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2012
INVESTOR DAY

Investor Day – EU Region Lausanne, June 21, 2012

Jacek Olczak

President, European Union Region

Philip Morris International



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Region Overview



Current EU Region = EU Area



+ Non EU Markets



– EU Markets belonging to EEMA Region



27 Countries
Population (million): 485

2011

Cigarettes

Cigarette Industry (units billion)	555
LA (min. 18) – 64 Smoking Incidence	20.8%
PMI Cigarette Share of Market	38.2%

Other Tobacco Products (OTP)

OTP Industry (eq. units billion)	136
Fine Cut ^(a) Industry (eq. units billion)	116
PMI Fine Cut Share of Market	12.6%

PMI Footprint

Adjusted OCI (\$ million)	4,605
Employees	11,000+

(a) Includes Roll Your Own, Make Your Own, and additionally pipe tobacco in Spain and Poland. Fine cut converted to cigarette equivalents based on conversion ratio of 1 unit = 0.75g

Source: Eurostat, PMI estimates and Market Research



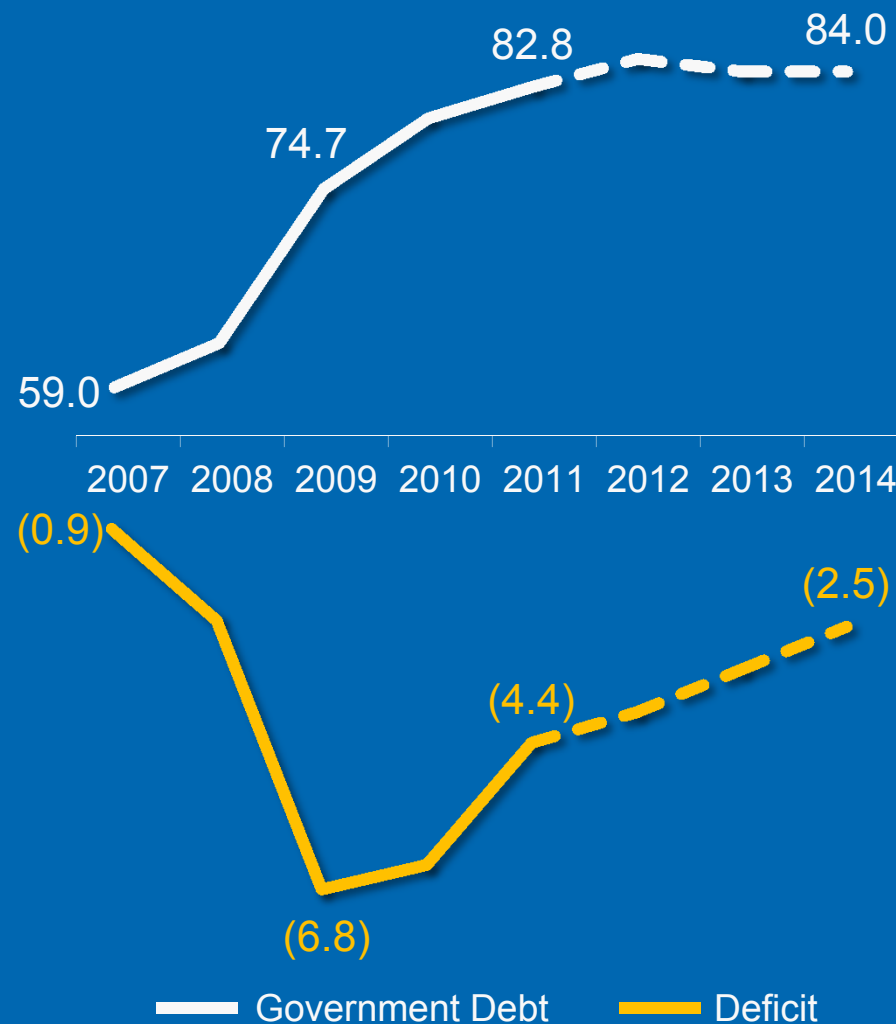
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Weak Economic Outlook

Real GDP Variance (%)



Government Debt (%) and Deficit (%)

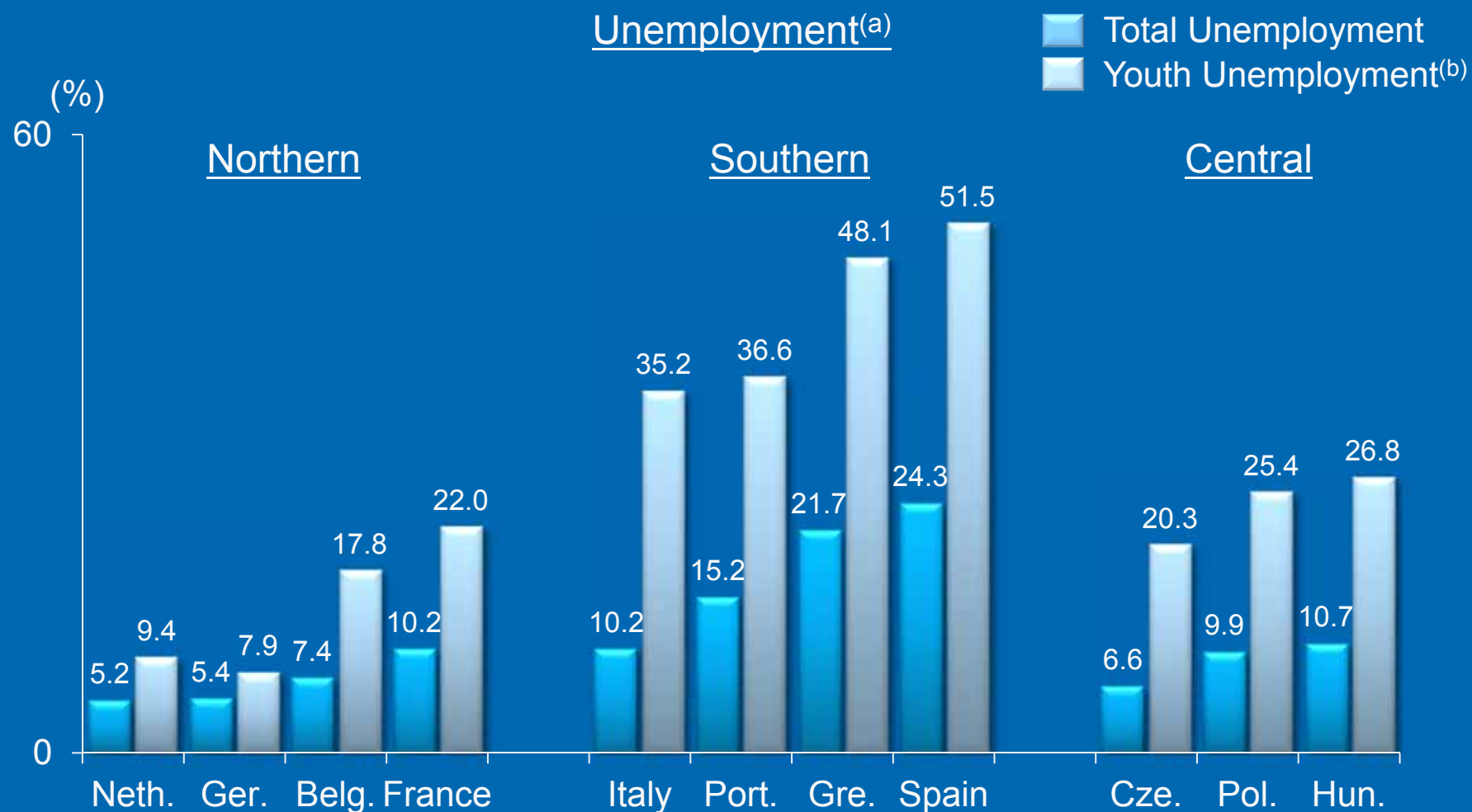


Source: Economist Intelligence Unit, Eurostat



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High Unemployment Levels



(a) April 2012 data. February 2012 data for Greece

(b) Youth Unemployment refers to population under 25 years old

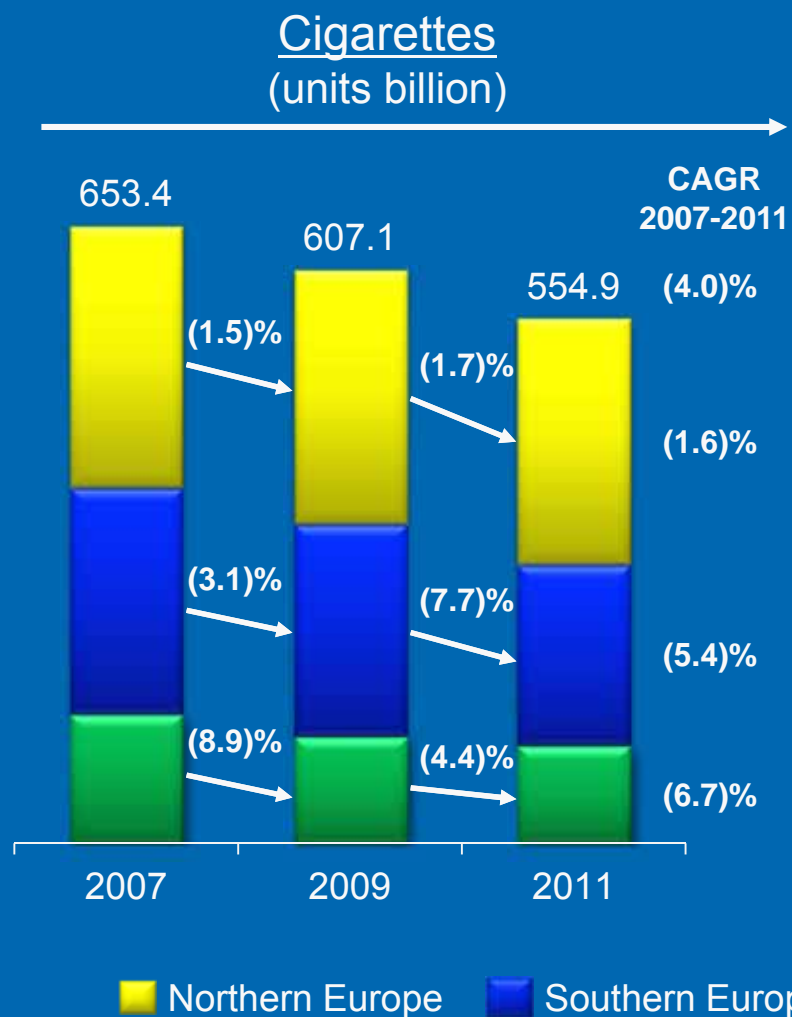
Note: Neth. is Netherlands, Ger. is Germany, Belg. is Belgium, Port. is Portugal, Gre. is Greece, Cze. is Czech, Pol. is Poland and Hun. is Hungary

Source: Eurostat



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Cigarette Industry Volume

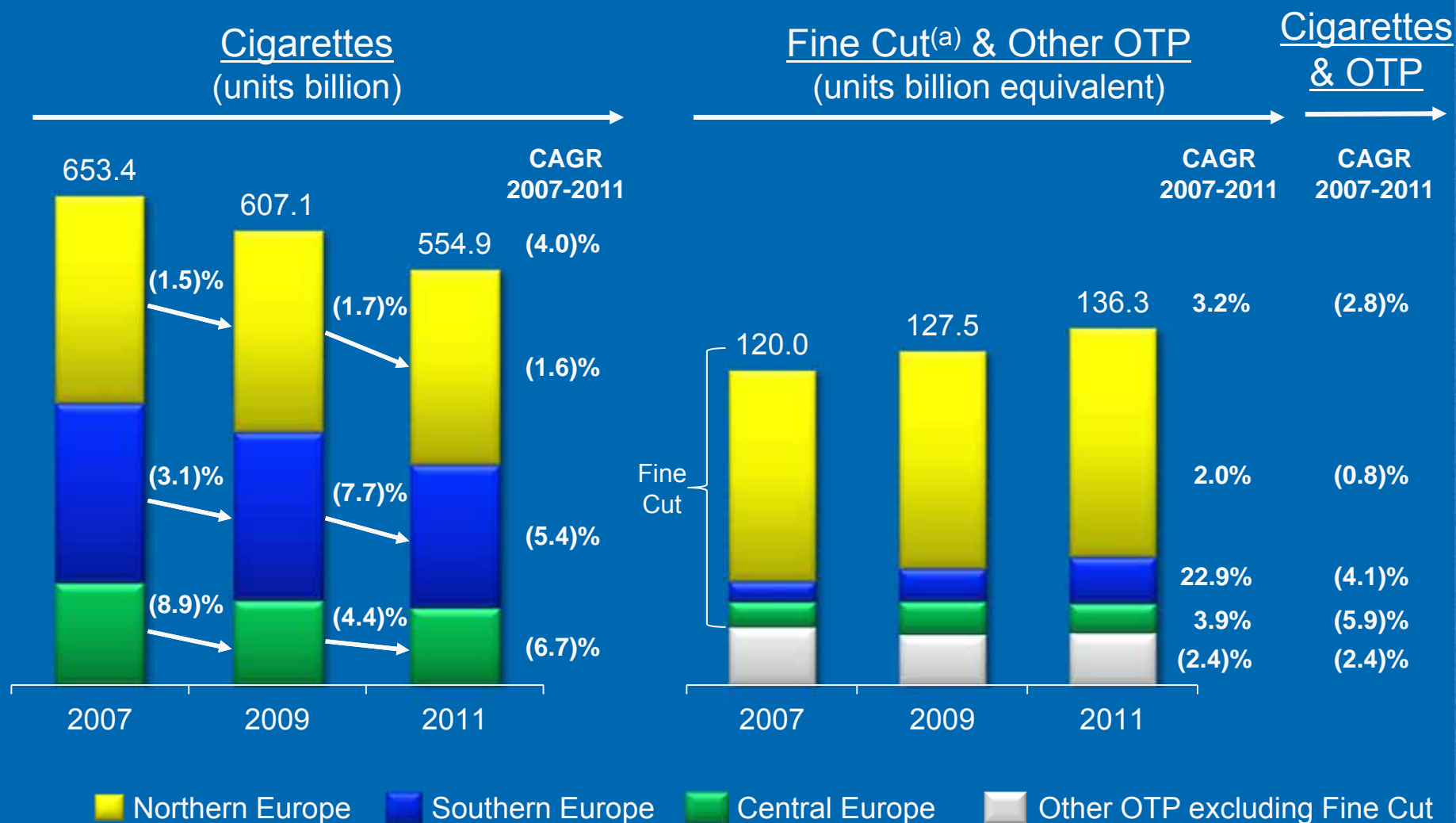


Note: Please refer to the Glossary of Terms for the list of countries under Northern, Southern and Central Europe
Source: PMI estimates



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Cigarette and OTP Industry Volume



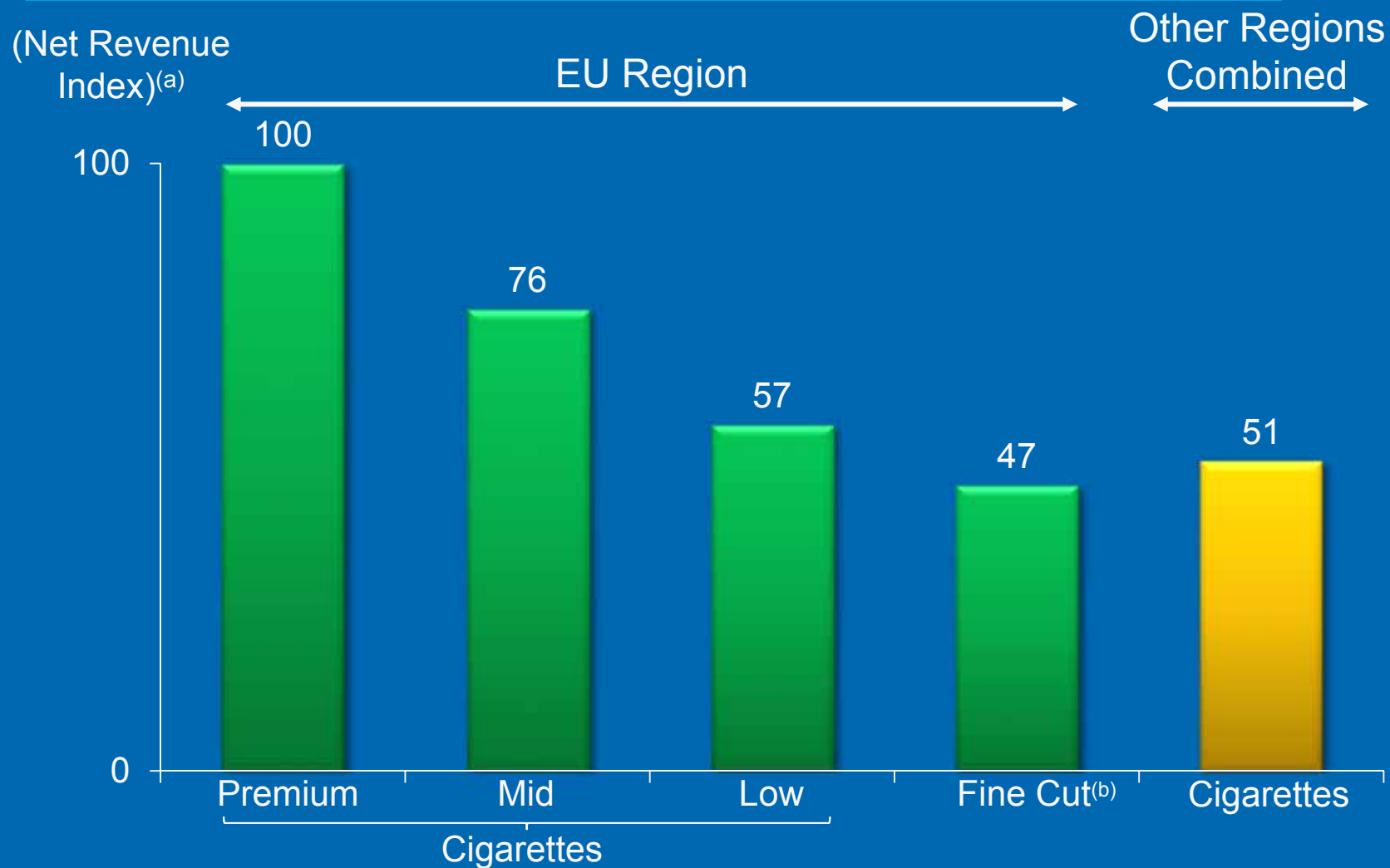
(a) Includes Roll Your Own, Make Your Own, and additionally pipe tobacco in Spain and Poland. Fine cut converted to cigarette equivalents based on conversion ratio of 1 unit = 0.75g

Source: PMI estimates

Profitable Low-Price Cigarette Segment and Fine-Cut Category



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(a) Ratio indexed on net revenue per thousand , excluding excise taxes, of premium cigarette brands in Europe. Premium = 100.

