



PHILIP MORRIS
INTERNATIONAL

2014
INVESTOR DAY

Investor Day – LA&C Region Lausanne, June 26, 2014

Martin King

President, Latin America & Canada Region

Philip Morris International



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Agenda

- Regional Overview and Performance
- Regional Strategies
- Key Markets Overview
- Conclusion



Positive Momentum: Positioned for Accelerated Growth

- Robust share growth
- More predictable excise tax structures lead to pricing for income and share growth
- Making in-roads against illicit trade
- Profitability increase and cost base optimization
- Strong portfolio with improving adult smoker profile led by *Marlboro*
- Talented organization



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Regional Overview

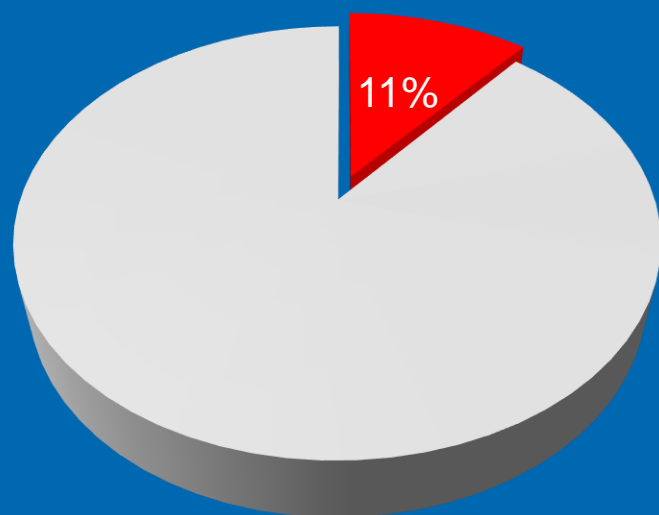


2013

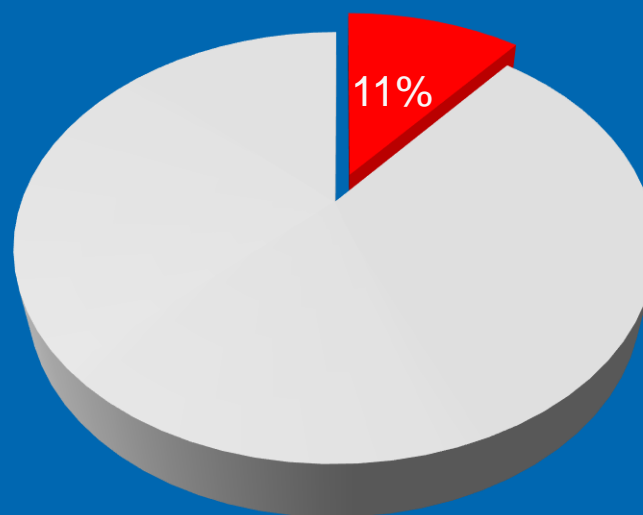
- Presence in 44 markets
- 11,500+ employees
- 10 PMI cigarette factories
- Industry Volume: 256 billion units
- PMI Volume: 97 billion units
- PMI Market Share: 38.0%
- Adjusted OCI: \$1.1 billion



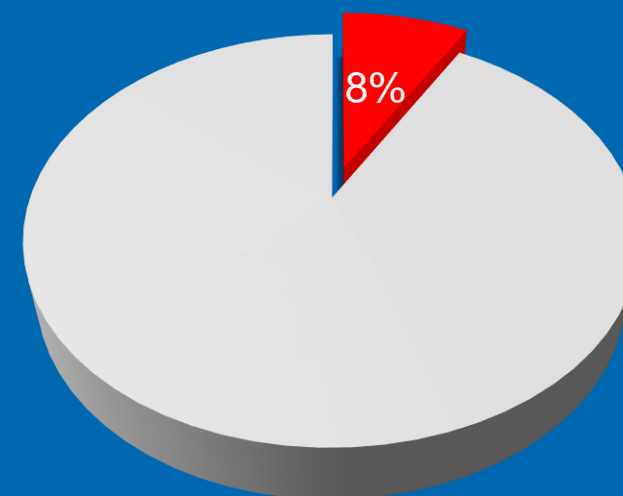
Contribution to 2013 PMI Results



Cigarette Shipment Volume



Net Revenues



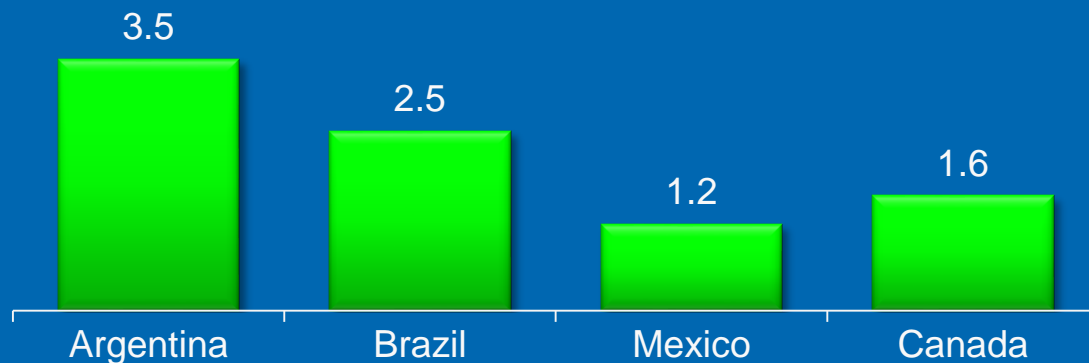
Adjusted OCI



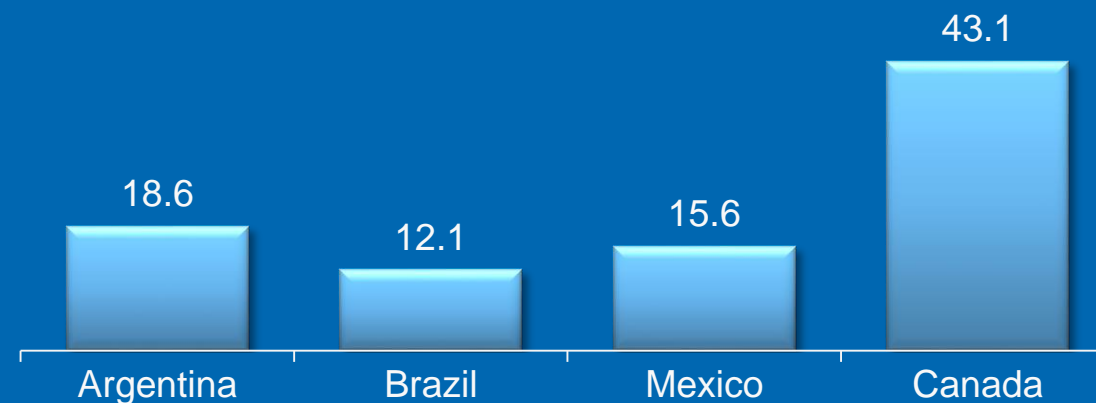
Macro-economic Environment

2013

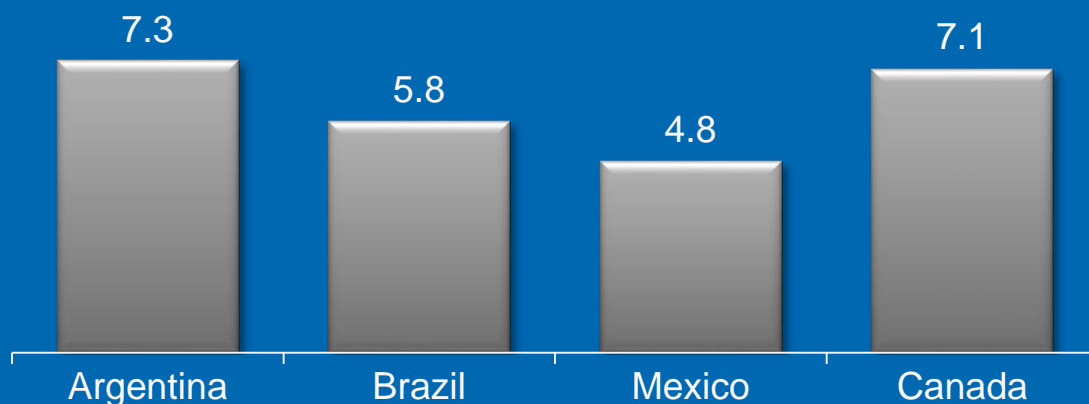
Real GDP Growth (%)



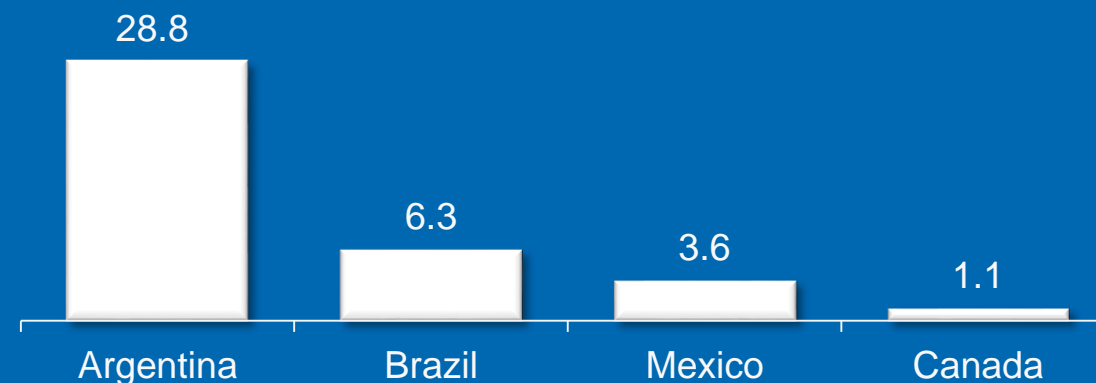
GDP per Capita (USD thousand)



Unemployment (%)



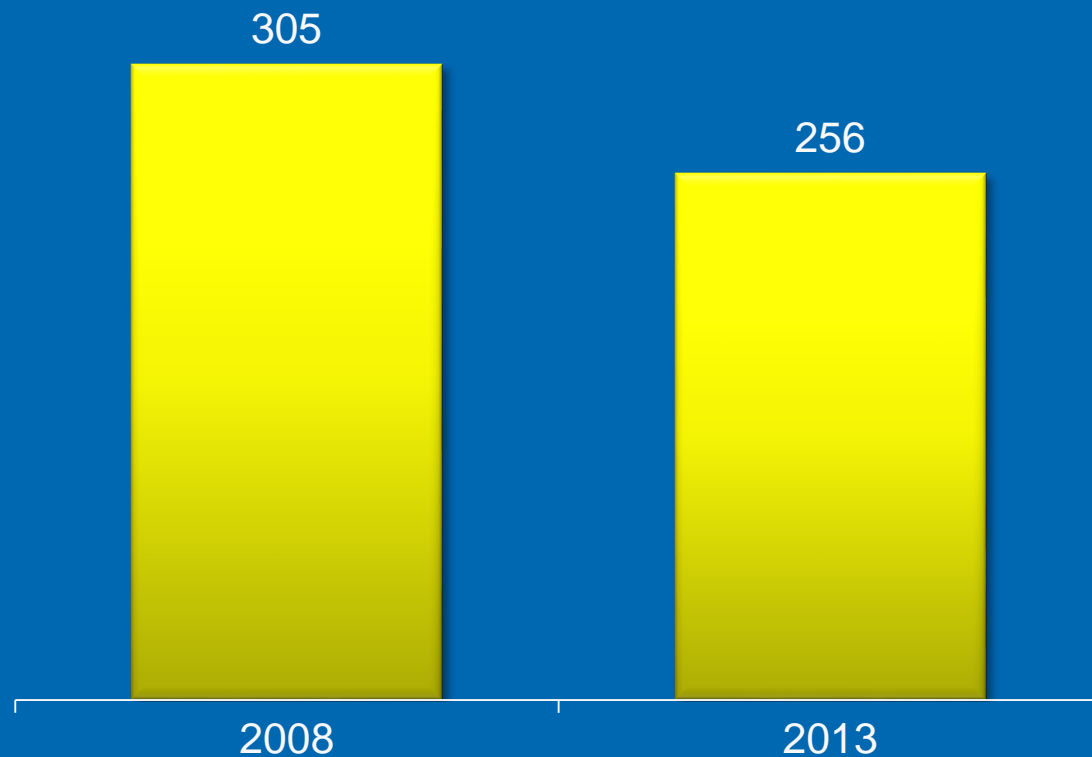
Inflation Rate (%)



