



PHILIP MORRIS
INTERNATIONAL

2014
INVESTOR DAY

Investor Day – Asia Region
Lausanne, June 26, 2014

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President, Asia Region

Philip Morris International



Asia Mid to Long-term Success Drivers

- Favorable demographics and robust economies
- Superior brand portfolio
- Proven record to drive innovation
- Manageable regulatory and fiscal environment
- Comprehensive plan to counter illicit trade
- Expansion into new geographies
- Commercialization of Reduced-Risk Products
- Annual average mid to long-term high single-digit adjusted OCI growth target, ex-currency

Regional Overview

- 24 markets
- Population: 3.9 billion
- Industry volume: 1.2 trillion cigarettes^(a)
- PMI shipments: 301 billion cigarettes
- Adjusted OCI: \$4.6 billion
- Manufacturing facilities: 17 PMI-owned and 38 third-party hand-rolled
- 50,000+ employees
- 60,000+ third-party hand-rollers



Indonesia



India



Vietnam



Japan



Korea



Philippines

(a) Excluding China

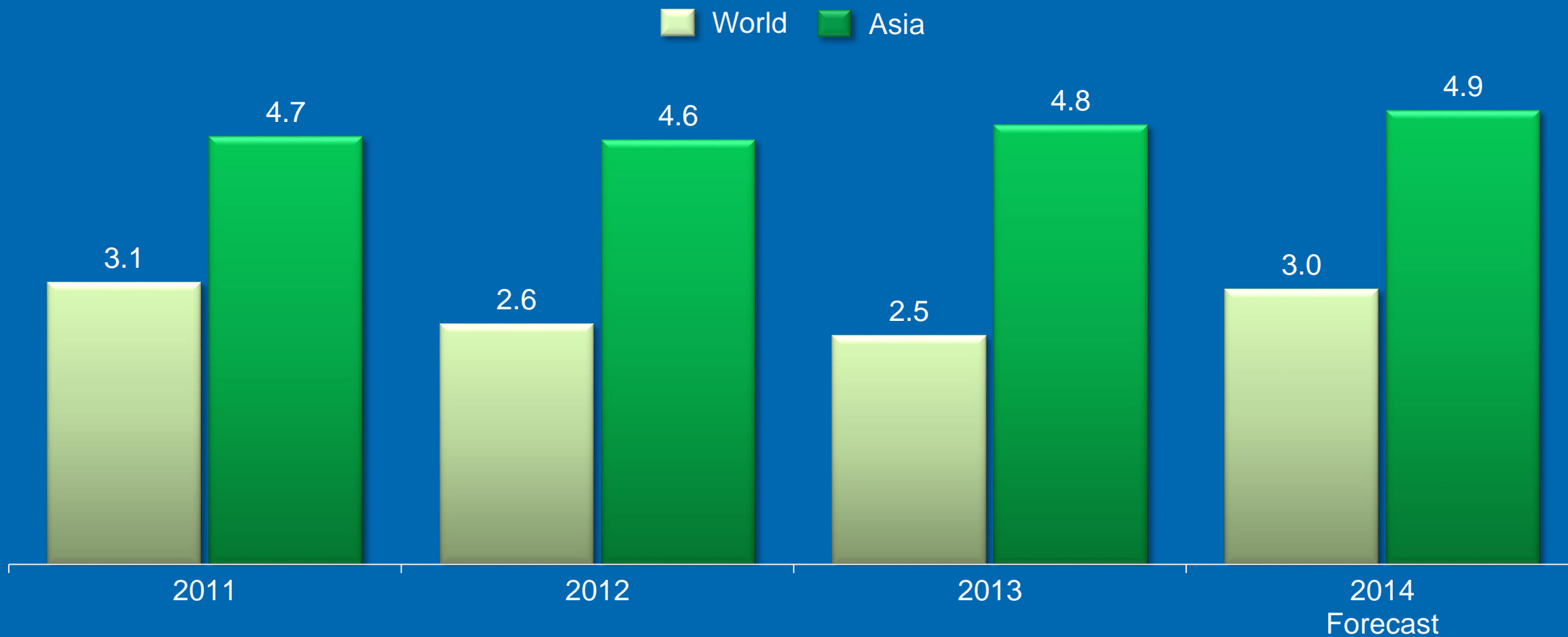
Source: Global Insights, PMI estimates and PMI Financials (2013)



GDP Growth Outperforming the World

Annual GDP Growth (%)

World Asia





Increasing Population and Consumer Purchasing Power

Annual Population Growth (%)

■ Asia's OECD ■ Asia's Non-OECD



Middle Class (million households)

■ Asia's OECD ■ Asia's Non-OECD

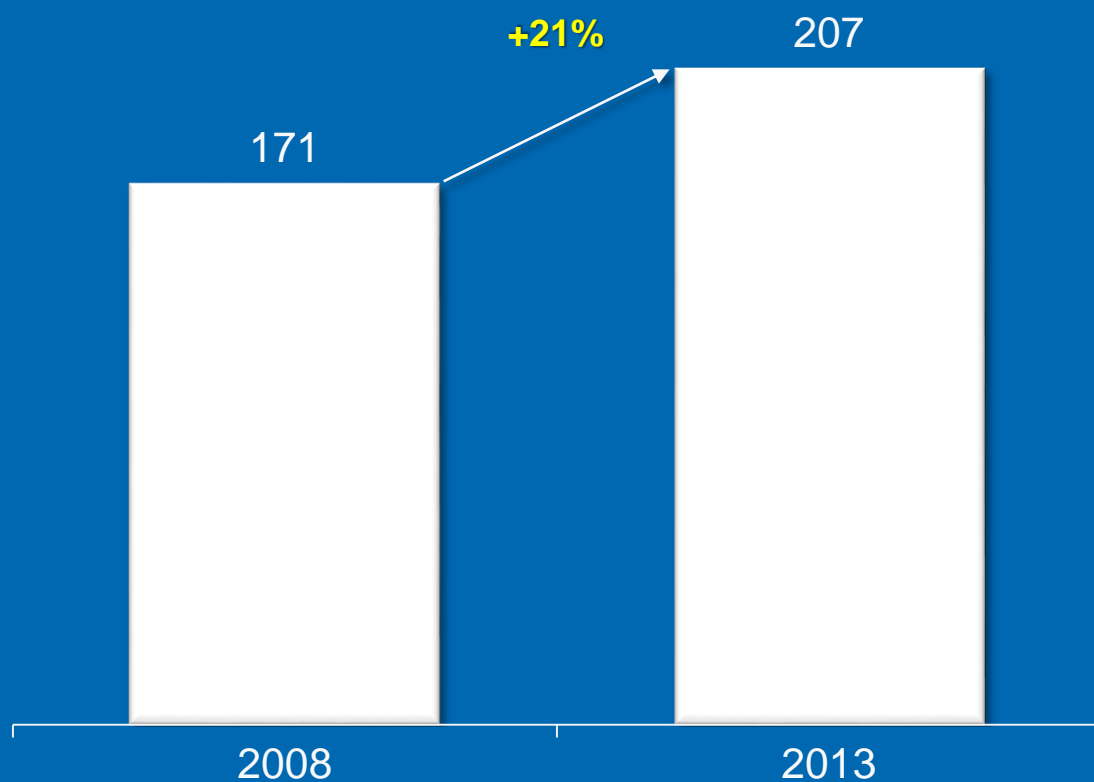


Note: Middle Class means households with an annual disposable income over USD 10,000 (constant)
Source: Global Insights and Euromonitor

