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INTERNATIONAL

2012
INVESTOR DAY

Investor Day – EEMA Region Lausanne, June 21, 2012

Mirosław Zielinski

*President, Eastern Europe, Middle East & Africa Region &
PMI Duty Free*

Philip Morris International



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What EEMA Offers

- Favorable demographics, fast growing economies
- Up-trading to PMI brands
- Manageable tax and regulatory environment
- Efficient infrastructure, superior execution
- Accelerating, sustainable financial gains



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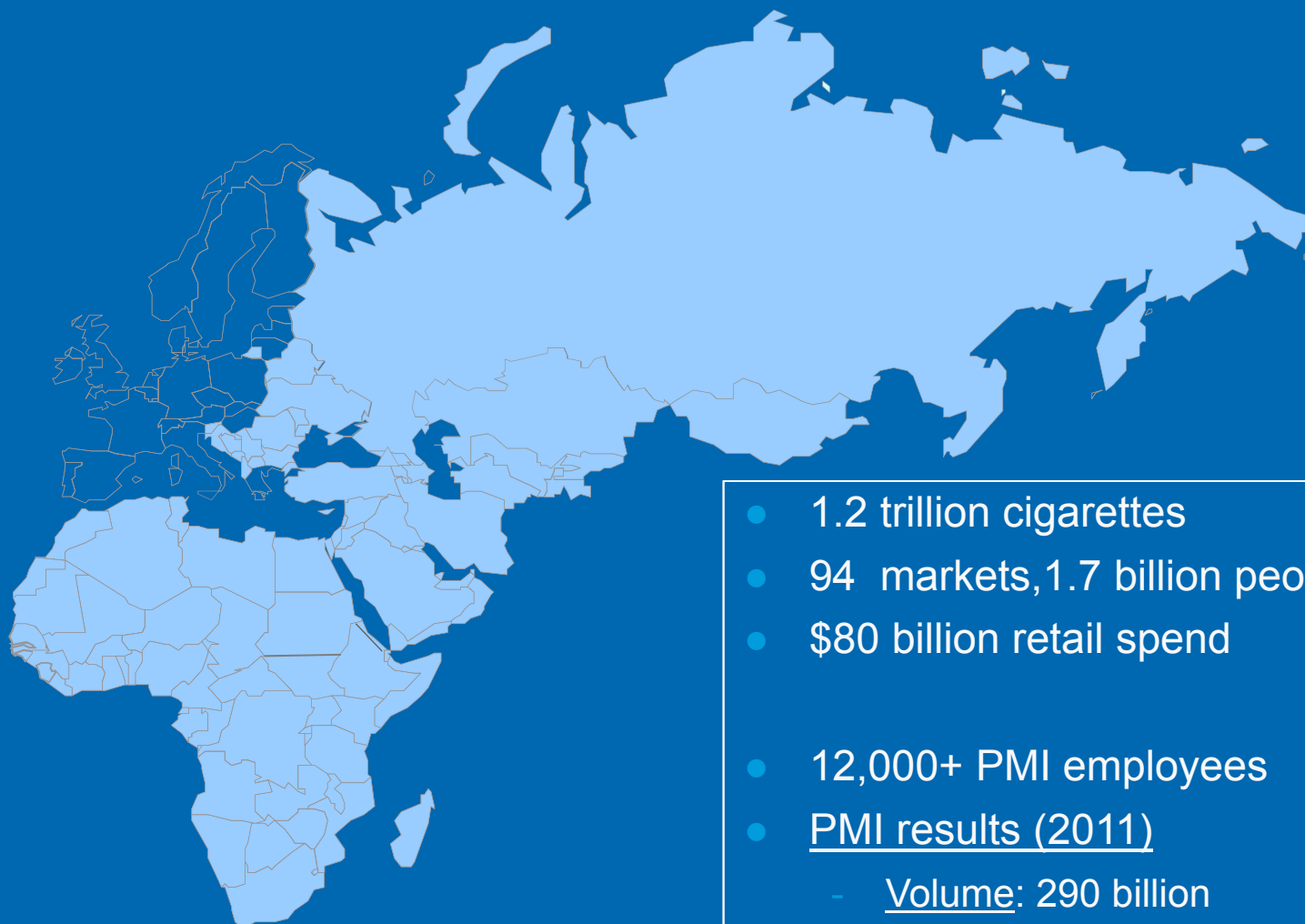
Agenda

- EEMA overview and results
- PMI strategic priorities:
 - Continuously grow and innovate our brand portfolio
 - Proactive tax and regulatory engagement
 - Pricing and price gap strategy
 - Grow our presence in key markets
 - Seize development opportunities
- Concluding remarks



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Key Facts



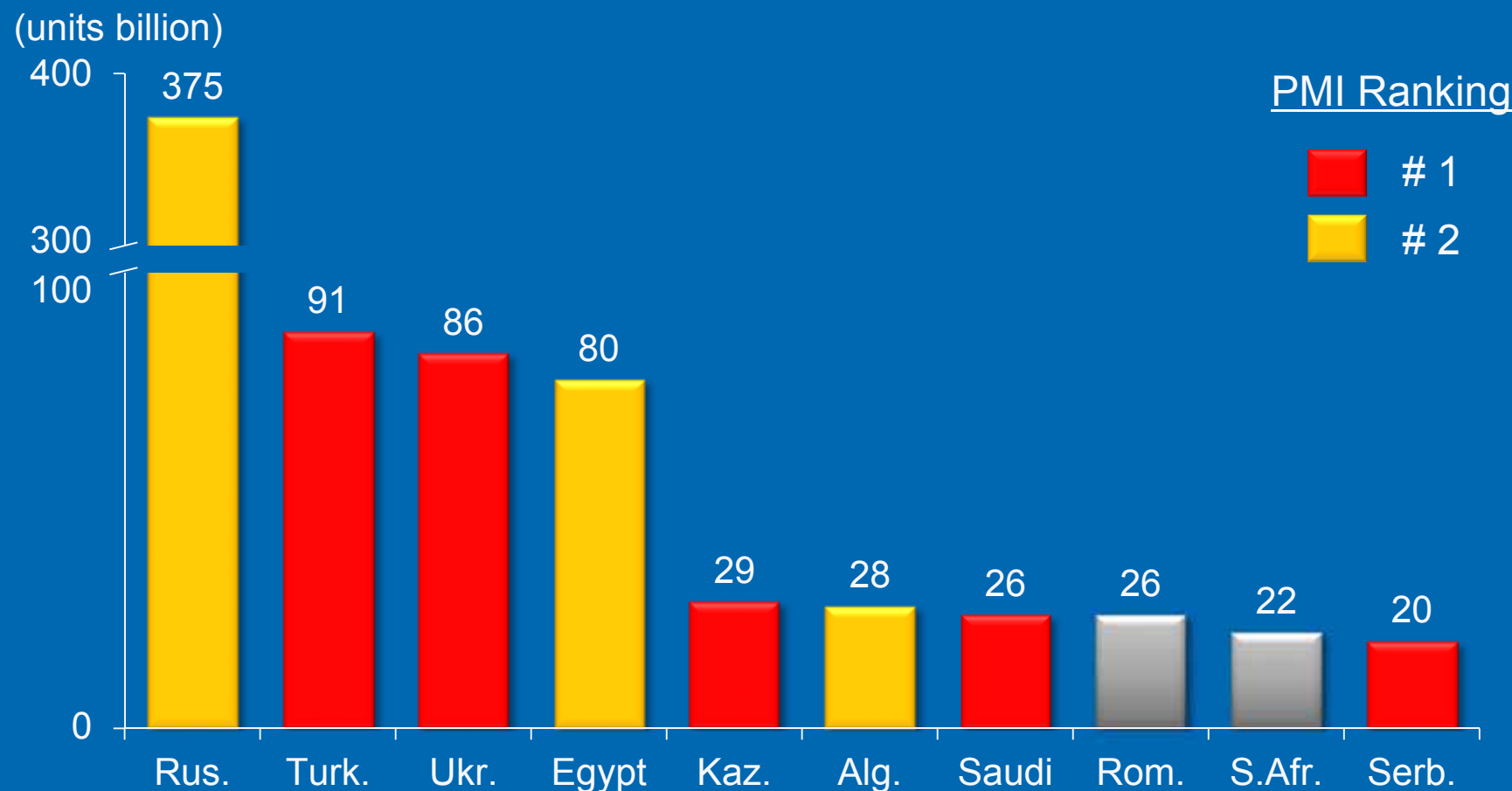
- 1.2 trillion cigarettes
- 94 markets, 1.7 billion people
- \$80 billion retail spend
- 12,000+ PMI employees
- PMI results (2011)
 - Volume: 290 billion
 - Share: 23%
 - Adjusted OCI: \$3.3 billion

Source: Global Insight, PMI Financials and PMI estimates



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Industry Volume: Top 10 Markets (2011)



Note: Rus. is Russia, Turk. is Turkey, Ukr. is Ukraine, Kaz. is Kazakhstan, Alg. is Algeria, Saudi is Saudi Arabia, Rom. is Romania, S.Afr. is South Africa and Serb. is Serbia. Excluding Iran

Source: PMI estimates



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Rapid Population Growth

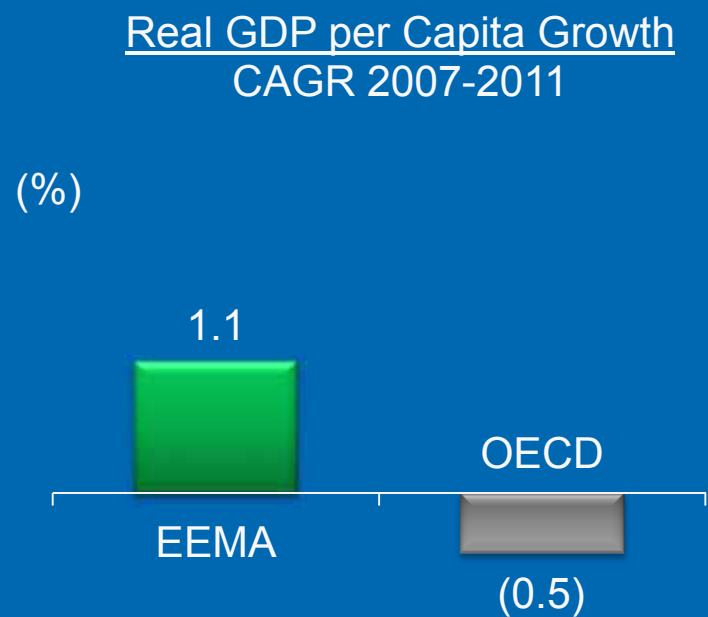
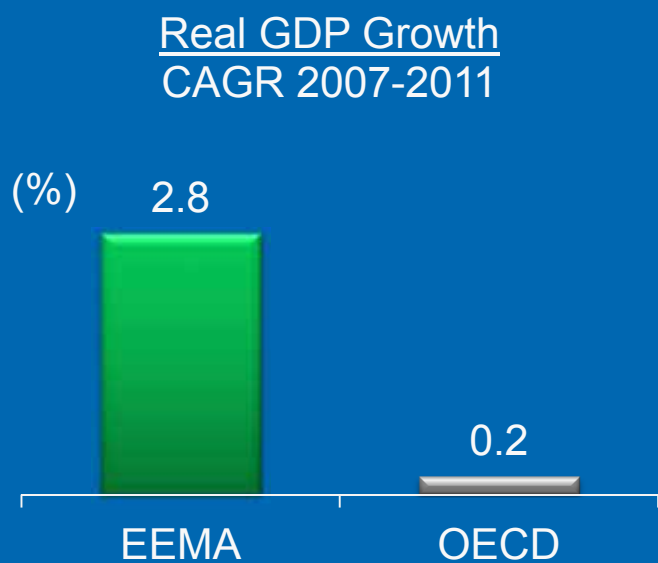


Source: Global Insight



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Rapid Economic Growth



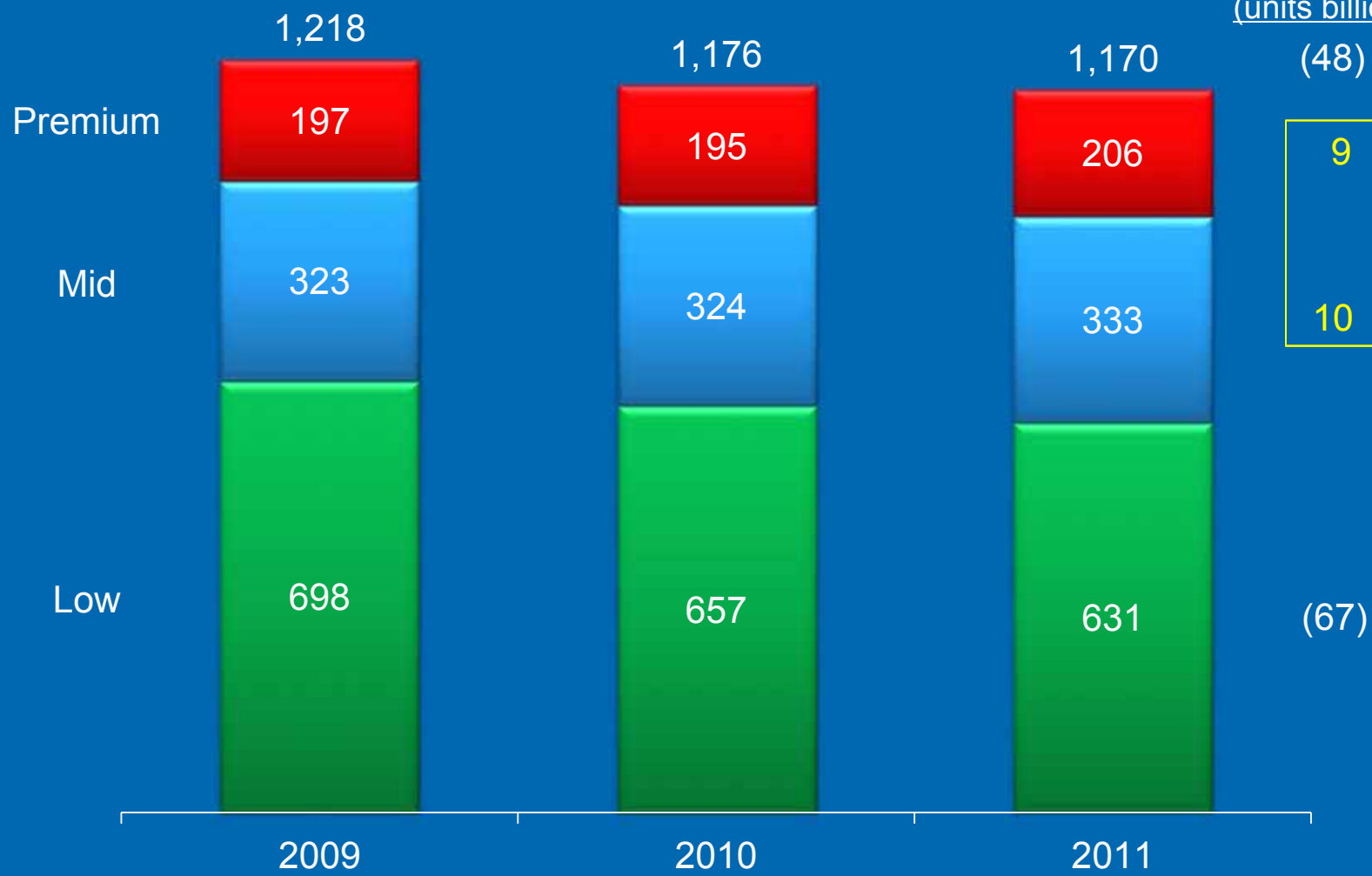


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Adult Smokers Uptrading

(units billion)

Variance
2011 vs. 2009
(units billion)

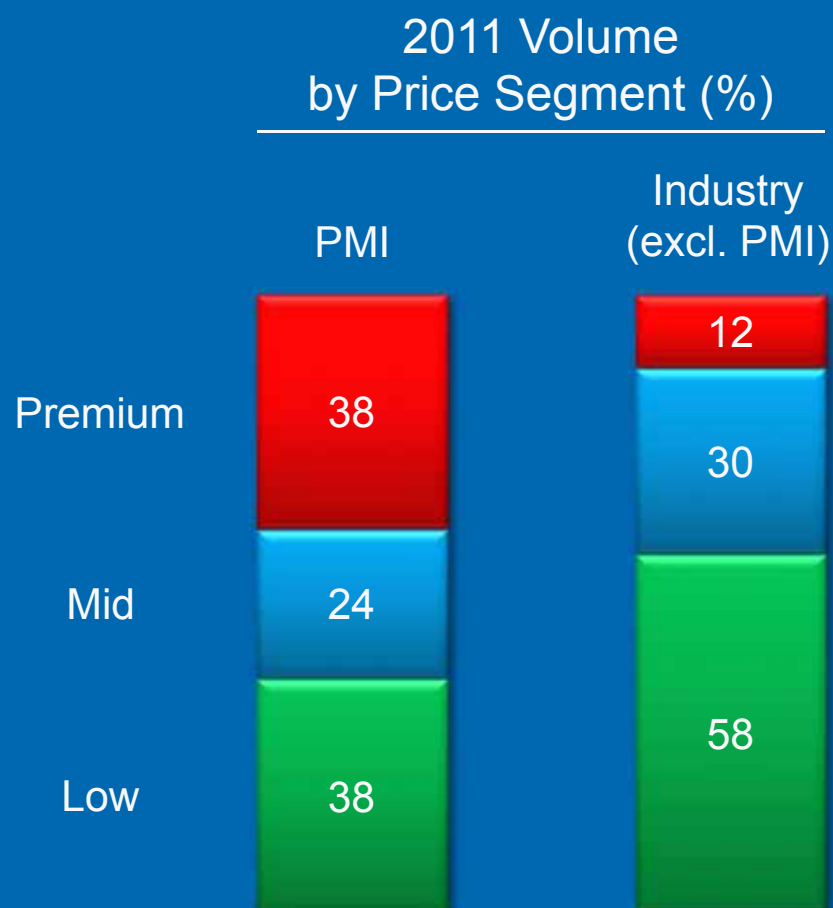


Note: Excluding duty free
Source: PMI estimates



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Superior PMI Positioning



- PMI's superior positioning translates into a compelling advantage in revenue generating power

