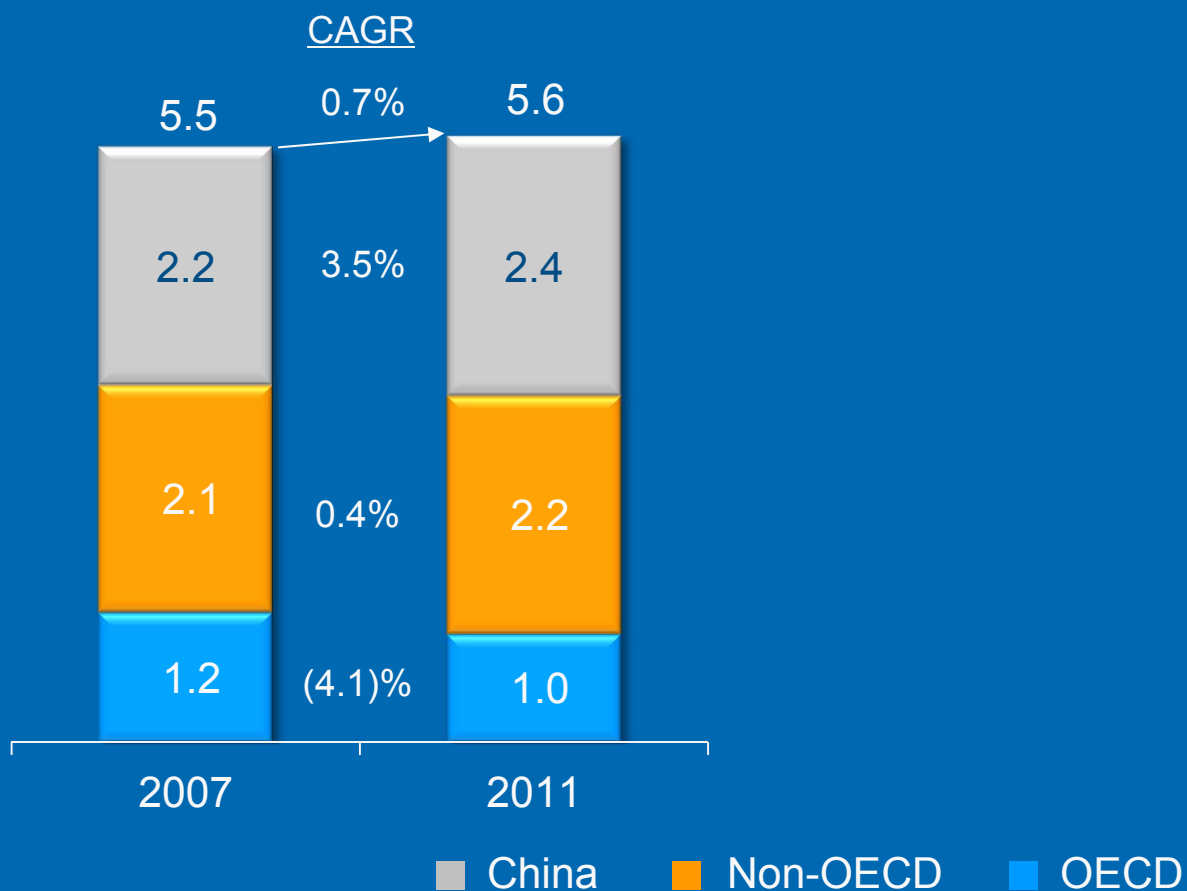
(a) Excluding duty free  
Source: PMI estimates



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# World Cigarette Market<sup>(a)</sup>

Volume (units trillion)



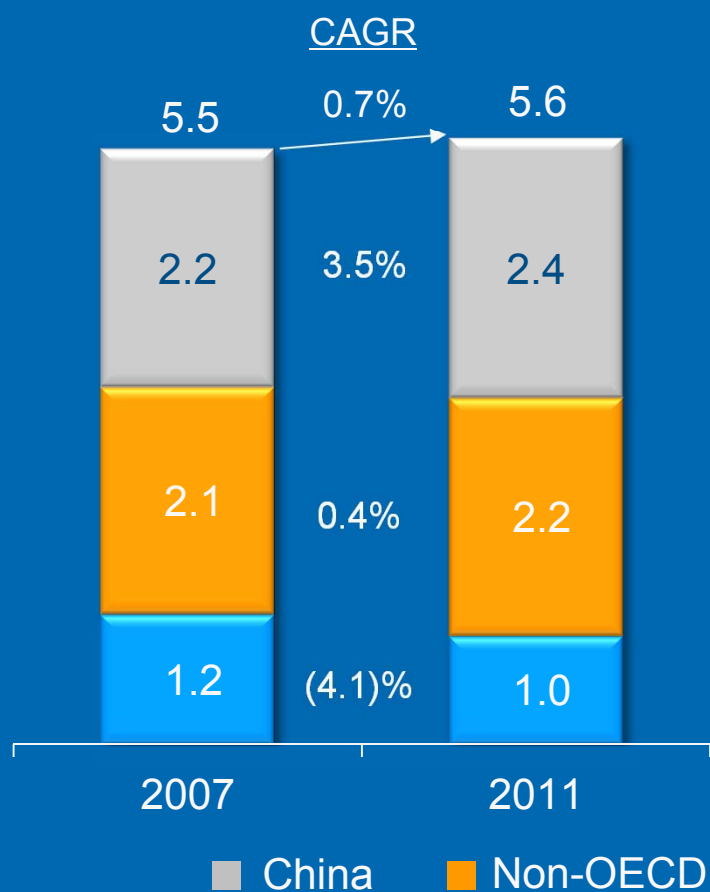
(a) Excluding the U.S. and duty free  
Source: PMI estimates



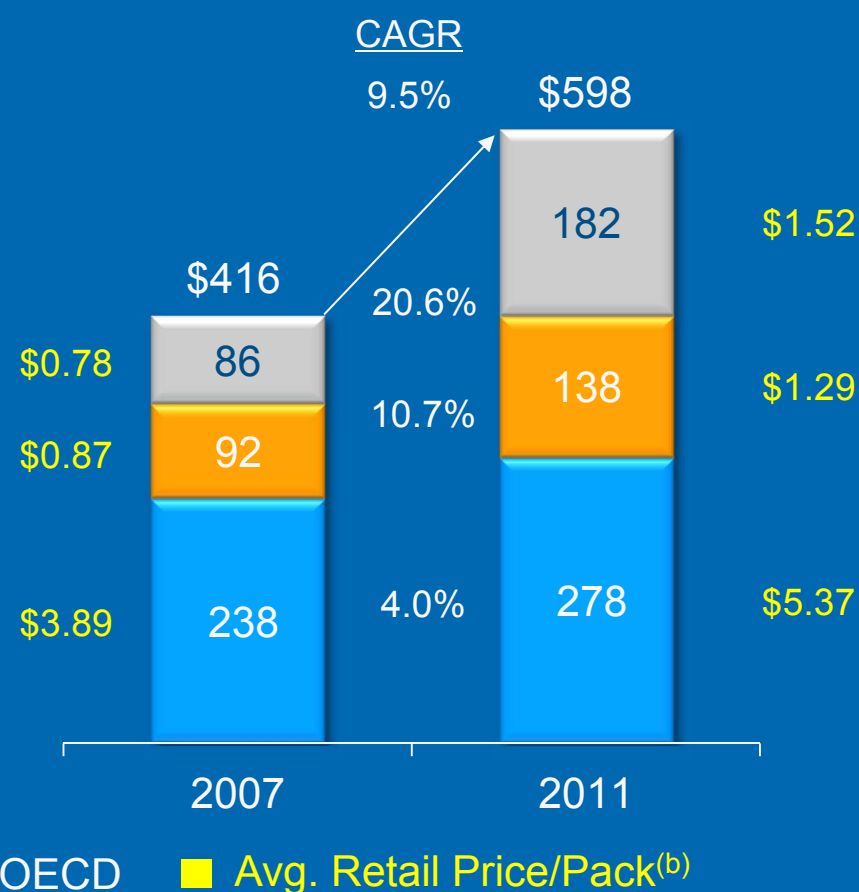
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# World Cigarette Market<sup>(a)</sup>

Volume (units trillion)



Retail Value (\$ billion)



(a) Excluding the U.S. and duty free

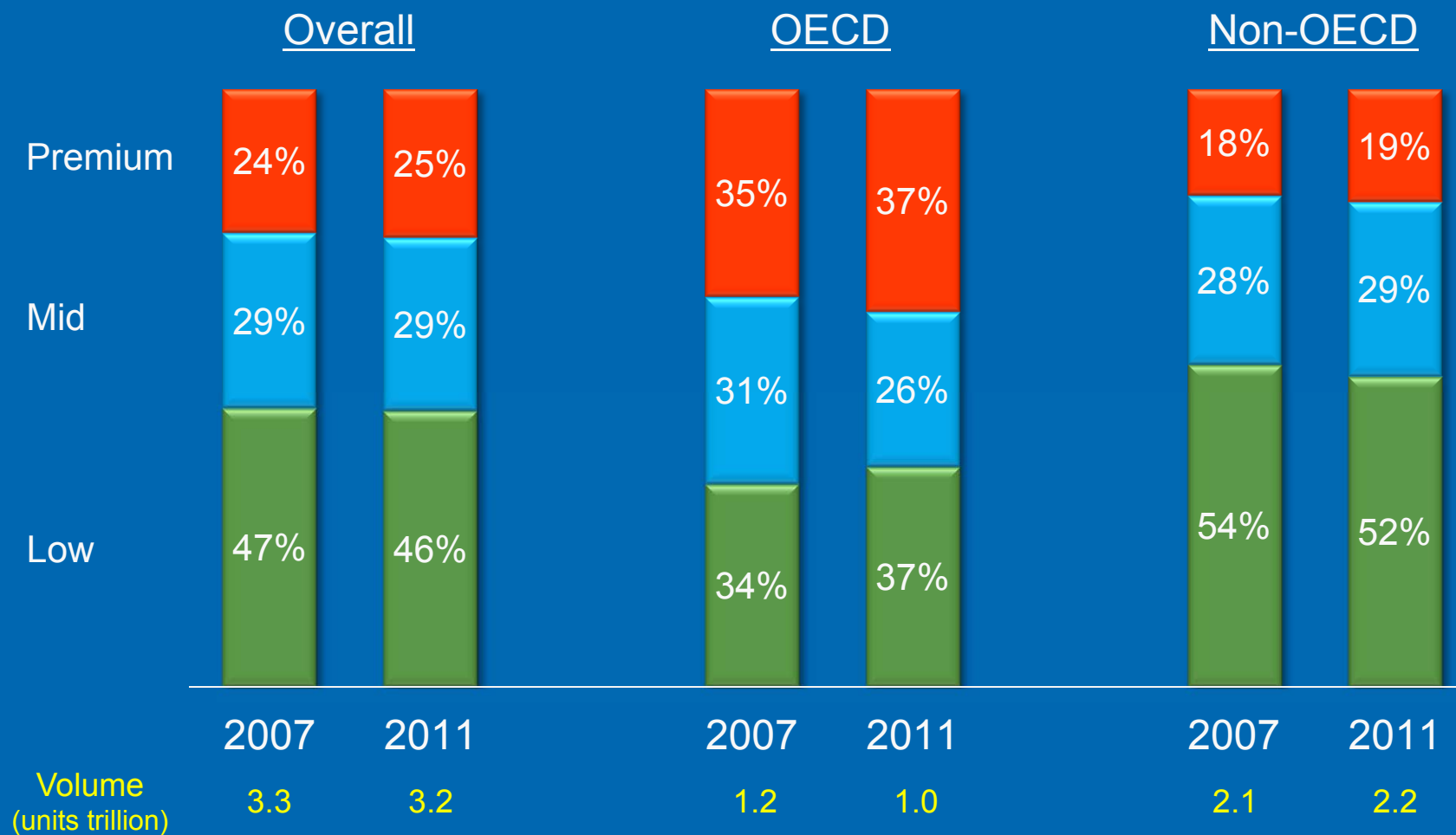
(b) Assumes an average pack size of 20 cigarettes