(b) Includes Roll Your Own, Make Your Own and Pipe. Fine cut converted to cigarette equivalents based on conversion ratio of 1 unit = 0.75g

Source: PMI estimates

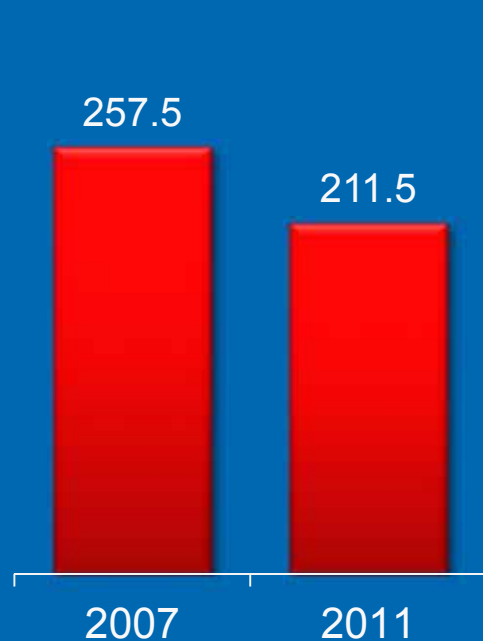


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Financial Results 2007-2011

Shipment Volume (units billion)

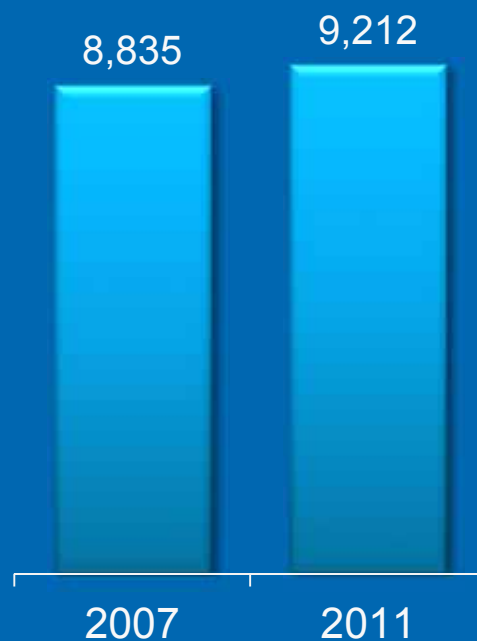
CAGR: (4.8)%



Net Revenues (\$ million)

CAGR: 1.1%

CAGR: 0.2% (excl. currency)



Adjusted OCI (\$ million)

CAGR: 1.5%

CAGR: 1.3% (excl. currency)





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Positive Performance in Q1, 2012

Shipment Volume (units billion)

(1.5)%



Net Revenues (\$ million)

+2.6%
+5.3% (excl. currency)



Adjusted OCI (\$ million)

+1.3%
+3.7% (excl. currency)

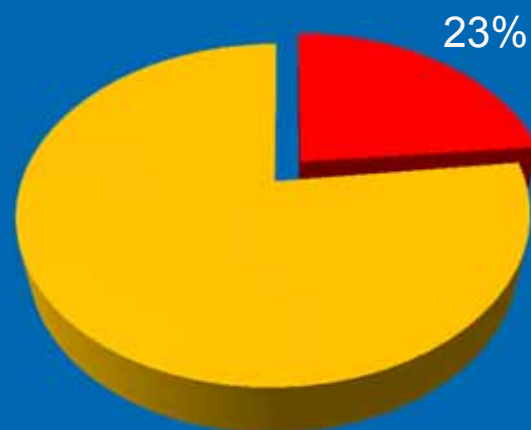




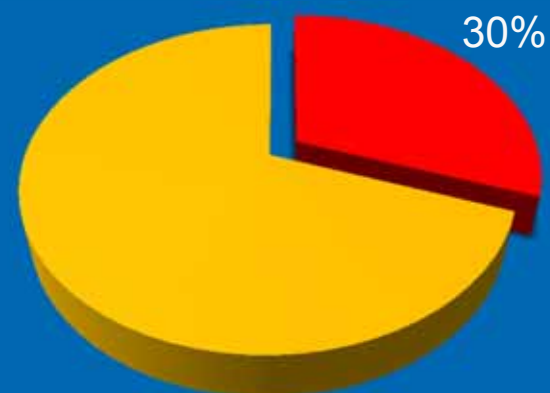
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EU Contribution to 2011 PMI Results

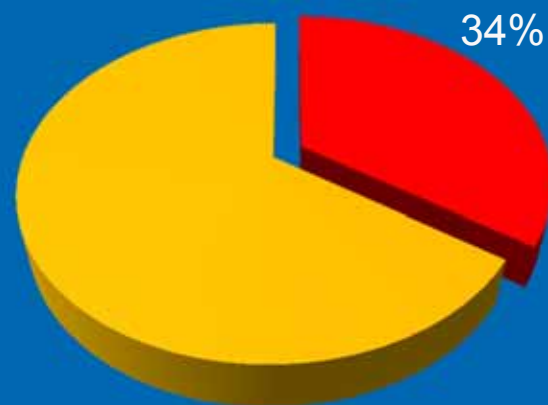
Cigarette Shipment Volume



Net Revenues



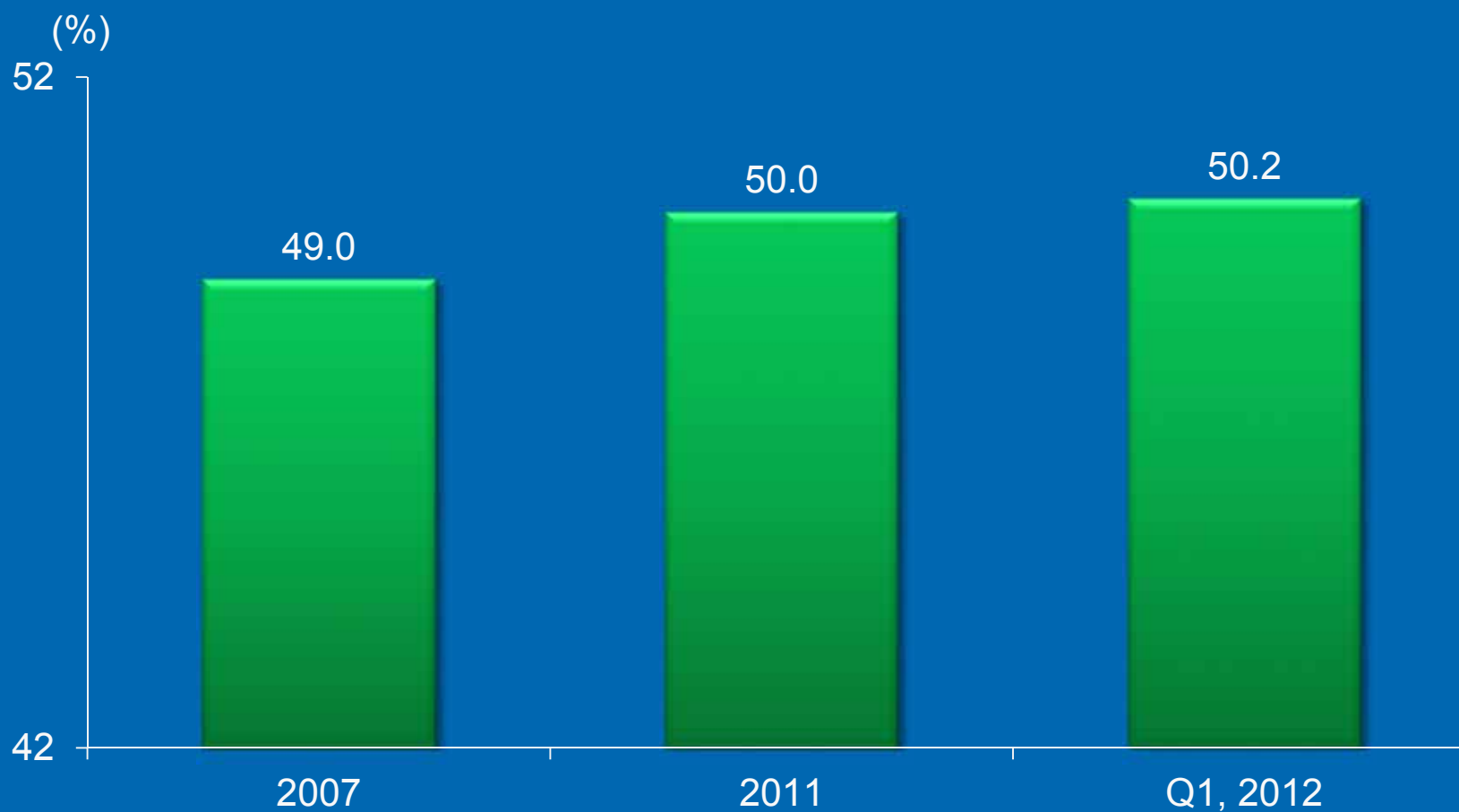
Adjusted OCI





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Expanding Adjusted OCI Margin



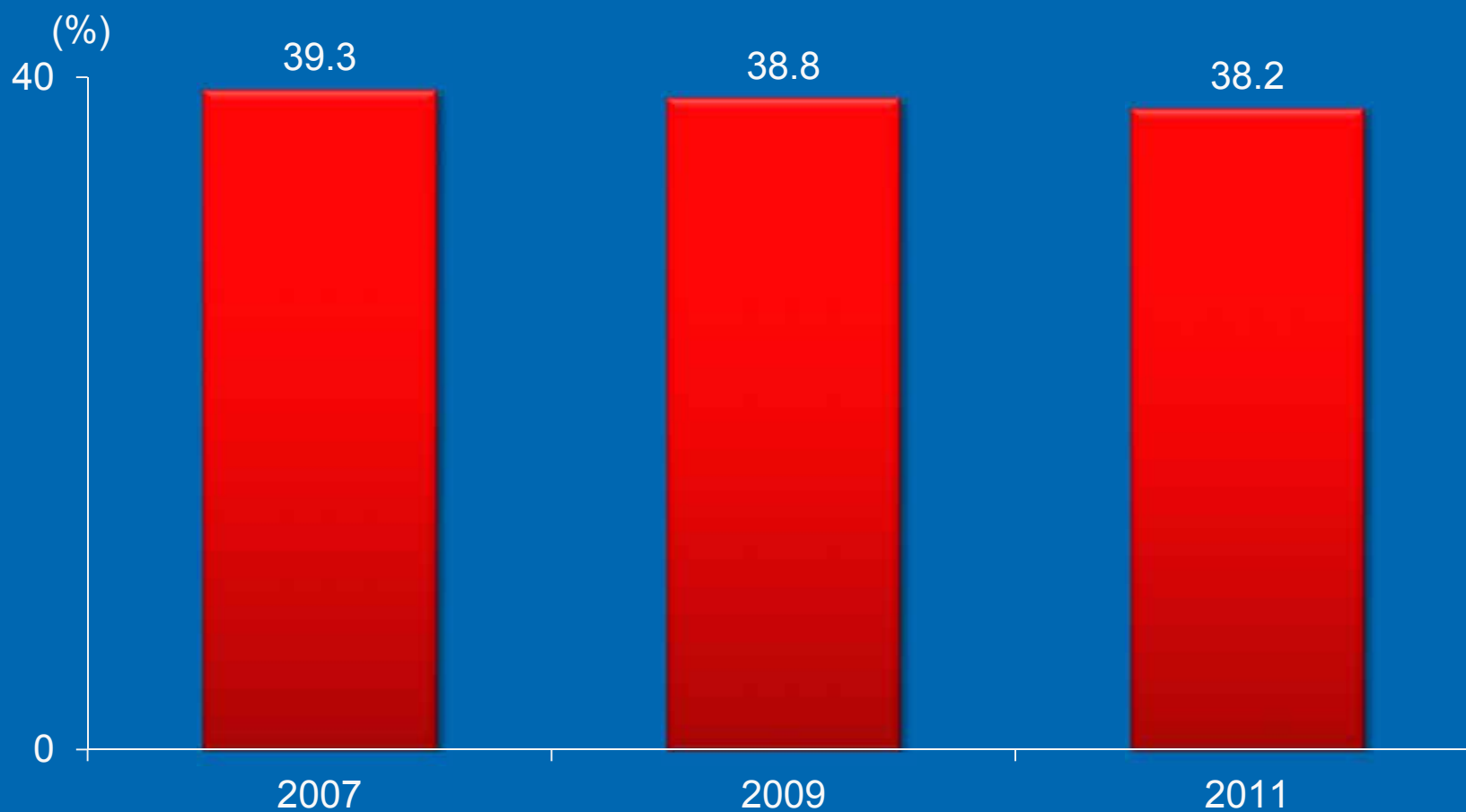
Note: Adjusted OCI margins are calculated as adjusted OCI, divided by net revenues, excluding excise taxes
Source: PMI Financials



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Resilient Share Performance

PMI Share of Cigarette Market

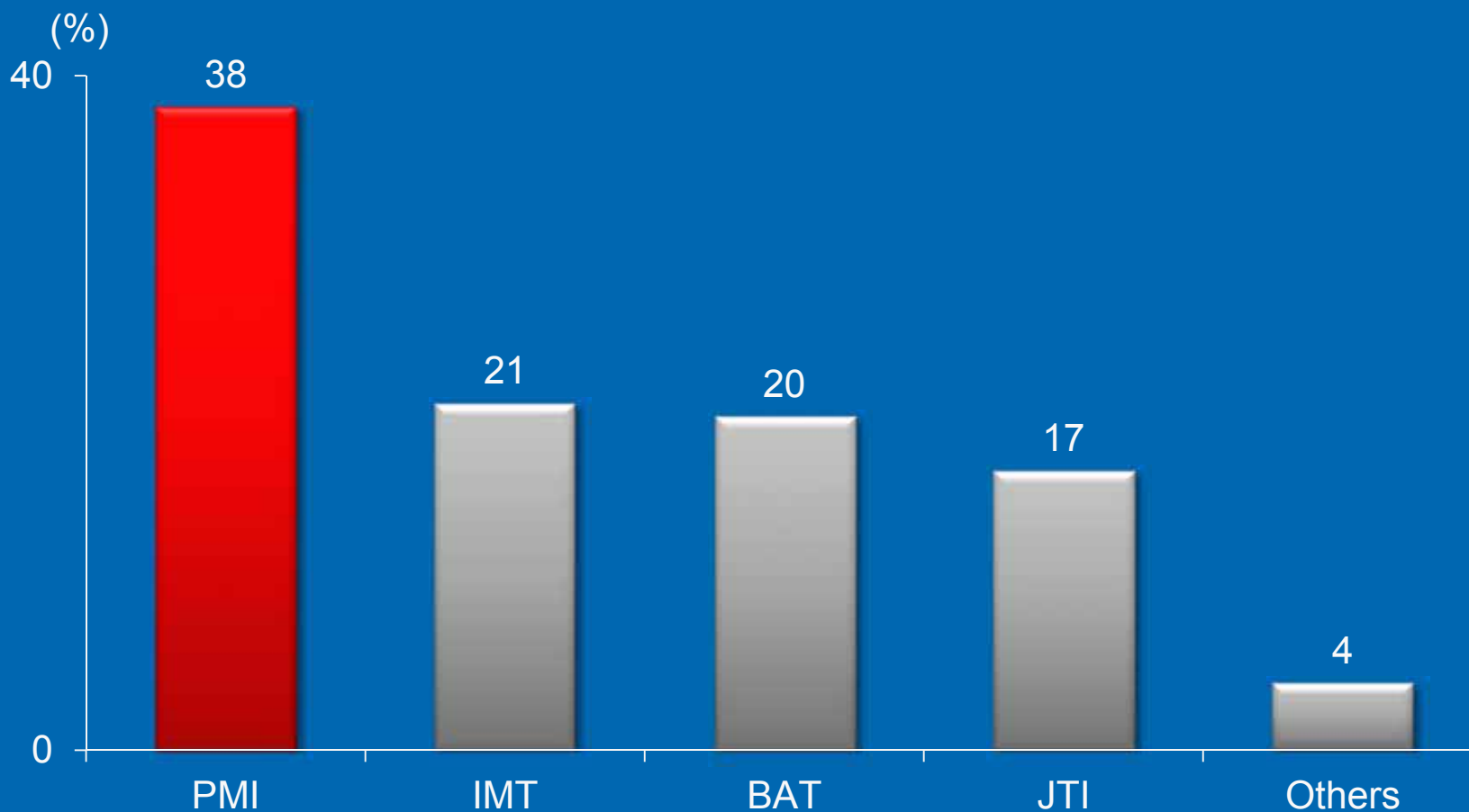


Source: PMI estimates

Undisputed Leader in the EU Region Cigarette Market



2011 Share of Market



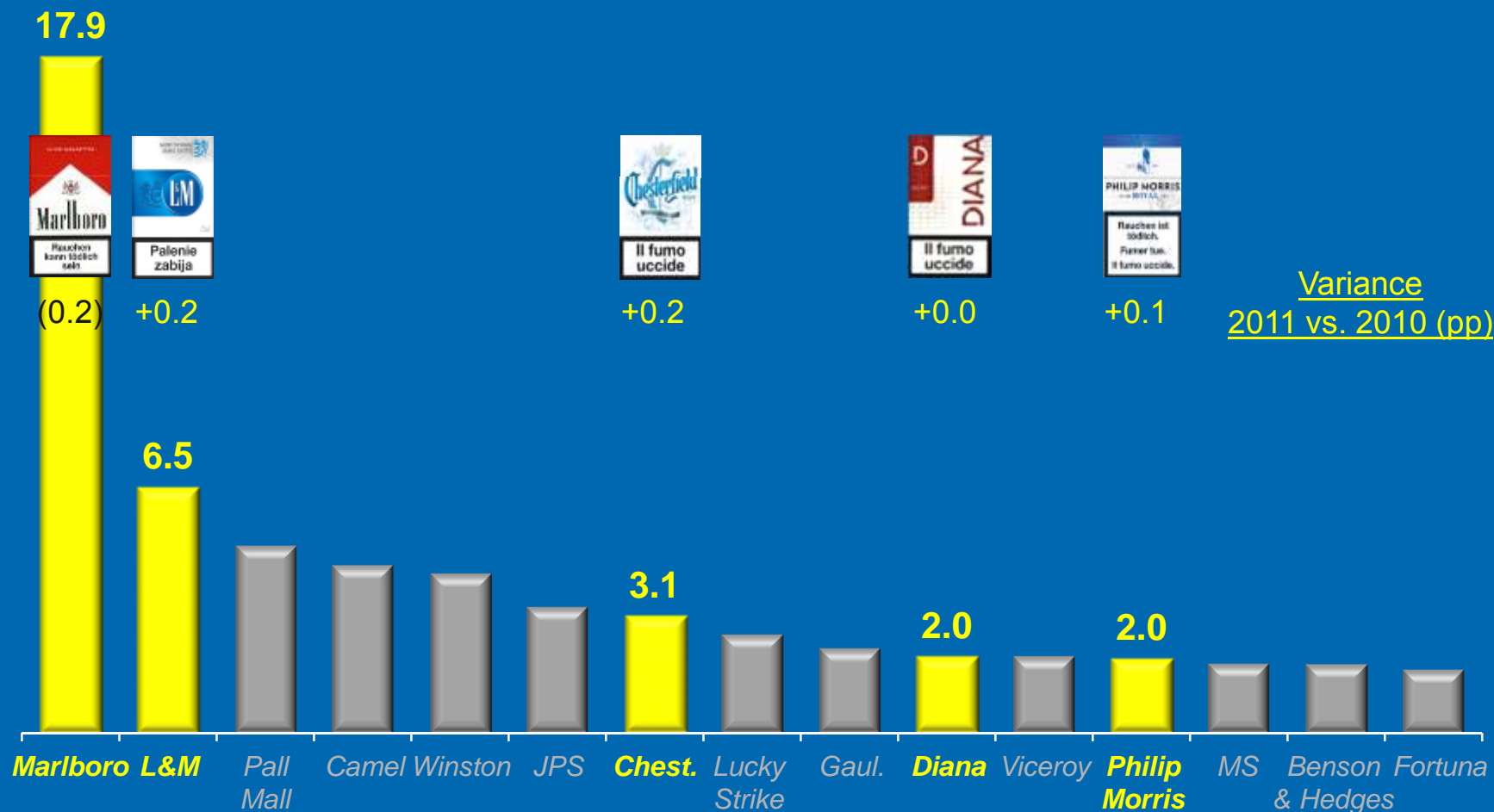
Source: PMI estimates

Five PMI Brands within the Top-15 Cigarette Brand Families



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2011 Share of Market (%)