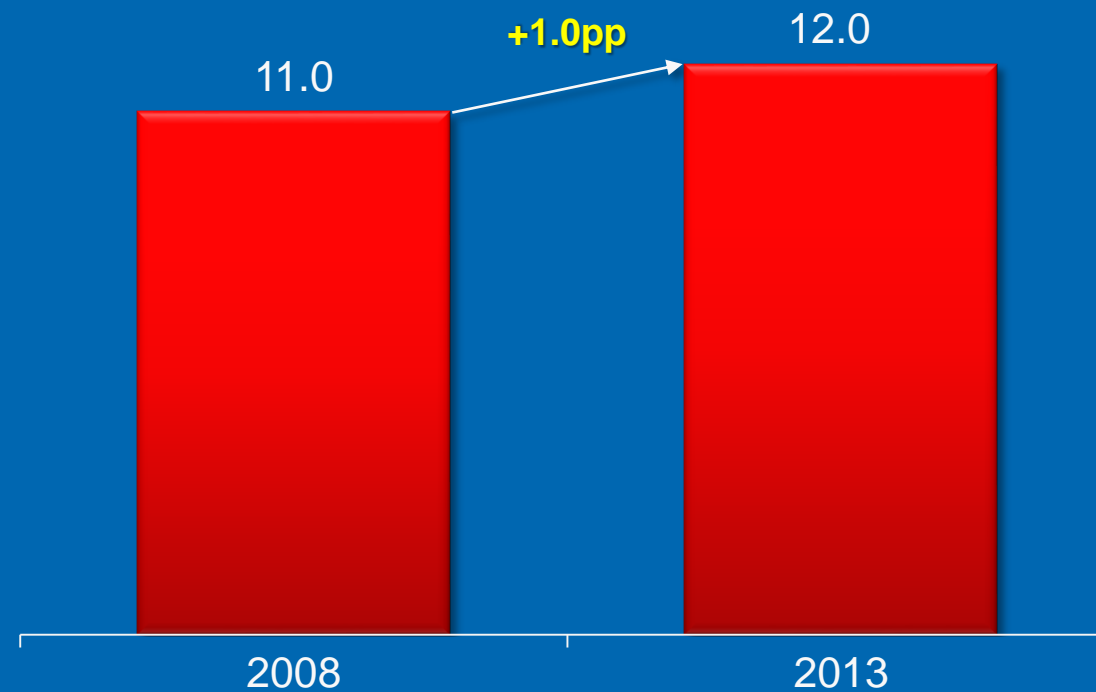


Adult Smoker Up-Trading in Asia's Non-OECD Markets Continues

Premium Industry Volume (units billion)



Premium PMI Market Share (%)



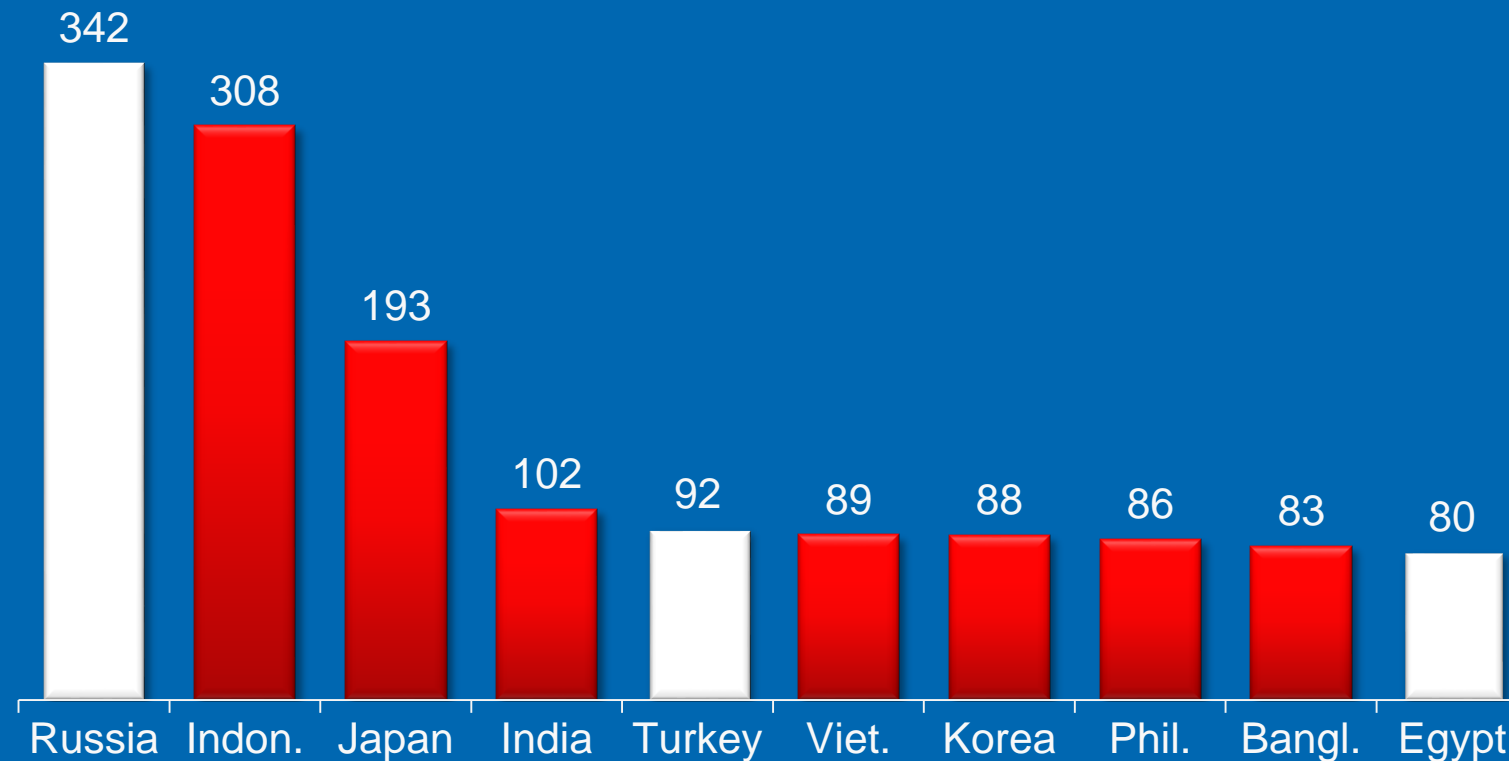
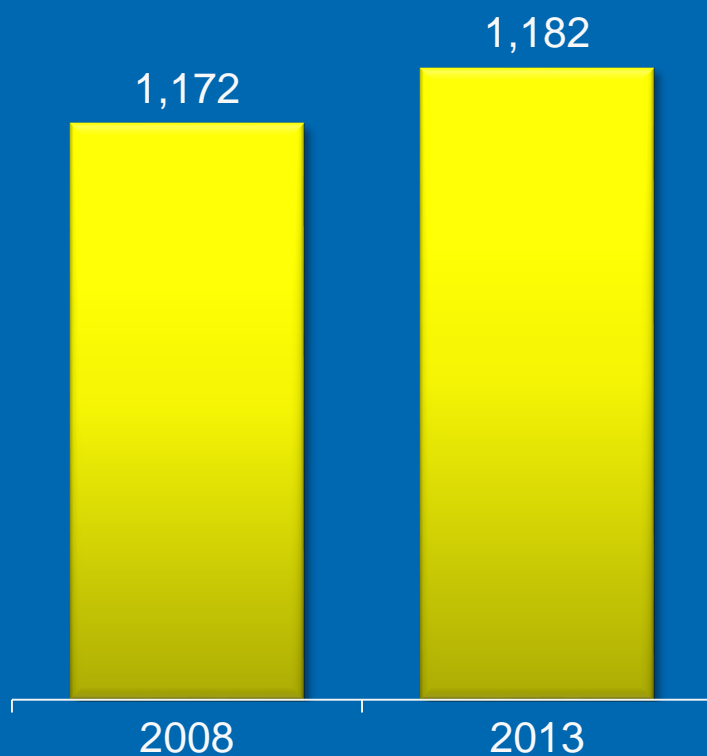


Sizable Cigarette Industry

(units billion)

Asia Region
Industry Volume^(a)
CAGR: 0.2%

World's Top 10 Cigarette Markets by Volume (2013)^(b)