Source: PMI estimates



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## Industry Price Segment Mix<sup>(a)</sup>



(a) Excluding the U.S., China and duty free  
Source: PMI estimates

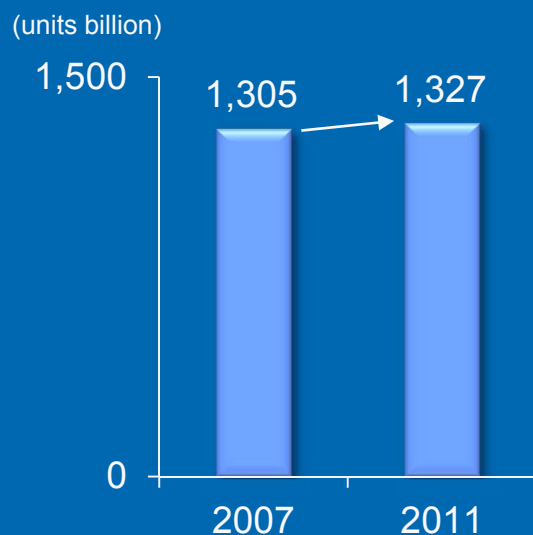


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# Industry Taste / Format Segment Dynamics<sup>(a)</sup>

## Low Tar<sup>(b)</sup>

CAGR: <1%

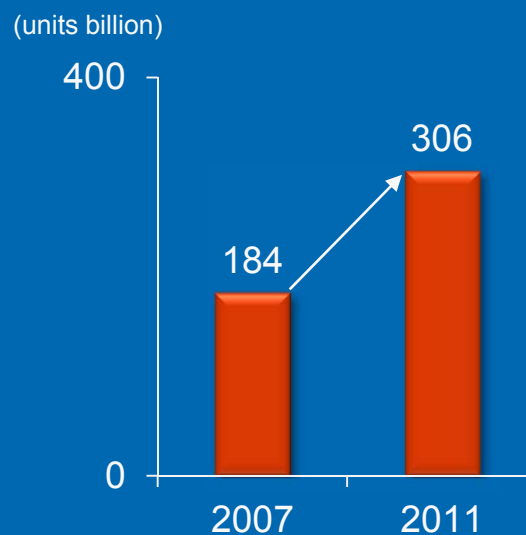


2011 PMI  
Share of  
Segment

31.9%

## Slims<sup>(c)</sup>

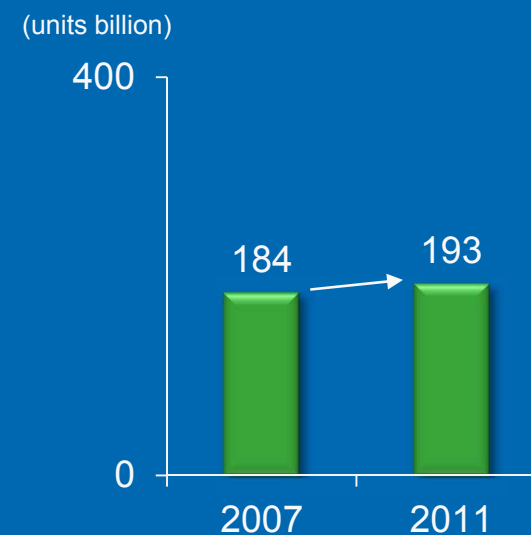
CAGR: 14%



27.9%

## Menthol

CAGR: 1%



50.8%

(a) Excluding the U.S., China and duty free  
(b) Includes lights, ultra lights and super lights  
(c) Includes slims, extra slims and super slims  
Source: PMI estimates





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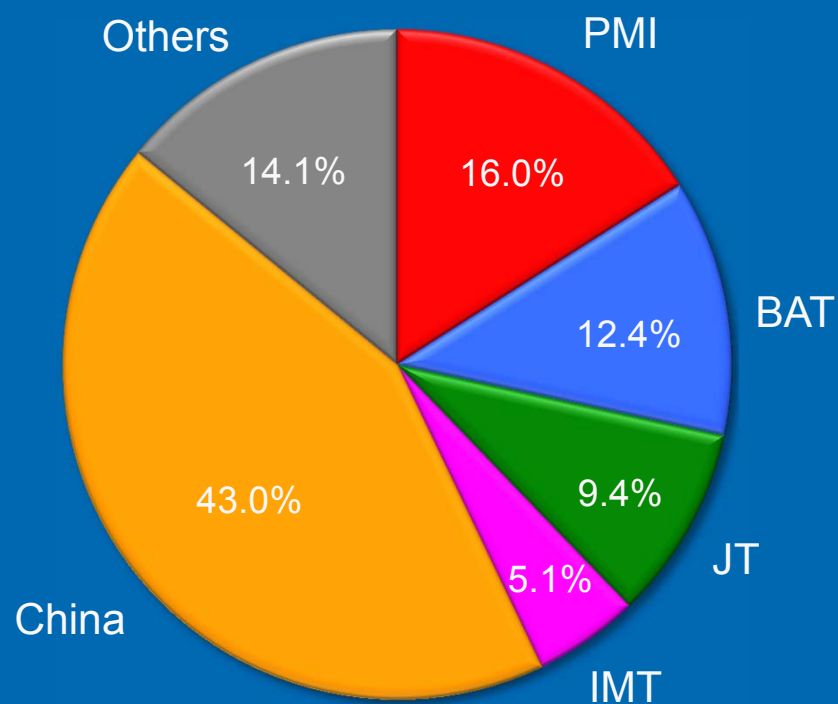
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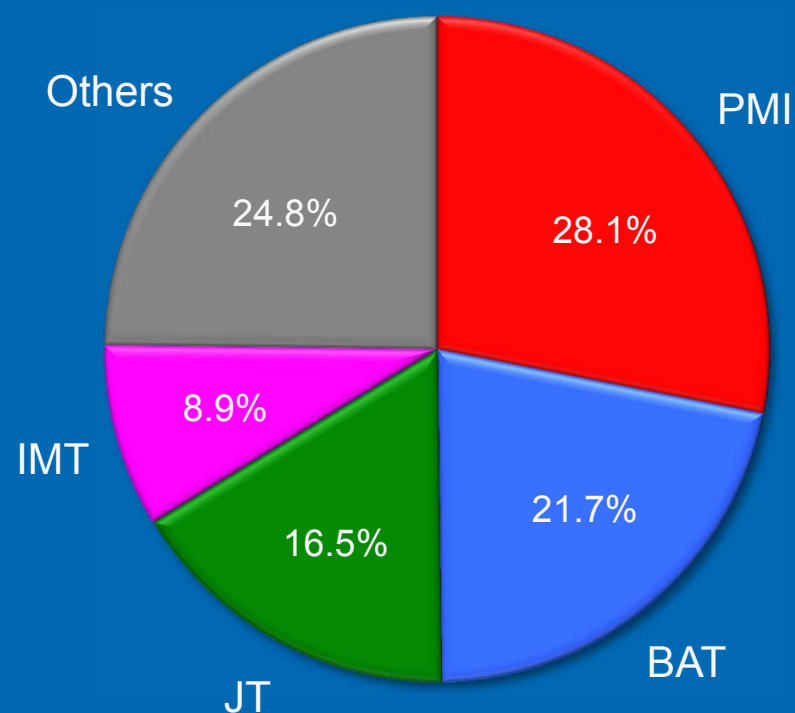
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# Key Competitor Shares 2011

International Market<sup>(a)</sup>



International Market excl. China



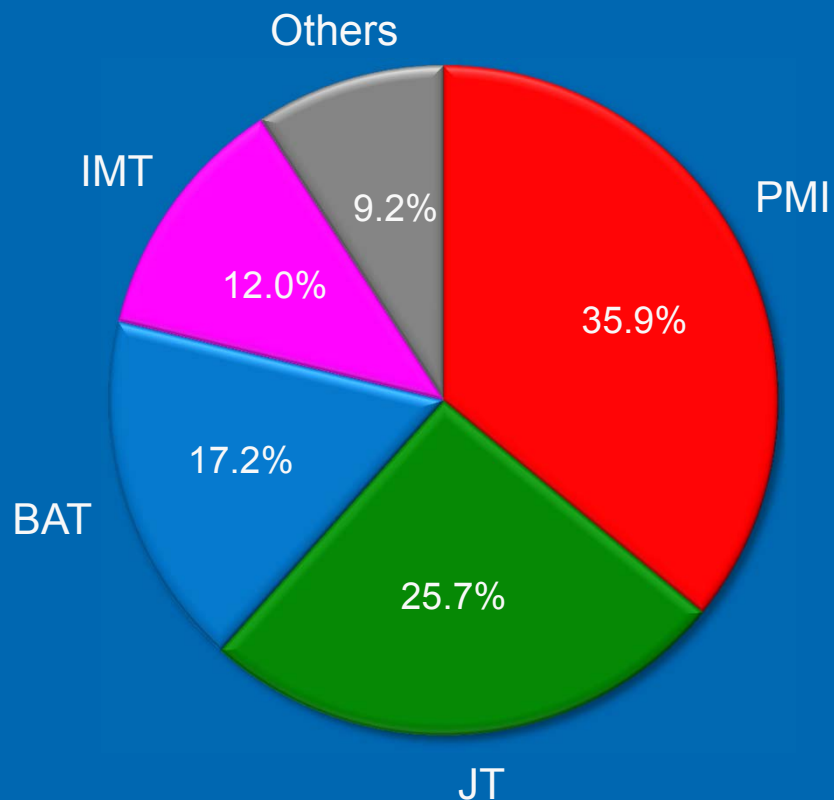
(a) Excluding the U.S.