Note: Chest. is Chesterfield and Gaul. is Gauloises
Source: PMI estimates



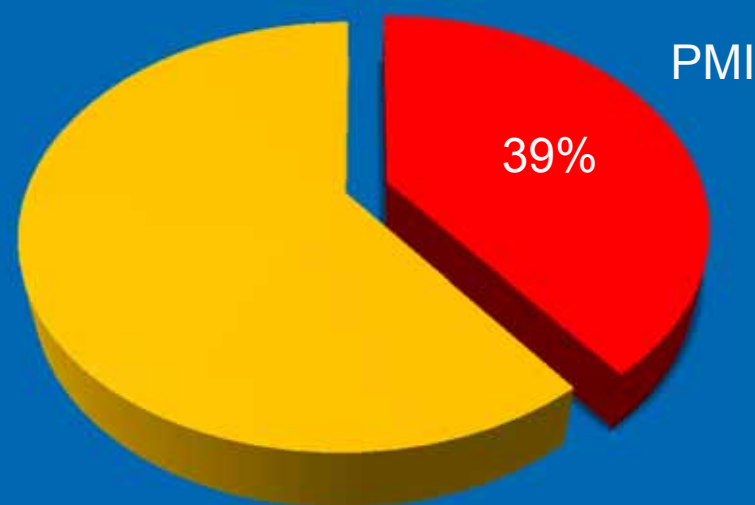
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Continuous Share Growth in Fine Cut

PMI Share of Fine Cut Market^(a)



Share of Fine Cut Volume Growth
2011 vs. 2010 (%)



(a) Includes Roll Your Own, Make Your Own, and additionally pipe tobacco in Spain and Poland. Fine cut converted to cigarette equivalents based on conversion ratio of 1 unit = 0.75g

Source: PMI estimates



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Key Strategies

- Leverage our strong brands to increase market share:
 - Leverage innovation and new campaign to grow *Marlboro*



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Marlboro: at the Forefront of Innovation

- *Marlboro* is and remains the most aspirational cigarette brand in the EU Region
- *Marlboro* is modern and innovative:
 - Product innovation
 - Pack formats
 - New “*Be Marlboro*” campaign



NEW MARLBORO BEYOND

- Innovative filter with menthol capsule
- Launched in 7 markets in the last 12 months
- Q1, 2012 market shares:
 - France: 0.5%
 - Switzerland: 0.6%
 - Sweden: 1.5%

Source: PMI estimates



CHANGE
THE TASTE



WHEN
YOU WANT

Roken is dodelijk



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Marlboro: Innovation Through Formats

Marlboro Core Flavor, Gold Touch and Marlboro Pocket Pack

- Slimmer diameter or shorter length
- *Marlboro Gold Touch and Core Flavor* combined volume growth of 21% in 2011
- *Marlboro Pocket Pack* volume growth of 17% in 2011



8 Markets



15 Markets



12 Markets

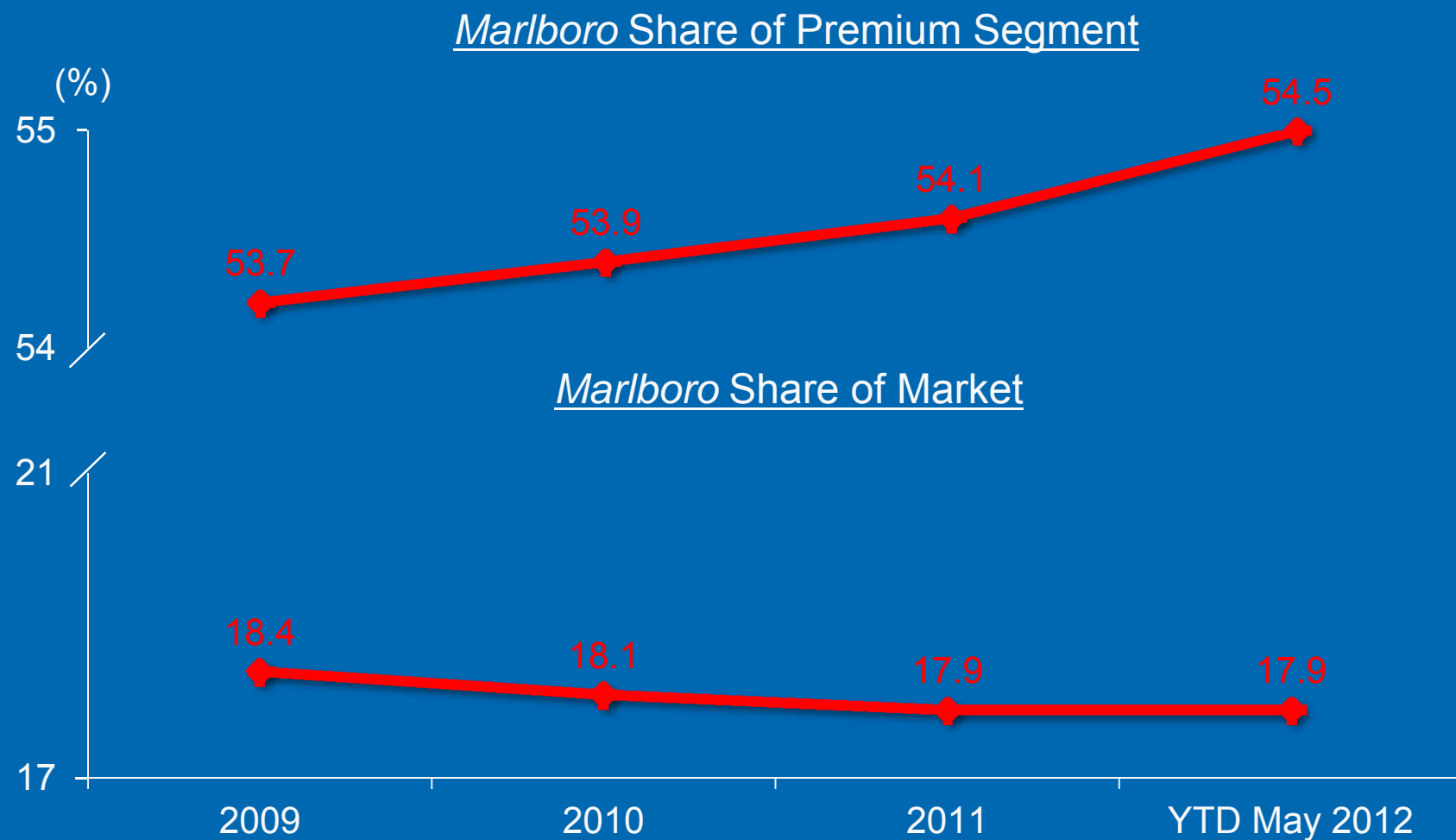






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Marlboro: Growing in the Premium Segment



Source: PMI estimates

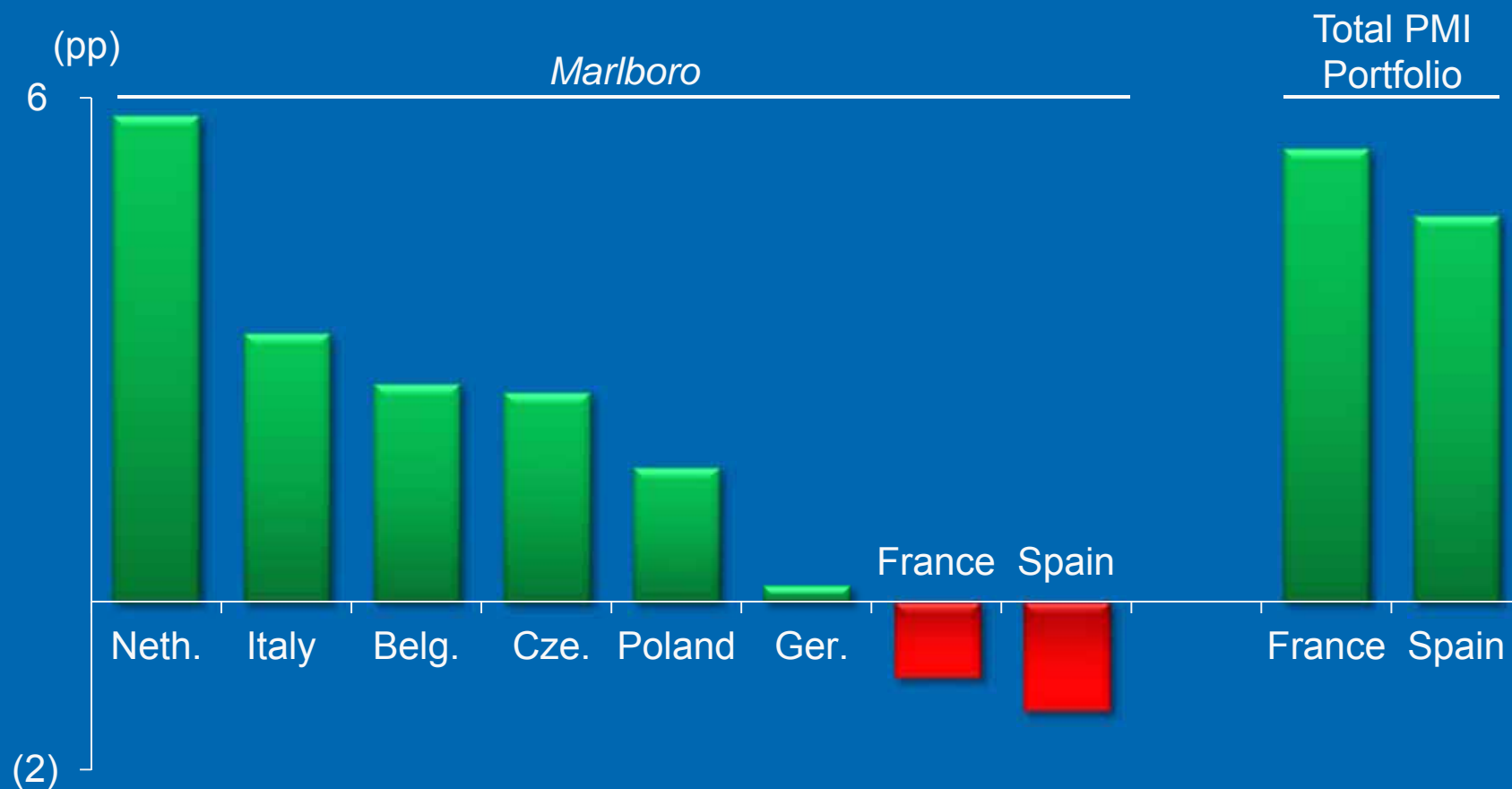


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Marlboro: Over-Indexed Among YAS

Difference

LA (min. 18) – 24 vs. LA (min. 18) – 64



Note: Neth. is Netherlands, Belg. is Belgium, Cze. is Czech Republic and Ger. is Germany
Source: PMI Market Research, latest available data



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Key Strategies

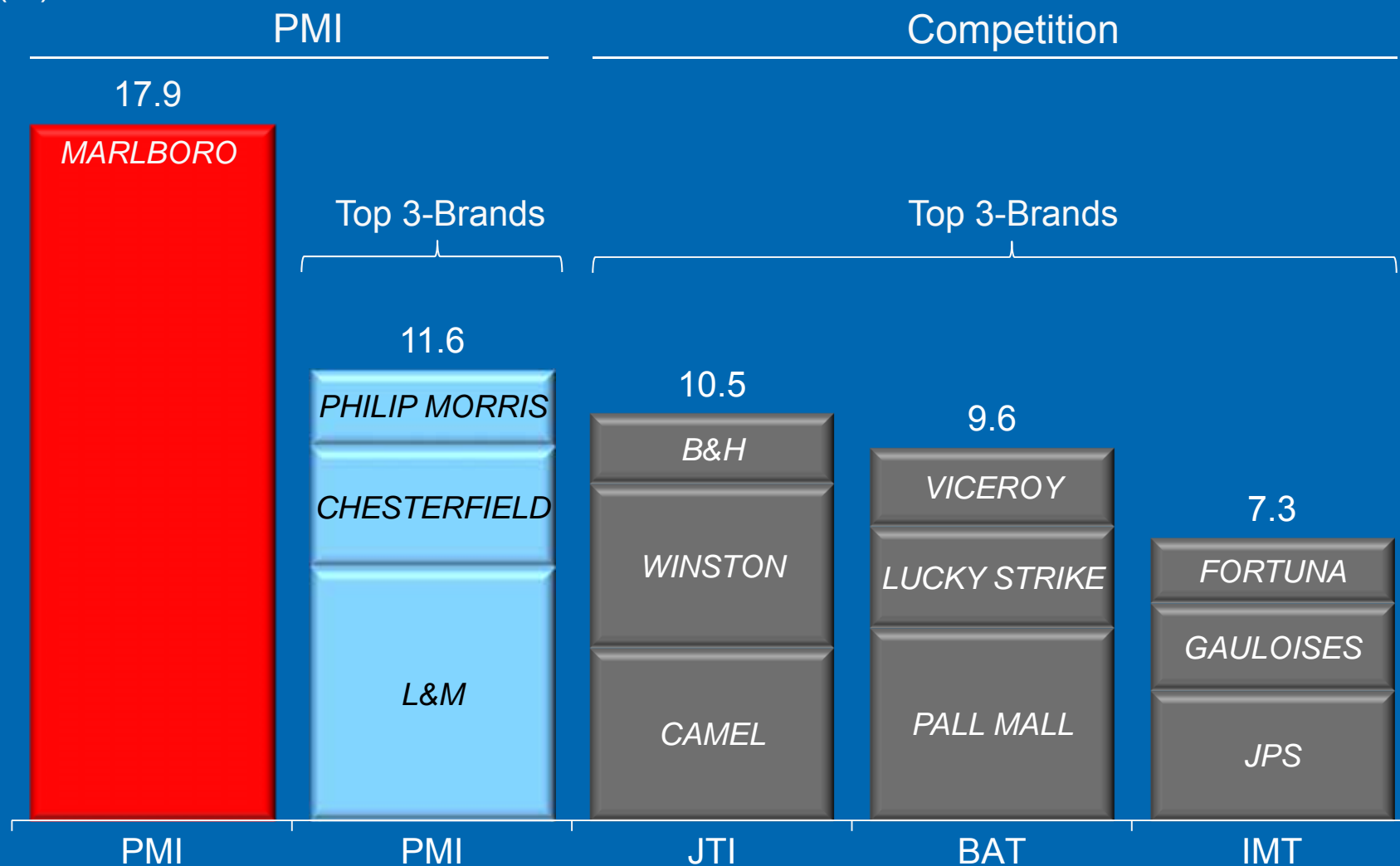
- Leverage our strong brands to increase market share:
 - Leverage innovation and new campaign to grow *Marlboro*
 - Strengthen our footprint in the profitable below-premium cigarette segments and fine-cut category

2011 Share of Cigarettes – PMI Portfolio with Strong International Brands



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(%)



Source: PMI estimates

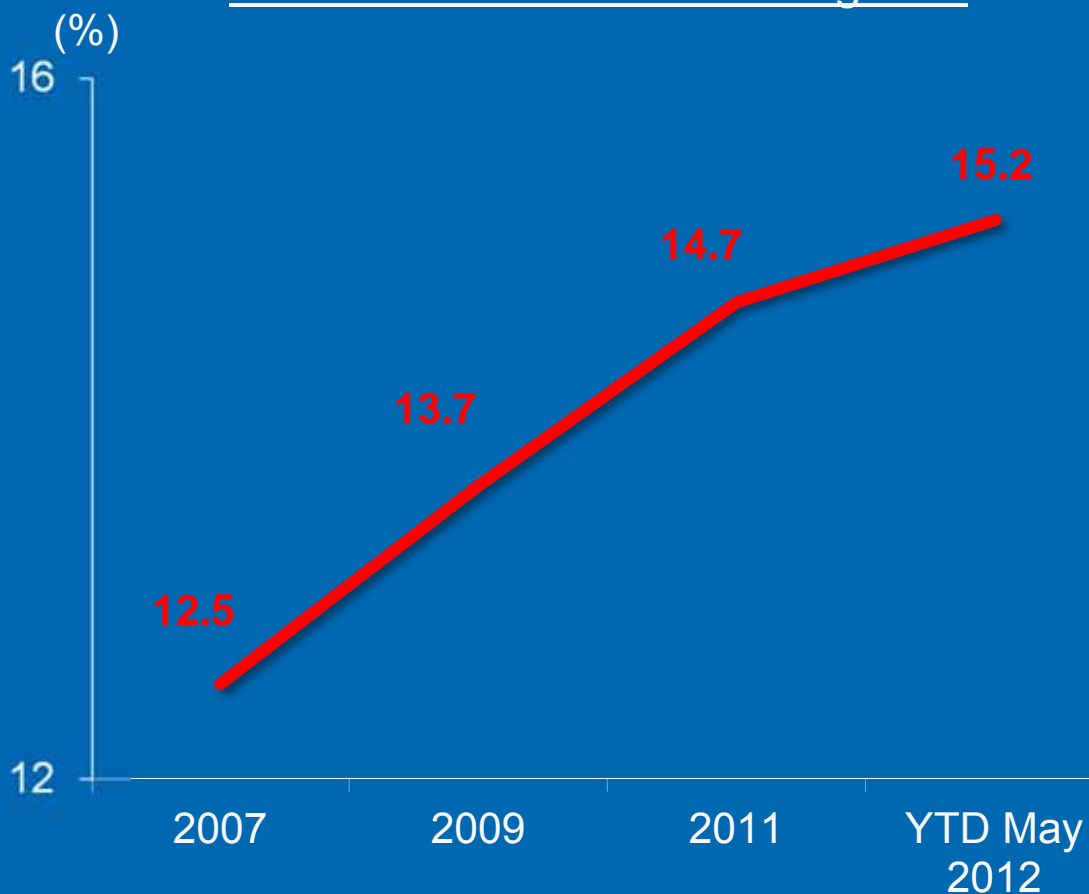
Success of PMI International Brands in the Below-Premium Segment



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Chesterfield, L&M and Philip Morris
Share of Below-Premium Segment



Source: PMI estimates



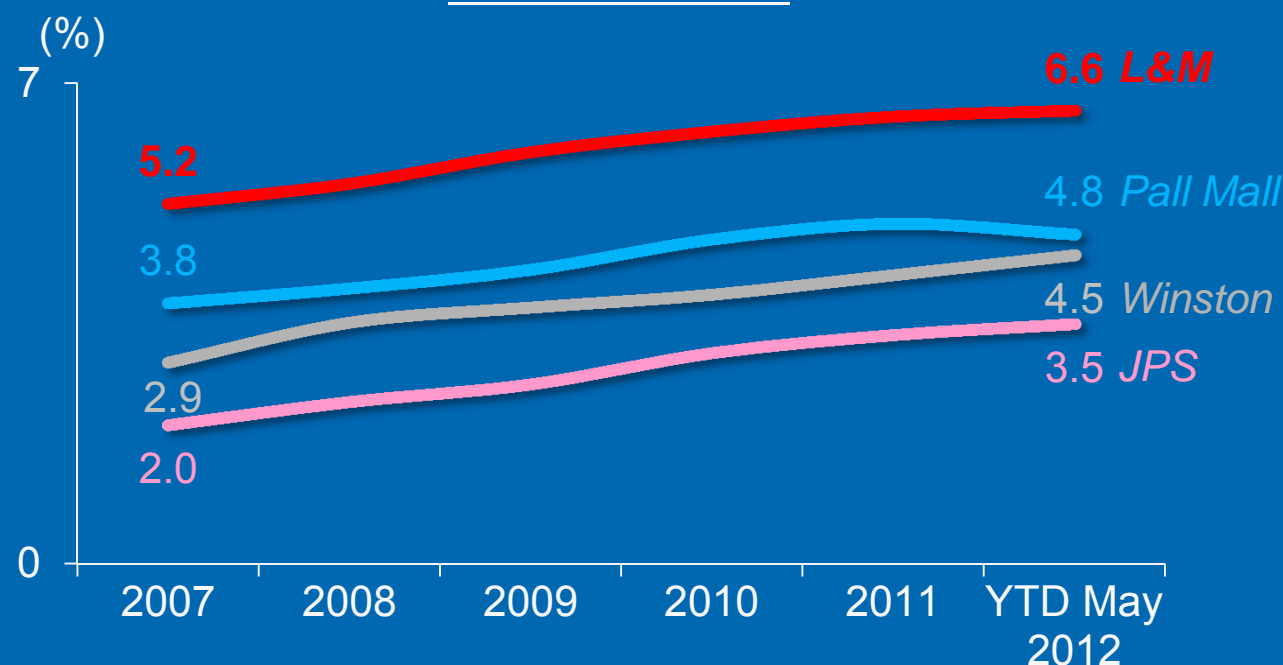
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L&M: Steady Growth

