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2014
INVESTOR DAY

Investor Day – EU Region Lausanne, June 26, 2014

Drago Azinovic

President, European Union Region

Philip Morris International



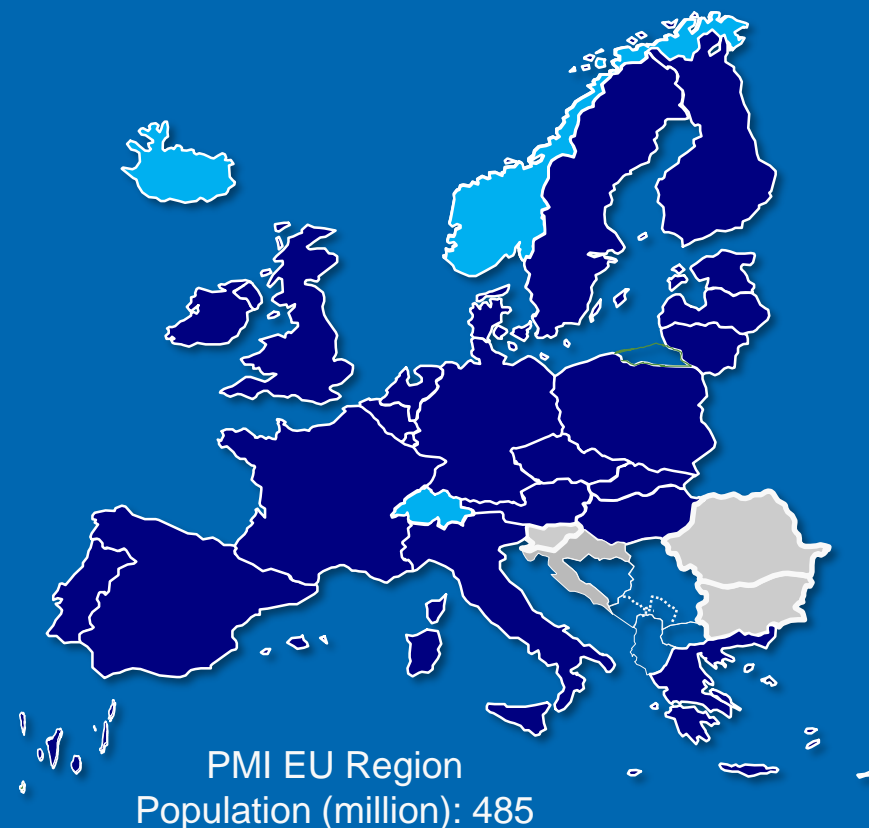
Agenda

- Strong Business Fundamentals
- Strategies for Growth
- Key Markets
- Concluding Remarks
- Questions and Answers



EU Region: Region Overview

-  Current EU Region = EU Area
-  + Non EU Markets
-  – EU Markets belonging to EEMA Region



2013

Cigarettes

Cigarette Industry (units billion)	482
PMI Cigarette SoM	38.5%

Other Tobacco Products ("OTP")

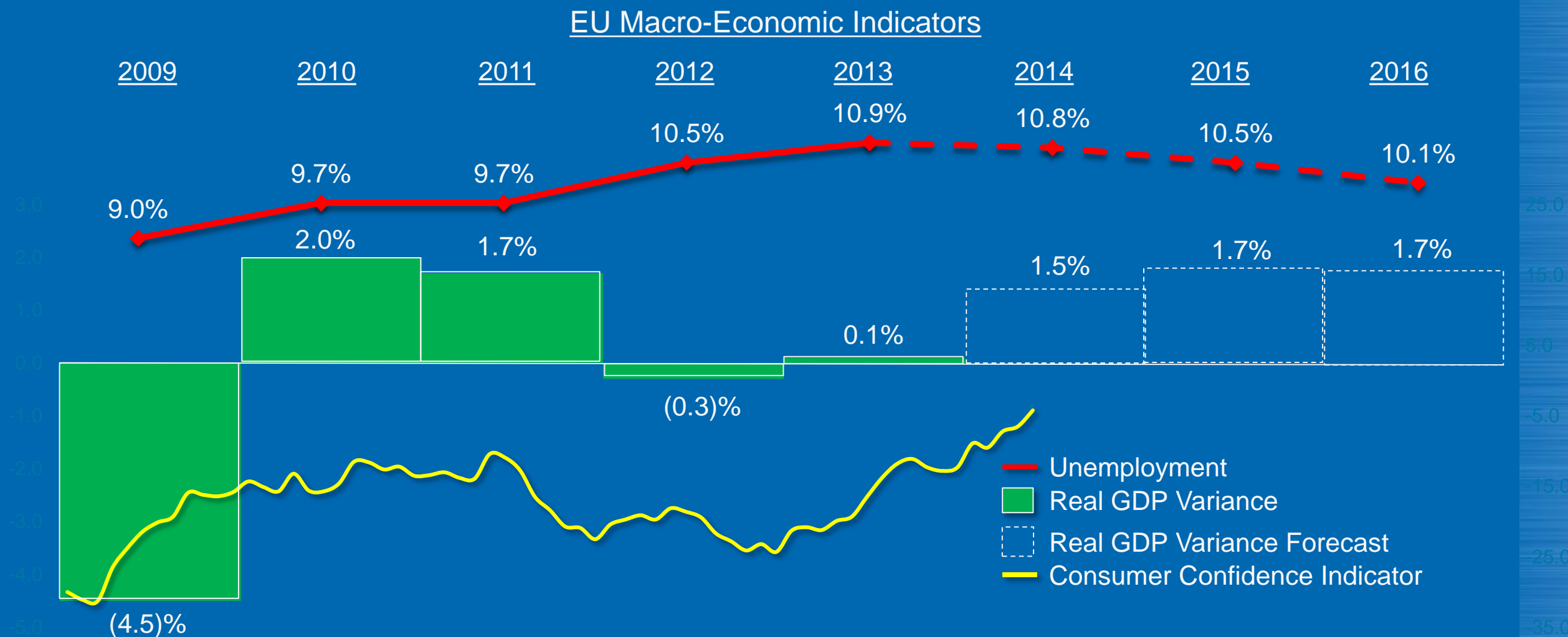
OTP Industry (units billion eq.)	163
Fine Cut Industry (units billion eq.)	142
PMI Fine Cut SoM	14.6%

PMI Footprint

Adjusted OCI (\$ bio)	4.3
Employees	11,000+



Improving Economic Outlook and Growing Consumer Confidence



Note: EU unemployment rate for EU28

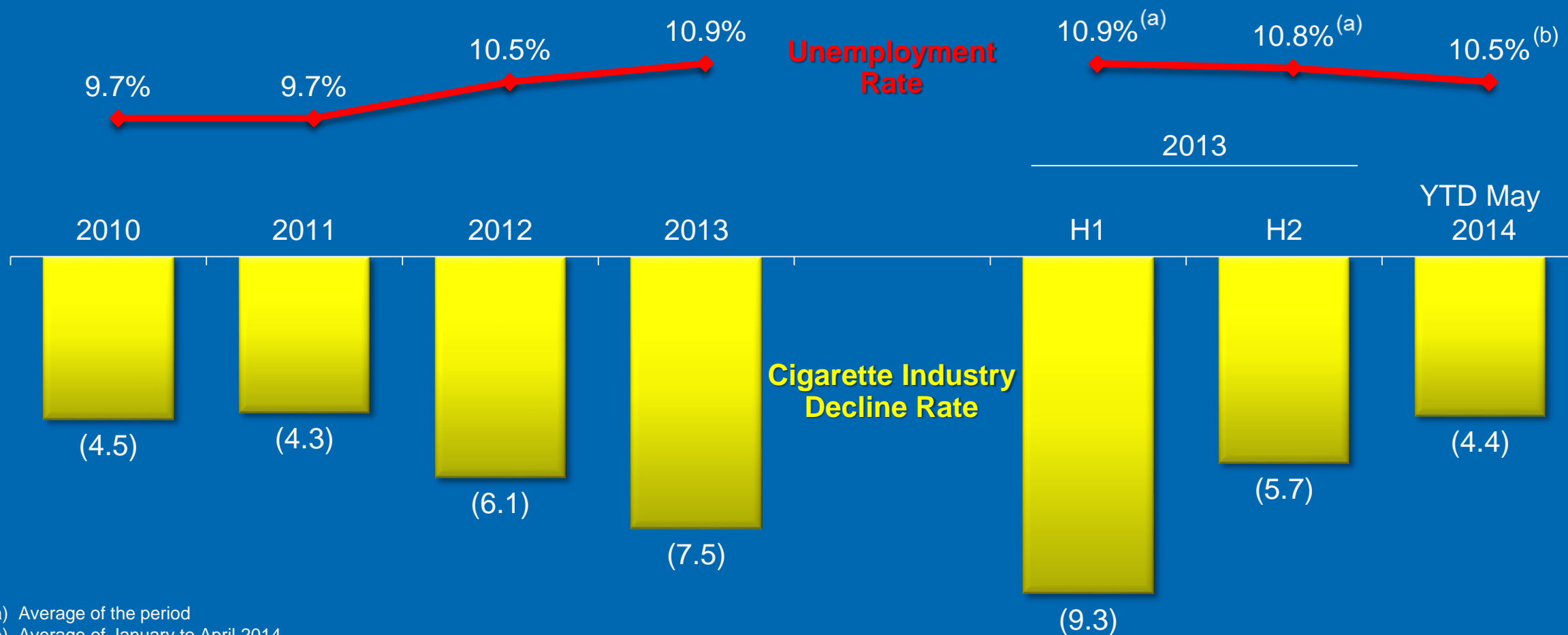
Source: Global Insight, Eurostat and the Economist Intelligence Unit



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Moderation in Cigarette Industry Volume Decline

EU Cigarette Industry Volume Decline vs. PY and
Unemployment Rates (%)



(a) Average of the period

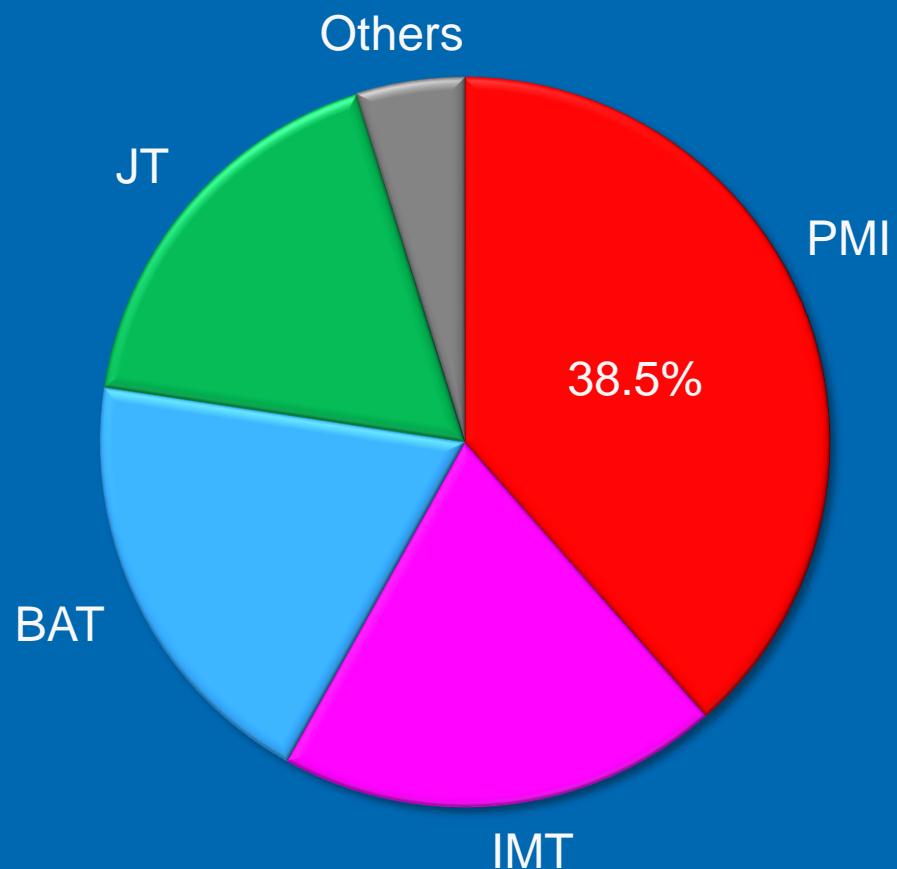
(b) Average of January to April 2014

Source: PMI estimates and Eurostat for EU28



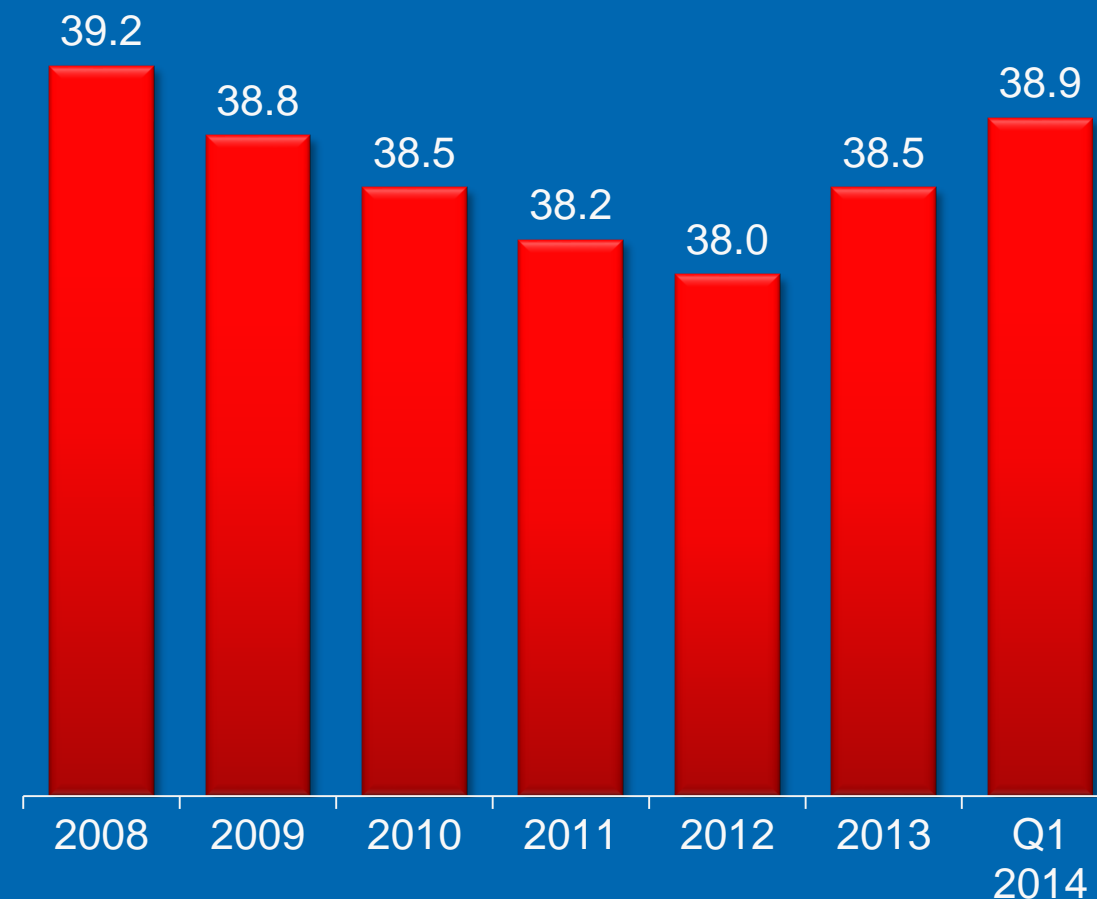
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Market Leader and Strong Share Growth Momentum



Share of EU Region Cigarette Market (2013)

PMI Share of EU Region Cigarette Market (%)



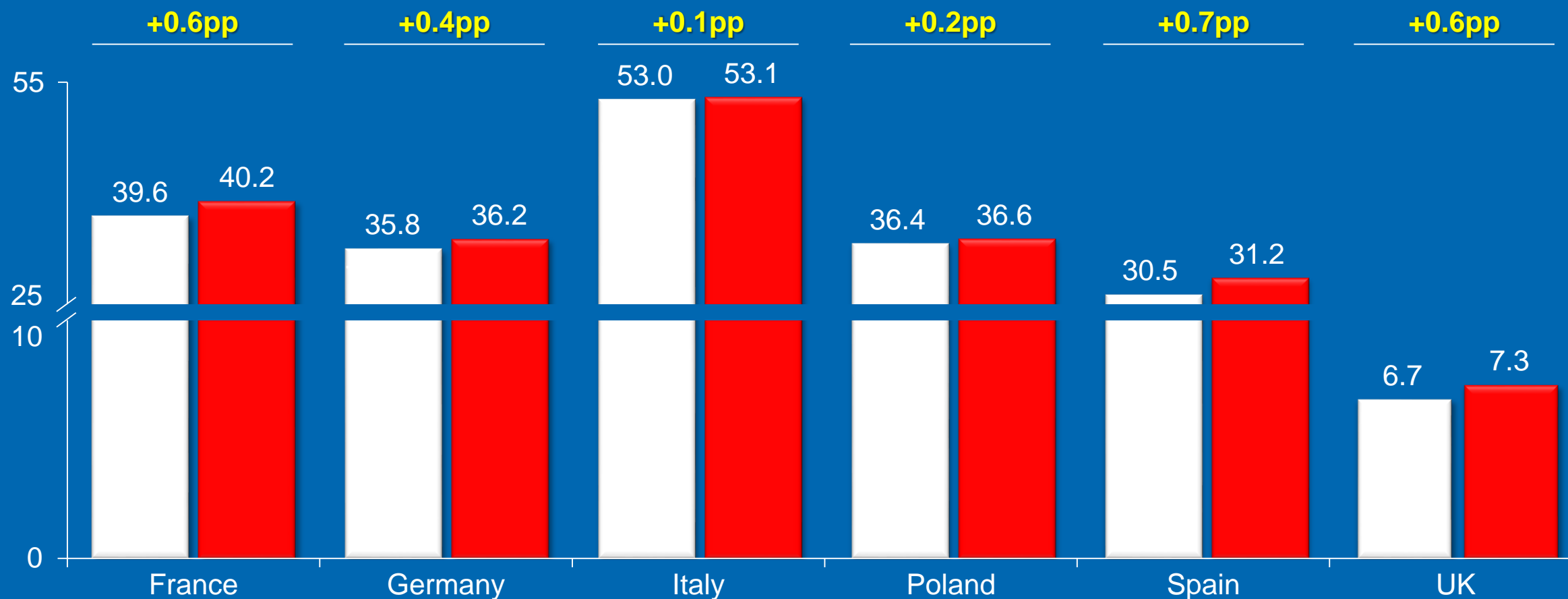


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Growing Market Share in the Top Six Markets