Note: Cigarette volumes are on a calendar year basis, except for IMT, which reports on a fiscal year ending September

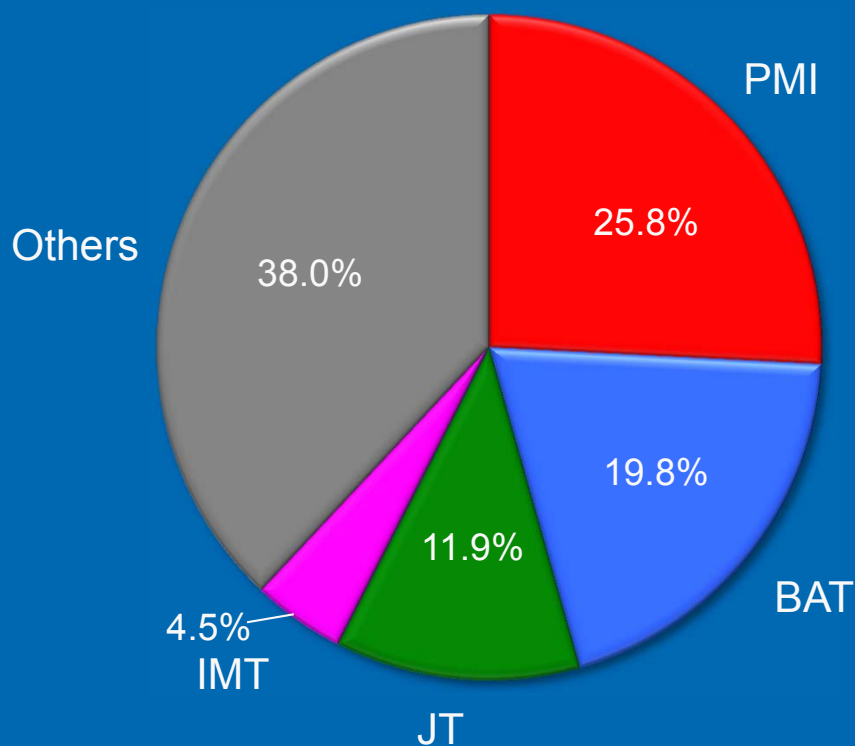
Source: Company reports and PMI estimates

# Key Competitor Shares 2011: Top 10 OECD & Non-OECD Markets<sup>(a)</sup>

Top 10 OECD Markets



Top 10 Non-OECD Markets



(a) Reflects the top ten OECD and non-OECD markets ranked by 2011 industry volume, excluding the U.S., China and duty free  
Source: PMI estimates, Tobacco Institute of Japan and Hankook Research

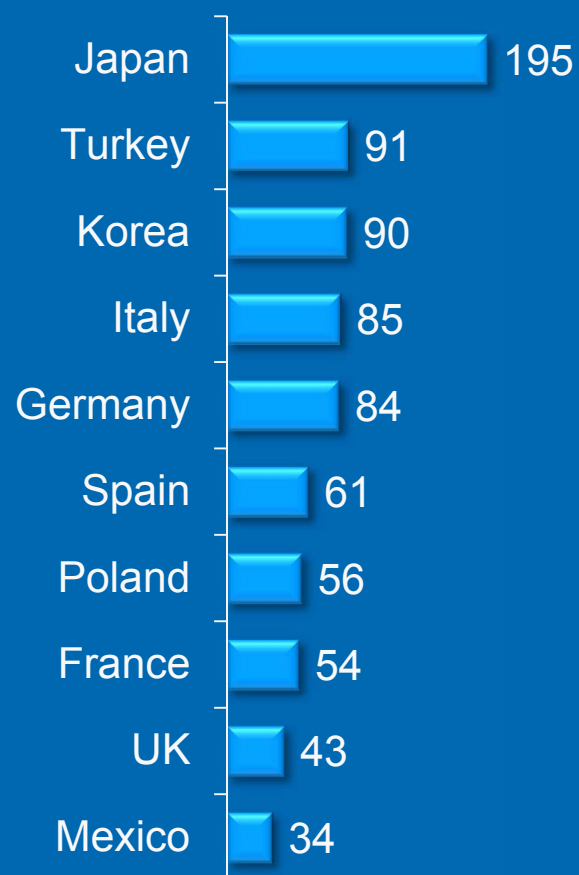


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# Top 10 Cigarette Markets 2011<sup>(a)</sup>

(units billion)

## OECD Markets



## Non-OECD Markets



(a) Based on 2011 industry volume, excluding the U.S., China and duty free  
Source: PMI estimates, Tobacco Institute of Japan and Hankook Research

# PMI Leadership in Top Markets<sup>(a)</sup>

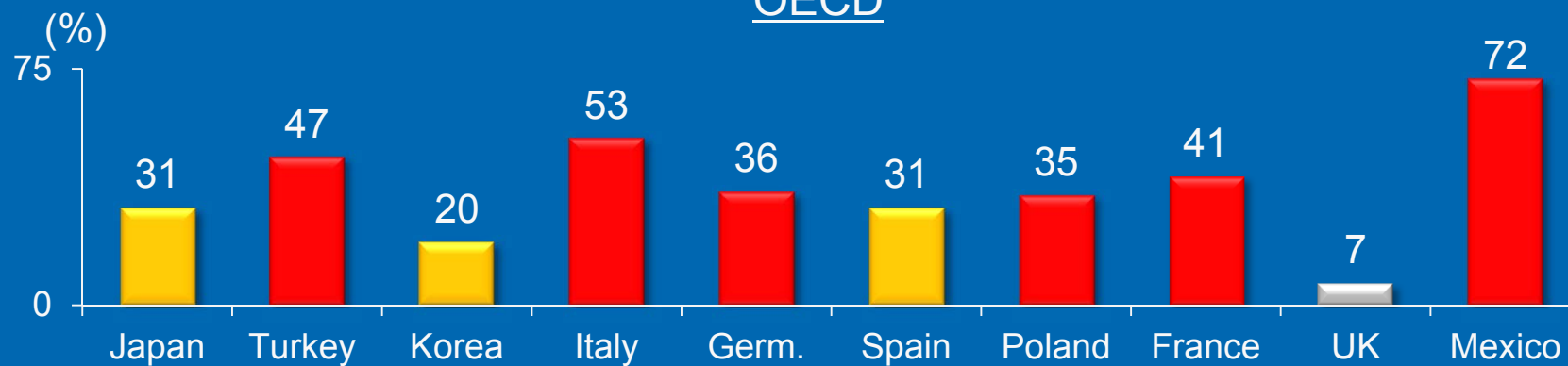
## Share of Market 2011



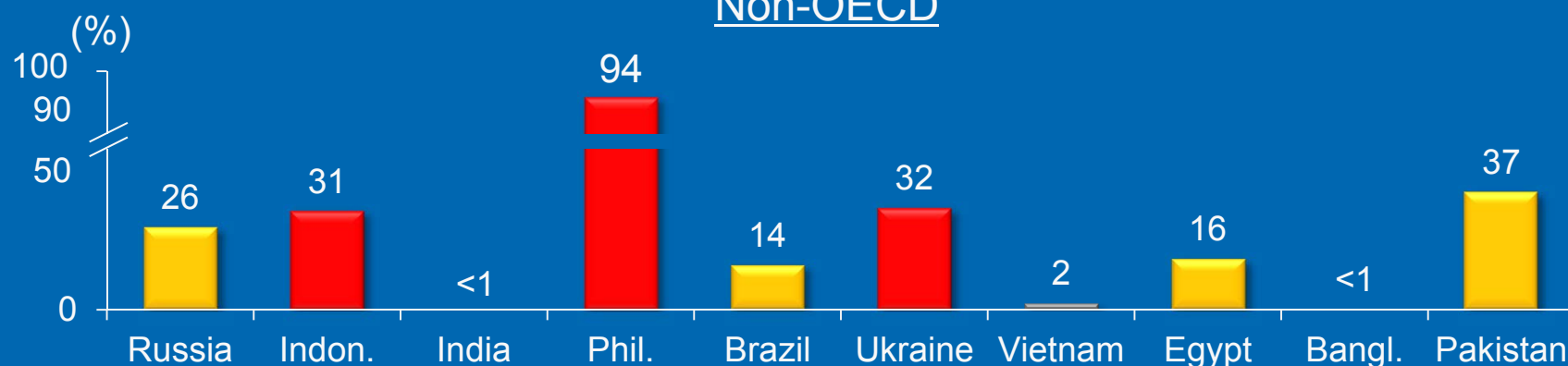
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PMI Ranking: ■ # 1 ■ # 2

### OECD



### Non-OECD



(a) Reflects top ten OECD and non-OECD markets ranked by 2011 industry volume, excluding the U.S. and duty free

Note: Germ. is Germany, Indon. is Indonesia, Phil. is the Philippines, and Bangl. is Bangladesh

Source: Tobacco Institute of Japan, Nielsen, Hankook Research and PMI estimates



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# PMI Geographically Balanced

## 2011 Share of Market by Region<sup>(a)</sup>

	<u>EU</u>	<u>EEMA</u>	<u>ASIA</u>	<u>LA&amp;C</u>
PMI	38%	23%	26%	36%
BAT	20%	22%	16%	49%
JT	17%	23%	12%	4%
IMT	21%	12%	3%	0%
Others	4%	20%	43%	11%

745 billion units

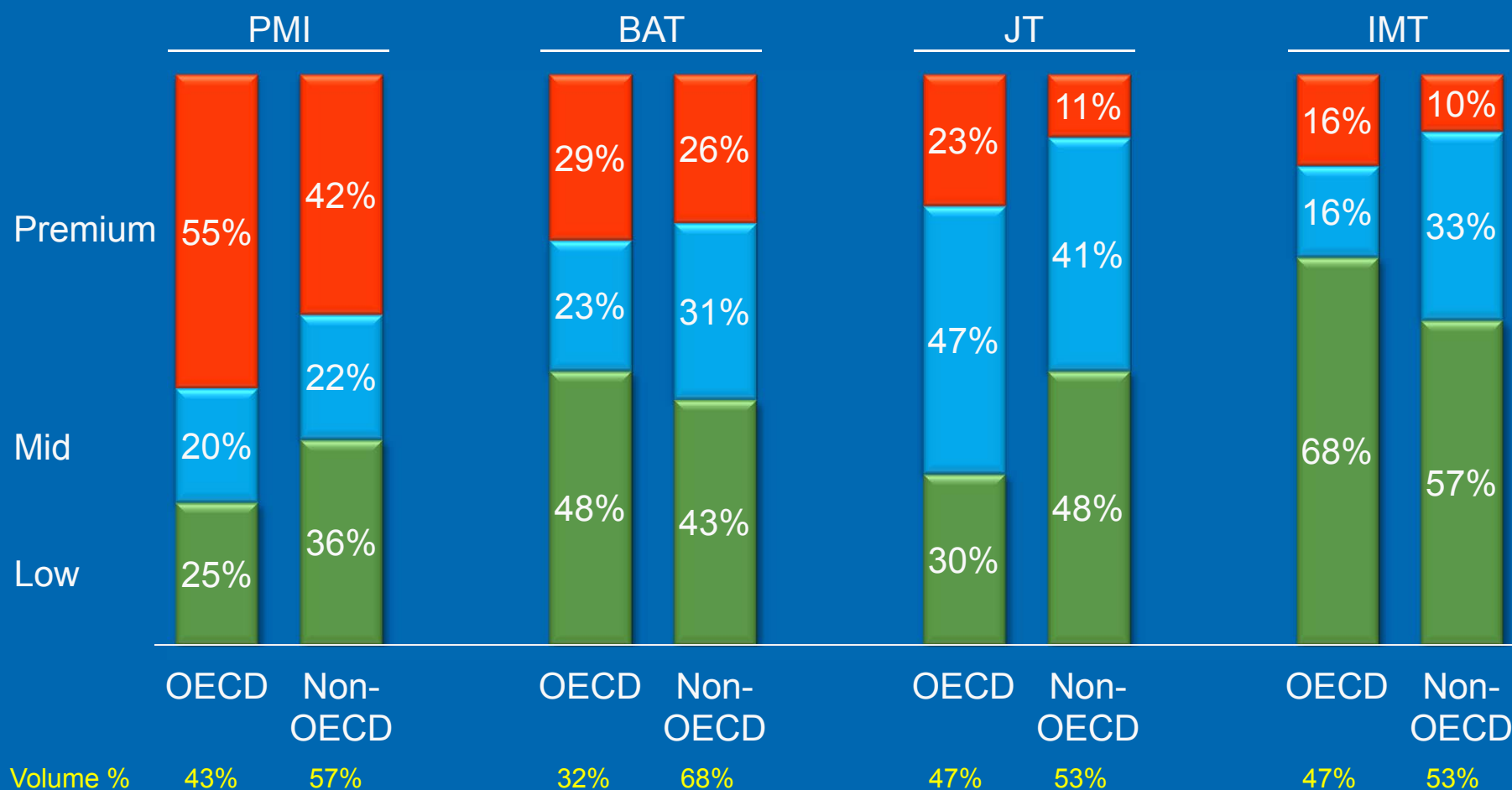
(a) Excluding the U.S., China and duty free  
Source: PMI estimates



