



PHILIP MORRIS  
INTERNATIONAL

2014  
INVESTOR DAY

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**Investor Day**  
**Lausanne, June 26, 2014**

André Calantzopoulos  
*Chief Executive Officer*  
Philip Morris International



## PMI Strategies for Growth

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- Reinforce our position in profitable adult consumer segments
- Drive growth of our leading brand portfolio through enhanced consumer understanding, innovation and a new commercial approach
- Expand geographically
- Obtain a fair and reasonable fiscal and regulatory environment
- Pursue opportunities for margin improvement
- Generate cost savings and boost organizational effectiveness
- Develop and implement a comprehensive plan to counter the threat from illicit trade
- Develop and commercialize Reduced-Risk Products ("RRPs")
- Effectively utilize our strong cash flow to increase shareholder returns
- Attract, motivate and retain the best global talent



# Agenda

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- 2014 EPS guidance update
- Growth algorithm and drivers
- Significant RRP upside potential
- Commitment to high, sustainable return of cash to shareholders



# PMI Results (2008-2013)

	PMI					
	<u>Industry Volume</u>	<u>Share of Market</u>	<u>Cigarette Volume</u>	<u>Net Revenues</u>	<u>Adjusted OCI</u>	<u>Adjusted Diluted EPS</u>
2012 – 2013	(3.0)%	(0.6)pp	(5.1)%	1.9%	3.4%	10.0%
2008 – 2013	(1.8)%	0.8 pp	0.2 %	5.0%	7.6%	13.3%
<b>Mid to Long-Term Currency-Neutral Annual Growth Targets</b>			<b>1%</b>	<b>4% to 6%</b>	<b>6% to 8%</b>	<b>10% to 12%</b>

Note: Industry volume excludes China and the USA. PMI volume excludes the USA only. Industry volume and share of market relate to cigarettes only. Financials exclude currency (Net Revenues and Adjusted OCI also exclude acquisitions). 2013 vs. 2012 figures are % changes. 2013 vs. 2008 figures are CAGRs

Source: PMI estimates and PMI Financials



## PMI Results (2008-2013): Regional Perspective

	2008-2013 CAGR		
	<u>Shipment Volume</u> <sup>(a)</sup>	<u>Net Revenues</u> <sup>(b)</sup>	<u>Adjusted OCI</u> <sup>(b)</sup>
EU	(5.3)%	(0.1)%	0.4%
Asia	6.1	8.8	14.8
EEMA	(0.5)	6.8	10.7
LA&C	(0.4)	7.3	12.1
<b>Total</b>	<b>0.2</b>	<b>5.0</b>	<b>7.6</b>

(a) Represents cigarette volume only

(b) Excluding currency and acquisitions

Source: PMI Financials



## 2014 Reported EPS Guidance

- Revised PMI 2014 reported diluted EPS guidance is at \$4.87 to \$4.97, versus \$5.26 in 2013
- On an adjusted basis, diluted EPS are projected to increase within a range of 6% to 8% versus our adjusted diluted EPS of \$5.40 in 2013, reflecting:
  - a \$0.01 per share charge recorded as asset impairment and exit costs in the first quarter of 2014 relating to the decision to cease cigarette production in Australia by the end of 2014;
  - a pre-tax charge, related to the contemplated decision to discontinue cigarette production in the Netherlands in 2014, of approximately \$495 million, or \$0.24 per share, the majority of which is expected to be recorded in the second quarter of 2014; and
  - an unfavorable currency impact, at prevailing exchange rates, of approximately \$0.61 for the full-year 2014
- This forecast includes a productivity and cost savings target of \$300 million and a share repurchase target of \$4.0 billion



## 2014 EPS Guidance Factors

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- Currency headwinds
- Total market declines in the EU
- Specific market challenges in Asia:
  - The Philippines
  - Japan
  - Indonesia
  - Australia
- Cost management initiatives
- Investments in the development and commercialization of RRPs



## Near to Mid-Term Algorithm

- Organic volume declines of 0% to 1%
- Currency-neutral net revenue targets of 4% to 6%
- Currency-neutral adjusted OCI growth targets of 6% to 8%, including continued investments in RRPs
- Currency-neutral adjusted diluted EPS growth targets of 8% to 10%, with share repurchases in-line with total free cash flow after dividends and acquisitions
- Ability to exceed 8% to 10% currency-neutral adjusted diluted EPS growth dependent on timing of RRPs commercialization success and on-going level of share repurchases





# Growth Drivers

- Combustible business drivers:
  - Total industry volume declines moderating to 1% to 2% by 2015
  - Continuing market share gains leading to PMI's annual volume of flat to down 1% based on:
    - Well-diversified geographic footprint
    - Over-indexation to more attractive industry segments
    - Roll-out of *Marlboro 2.0* Architecture, other product innovations and full deployment of our Commercial Approach
  - Sustainable pricing
  - Stabilizing illicit volume trends
  - Manageable regulatory environment:
    - Engagement based on scientific evidence and facts
    - Challenging excessive regulations such as plain packaging
  - Predictable and improving fiscal policies which benefit all stakeholders



# Growth Drivers

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- Reduced-Risk Products:
  - Meeting adult consumers needs
  - Securing robust regulatory and fiscal frameworks for development, assessment and commercialization
  - Maintaining leading edge in innovation and product development
- Productivity improvements and cost management
- Superior organizational capabilities