■ 2012 ■ 2013

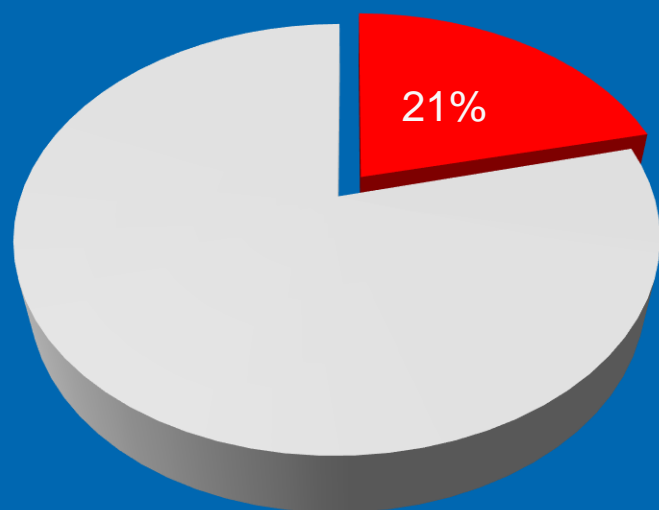
PMI Cigarette Market Shares (%)



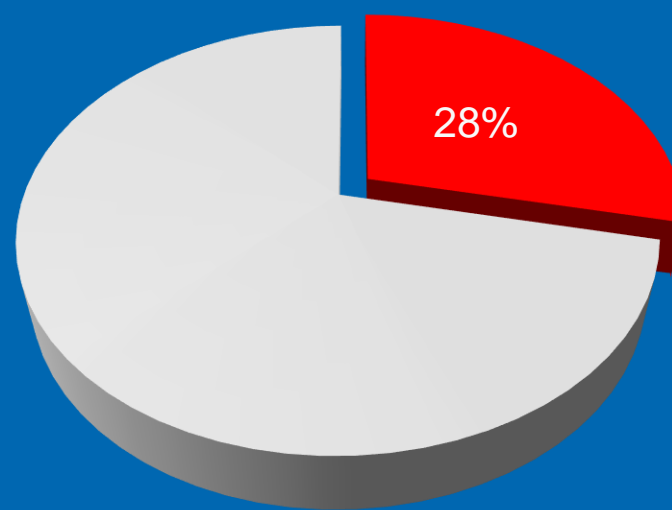


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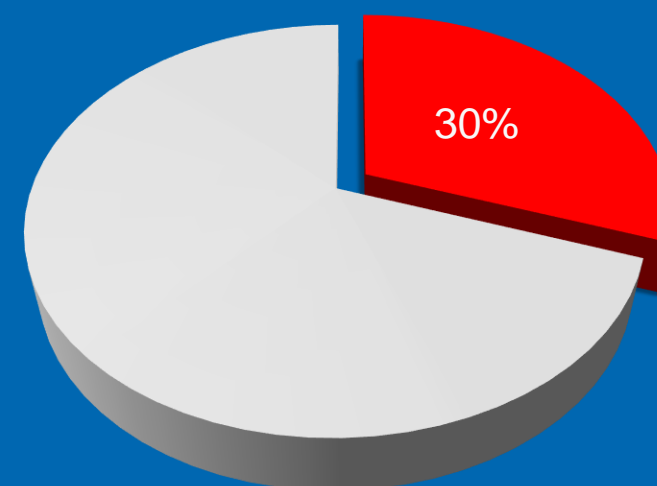
EU Region: Contribution to 2013 PMI Results



Cigarette Shipment Volume



Net Revenues



Adjusted OCI

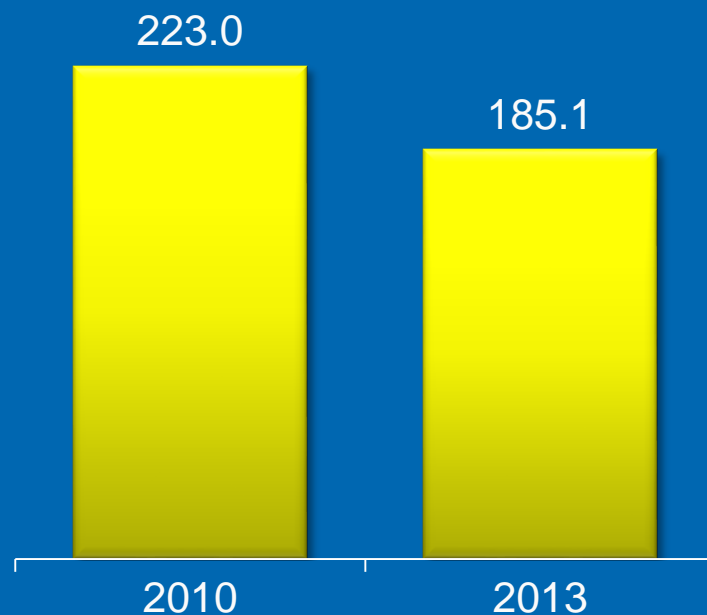


EU Region: Financial Results 2010-2013

Shipment Volume

(units billion)

CAGR: -6.0%



Net Revenues

(\$ million)

CAGR: -0.8%

CAGR: -0.5% (ex-currency)

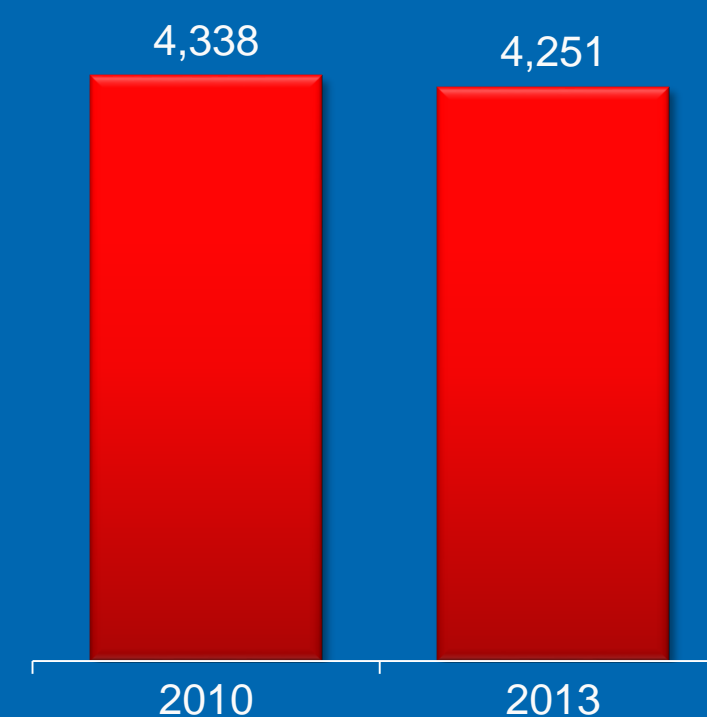


Adjusted OCI

(\$ million)

CAGR: -0.7%

CAGR: -0.6% (ex-currency)

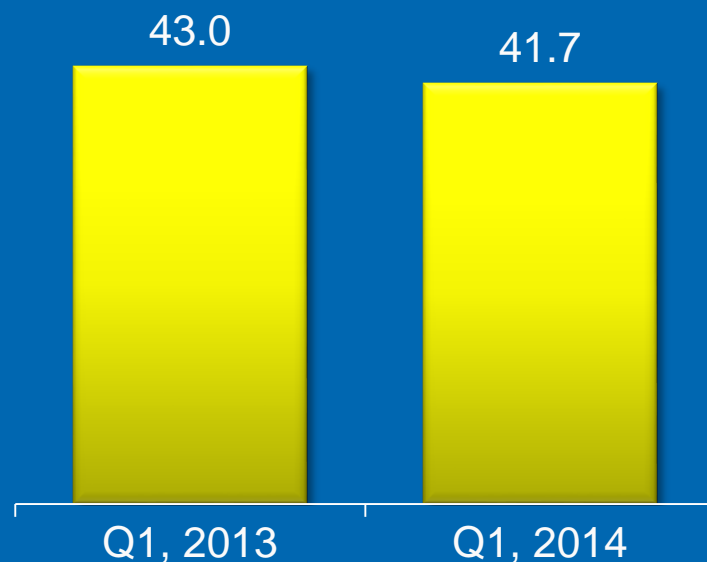




EU Region: Positive Performance in Q1, 2014

Shipment Volume
(units billion)

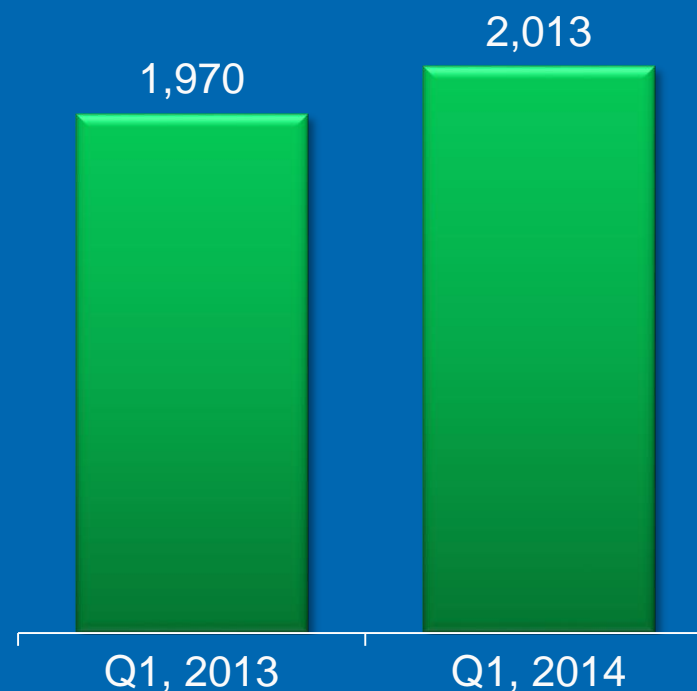
-2.9%



Net Revenues
(\$ million)

+2.2%

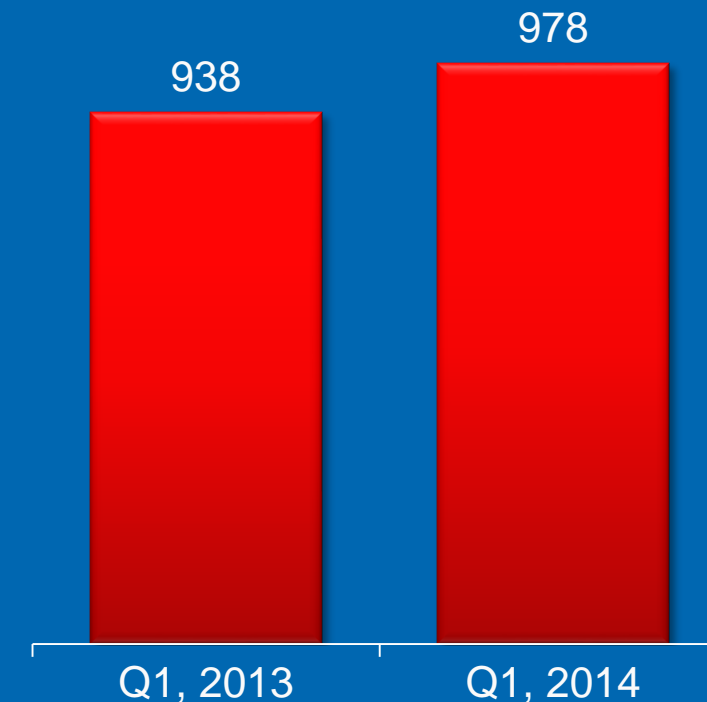
-0.4% (ex-currency)



Adjusted OCI
(\$ million)

+4.3%

+1.3% (ex-currency)





EU Region: Target and Strategies

Target:

- Annual average mid to long-term low single-digit adjusted OCI growth (ex-currency)

Strategies for Growth:

- Continue to grow our superior brand portfolio
- Reinforce the fight against illicit trade
- Protect ability to differentiate products
- Advocate for reasonable tax structures
- Expand operating margins
- Commercialize Reduced-Risk Products



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Strategies for Growth

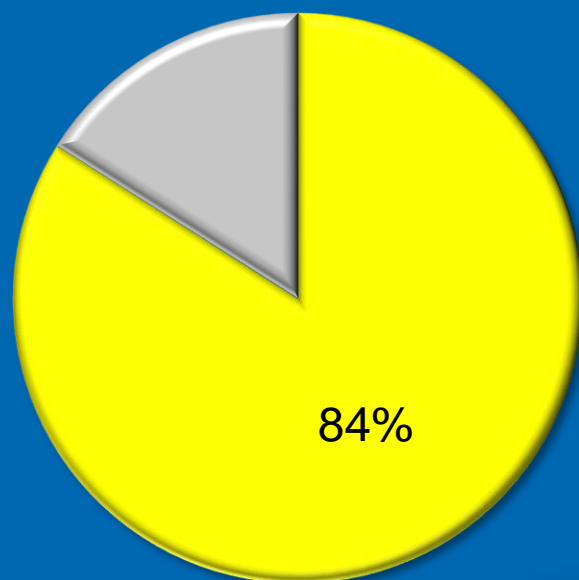
- Continue to grow our superior brand portfolio



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Consolidated and Growing Portfolio

Top 4 Brands Share of
PMI EU Region Cigarette Volume (2013)



EU Region Cigarette Market Shares (%)

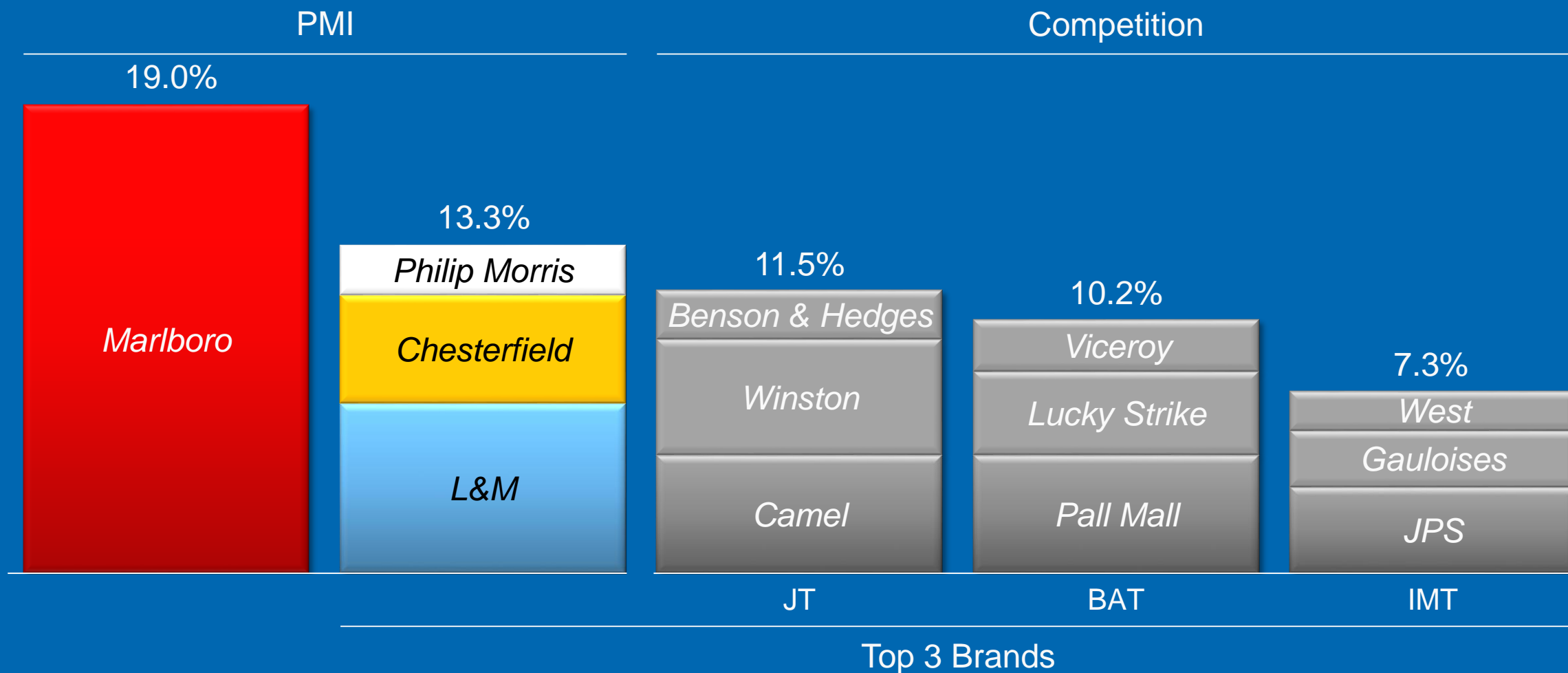




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2013 Share of Cigarettes: PMI Portfolio of Leading Brands