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# PMI Premium Price Segment Leadership

## 2011 Price Segment Volume by Competitor<sup>(a)</sup>



(a) Excluding the U.S., China and duty free  
Source: PMI estimates



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## Rational Excise Tax Environment

- Most governments recognize that, over the longer term, the optimization of their revenues is fostered by:
  - Reasonable, regular excise tax increases
  - Predominantly specific excise tax structures
  - Use of minimum excise taxes and other mechanisms to limit consumption by discouraging lower prices
  - Multi-year legislation or plans
- No disruptively large excise tax increases so far in 2012



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## Improving Excise Tax Structures

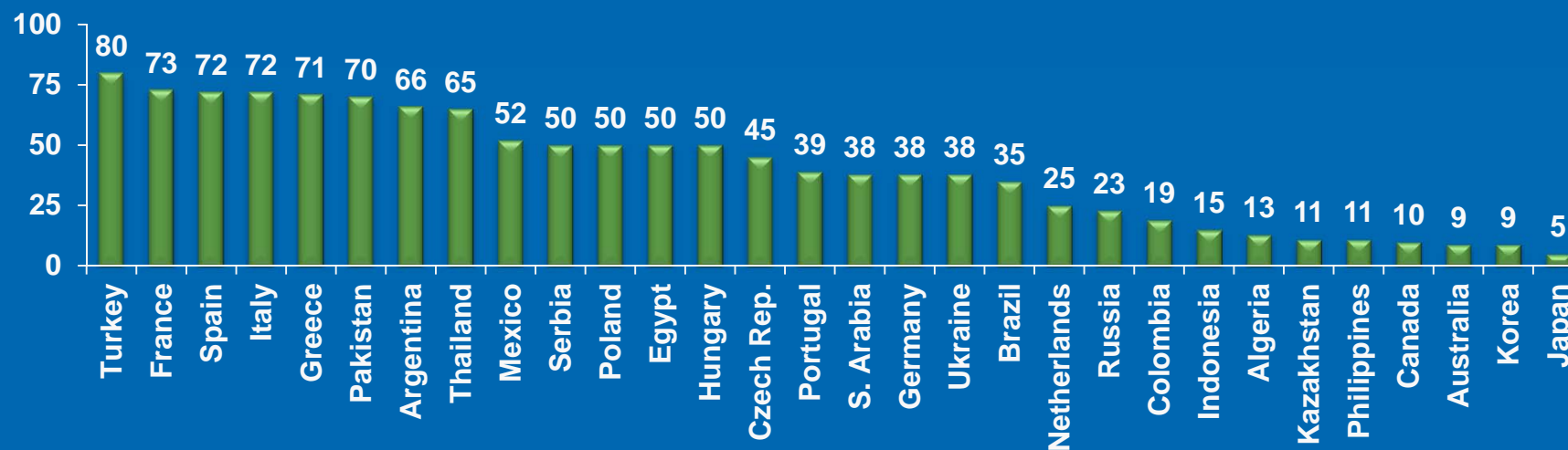
- A number of markets have implemented more favorable tax structures over the past few years:
  - Increased specific-to-total tax ratios
  - Notable recent examples include Brazil, France and Spain
- Provides greater predictability for government revenues
- Narrows price gaps in market

# Tax Structures and Price Increase Productivity in PMI's Top 30 Volume Markets

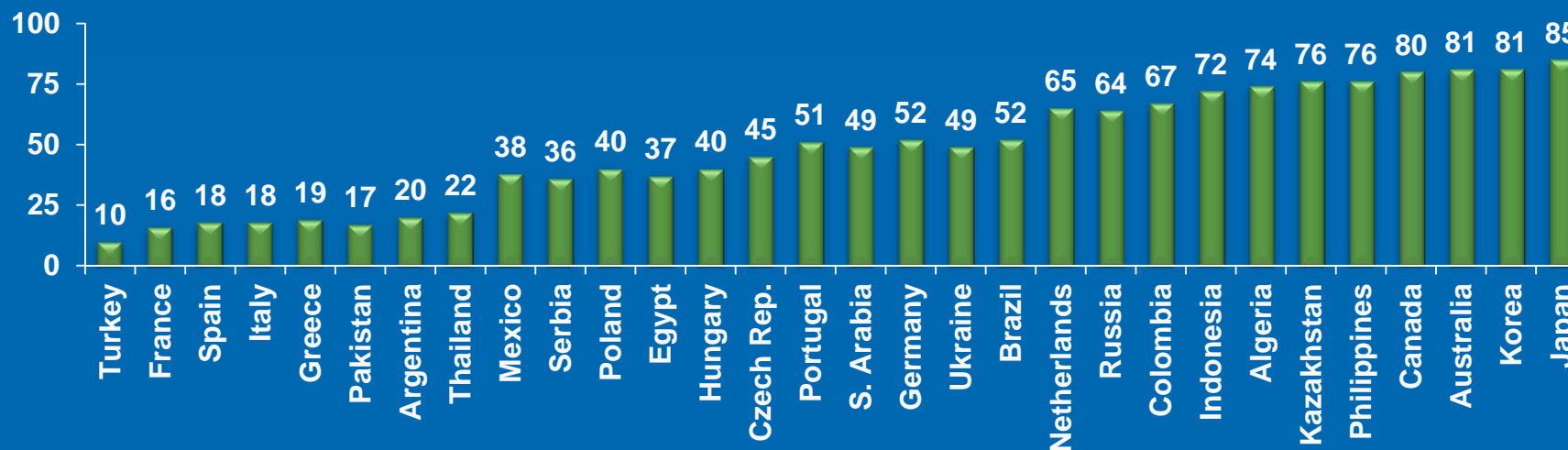


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Ad Valorem and VAT Rate (%)



Price Increase Productivity (%)



# PMI Operates Successfully in Strictly Regulated Markets

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- Many of our markets have introduced:
  - Extensive public smoking restrictions
  - Advertising bans (e.g., billboards, print media, television and radio)
  - Graphic health warnings
  - Limitations on the use of "descriptors"
- We generally support these regulations



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## PMI Opposes Extreme Regulatory Measures

- Some governments have sought to enact measures that are extreme in nature and are not based on rational scientific principles, such as:
  - Plain packaging
  - Health warnings covering most of the pack
  - Display bans
  - Bans on the use of all ingredients
- There is no sound evidence that these types of proposals would reduce consumption or would meaningfully benefit public health



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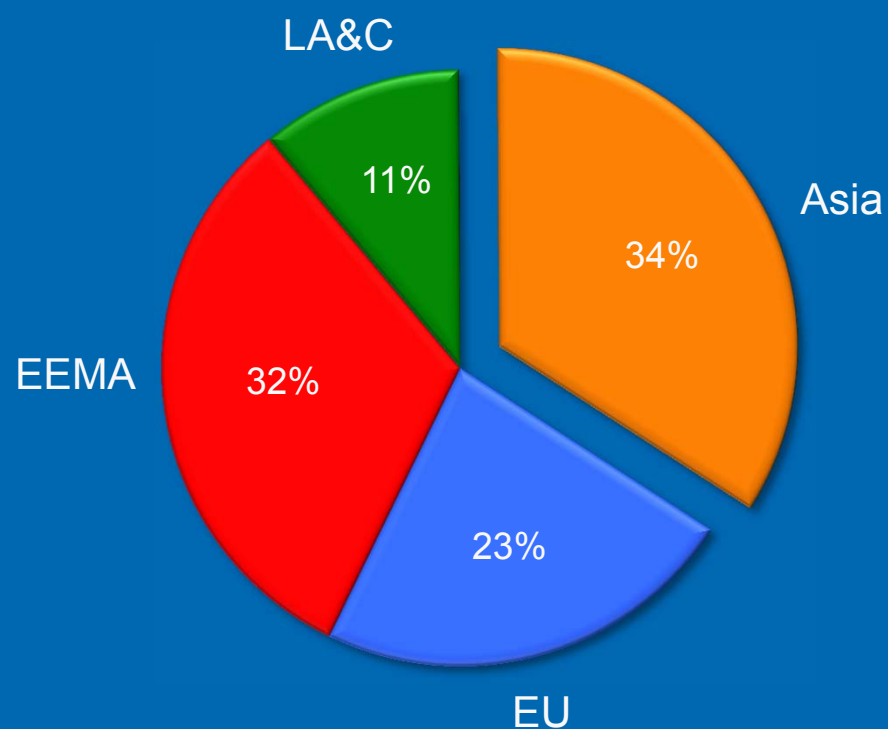
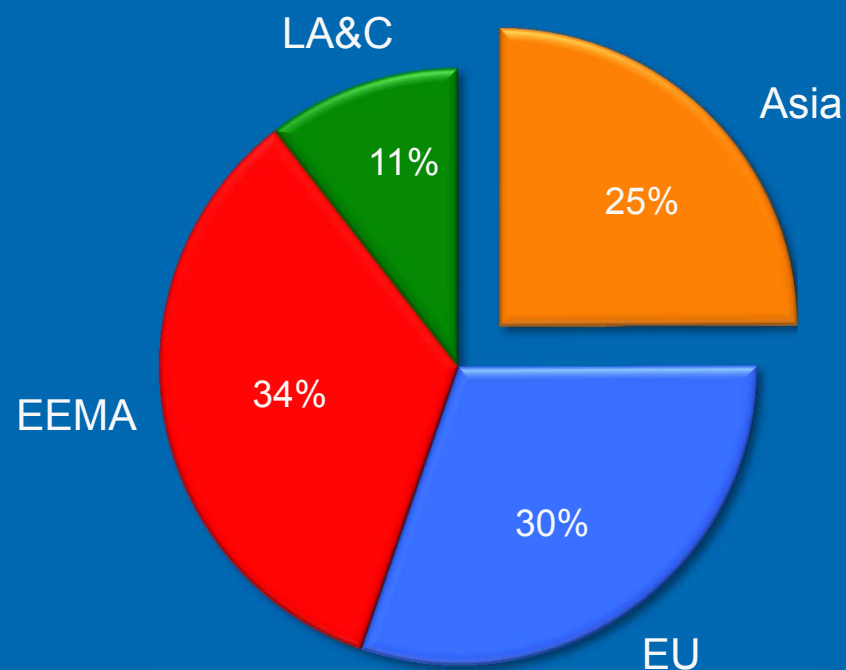
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# Asia Now Largest Volume Contributor to PMI