Note: Excluding duty free
Source: PMI Financials and PMI estimates



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Industry Revenues

(\$ billion)



Note: Based on 26 markets, covering 81% of EEMA 2011 volume, excluding duty free
Source: PMI estimates



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Industry Revenues

(\$ billion)

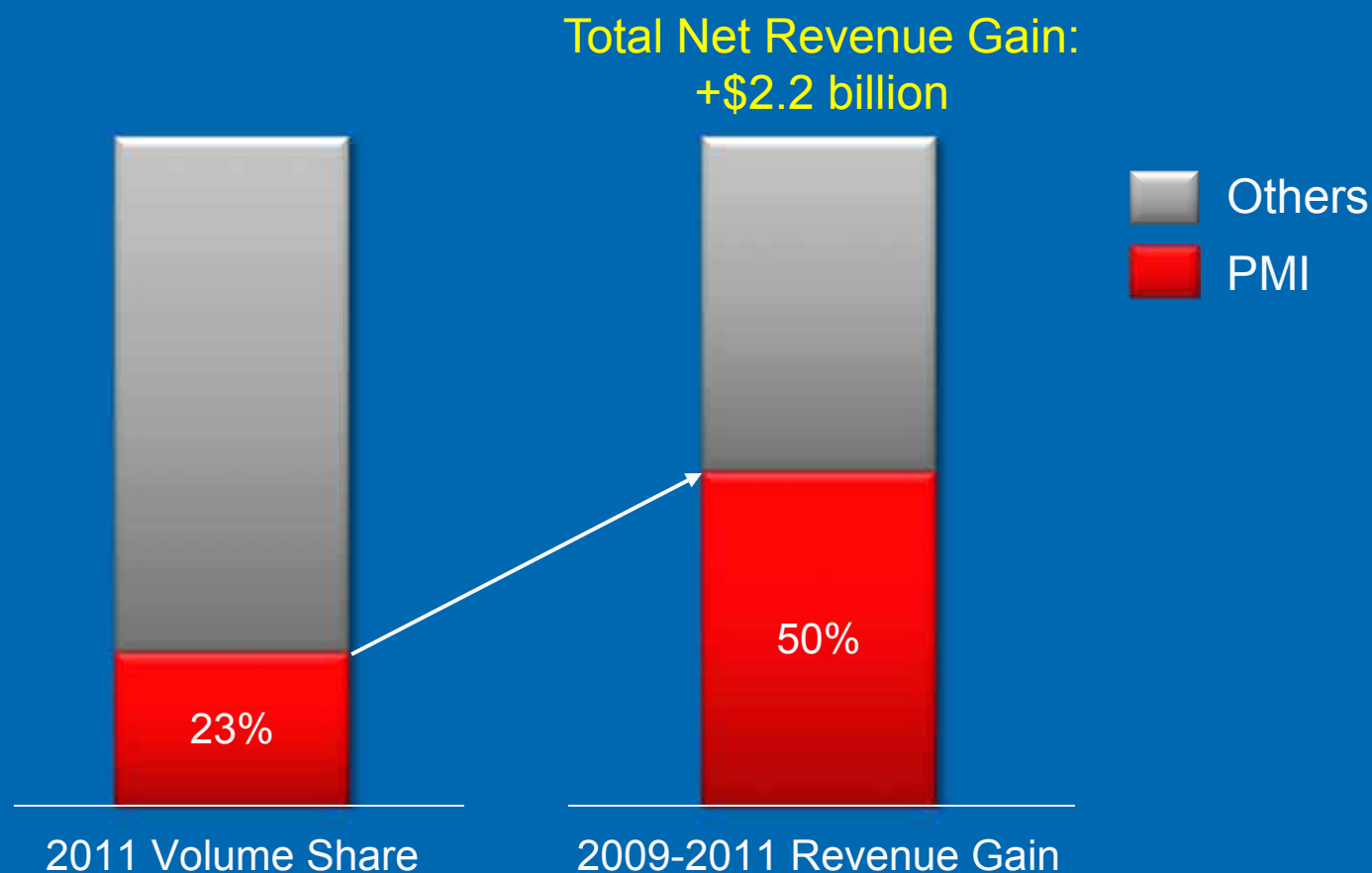


Note: Based on 26 markets, covering 81% of EEMA 2011 volume, excluding duty free
Source: PMI estimates



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PMI Share of \$2.2 Billion Industry Revenue Gain



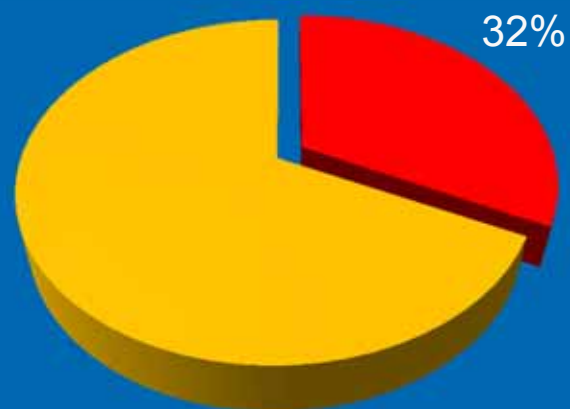
Note: Based on 26 markets, covering 81% of EEMA 2011 volume, excluding duty free
Source: PMI estimates



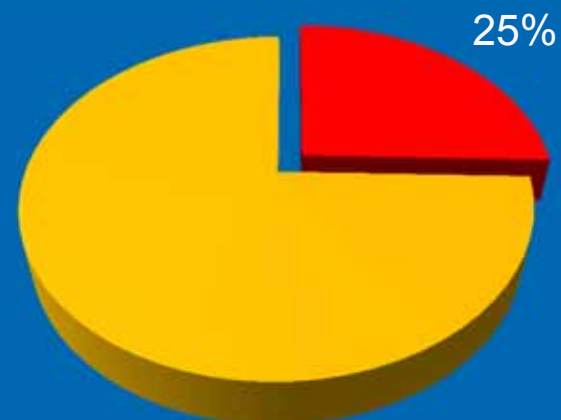
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EEMA Contribution to 2011 PMI Results

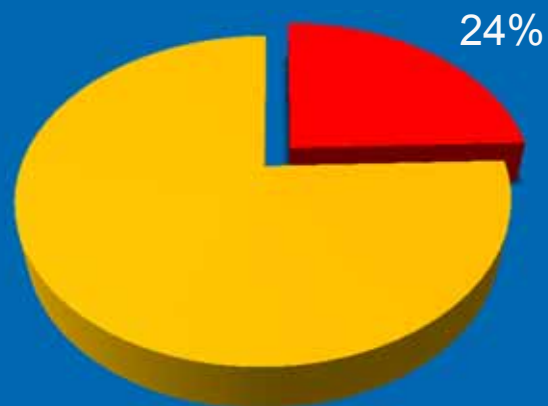
Cigarette Shipment Volume



Net Revenues



Adjusted OCI



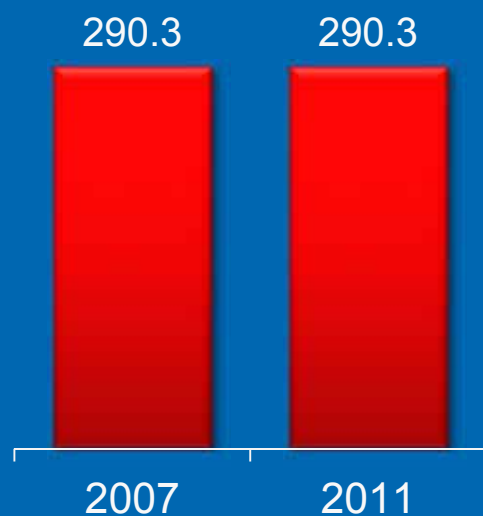


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Strong Profitability Growth

Shipment Volume (units billion)

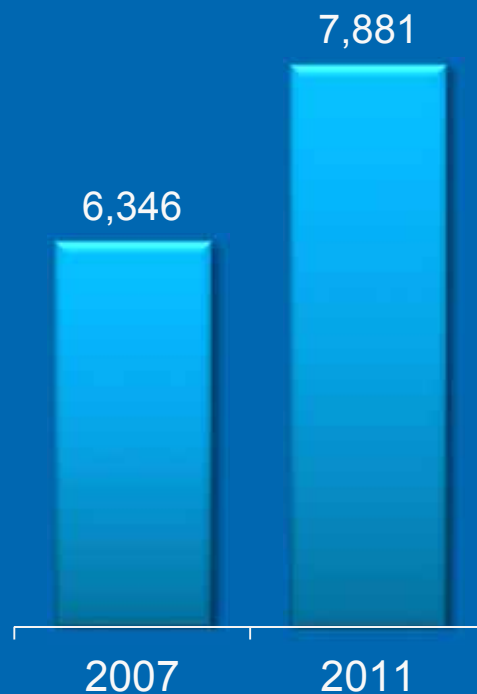
CAGR: – %



Net Revenues (\$ million)

CAGR: 5.6%

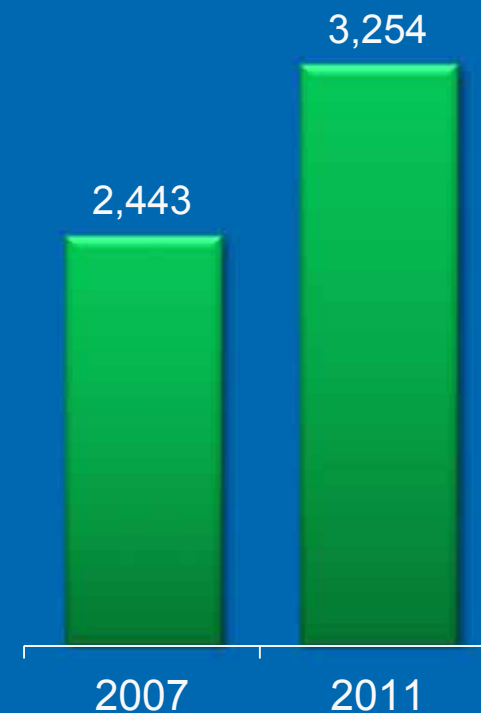
CAGR: 8.6% (excl. currency)



Adjusted OCI (\$ million)

CAGR: 7.4%

CAGR: 13.9% (excl. currency)





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Excellent First Quarter

Shipment Volume (units billion)

+3.6%
+3.4% (excl. acq)



Net Revenues (\$ million)

+8.8%
+12.6% (excl. curr and acq)



Adjusted OCI (\$ million)

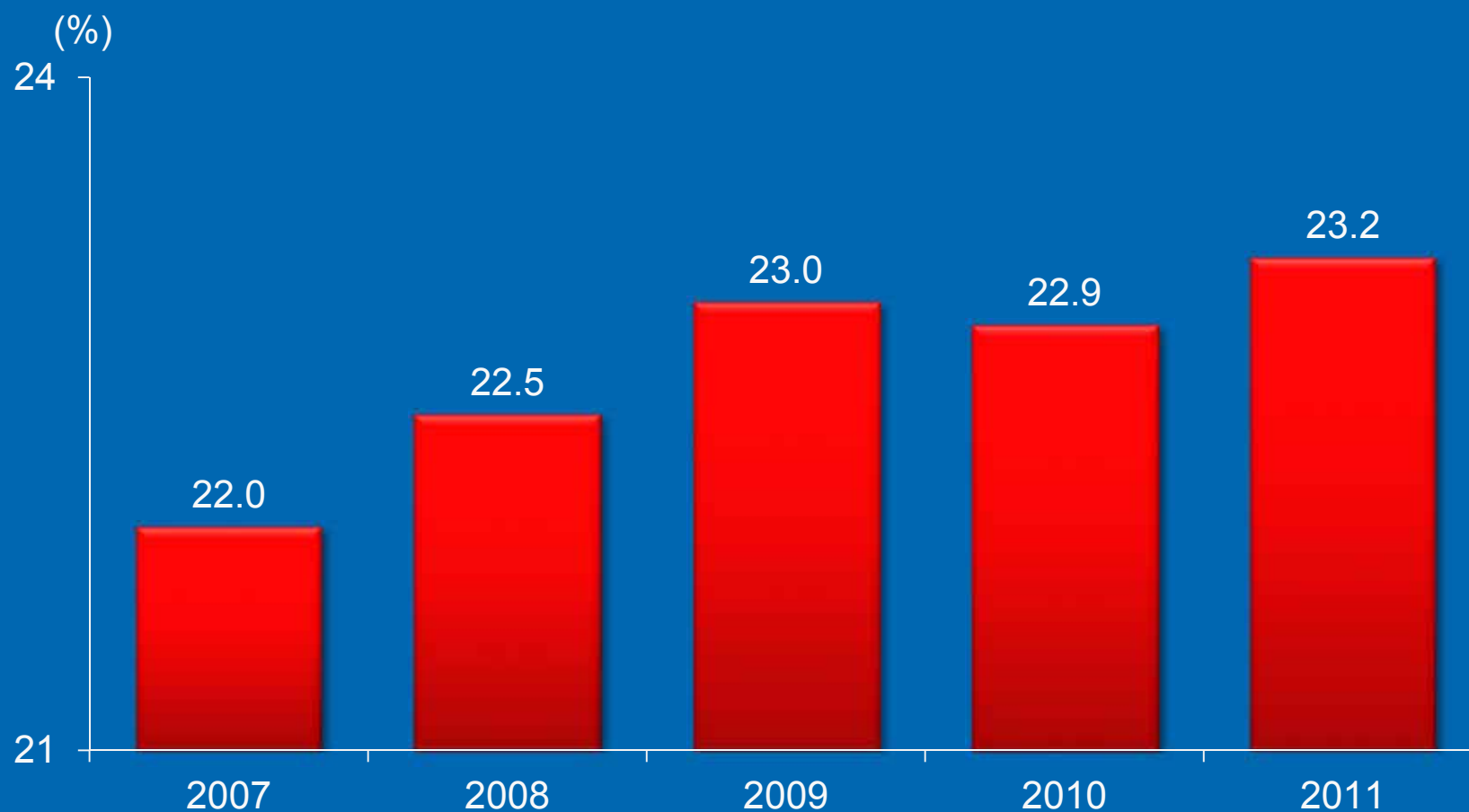
+11.9%
+18.0% (excl. curr and acq)