EU Region Cigarette Market Shares (2013)



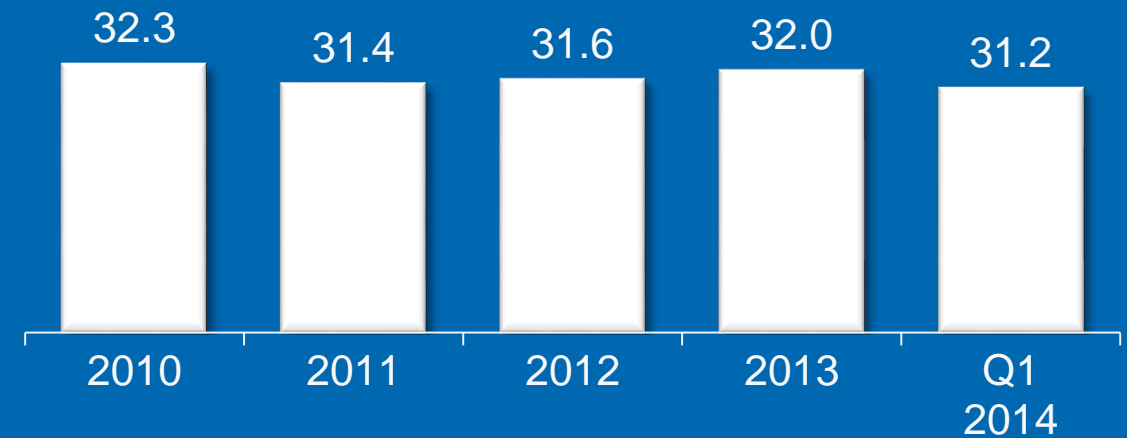
Marlboro: Strengthening its Leading Position in the Premium Segment



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Premium Share of Market (%)^(a)



Marlboro Share of Premium (%)^(a)



(a) Includes above premium
Source: PMI estimates

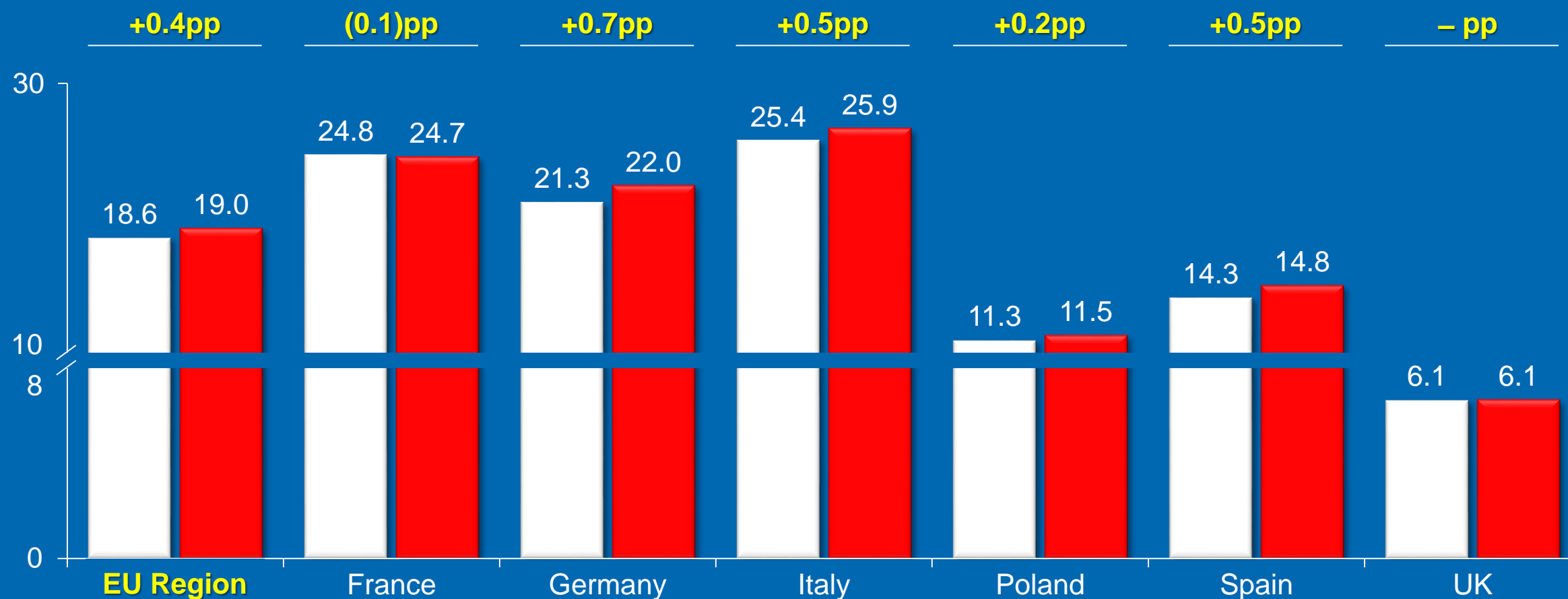


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Marlboro: Strong Growth Momentum in Top Six Markets

■ 2012 ■ 2013

PMI Cigarette Market Shares (%)



New Marlboro Red

- 5 city tests in 3 markets (France, Germany and Italy) since January 2014
- Promising results:
 - Retention of 100% of *Marlboro Red* adult smokers in all 3 markets
 - Increased brand preference amongst Legal Age (minimum 18) – 24 years old and female adult smokers
- National roll-outs



Marlboro: Leading Innovation



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



MINISTERSTVO ZDRAVOTNICTVÍ VARUJE:
KOUŘENÍ ZPŮSOBUJE RAKOVINU.

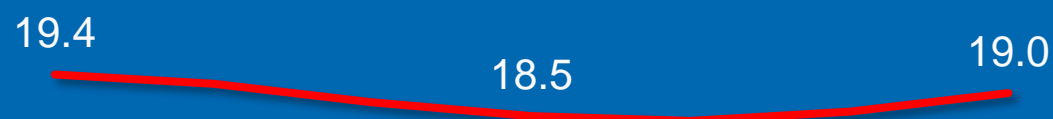


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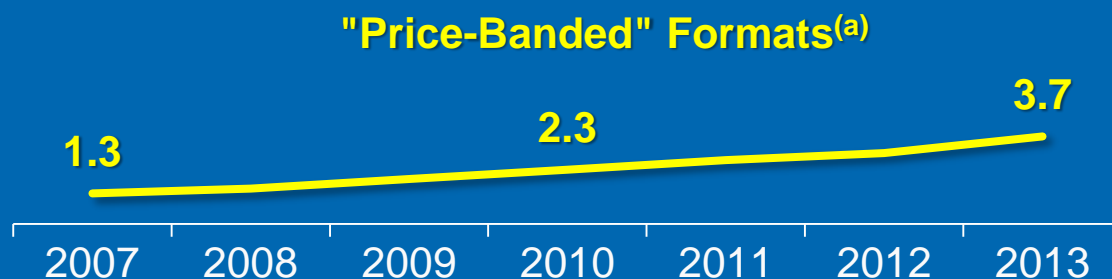
Marlboro: Price-Banding

Marlboro EU Region Cigarette SoM (%)

Total Marlboro



Marlboro Marginal Contribution (per 000)^(b) (Indexed with Base Year 2010)



(a) Marlboro "Price-Banded" formats (excluding OTP): big packs, regular size packs, soft packs, slims

(b) Marlboro marginal contribution excludes sales allowances and is ex-currency

Source: PMI estimates and PMI Financials

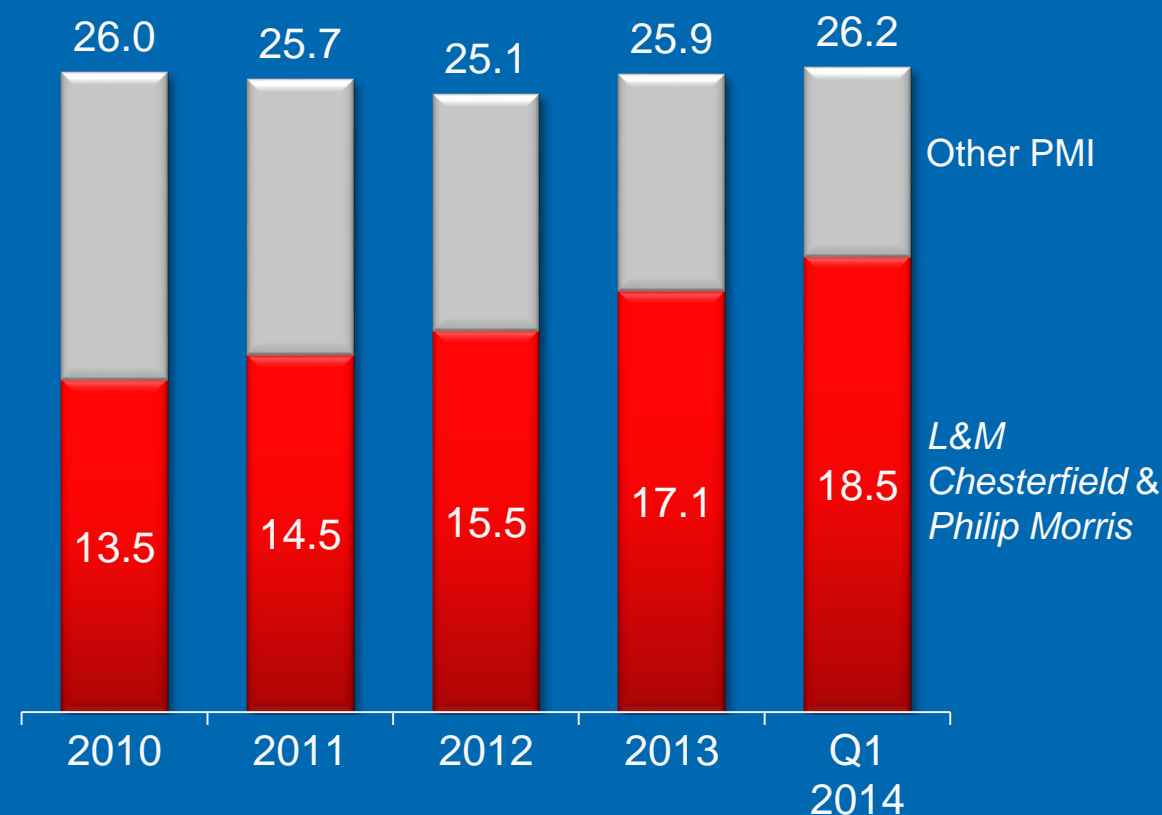


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Below-Premium Segment: Growing Share



PMI Share of Below-Premium (%)^(a)



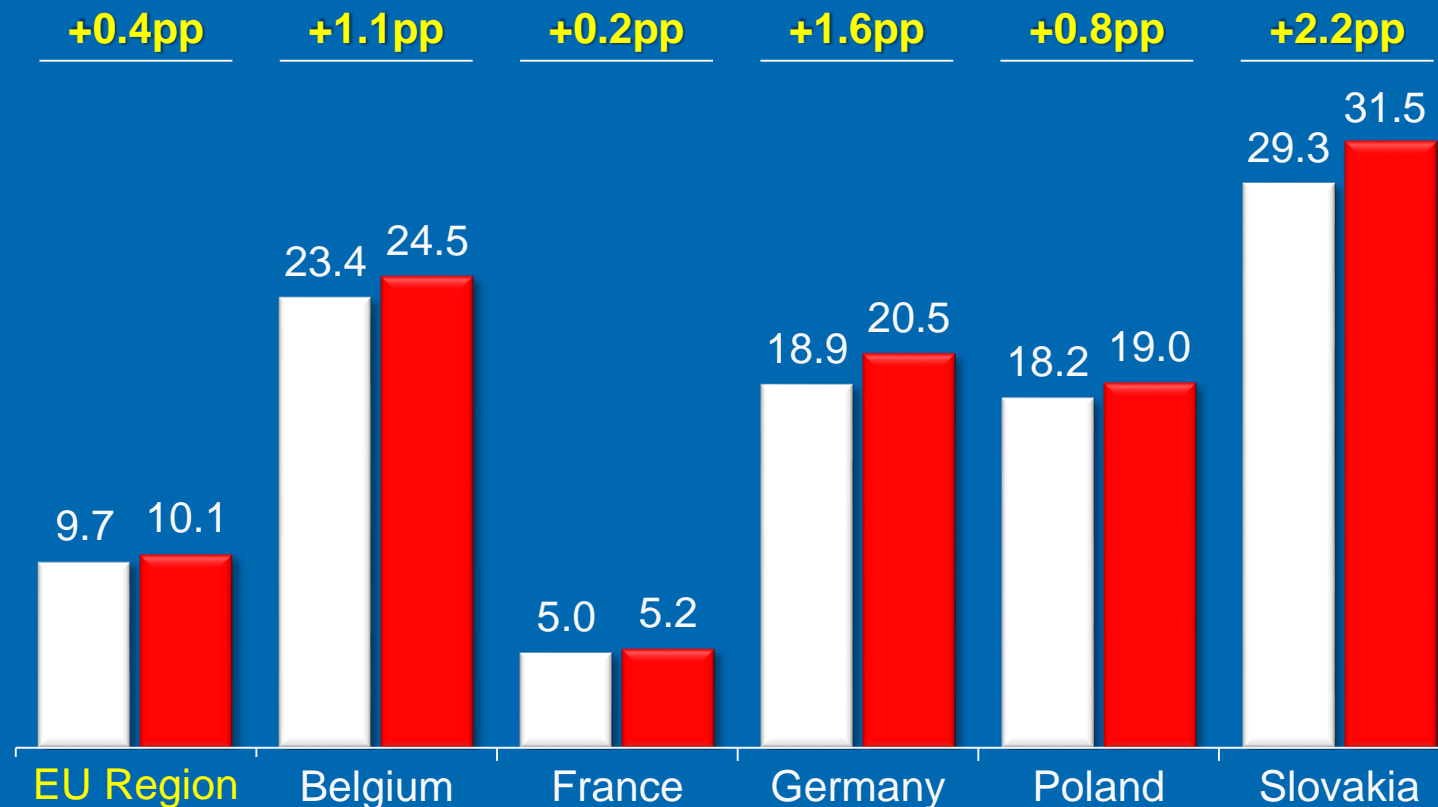
(a) Includes mid, low and super-low price products
Source: PMI estimates based on historical view

L&M: Industry Leader in the Below-Premium Segment



L&M Share of Below-Premium (%)

■ Q1, 2013 ■ Q1, 2014



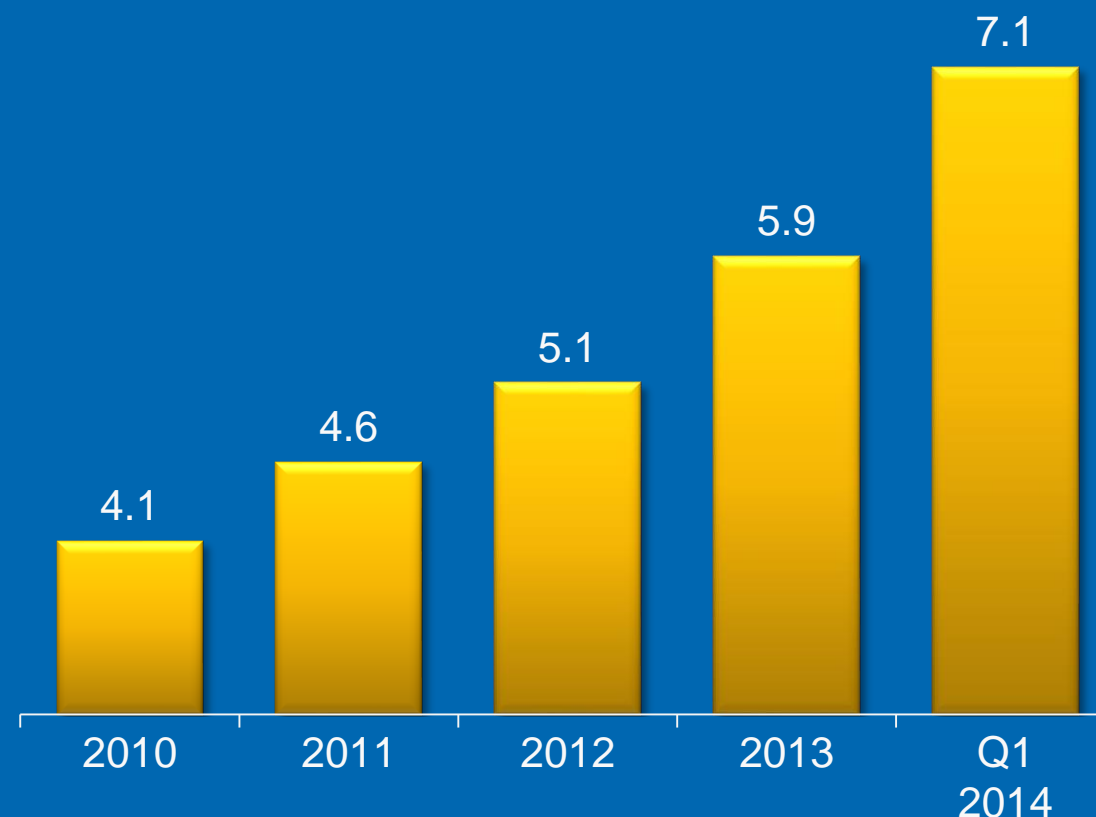
Chesterfield: Expanding its Reach

Generating strong growth through:

- Unique positioning
- Relevant innovation
- Geographic expansion
- Portfolio optimization



Chesterfield Share of Below-Premium (%)