# Volume Breakdown: Cigarettes Industry Volume Trends

## Cigarettes Industry Volume Dynamics

<u>Market Groups</u>	<u>% of 2013 PMI Volume<sup>(a)</sup></u>	<u>% of 2013 Industry Volume<sup>(a)</sup></u>	<u>CAGR 2008 – 2012</u>	<u>Variance 2012 – 2013</u>	<u>2015+ Outlook</u>
EU	22%	16%	(4.3)%	<b>(7.5)%</b>	(3)-(5)%
Other OECD	19	16	(3.7)	(2.6)	(2)-(4)
Russia	10	11	(1.9)	<b>(7.6)</b>	(4)-(6)
Philippines	8	3	2.7	<b>(15.6)</b>	(1)-(2)
Other Non-OECD	41	54	0.2	(0.1)	Flat
<b>Total</b>	<b>100</b>	<b>100</b>	<b>(1.4)</b>	<b>(3.0)</b>	<b>(1)-(2)</b>

(a) Excluding duty free

Note: Excluding China and the USA. Totals may not add due to rounding. Other OECD includes all OECD markets except those present in EU. Other Non-OECD includes all non-OECD markets except for Russia and the Philippines

Source: PMI Financials and PMI estimates



# Leading and Growing Segment Shares

## 2013 PMI Cigarette Industry Segment Shares (%)

Growth vs. 2008:

0.5pp

+3.9pp<sup>(b)</sup>

+41.2pp

+1.7pp

+2.7pp

50.8

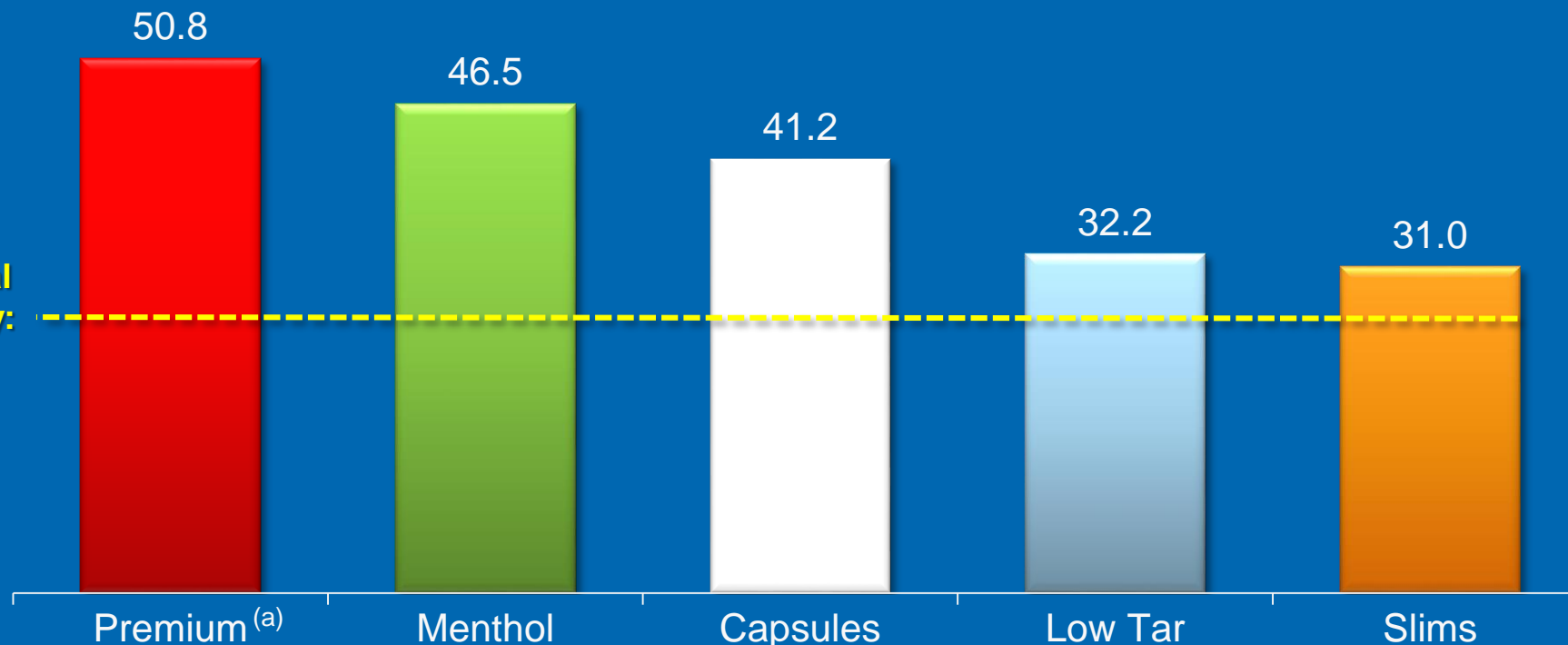
46.5

41.2

32.2

31.0

PMI Share of Total Cigarette Industry: 28.0%



Segment Trend vs. 2008:	Premium <sup>(a)</sup>	Menthol	Capsules	Low Tar	Slims
	(1.0)%	0.1%	91.5%	(0.1)%	13.5%

Vs. Industry Trend of (1.8)%

(a) Premium includes above premium

(b) Excluding the Philippines (menthol segment is ~50% of the total market volume); including the Philippines 2013 Segment Share was 36.4% down 1.6pp vs. 2008 and segment trend of 0.7% vs. 2008

Note: Excluding China, the USA and duty free. Based on current trademark owner. Segment and industry growth refer to volume CAGR