- No. 1 brand in the mid and low-price segment
- Shipment volume grew by 2.7% in the Region in 2011



L&M Performance and Key Competitive Brands
Share of Market



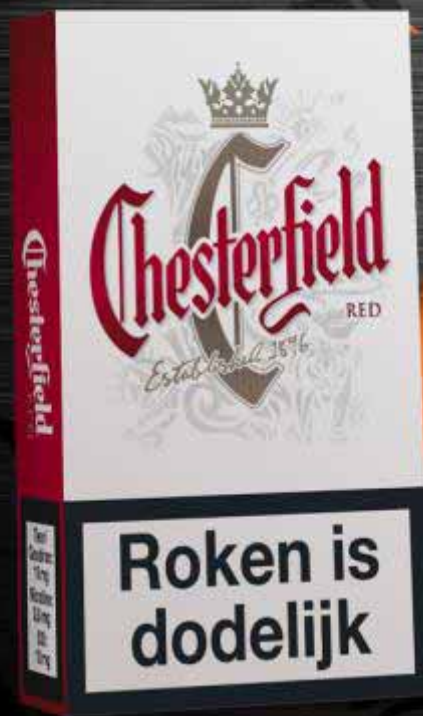


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Innovation Extended to *L&M*

- Consumer-relevant innovation introduced in *L&M* cigarettes
- *L&M Forward*: a regular cigarette featuring a menthol capsule in the filter
- *L&M U-Spin*: a cigarette with an innovative filter that allows smokers to adjust taste intensity





THINK
CHESTERFIELD

Roken is dodelijk



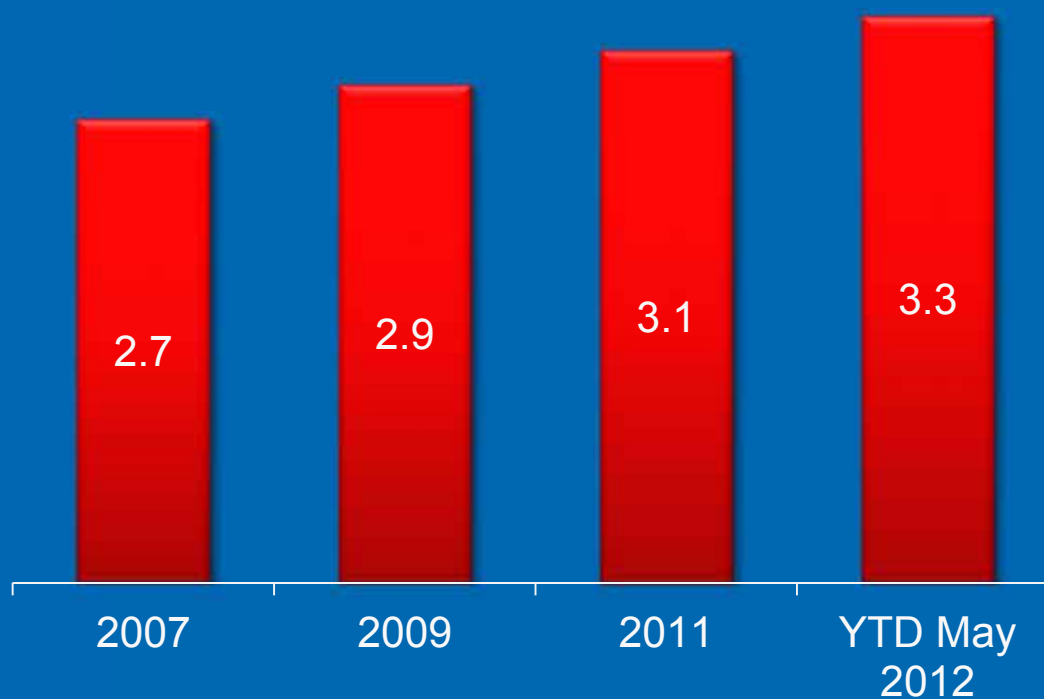
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Chesterfield: Continuous Share Growth

- Shipment volume grew by 8.5% in the EU Region in 2011



Share of Market (%)





Το Υπουργείο Υγείας προειδοποιεί: **ΤΟ ΚΑΠΝΙΣΜΑ ΒΛΑΠΤΕΙ ΣΟΒΑΡΑ ΤΗΝ ΥΓΕΙΑ**



Faites-vous aider pour arrêter de fumer,
téléphonez au 0825-309-310 (0,15 EUR/min)



Il fumo ostruisce le arterie e provoca infarti e ictus



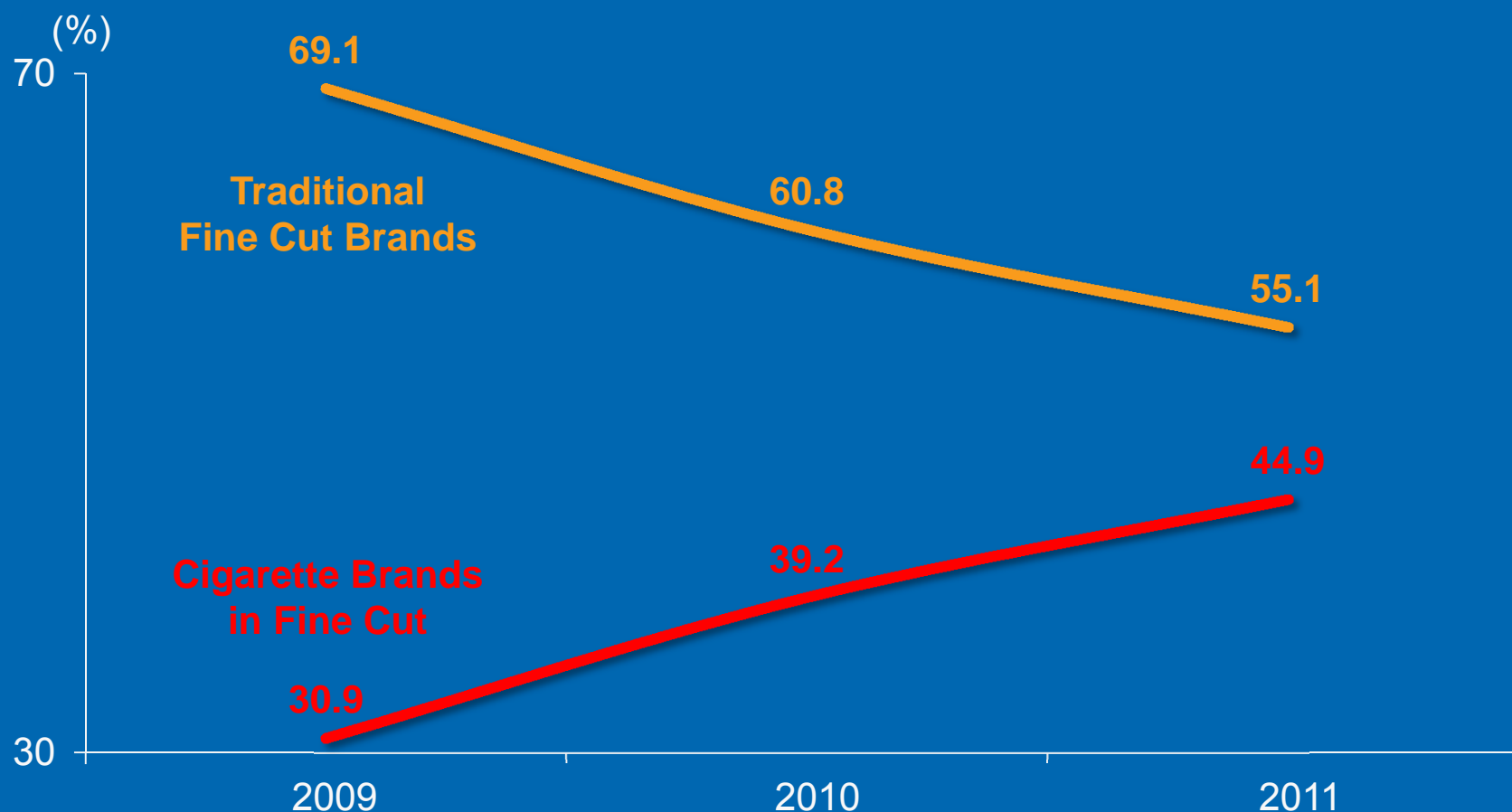
Rauchen kann tödlich sein



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Increasing Share of Cigarette Brands in Fine Cut

Share of Fine Cut in Top 5 EU Markets^{(a)(b)}



(a) Includes Roll Your Own, Make Your Own, and additionally pipe tobacco in Spain and Poland. Fine cut converted to cigarette equivalents based on conversion ratio of 1 unit = 0.75g

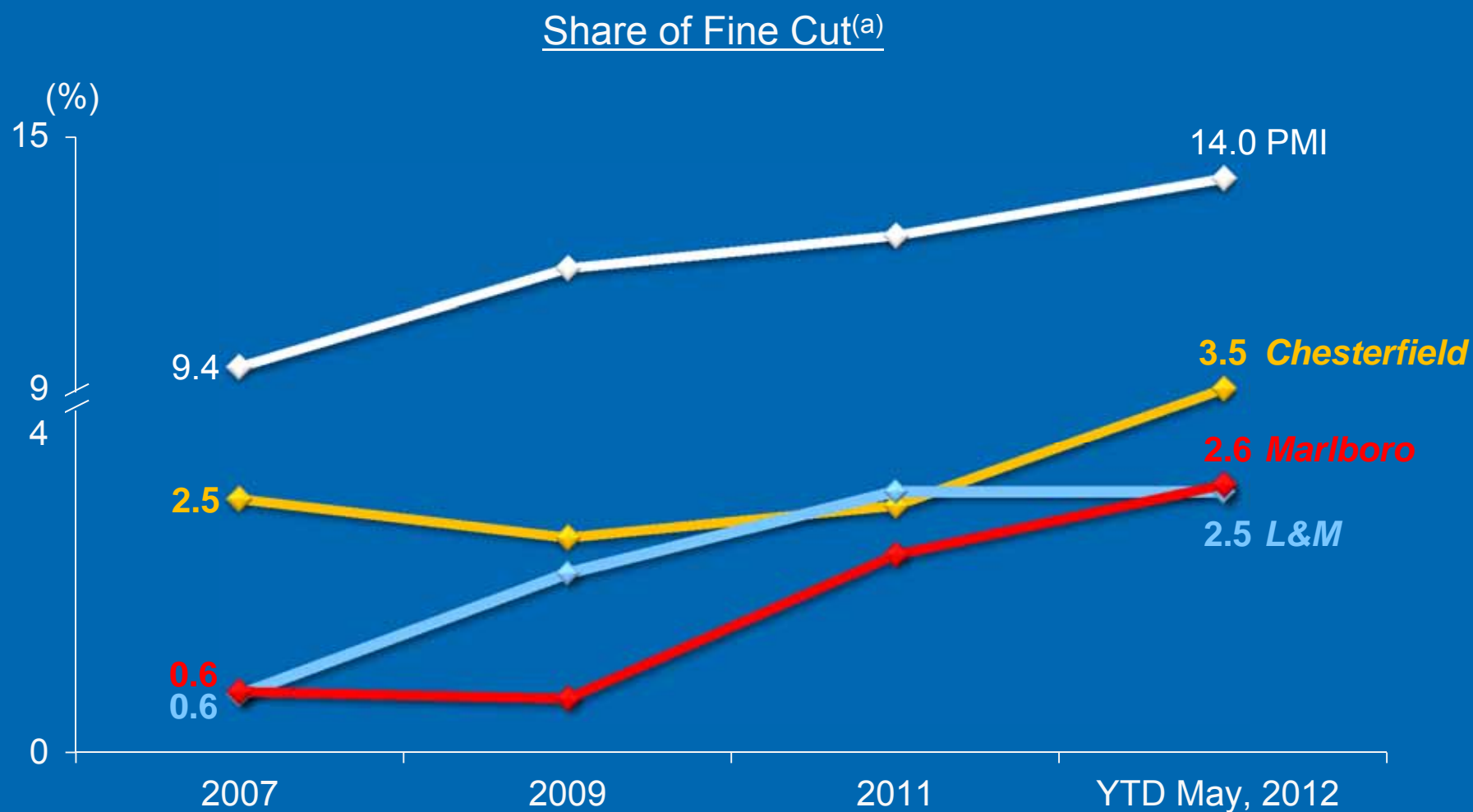
(b) France, Germany, Italy, Poland and Spain

Source: PMI estimates. Germany data until YTD September, 2011



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2011 PMI Growth in Fine Cut



(a) Includes Roll Your Own, Make Your Own, and additionally pipe tobacco in Spain and Poland. Fine cut converted to cigarette equivalents based on conversion ratio of 1 unit = 0.75g

Source: PMI estimates



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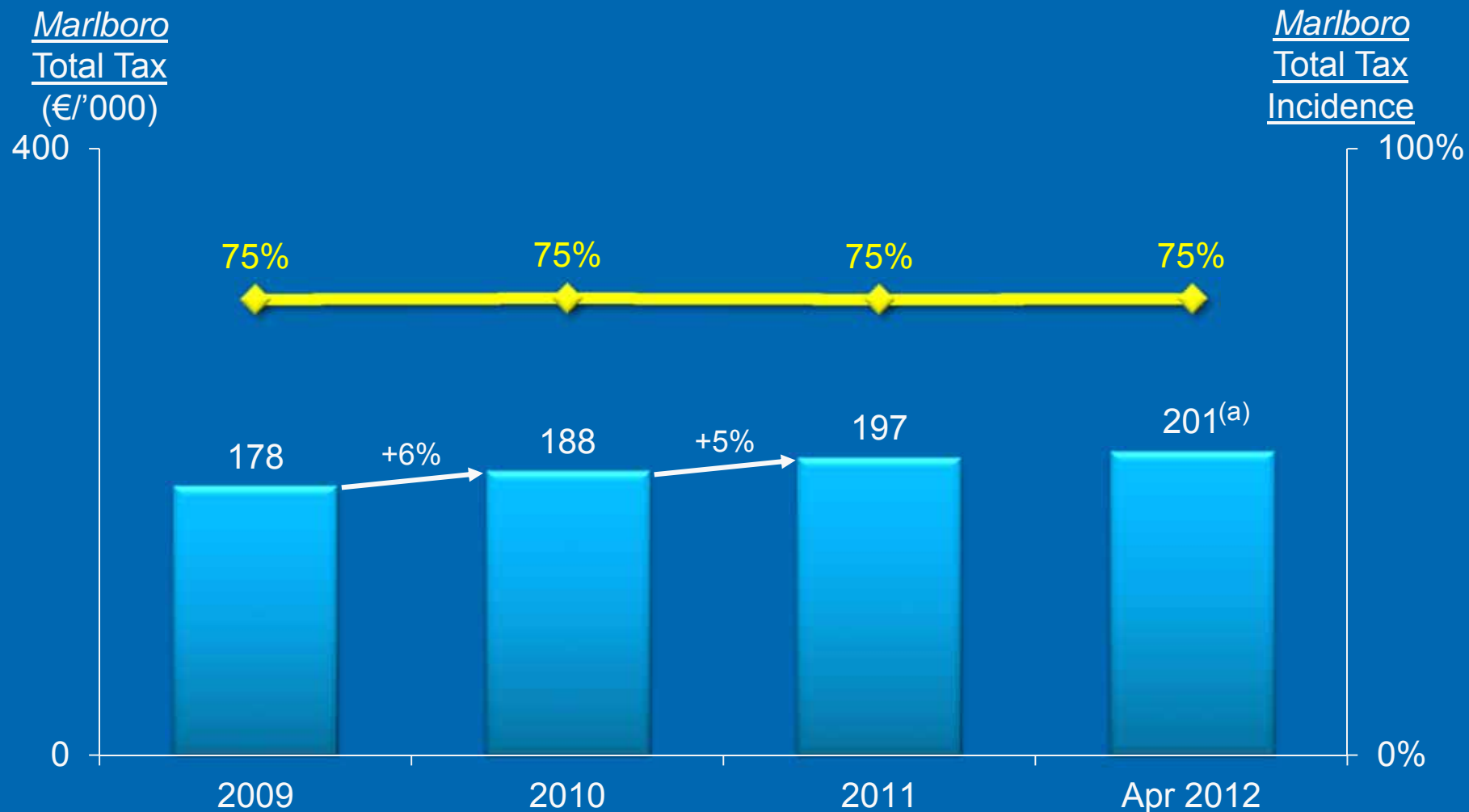
Key Strategies

- Leverage our strong brands to increase market share
- Advocate for reasonable tax increases and improvement of excise tax structures

No Disruptive Excise Tax Increases in 2011 nor in 2012



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(a) Total tax on *Marlboro* increased by 4.8% in April 2012, year-on-year
Source: PMI estimates

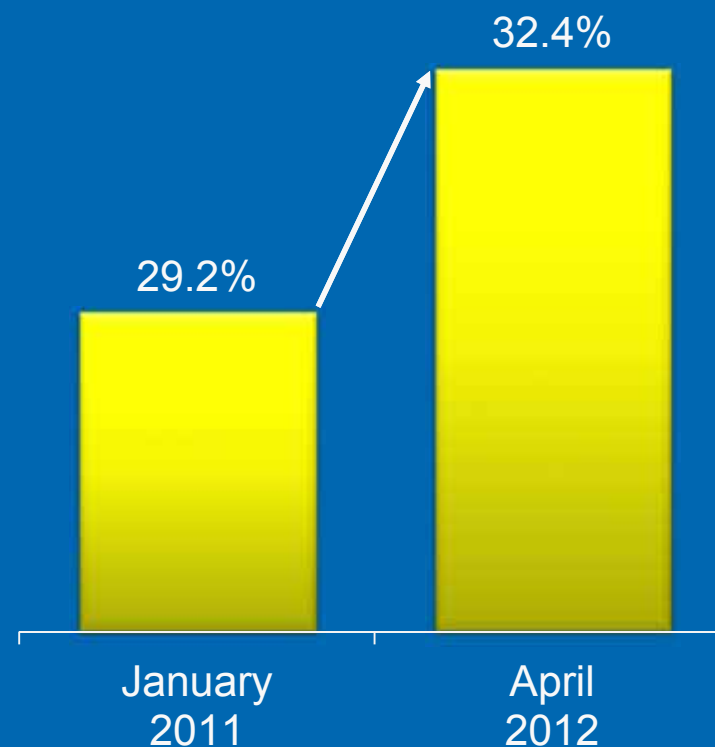


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Structural Cigarette Tax Improvements

- Increased Minimum Excise Taxes
- EU excise tax rules allow for specific to total tax ratio of up to 76.5%:
 - 4 countries already moved above the previous threshold of 55% after the implementation of the new Excise Tax Directive in 2011

Excise Specific-to-
Total Tax Ratio on Cigarettes
(weighted average for EU Region)





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Key Strategies

- Leverage our strong brands to increase market share
- Advocate for reasonable tax increases and improvement of excise tax structures
- Deliver OCI growth through a balanced pricing and price gap reduction strategy