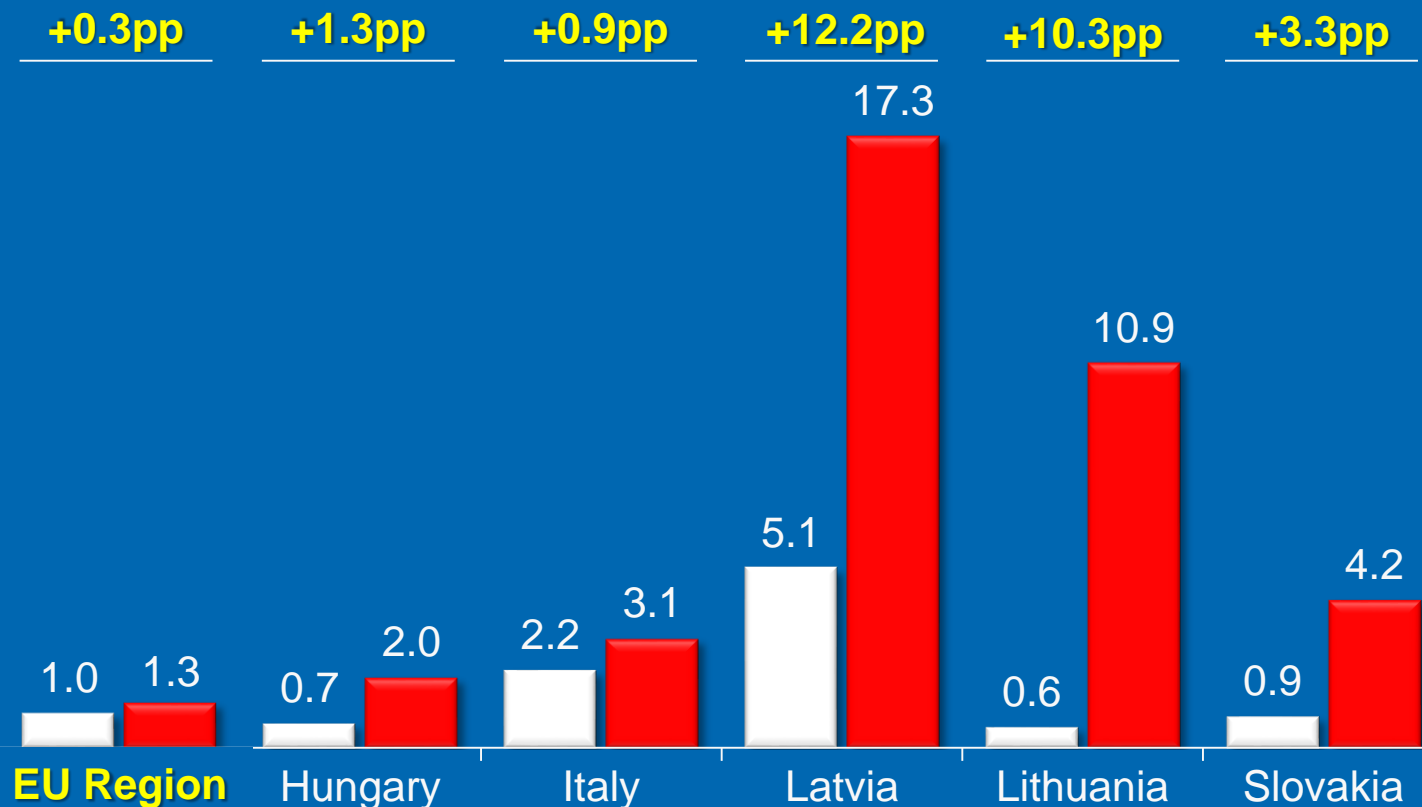


Philip Morris: Strengthening Our Below-Premium Portfolio



Philip Morris Share of Below-Premium (%)

■ Q1, 2013 ■ Q1, 2014

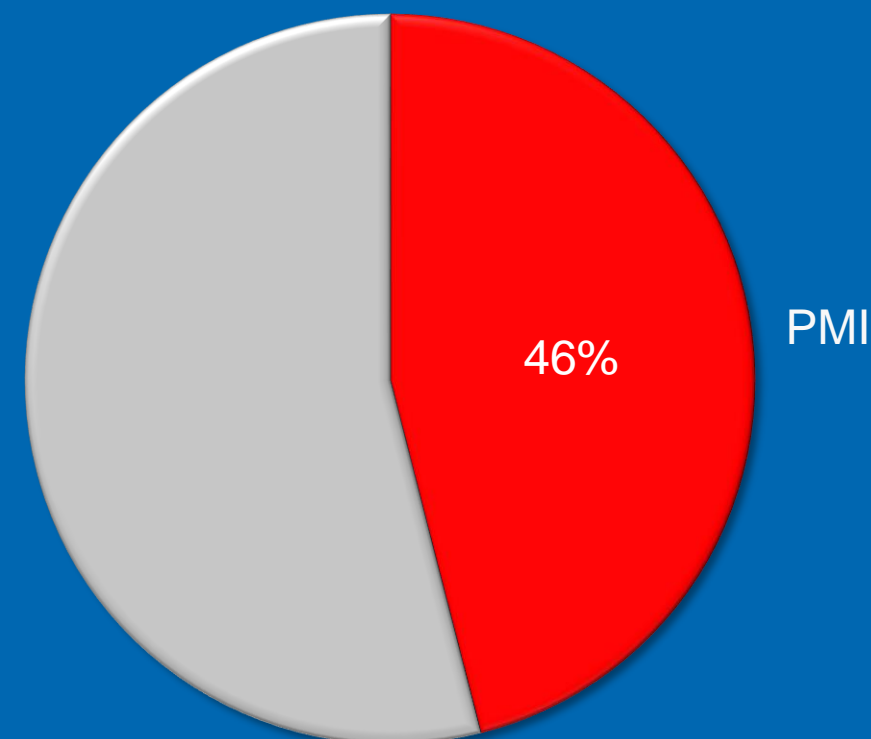
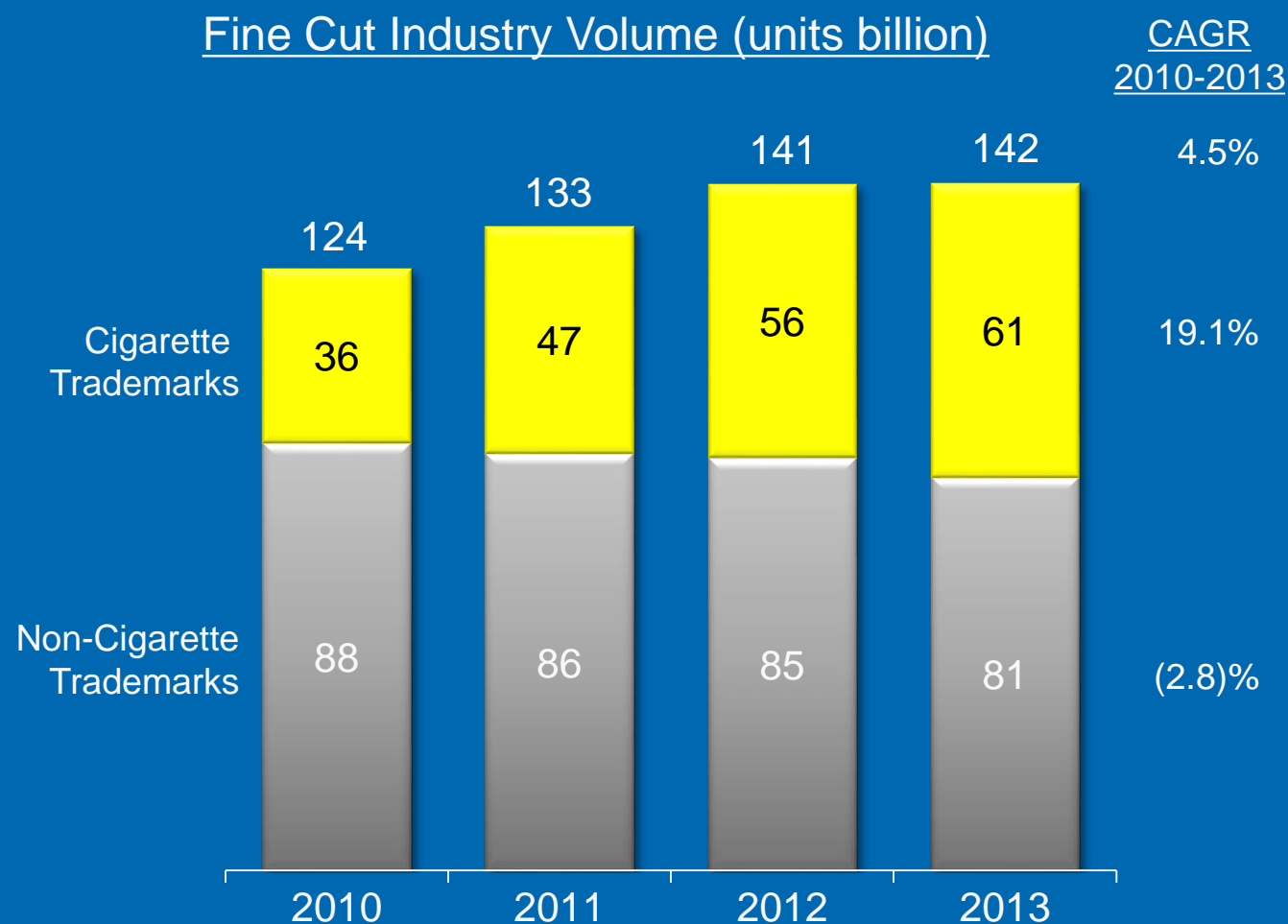


Note: Translation from Italian: "The Philip Morris family is growing. Azure and One: two novelties with a smooth taste. Red and Blue in the 10's pack format."
Source: PMI estimates based on historical view



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Capturing Significant Share of Fine Cut Volume Growth



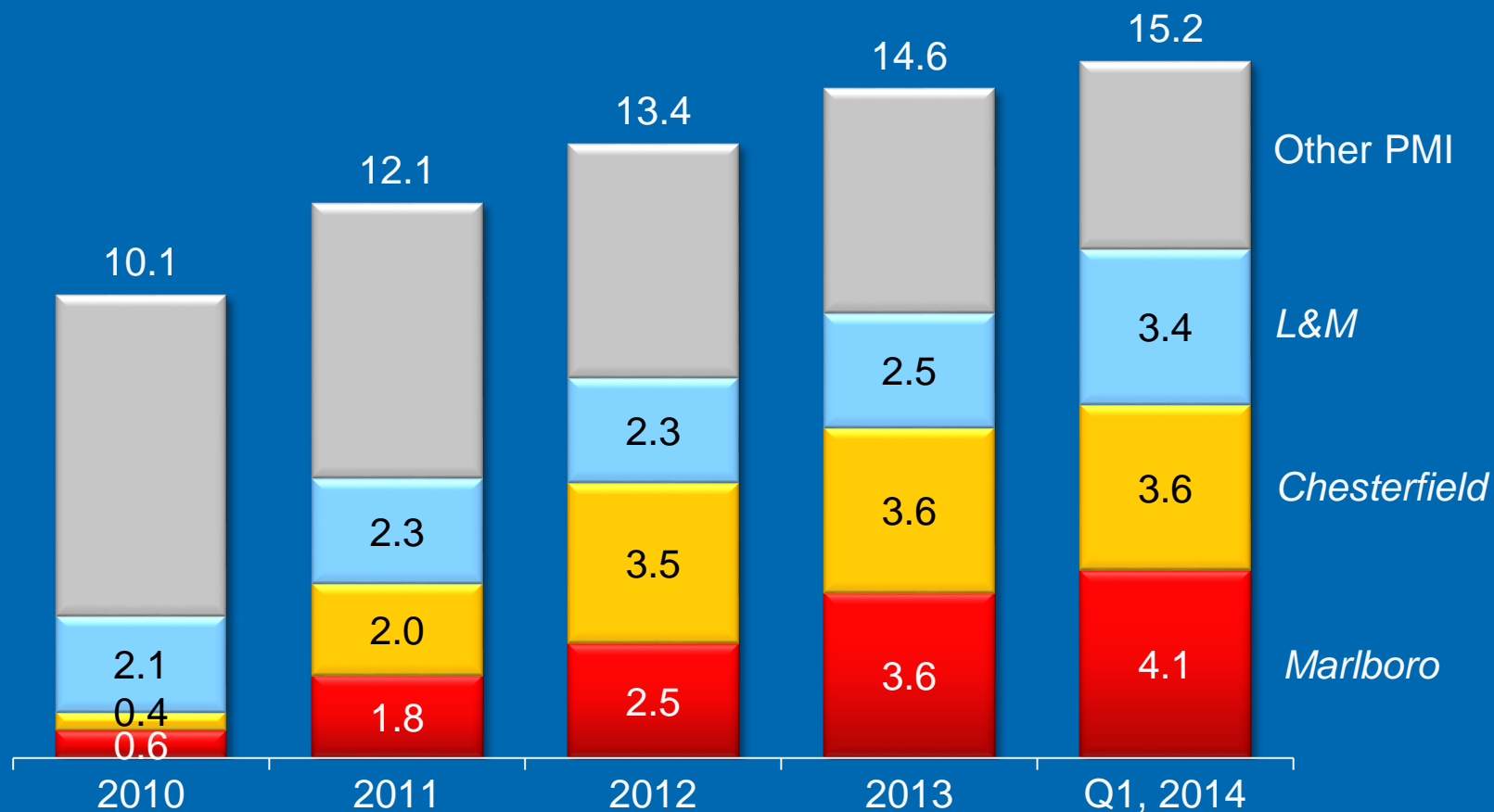
PMI Share of Fine Cut Volume Growth
(2013 vs. 2010)



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Leveraging our Superior Brand Portfolio to Grow Fine Cut Share

EU Region PMI Fine Cut Share of Market (%)



Leveraging Our Commercial Approach

- Increased autonomy of field force team
- Better capture Regional / local opportunities
- Faster adaptation to market changes
- Better support to new product introductions
- Increased leverage of adult smoker touch points
- National roll-outs to be mostly completed by end 2014





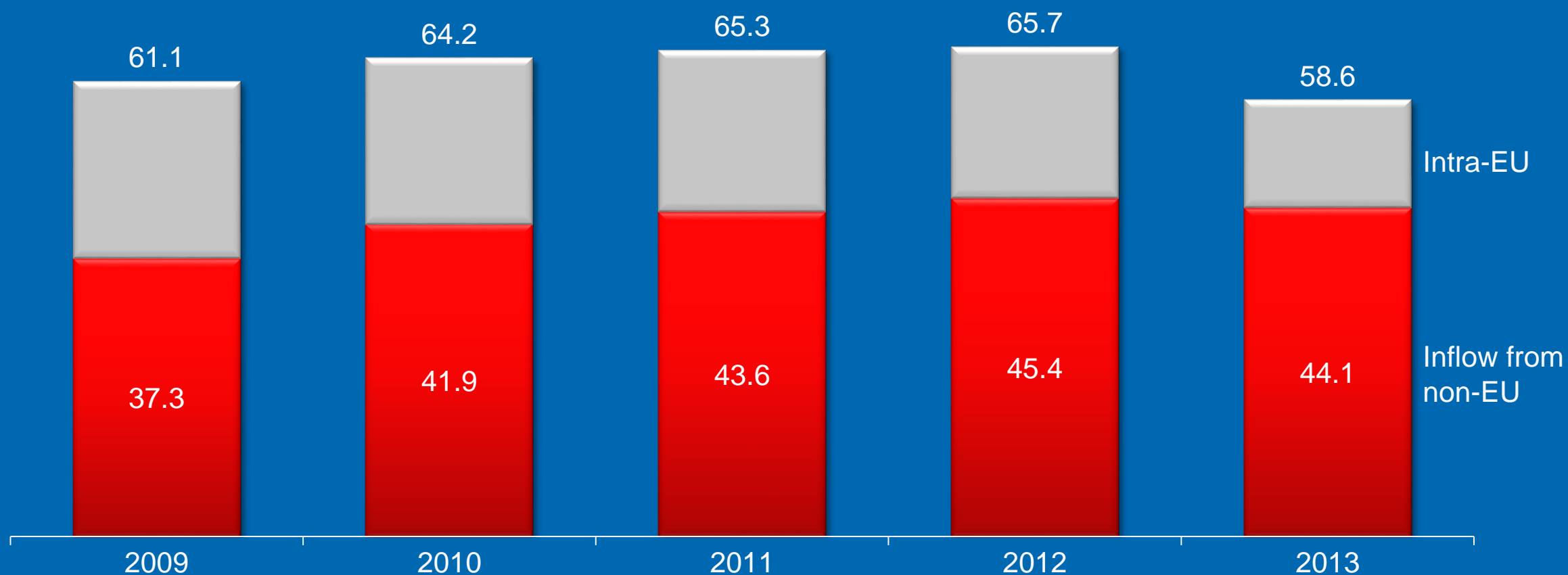
Strategies for Growth

- Reinforce the fight against illicit trade:
 - Financial and human resources significantly increased
 - Working with policy makers and law enforcement agencies
 - Cooperation agreement with INTERPOL



Illicit Trade: Decline in 2013

Illicit Trade Volume in the 28 European Member States
(units billion)^(a)



(a) Illicit trade volume is including Counterfeit, Contraband and Illicit White Consumption in the 28 European Member States (includes Bulgaria, Romania, Slovenia and as of 2013 Croatia; does not include Iceland, Norway and Switzerland) and excludes licit cross-border Intra-EU trade