(a) Excluding China

(b) Excluding China, the USA and duty free

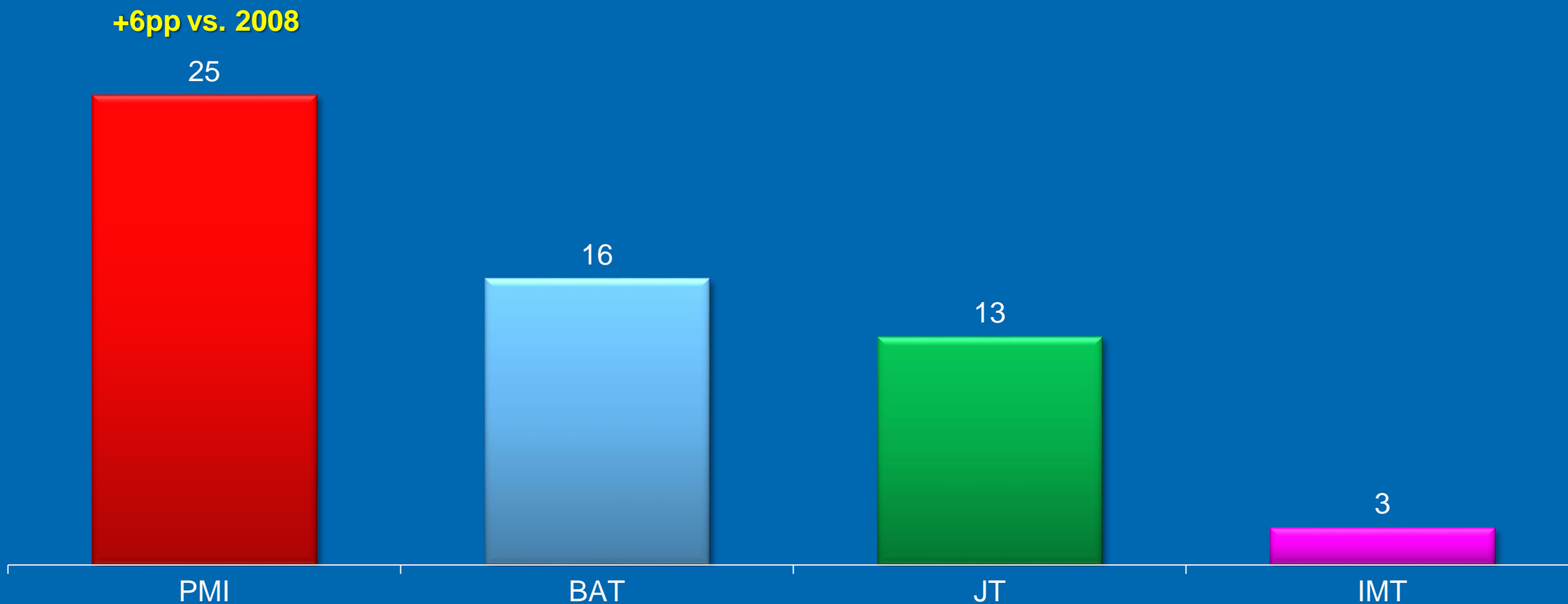
Note: Indon. is Indonesia, Viet. is Vietnam, Phil. is the Philippines and Bangl. is Bangladesh

Source: PMI estimates



Clear Market Share Leadership

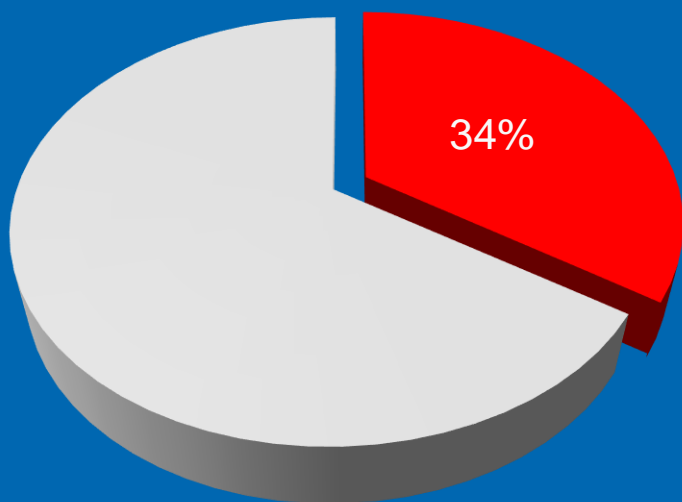
2013 Asia Region Share of Market (%)





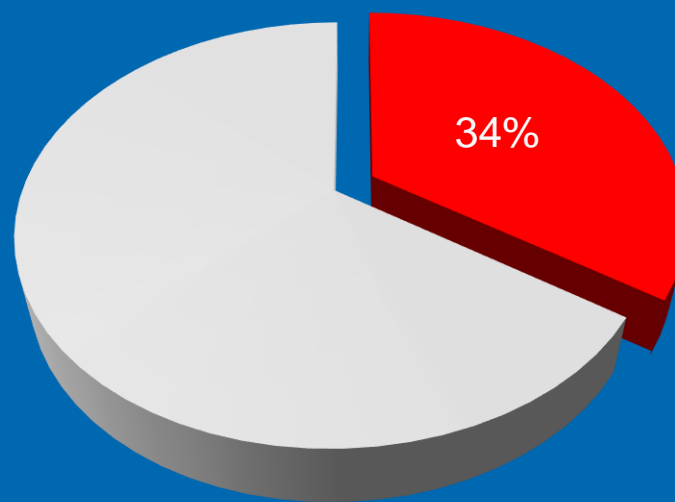
Contribution to 2013 PMI Results

+9pp vs. 2008



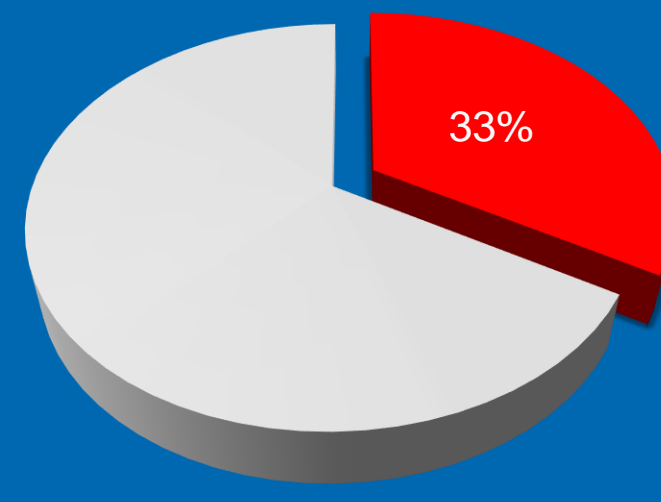
Cigarette Shipment Volume

+10pp vs. 2008



Net Revenues

+14pp vs. 2008



Adjusted OCI

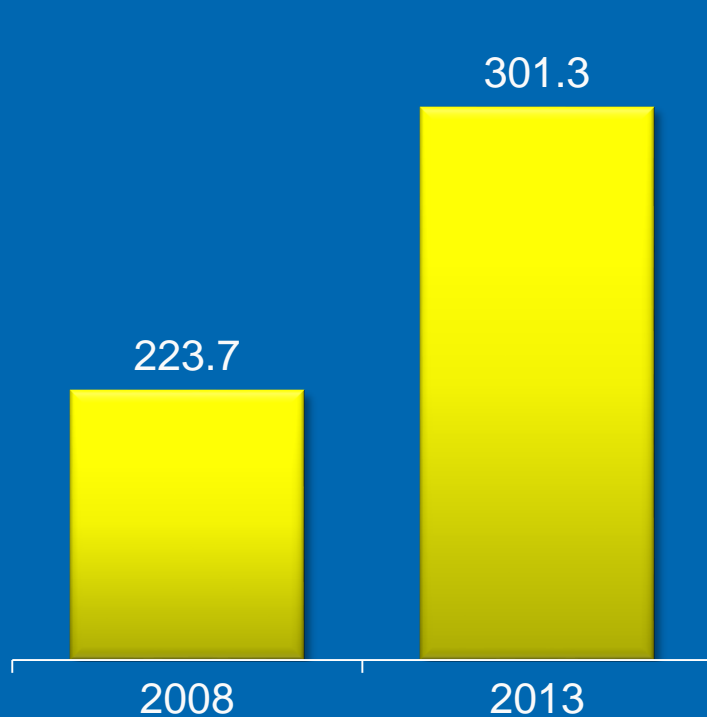


Strong Profitability Growth

Shipment Volume

(units billion)