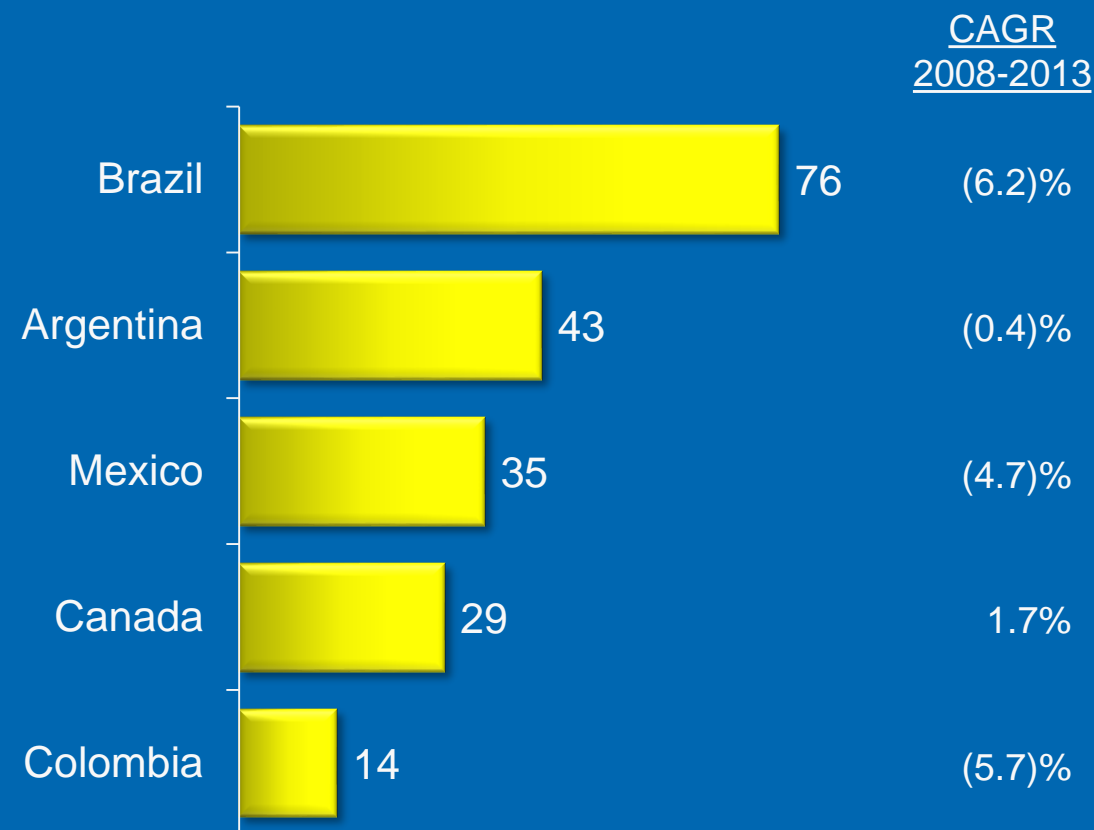


LA&C Region: Industry Volume

Industry Volume (units billion)
CAGR: (3.4)%



2013 Industry Volume in Key Markets
(units billion)



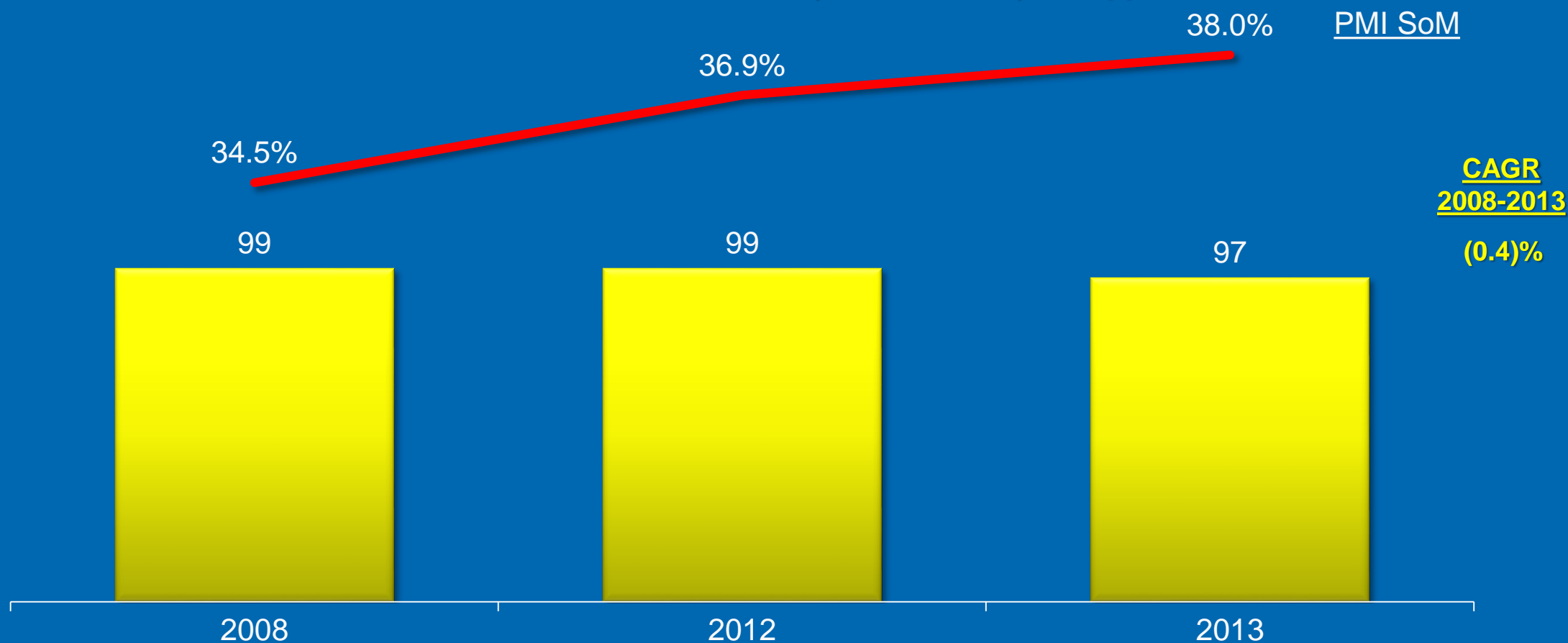


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LA&C Region: PMI Outperforming the Industry

PMI Volume (units billion) and Share of Market

PMI Share Growth (2013 vs. 2008): +3.5pp



Note: Excludes brands sold under license
Source: PMI Financials and PMI estimates



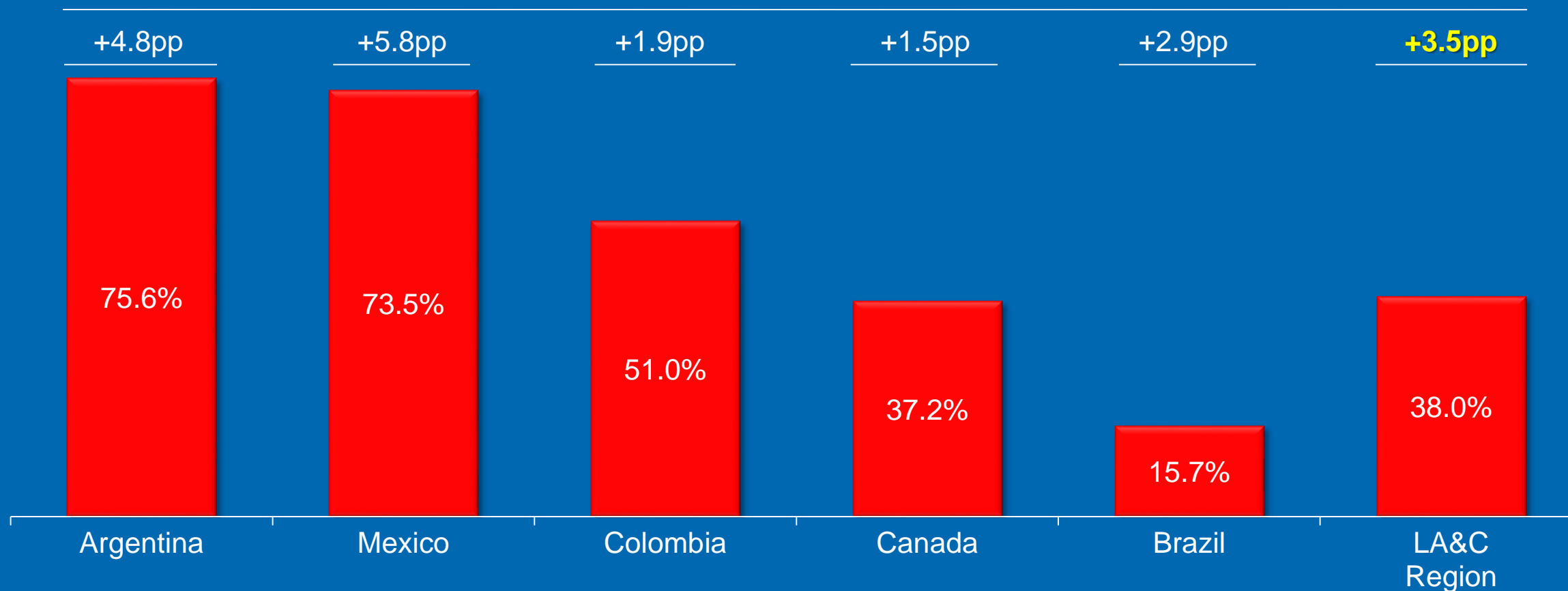
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LA&C Region: Strong Market Share Momentum

PMI Share of Market (%) and Growth (pp)

Top 5 markets account for 90% of our Regional volume

2013 vs. 2008



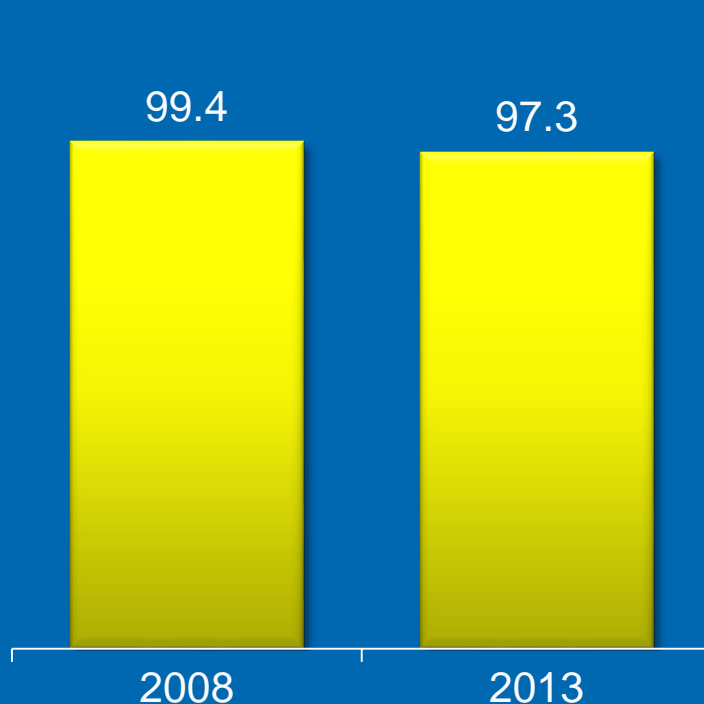


LA&C Region: Strong Financial Performance

Shipment Volume

(units billion)

CAGR: -0.4%

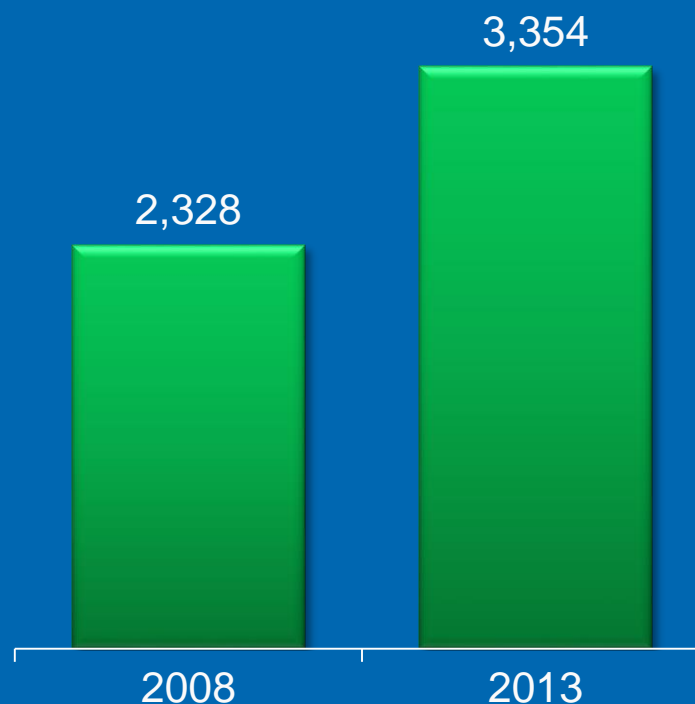


Net Revenues

(\$ million)

CAGR: +7.6%

CAGR: +10.2% (ex-currency)

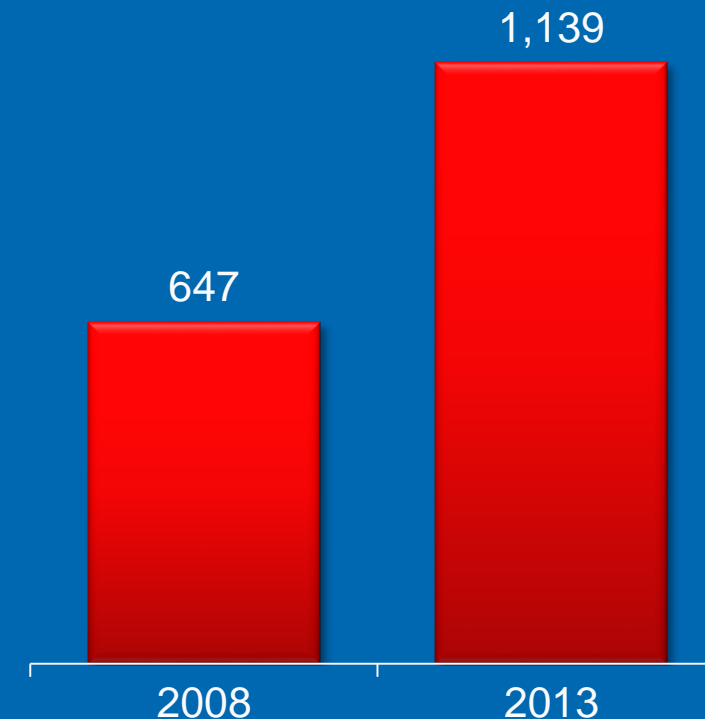


Adjusted OCI

(\$ million)

CAGR: +12.0%

CAGR: +15.8% (ex-currency)