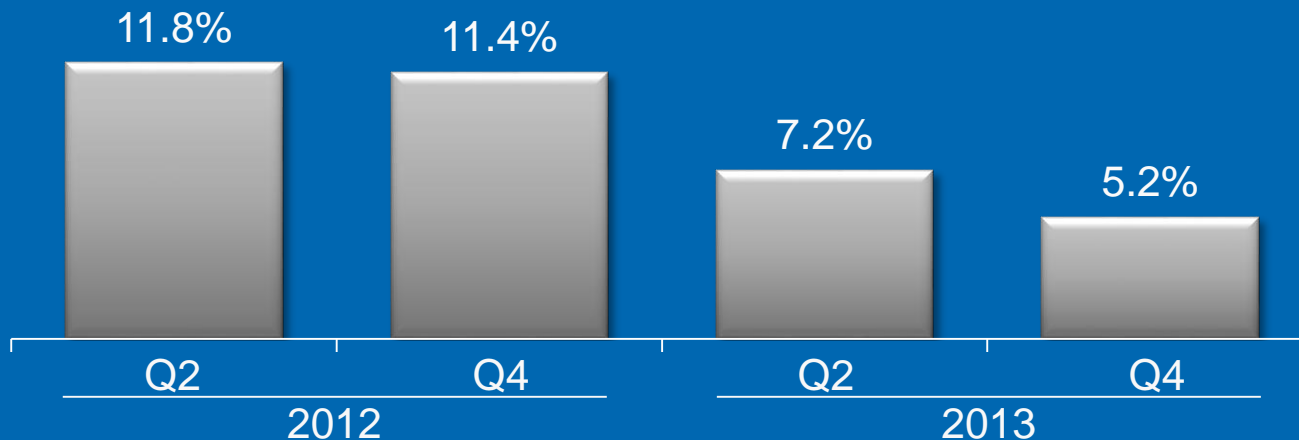
Source: KPMG SUN report

Support for Effective Law Enforcement Action – Italy

In 2013, Government enforcement actions resulted in:

- Approx. 250 people arrested
- Over 4,400 smugglers charged
- Over 115 million cigarettes seized
- Approx. 100 vehicles seized
- 23 illegal warehouses closed
- Several illegal retailers closed down

Non-Domestic Incidence



Source: PMI estimates





Regulatory Environment: EU TPD

- New EU TPD entered into force on May 19, 2014, and will have to be transposed by all EU Member States by May 20, 2016
- Main provisions include:
 - 65% graphic health warning label (front & back)
 - Prohibition of cigarettes and RYO tobacco with "characterizing flavors"
 - Mentholated products subject to a six-year grace period (until May 2020)
 - Minimum pack size of 20 cigarettes and 30 grams per RYO package
 - Category of "Novel Tobacco Products" established, subject to pre-market notification
 - E-Cigarettes regulated as tobacco-related products
 - Tracking and tracing system with security features for cigarettes and RYO (May 2019)



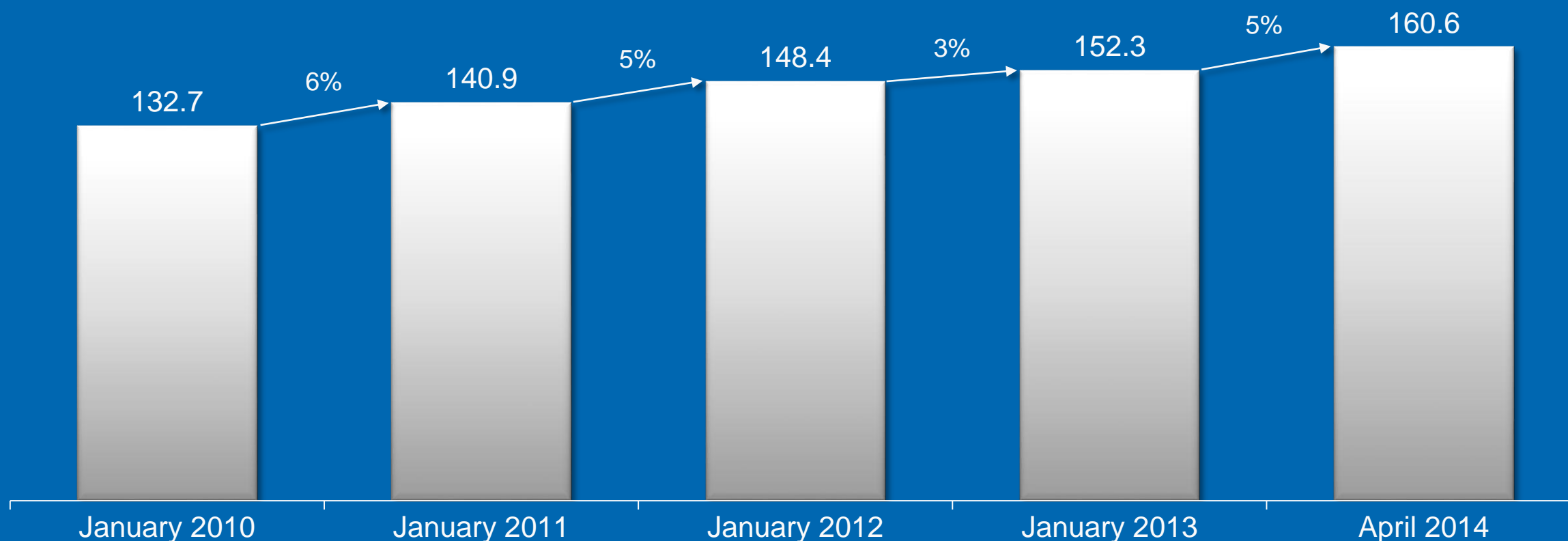
Strategies for Growth

- Advocate for reasonable excise tax environment:
 - Regular, reasonable increases
 - High proportion of specific elements in excise tax structure
 - Multi-year tax plans
 - Gradual harmonization of taxation between cigarettes and other tobacco categories
- Addressing government objectives for fiscal revenues and public health
- Providing predictability to our business



No Excessive Tax Increases Between January 2010 and April 2014

Marlboro Excise Tax Yield (EUR/000)^(a)

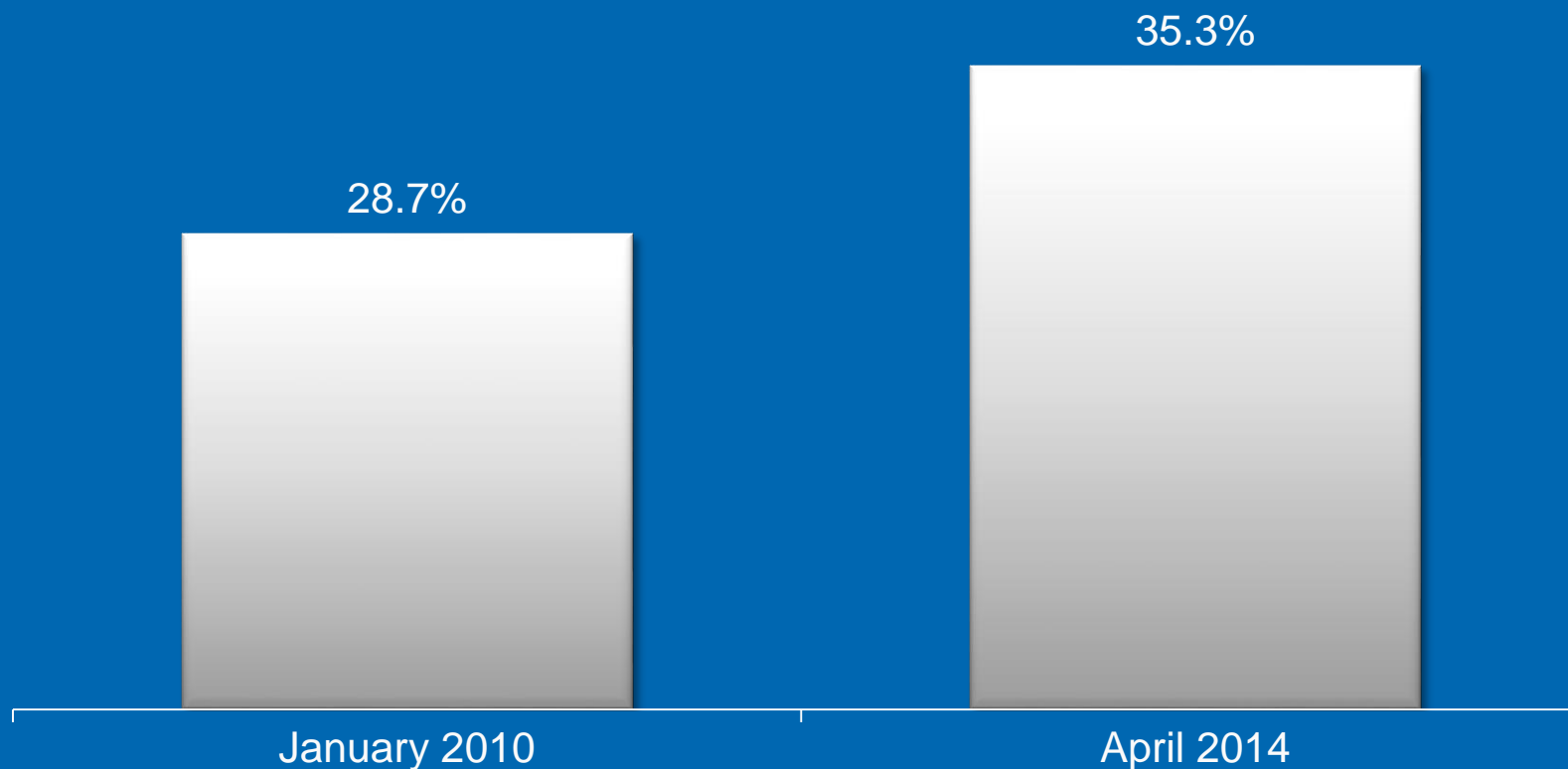


(a) Weighted average by total cigarette market volume in 2013, for EU Member States plus Switzerland, excluding Bulgaria, Croatia, Romania and Slovenia
Source: PMI estimates based on national data for reference Weighted Average Price (WAP) for cigarettes and tax rates



Gradual Improvement of Excise Tax Structures

Specific Excise-to-Total Tax Ratio on
Cigarettes Weighted Average for the EU^(a)



(a) Weighted average by total cigarette market volume in 2013, for EU Member States plus Switzerland, excluding Bulgaria, Croatia, Romania and Slovenia
Source: PMI estimates based on national data for reference Weighted Average Price (WAP) for cigarettes and tax rates

Price Gap Reductions

January 1, 2010

Premium



Low-Price



April 1, 2014

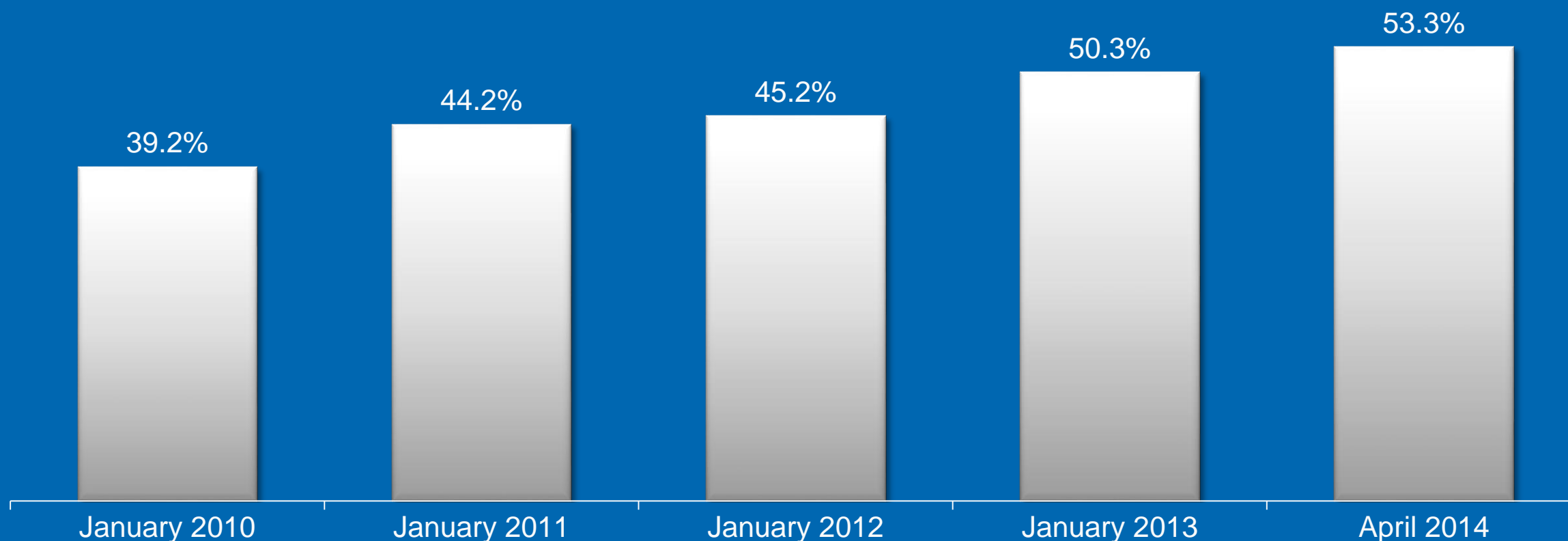




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Gradual Harmonization of Fine Cut and Cigarette Taxation

Excise Tax Yield Ratio:
Lowest-Priced Fine Cut/Lowest-Priced Cigarettes^(a)



(a) Weighted average by total cigarette market volume in 2013, for EU Member States plus Switzerland, excluding Bulgaria, Croatia, Romania and Slovenia. Conversion ratio of 0.75g per cigarette
Source: PMI estimates based on national data for tax rates and retail prices of cigarettes and fine cut