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PMI Share Growth

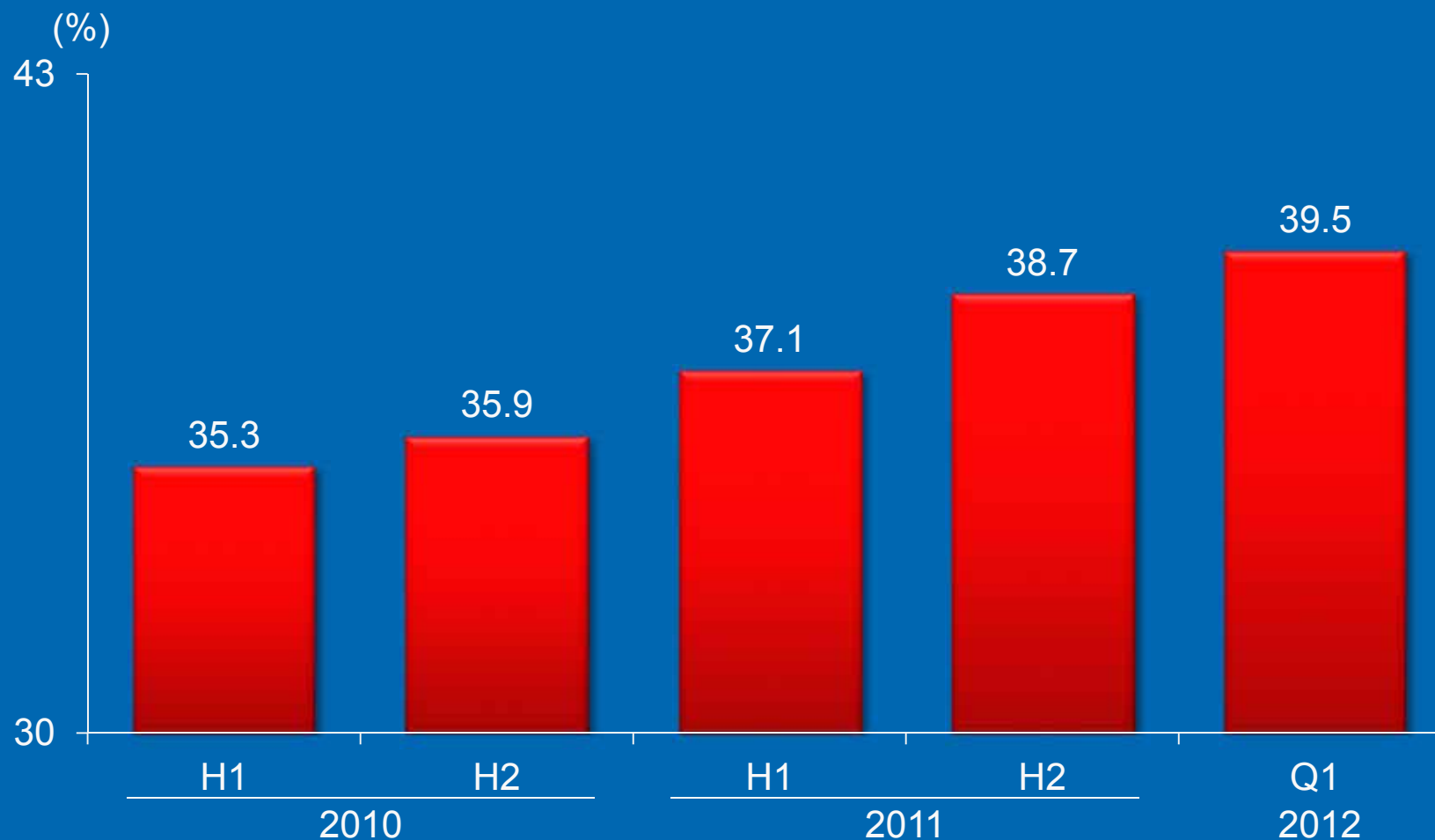


Note: Excluding duty free
Source: PMI estimates



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Premium Brands as a % of PMI Volume

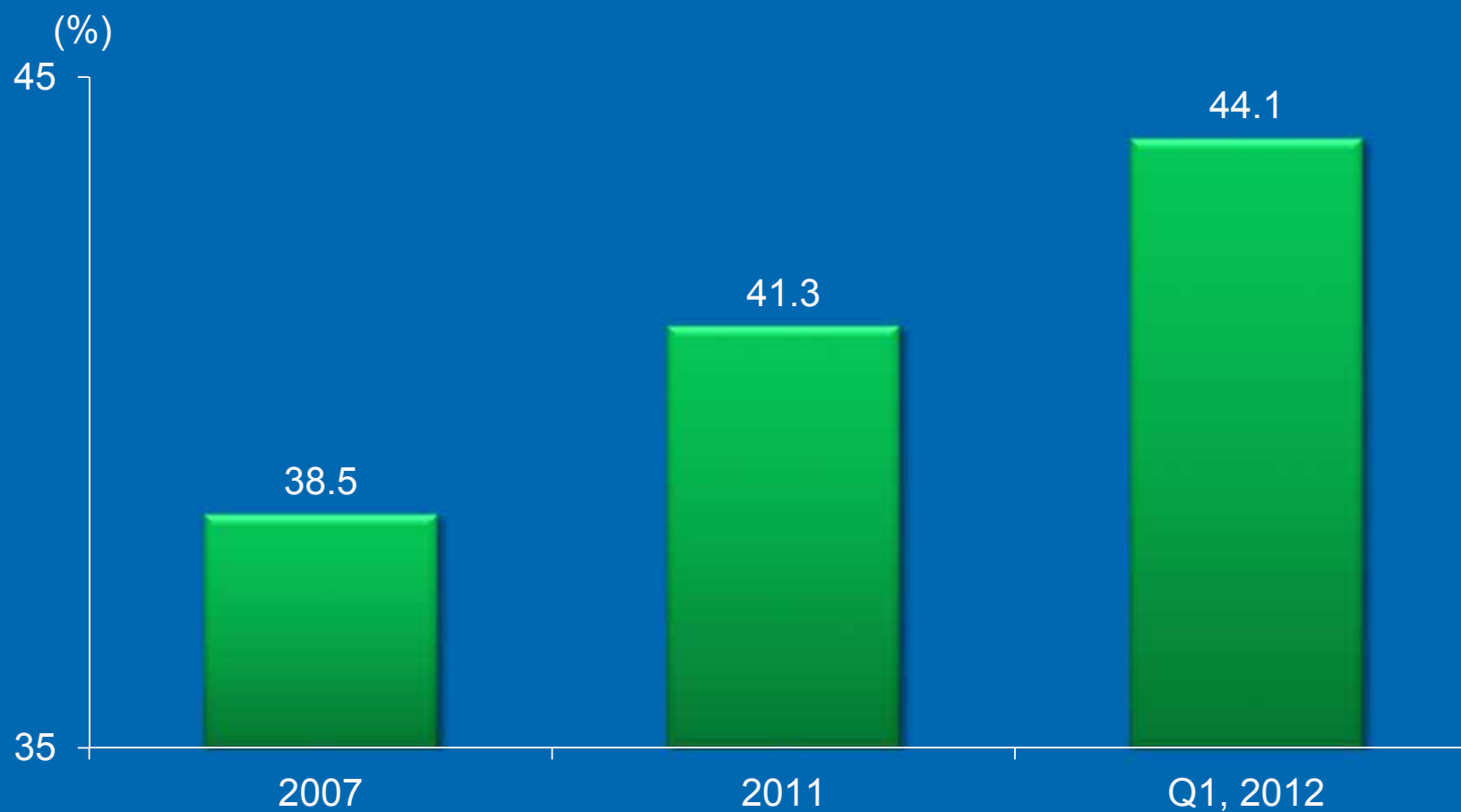


Note: Excluding duty free
Source: PMI Financials



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Expanding Adjusted OCI Margin



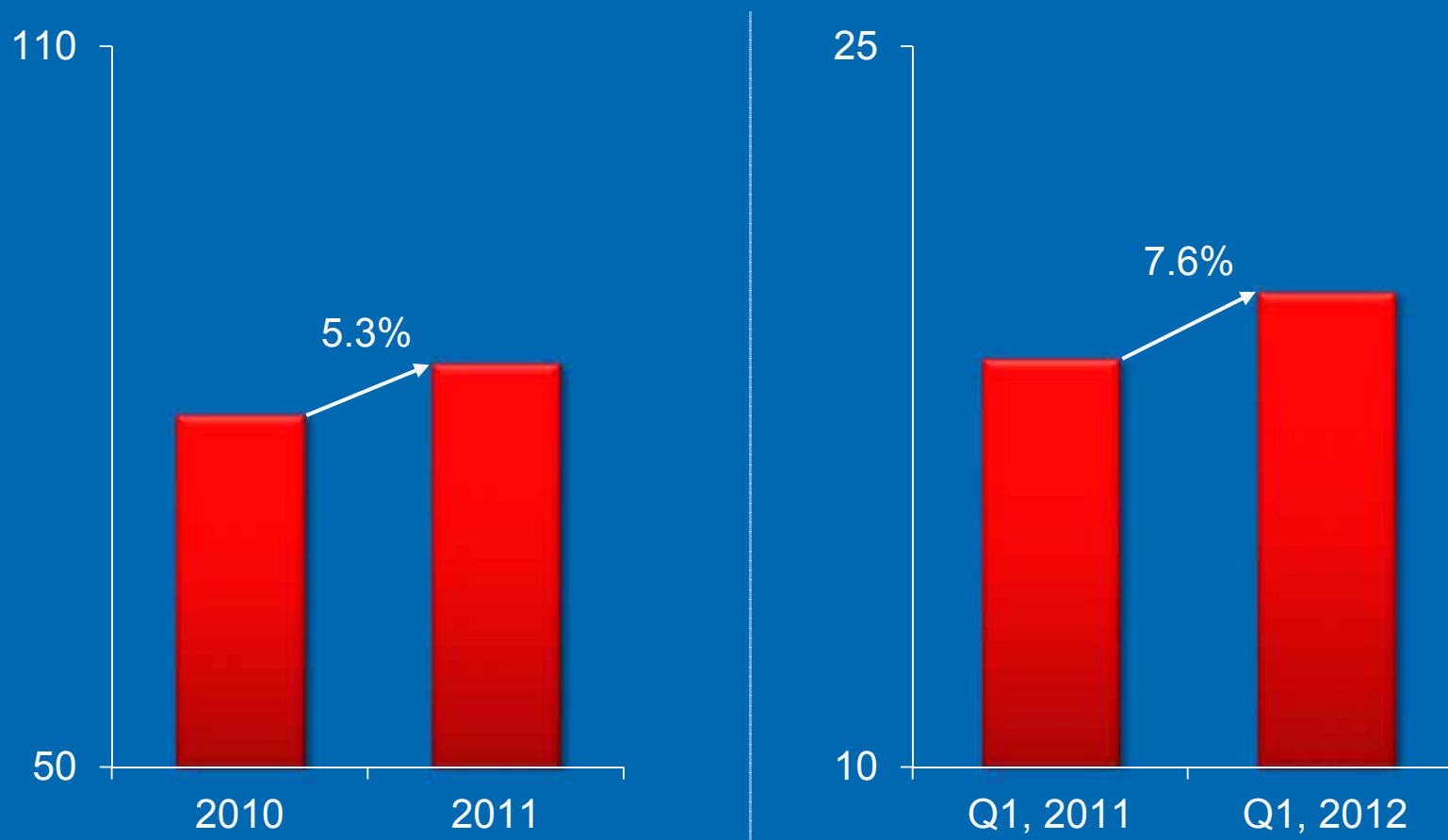
Note: Adjusted OCI margins are calculated as adjusted OCI, divided by net revenues, excluding excise taxes
Source: PMI Financials



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Marlboro Volume Performance

Volume (units billion)



Source: PMI Financials



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Marlboro Continuous Innovation

- *Marlboro Filter Plus*
- Slimmer, 7.1mm formats
- Refreshing variants with capsules





MARLBORO GOLD [TOUCH] now. ^

refined. progressive. compact

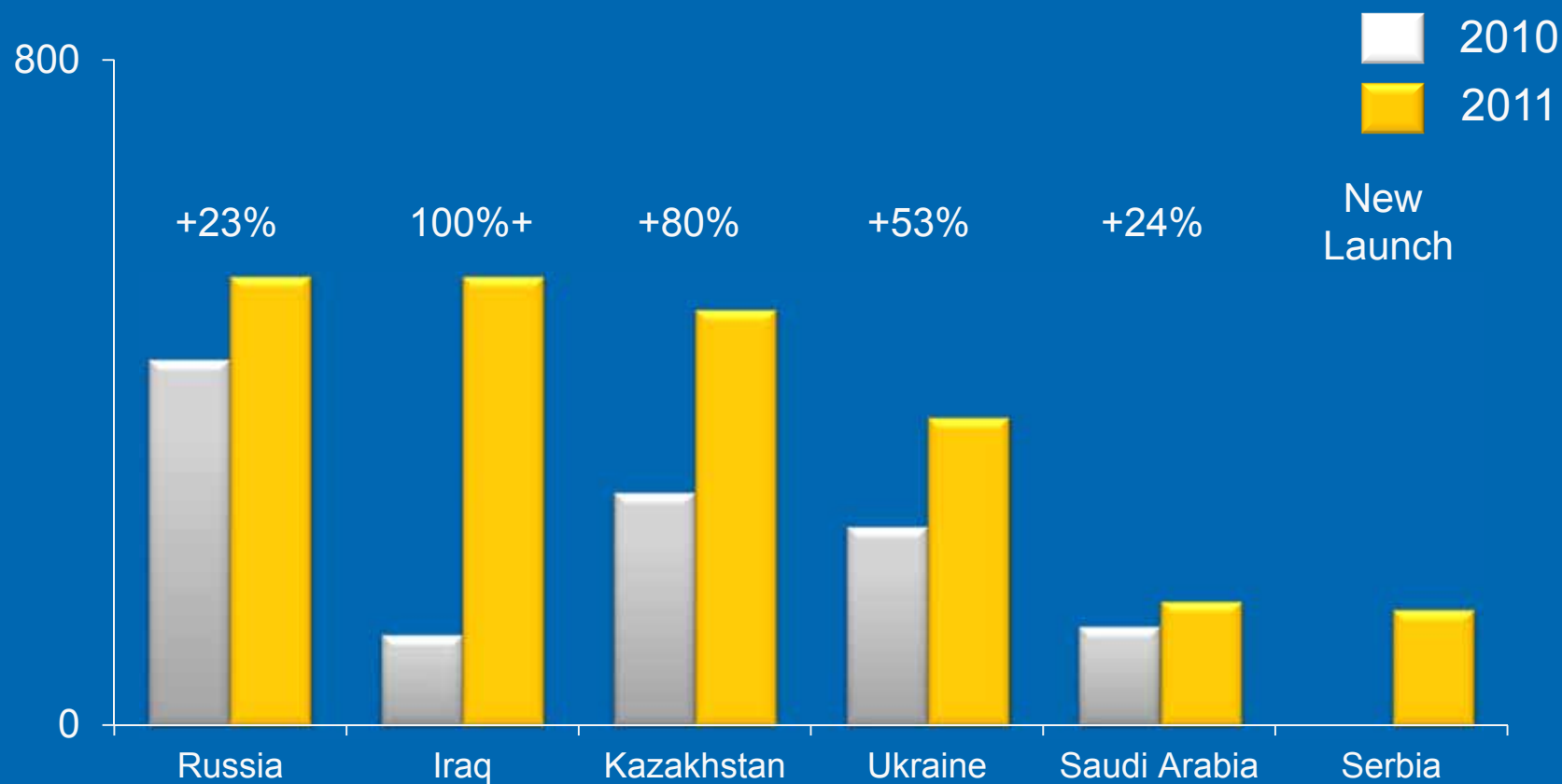
Пушенето вреди сериозно на Вас и на другите около Вас



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Marlboro Gold Touch / Fine Touch

Volume (million units)



جديد من مارلبورو الأصلي FROM THE ORIGINAL MARLBORO



قطران: ٣ مغ
Tar: 3mg

NEW | MARLBORO
FILTER PLUS



قطران: ٦ مغ
Tar: 6mg



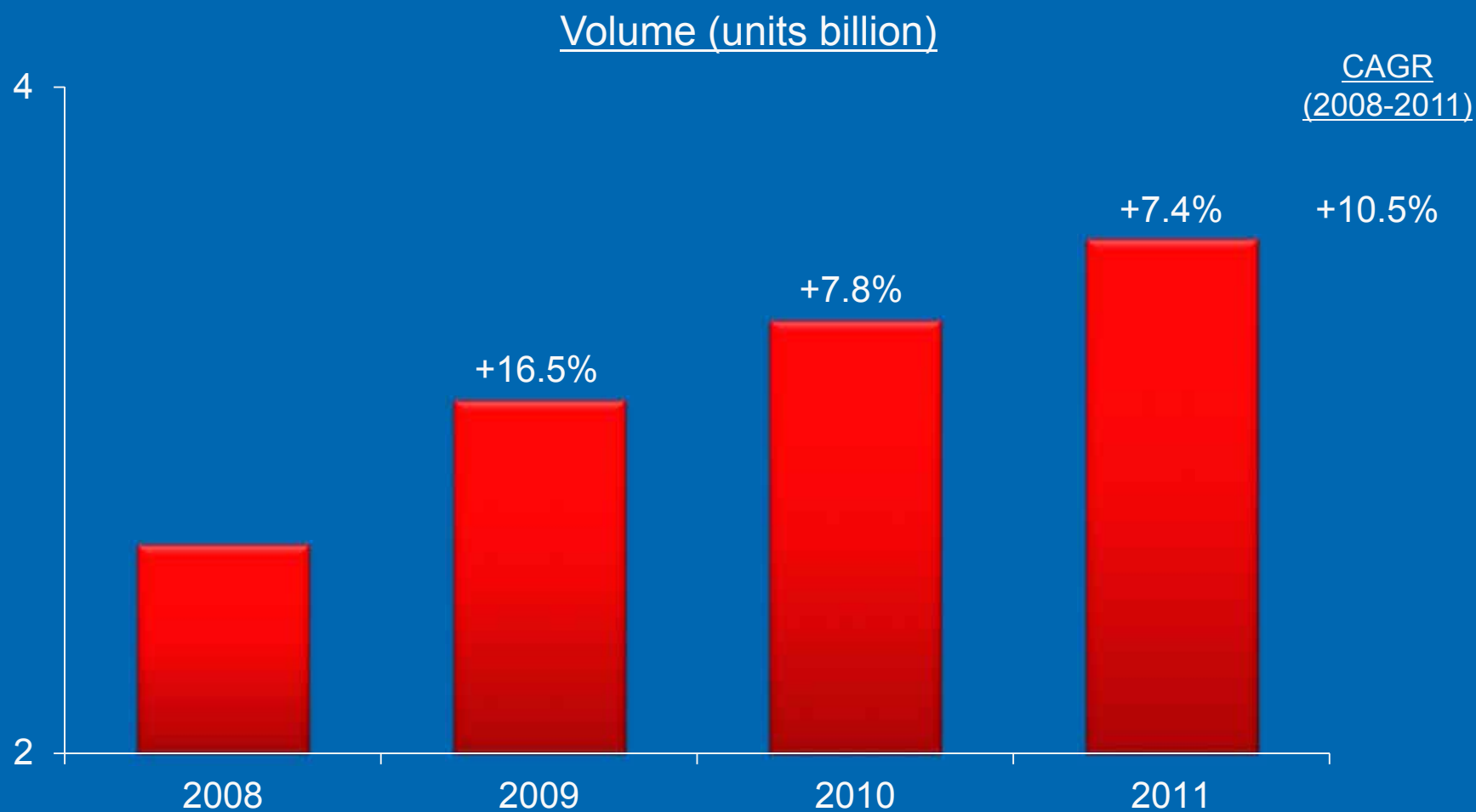
إن كمية القطران والنيكوتين وأول أكسيد الكربون التي تستنشقها تعتمد على طريقة تدخين السجادة.
The amount of tar, nicotine and carbon monoxide you inhale will vary depending on how you smoke the cigarette.