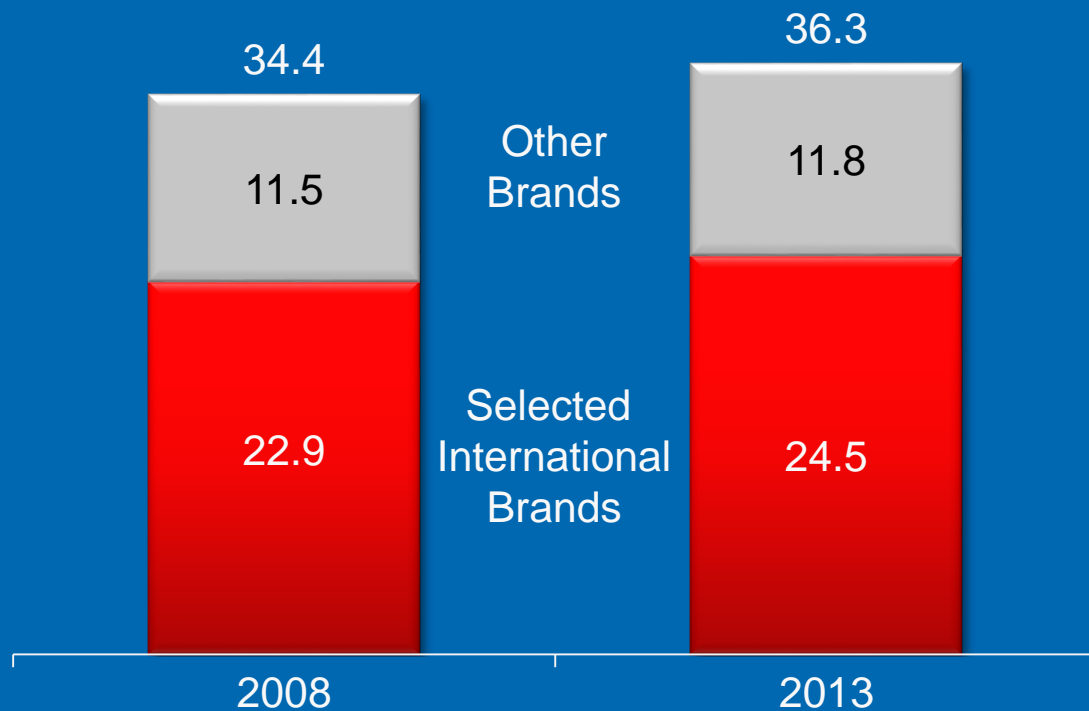
Source: PMI estimates



# PMI Market Share Growth

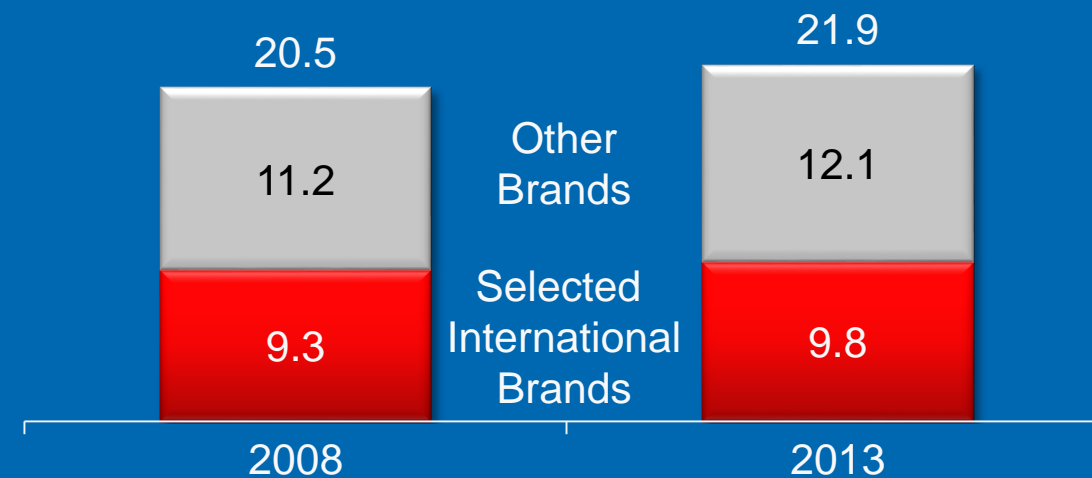
PMI OECD  
Share of Market (%)