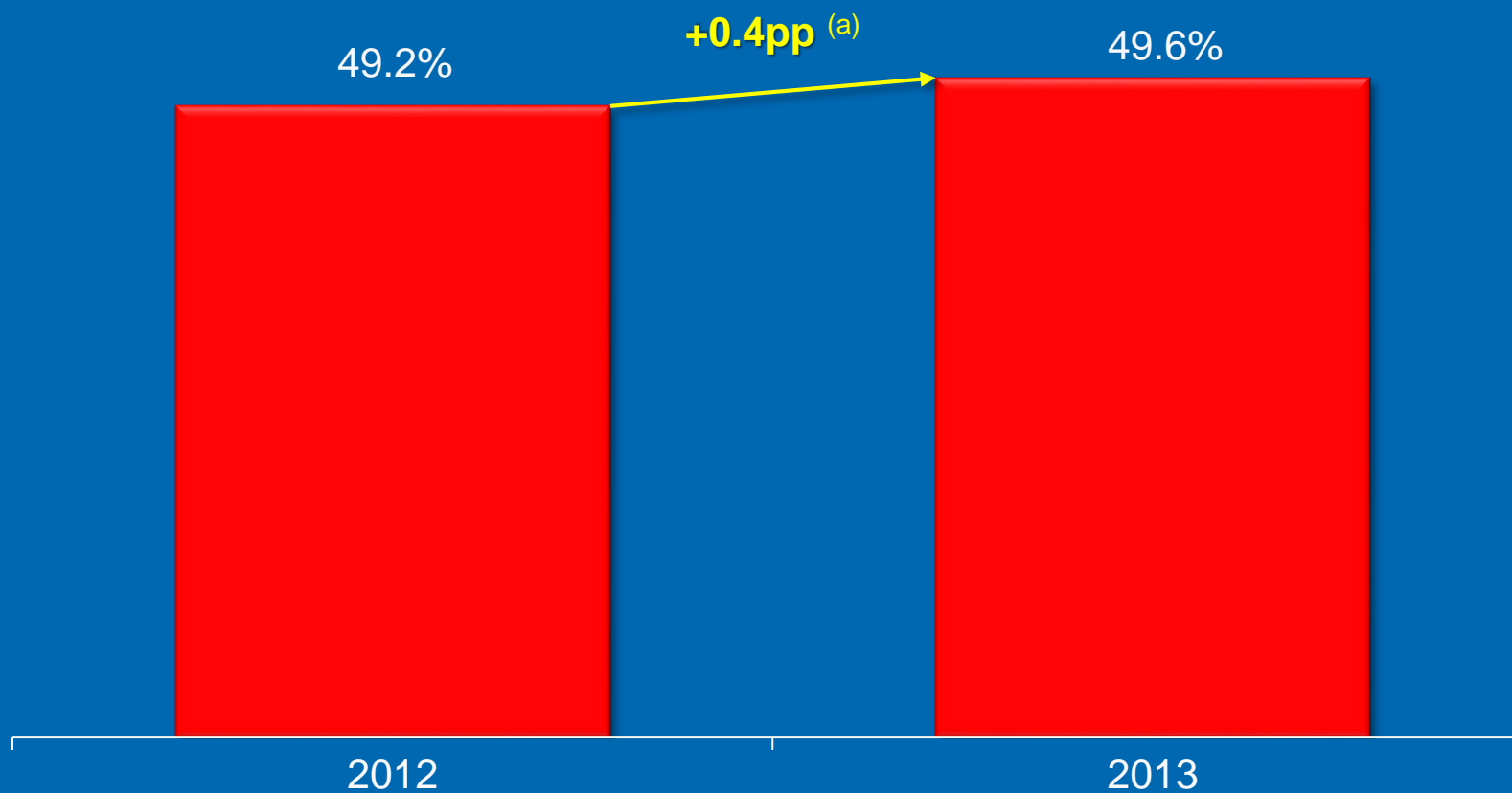
Strategies for Growth

- Leverage opportunities for margin improvements



Growing Adjusted OCI Margin

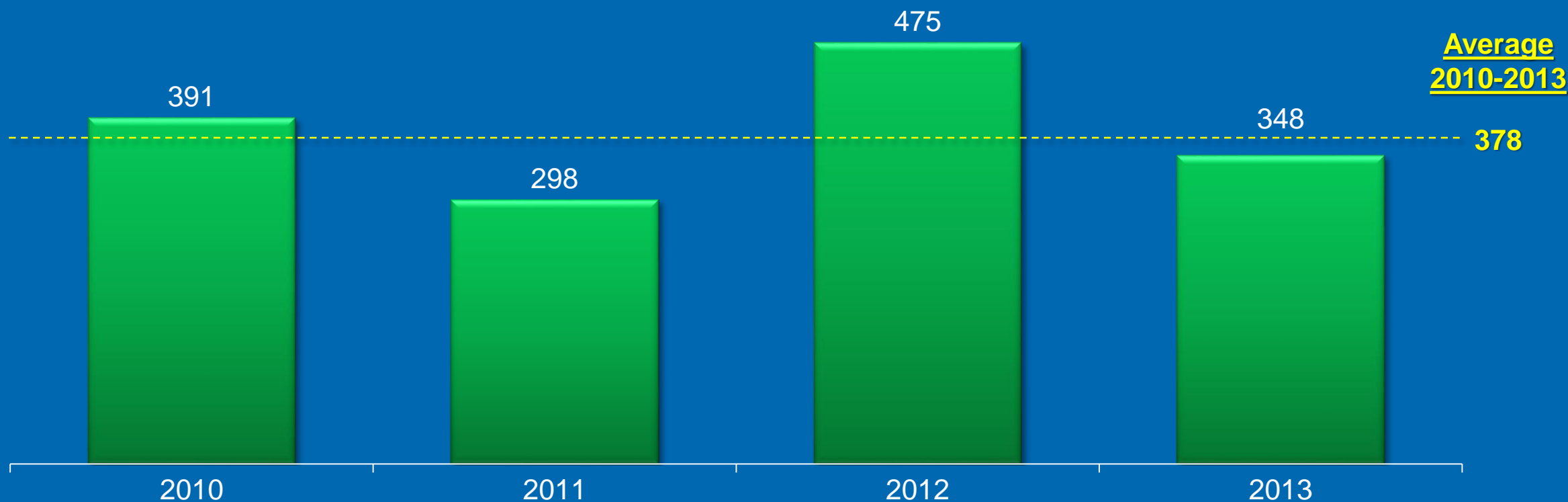
EU Region: 2013 Adjusted OCI Margin





Sustainable Pricing Environment

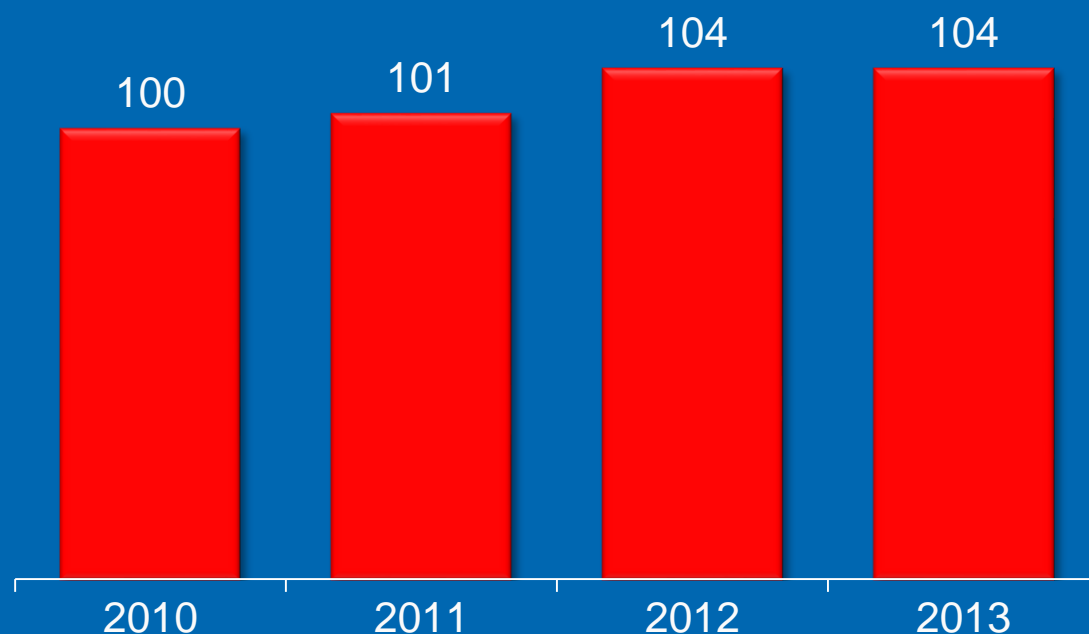
Pricing Variance (\$ million)





Cost and Productivity Initiatives

Total Cost Base
(Indexed with Base Year 2010)



- On-going initiatives:
 - Consultation process on proposal to discontinue cigarette production in Bergen op Zoom (Netherlands)
 - Portfolio rationalization
 - Process improvements



Strategies for Growth: Reduced-Risk Products

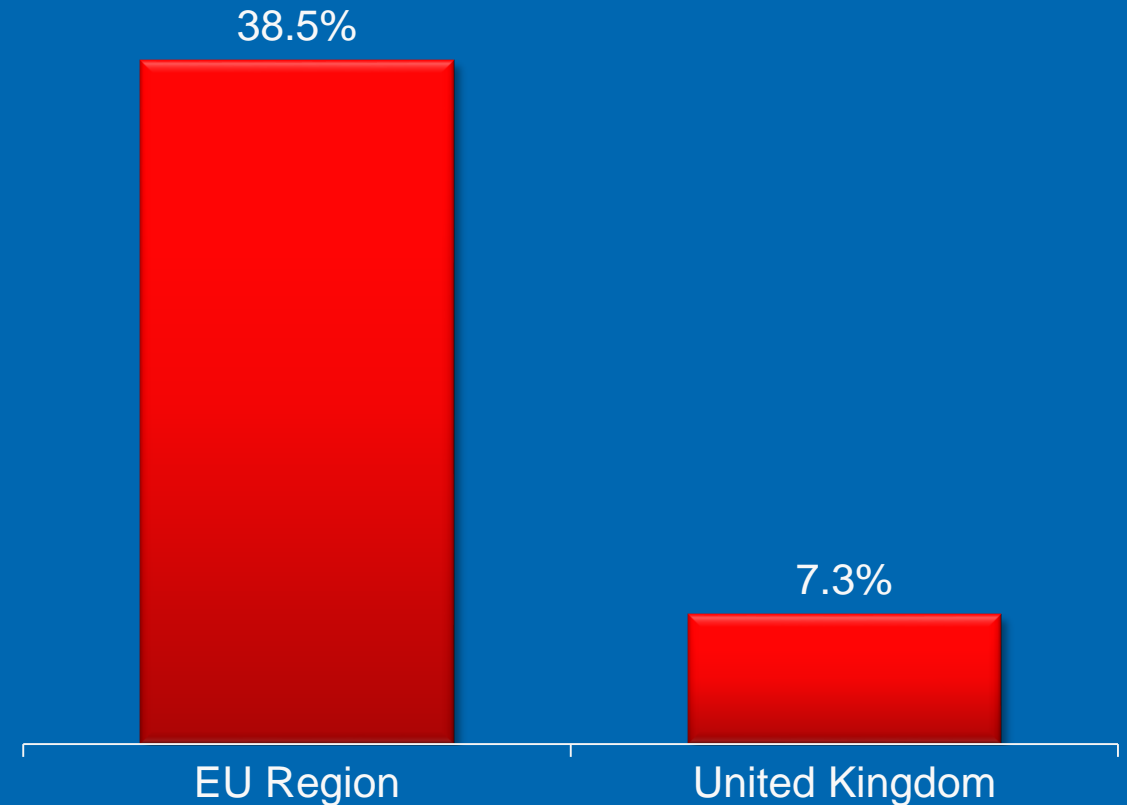
- Platform 1:
 - City test in Italy as of Q4, 2014
 - National expansion in 2015
 - Building manufacturing capacity in Bologna (Italy) to produce up to 30 billion units by the end of 2016
- Platform 4:
 - Nicocigs Limited
 - Framework agreement with Altria



Strategies for Growth: Geographic Expansion in the UK

- The UK is one of the largest profit pools in EU
- PMI's growth potential constrained by current business model
- Own sales and distribution capability will enable:
 - Increased focus and brand support
 - Portfolio expansion
 - Reduced-Risk Products

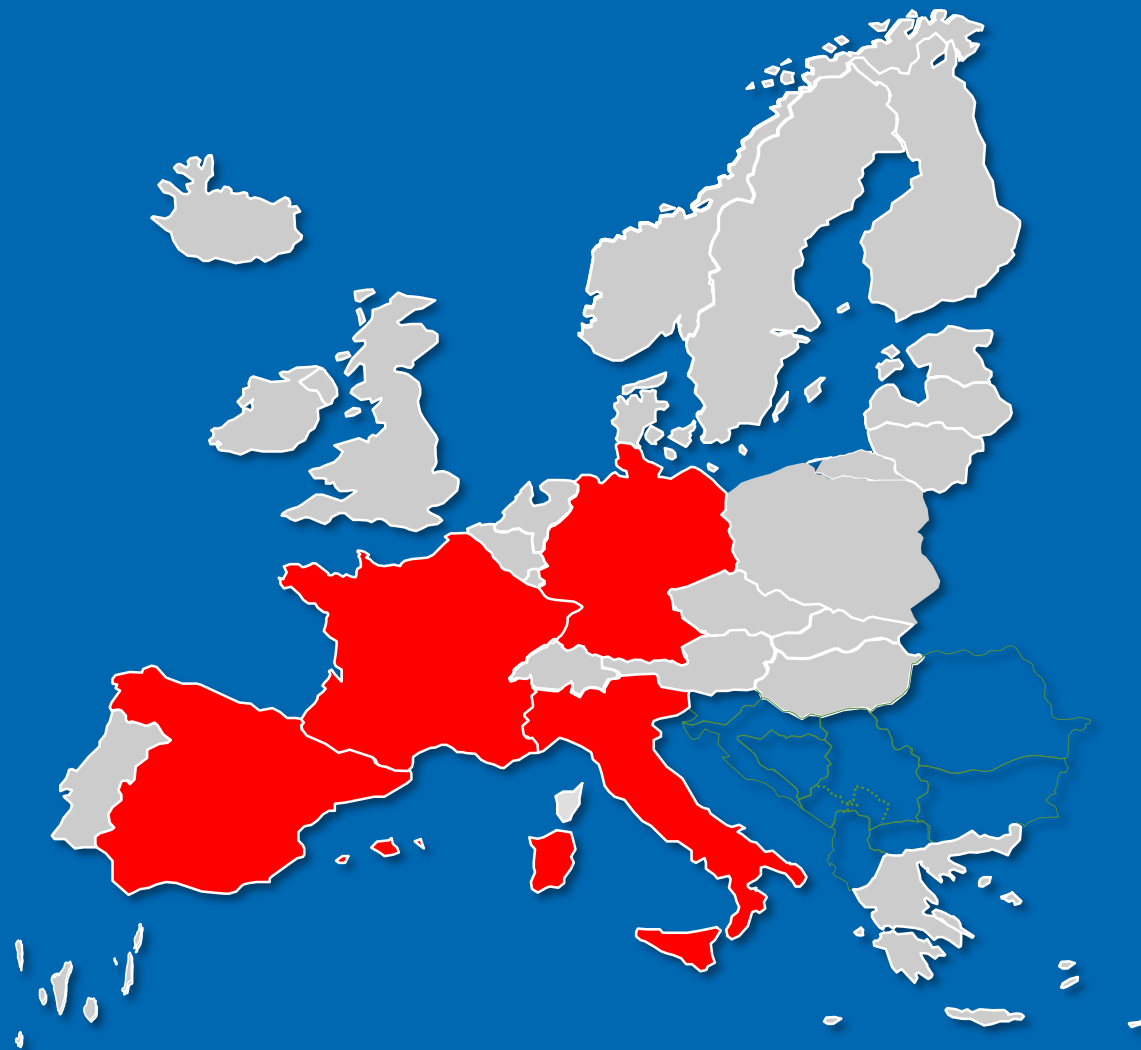
PMI Cigarette Market Shares (2013)





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Four Key Markets in the EU Region





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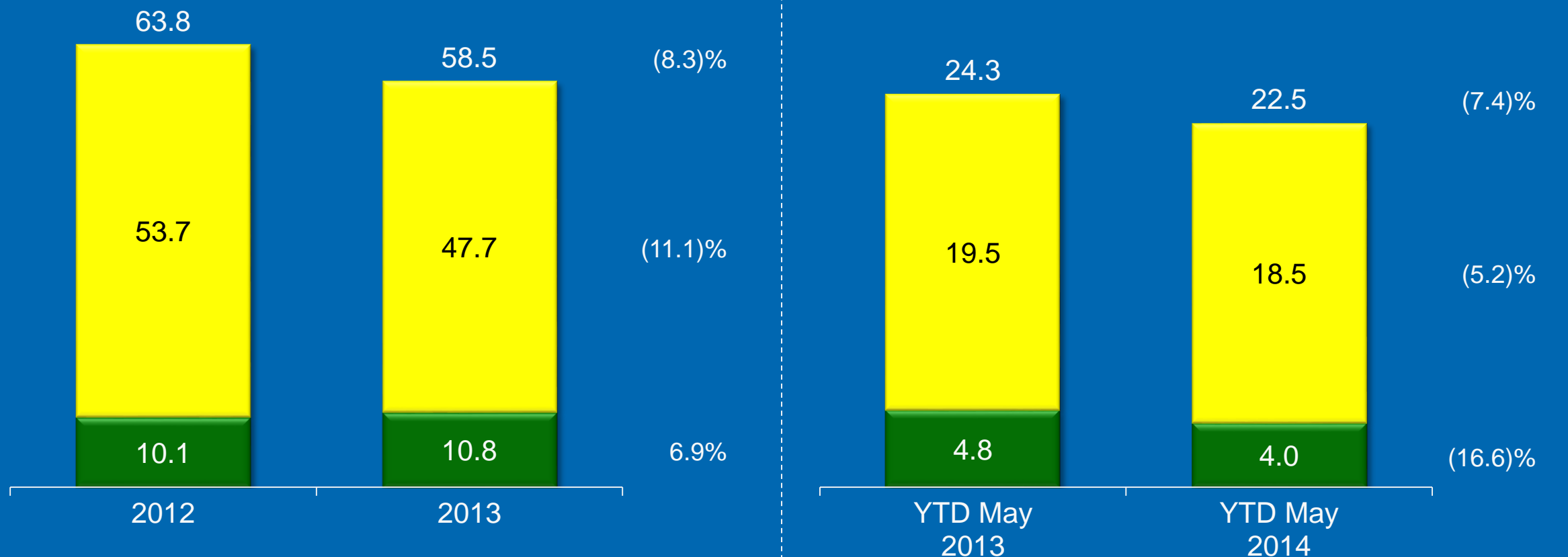
Spain: Cigarette Industry Volume Decline Moderating

(units billion)