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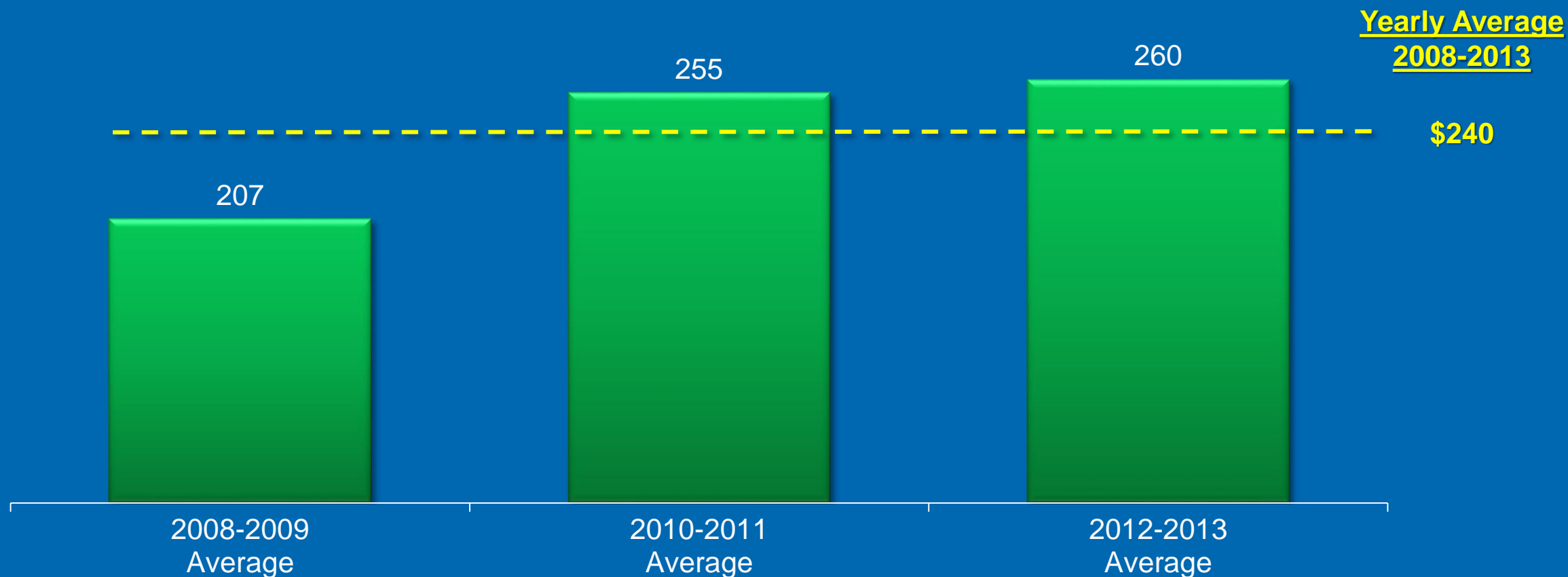
Regional Strategies

- Effective price management
- Recovery of volume lost to illicit trade
- Cost base optimization
- Brand portfolio enhancement
- Reduced-Risk Products introduction



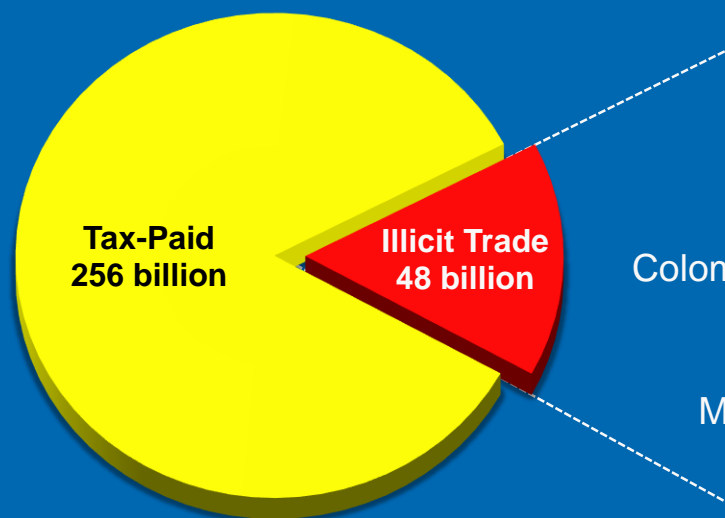
LA&C Region: Favorable Pricing Environment

Average Pricing Variances (\$ million)

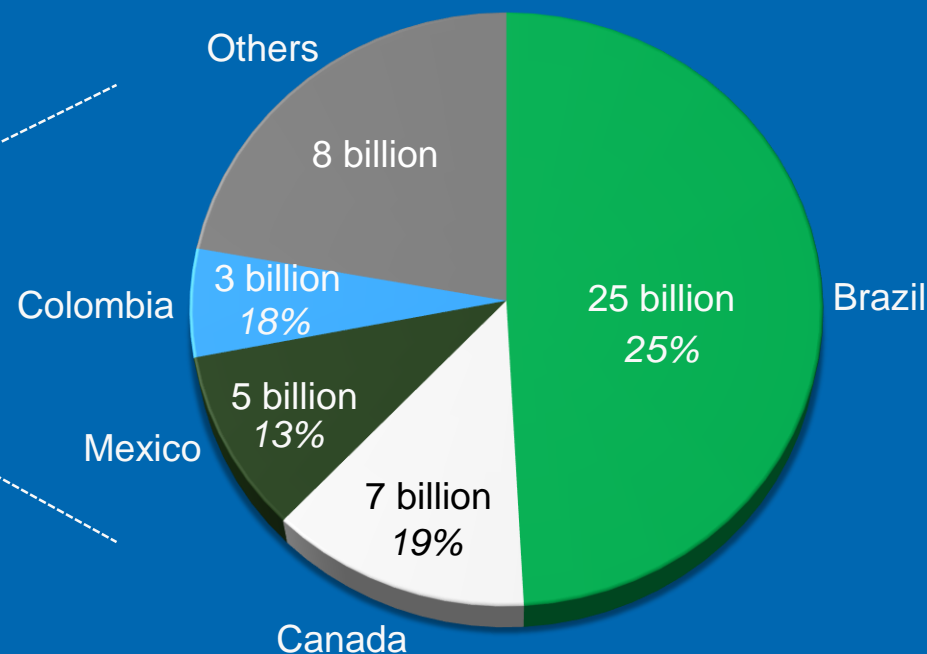


LA&C Region: Making In-Roads Against Illicit Trade

2013 Consumption Volume
(units billion)



2013 Illicit Trade
Volume (units billion) and
Incidence (%)



- Gather information on trade routes and illegal traffic hotspots
- Liaise with governments to implement solutions
- Making headway in Canada, Mexico, and Colombia

Focus on Optimizing our Cost Base



- 5 factories closed in three years
- Distribution model restructurings
- Leaf:
 - Sustainable growing footprint
 - Synergies in tobacco supply chain
- Clustering across the markets
- Rightsizing



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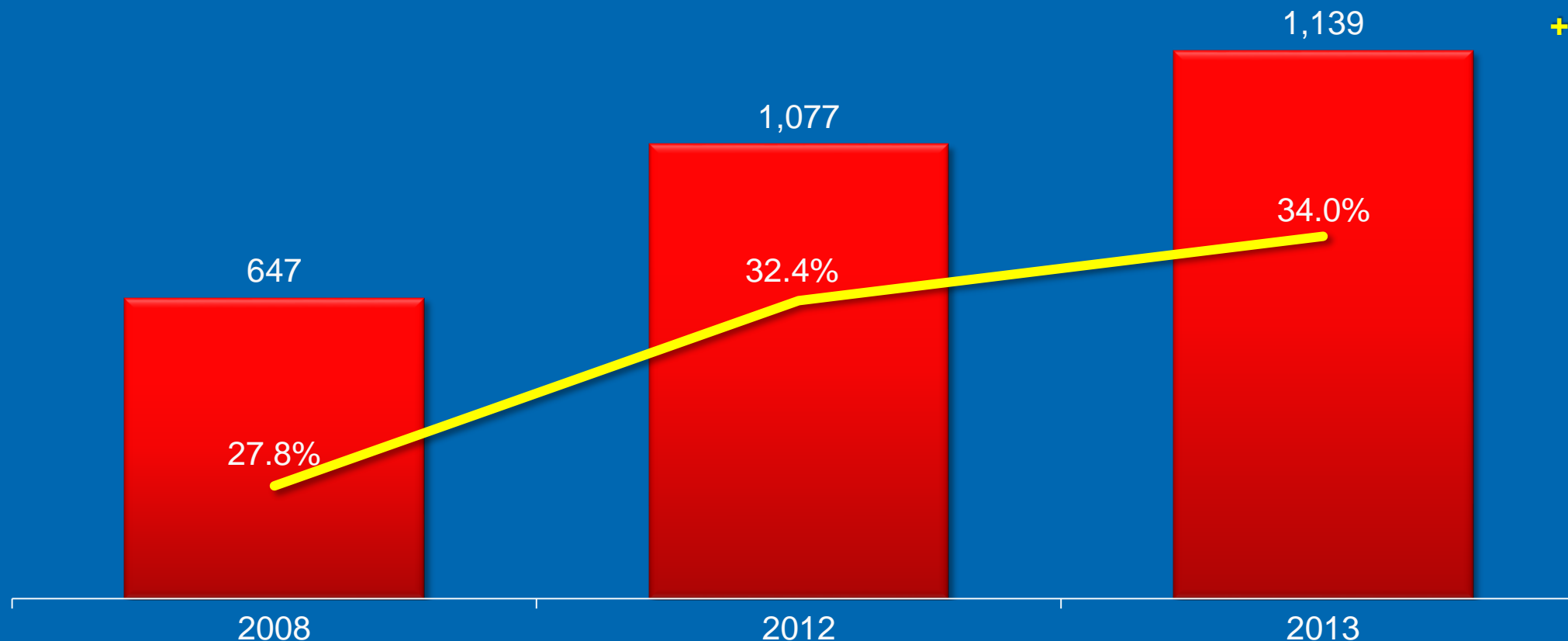
PMI: Steady Adjusted OCI and Margin Growth

Adjusted OCI (\$ million) and Adjusted OCI Margin Growth

Growth
2008-2013^(a)

+15.8% (CAGR)

+7.9pp



(a) Ex-currency
Source: PMI Financials

Our Portfolio Strategy



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Strengthen Portfolio

Reinforce
Marlboro's
leadership to
boost volume
growth

Expand our
international
portfolio

Locally leverage
on trademarks
with established
equity

Innovate to further address evolving adult smoker preferences

Deploy the new commercial approach

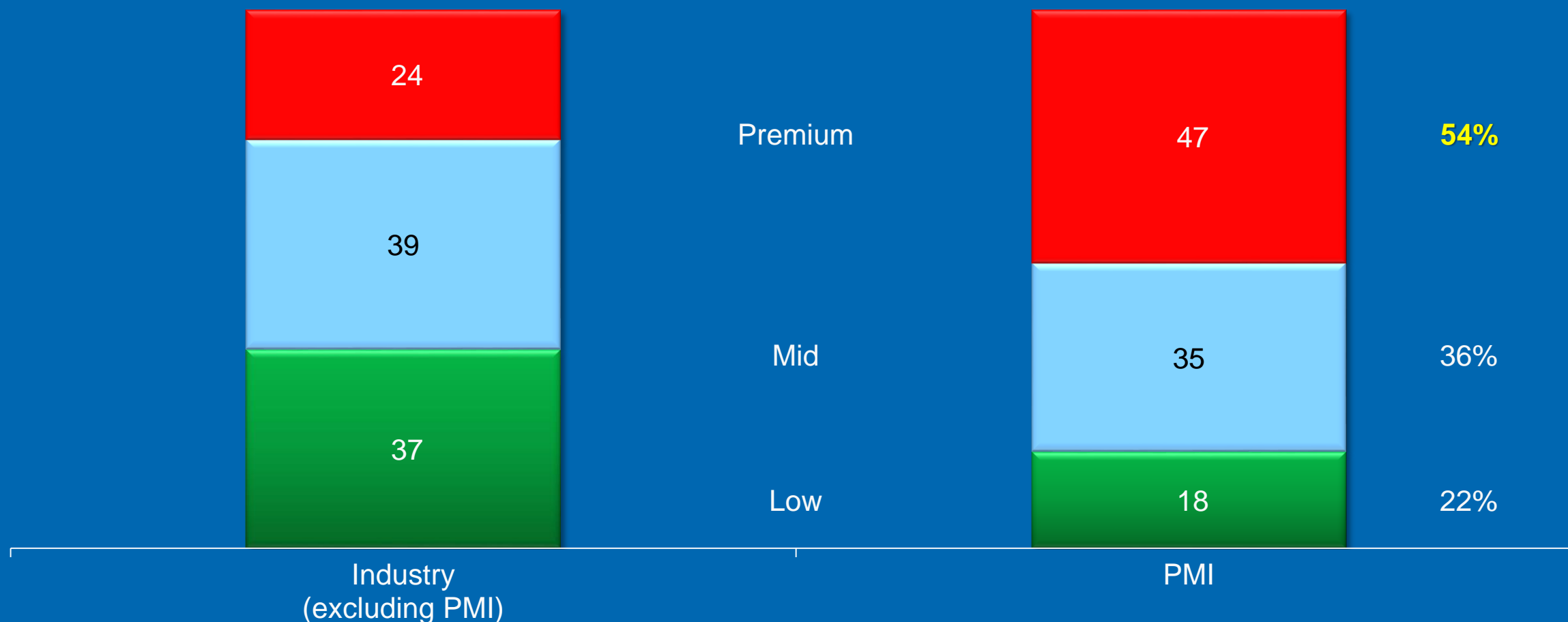


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PMI: Leading Position in the Premium Segment

2013 LA&C Region Price Segmentation (%)

2013 PMI SoS



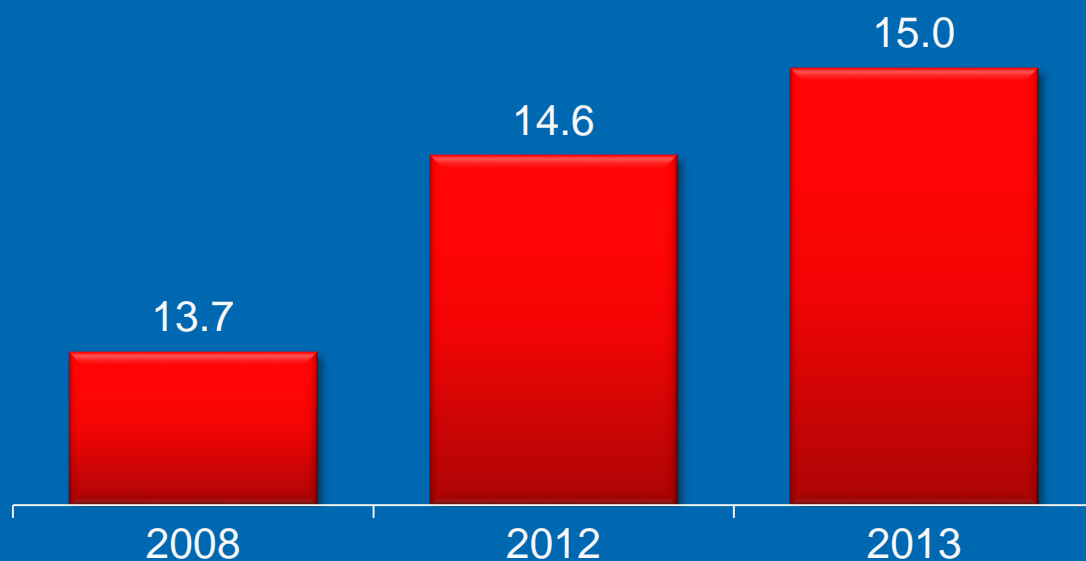
Note: Premium includes above premium and low includes super-low
Source: PMI estimates