**Average growth per year: +0.4pp**



PMI Non-OECD (excl. the Philippines)  
Share of Market (%)<sup>(a)</sup>

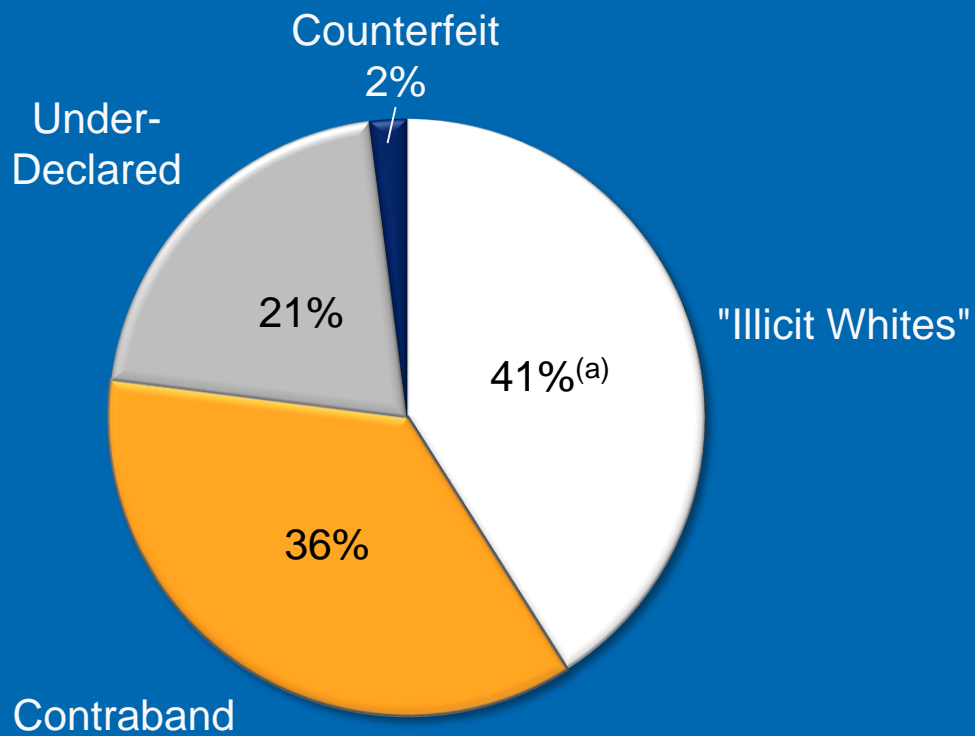
**Average growth per year: +0.3pp**



(a) Including the Philippines, PMI Non-OECD Shares of Market were 20.7% (prior to business combination with FTC) in 2008 and 24.3% in 2013  
Note: Excluding China, the USA and duty free. Total may not add due to rounding. Selected International Brands include *Marlboro*, *Parliament*, *Chesterfield* and *L&M*  
Source: PMI estimates

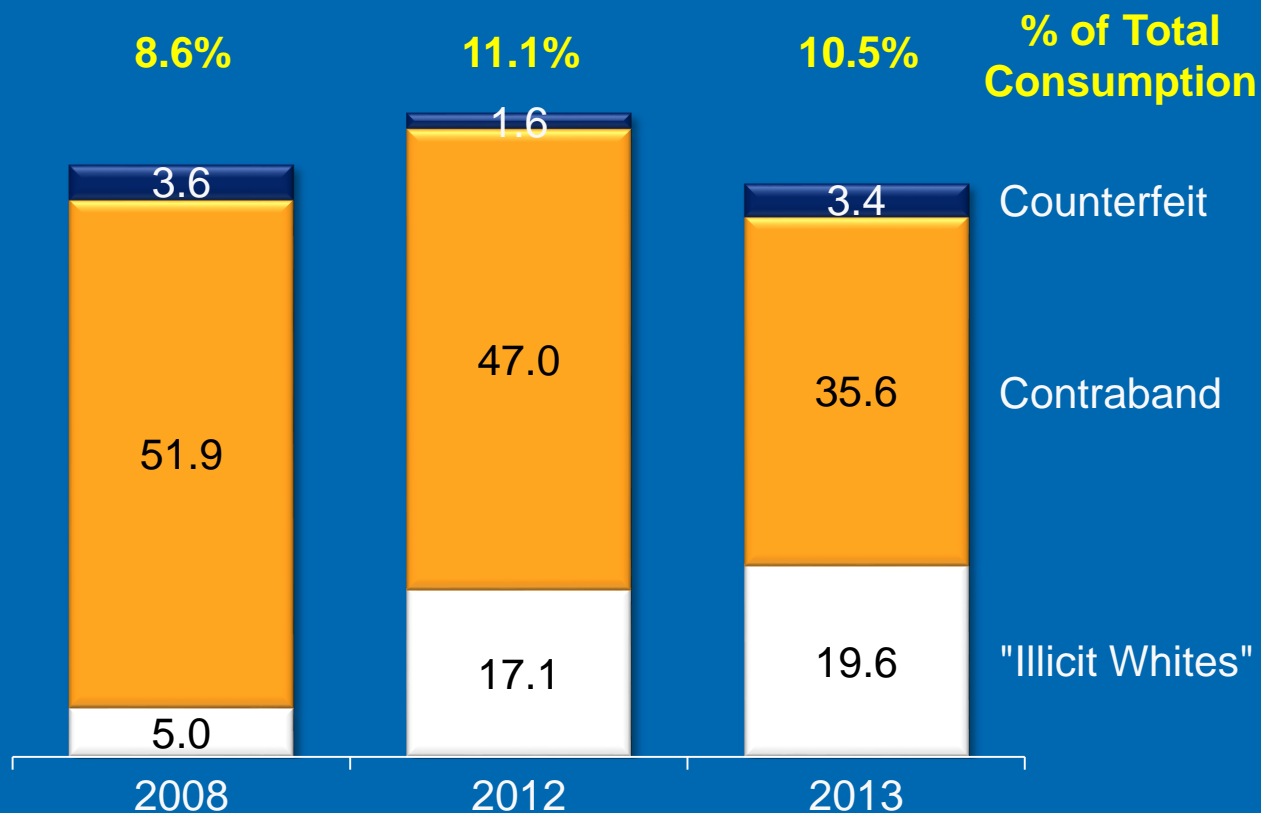


# Opportunities in the Fight Against Illicit Trade



2013 International Illicit Cigarette Consumption: 339 billion units

Counterfeit, Contraband and Illicit White Consumption in the EU Member States in 2013 (units billion)



**1pp drop in international illicit trade incidence = approx. \$120 Million PMI OCI**

(a) 2013 estimate for PMI worldwide and BAT, JTI and ITG for selected markets, 2008 and 2012 estimates for PMI only  
Source: PMI estimates, KPMG SUN report 2013