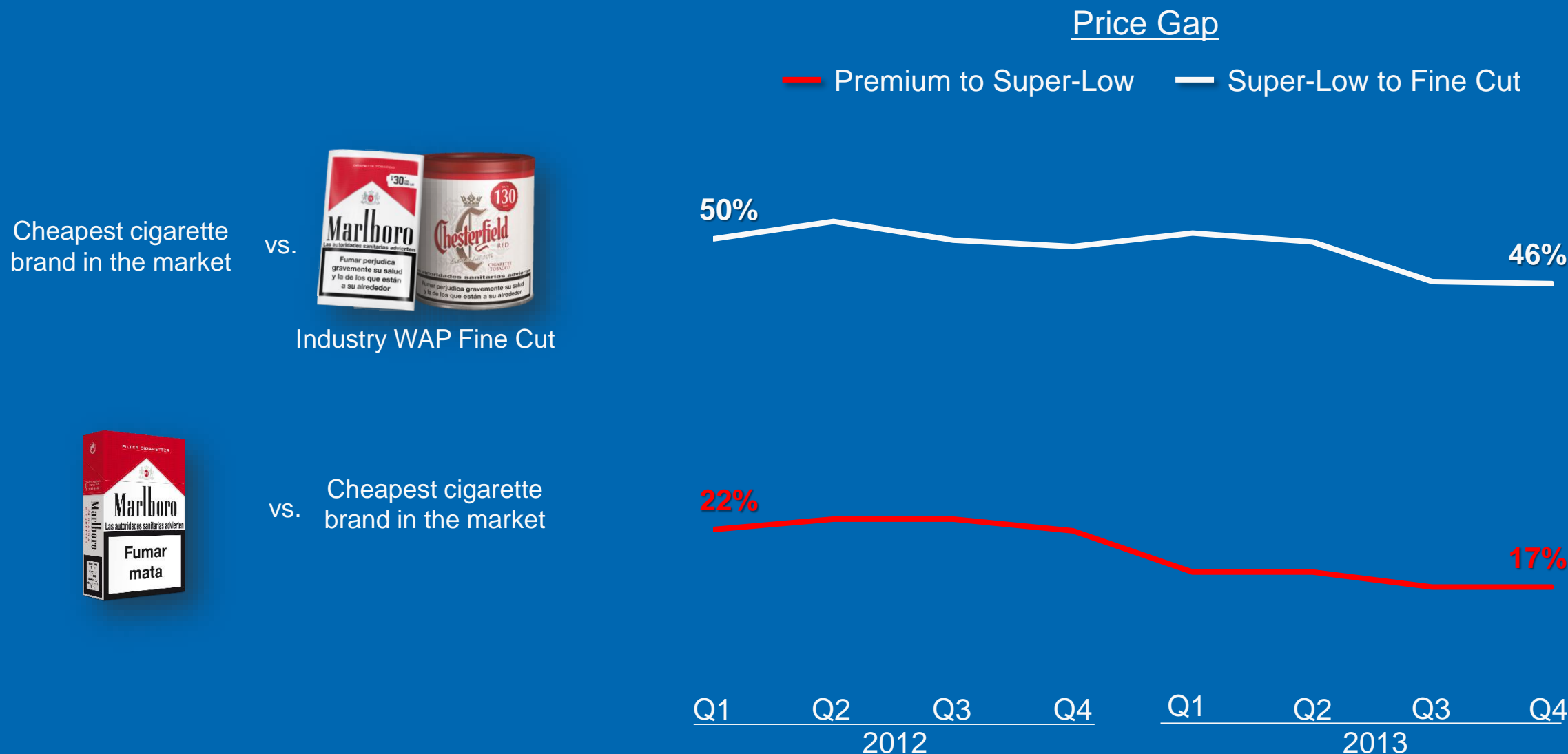
■ Cigarettes ■ Fine Cut

Variance
2013 vs. PY

Variance
YTD May, 2014
vs. PY

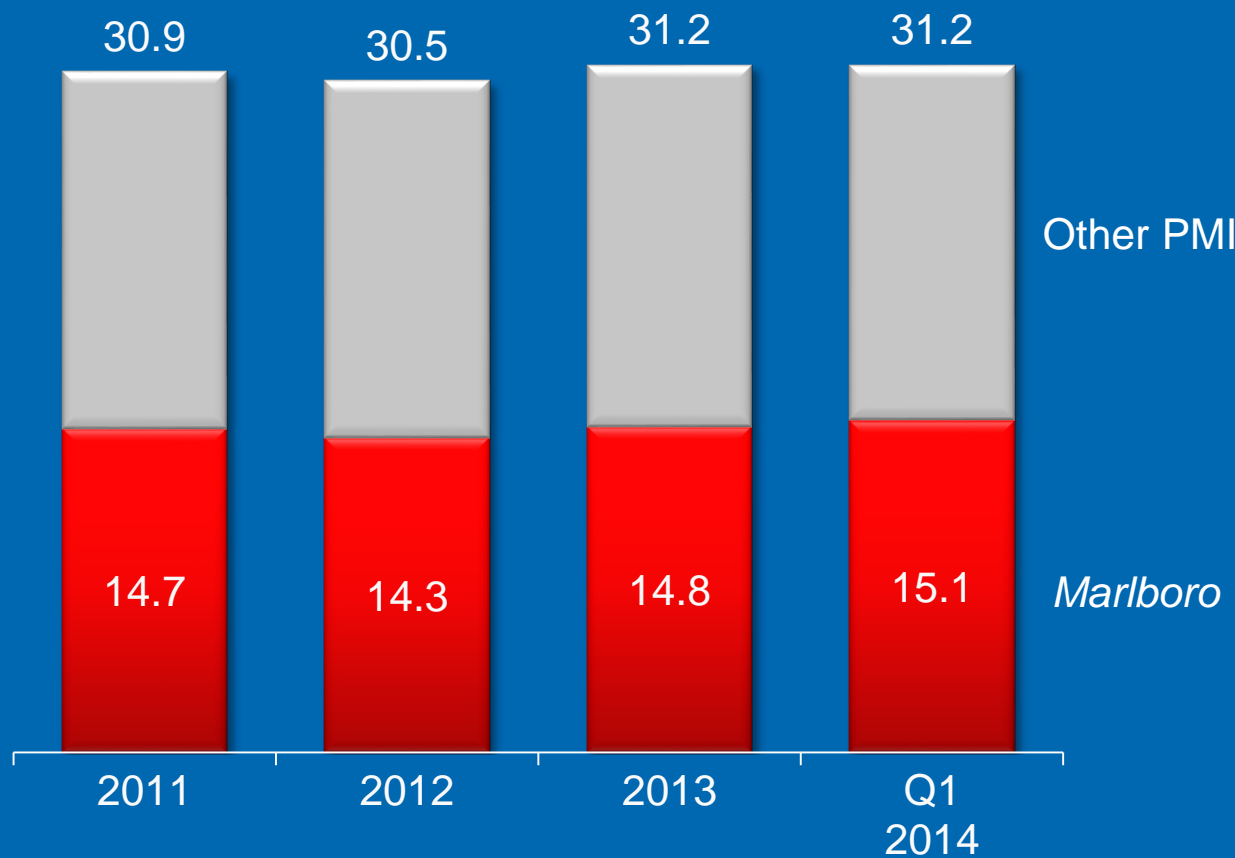


Spain: Fiscal Framework Gradually Improving



Spain: Growing Share Led by *Marlboro*

PMI Share of Cigarette Market (%)



PMI Share of Fine Cut Market (%)



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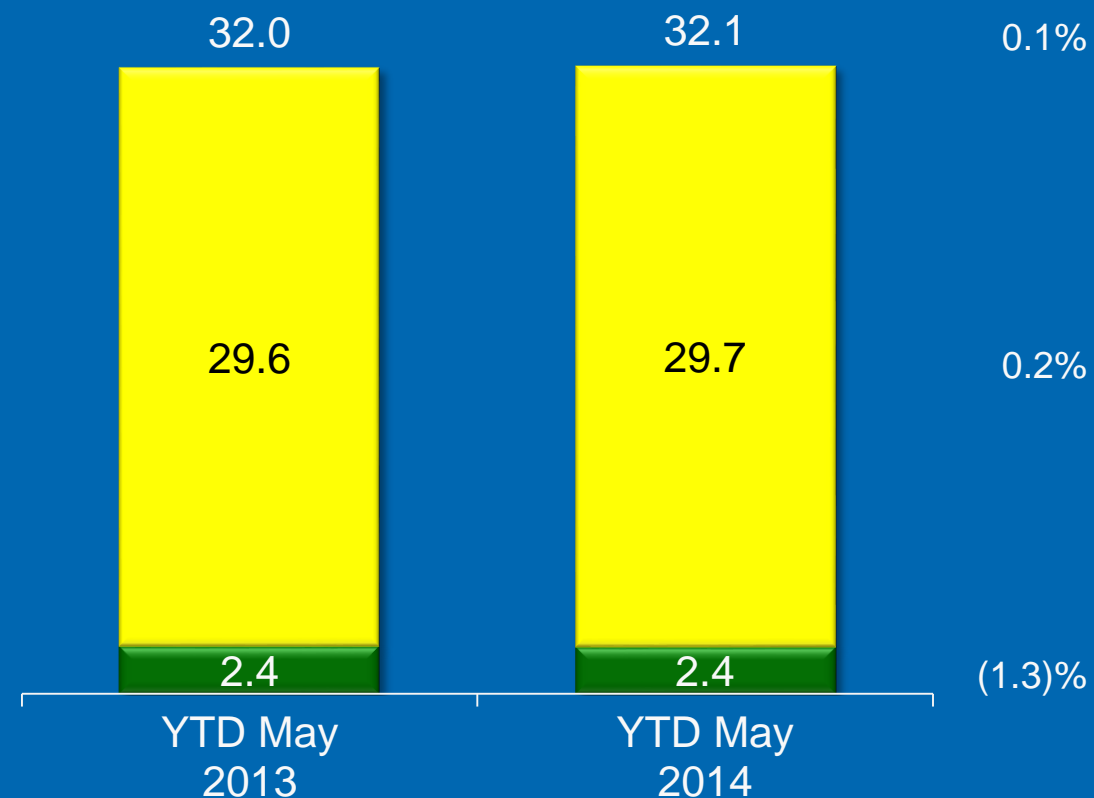
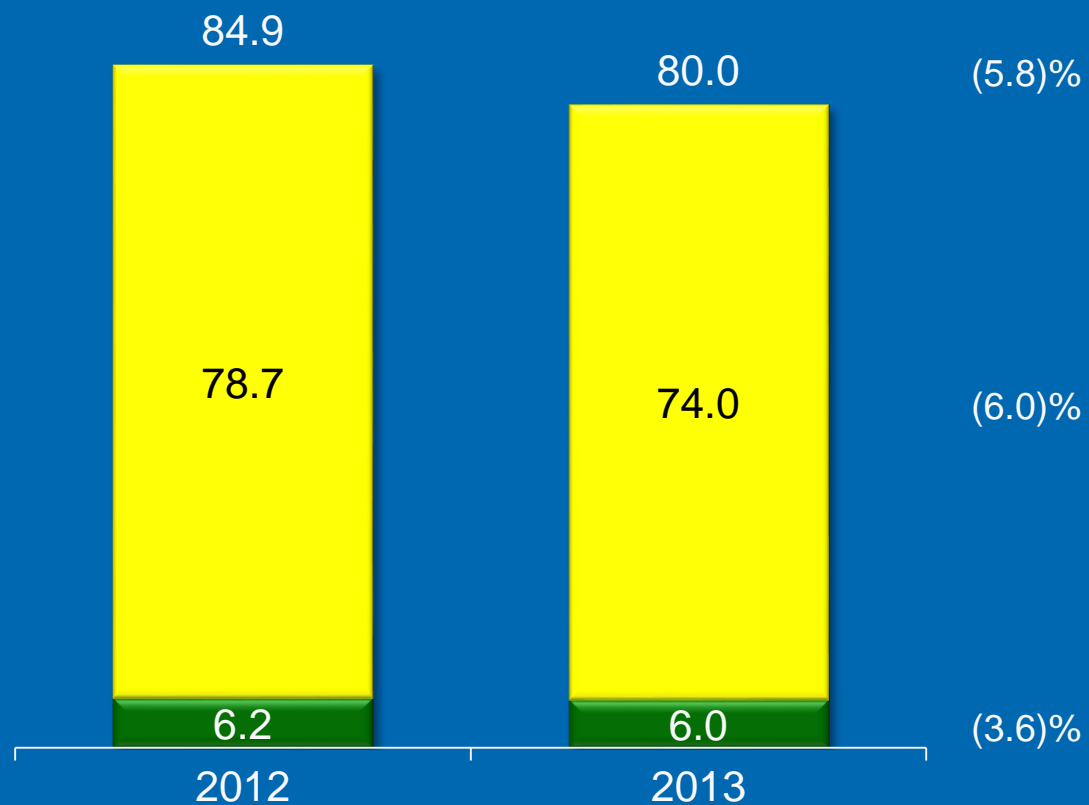
Italy: Cigarette Industry Trends Improving

(units billion)

■ Cigarettes ■ Fine Cut

Variance
2013 vs. PY

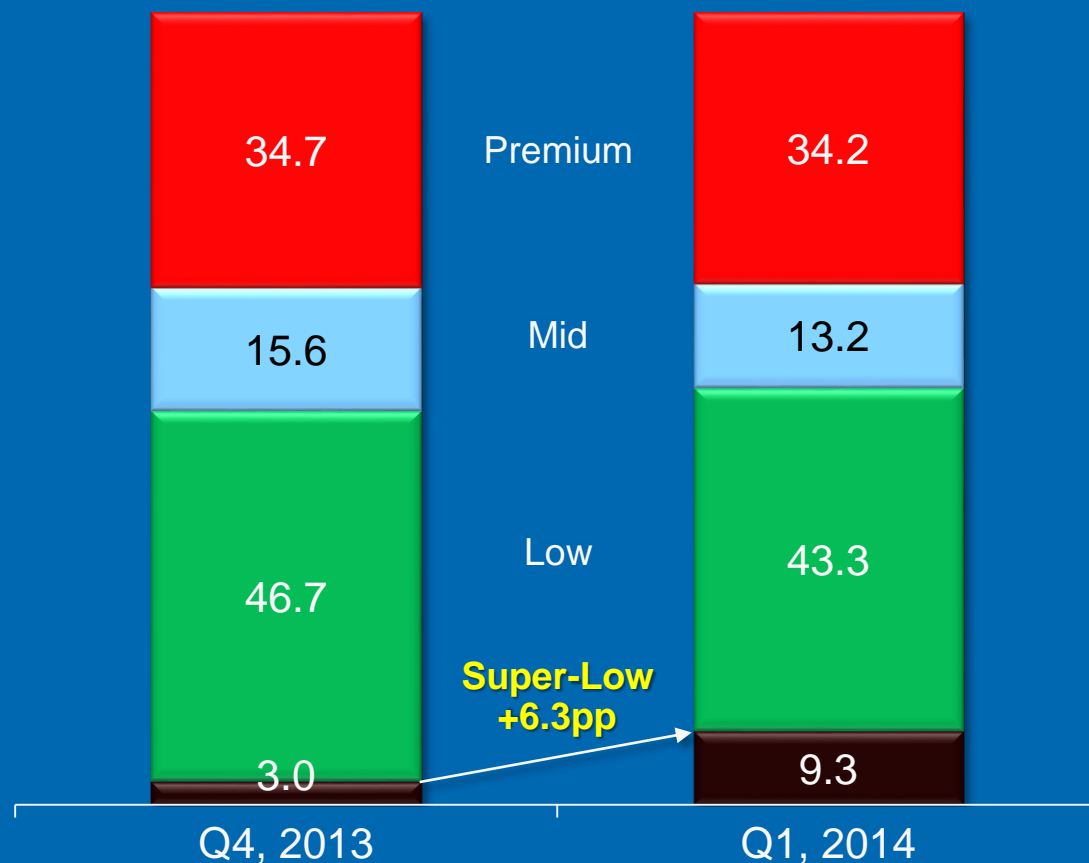
Variance
YTD May, 2014
vs. PY



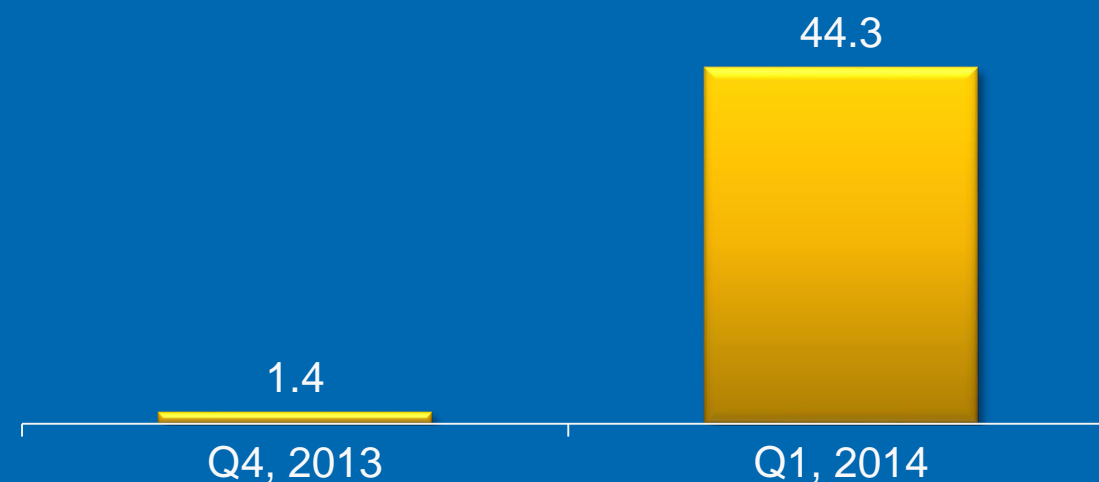


Italy: Growing Super-Low Segment Due to Ineffective Tax Structure

Total Market by Price Segment (%)

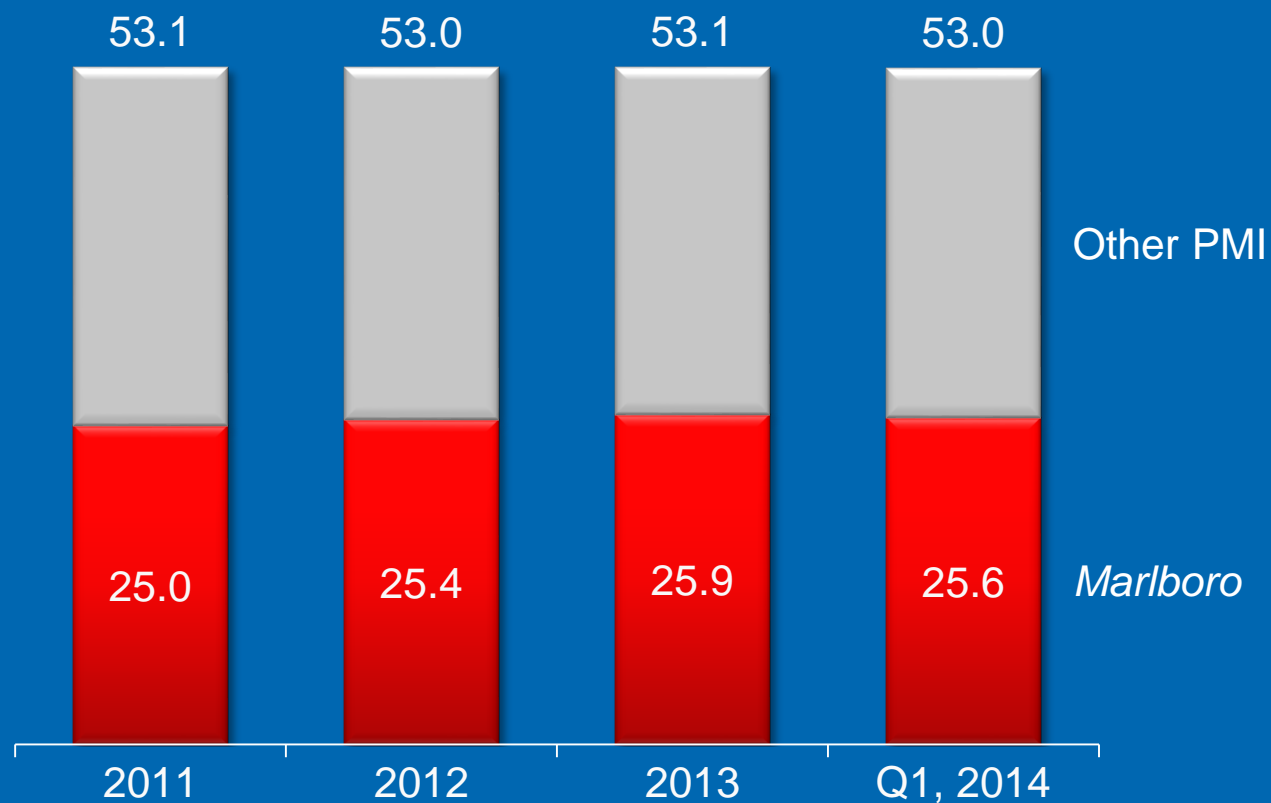


PMI Share of Super-Low Price Segment (%)