تحذير صحي: التدخين سبب رئيسي للسرطان وأمراض الرئة وأمراض القلب والشرايين.
Health Warning: Smoking is a main cause of lung cancer, lung diseases and of heart and arteries diseases.



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Marlboro Filter Plus Volume Gains





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Parliament

- The ultimate luxury cigarette
- Above premium pricing
- Original *recessed filter*
- Intriguing line extensions
- Continuous enhancements

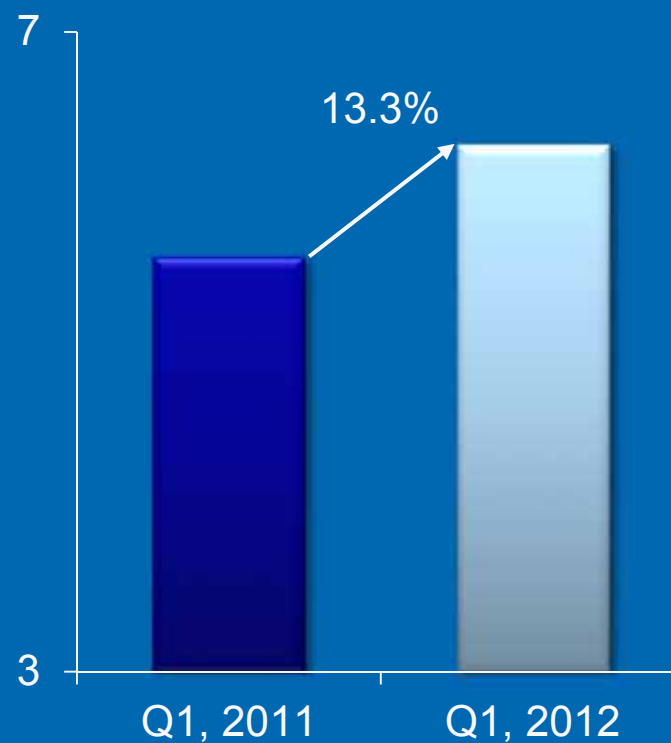
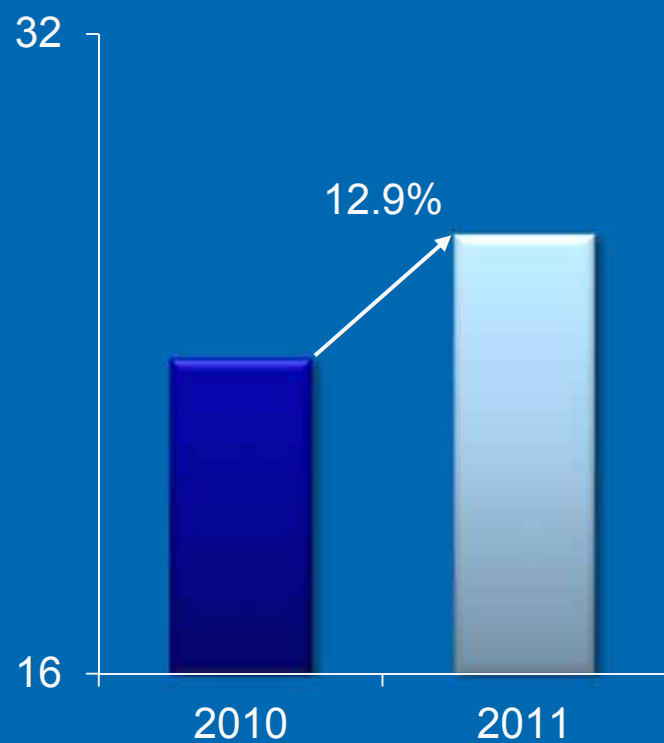




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Parliament Volume Growth

Volume (units billion)





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Parliament Share Growth

Share of Market (%)



Source: Nielsen and PMI estimates

- International brand
- Trusted quality
- Premium pack
- “Right price”
- Growing in the Balkans, Russia, Saudi Arabia and Turkey



علبة جديدة، النكهة الرائعة نفسها



New Pack, Same Great Taste

إن كمية النيكوتين والكربون التي تستنشقها تعتمد على طريقة التدخين في أيدي المستهلكين.
The amount of tar, nicotine and carbon monoxide you inhale will vary depending on how you smoke the cigarette.

L&M More to Enjoy

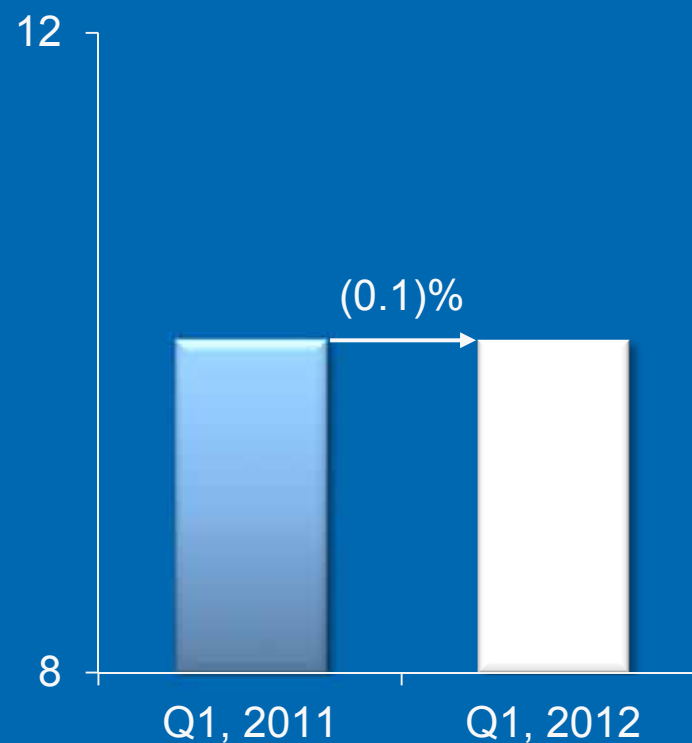
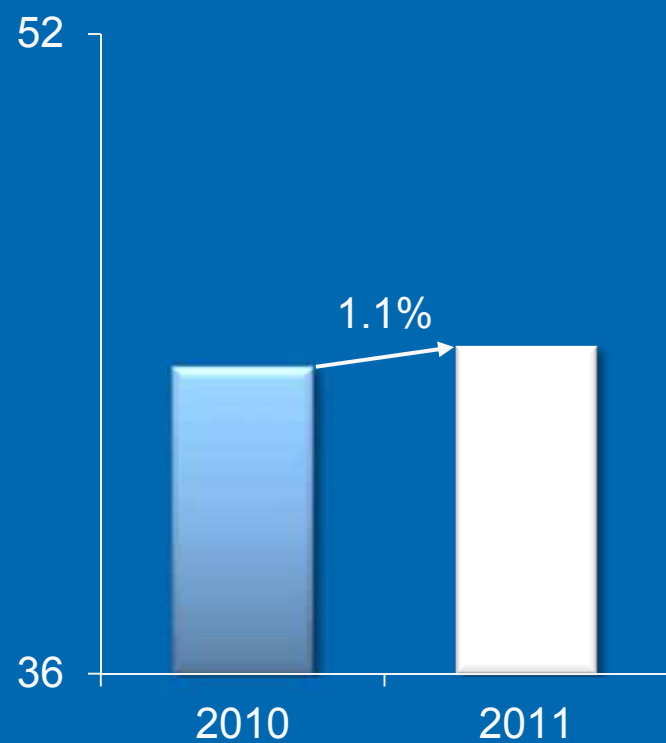
تحذير صحي: التدخين سبب رئيسي لسرطان وأمراض الرئة وأمراض القلب والشرابيين.
Health Warning: Smoking is a main cause of lung cancer, lung diseases and of heart and arteries diseases.



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L&M Volume Performance

Volume (units billion)

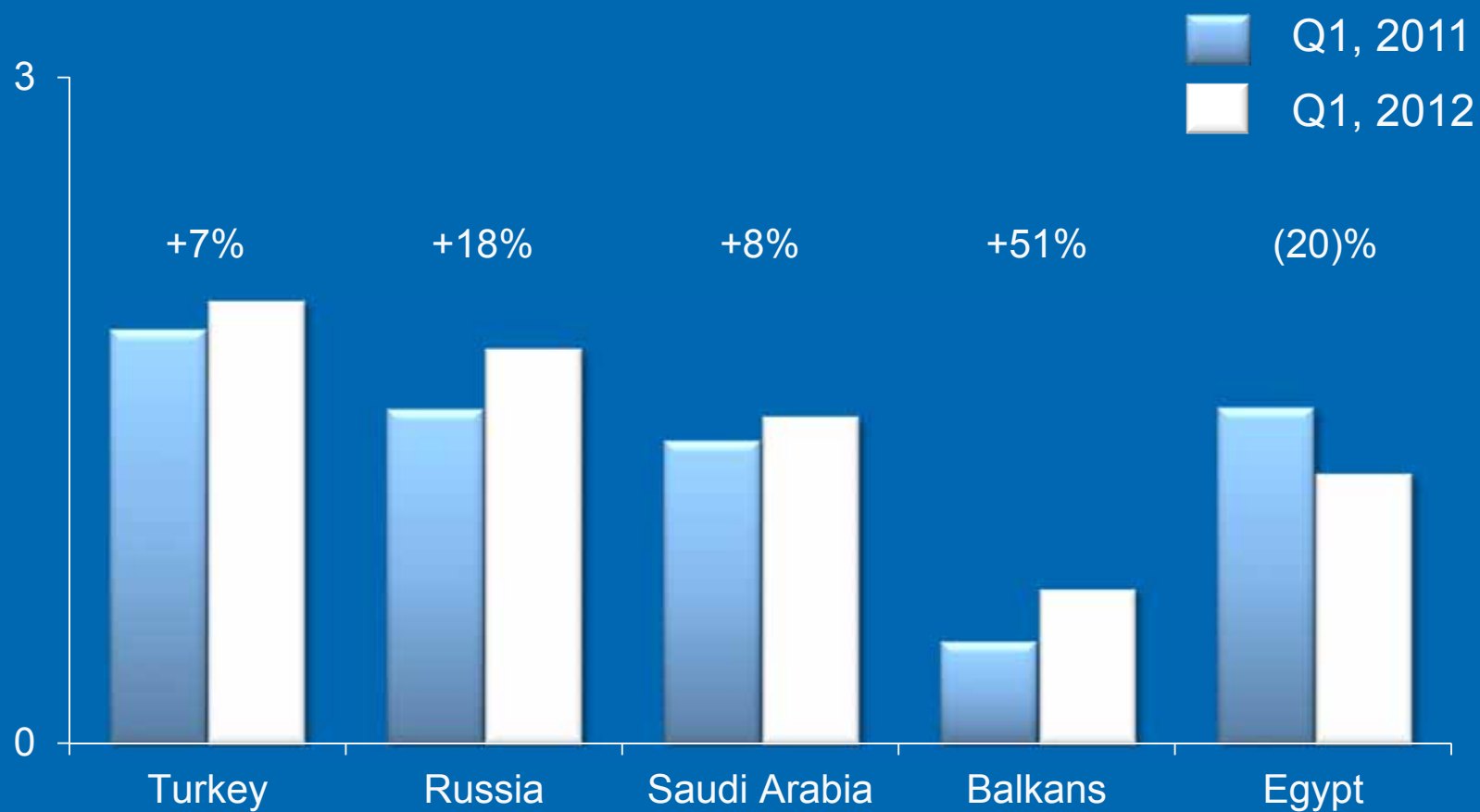




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L&M Volume Performance

Shipments (units billion)



- Quality, heritage
- Distinctive modern packaging
- Top of mid price segment
- New KS and 100s slims offers



Share of Market (%)



تشستر فيلد

الجديدة

**THINK
CHESTERFIELD**



تحذير صحي: التدخين سبب رئيسي لسرطان وممرطان وأمراض الرئة وأمراض القلب والشرابين. Health Warning: Smoking is a main cause of lung cancer, lung diseases and of heart and arteries diseases.



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Bond Street

- International quality
- Affordable price
- Gains from downtraders and from uptraders
- Extending franchise reach with slims offerings



**НОВЫЙ
СТИЛЬ!**



реклама



особый синий
особый серебряный

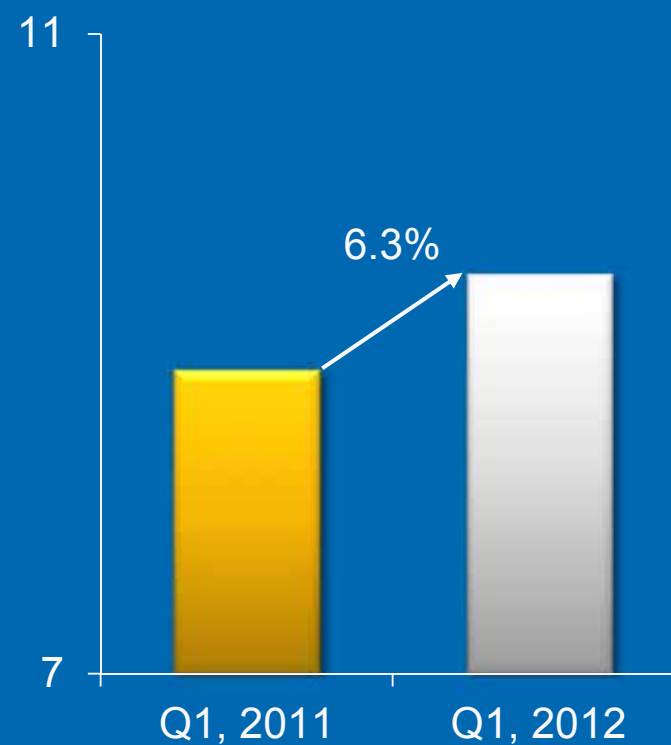
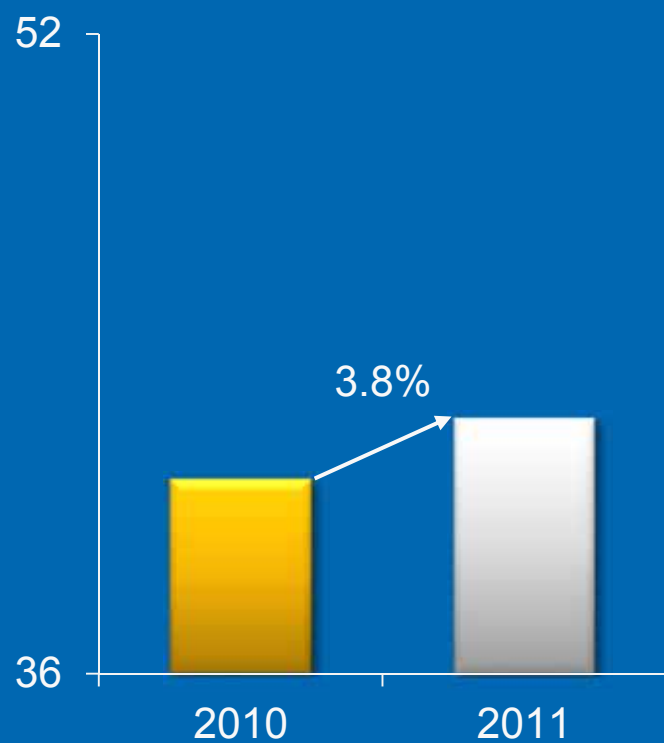
КУРЕНИЕ УБИВАЕТ



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Bond Street Volume Performance

Volume (units billion)