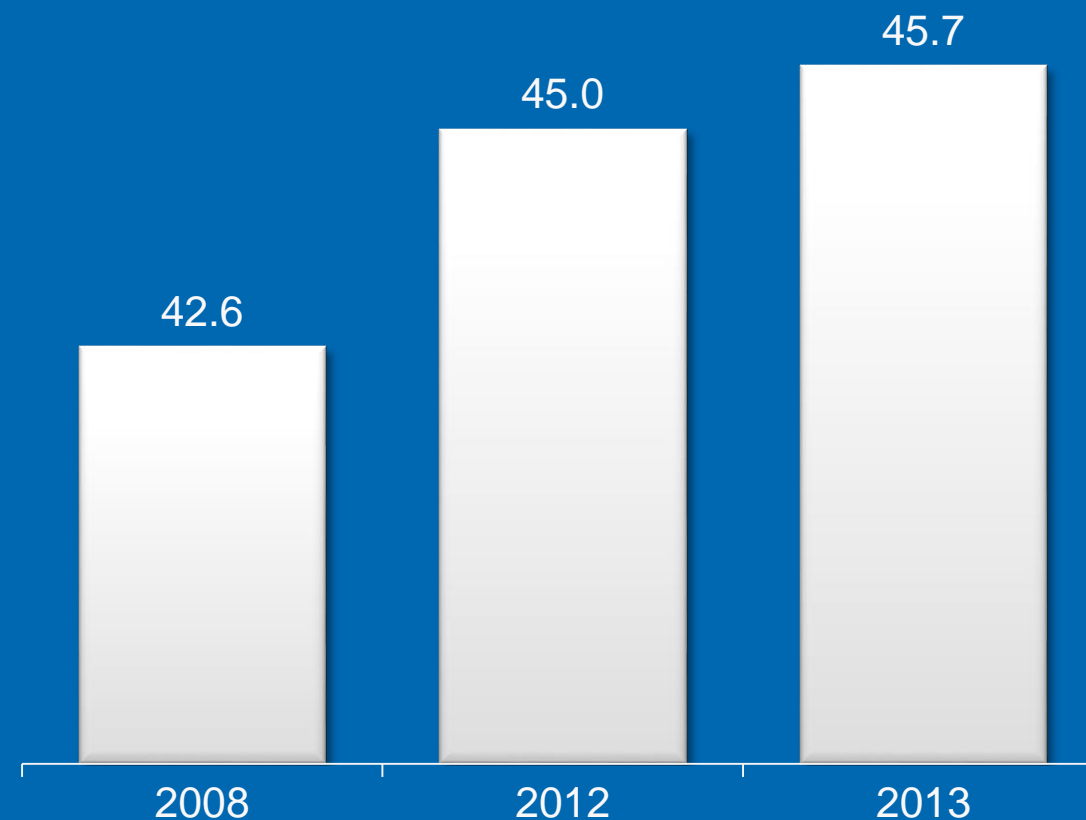
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Marlboro: Impressive Share Growth

Share of Regional Market (%)



Share of Premium Segment (%)

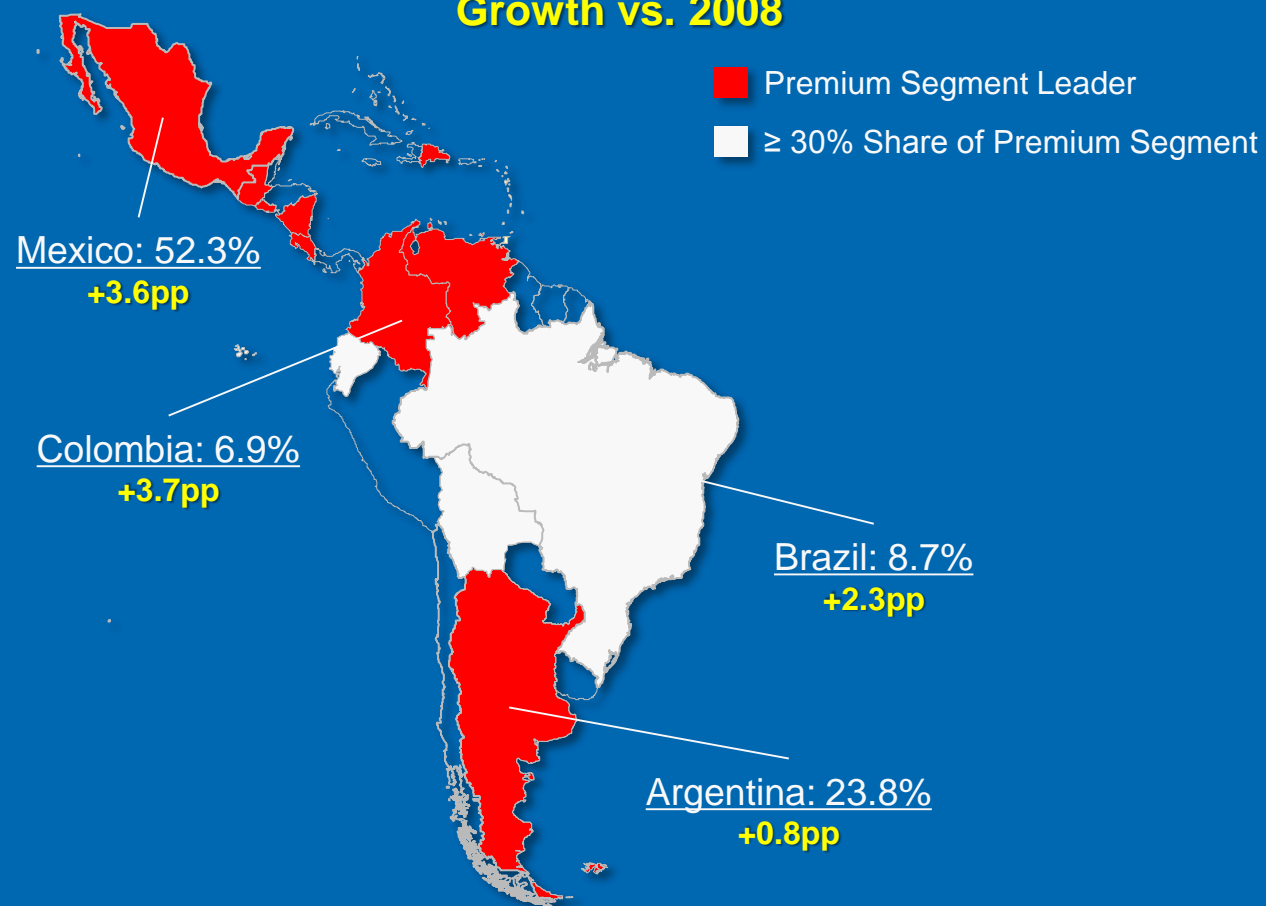




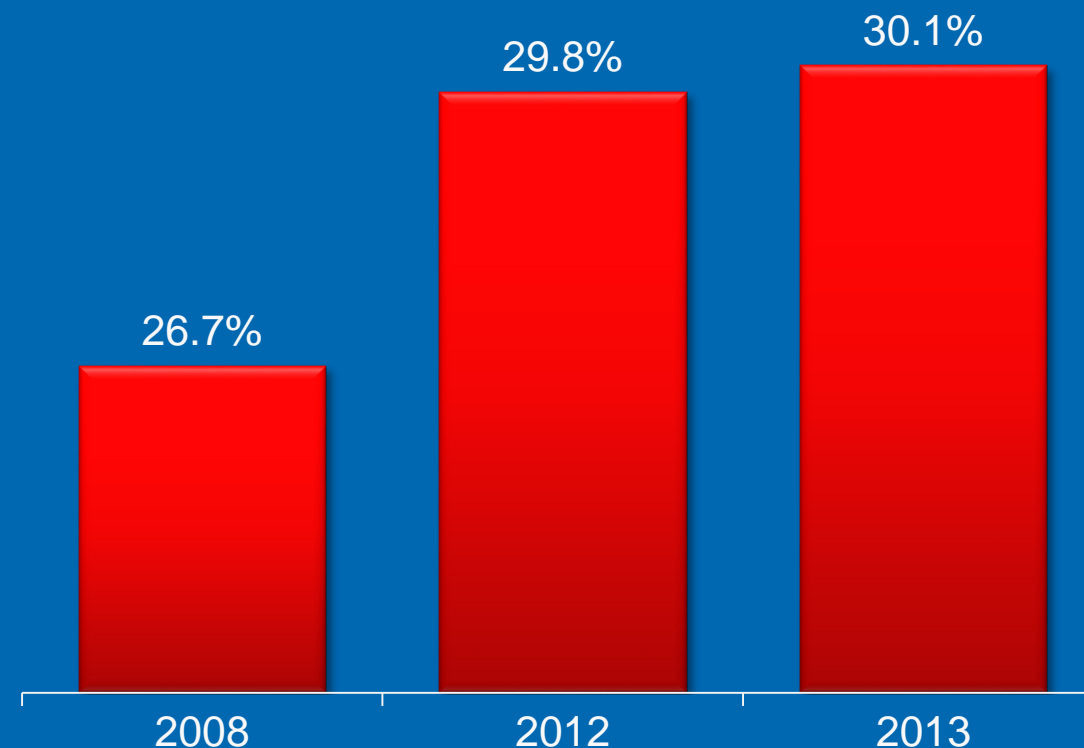
Marlboro: Broad Geographic Footprint and Improved Profile

Shares of Market (2013)

Growth vs. 2008



LA (min. 18) – 24 Share





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Marlboro: Growth in All Three Pillars

Regional Market Share (%)

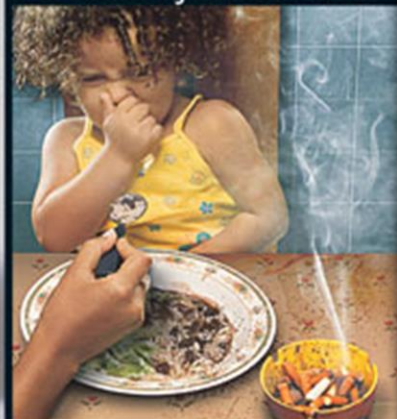


MARLBORO VERMELHO ACABOU
acabou de inovar



ESTE PRODUTO
CONTÉM MAIS DE
4.700 SUBSTÂNCIAS
TÓXICAS, E NICOTINA
QUE CAUSA
DEPENDÊNCIA
FÍSICA OU PSÍQUICA.
NÃO EXISTEM
NÍVEIS SEGUROS
PARA CONSUMO
DESTAS SUBSTÂNCIAS.

FUMAÇA TÓXICA



O Ministério da Saúde adverte:
Respirar a fumaça deste produto causa
pneumonia e bronquite.

PARA DE FUMAR 136 Ouvidoria Geral do SUS
DISQUE SAÚDE www.saude.gov.br

Note: Translation from Portuguese: "MARLBORO RED has just finished innovating"

NEW
ICE X BLAST
PUSH FOR MORE



A cougar's face is shown in profile, looking forward. In the foreground, a pack of Marlboro Ice Blast cigarettes is visible. The pack is black with blue and white text. The words "Marlboro" and "ICE BLAST" are prominent. Below them, it says "CADA CIGARRILLO INTOXICA".

**FUMAR
CAUSA
CÁNCER**



A pile of cigarettes is shown, with a red arrow pointing towards them. Below the pile, the text "CADA CIGARRILLO INTOXICA" is written.

CADA CIGARRILLO INTOXICA



A colorful powder explosion is shown, with various colors like pink, purple, yellow, and green. In the center, there is a small image of a person's face. Above the face, the text "EL HUMO DANA A TUS HIJOS" is written. Below the face, there is a Marlboro logo and the text "KRETEK MINT" and "CONT. 20 CIGARROS CON FILTRO". To the right of the explosion, the text "MARLBORO KRETEK MINT" is written.

EL HUMO DANA A TUS HIJOS

Marlboro
KRETEK MINT
CONT. 20 CIGARROS CON FILTRO

MARLBORO KRETEK MINT

SABE COMO ____.

MARLBORO KRETEK MINT, 3 SABORES,
UNA NUEVA EXPERIENCIA.

FUMAR ES CAUSA DE CANCER

Note: Translation from Spanish: "Marlboro Kretek Mint, 3 flavors, a new experience"



MATERIAL PARA USO EXCLUSIVO DE CANALES DE COMERCIALIZACIÓN, NO DIRIGIDO AL CONSUMIDOR FINAL.

Note: Translation from Spanish: "Maybe I will share the moment"

L&M: Actively Supported with Innovative Offers

- International brand with trusted quality
- 5th largest PMI brand in the Region
- Growing geographically; present in 14 markets (+8 vs. 2010)



L&M BOX
QUALIDADE
DO BOX
PELO PREÇO
DO MAÇO

R\$
6,00

ESTE PRODUTO
CONTEM MAIS DE
4.700 SUBSTÂNCIAS
TÓXICAS, E NICOTINA
QUE CAUSA
DEPENDÊNCIA
FÍSICA OU PSÍQUICA.
NÃO EXISTEM
NÍVEIS SEGUROS
PARA CONSUMO
DESTAS SUBSTÂNCIAS.

FUMAÇA TÓXICA

O Ministério da Saúde adverte:
Respirar a fumaça deste produto causa
pneumonia e bronquite.