## Main Competitor Cigarette Shares by Region

### 2013 Regional Market Shares (%)

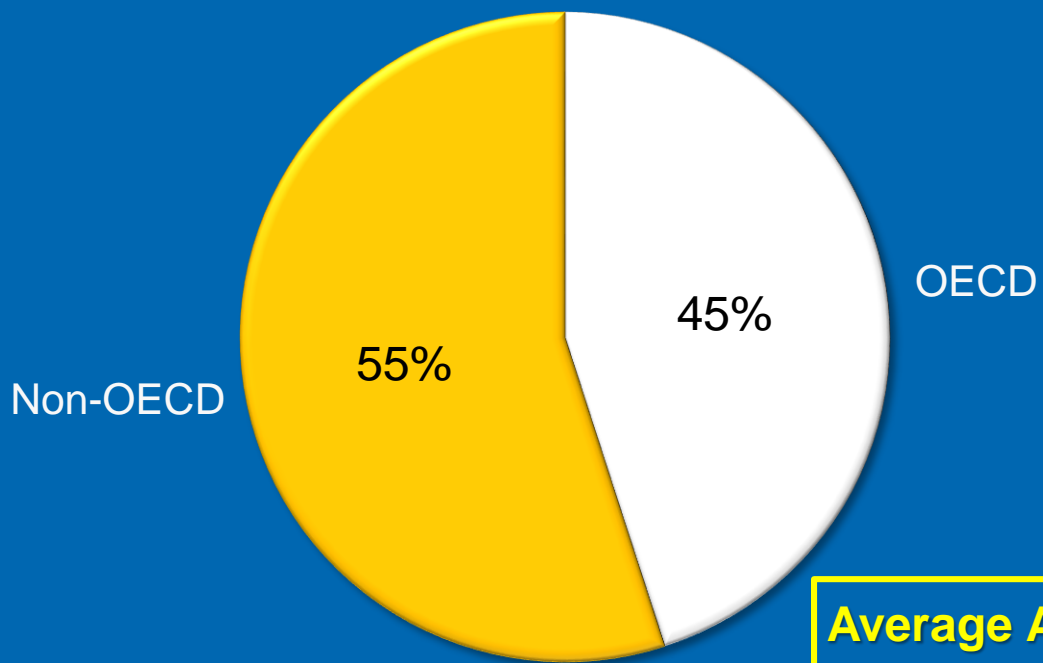
	<u>EU</u>	<u>EEMA</u>	<u>Asia</u>	<u>LA&amp;C</u>	<u>Total</u>
<b>PMI</b>	<b>39%</b>	<b>24%</b>	<b>25%</b>	<b>38%</b>	<b>28%</b>
BAT	20	22	16	51	22
JT	18	23	13	4	17
IMT	19	11	3	—	8
Others	4	20	43	7	25

**775 billion units**

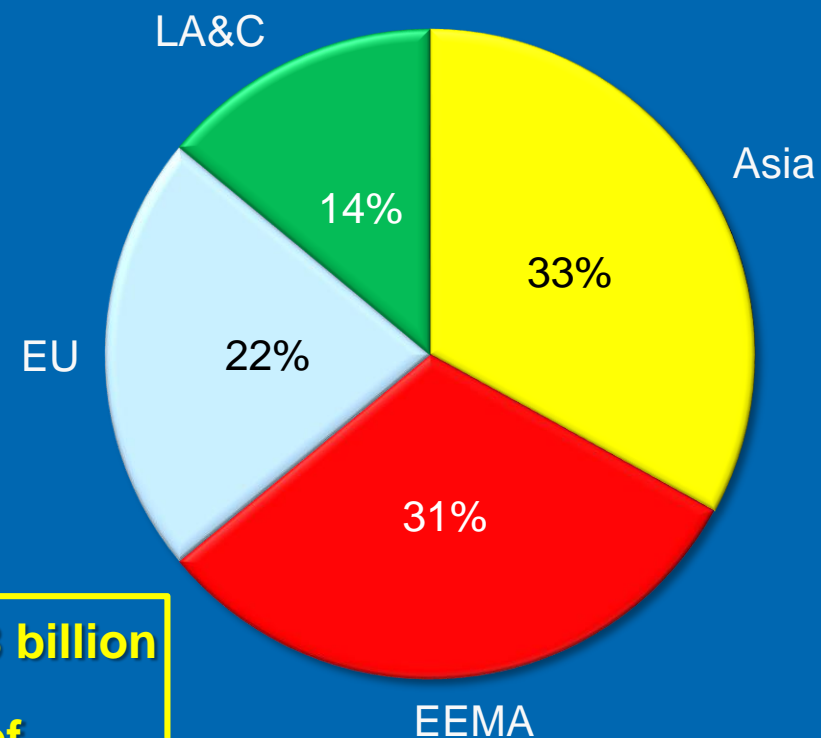


# Balanced Pricing

Pricing Contribution OECD / Non-OECD<sup>(a)</sup>  
(2008 - 2013)



Pricing Contribution by Region  
(2008 - 2013)



**Average Annual Pricing: \$1.8 billion**

**Average Pricing as % of  
Net Revenues (2008 - 2013): 6.7%<sup>(b)</sup>**

(a) The split of pricing contribution excludes duty free

(b) Calculated using average annual pricing over the period (\$1.8 billion) divided by average net revenues between 2008 and 2012 (\$27.2 billion); excludes duty free