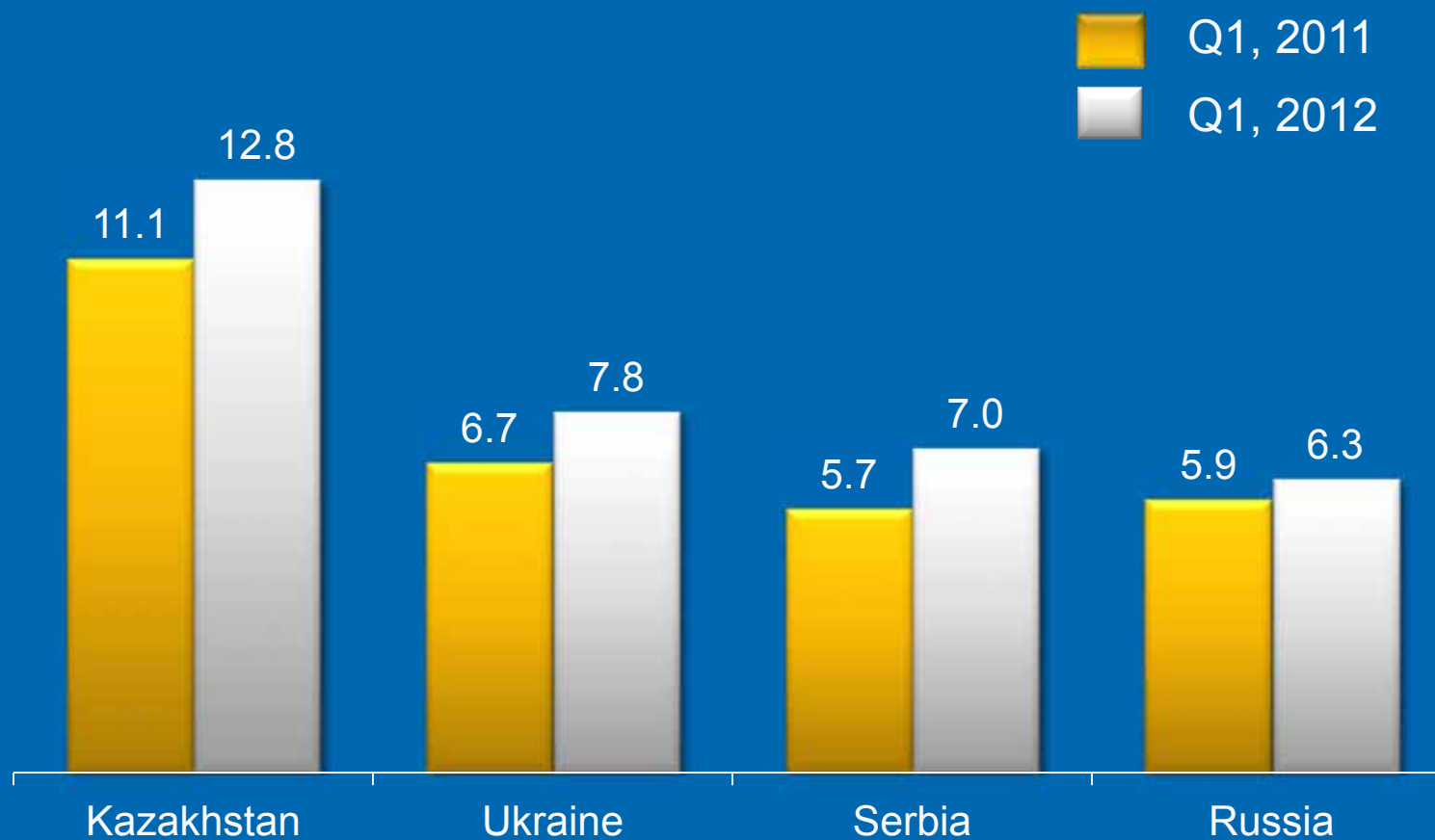




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Bond Street Share Performance

Share of Market (%)



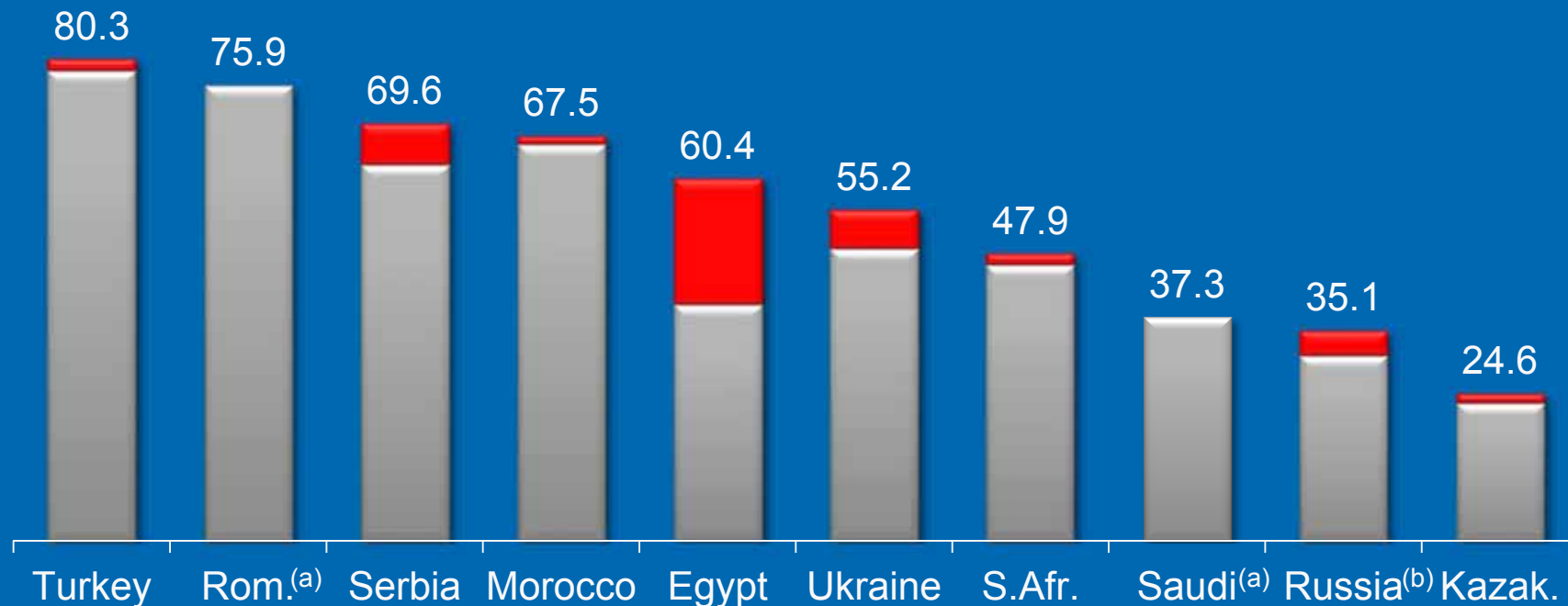


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Total Tax Incidence: *Marlboro*

(% of Recommended Retail Price)

 Increase vs. 2010



(a) Reduction in total tax incidence not shown

(b) Assumes July 2012 tax

Note: Total tax is excise plus VAT. Data is as of June 2012, compared to April 2010. Rom. is Romania, S.Afr. is South Africa, Saudi is Saudi Arabia and Kazak. is Kazakhstan

Source: PMI estimates



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Turkey: Excise Tax Reform

	<u>Jan 2010</u>	<u>Oct 2011</u>	<u>Nov 2011</u>
Ad Valorem (% of RSP)	63%	69%	65%
Minimum (TRL/pack)	2.65	2.90	2.90
<i>Marlboro</i> (TRL/pack)	7.00	9.00	8.00
<i>Lark</i> (TRL/pack)	4.50	6.50	5.50

- Excise tax reform announced



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Ukraine: Excise Tax Increases Have Moderated

	<u>2009YE</u>	<u>2010YE</u>	<u>2011YE</u>	<u>Current</u>
Specific (UAH/000 cigarettes)	60.00	90.00	96.21	110.64
Ad Valorem (% of RSP net of VAT) ^(a)	20%	25%	25%	25%
<i>Marlboro</i> (UAH/pack)	8.00	11.00	12.00	12.50

(a) Expressed as % of RSP net of VAT as of 2009. Prior to that, % of RSP net of excise and VAT
Source: State Tax Administration and PMI estimates



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Russia: Multi-year Excise Tax Legislation

	<u>2010</u>	<u>2011</u>	<u>Jan 2012</u>	<u>Jul 2012</u>	<u>2013</u>	<u>2014</u>
Ad Valorem (% of MRSP)	6.5%	7.0%	7.5%	7.5%	8.0%	8.5%
Specific (RUB/000 cigarettes)	205	280	360	390	550	800
Minimum (RUB/000 cigarettes)	250	360	460	510	730	1,040
<i>Marlboro</i> (RUB/pack)	48.0	55.0	60.0	63.0 ^(a)		
<i>Bond Street</i> (RUB/pack)	23.0	28.0	31.0	34.0 ^(a)		

(a) Effective June 2012

Note: Retail sales prices are as of year-end

Source: Russia Ministry of Finance and PMI estimates



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Price Gaps Continue to Narrow

Marlboro Price Gap vs. Leading Low-Price Brand (%)



Source: PMI estimates

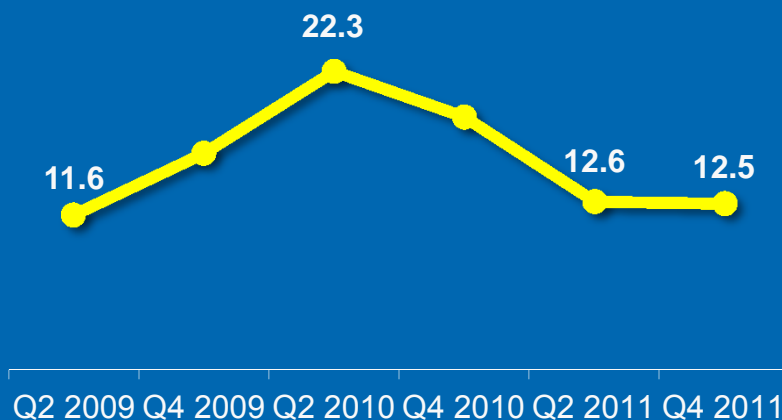


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Upside Potential: Reduce Illicit Trade

- Romania: a public / private success story

Romania: Illicit Trade SoM (%)



- Turkey: currently engaging with government

Turkey: Illicit Trade SoM (%)



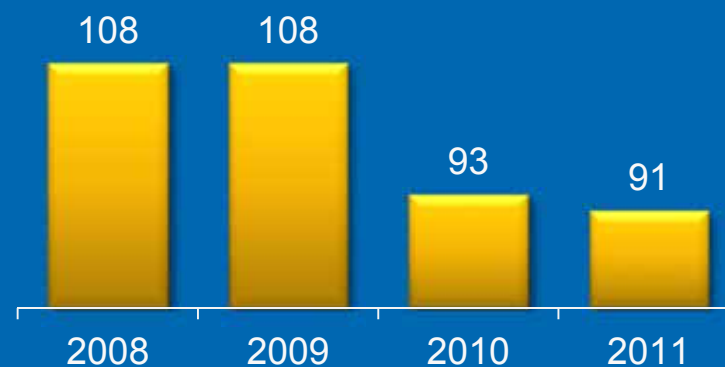


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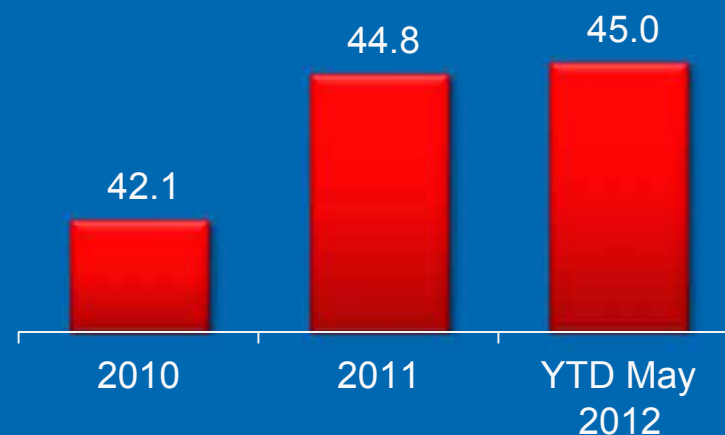
Turkey: Overview

- Industry volume stabilizing
- Illicit trade moderating
- Record PMI share on gains across all key price segments
- PMI performance driven by speed to market and best-in-class retail programs

Total Industry Volume
(units billion)



PMI Share of Market
(%)



Source: PMI estimates, Turkish Tobacco Board and Nielsen

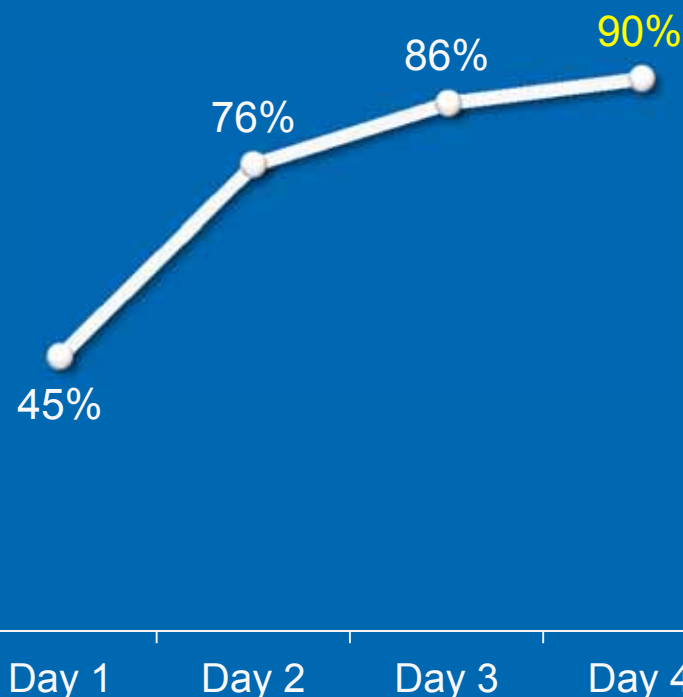


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Turkey: Retail Execution

- 2,000 people in field force cover 145,000 points of sale
- 6 hours to implement a price change nationwide
- 4 days for 90% distribution of new products

New Product Launch:
Retail Distribution

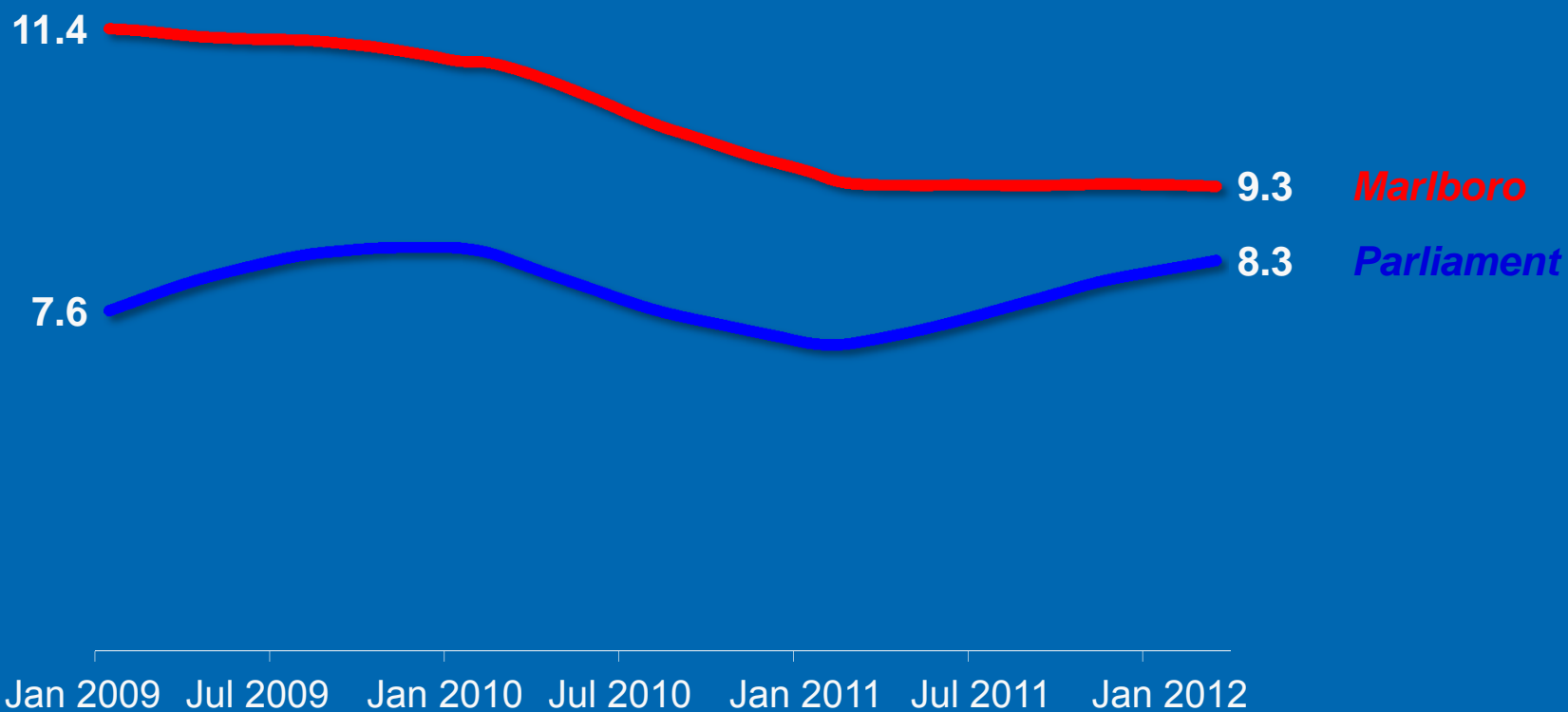




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Turkey: PMI Brand Shares

Share of Market^(a) (%)