CAGR: +6.1%

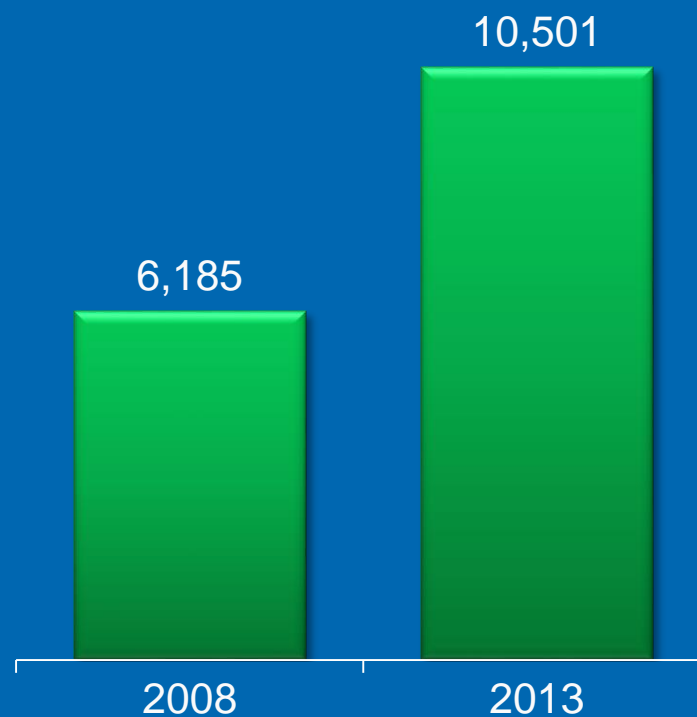


Net Revenues

(\$ million)

CAGR: +11.2%

CAGR: +10.3% (ex-currency)

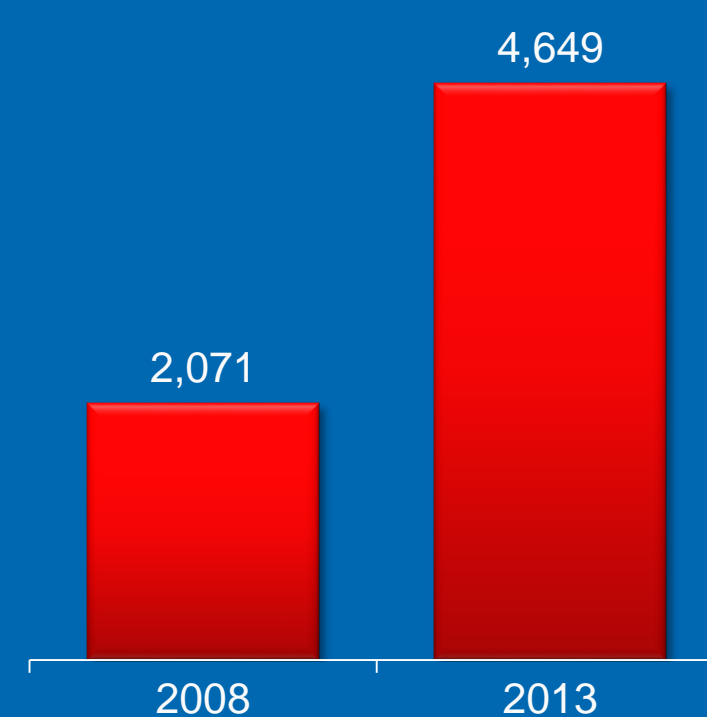


Adjusted OCI

(\$ million)

CAGR: +17.6%

CAGR: +15.6% (ex-currency)



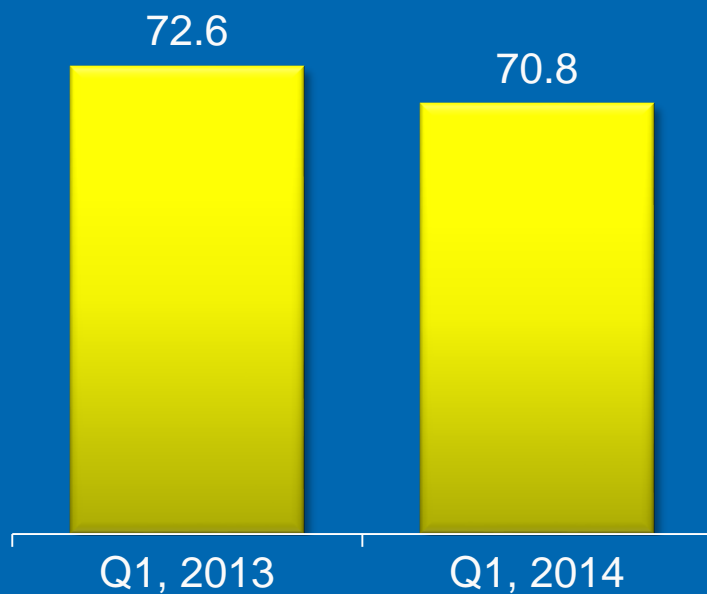


First-Quarter Results

Shipment Volume

(units billion)

-2.5%



Net Revenues

(\$ million)

-21.8%

-8.7% (ex-currency)

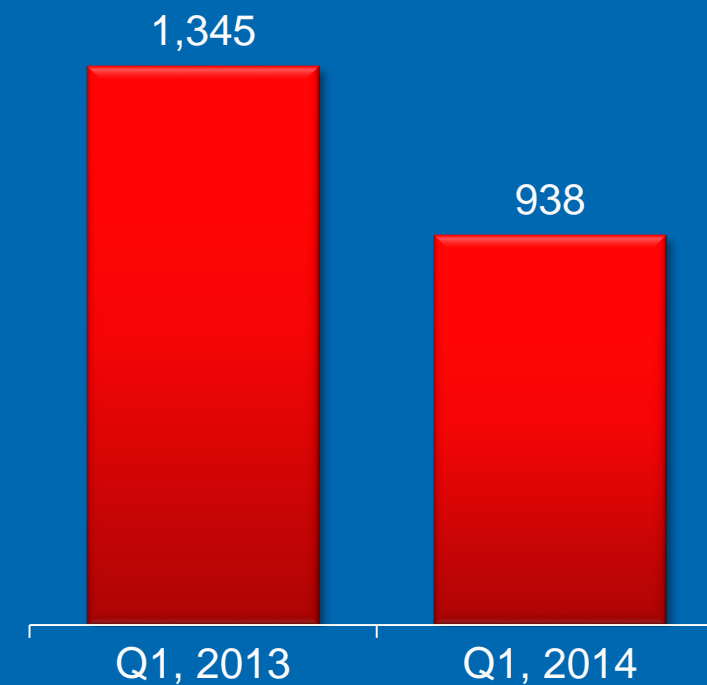


Adjusted OCI

(\$ million)

-30.3%

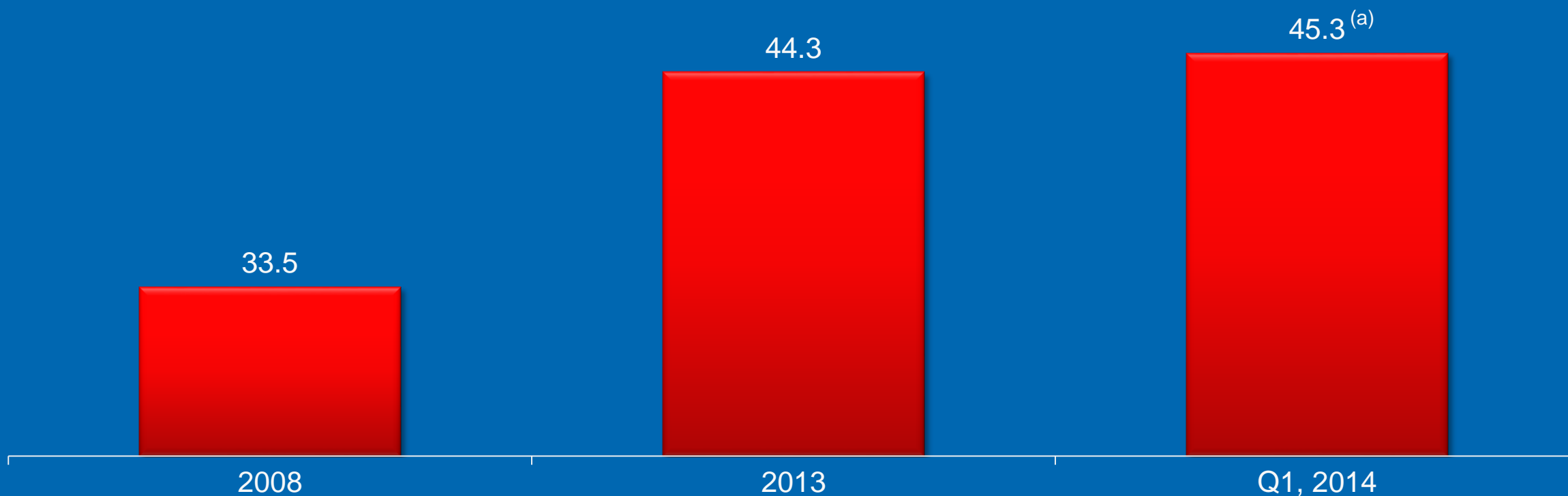
-14.3% (ex-currency)