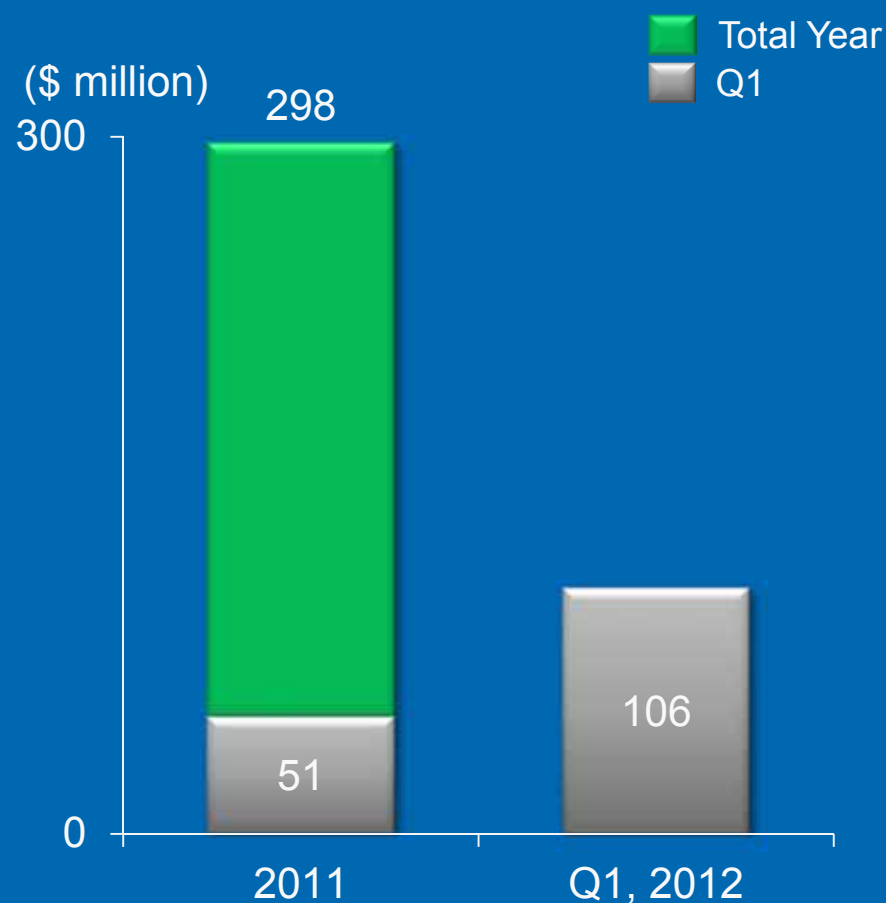
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Price Increases Implemented in Most EU Markets

- In 2011 and through May 2012, PMI implemented or announced price increases notably in:

2011	2012
Czech Republic	Belgium
France	Czech Republic
Germany	Germany
Greece	Italy
Italy	Netherlands
Norway	Norway
Poland	Poland
Portugal	Portugal
Sweden	Spain
UK	Sweden
	Switzerland
	UK

Pricing Variance

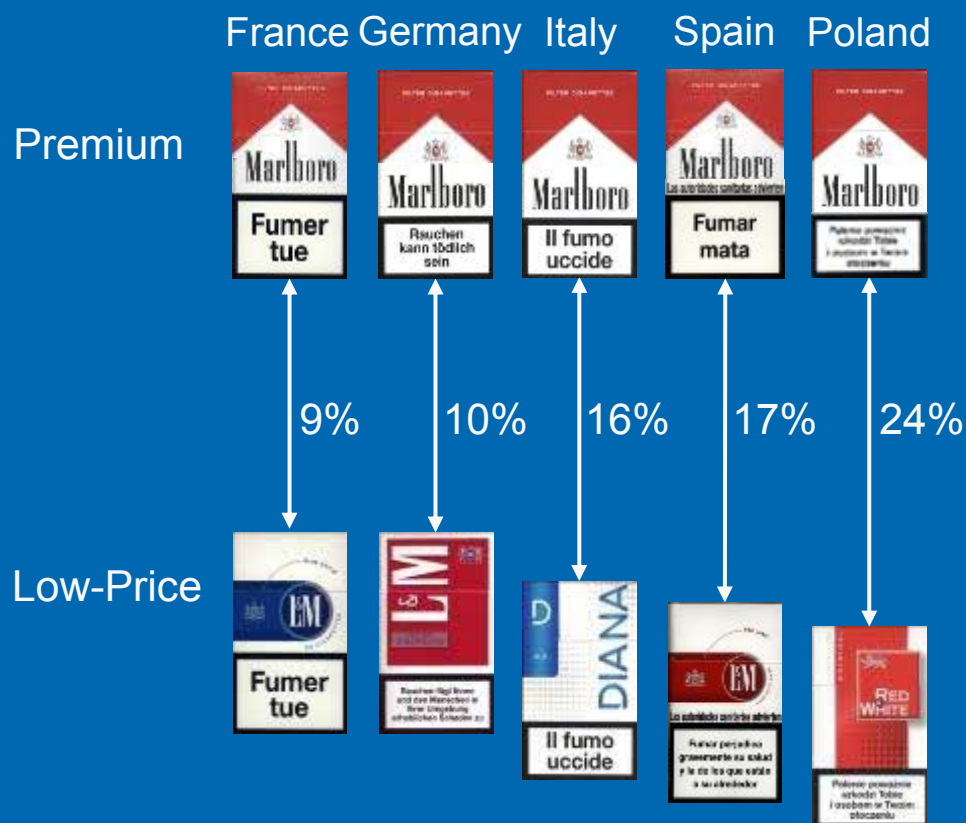




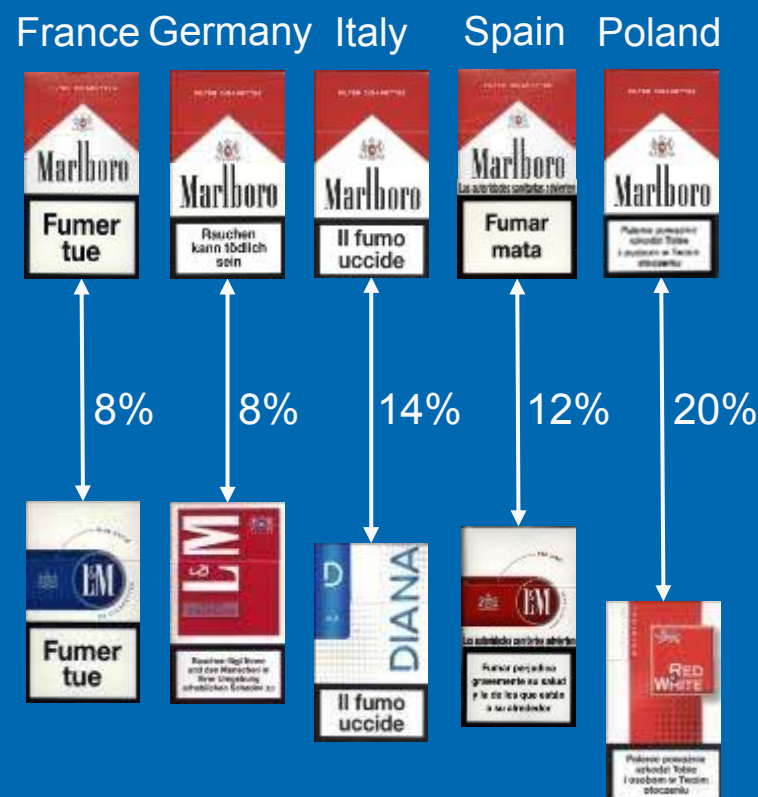
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Reduction of Price Gaps

January 1, 2009



May 1, 2012



Source: PMI affiliates



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Key Strategies

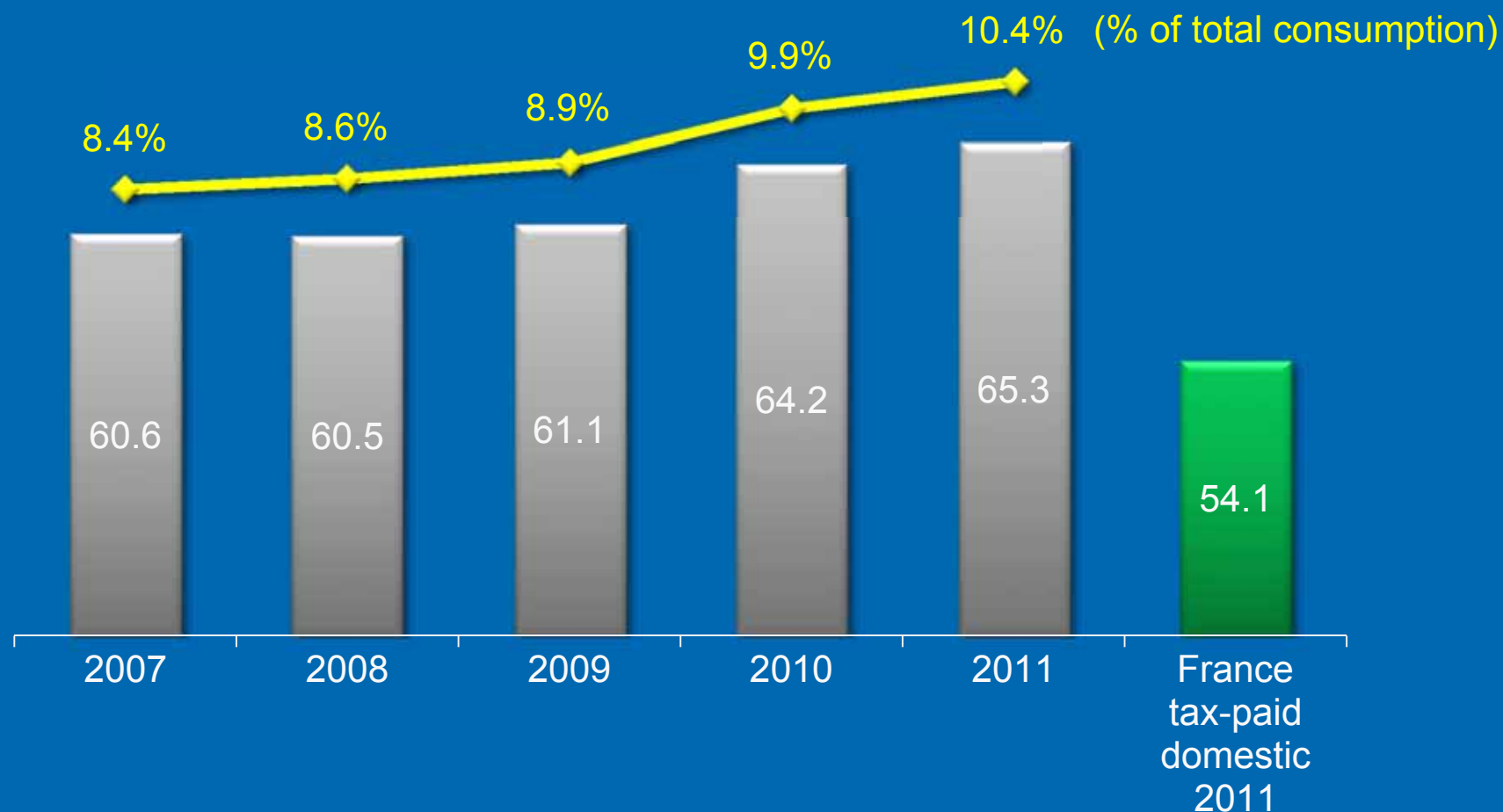
- Leverage our strong brands to increase market share
- Advocate for reasonable tax increases and improvement of excise tax structures
- Deliver OCI growth through a balanced pricing and price gap reduction strategy
- Continue to fight illicit trade

Illicit Trade: a Risk, But Also an Opportunity to Recover Volume



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(units billion)



Source: KPMG analysis based on empty pack surveys, legal domestic sales and non-domestic . Refers to EU-27 member states



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Strategies to Fight Illicit Trade

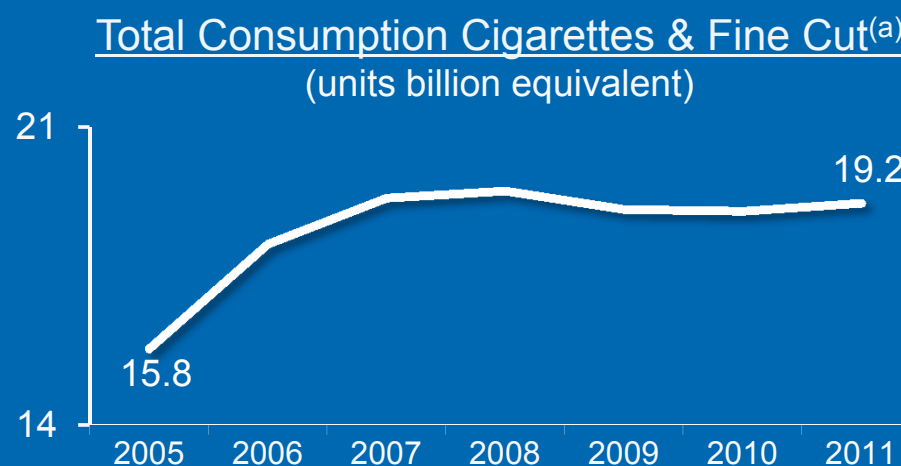
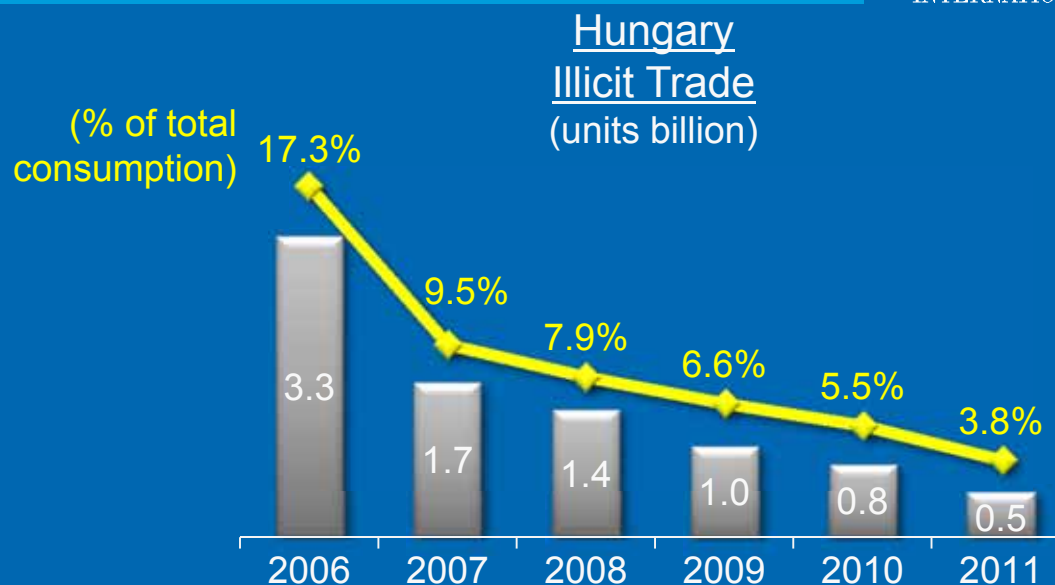
Cooperation



Communication



Engagement



(a) Includes Roll Your Own, Make Your Own and pipe tobacco

Source: KPMG analysis based on empty pack surveys, legal domestic sales and non-domestic and PMI estimates



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Key Strategies

- Leverage our strong brands to increase market share
- Advocate for reasonable tax increases and improvement of excise tax structures
- Deliver OCI growth through a balanced pricing and price gap reduction strategy
- Continue to fight illicit trade
- Protect our ability to differentiate and display our products



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Tobacco Products Directive (2001/37/EC)

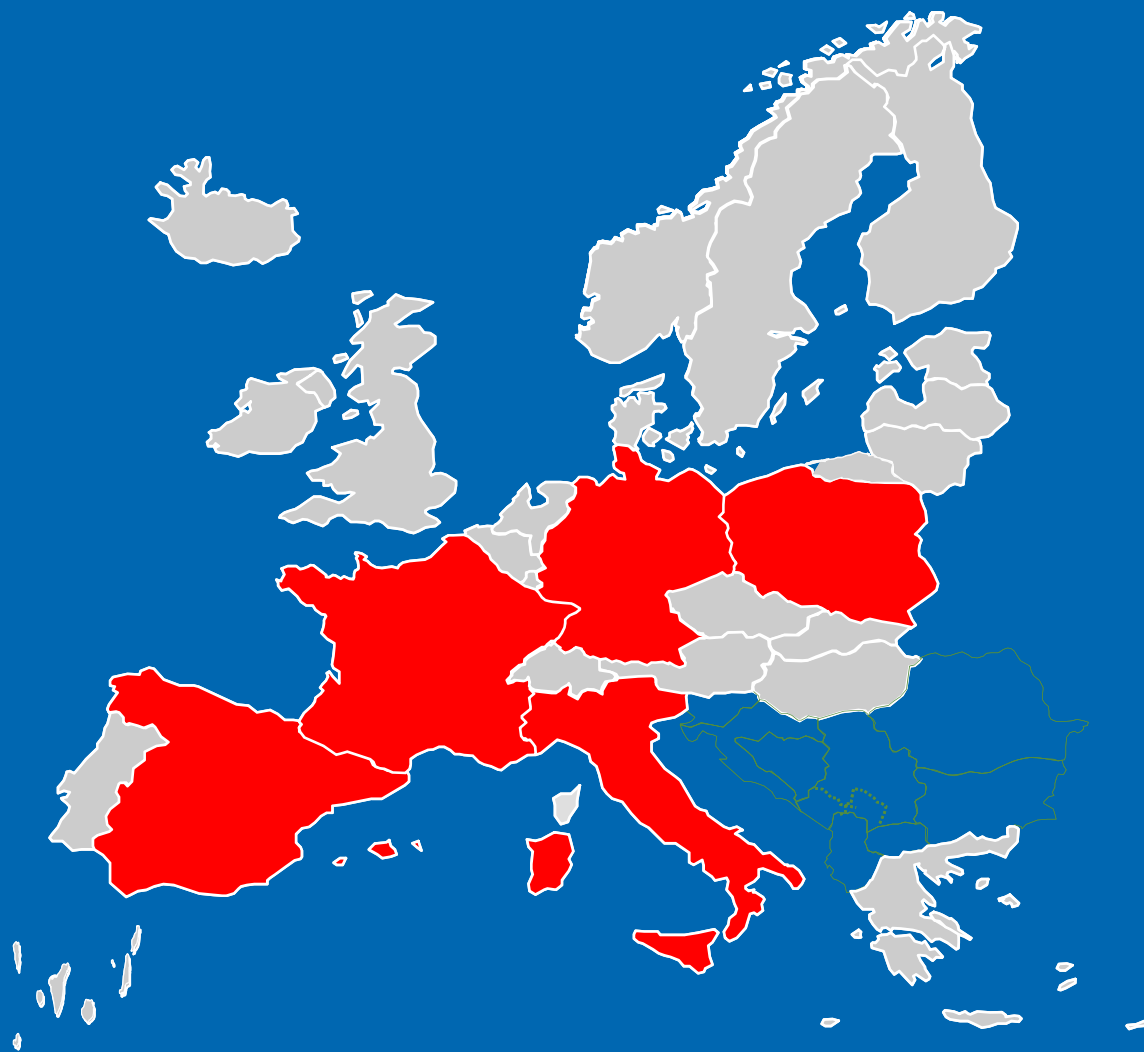


- Potential changes to packaging & labeling requirements, use of ingredients, restrictions to tobacco product display



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Five Key Markets in the EU Region





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Spain: Economy Hit by Recession