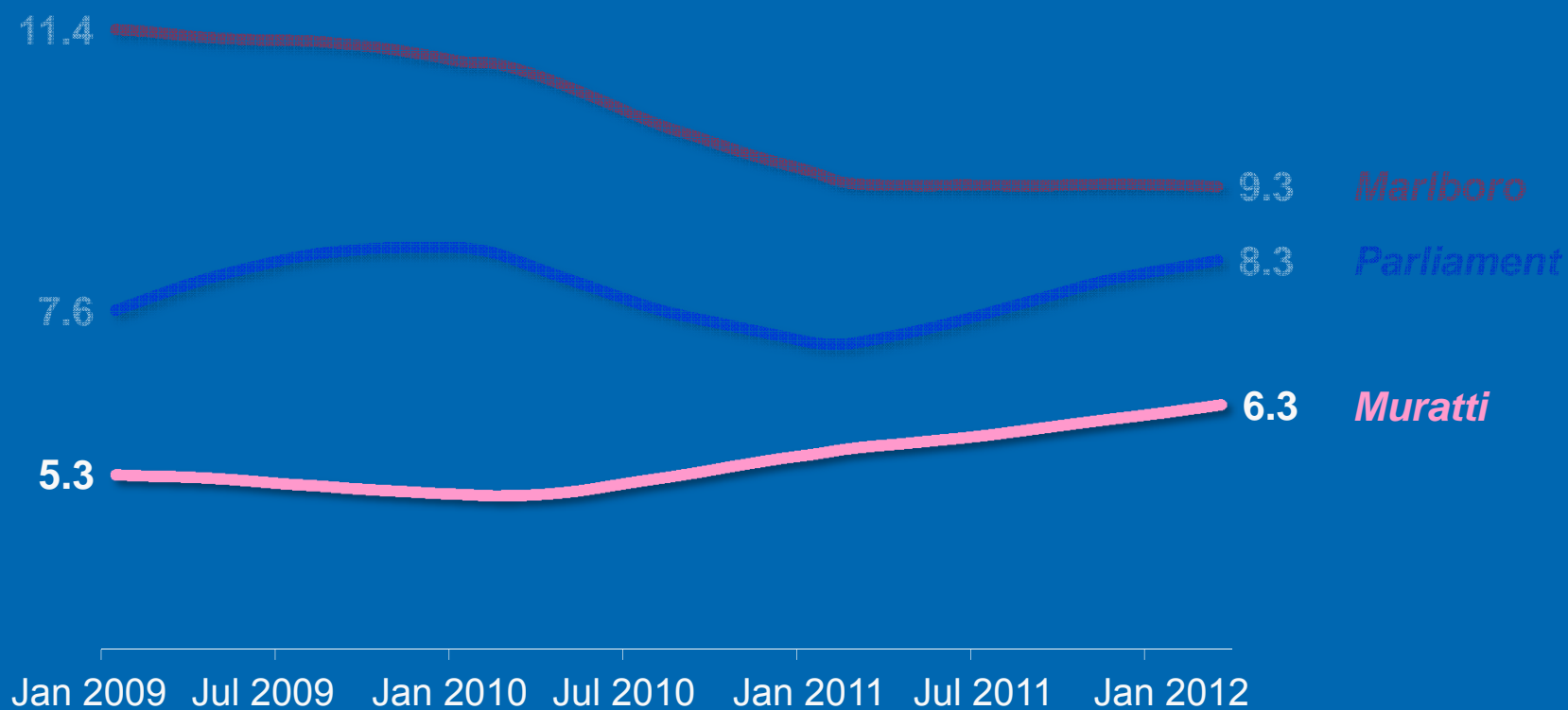
(a) 12 months moving average
Source: Nielsen



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Turkey: PMI Brand Shares

Share of Market^(a) (%)



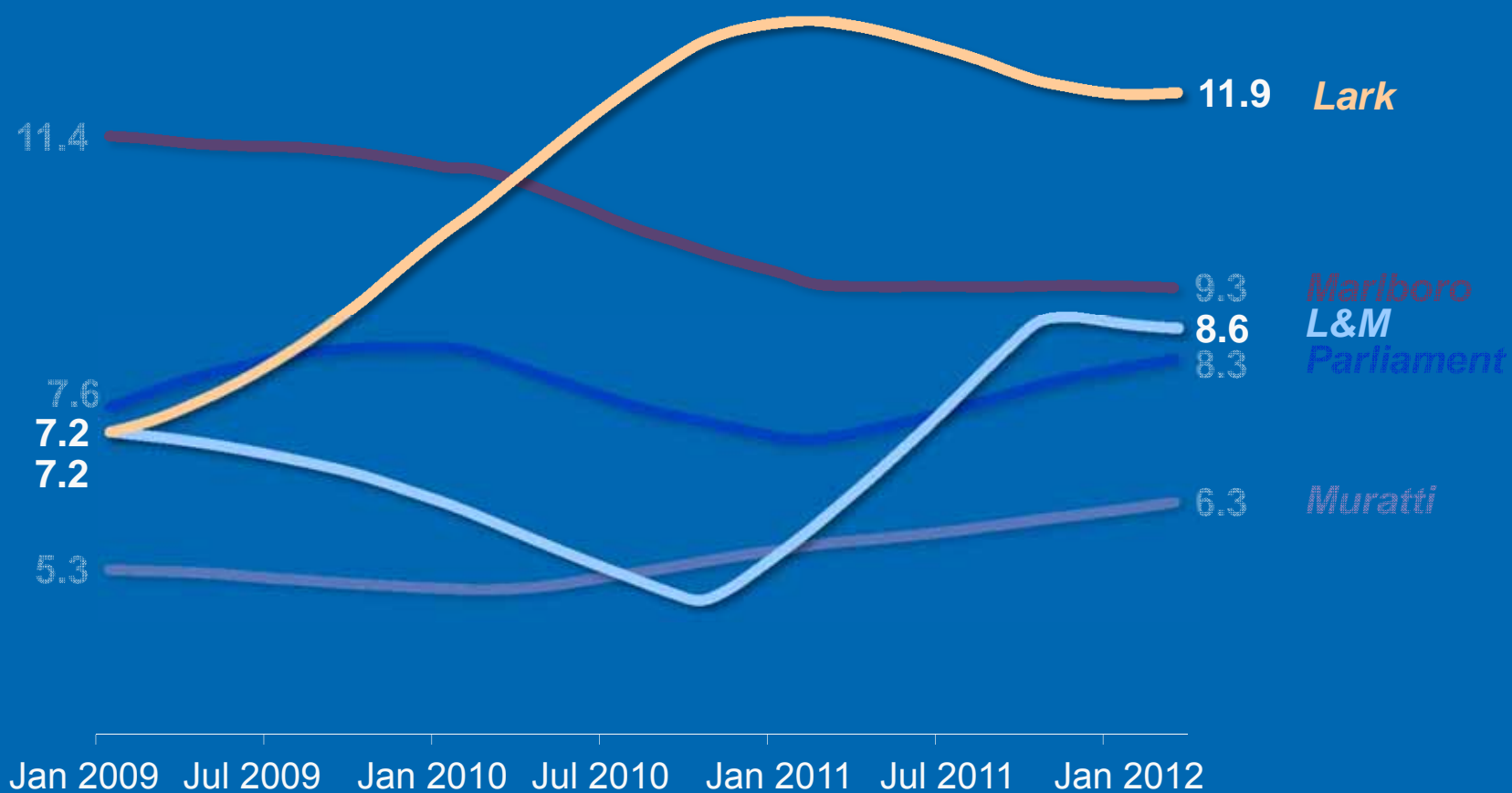
(a) 12 months moving average
Source: Nielsen



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Turkey: PMI Brand Shares

Share of Market^(a) (%)



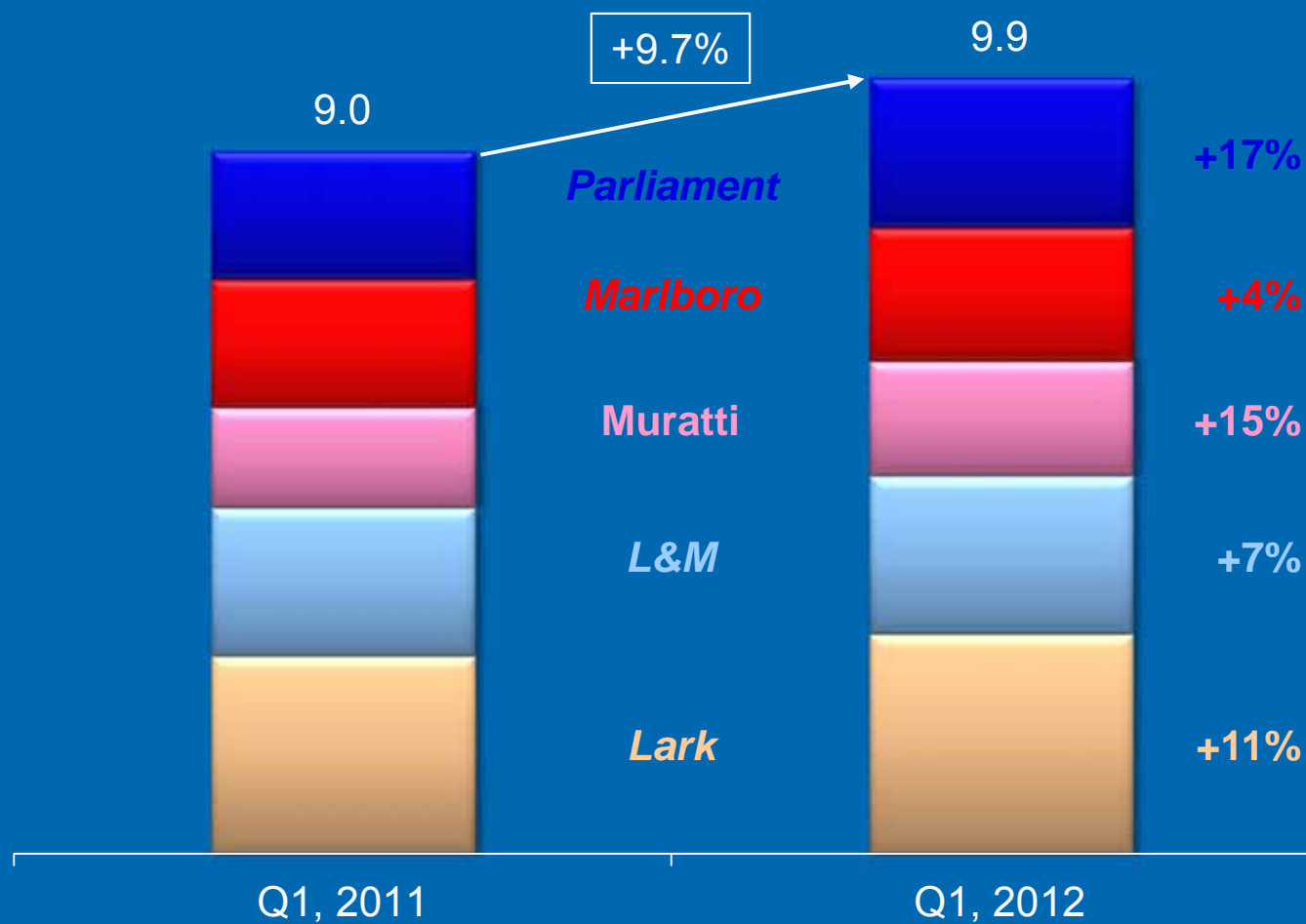
(a) 12 months moving average
Source: Nielsen



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Turkey: PMI Volume Growth

(units billion)



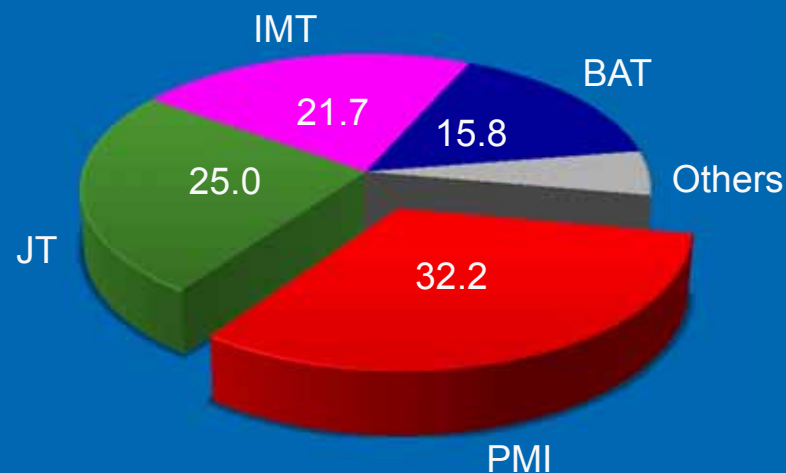


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Ukraine: Overview

- PMI #1 share position
- *Parliament* and *Marlboro* volume and market share gains driving OCI growth
- 5 of top 10 international brands are PMI's

Share of Market – Q1, 2012 (%)



PMI Premium Shipments
(units billion)

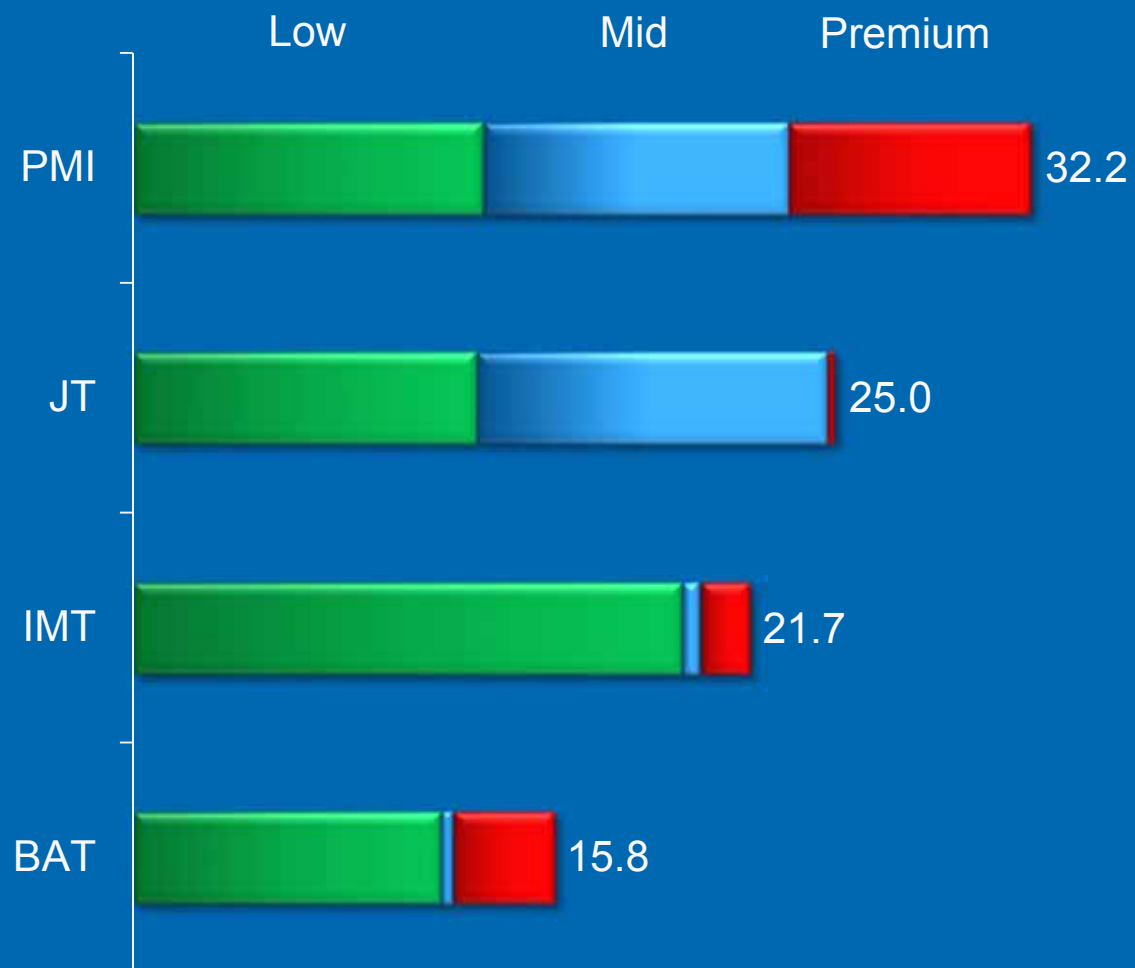




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Ukraine: Strong, Broad PMI Portfolio