Strong Adjusted OCI Margin

Adjusted OCI Margin (%)

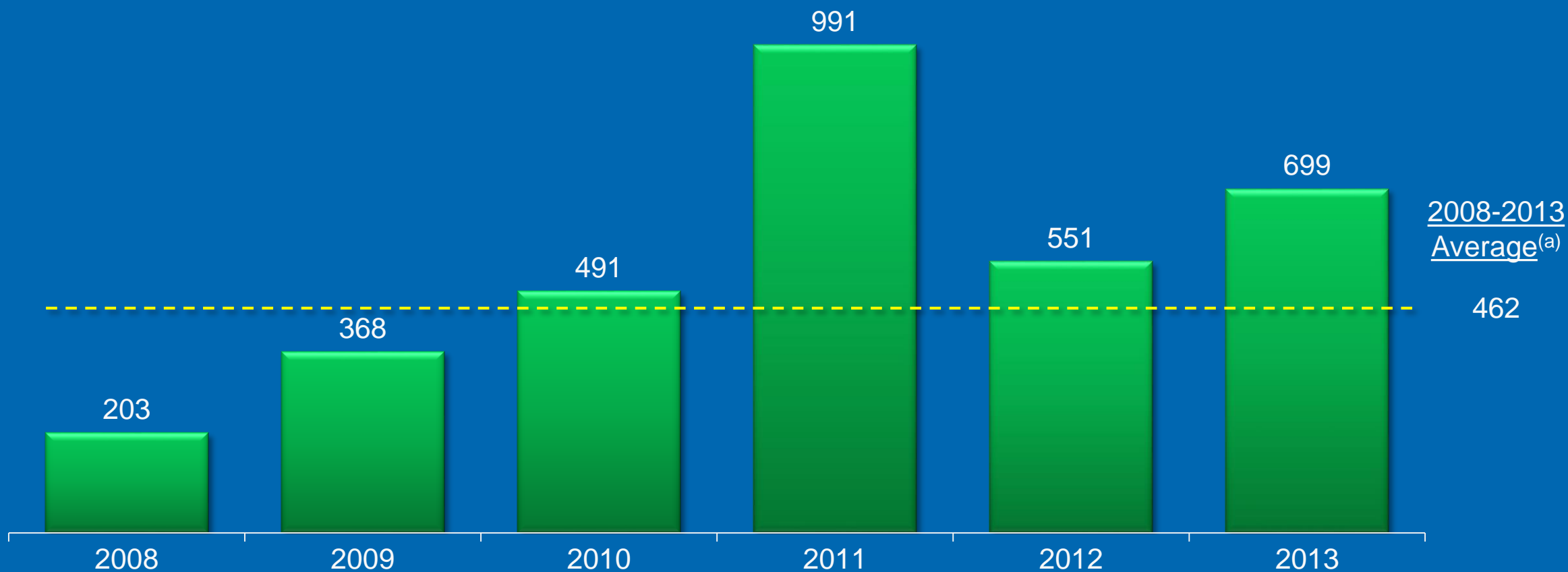


(a) Ex-currency
Source: PMI Financials



Long-Term Pricing Sustainability

Pricing Variance (\$ million)