PAÍS DE ORIGEM: 136
www.saude.gov.br



**Nueva
cajetilla
resellable**

Sabor único
Clavo de olor y menta

NO DAÑES A TUS HIJOS FUMANDO DELANTE DE ELLOS
VENTA PROHIBIDA A MENORES DE 18 AÑOS

Chesterfield: Complement to the Mid/Low Price Portfolio



- *Chesterfield* sold in 6 markets
- Central America and Mexico introduction
- Destination for adult smokers seeking international image brands



Delicados: An Authentic Mexican Brand

2013



- Clear, unique positioning
- Widening appeal through a renewed brand character

- # 2 brand in Mexico:
 - 11.2% market share (+0.8pp vs. 2012)
- # 1 brand in the low-price segment



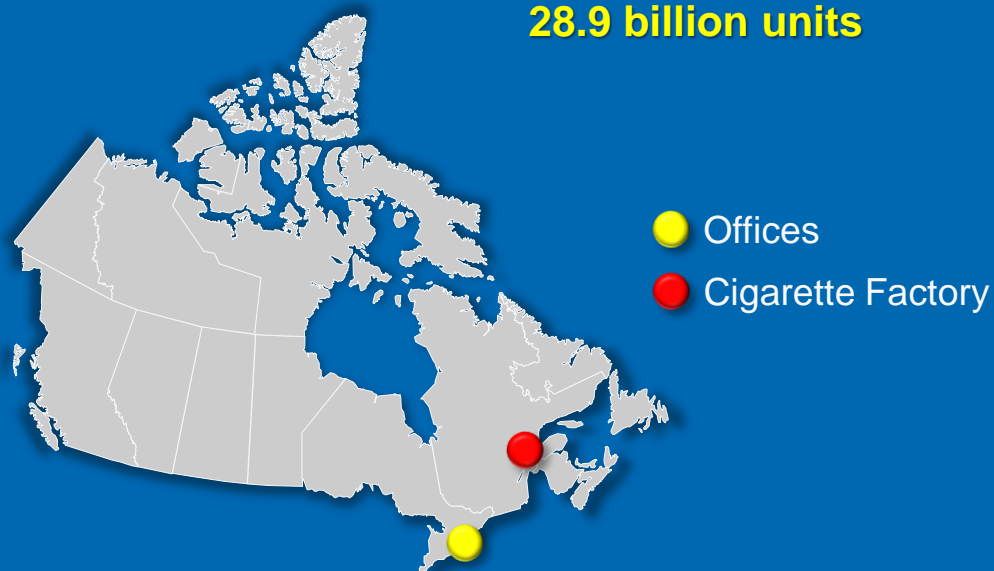
Philip Morris: #2 Brand in the LA&C Region

- 8.0% share YTD May, 2014
- Successful line extensions in Argentina and Paraguay
- Low price alternative with further potential in Canada



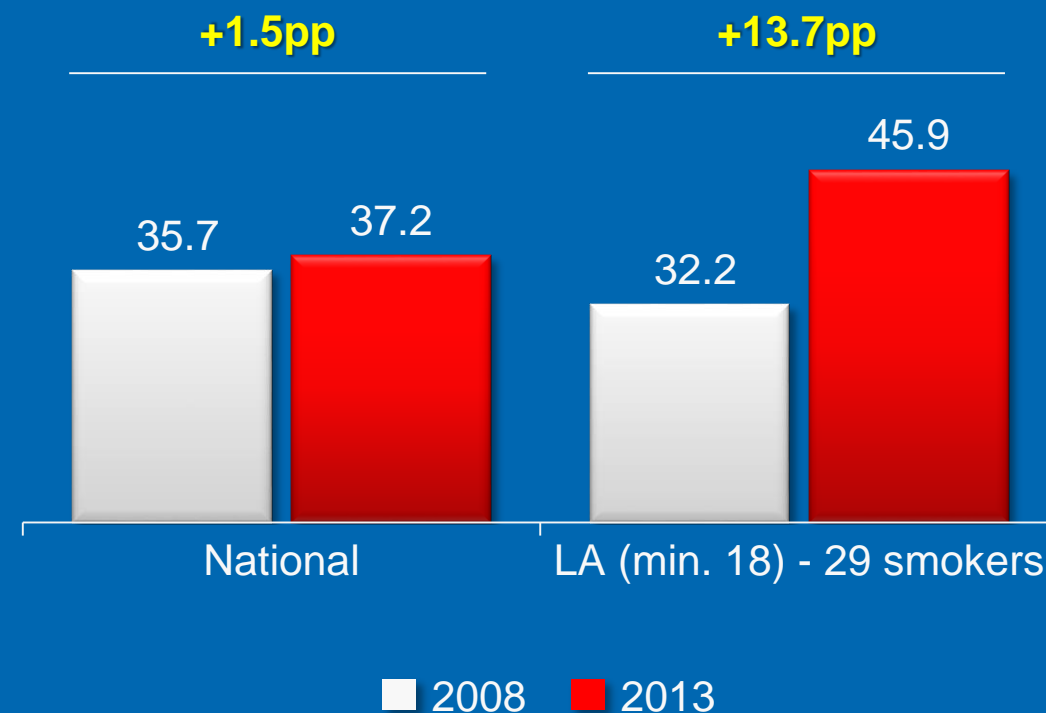
Canada: Market Profile

Industry Volume (2013):
28.9 billion units



- Stable economy
- PMI leader among LA (min. 18) - 29 year old smokers
- Encouraging anti-illicit trade government initiatives

PMI Market Shares (%)





Canada: Expanding Margins while Sustaining Share Growth

- Sustainable pricing resulting in long-term profitability growth
- Brand equity and product quality supporting premium prices
- Strong brands in below-premium segment to capture price sensitive adult smokers

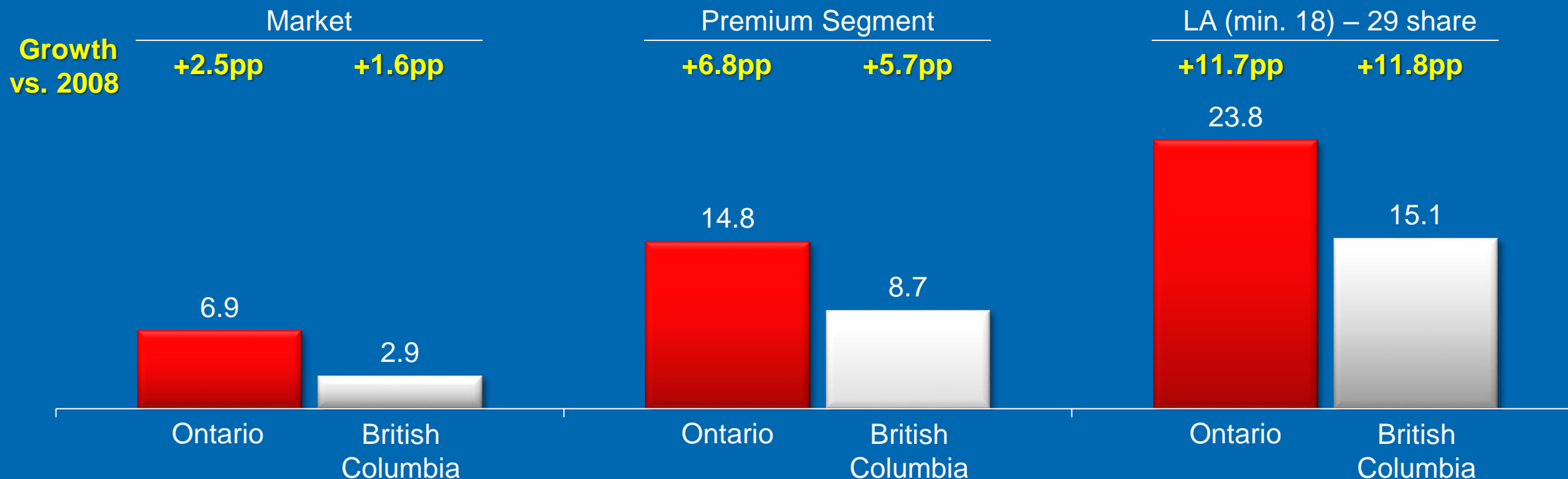


Canada: *Belmont* Solid Growth and Improving Profile

- Potential to expand to other geographies

Belmont

2013 *Belmont* Shares (%)



Canada: *Canadian Classics* and *Québec Classique* Taking the Lead

- Strong Canadian heritage and superior quality
- Continued resilience against down-trading
- #1 selling brand in the country – 12.5% market share (YTD May 2014)

CANADIAN
CLASSICS



QUÉBEC
CLASSIQUE



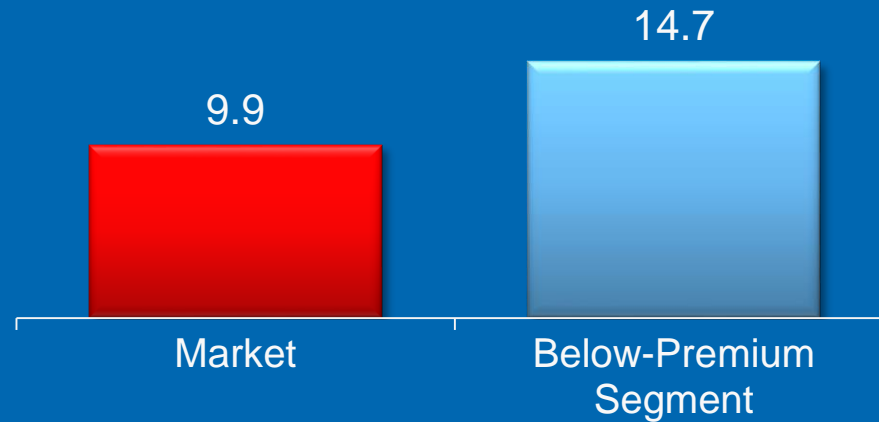
Canada: *Next* & *Philip Morris* Well Positioned in the Below-Premium Segment



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2013 *Next* Shares (%)
Growth vs. 2009



- Fastest-growing brand, selling at a slight premium

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- Launch of a well-known brand with established equity
- Ontario + Quebec SoM: 0.4%



Canada: Distribution & Commercial Strategy

Enable commercial growth through a newly designed mixed distribution model:

- Improve operational and strategic capability at retail level
- More efficient implementation of portfolio strategy
- Continue leveraging on our wholesaler partners

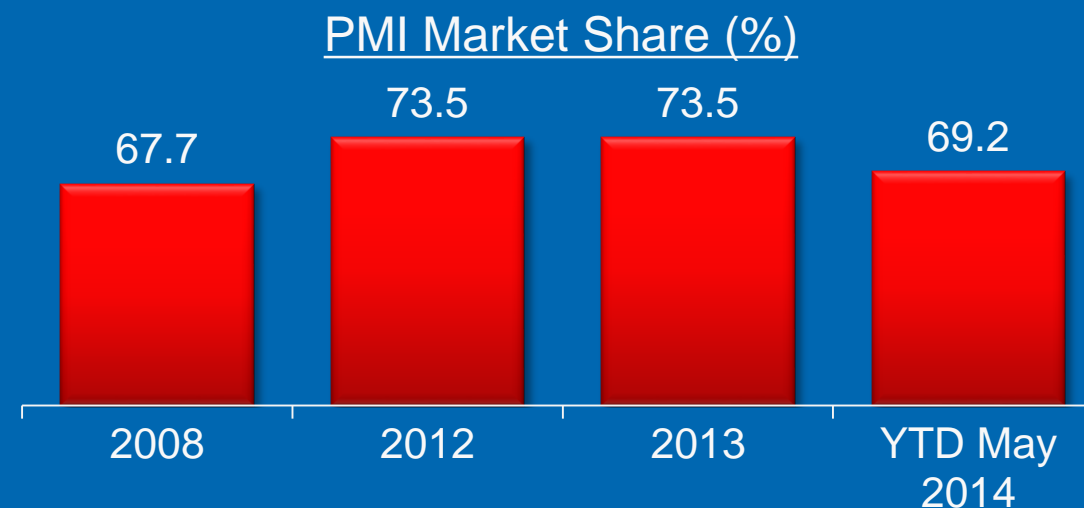
Enhanced interaction with eligible retailers through customized trade programs:

- Direct delivery
- First to market access for our products

Mexico: Market Profile



- PMI market leader since 1998
- Market leader in relevant segments
- Key production center for the region



Key Brands



#1 brand



#2 brand



#2 premium brand

SoM (2013):