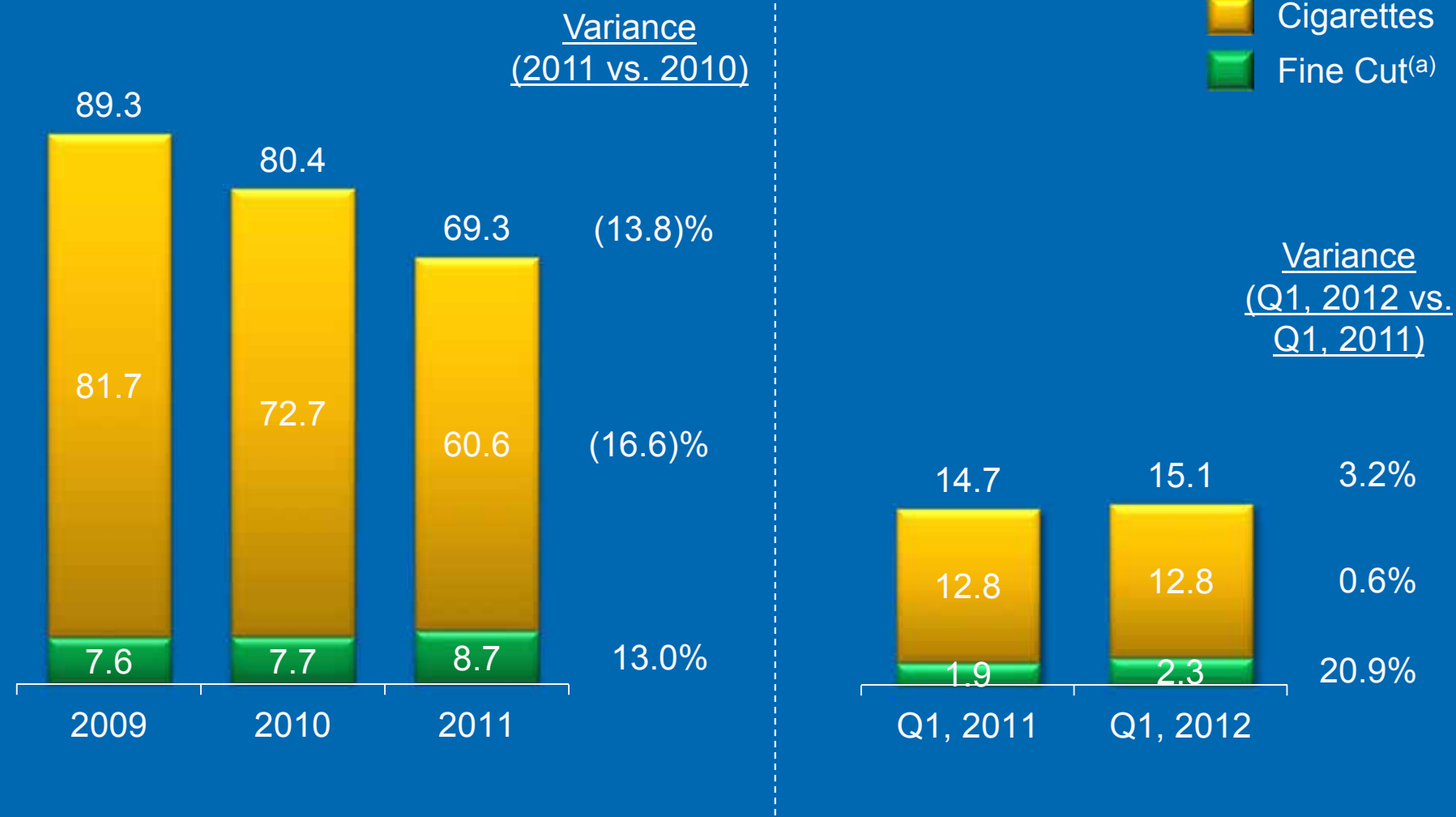
- Country in recession with high unemployment
- Volume decline and consumer downtrading
- Reduced price gaps
- *Marlboro* growing share in the premium cigarette segment
- Positive performance of *L&M* and *Chesterfield* in the low-price cigarette segment



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Spain: Industry Volume Decline and Downtrading

(units billion; units billion equivalent)



(a) Includes Roll Your Own, Make Your Own and pipe tobacco. Fine cut converted to cigarette equivalents based on conversion ratio of 1 unit = 0.75g
Source: PMI estimates

Spain: Reduction of Price Gaps between *Marlboro* and Other Price Segments



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December 31, 2009

May 31, 2012



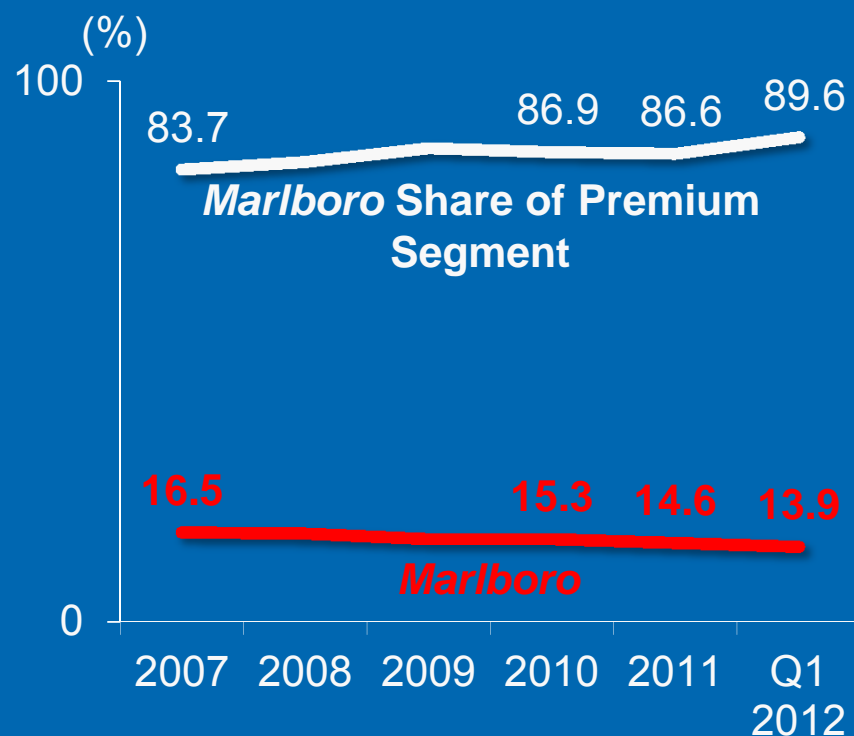
Note: MPPC stands for Most Popular Price Class
Source: PMI affiliate



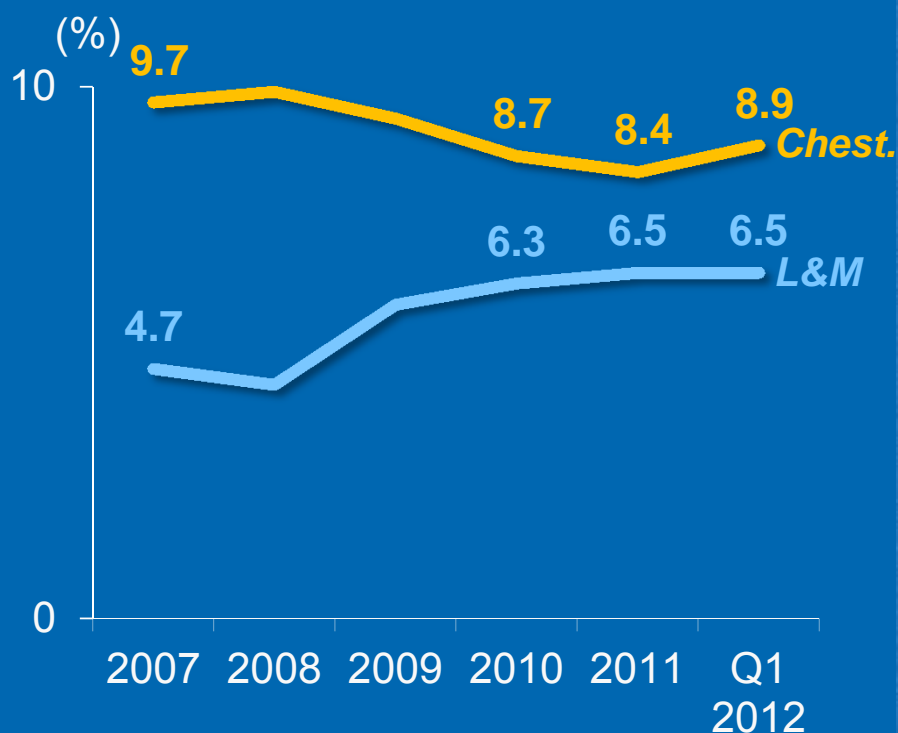
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Spain: Growing Share in the Premium Segment

Marlboro SoM and
Share of Premium Segment



Chesterfield and L&M SoM



Note: Chest. is Chesterfield
Source: PMI estimates

Italy: Strong Portfolio in a Difficult Economic Environment



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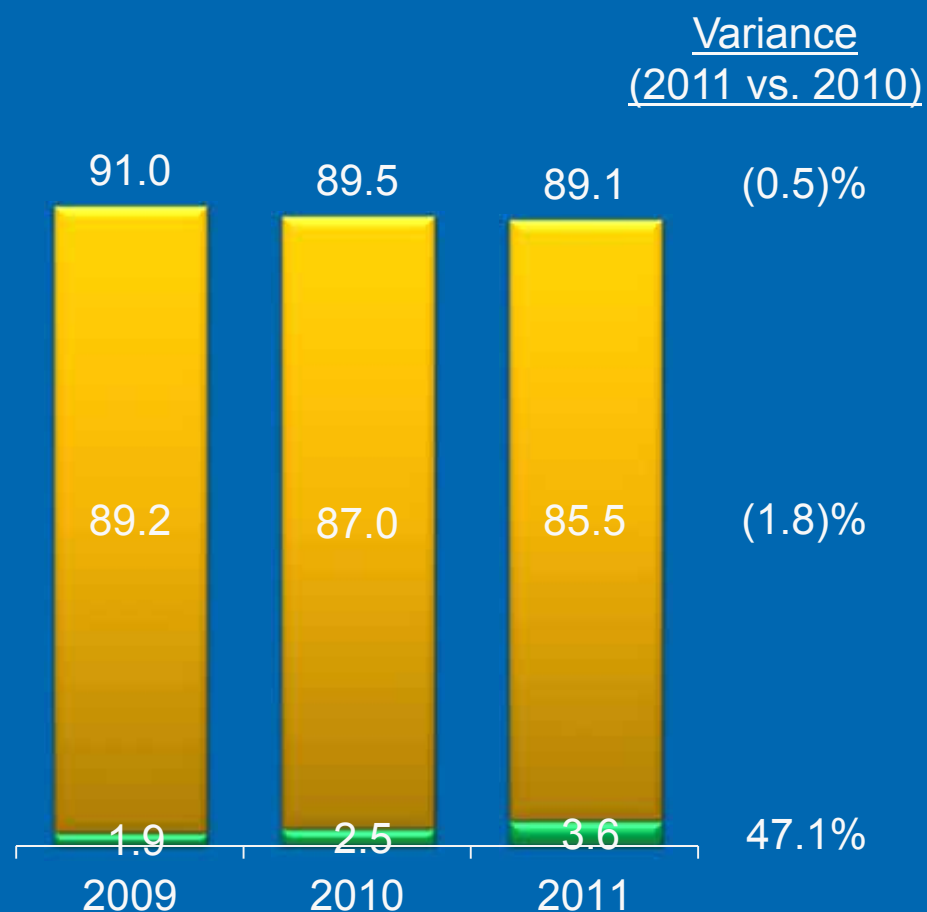
- Deteriorating economy with increasing price elasticity
- Stabilizing *Marlboro* share
- Launch of *Philip Morris Selection* in the low-price cigarette segment
- Recent market leadership in fine cut

Italy: Cigarette Industry Volumes under Pressure and Significant Increase of Fine Cut

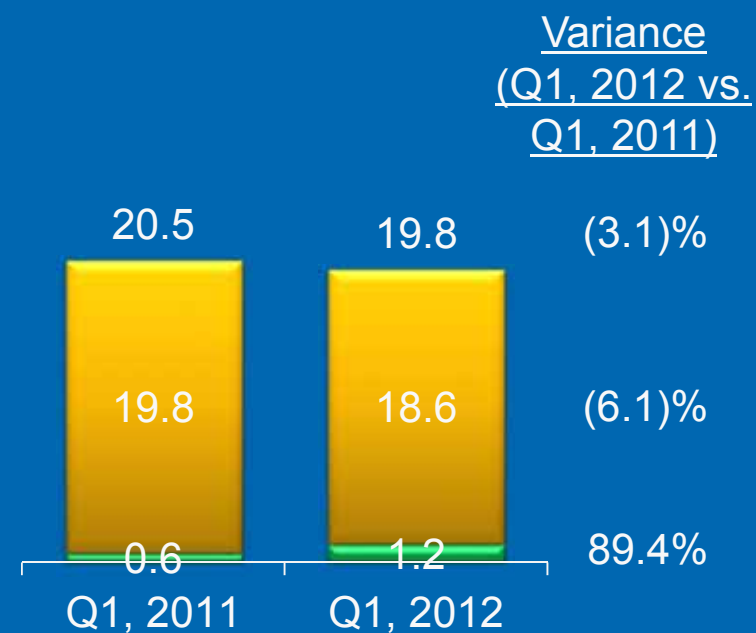


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(units billion; units billion equivalent)



Cigarettes
 Fine Cut^(a)

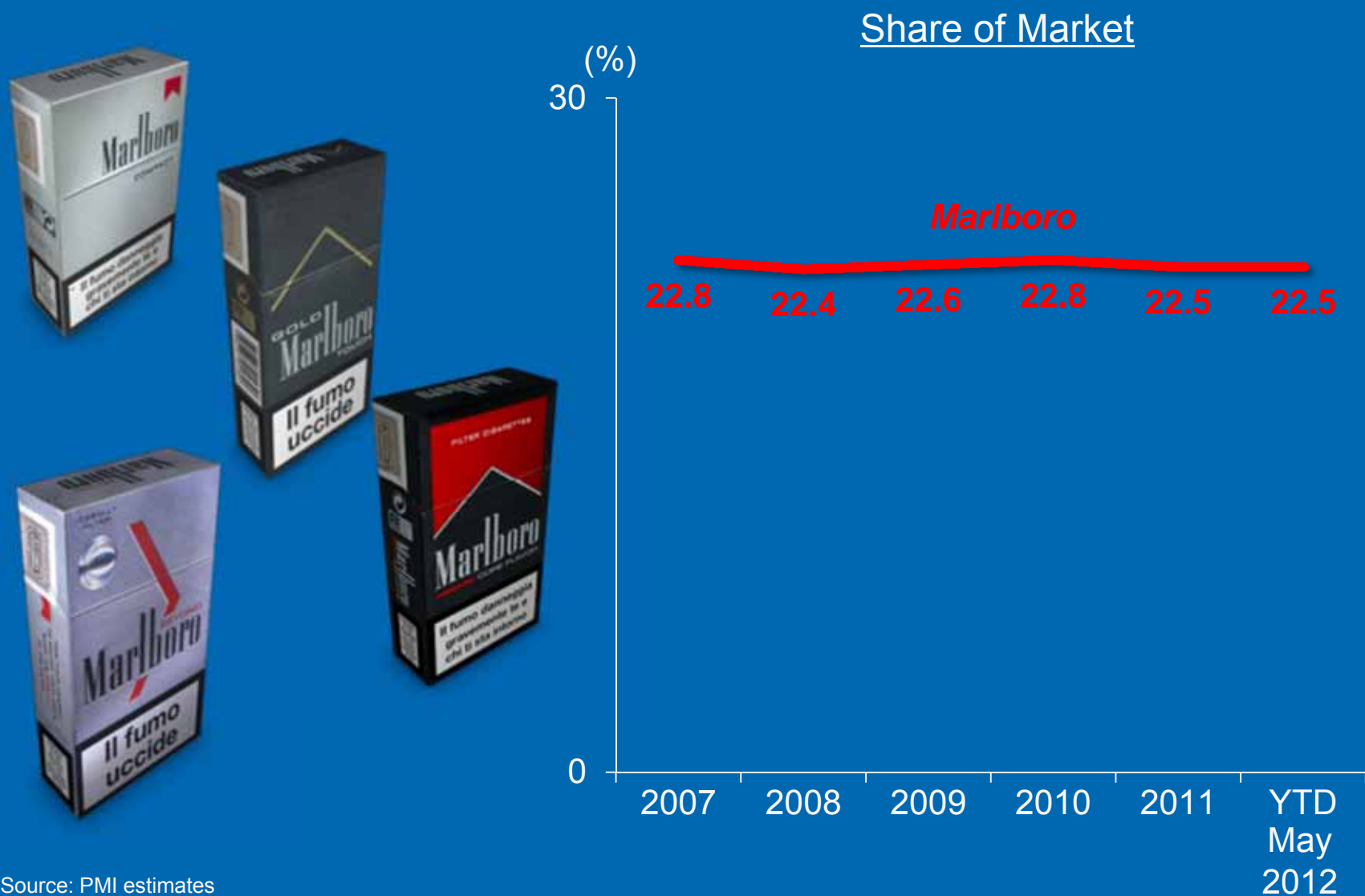


(a) Includes Roll Your Own and Make Your Own. Fine cut converted to cigarette equivalents based on conversion ratio of 1 unit = 0.75g
Source: PMI estimates

Italy: *Marlboro* Resilient in a Difficult Economic Environment



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Italy: *Philip Morris Selection* Launched in the Low-Price Segment

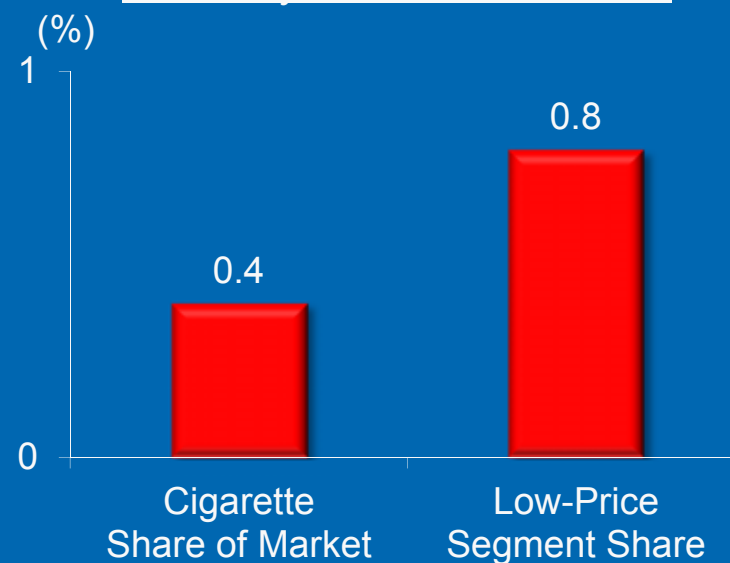


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- Introduction in the low-price segment in January 2012
- 0.4% share of market YTD May, 2012
- 0.8% share of the low-price segment YTD May, 2012



Philip Morris Selection
YTD May, 2012 Performance



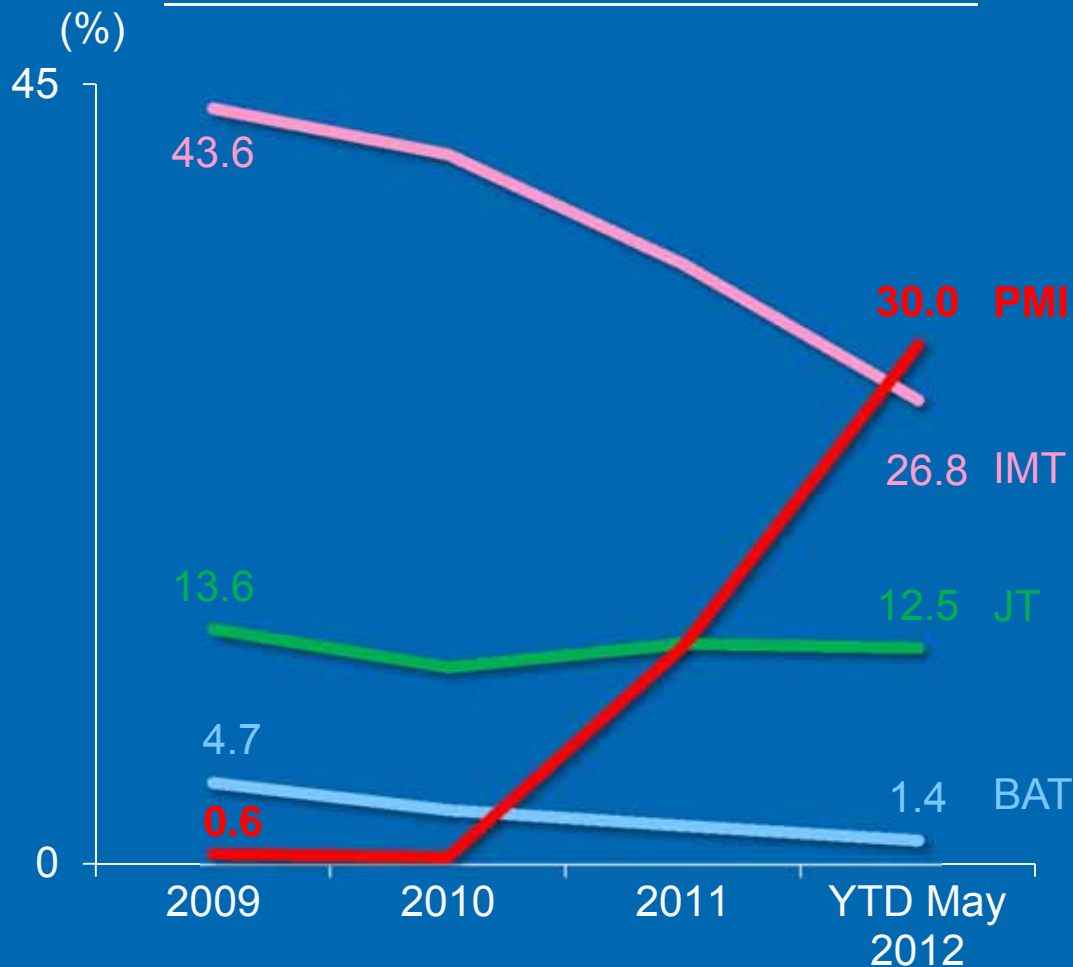
Italy: PMI Recent Leadership in the Fine-Cut Category