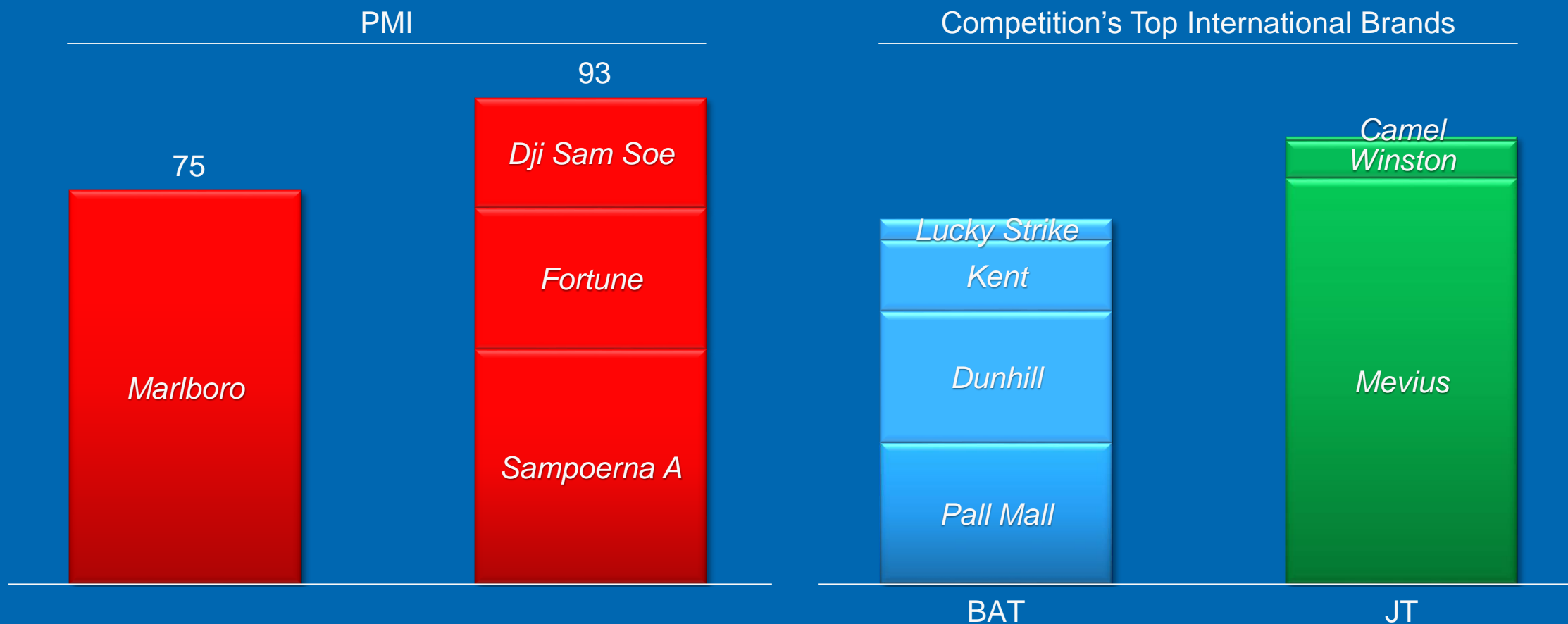


(a) 2008 to 2013 average excluding 2011
Source: PMI Financials



Superior Brand Portfolio with Strong Local Heritage Offerings

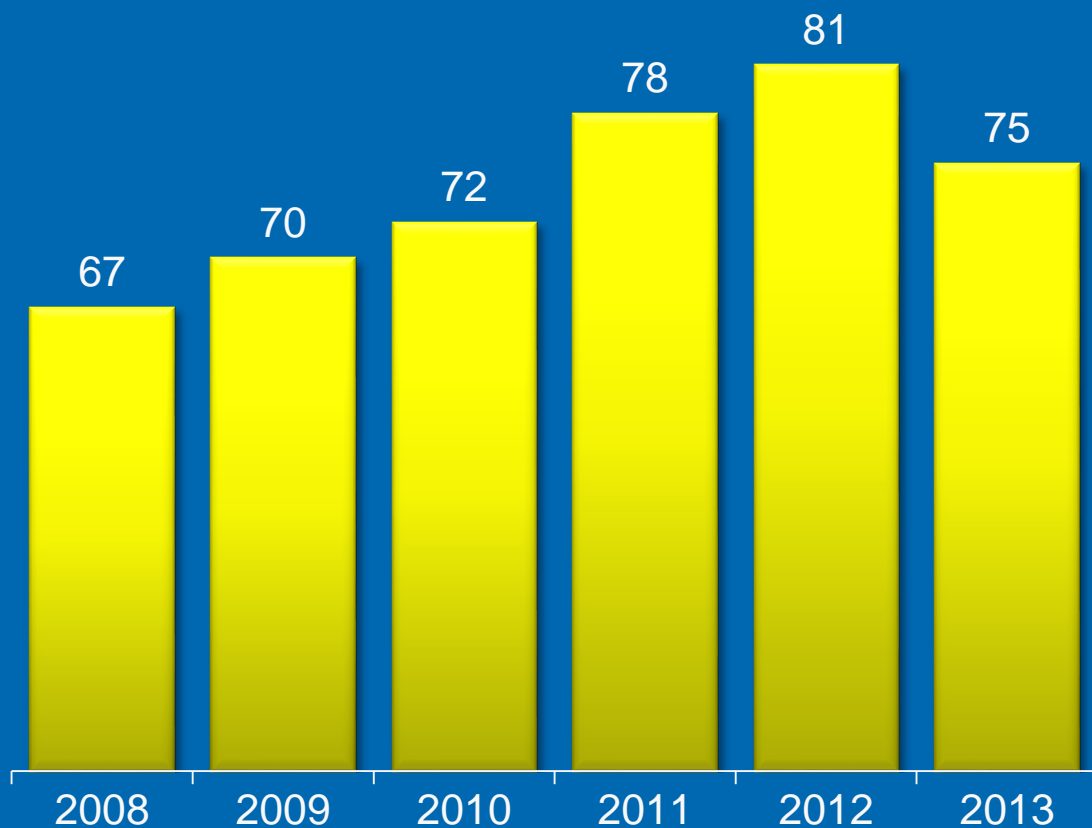
2013 Asia Region Cigarette Volume (units billion)