52.3%

11.2%

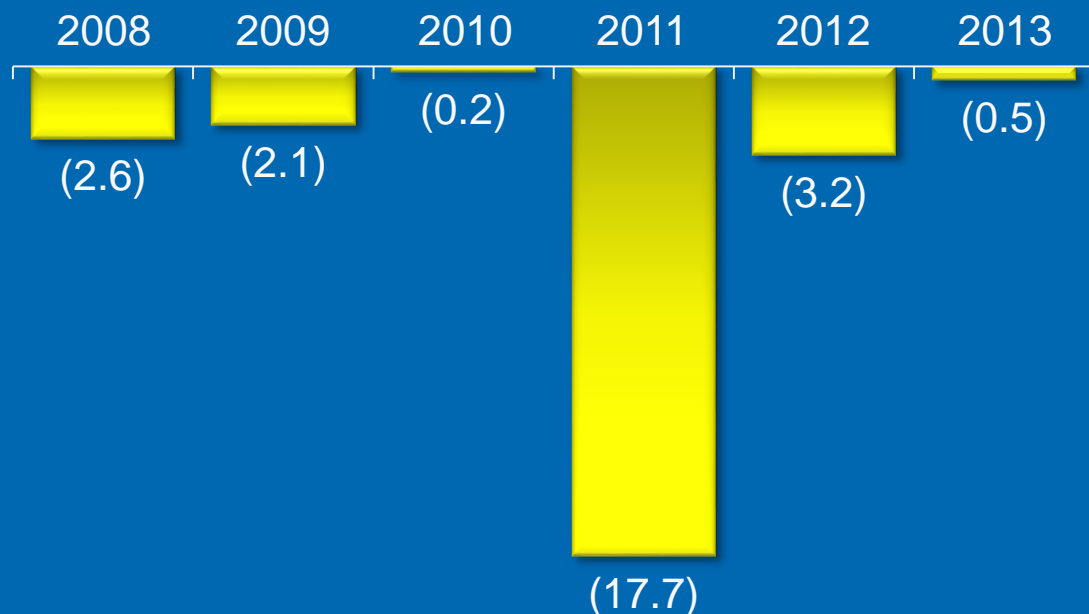
5.5%

Mexico: Industry Tax-Paid Volume and Illicit Trade

- No tax increase in the last three years

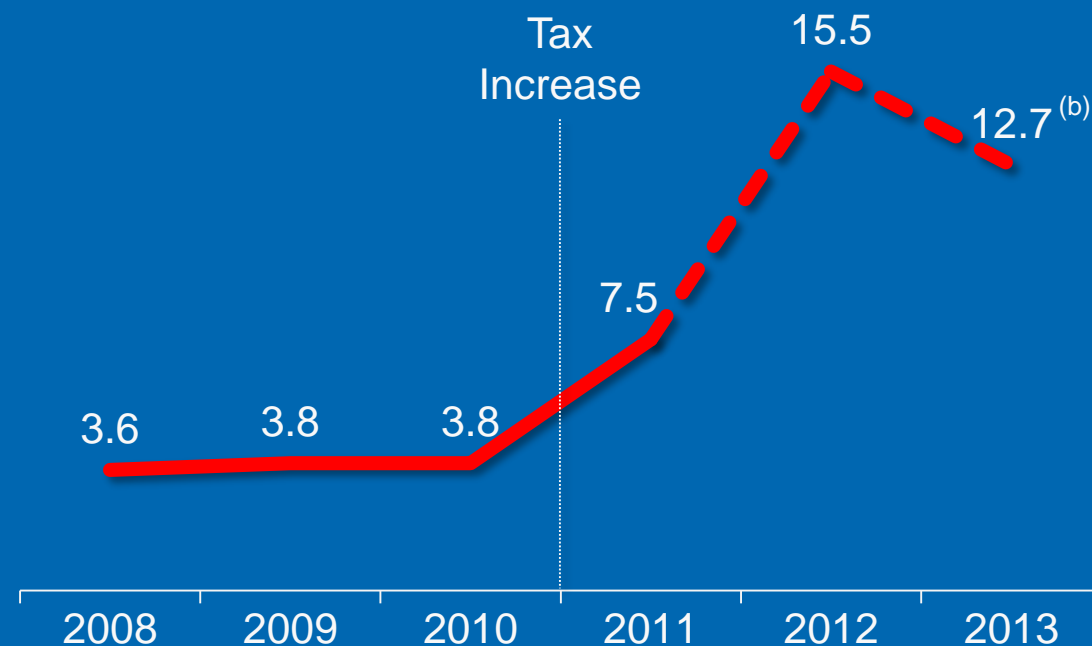
Industry Tax-Paid Volume Decline vs. PY (%)^(a)

CAGR 2007-2013: (2.2)%



Illicit Trade Incidence (%)

Empty Pack Survey Pack Swap



(a) Adjusted for trade inventory movements

(b) Based on preliminary results

Source: PMI estimates



Mexico: Industry Dynamics

Price Segmentation Dynamics (%)

Down-trading Pressure



Mexico: Restoring Share Growth

Investing in *Marlboro's* Brand Equity



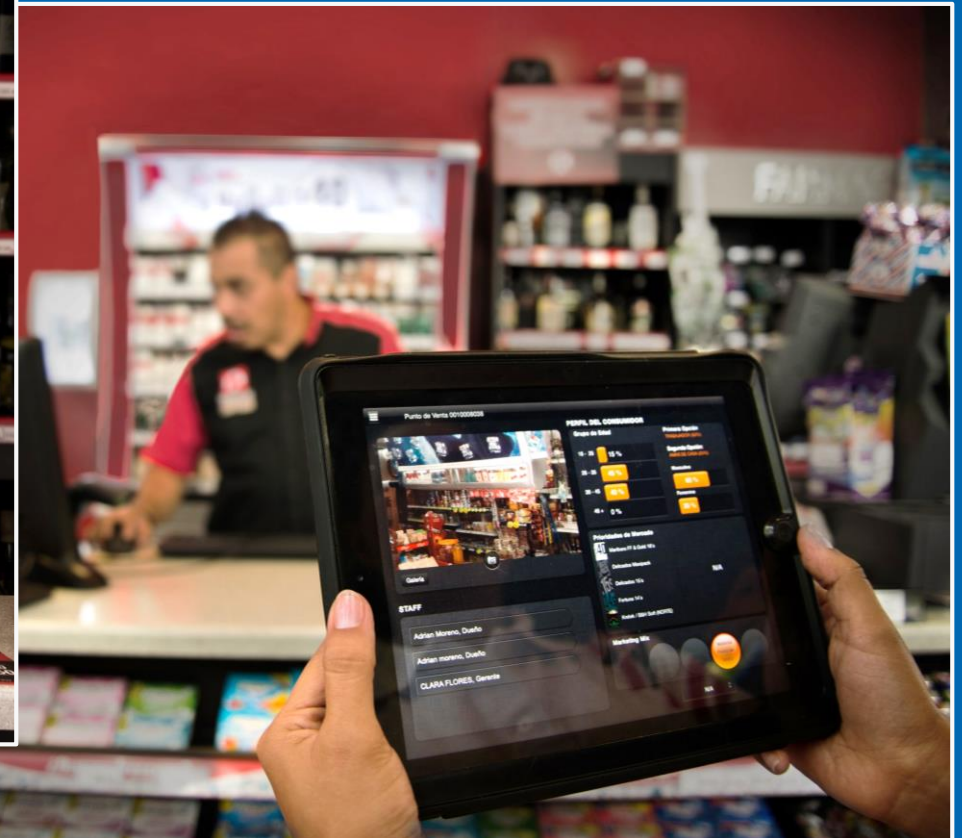
- Support through menthol and kretek innovations

Leveraging on Affordability



- *Marlboro* 18's and *Ice Xpress* 100s
- *Delicados* value offers: 14s, 15s and 24s

Mexico: Pioneer in Launching New Commercial Approach

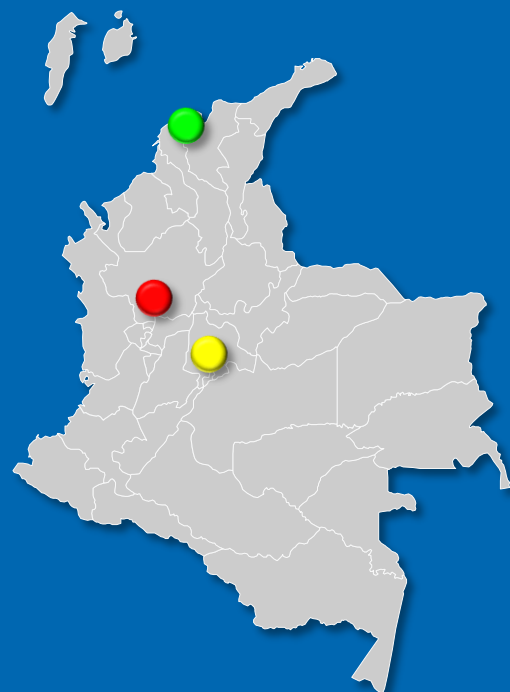




Mexico: Key Opportunities

- Maintain and reinforce our leadership position in the premium segment
- Accelerate illicit volume recovery to the legal market
- Leverage our efficient manufacturing footprint
- Advocate for a predictable and reasonable fiscal environment
- Fully capture the benefits of the new commercial approach

Colombia: Market Profile

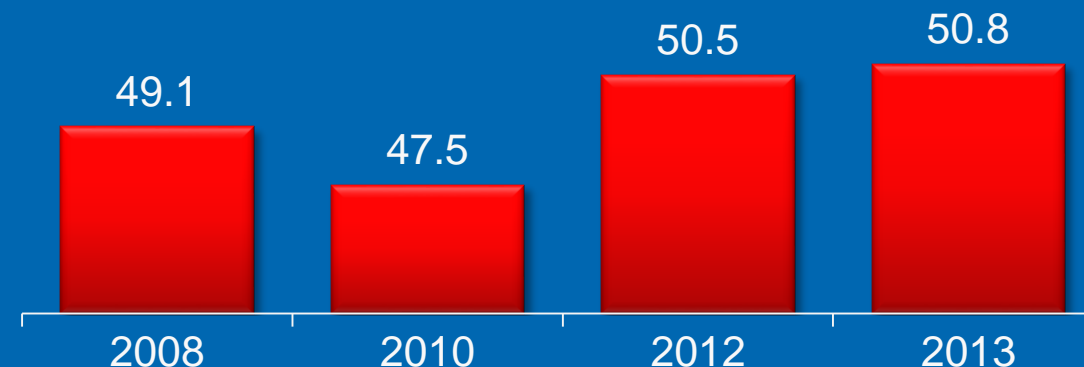


Industry Volume (2013):
13.7 billion units

- Offices
- Tobacco Processing
- Cigarette Manufacturing

- Solid economic outlook
- Continued *Marlboro* growth
- Ongoing actions to fight high illicit trade

PMI Market Share (%)



Key Brands



SoM (2013):

6.9%

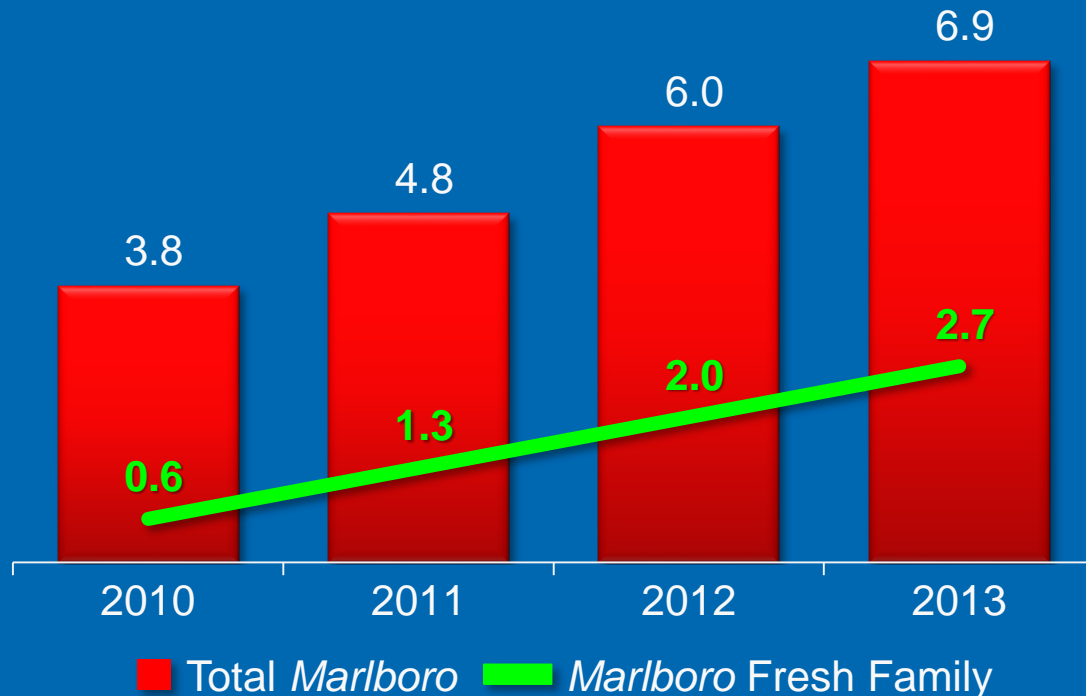
2.7%

21.1%

Colombia: Strength of *Marlboro*

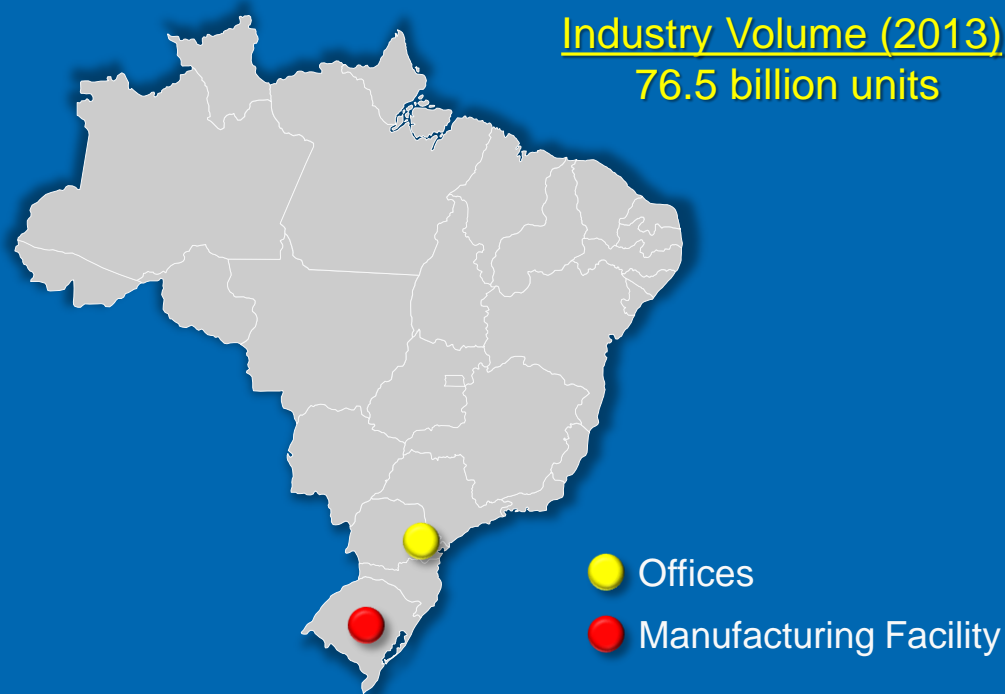
- Continuous market share growth
- Achieved market leadership among LA (min. 18) – 24 year old smokers

Marlboro Market Share (%)