## PMI Volume Contribution by Region

2007

2011





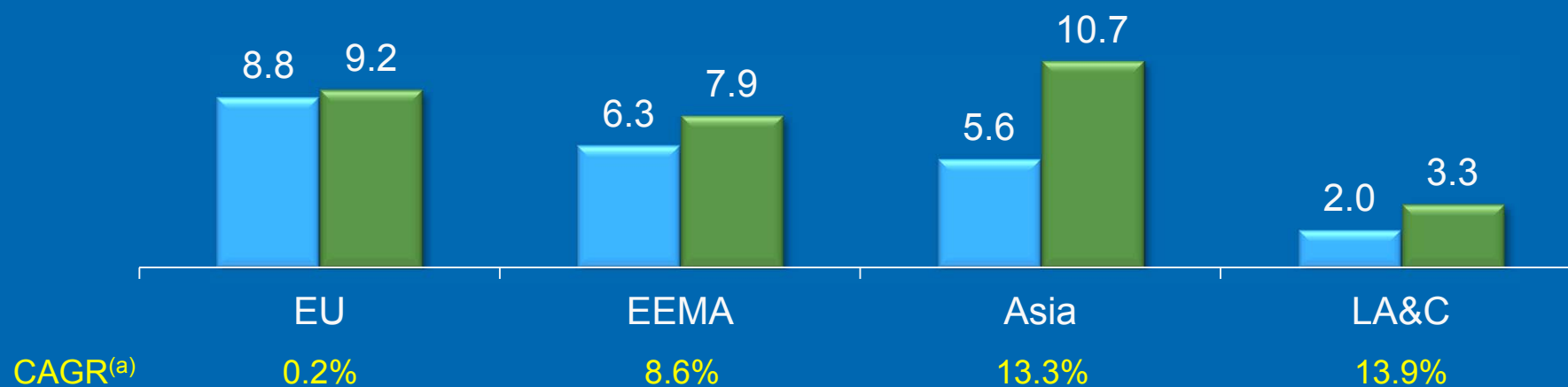
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# Financial Growth Across All Regions

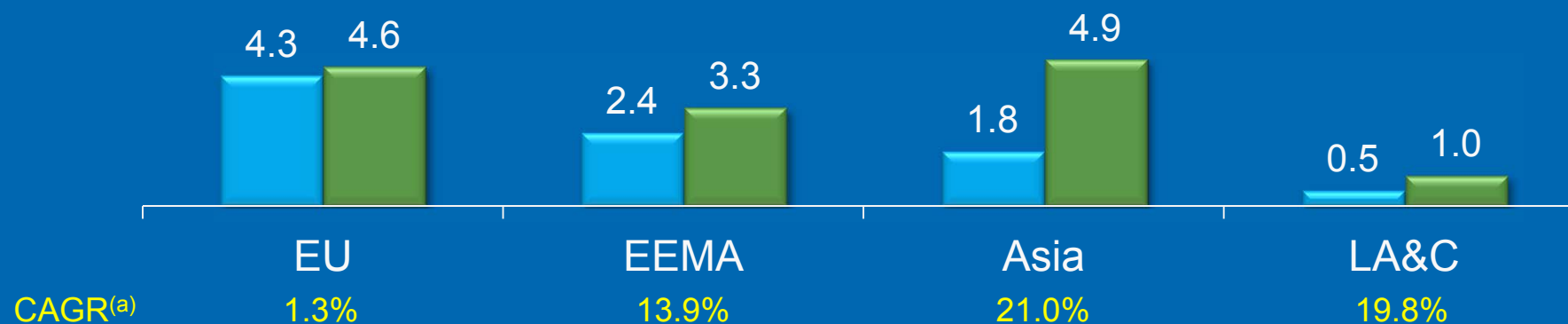
(\$ billion)

## Net Revenues

2007 2011



## Adjusted OCI



(a) Excluding currency  
Source: PMI Financials





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## Evolving Commercial Landscape

- Proliferation of brands, intensifying competition and increasing innovation adding to portfolio complexity
- More demanding adult smokers require more effective communication
- Regulatory restrictions:
  - Limited consumer communication opportunities
  - Additional time and effort to build products



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## Enhanced Commercial Approach

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- Increased retention of our current adult smokers
- Improved success rate of new product introductions
- Longer and simultaneous support of key brands
- Innovative consumer touch points
- Increased focus, simplification and use of common platforms



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  - **Reduction of Illicit Trade**
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## Illicit Trade: Main Categories

- **Counterfeit:** Cigarettes that have been manufactured without the permission of the trademark owner
- **Contraband:** Cigarettes that enter or are sold in a market in violation of fiscal/customs laws, e.g., without paying import duties, excise tax and/or VAT
- **Illicit Whites:** Cigarettes that are produced in a market primarily to be smuggled into and sold in another market where they have no legal distribution





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## Illicit Trade: An Opportunity, Not Only a Risk

- Estimated volume of some 600 billion units, or about 10% of global consumption
- High illicit trade incidence notably in:

Brazil	India	South Africa
Canada	Ireland	Turkey
Egypt	Malaysia	UAE
France	Norway	Uruguay
Germany	Pakistan	Vietnam



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## Illicit Trade: An Opportunity, Not Only a Risk

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- High illicit trade incidence notably in:

Brazil	India	South Africa
Canada	Ireland	Turkey
Egypt	Malaysia	UAE
France	Norway	Uruguay
Germany	Pakistan	Vietnam

- A 50% reduction in illicit trade would increase industry volume by some 300 billion units:
  - Potential OCI upside for PMI of \$1.7 billion



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## Illicit Trade: Solutions

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- Governments becoming more aware of issue and its adverse consequences
- PMI has a sizable, dedicated team in place to help combat illicit trade
- Three-year cooperation agreement with Interpol:
  - Information gathering & sharing
  - Increase awareness of consumers and governments
  - Support legal action against those involved in the illicit trade
  - Provide training to key government stakeholders
  - Creation of Interpol Global Register





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# Agenda

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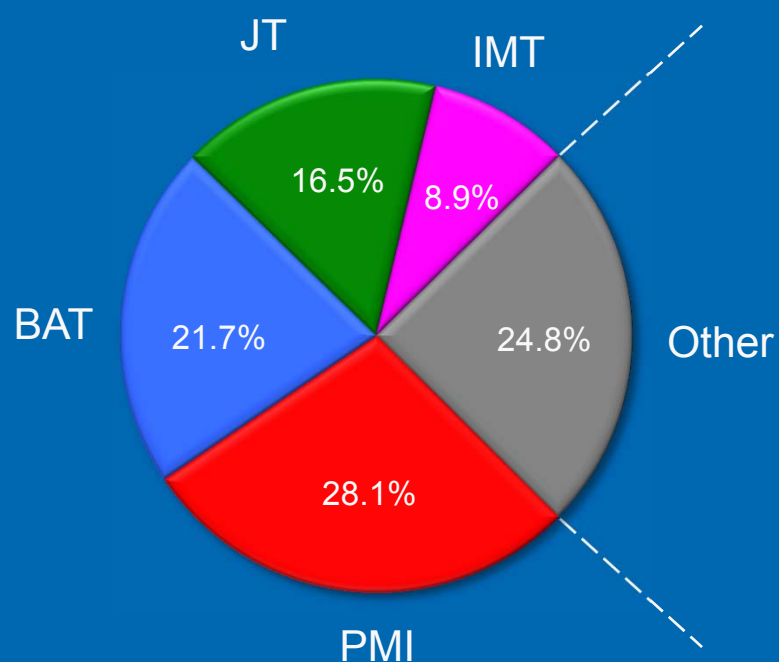
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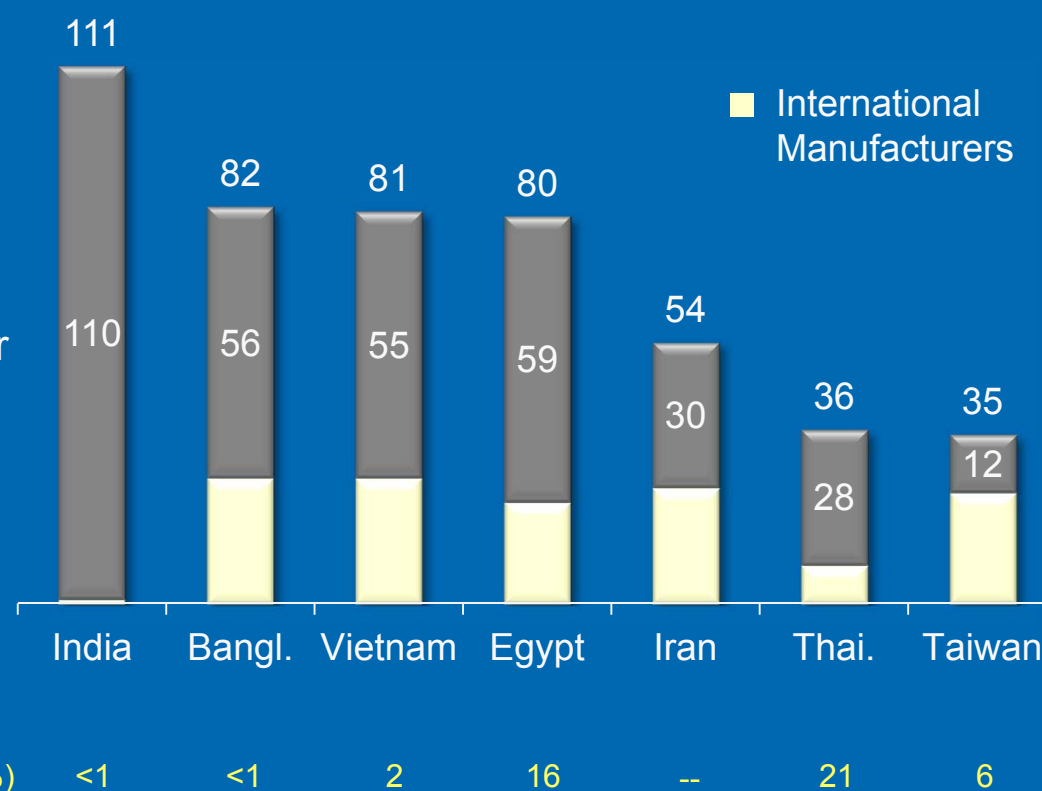
# Opportunities for Geographic Expansion