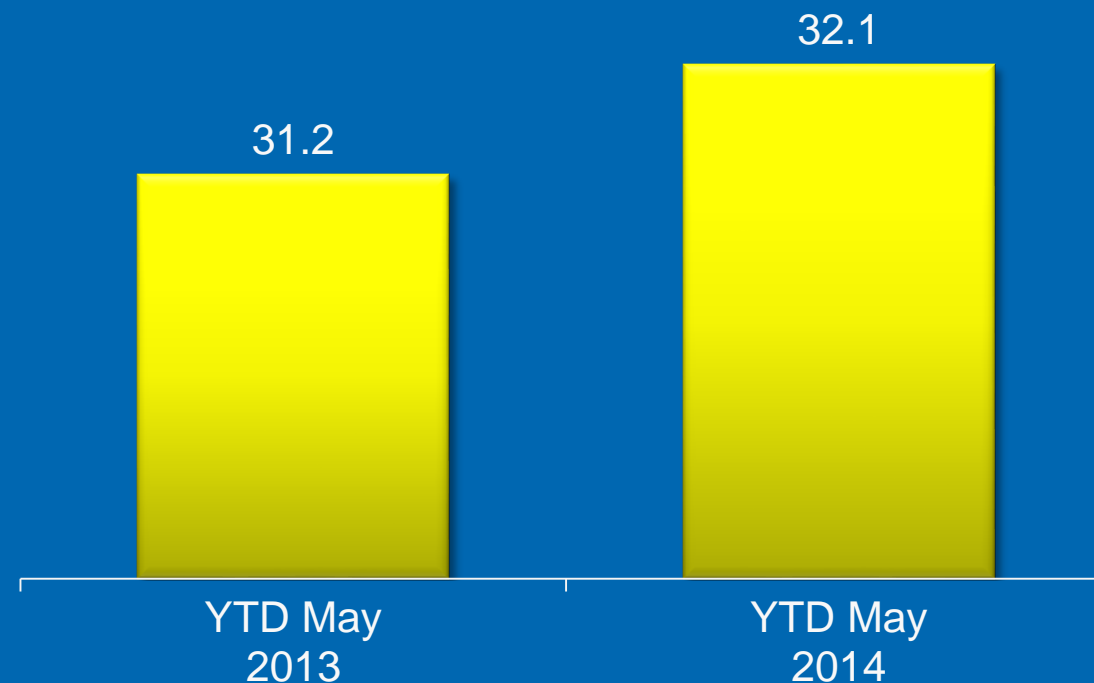


Strong *Marlboro* Performance

Marlboro Volume (units billion)
CAGR 2008-2013: 2.4%



Marlboro Volume (units billion)
YTD May, 2014 vs. PY: 2.8%



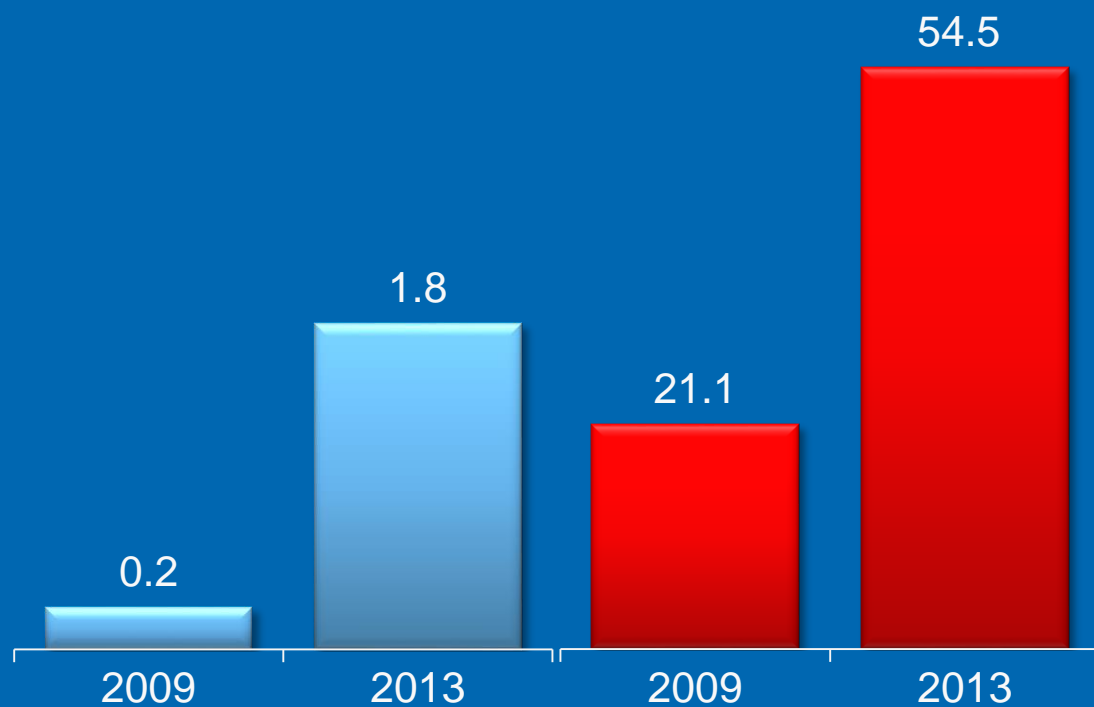


Marlboro Innovation: Capsule Segment

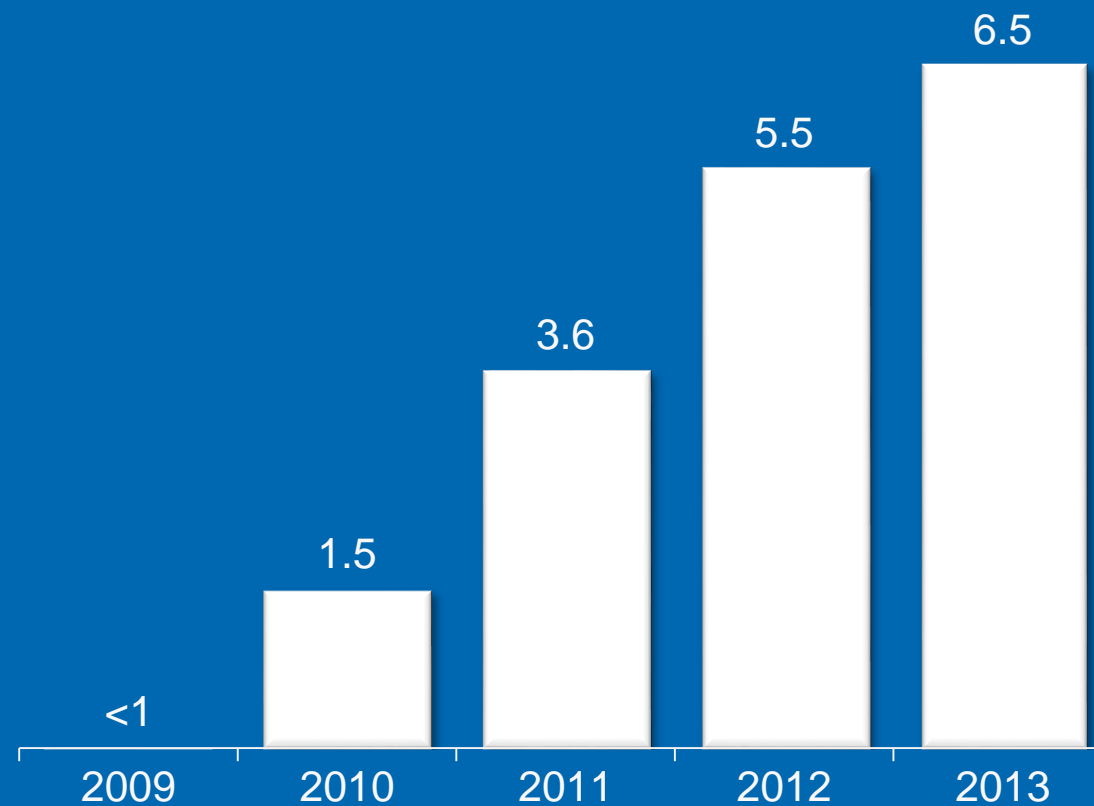
Capsule Segment (%)

Industry

PMI Share of Segment



Marlboro Capsule Products (units billion)



Be Marlboro Campaign

~~MAYBE~~
WE WILL
MAKE OUR
OWN ROAD

BE > MARLBORO



PERINGATAN:
MEROKOK MEMBUNUHMU

18+

FUSION



경고: 흡연은 폐암 등 각종 질병의 원인!
그래도 피우시겠습니까?

담배연기에는 발암성 물질인 나프틸아민, 니켈, 벤젠, 비닐 크롤라이드, 비소, 카드뮴이 들어있습니다.

금연상담전화 1544-9030

FRESH FUSION



경고: 흡연은 폐암 등 각종 질병의 원인!
그래도 피우시겠습니까?

담배연기에는 발암성 물질인 나프틸아민, 니켈, 벤젠, 비닐 크롤라이드, 비소, 카드뮴이 들어있습니다.

금연상담전화 1544-9030

평범한 건 싫다 색다르게 퓨전!

말보로 퓨전: 타르 6.0mg, 니코틴 0.50mg
말보로 프레시 퓨전: 타르 6.0mg, 니코틴 0.50mg
타르 함량은 흡연자의 흡연습관에 따라 달라질 수 있습니다.

경고: 흡연은 폐암 등 각종 질병의 원인! 그래도 피우시겠습니까? 담배연기에는 발암성 물질인 나프틸아민, 니켈, 벤젠, 비닐 크롤라이드, 비소, 카드뮴이 들어있습니다. 금연상담전화 1544-9030

Note: Translation from Korean: "No more being ordinary. Uniquely Fusion!"

RED IS *here*



Note: Visual execution is for illustrative purposes only

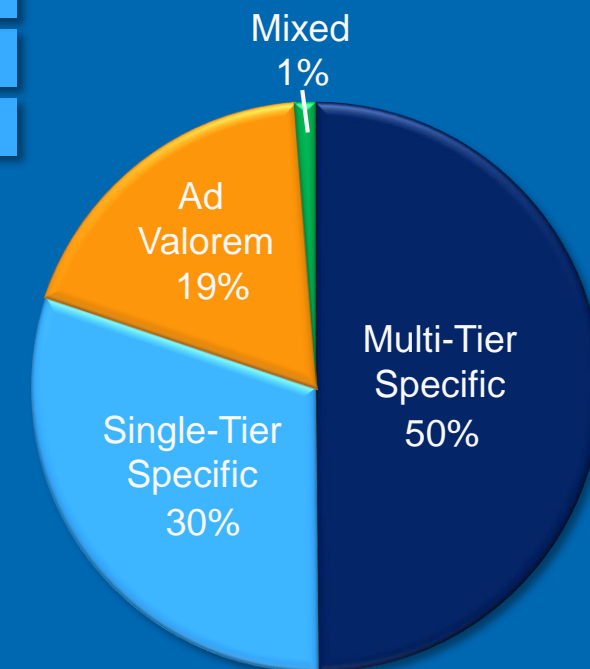
WARNING:
SMOKING CAUSES BLINDNESS
You CAN Quit. **QUITLINE** 1800-438 2000



Favorable Excise Tax Structures

- Predominantly specific excise taxes
- Pakistan's excise tax structure changed from a mixed to a specific system in 2013
- Structural excise tax improvement in Indonesia
- A single-tier excise tax structure in the Philippines as of 2017

<u>Multi-Tier Specific</u>	<u>Single-Tier Specific</u>	<u>Ad Valorem</u>	<u>Mixed</u>
India	Australia	Bangladesh	Malaysia
Indonesia	Hong Kong	Thailand	
Philippines	Japan	Vietnam	
Pakistan	Singapore		
	South Korea		
	Taiwan		



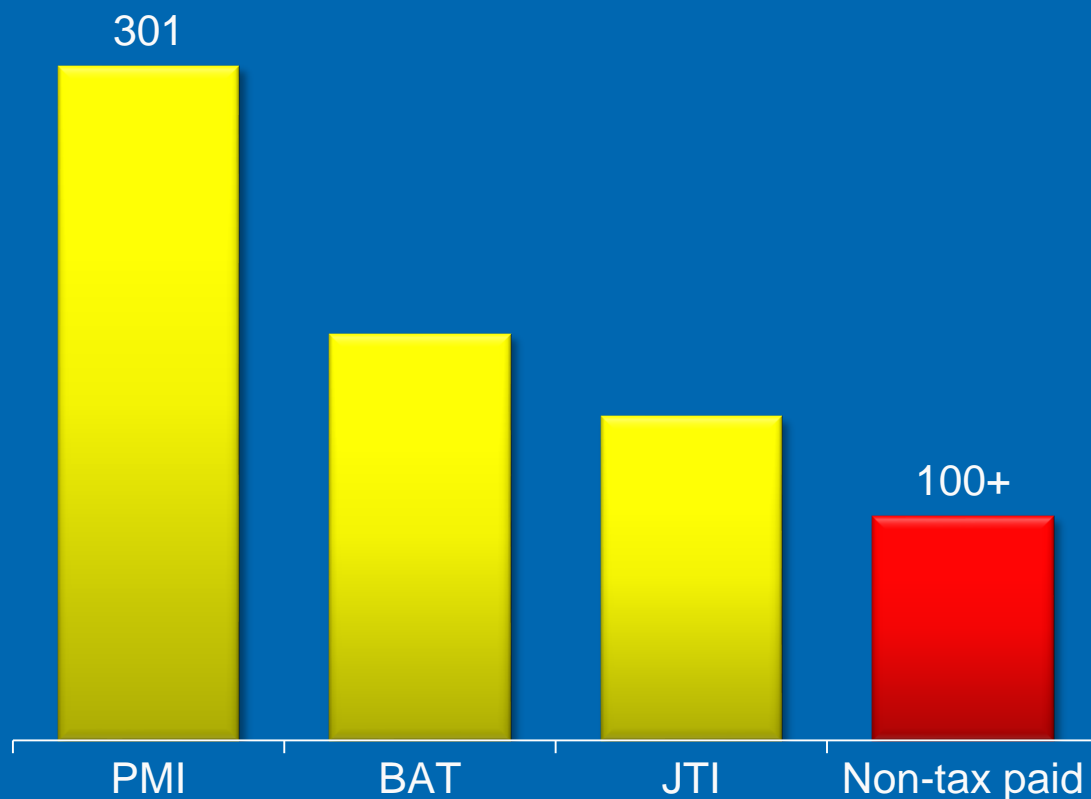
2013 Cigarette Industry Volume^(a)