Brazil: Market Profile

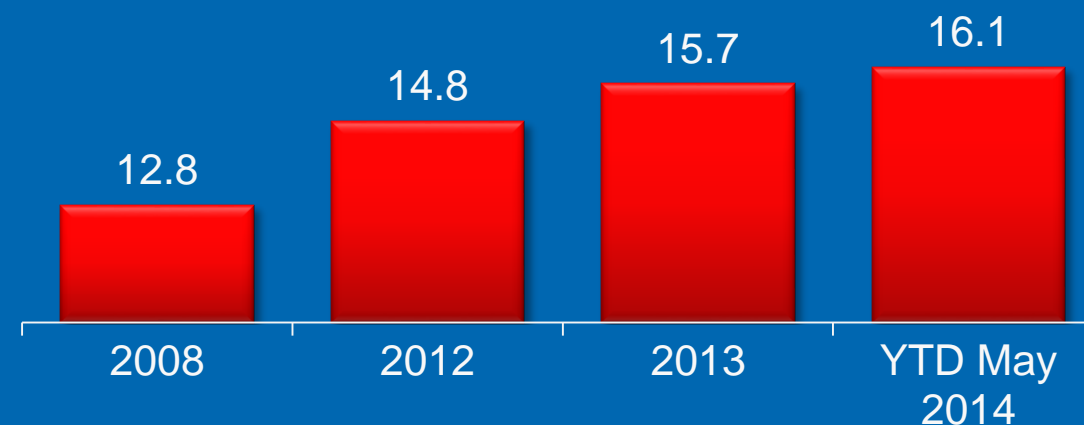
Industry Volume (2013):
76.5 billion units



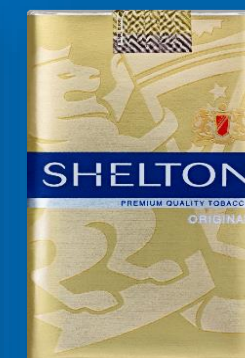
- Favorable economic conditions
- *Marlboro* leading brand in São Paulo
- New integrated manufacturing facility
- Leaf vertical integration

Source: PMI estimates

PMI Market Share (%)



Key Brands



SoM (2013):

8.7%

2.7%

1.7%



Brazil: Excise Tax Change Leads to Better Price Gaps

Tax System Rates Convergence
(BRL/Pack)



Ad-valorem (%)	6.00	7.05	8.10	9.00
Min. Price	3.00	3.50	4.00	4.50

MPPC Price Gap vs. RSP
Marlboro Box 20s (BRL/Pack)

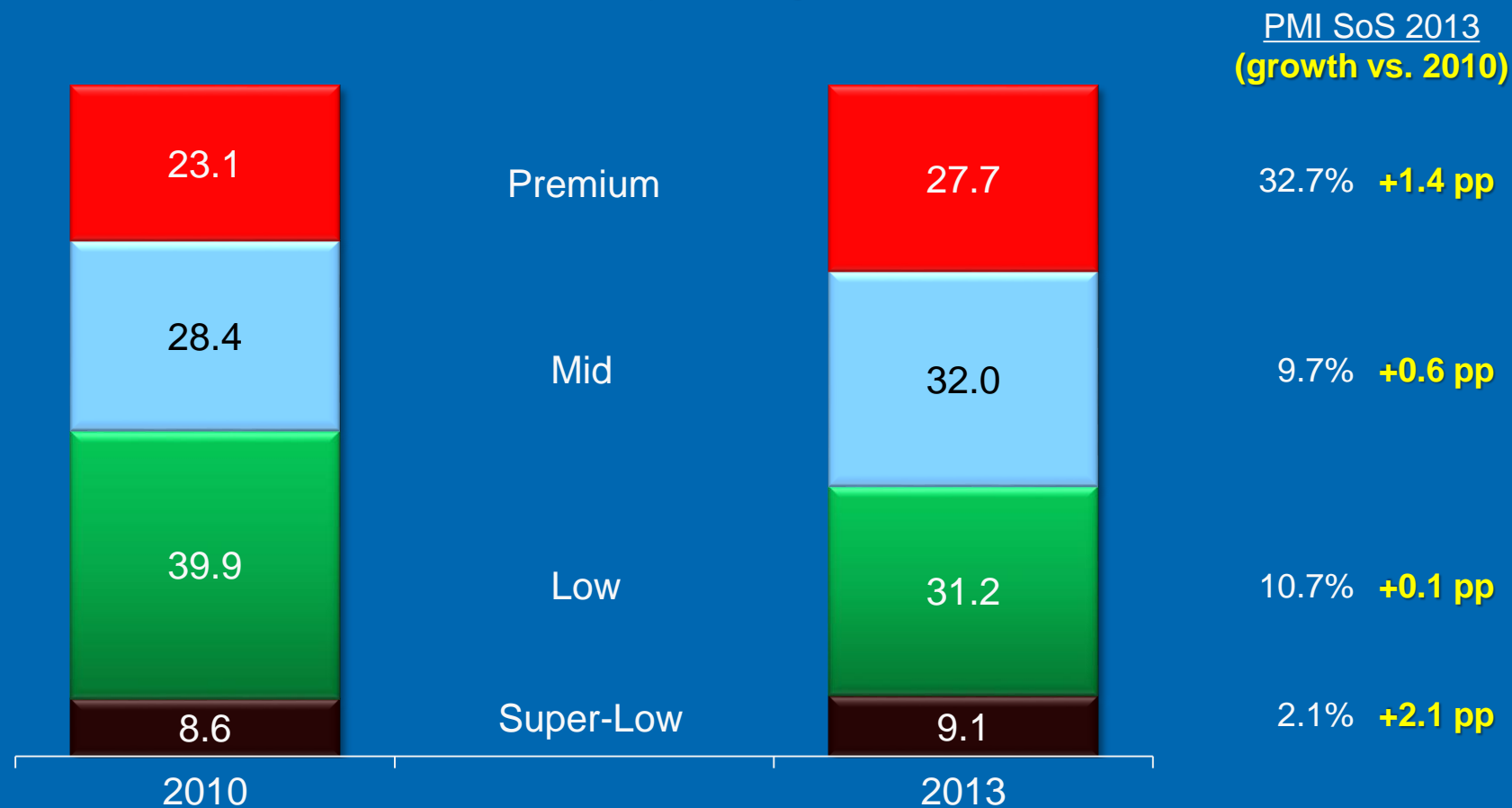




Brazil: At a Glance

Cigarette Industry Price Segmentation (%)

Adult Smoker Up-Trading





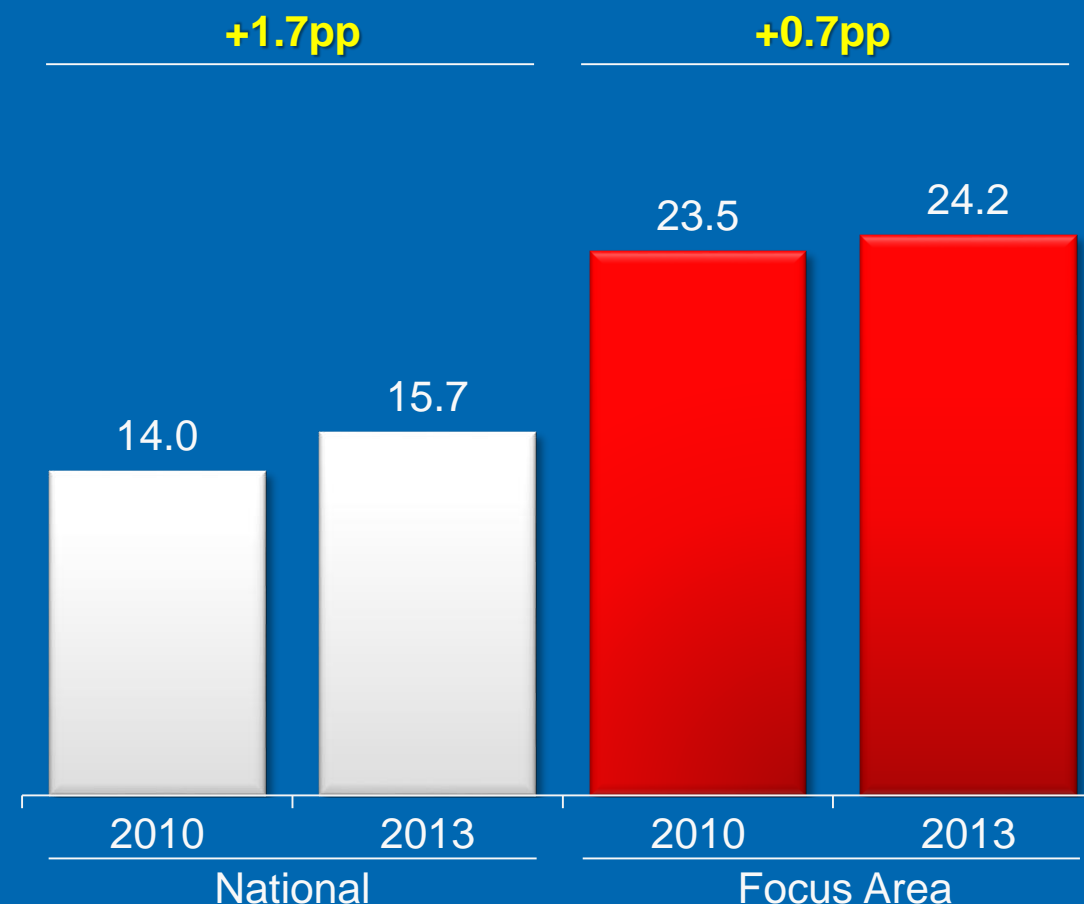
Brazil: Focus Area



	<u>Brazil South</u>	<u>Brazil North</u>
Population:	87.2 million	111.5 million
GDP/capita ^(a) (USD thousand):	15.4	8.4
% of Tax-Paid Cigarette Market:	65%	35%

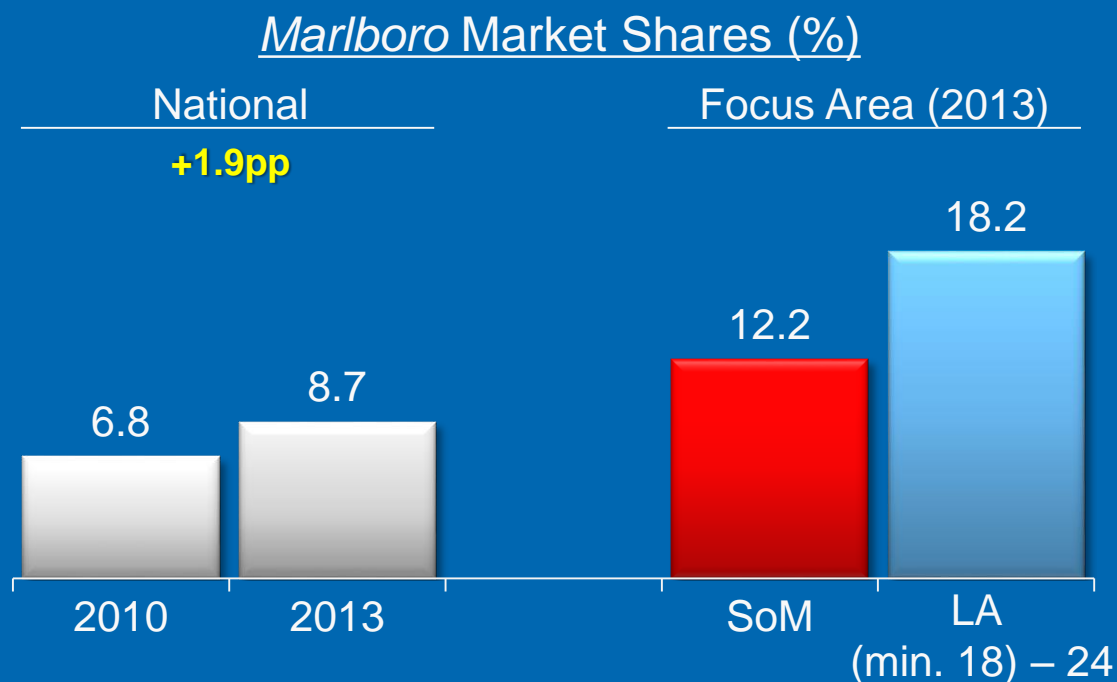
(a) Nominal GDP per capita 2013 average exchange rate of BRL/USD = 2.1308
Source: Third-party consultant (LCA), Nielsen and PMI estimates

PMI Market Shares (%)



Brazil: *Marlboro's* Continued Growth

- Leading brand in São Paulo, Brazil's largest city
- Continuous market share growth



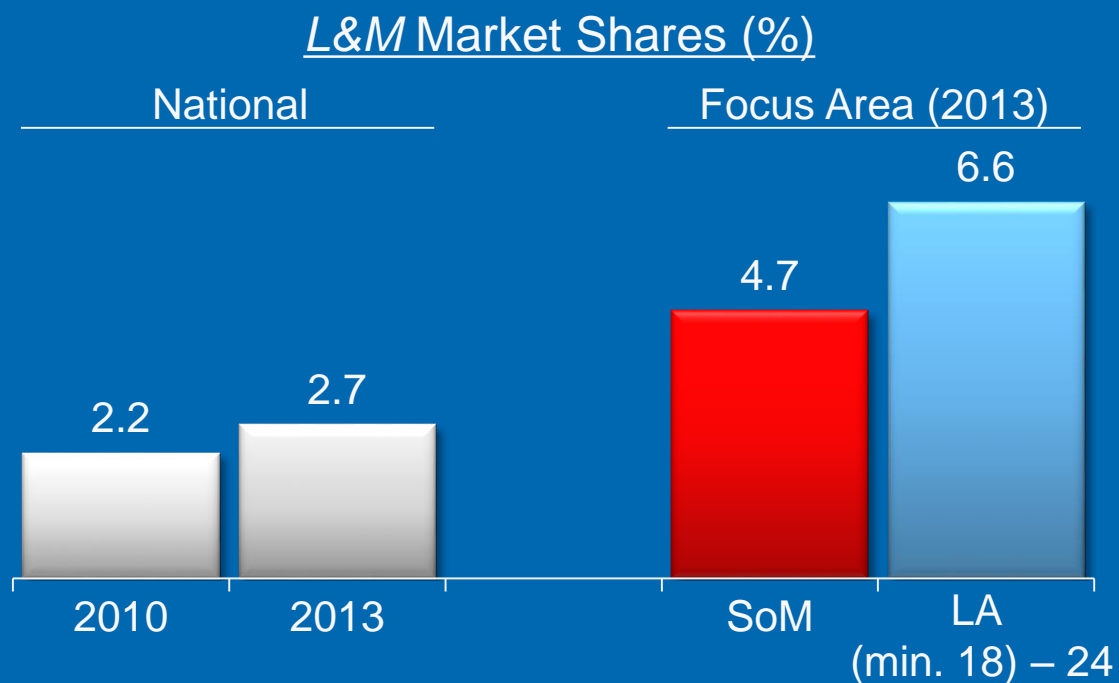
Note: Translation: "NEW *MARLBORO* RED surprising new filter"
Source: PMI estimates, Nielsen and PMI Market Research