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Main Manufacturers Share of Fine Cut



Source: PMI estimates



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France: Solid Volume and Share Performance

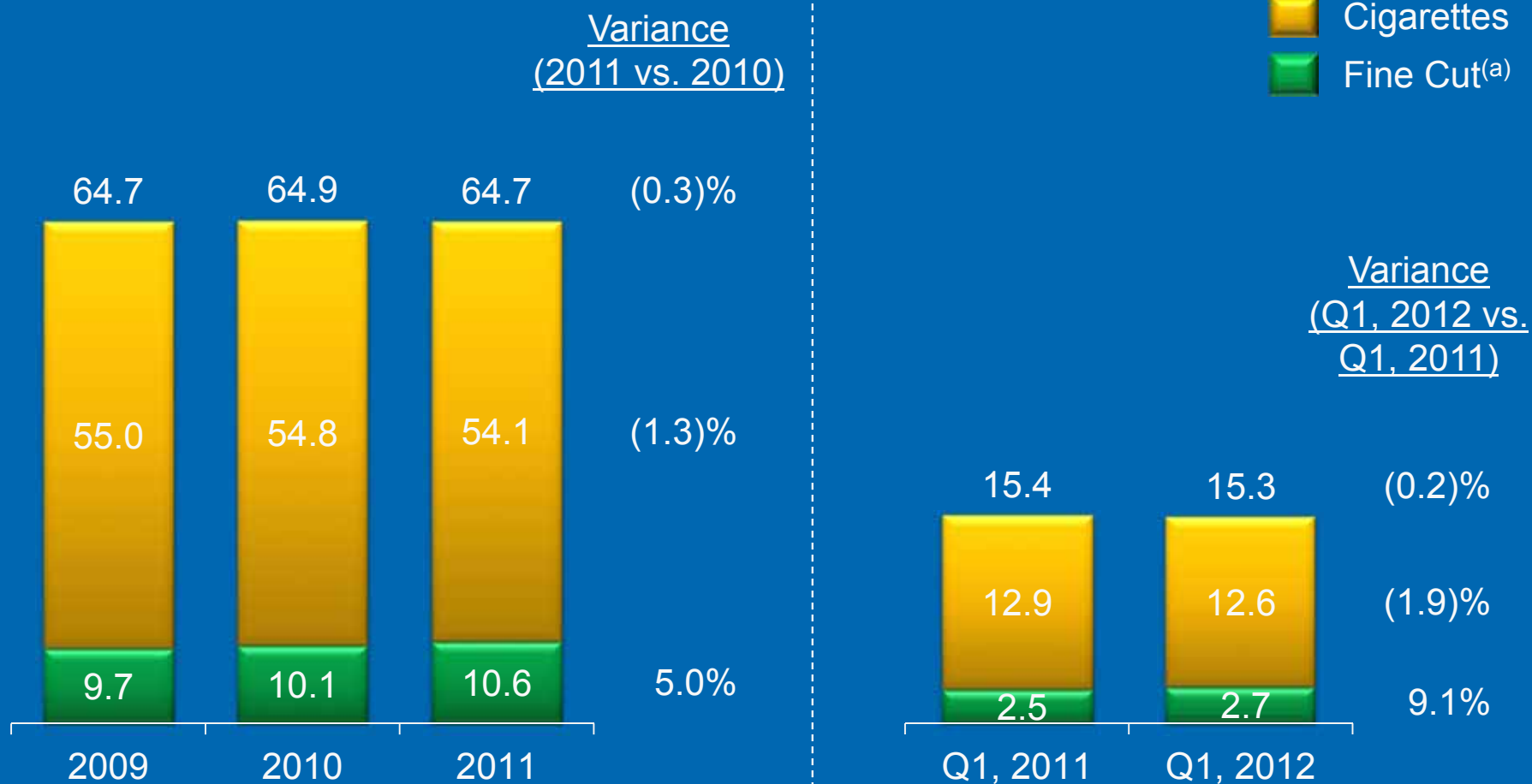
- Stable industry volume with growth of fine cut
- Cigarette market share growth in 2011
- Remarkable fine cut share of market growth after the launch of *Marlboro*



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France: Stable Total Tobacco Industry Volume

(units billion; units billion equivalent)



(a) Includes Roll Your Own and Make Your Own. Fine cut converted to cigarette equivalents based on conversion ratio of 1 unit = 0.75g
Source: PMI estimates

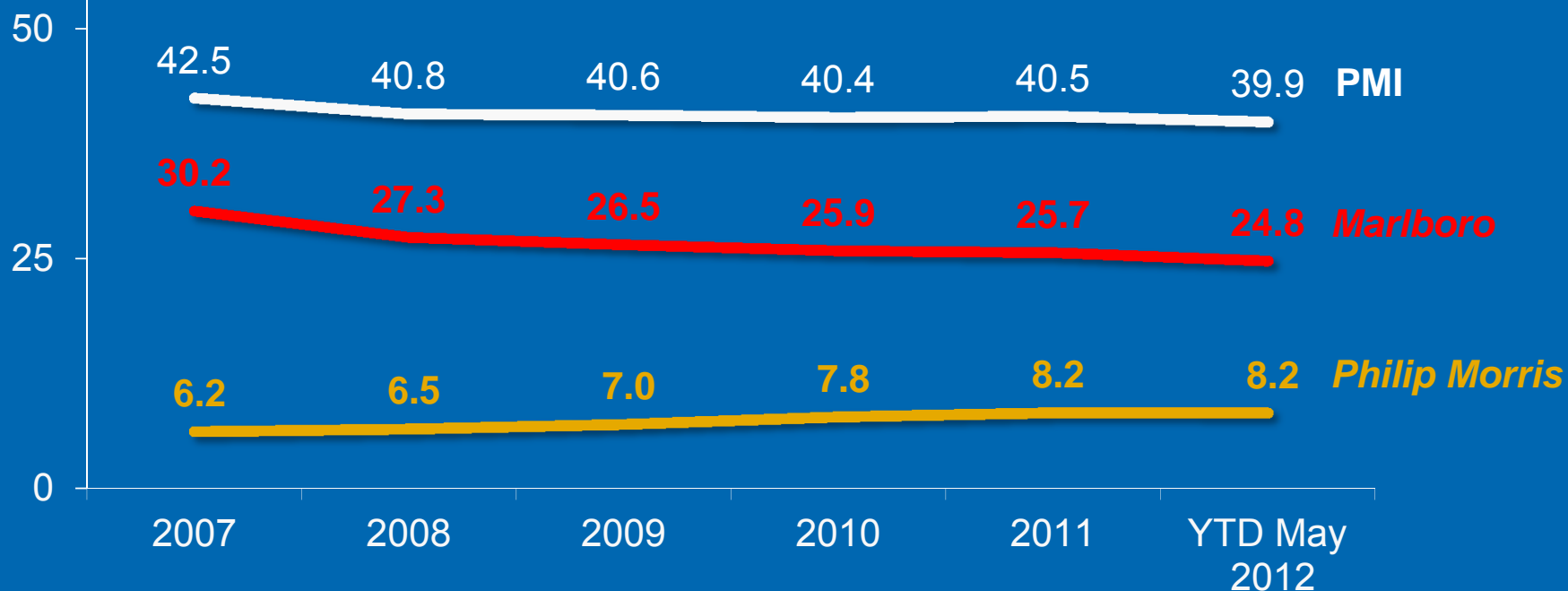
France: Robust Share of Premium Segment and Cigarette Market Share Growth in 2011



Share of Premium Segment



Share of Market



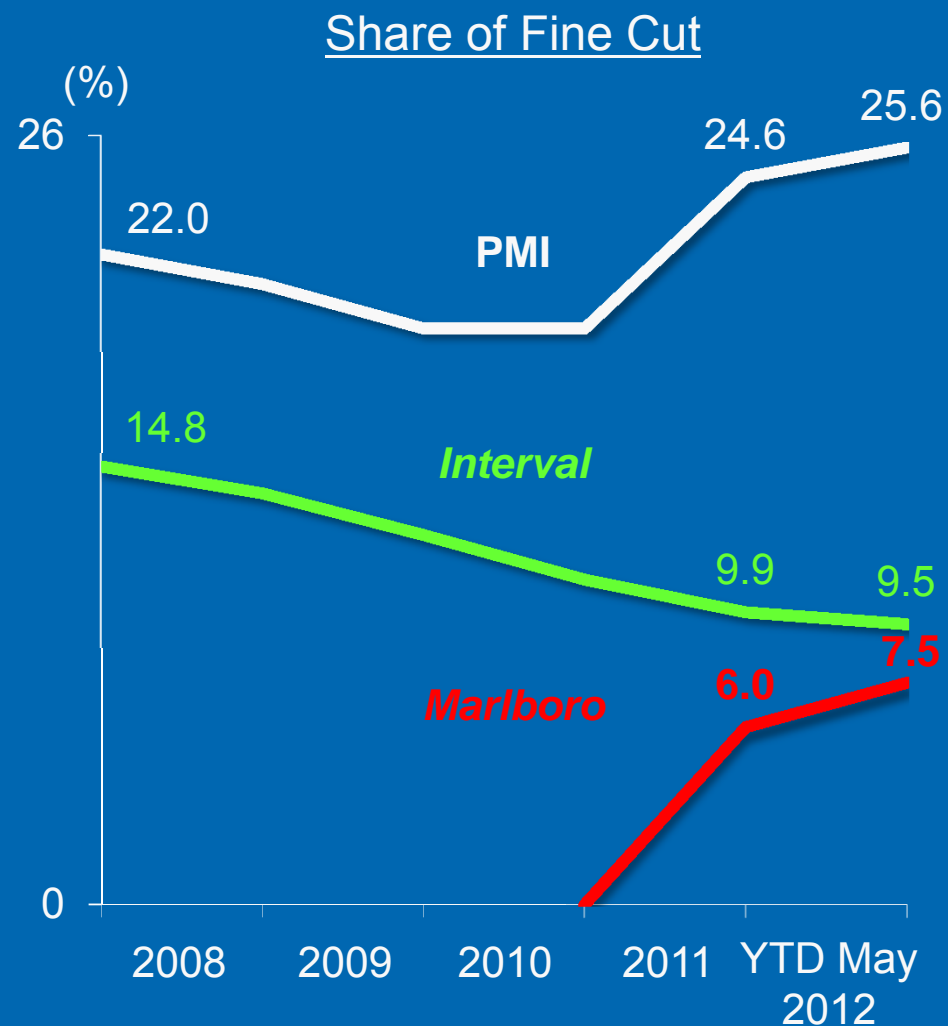
Source: PMI estimates

France: Remarkable Market Share Growth in the Fine-Cut Category



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- Superior performance of *Marlboro*
- *Interval* moderating decline rate
- Dedicated sales force





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Poland: Solid Fundamentals

- Strong macro-economic environment
- Consumer uptrading
- Growth of PMI international brands
- PMI outperforming in the growing slims and menthol segments

Poland: Uptrading to Premium and Mid-Price Segments



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Total Market by Price Segment (%)



(a) Premium Price: mainly *Marlboro* and *Vogue*

(b) Mid-Price: mainly *L&M*, *West*, *Golden American* and *Camel*

(c) Low-Price: mainly *Viceroy*, *Route 66*, *LD*, *Nevada* and *Red & White*

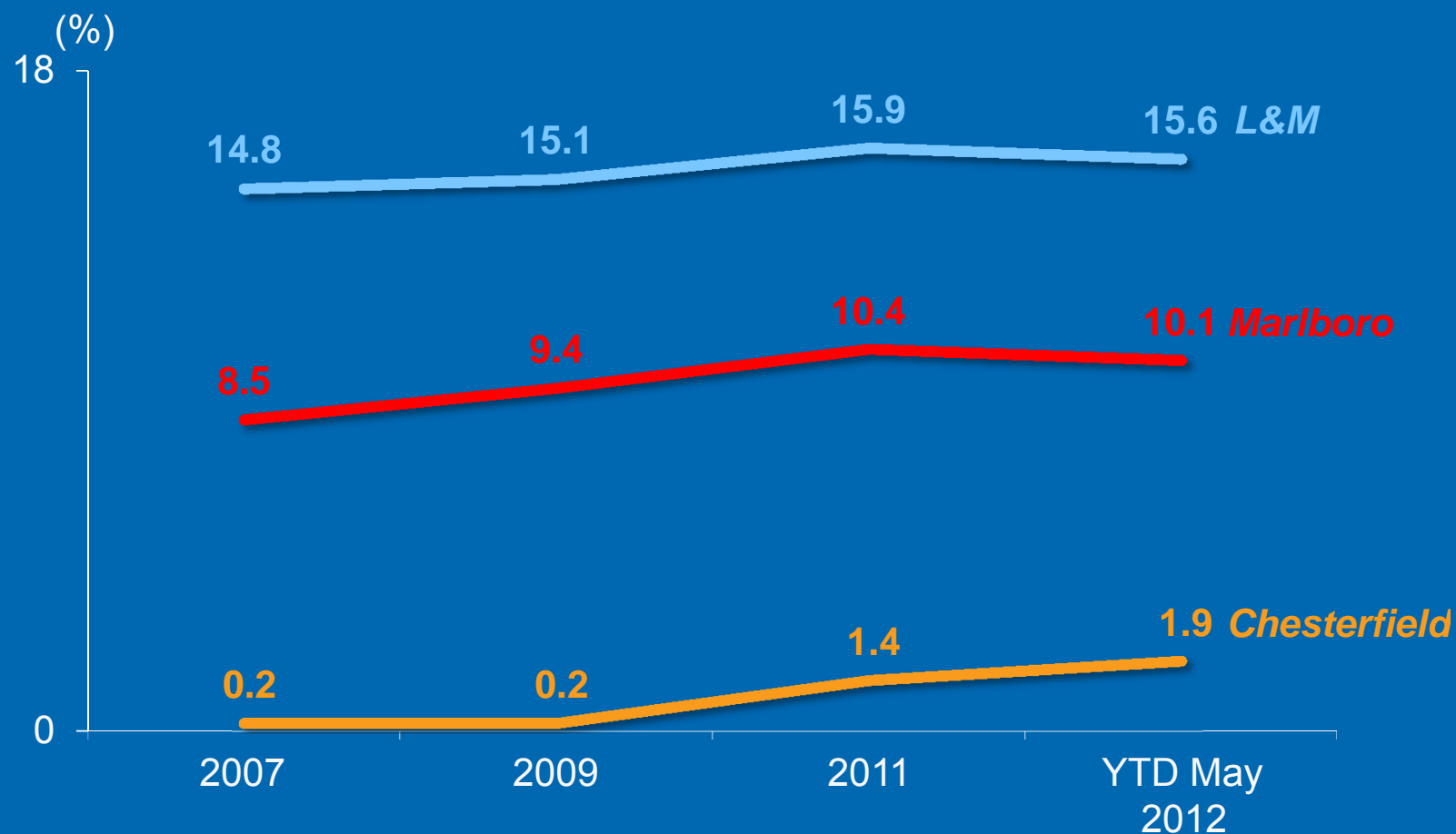
Source: Nielsen



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Poland: PMI International Brands Growing

Share of Market



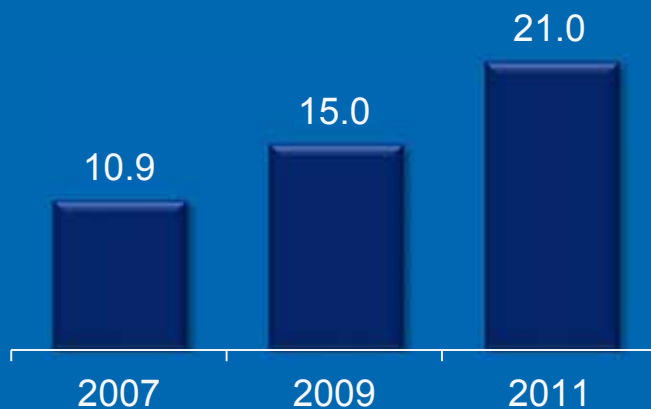
Source: PMI estimates

Poland: PMI Growing in the Slims and Menthol Segments

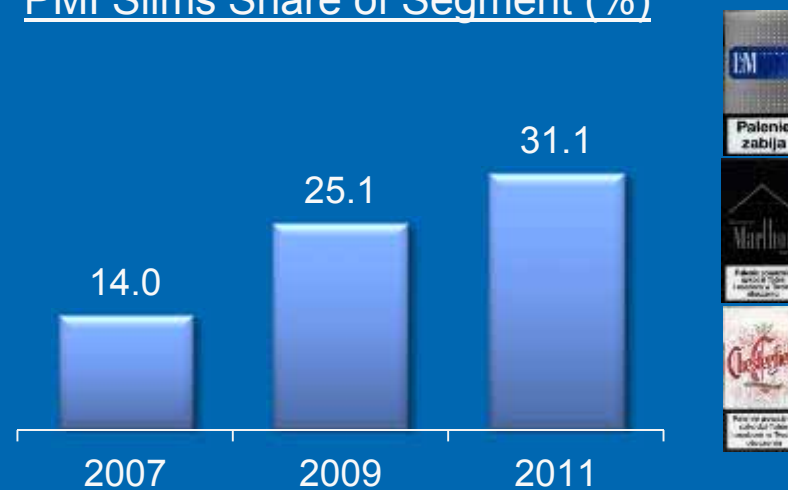


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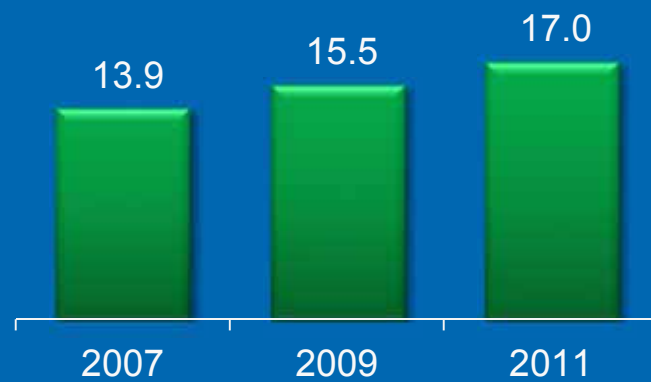
Slims Share of Market (%)



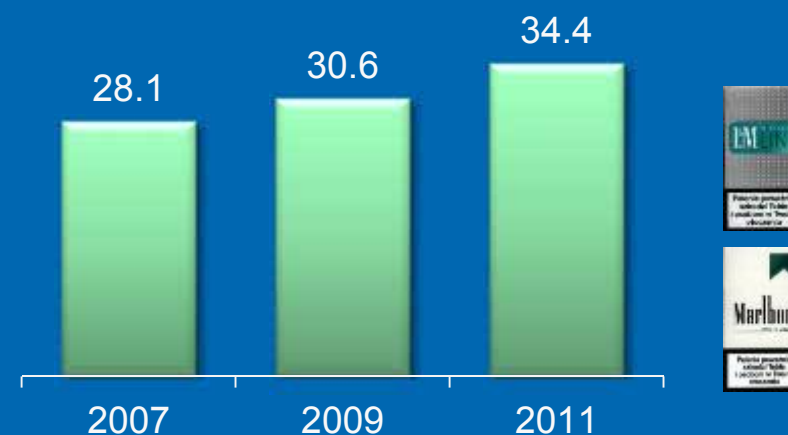
PMI Slims Share of Segment (%)