Note: Excluding China; pricing variances for the period 2008 to 2013

Source: PMI Financials





# Sustainable Pricing

## Big Mac Price vs. PMI Retail Selling Price (USD)

Average Price for a *Big Mac*

CAGR: 3%



Average PMI RSP

CAGR: 4%



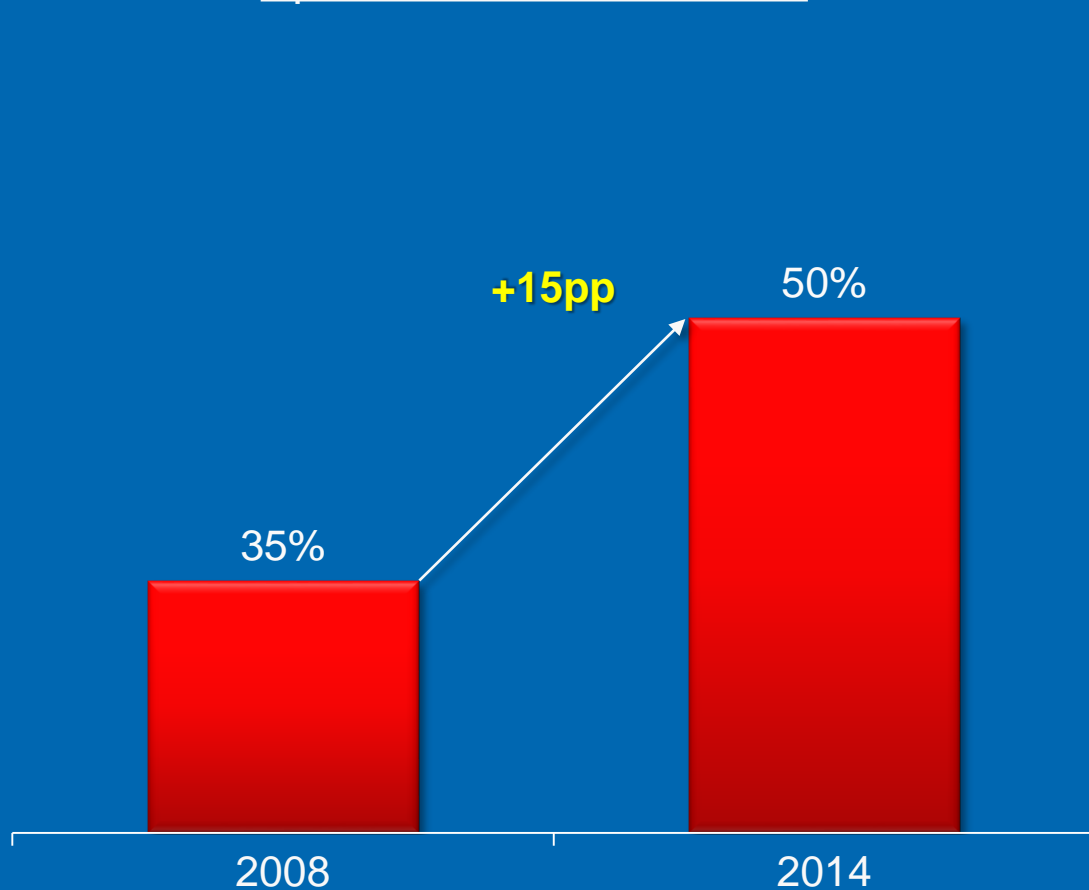
Note: CAGR includes currency impact. PMI RSP refers to PMI weighted-average cigarettes RSP per 20 cigarettes pack. Average *Big Mac* price in USD, weighted average based on a sample of 47 markets

Source: PMI estimates and *The Economist Big Mac Index*

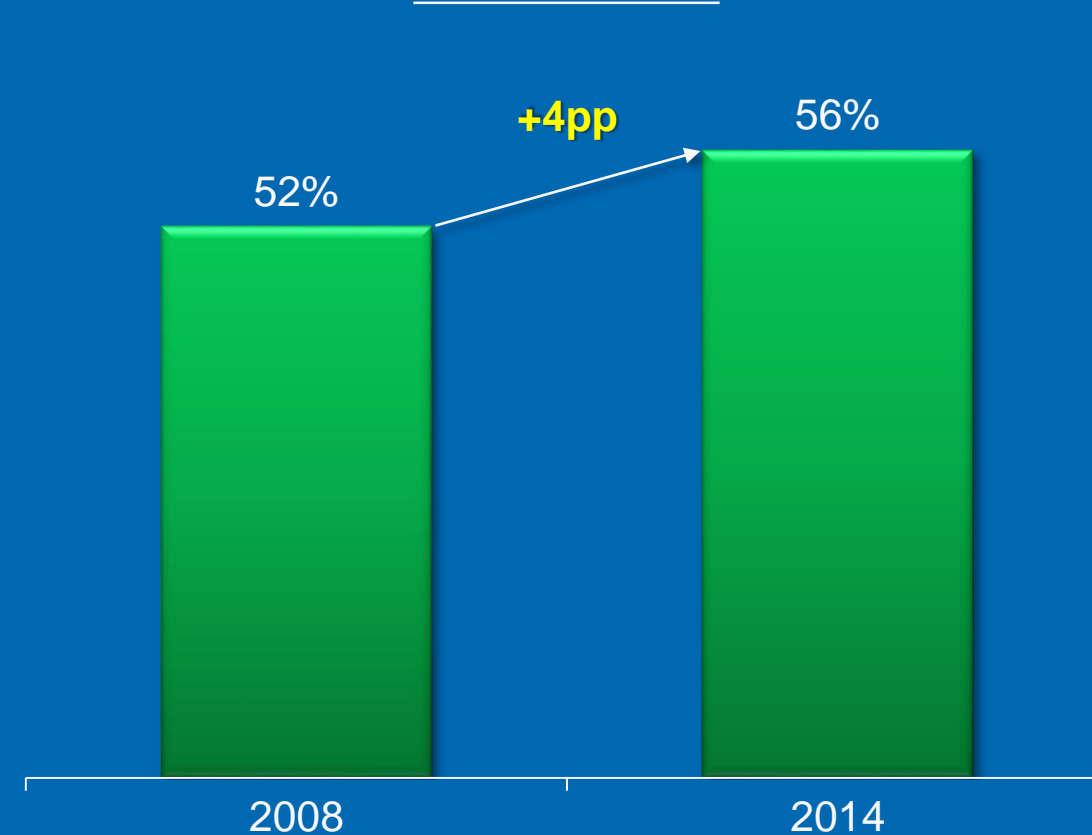


# Improving Tax Structures

Specific to Total Tax Ratio<sup>(a)</sup>



Average Yield on PMI Portion of Price Increase<sup>(a)</sup>



(a) Calculated on PMI Top 30 OCI markets. Calculations based on *Marlboro* / Premium segment