- New *Marlboro* 2.0 Architecture



Brazil: *L&M*

- Fastest-growing mid-price brand in the focus area
- First box format in its price category





Brazil: Market Priorities

- Broaden *Marlboro's* appeal to emerging middle class adult smokers
- Fully capitalize on anti-trust ruling
- Seek productivity to fund further investments

Argentina: Market Profile

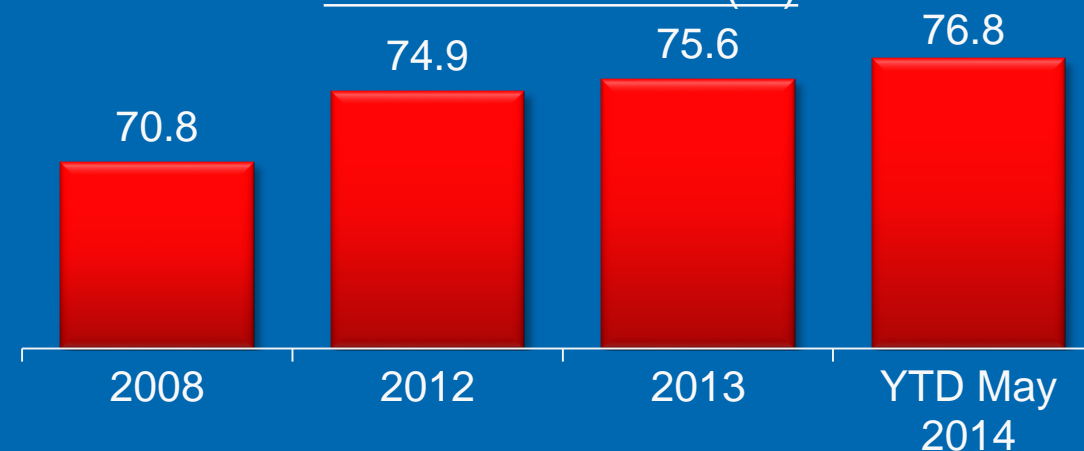


Industry Volume (2013):
42.6 billion units

- Offices
- Stemmery
- Manufacturing Facility

- Balanced portfolio and outstanding share performance
- Solid footprint
- Economic and regulatory restrictions

PMI Market Share (%)



Key Brands



SoM (2013): 23.8%

41.5%

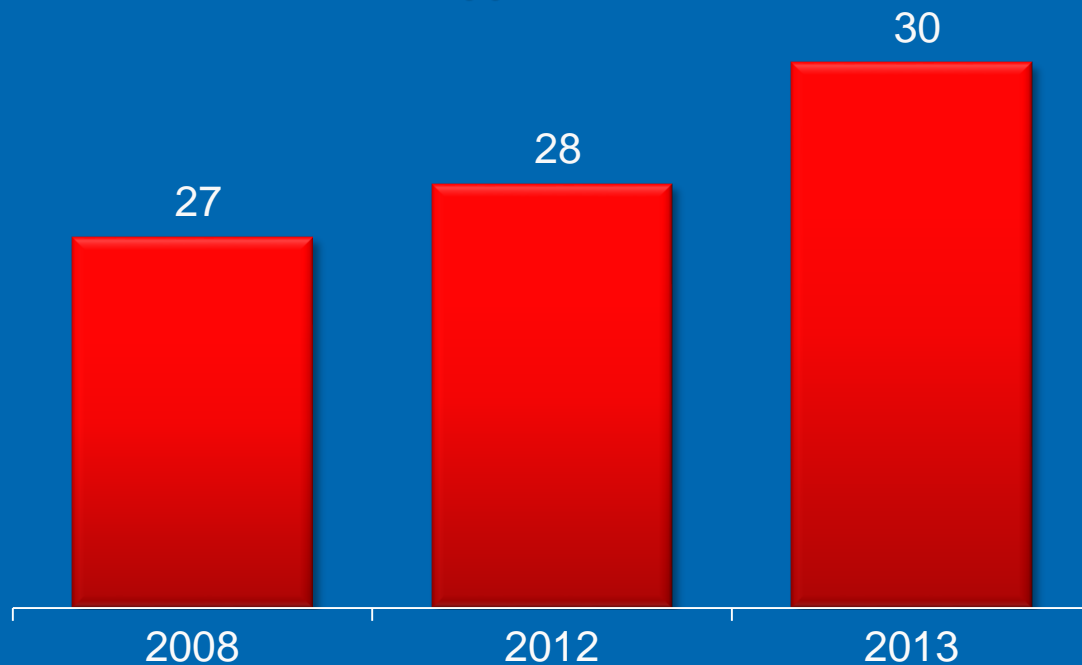
2.5%

Argentina: *Marlboro's* Improving Profile and Relevance

- *Marlboro's* share of market grew by 0.8pp from 2008 - 2013

Marlboro LA (min. 18) – 24 Share (%)

+3pp vs. 2008



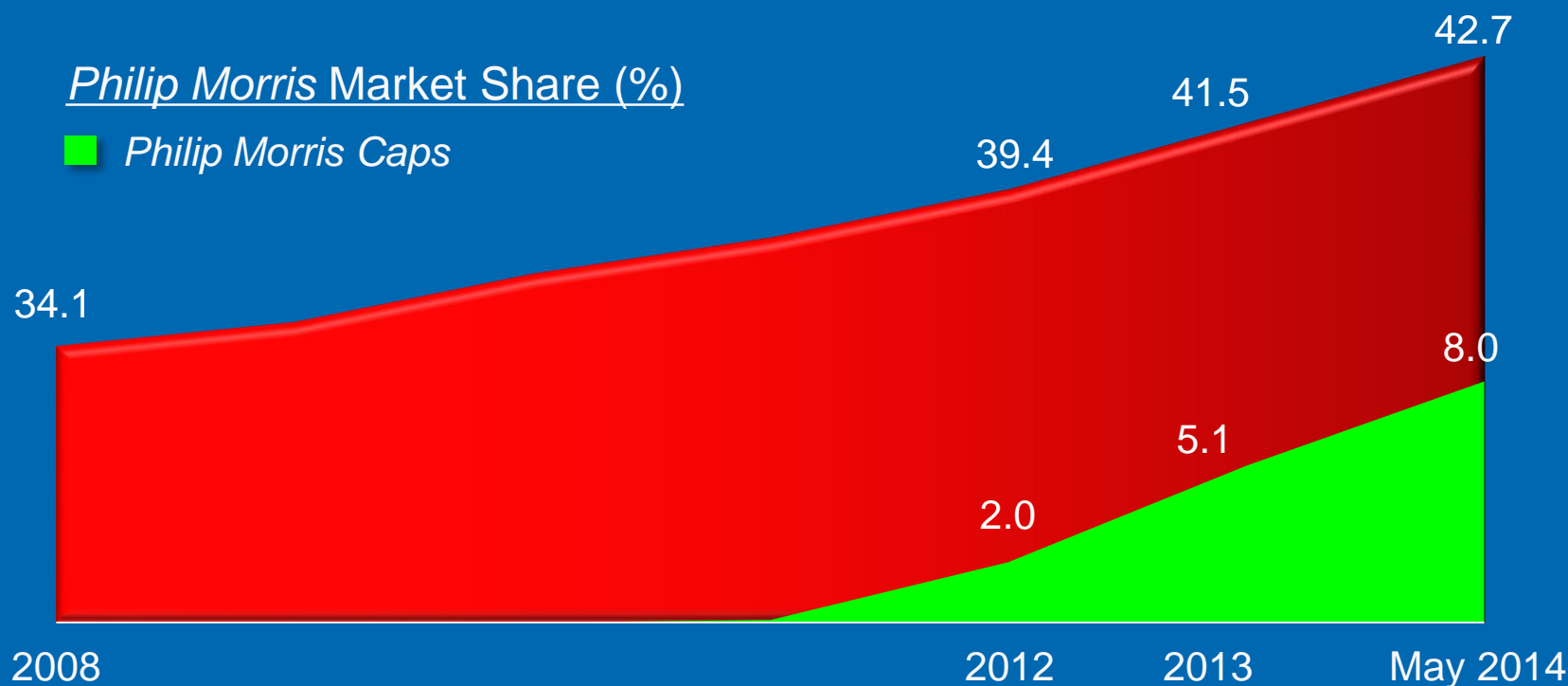


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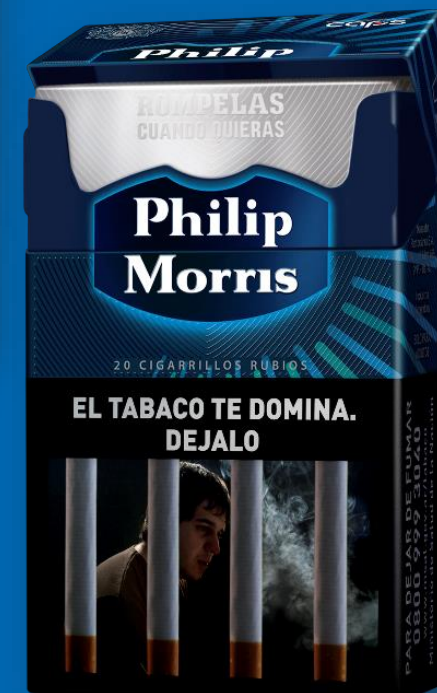
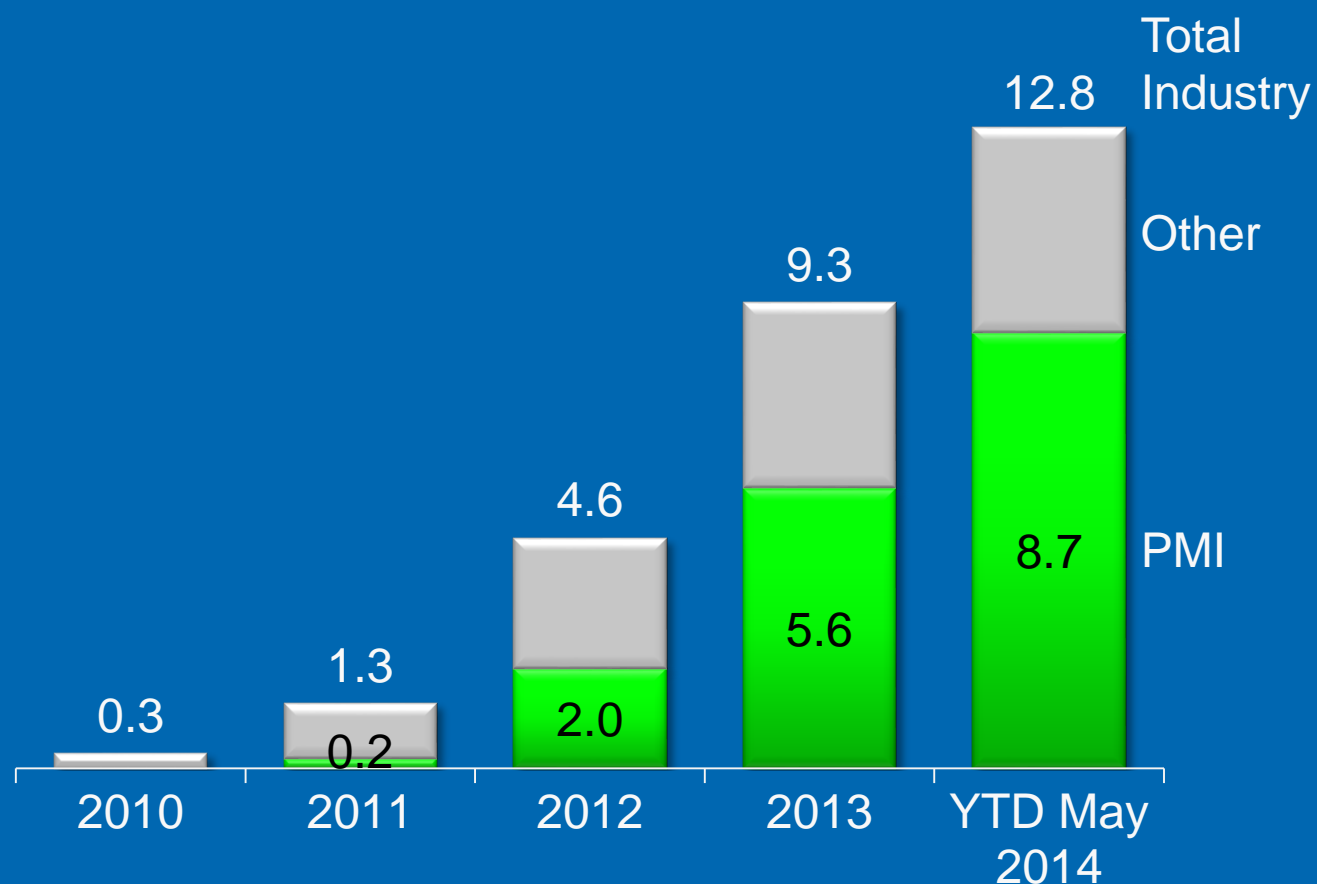
Argentina: *Philip Morris* Continues to Lead

- #1 brand in the market
- Smart and approachable attitude
- Leader and growing among LA (min. 18) – 24 year old smokers



Argentina: Strength of PMI Innovations

Capsules Share of Market (%)





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Argentina: Leveraging on Our Continued Strength in the Country

- Undisputed market leader with strong footprint
- Successfully navigating in complex environment
- Winning, well-balanced brand portfolio driving innovation



LA&C Region: Conclusion

- Address temporary challenges in Mexico
- Sustainable pricing and cost optimization will drive profitability
- Strong share growth momentum is expected to continue
- *Marlboro's* brand position will fuel our market share
- Opportunity to recover illicit trade volume to tax-paid market
- Introduction of Reduced-Risk Products



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Investor Day – LA&C Region Lausanne, June 26, 2014

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