2011 Share of Market<sup>(a)</sup>



Main Geographic Opportunities

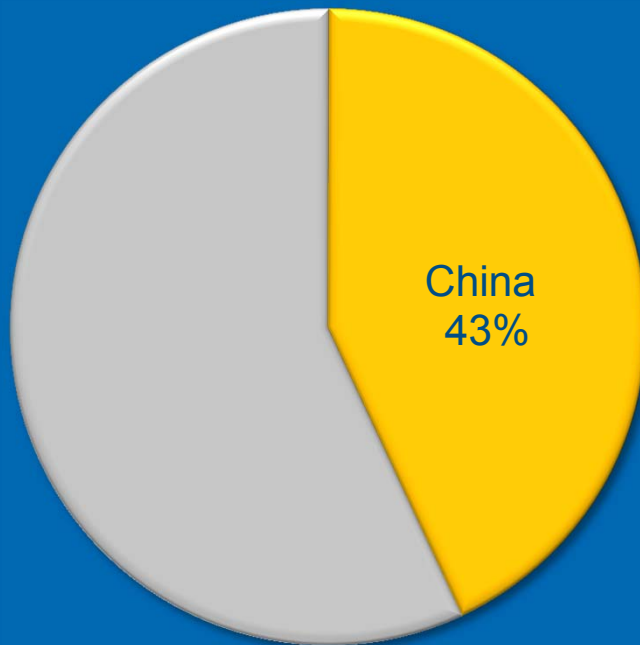
(units billion)



(a) Excluding the U.S. and China  
Note: Bangl. is Bangladesh, Thai. is Thailand  
Source: PMI estimates

## 2011 Industry Volume<sup>(a)</sup>

5.6 trillion units



- 2.4 trillion unit market:
  - PMI share: <0.1%
- Controlled by state monopoly, the CNTC:
  - Most profitable company in China
- PMI developing excellent relationship with the CNTC:
  - *Marlboro* in China
  - International joint venture
  - Other strategic initiatives



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## PMI's NGP Objectives

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- Products acceptable to adult smokers of conventional cigarettes:
  - Taste and sensory experience
  - Ritual
- Robust scientific evidence of risk reduction:
  - Individual risk
  - Reduced risk to the population
  - Best practice systems
- Appropriate regulation for development, assessment, commercialization and consumer communication



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## Our Position on Risk Reduction in Products

- Modifying conventional cigarettes unlikely to be effective in providing material health benefits
- Elimination of combustion most promising path to risk reduction:
  - Tobacco heating
  - Other innovative systems

# Alternatives to Cigarette Products: Smokeless Category



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- Swedish Snus: Epidemiology could qualify it as reduced risk
- Swedish Match – PM International Joint Venture:
  - Progressive geographic expansion
  - Nicotine delivery slower than in cigarettes
  - Different ritual and taste; slow adoption as expected





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## Alternatives to Cigarette Products: e-cigarettes

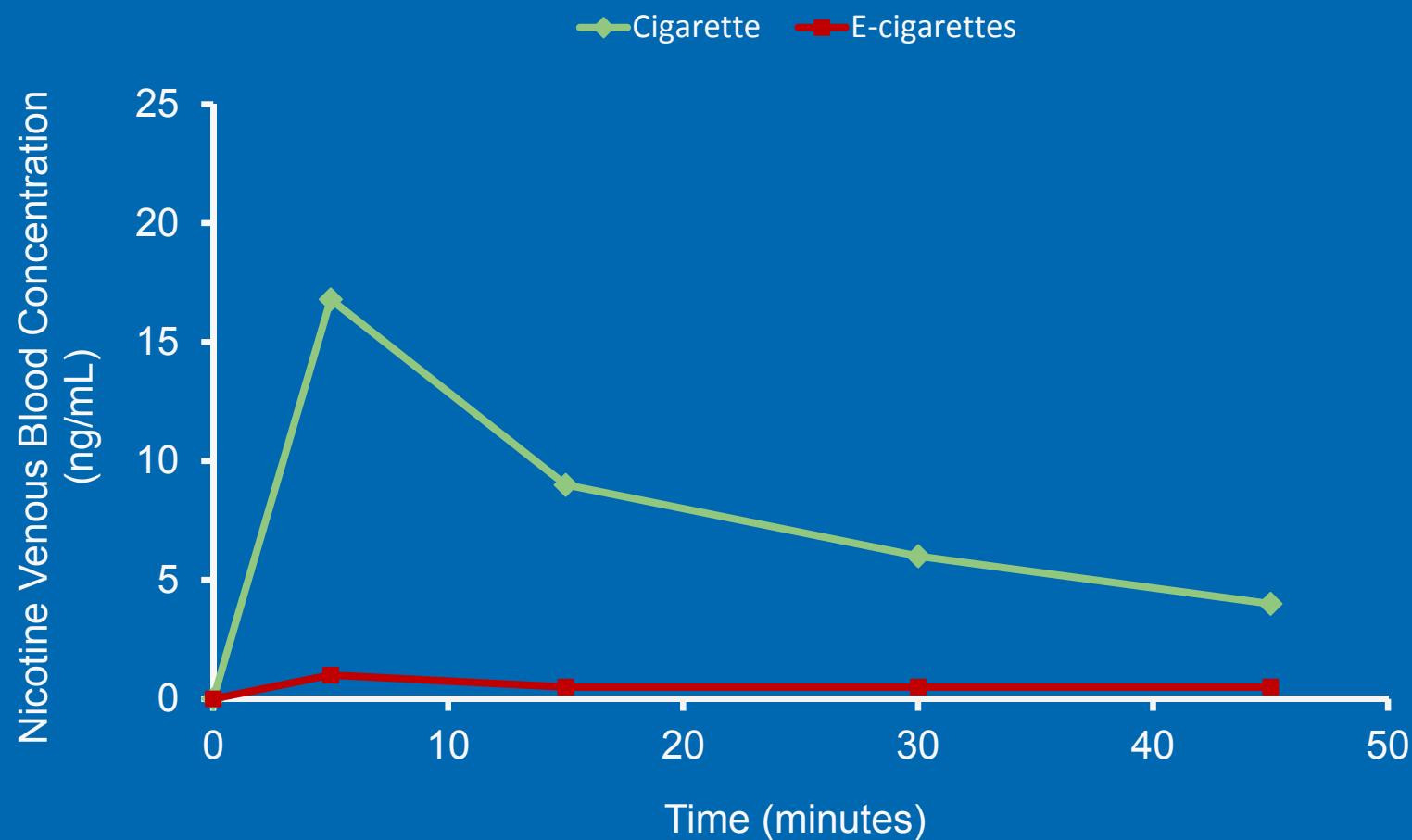
- Nicotine-containing aerosol
- Relatively poor sensory experience and weak nicotine-delivery profile
- Reliability and safety issues
- Commercialized without regulatory approvals
- Increased consumer awareness and regulatory scrutiny





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# Blood Nicotine Level Comparison



Note: Illustrative comparison; corrected for baseline nicotine

Source: Vansickel AR, Cobb CO, Weaver MF, Eissenberg TE (2010). A clinical laboratory model for evaluating the acute effects of electronic "cigarettes": nicotine delivery profile and cardiovascular and subjective effects. *Cancer Epidemiol Biomarkers Prev* 19: 1945-1953



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## PMI's Three Product Platforms<sup>(a)</sup>

**Platform 1**



(a) The products described are subject to ongoing development and therefore the descriptions are illustrative and do not necessarily represent the latest stages of product development



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## PMI's Three Product Platforms<sup>(a)</sup>

**Platform 1**



**Platform 2**

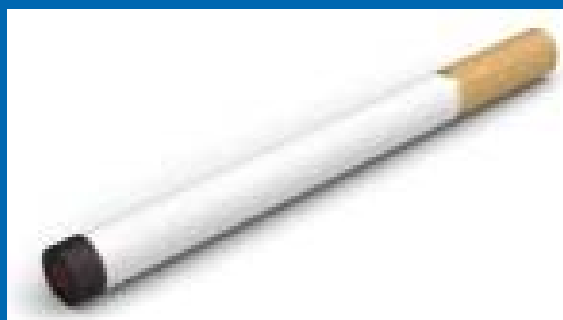
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## PMI's Three Product Platforms<sup>(a)</sup>

**Platform 1**



**Platform 2**

**Platform 3**



(a) The products described are subject to ongoing development and therefore the descriptions are illustrative and do not necessarily represent the latest stages of product development



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## NGP Risk Assessment: A Two-Pronged Approach

- Reduction in the risk of disease for the adult smoker:
  - Pre-clinical and clinical studies
- Impact on the population as a whole:
  - Initiation
  - Cessation
  - Relapse of smokers who have quit
  - Switching rates, risk understanding and potential for unintended use
  - Potential conversion to conventional cigarettes of adult smokers that start with NGPs



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## NGP Risk Assessment: Population

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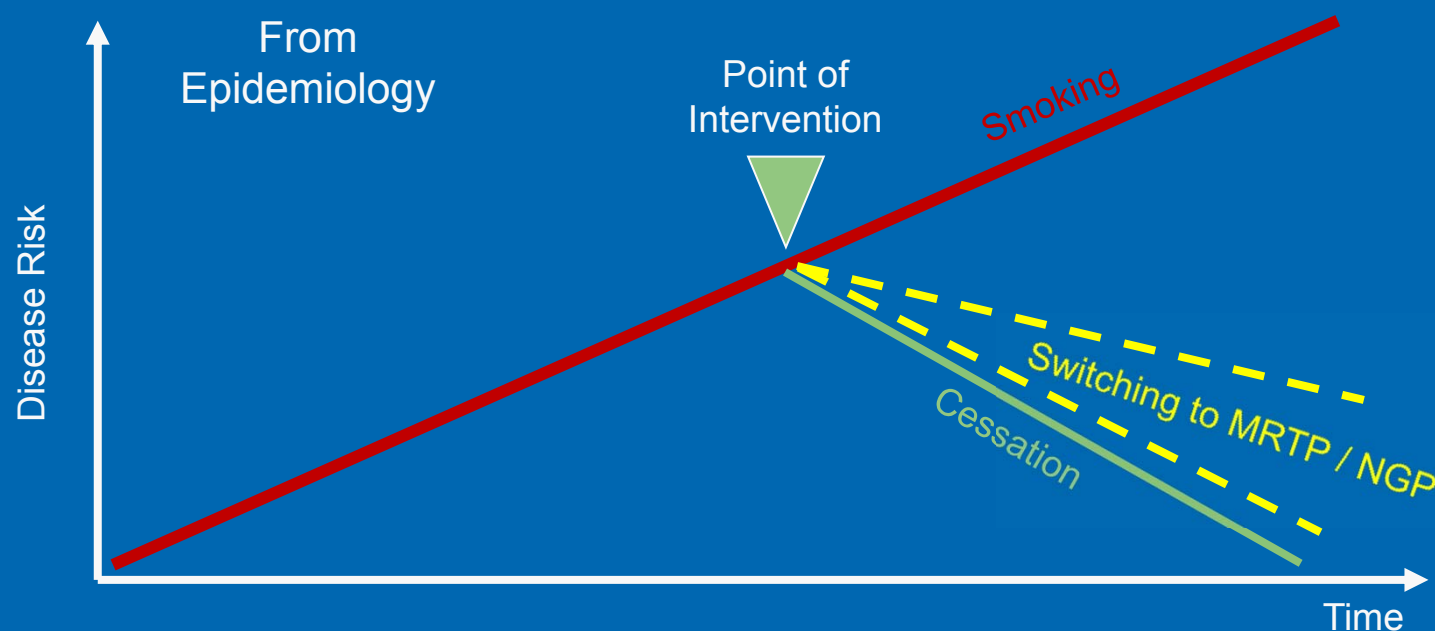
- Behavioral, clinical and econometric assessments
- Useful part of evidence used to substantiate individual risk
- Further validation following post-market surveillance