Menthol Share of Market (%)



PMI Menthol Share of Segment (%)



Source: PMI estimates



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Germany: Excellent Performance

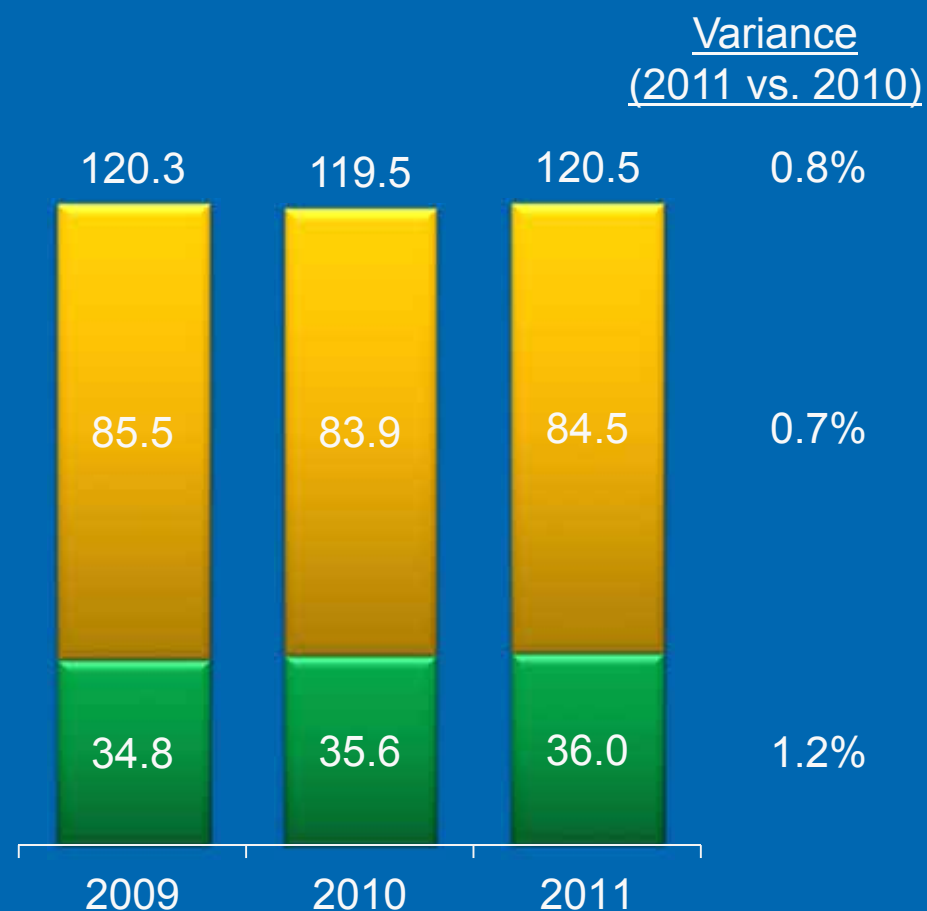
- Solid macro-economic fundamentals and growing cigarette and industry volumes
- *Marlboro* – No. 1 brand and growing share among YAS
- *L&M* – the fastest-growing brand in Germany
- PMI reinforcing position in fine cut thanks to the international portfolio

Germany: Positive Cigarette and Fine Cut Volume Development in 2011

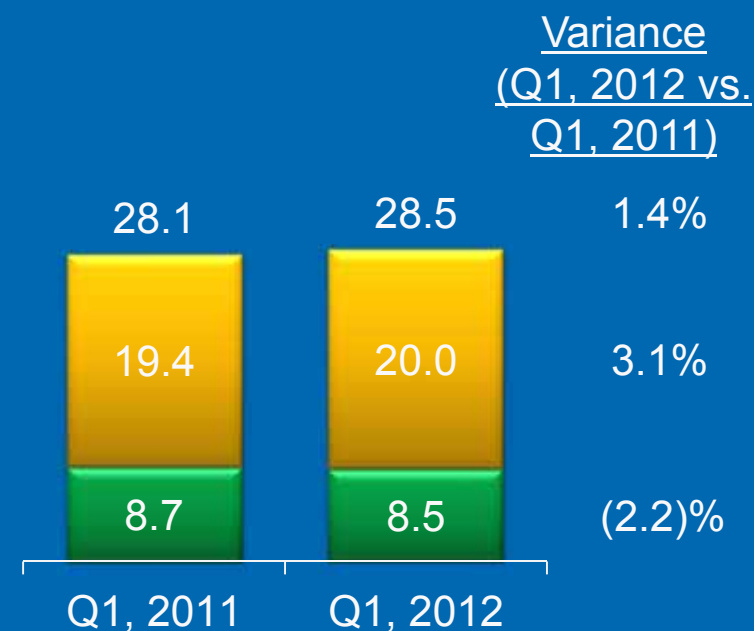


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(units billion; units billion equivalent)



Cigarettes
 Fine Cut^(a)

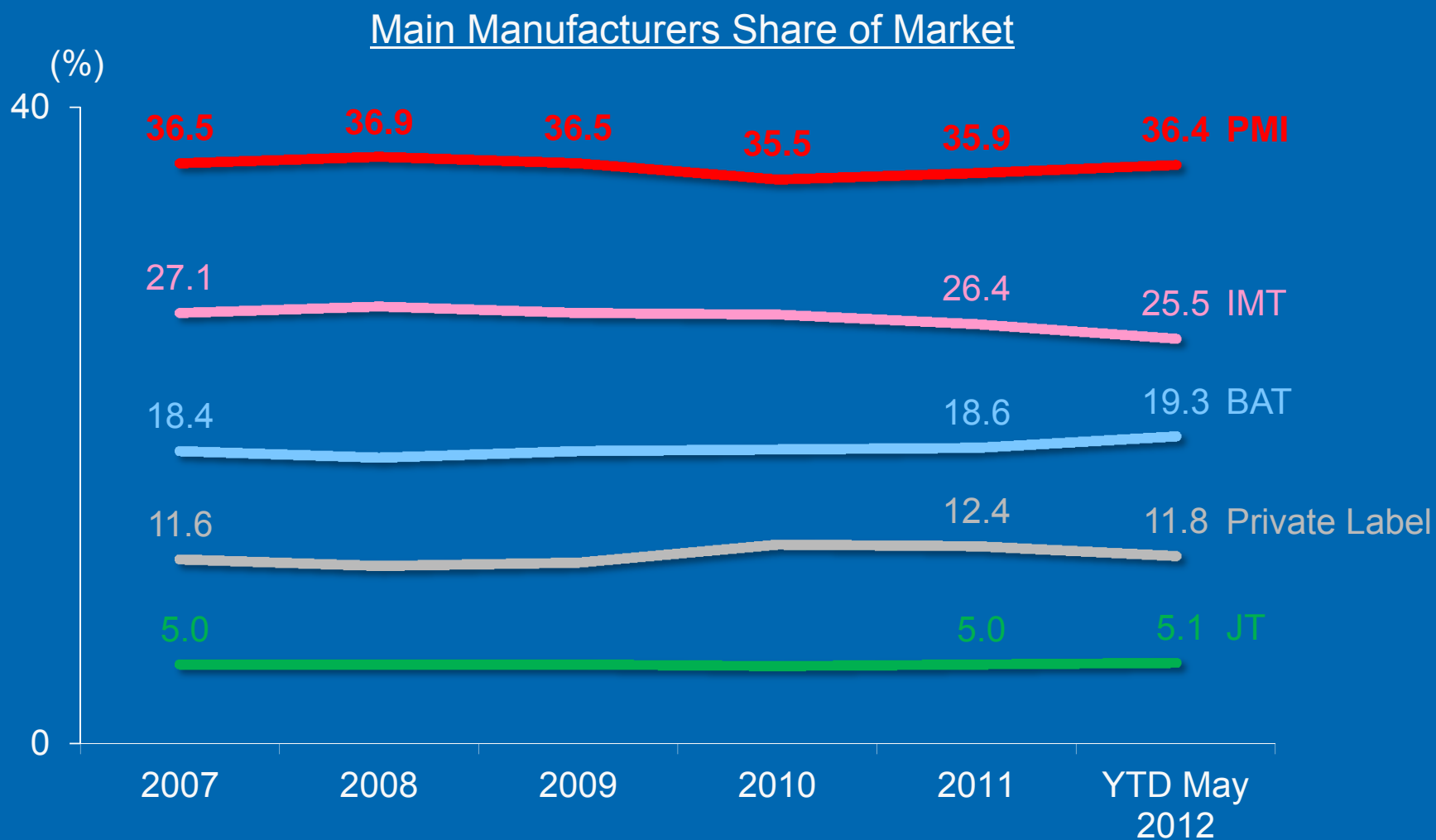


(a) Includes Roll Your Own and Make Your Own. Fine cut converted to cigarette equivalents based on conversion ratio of 1 unit = 0.75g
Source: PMI estimates

Germany: PMI Cigarette Market Share Turnaround



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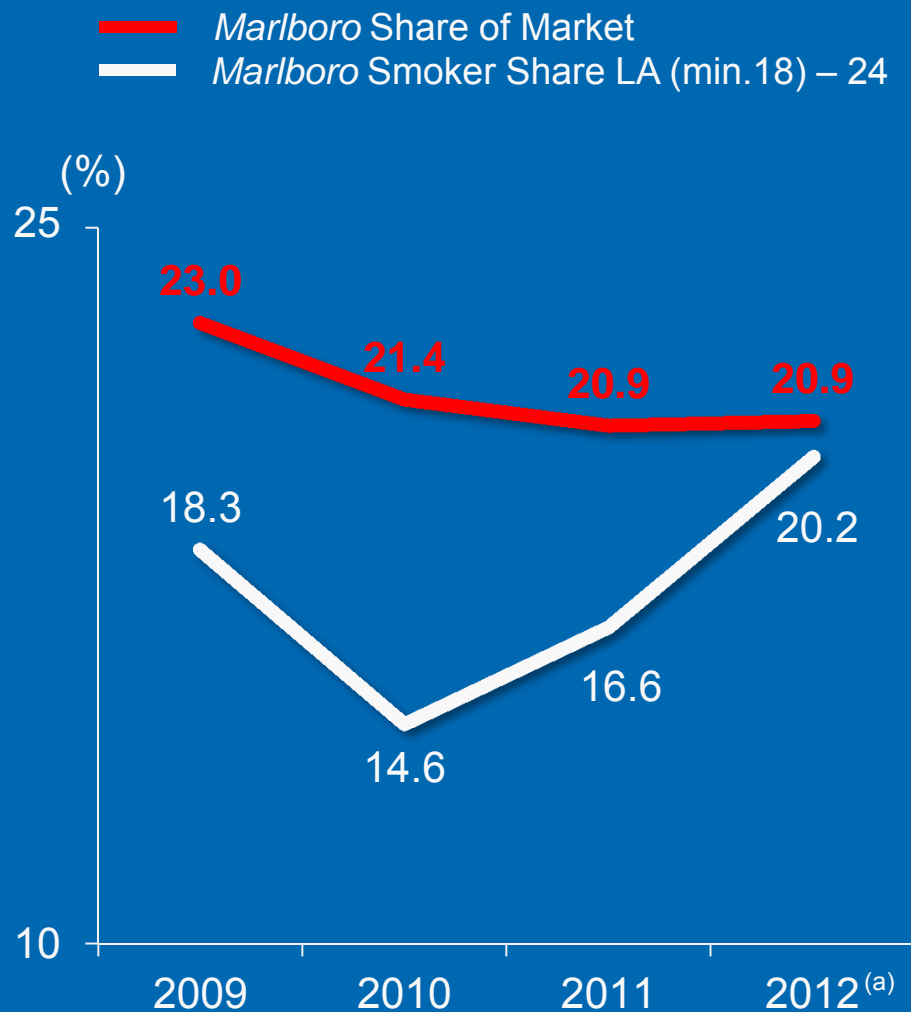
Source: PMI estimates

Germany: *Marlboro* Resumes Share Growth Among Young Adult Smokers



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- New “*Be Marlboro*” campaign launched in Q4, 2011



(a) YTD May, 2012 data for share of market and February 2012 6mma for smoker share LA (min.18) – 24
Source: PMI estimates and PMI Market Research

Germany: *L&M* Outperforming Main Competitor Brands



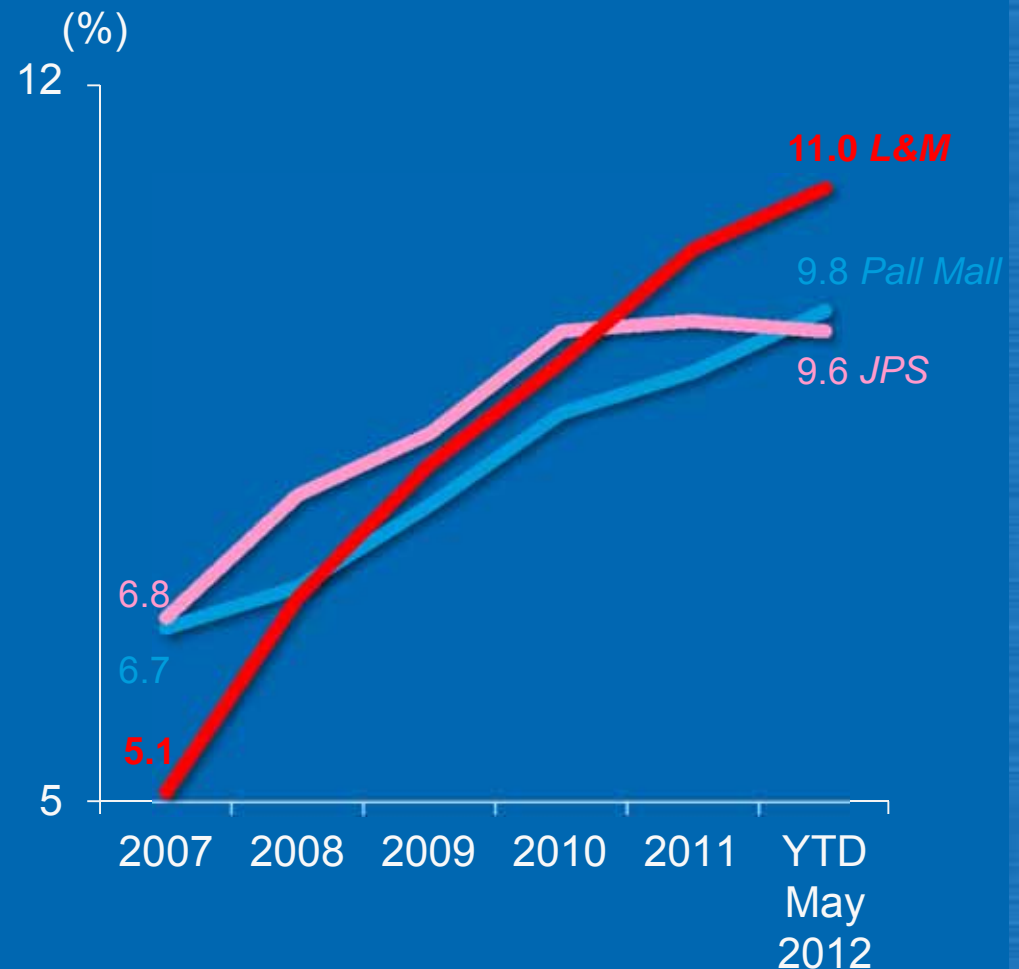
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- *L&M* is the fastest-growing brand in Germany
- *L&M* is clearly outperforming the main competitors in the same price segment



Source: PMI estimates

L&M and Key Competitive Brands Share of Cigarette Market



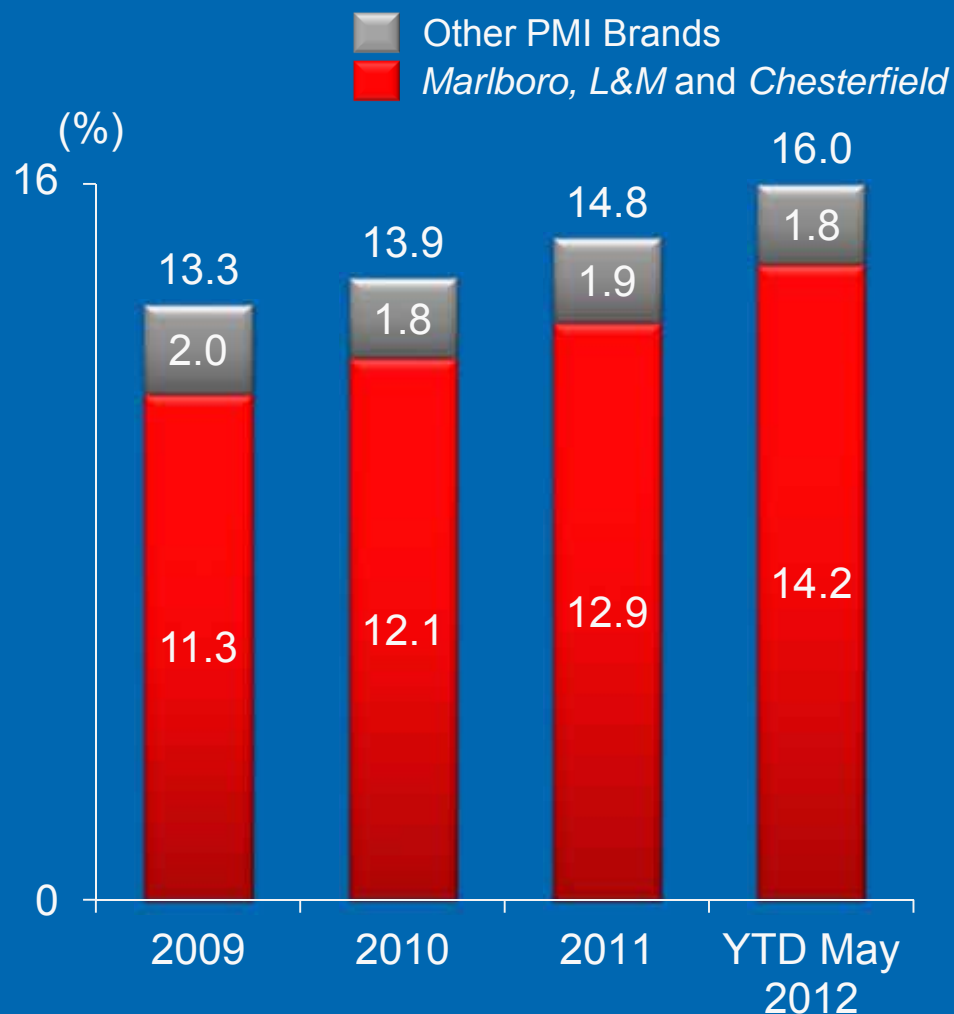
Germany: PMI Continuous Share Growth in the Fine-Cut Category Driven by International Brands



- PMI share of market growth, driven by its international brands



PMI Fine Cut Share of Market^(a)



(a) Includes Roll Your Own and Make Your Own. Fine cut converted to cigarette equivalents based on conversion ratio of 1 unit = 0.75g
Source: PMI estimates



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Concluding Remarks

- Positive developments of *Marlboro* demographics
- Robust mid and low-price brand portfolio: *L&M*, *Chesterfield* and *Philip Morris*
- Strong international well-established cigarette brands in the fine-cut category
- Pipeline of consumer-relevant product innovations
- Improving tax environment



A solid foundation to ensure a continuous and sustainable growth of our OCI and share of market



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2012
INVESTOR DAY

Investor Day – EU Region Lausanne, June 21, 2012

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