Italy: Strong *Marlboro* Share

PMI Share of Cigarette Market (%)





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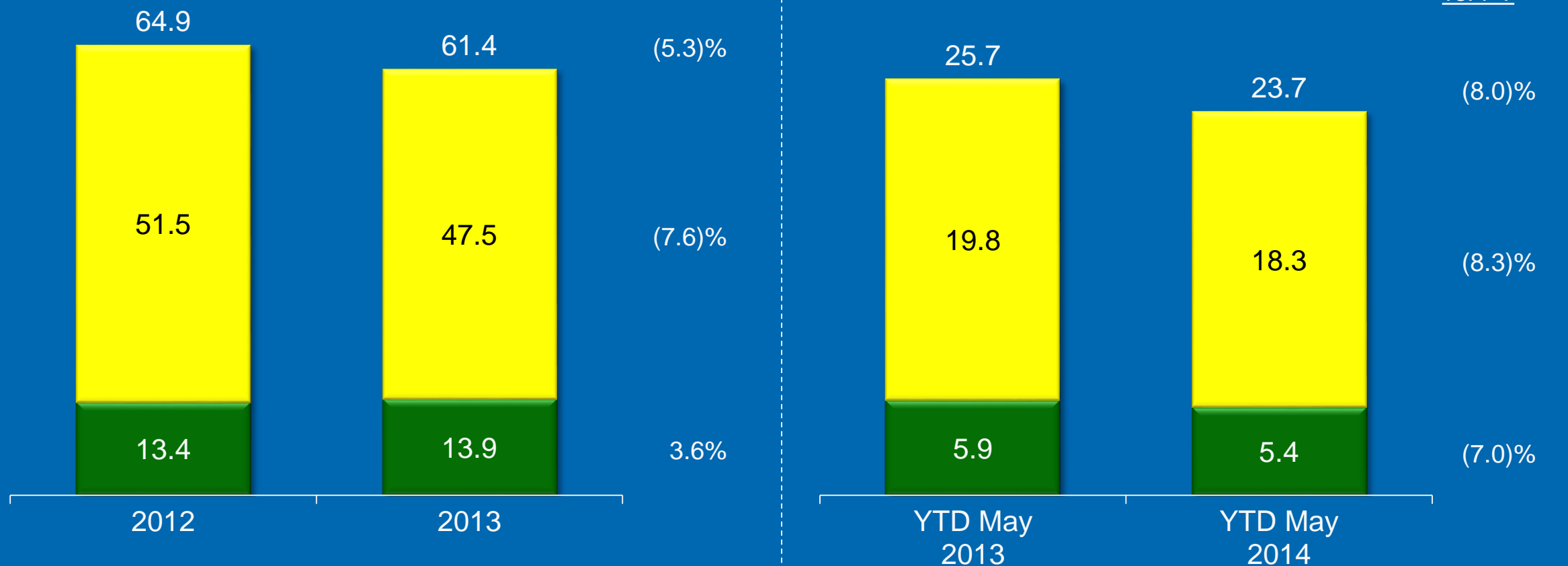
France: Sharp Total Industry Volume Decline

(units billion)

■ Cigarettes ■ Fine Cut

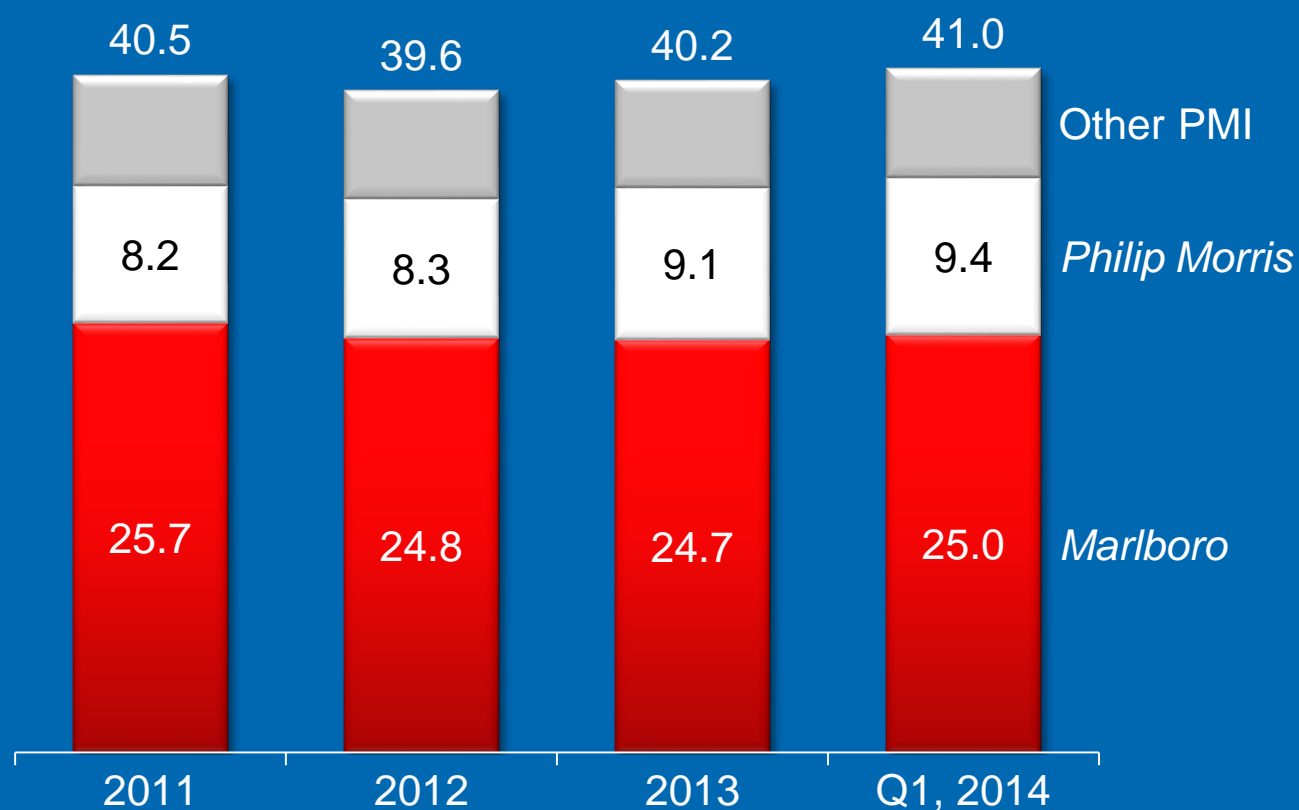
Variance
2013 vs. PY

Variance
YTD May, 2014
vs. PY



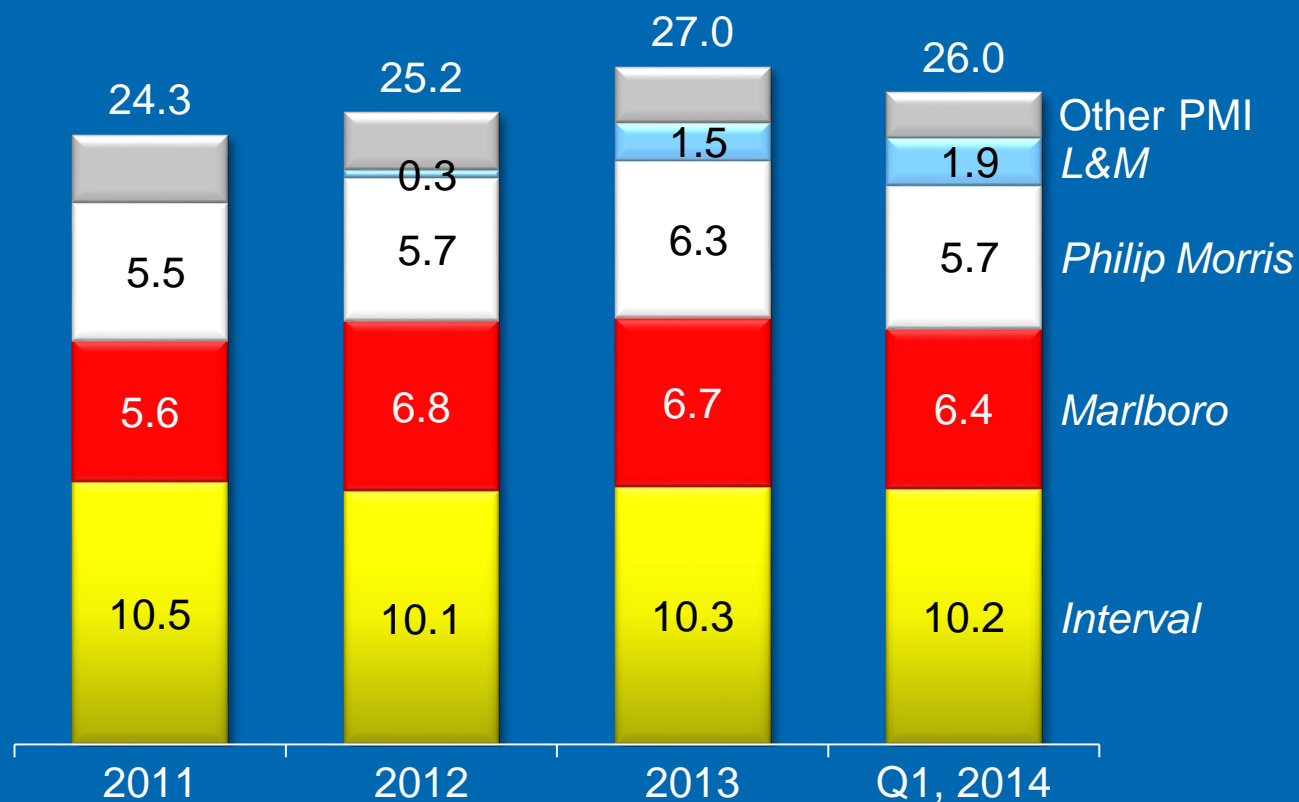
France: Growing with Strong Brand Portfolio

PMI Share of Cigarette Market (%)



France: Gaining Share in Fine Cut

PMI Share of Fine Cut Market (%)



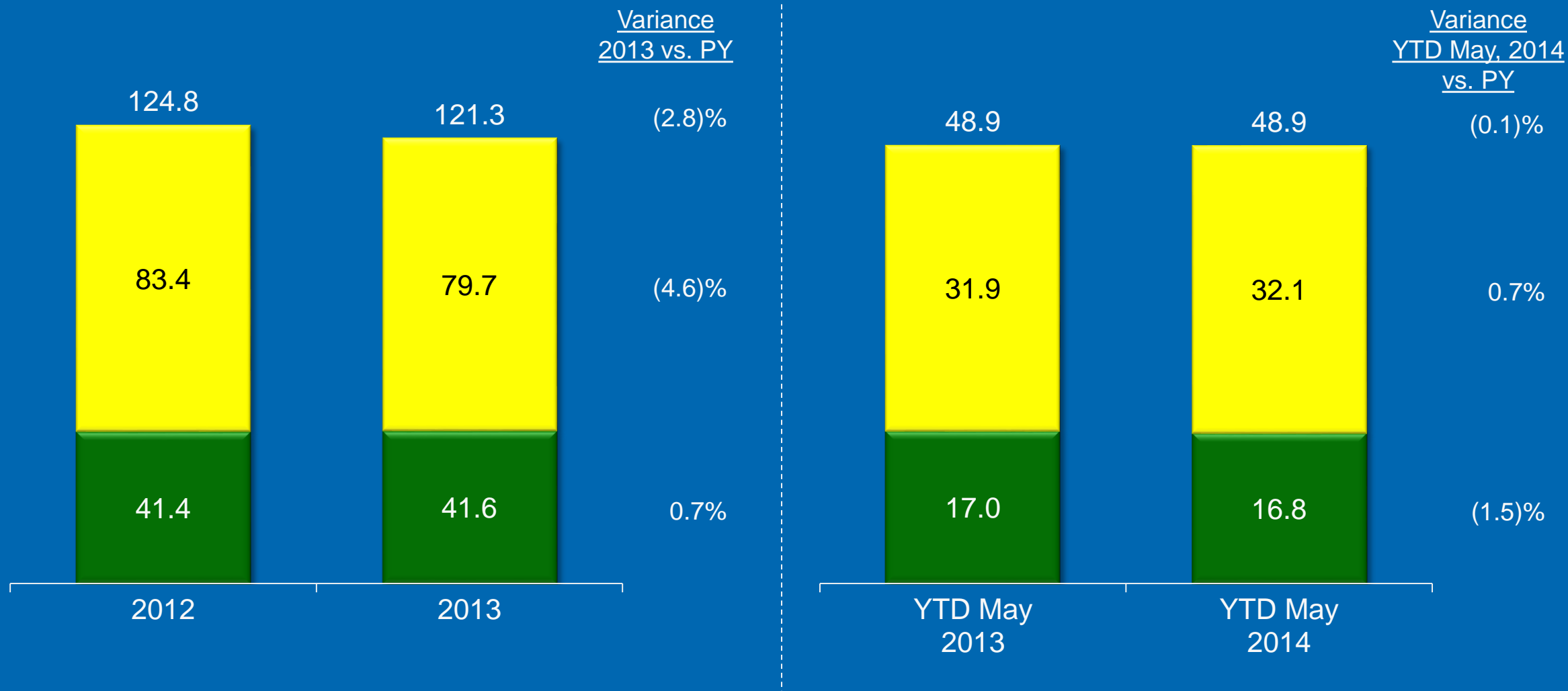


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Germany: Cigarette Industry Volume Improving

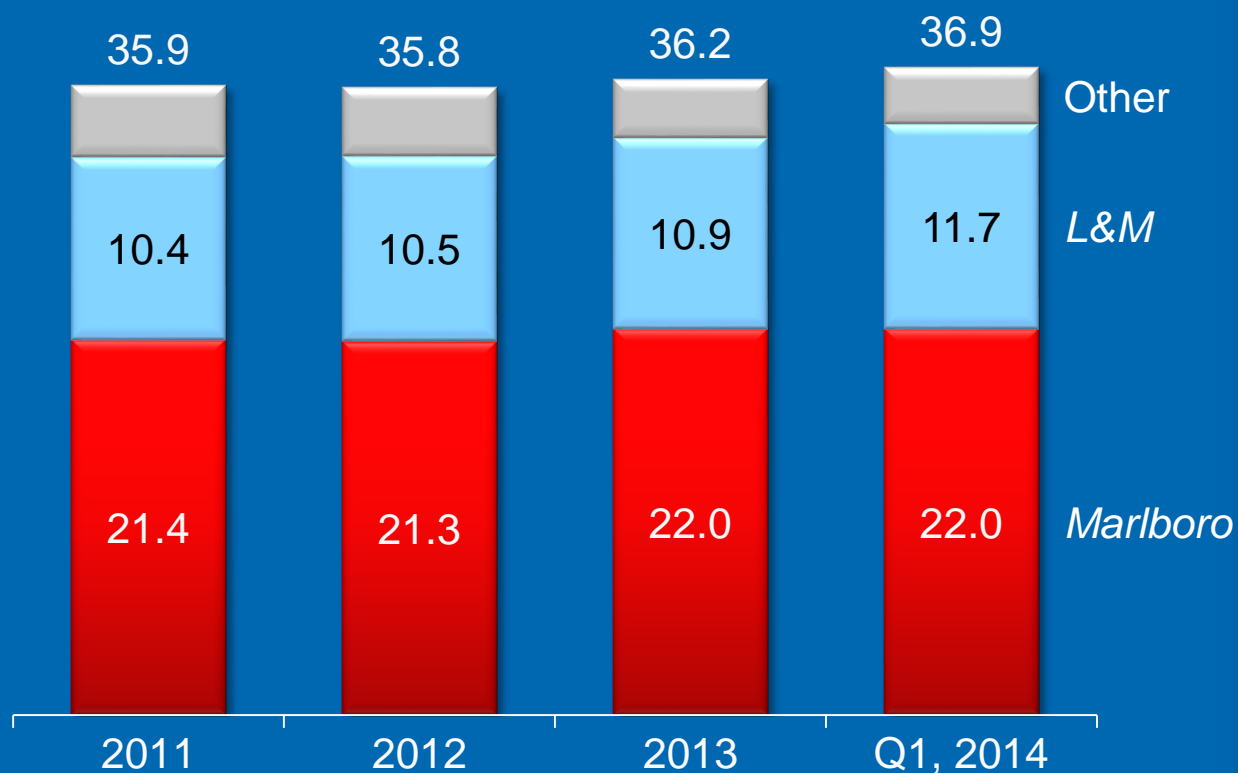
(units billion)

■ Cigarettes ■ Fine Cut



Germany: Continuous Share Growth in the Cigarette Market

PMI Share of Cigarettes Market (%)





Conclusion: EU Region

- Strong business fundamentals:
 - Undisputed market leadership
 - Superior brand portfolio
 - Sustainable pricing power
 - Reasonable excise tax environment
 - Cost and productivity Initiatives
- Gradually improving macro-economic environment
- Target to deliver annual average low single-digit adjusted OCI growth, ex-currency, on the mid to long-term
- Attractive growth opportunities requiring short-term investment:
 - Business development opportunities
 - Reduced-Risk Products
- Significant contributor to PMI's mid to long-term growth targets



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Questions & Answers



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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

Glossary of Terms: www.pmi.com/2014InvestorDay/Glossary