Note: Average Price Productivity and Specific to Total Tax ratio weighted on 2013 PMI volumes. Assumes constant trade margins as a % of RSP at 2013 OECD/Non-OECD level

Source: PMI estimates



## A Manageable Regulatory Environment

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- Delivering share growth and solid financial results in highly-regulated markets
- Continuing to advocate for evidence-based tobacco regulation without negative consequences
- Vigorously opposing unreasonable and ineffective regulatory proposals



# Plain Packaging

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- Plain packaging violates international trade laws and intellectual property rights
- Studies demonstrate ineffectiveness of plain packaging "experiment"
- In Australia, no evidence of changes in underlying consumption trends:
  - Flat legal market with an increase in the OTP segment
  - Down-trading accelerating
  - Record levels of illicit trade (14% in 2013)
  - Emergence of black market "branded" packs
- WTO and Bilateral Investment Treaty challenges

# Business Development to Enhance Total Shareholder Returns

- Remaining 20% shareholding in Mexico
- Algeria investment via 49% participation in Arab Investors-TA
- 20% shareholding in our Russian distributor, Megapolis
- Business restructuring in Egypt



Mexico



Russia



# RRPs Opportunity

- Commercialization on track for 2014:
  - Platform 1 in city test phase
  - E-vapor products in the EU:
    - Acquisition of UK-based Nicocigs Limited

## Heated Tobacco Products



Platform 1

**Ready for  
Commercialization**



Platform 2

**Product Development  
Ongoing**

## Nicotine Containing Products



Platform 3

**Ready for  
Commercialization**



Platform 4  
Generation 1



## RRPs Opportunity: New Business Model

- Continuous improvement of our existing product platforms
- Deeper innovation pipeline
- Shorter product life cycles
- New manufacturing and supply chain capabilities
- State-of-the-art R&D and clinical testing capabilities
- Combination of partnerships and M&A to supplement internal developments
- Specific skills and organizational competencies

**PMI ideally prepared and positioned to lead**



## RRPs Opportunity

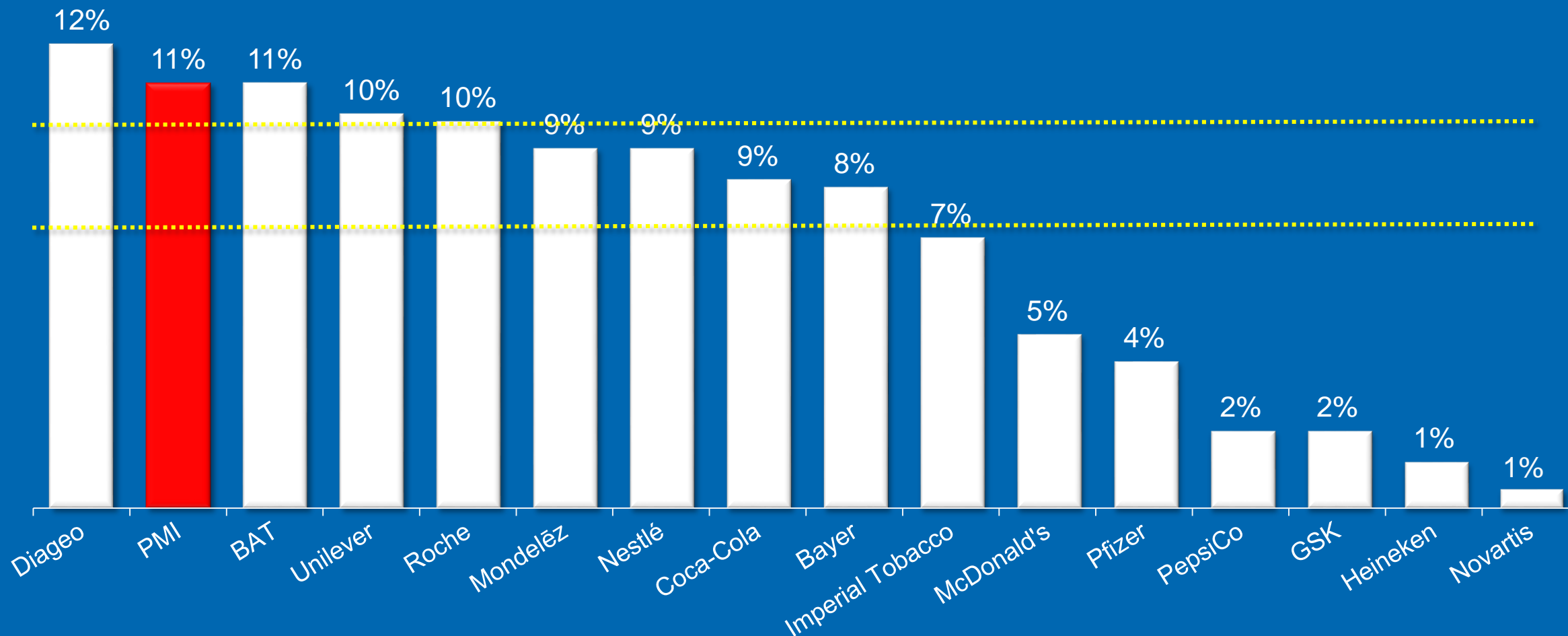
- Opportunity to meet multiple objectives with appropriate tax structure:
  - Recognize historical investment in development and initial manufacturing start-up costs
  - Attractive proposition to adult smokers
- Incremental investment in 2014, 2015 and 2016
- Potential additional margins of \$720 million to \$1.2 billion per year once we achieve incremental volume of 30 – 50 billion units
- RRPs as the pathway to new territories where we are presently under-represented