Share of Market by Price Segment (%) – Q1, 2012



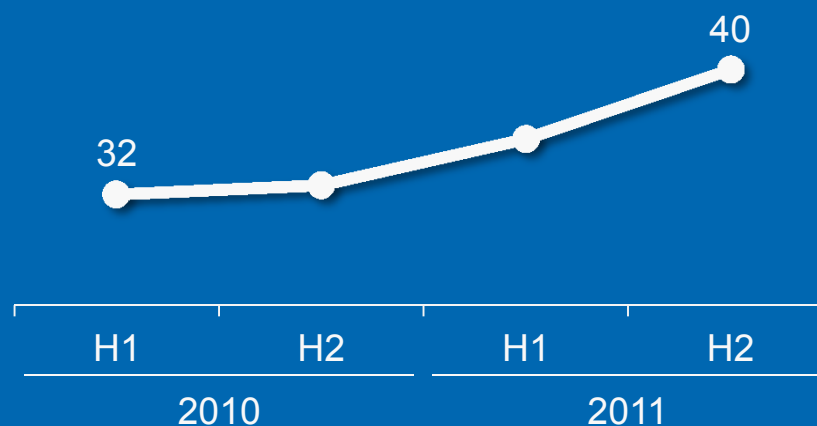


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Saudi Arabia

- Shifting adult smoker preferences
- *Marlboro* new architecture is gaining momentum
- Innovative formats
- Q1, 2012:
 - In-market Sales up 7%
 - Shipments up 17%

Marlboro LA (min. 18) – 29
Smoker Share (%)



Source: PMI Market Research and PMI Financials



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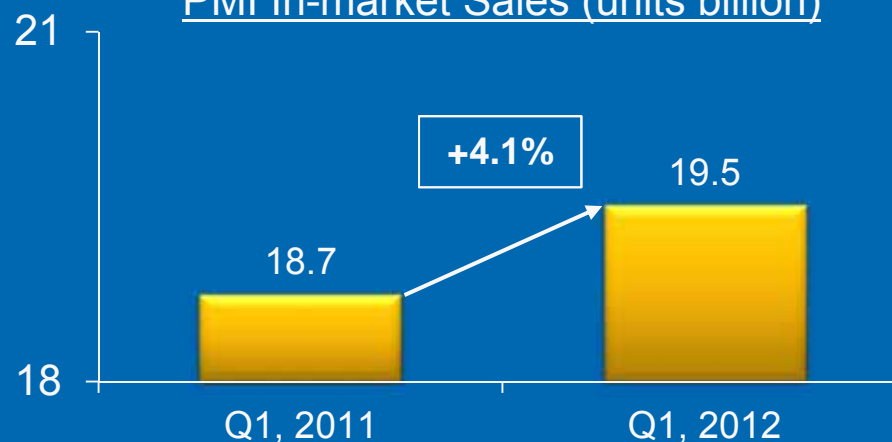
Russia: Overview

- Economy is improving and adult smokers are trading up
- Record PMI market share
- Q1, 2012:
 - In-market Sales up 4.1%
 - Shipments up 0.5%
 - OCI up 10%

PMI Share of Market (%)



PMI In-market Sales (units billion)





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Russia: *Parliament*

- Core upgraded in 2011
- Q1, 2012 volume up 10.5%
- Fastest growing premium brand in Moscow and nationwide in Q1, 2012



Market Shares (%)



Source: PMI Financials and Nielsen

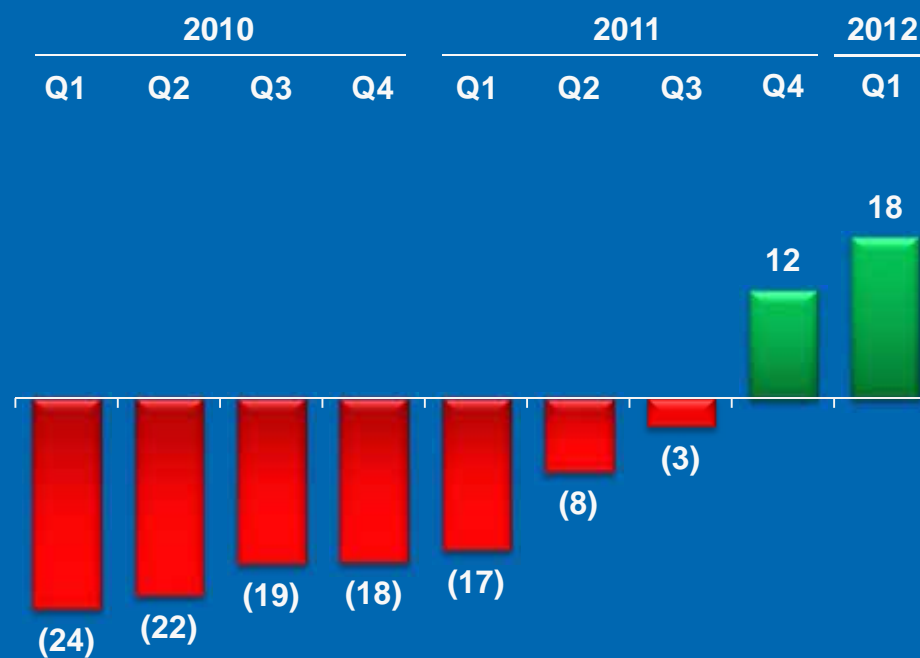


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Russia: L&M Volume Turnaround



Volume Variance
vs. Prior Year Quarter (%)





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Russia: *Bond Street*

- Record market share
- Opening new channels and venues for adult consumer activation
- New, unisex slims line extensions

Share of Market (%)



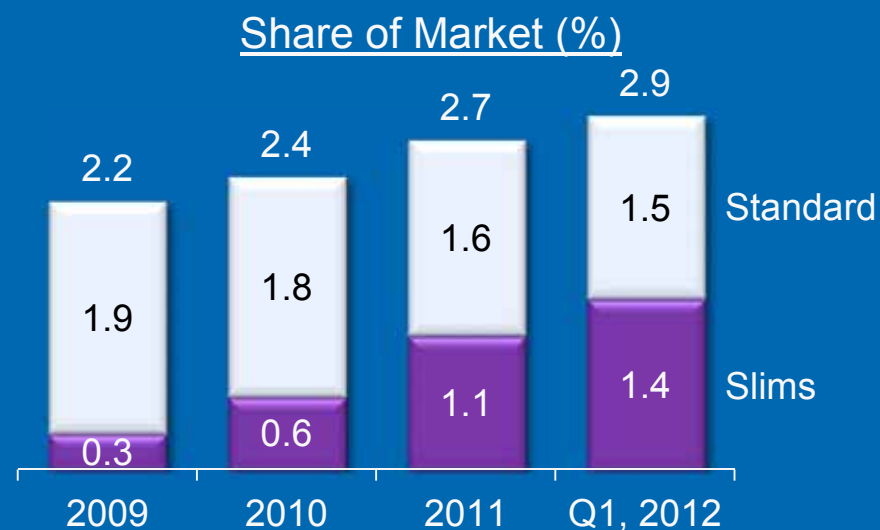
Source: Nielsen



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Russia: *Next*

- Modern, affordable brand
- Gains on slimmer variants



Source: Nielsen



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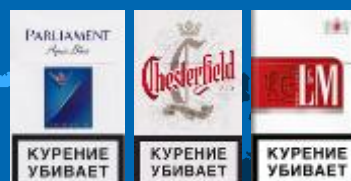
Russia: PMI Growth Brands by Region

North



↑
1.3pp

Center



↑
1.3pp

Moscow Region



- pp

Moscow

South



↑
0.7pp

East



↑
0.4pp

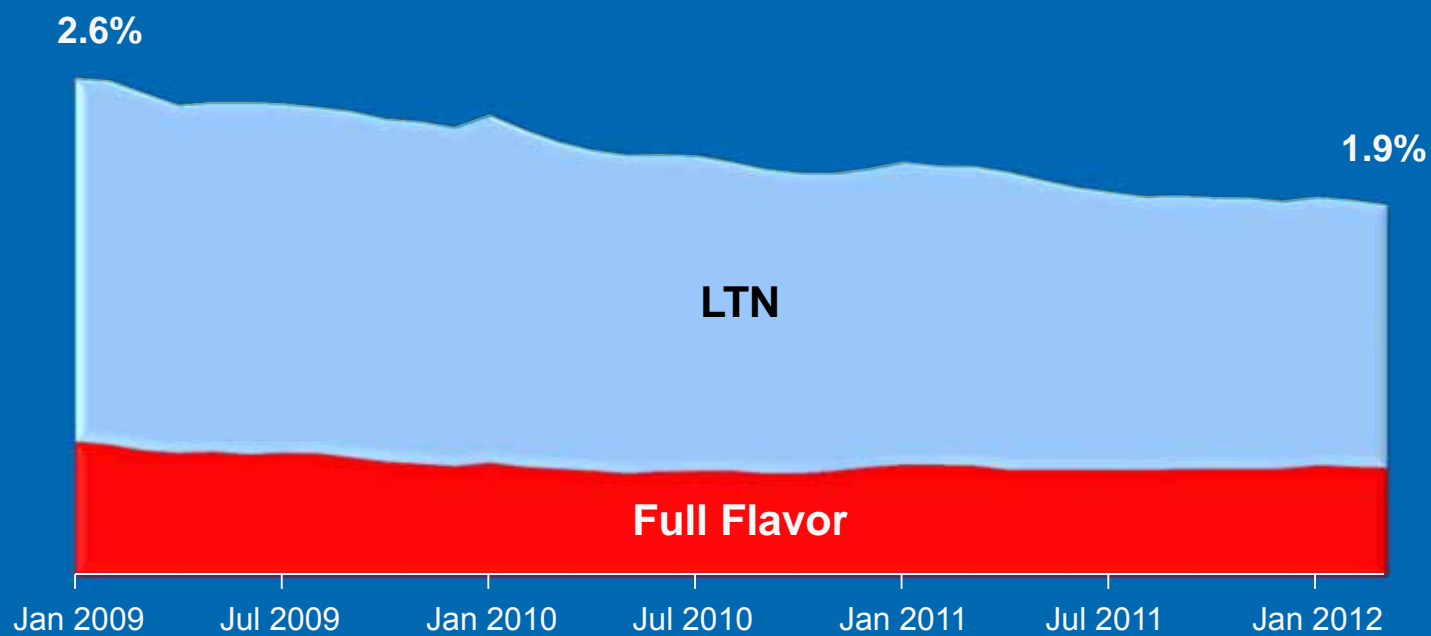
Note: Variance is Q1, 2012 vs. Q1, 2011
Source: Nielsen



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Russia: *Marlboro*

Marlboro Share of Market (%)



Source: Nielsen



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Consumer and Trade Activation Project

- Pilot program, 2011 in Yekaterinburg (population 1.4 million)
- Focus on *Marlboro*
- Harnessing new / emerging consumer trends
- New PMI sales / marketing tool kit validated
- Immediate operating improvements



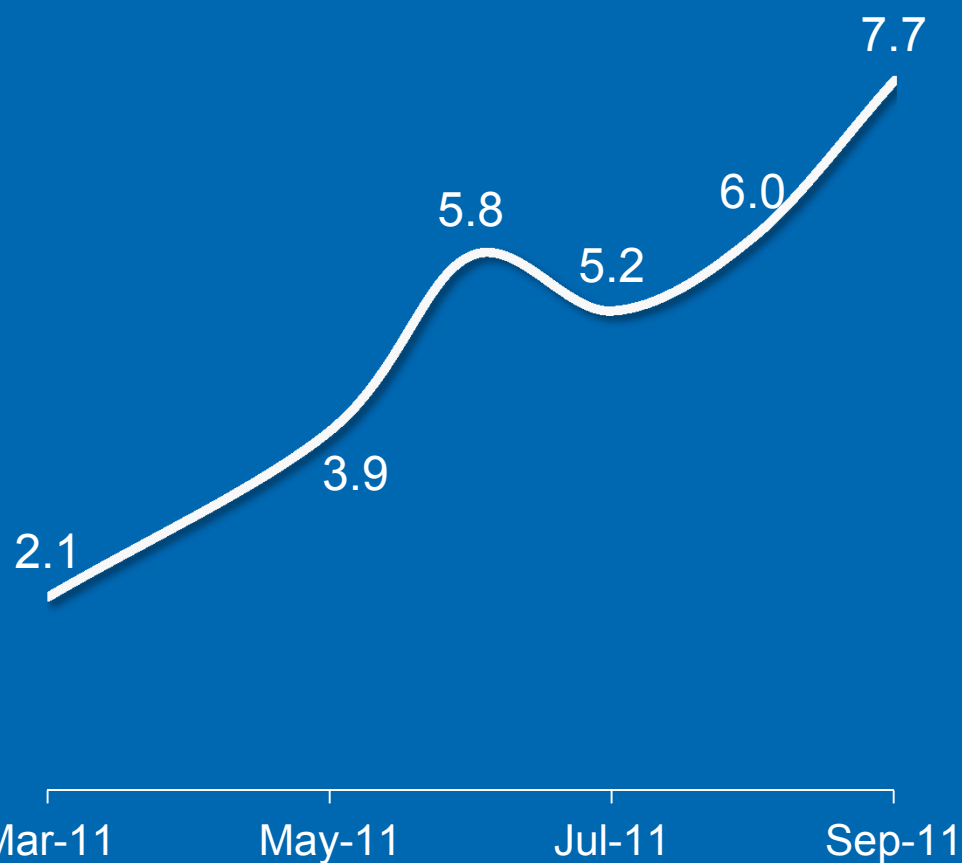


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Yekaterinburg Project: Key Results

(%)

Smokers' Share LA (min. 18) – 24



Source: PMI Market Research

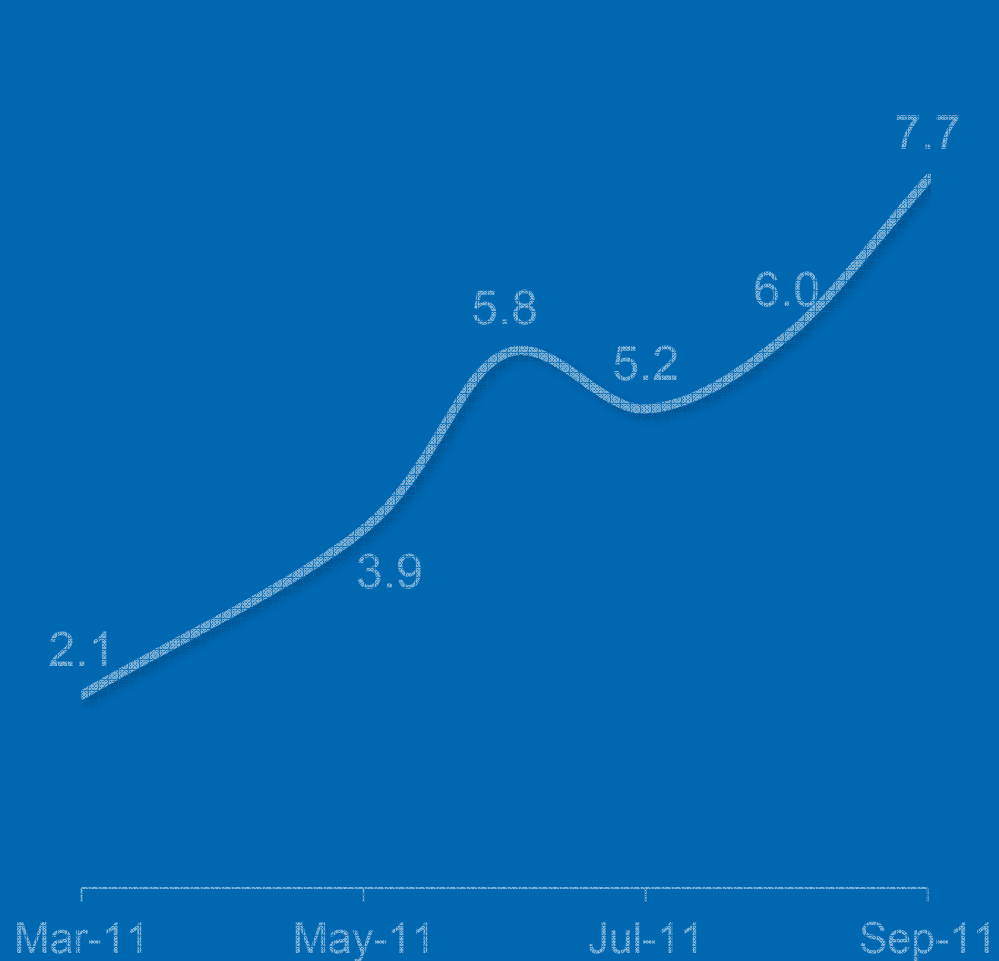


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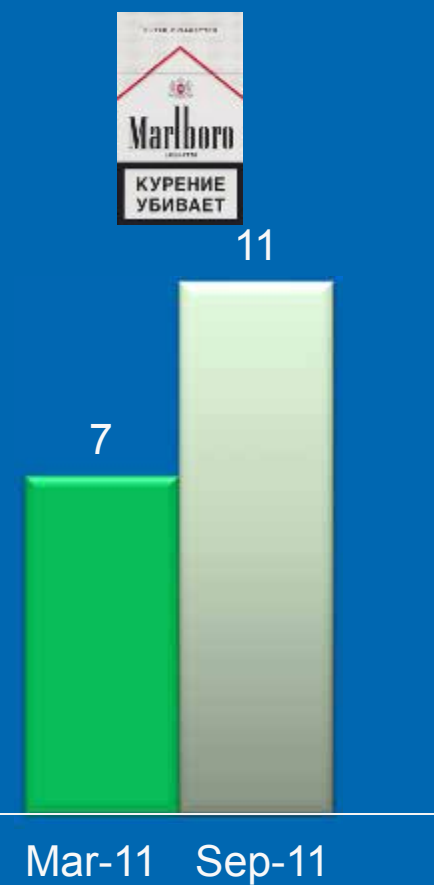
Yekaterinburg Project: Key Results

(%)

Smokers' Share LA (min. 18) – 24



Harsh Taste Perception
LA (min. 18) – 34



Source: PMI Market Research



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Marlboro ClearTaste: the New Marlboro in Russia

**НОВЫЙ
ЧИСТЫЙ ВКУС**
MARLBORO **CLEARTASTE™**

компактные стандартные супертонкие

Действительное количество смолы, никотина и СО₂, потребляемое Вами, будет зависеть от того, как Вы курите сигарету.