# Cessation as a Benchmark to Substantiate Risk Reduction



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- The health risks of smoking and the reversal of risks after quitting smoking are well established



- “[T]he closer risks and exposures from the MRTP are to cessation products, the more confident a regulator can be in the chances for net public health benefit” – U.S. Institute of Medicine, 2011

Note: The descriptions in the chart are for illustrative purposes only

# PMI's Assessment Strategy

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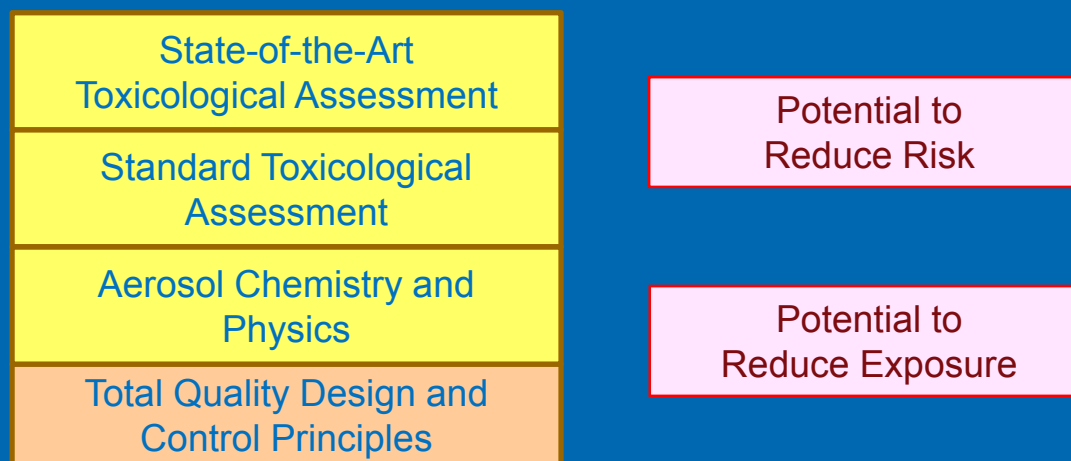
Total Quality Design and  
Control Principles





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# PMI's Assessment Strategy

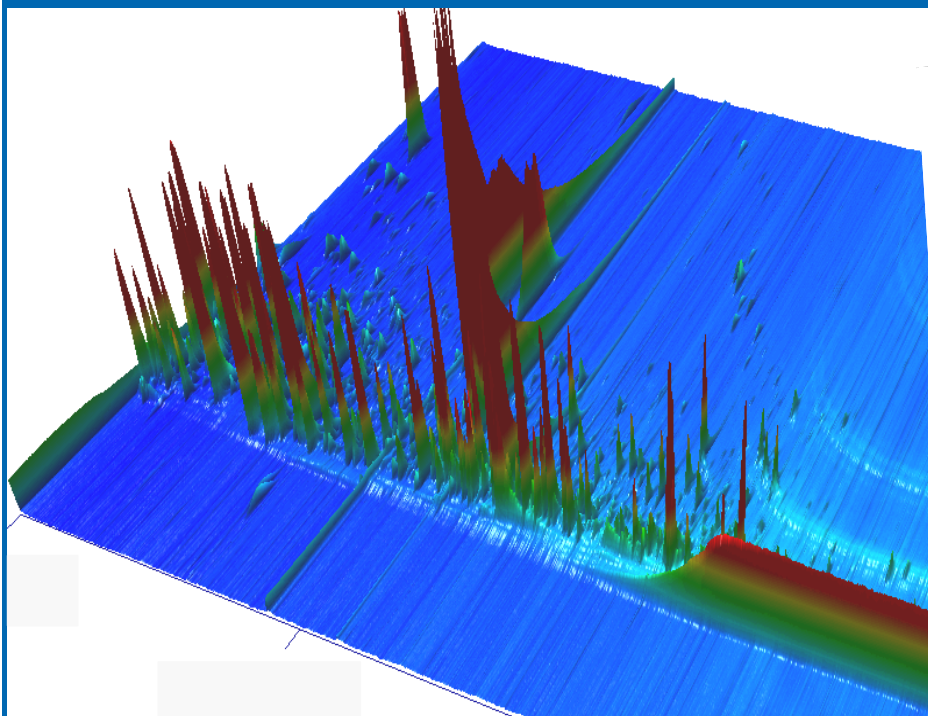




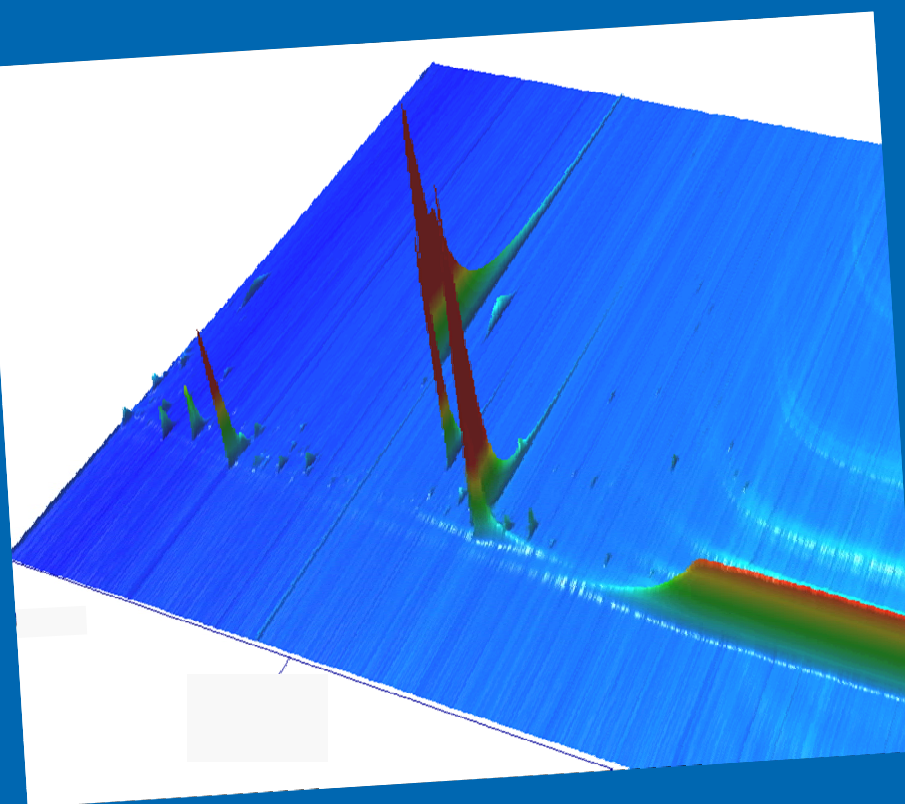
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# Heating versus Combustion Simplifies Chemistry