# Average for Two Fiscal Periods 2012 and 2013 Adjusted Diluted EPS Growth vs. Selected FMCG Companies



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Note: FMCG stands for Fast-Moving Consumer Goods. Compensation Survey Peer group excludes Johnson & Johnson and Vodafone due to a lack of financial reporting transparency ex-currency. Ranking based on arithmetic mean. GSK is GlaxoSmithKline  
Source: FactSet, compiled by Centerview



## Attractive Dividend Yield vs. Key Benchmarks

	<u>5-Year Historical Average</u> <sup>(a)</sup>	<u>Current</u> <sup>(b)</sup>
<b>PMI Dividend Yield</b>	4.2%	4.2%
<b>Proxy Peer Dividend Yield</b>	4.0%	3.4%
<i>Spread vs. PMI Div. Yield</i>	19 bps	<b>85 bps</b>
<b>10-Year US Treasury</b>	2.6%	2.6%
<i>Spread vs. PMI Div. Yield</i>	155 bps	<b>162 bps</b>

(a) Average with weekly data points

(b) As of June 24, 2014

Note: Average 5-year historical dividend yield represents the annualized dividend over the closing share price computed on a weekly basis from July 1, 2009 to June 24, 2014. The current dividend yield represents the annualized dividend on June 24, 2014 over the closing share price on that date. The share price for PMI was \$89.37 as of June 24, 2014. The annualized dividend was \$3.76. The Proxy Peer Group includes both the Compensation Survey Group and the Tobacco Peers

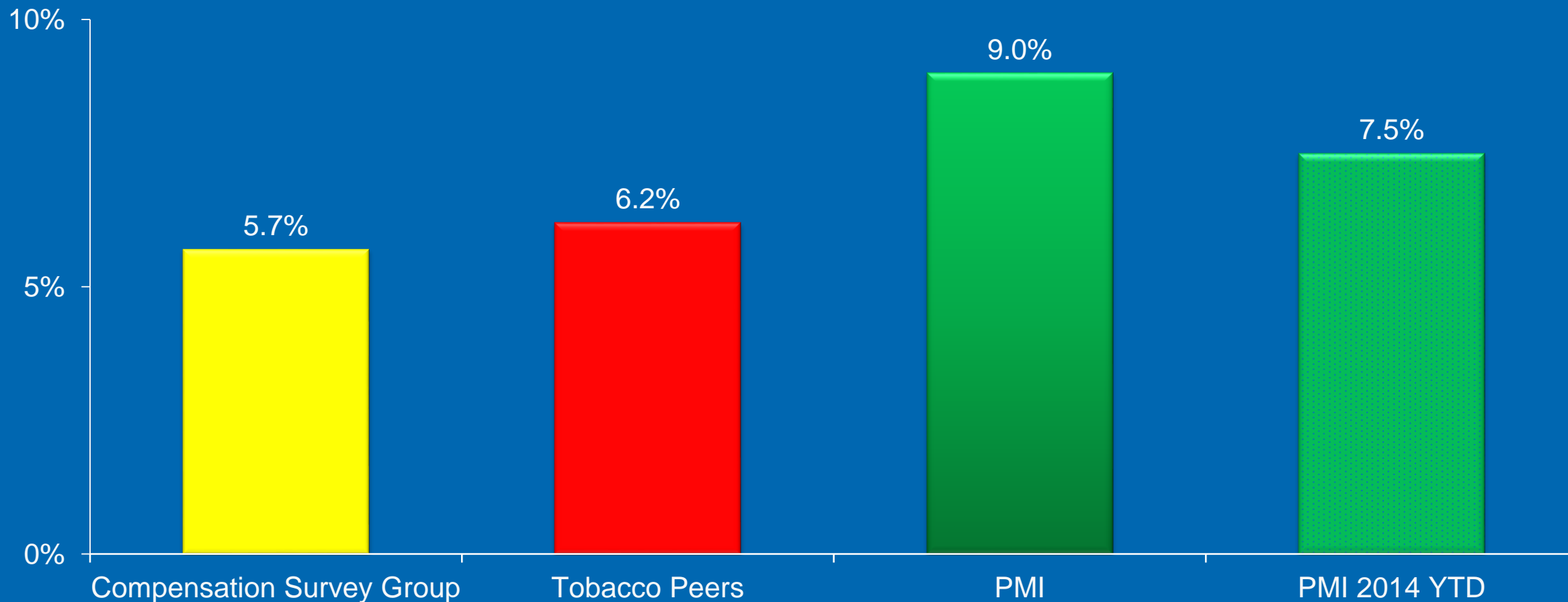
Source: PMI Financials, Factset and Bloomberg

# Drivers of Adjusted OCI to Adjusted Diluted EPS and Total Shareholder Returns



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Dividends & Share Buybacks as % of Market Cap



Note: Five-year period 2009-2013. PMI 2014 performance computed based on 2014 YTD average market capitalization, share buybacks of \$4 billion for 2014 and taking Q1, 2014 dividend per share multiplied by four

Source: FactSet, compiled by Centerview



# Summary

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- Favorable industry dynamics relative to most other FMCG industries despite volume pressures:
  - Pricing power
  - Input cost stability
  - High margins
- Ability to secure moderate share growth and fair share of pricing drives top-line
- Cost containment increases operating leverage and adjusted OCI growth
- Cash generation supports superior EPS growth and exceptional total shareholder returns
- RRPs offer potential for a favorable paradigm shift



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Reconciliation of non-GAAP measures included in this presentation to the most comparable GAAP measures are provided on our website at: [www.pmi.com/2014InvestorDay/RecSlides](http://www.pmi.com/2014InvestorDay/RecSlides)

Glossary of Terms: [www.pmi.com/2014InvestorDay/Glossary](http://www.pmi.com/2014InvestorDay/Glossary)