КУРЕНИЕ УБИВАЕТ



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Marlboro ClearTaste: the New Marlboro in Russia

- “Clarity of taste” vs. “Clarity of choice”
- No more compromise (“Don’t be a Maybe”)



Note: English translations: “~~May~~ be it’s time to find your own taste. New clarity of taste”; “~~May~~ be it’s time to find clarity of taste.” “~~May~~ be the most convenient format. New clarity of taste”



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Marlboro ClearTaste: the New Marlboro in Russia



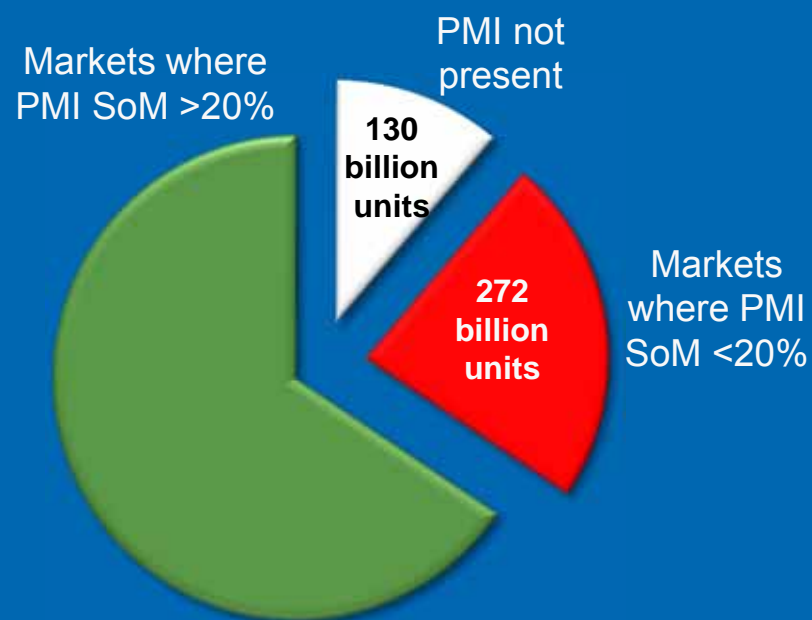
Note: English translations: "~~May~~ be it's time to say "YES". Be Marlboro"; "~~May~~ be think less, live brighter. Be Marlboro."; "~~May~~ be it's time to decide. Be Marlboro"



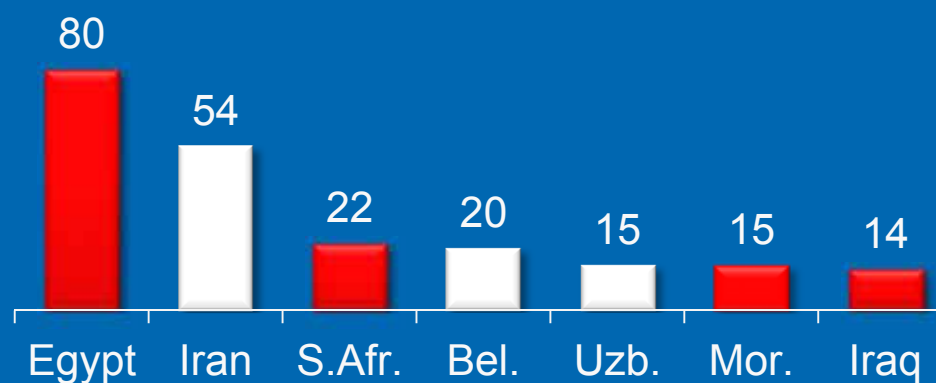
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Business Development Opportunities

EEMA Total:
1.2 trillion units



Market Size (units billion)



Note: S.Afr. is South Africa, Bel. is Belarus, Uzb. is Uzbekistan and Mor. is Morocco
Source: PMI estimates



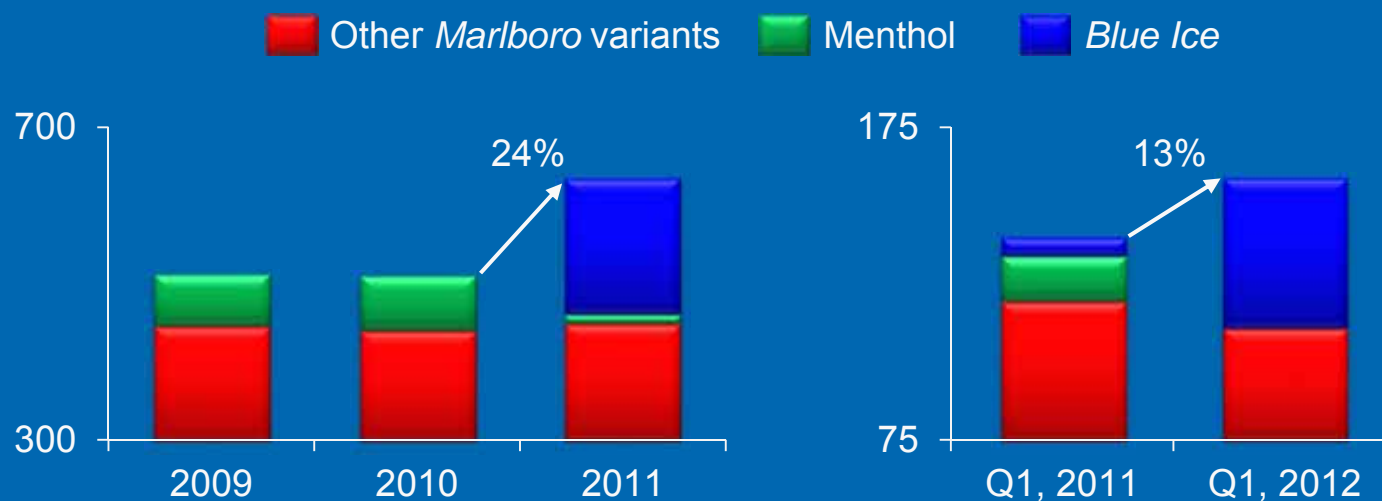
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Business Development: South Africa

- 2009 acquisition of Swedish Match South Africa
- *Marlboro Blue Ice* launch



Marlboro Volume (units million)



Source: PMI Financials



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Business Development: South Africa

- *Marlboro Beyond* launch
- Virginia product, charcoal filter, menthol capsule
- Start in Johannesburg
- Expand nationally

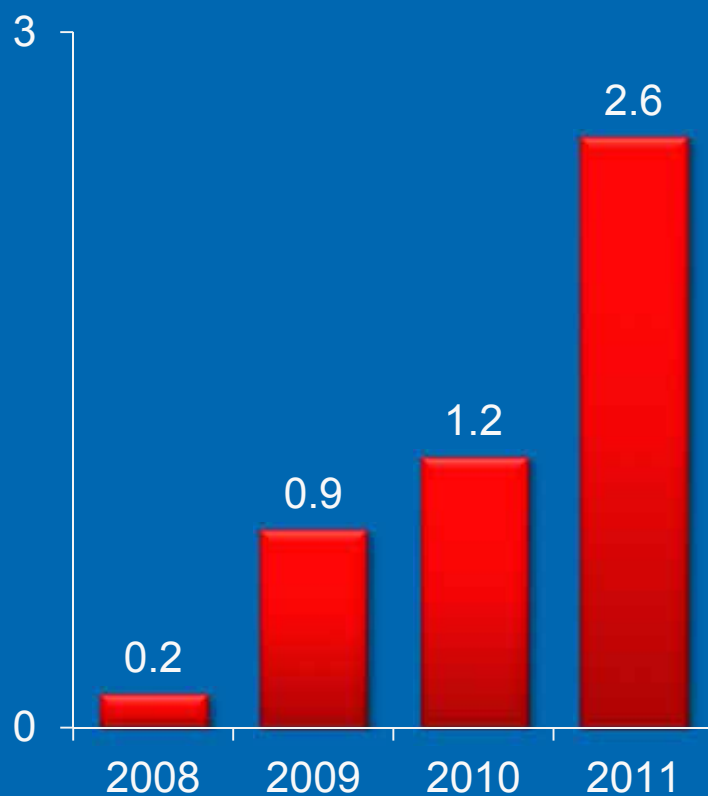




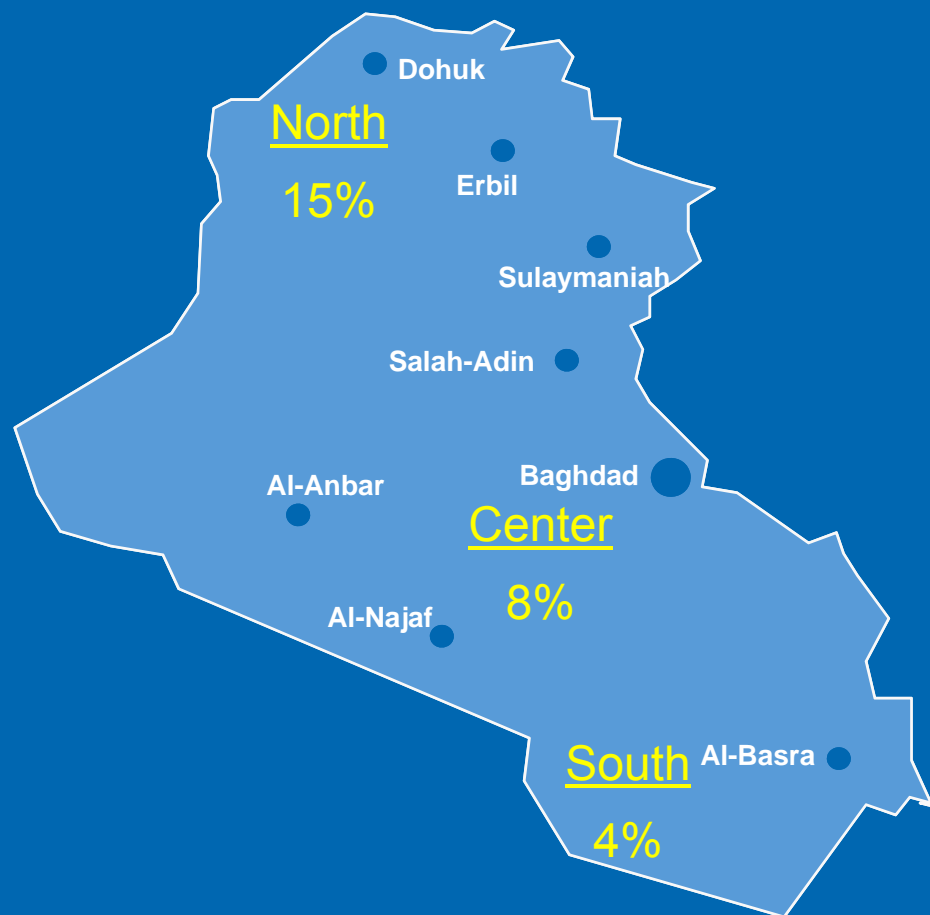
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Business Development: Iraq

PMI Volume (units billion)



PMI Share of Market (2011)

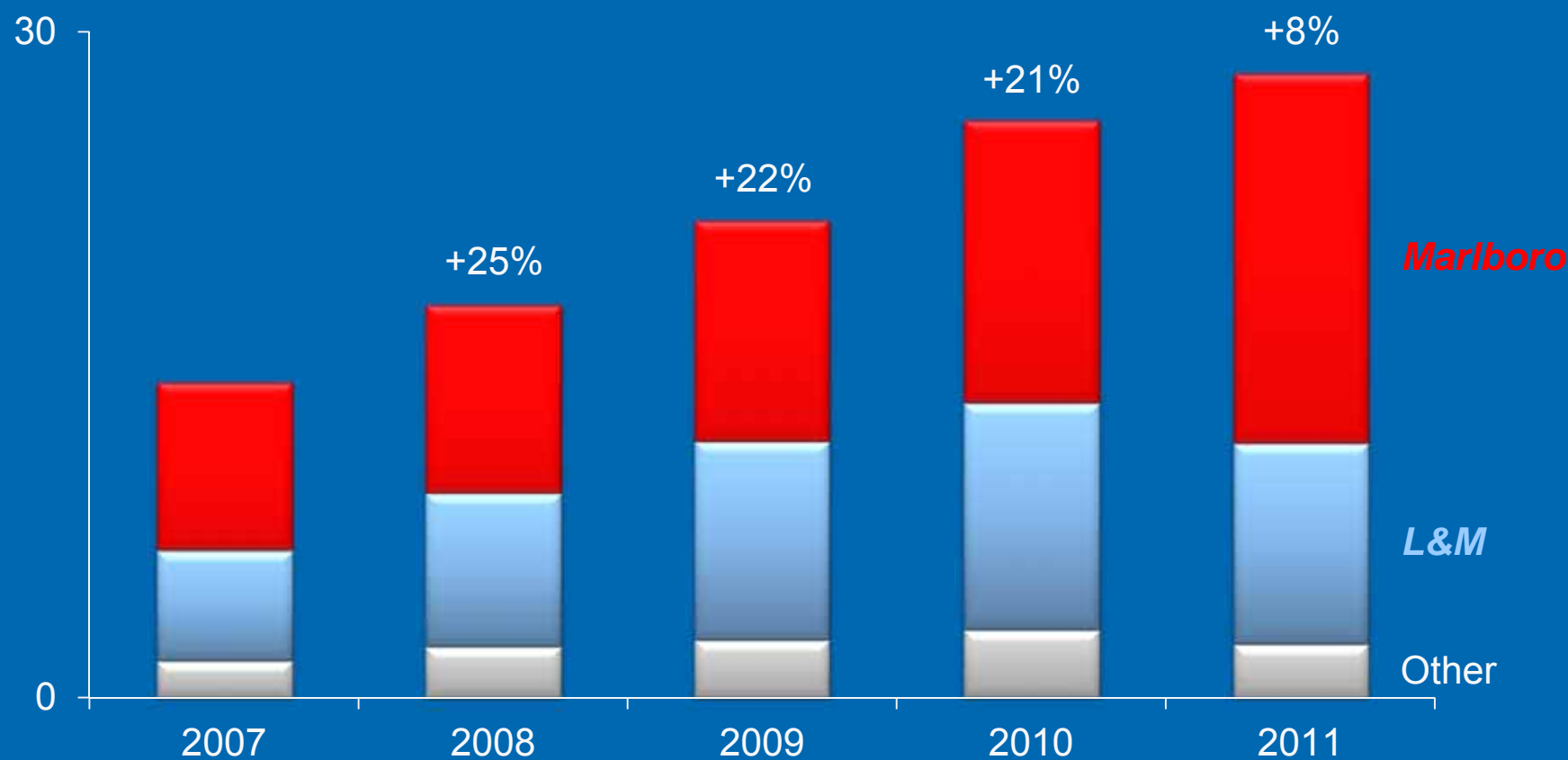




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Business Development: North Africa

PMI Shipments (units billion)



Note: North Africa is Algeria, Egypt, Libya, Morocco and Tunisia
Source: PMI Financials



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Conclusions

- Growing economies, favorable demographics
- PMI is growing fast in EEMA
- Excise taxation / regulation manageable
- Superior brand portfolio
- Opportunities to expand geographically
- Talented, agile, highly motivated organization focused on growth



Continued robust, sustainable OCI growth



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2012
INVESTOR DAY

Investor Day – EEMA Region 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