## Conventional Cigarette

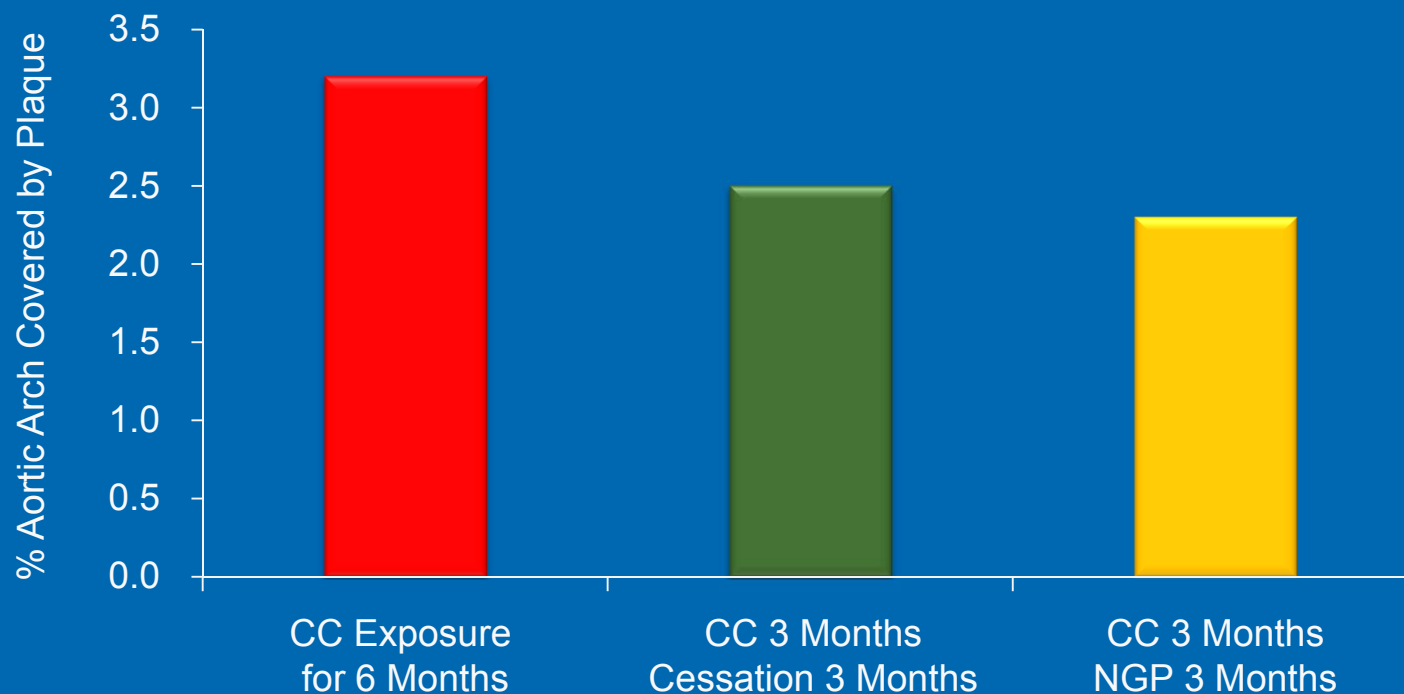


## PMI NGP



Note: Study using Platform 2

# Reductions in Atheromatic Plaque Growth in NGP Exposed ApoE<sup>-/-</sup> vs. Conventional Cigarette

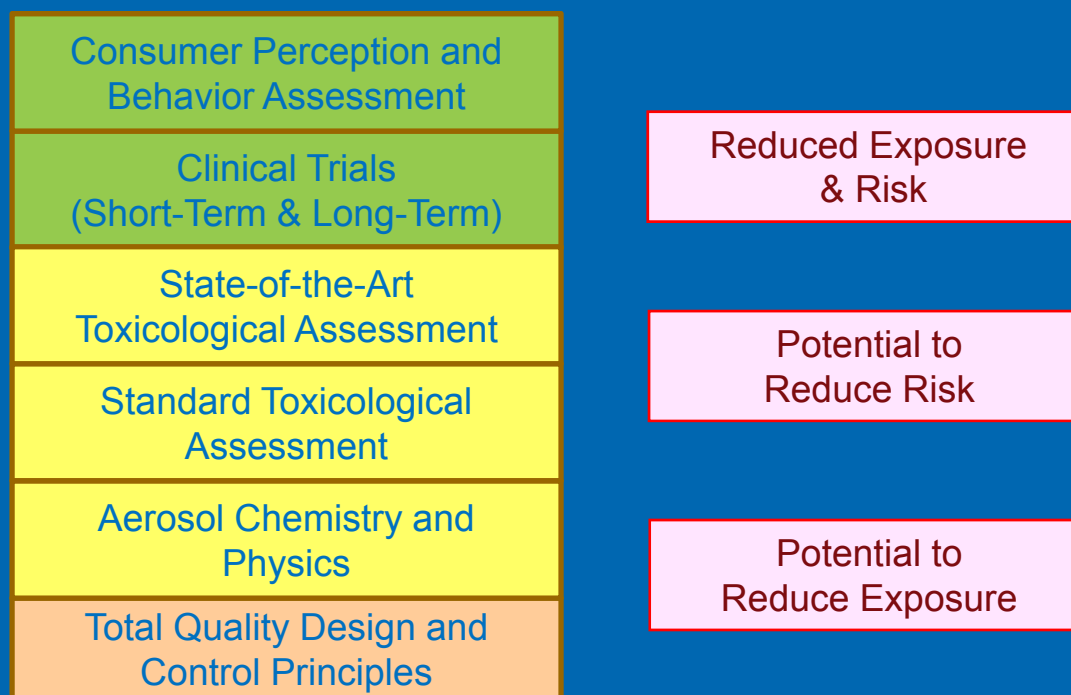


Switching to NGP is similar to cessation for plaque growth



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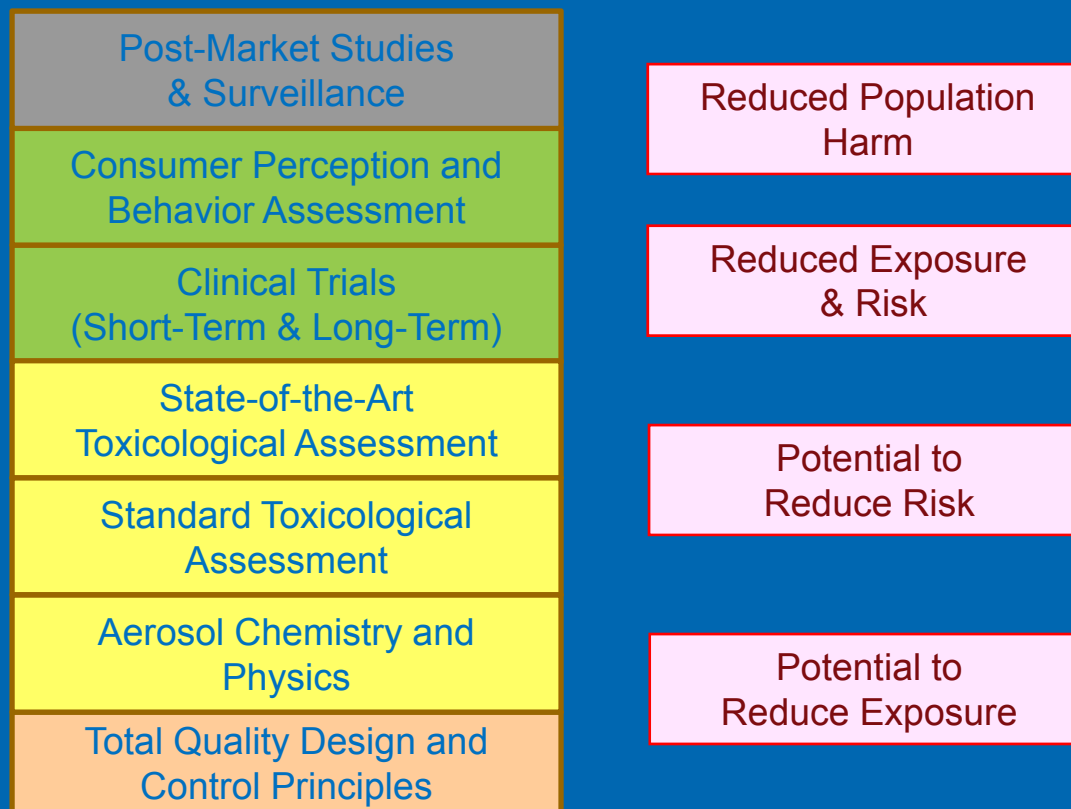
# PMI's Assessment Strategy





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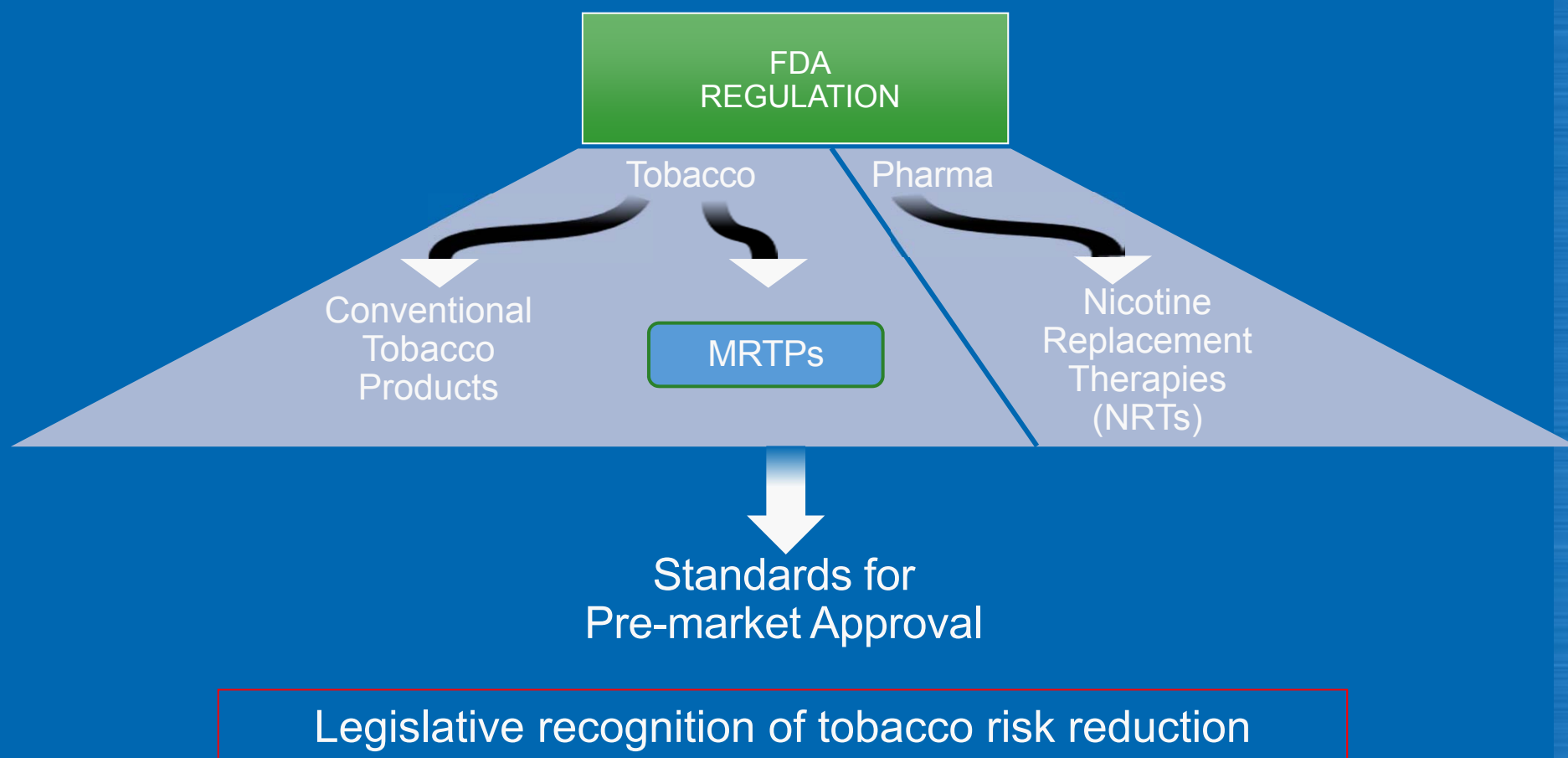
# PMI's Assessment Strategy





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## U.S. Law Defines a Different Category





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## The FDA has Issued Draft Guidance

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- Non-binding
- MRTPs may be valuable tools in promoting public health
- Generally in line with PMI's assessment approach
- Does not establish required levels of evidence
- Continued consultation necessary for more detailed guidance



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## PMI has Begun Engaging Regulators

- U.S. FDA:
  - Written submissions (February 2012) and comments to Draft Guidance (June 2012)
  - Positive meeting (May 2012)
  - Detailed subject matter meetings to follow
- European Union
- Asia





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## Planning for Commercialization

- Construction of large-scale greenfield manufacturing facility:
  - Site selection under evaluation
  - Equipment derived primarily from conventional machinery
  - Strong potential for optimization as technology matures
  - Larger initial footprint and capital investment
  - Ready in 2015 / 2016
- Development of commercial plans underway:
  - Communication and branding
  - Priority markets
  - Business model refinement
- Planning of resources and supply chain readiness



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## NGP Expected Timeline

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- Significant progress on NGPs
- Manufacturing facility ready in 2015 / 2016
- Product commercialization planned for 2016 / 2017



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## Key Takeaways

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- Continued organic growth:
  - Innovation in brands, consumer engagement and commercial approach
  - Sustainable pricing
  - Evolving tax structures
  - Reduction of illicit trade
- NGPs represent a potential paradigm shift:
  - Product commercialization planned for 2016 / 2017



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**Lausanne, June 21, 2012**

Questions & Answers



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# 2012 INVESTOR DAY

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](http://www.pmi.com/2012InvestorDay/RecSlides)