(a) Industry volume based on 14 markets representing 95% of Asia's industry volume, excluding China
Source: PMI estimates

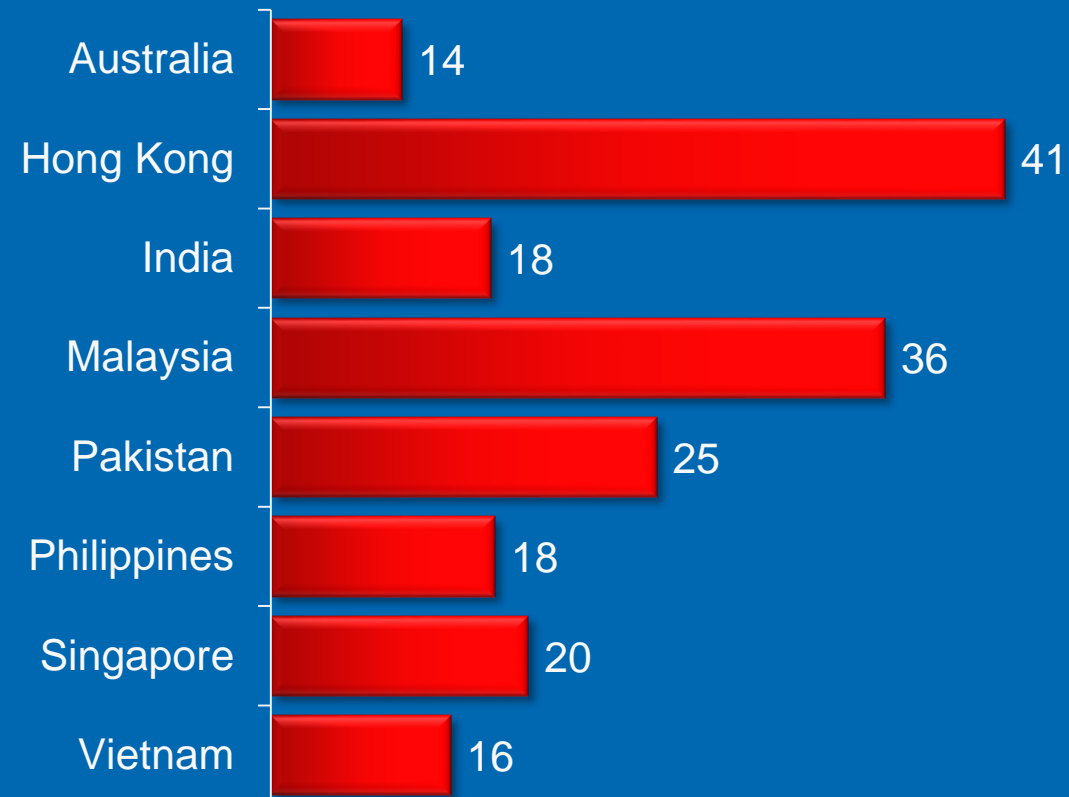


Illicit Trade is our Third-Largest "Competitor"

2013 Asia Region Cigarette Industry Volume
(billion units)



2013 Illicit/Non-domestic Incidence (%)



Note: Non-tax paid may include non-domestic cigarettes, counterfeit and local under-declaration. Estimation excludes China
Source: PMI Financials and PMI estimates. Australia KPMG Report (Illicit tobacco in Australia, 2013 Full Year Report, 3 April 2014), Hong Kong market survey (empty pack), India Euromonitor, Malaysia TNS & Nielsen (empty pack), Pakistan Retail Audit (2012), the Philippines Oxford Economic, Singapore market survey (empty pack) and Vietnam market estimate

Illicit Trade Strategies

- Expand our knowledge and evidence base with illicit trade research
- Public and trade awareness campaigns
- Co-operation with the legitimate industry and government agencies
- Advocate effective policies and enforcement
- Implementation of technologies

Hong Kong Awareness Campaign



**ONE IN THREE
HK CIGARETTES
ILLEGAL: STUDY**

Malaysia





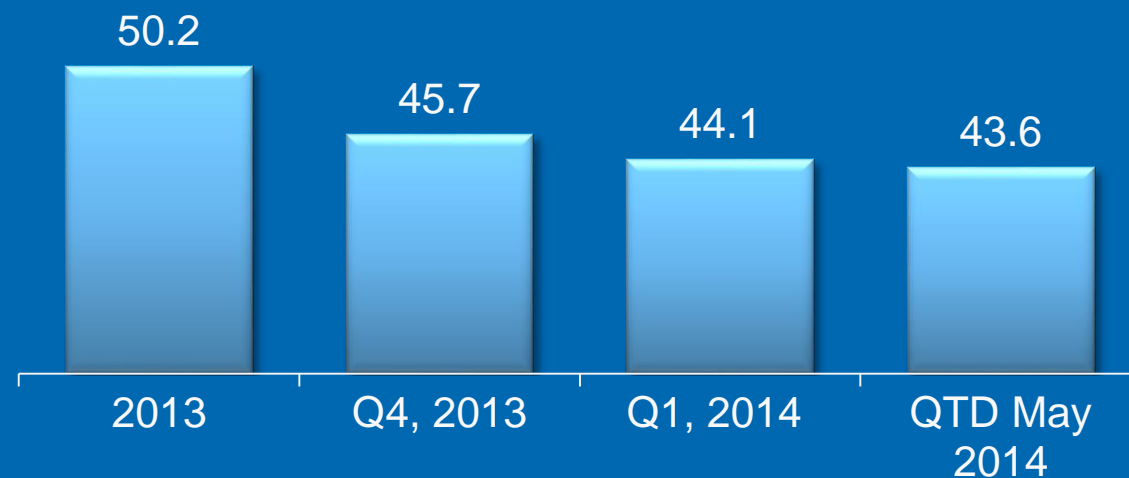
Japan: Recent Developments

- Industry volume declined by 2.0% in 2013 to 193 billion units
- Expected to decline by 3.0% to 3.5% in 2014
- VAT increased from 5% to 8% in April and expected to increase from 8% to 10% in October 2015
- Retail prices increased by JPY 20 to JPY 460 for *Marlboro* and by JPY 10 to JPY 420 for *Lark*
- New initiatives in the pipeline and roll-out of commercial approach

PMI Market Share (%)



PMI Capsule Segment Share (%)



Japan: *Marlboro* Strategic Priorities

- *Marlboro Clear Hybrid* series to be launched in August 2014
- National roll-out of the *Be Marlboro* campaign in April
- Extremely encouraging results, awareness already 30%
- Brand attributes increasing for *Marlboro* in most key dimensions

Marlboro Clear Hybrid Series



喫煙は、あなたにとって肺がんの原因の一つとなり、心筋梗塞・脳卒中の危険性や肺気腫を悪化させる危険性を高めます。未成年者の喫煙は、健康に対する悪影響やたばこへの依存をより強めます。周りの人から勧められても決して吸ってはいけません。妊娠中の喫煙は、胎児の発育障害や早産の原因の一つとなります。



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Lark Royal Blend

Philip Morris Morphing into Lark



Japan: Lark Strategic Priorities

- Stabilize market share through innovative offerings
- Brand consolidation of Philip Morris into Lark in Q2
- Introduction of the Lark Blue line-up in May and Lark Royal Blend in June
- New architecture to be unveiled
- Lark competitively priced at JPY 420

極めたまろやかさ、抑えたにおい。

LARK BLUE SMOOTH LABEL

NEW レギュラー味 ¥420

喫煙は、あなたにとって肺がんの原因の一つとなり、心筋梗塞・脳卒中の危険性や肺気腫を悪化させる危険性を高めます。未成年者の喫煙は、健康に対する悪影響やたばこへの依存をより強めます。周りの人から勧められても決して吸ってはいけません。妊娠中の喫煙は、胎児の発育障害や早産の原因の一つとなります。

Note: Translation: "Ultimate smoothness, reduced smell"



Japan: Commercialization of *iQOS*

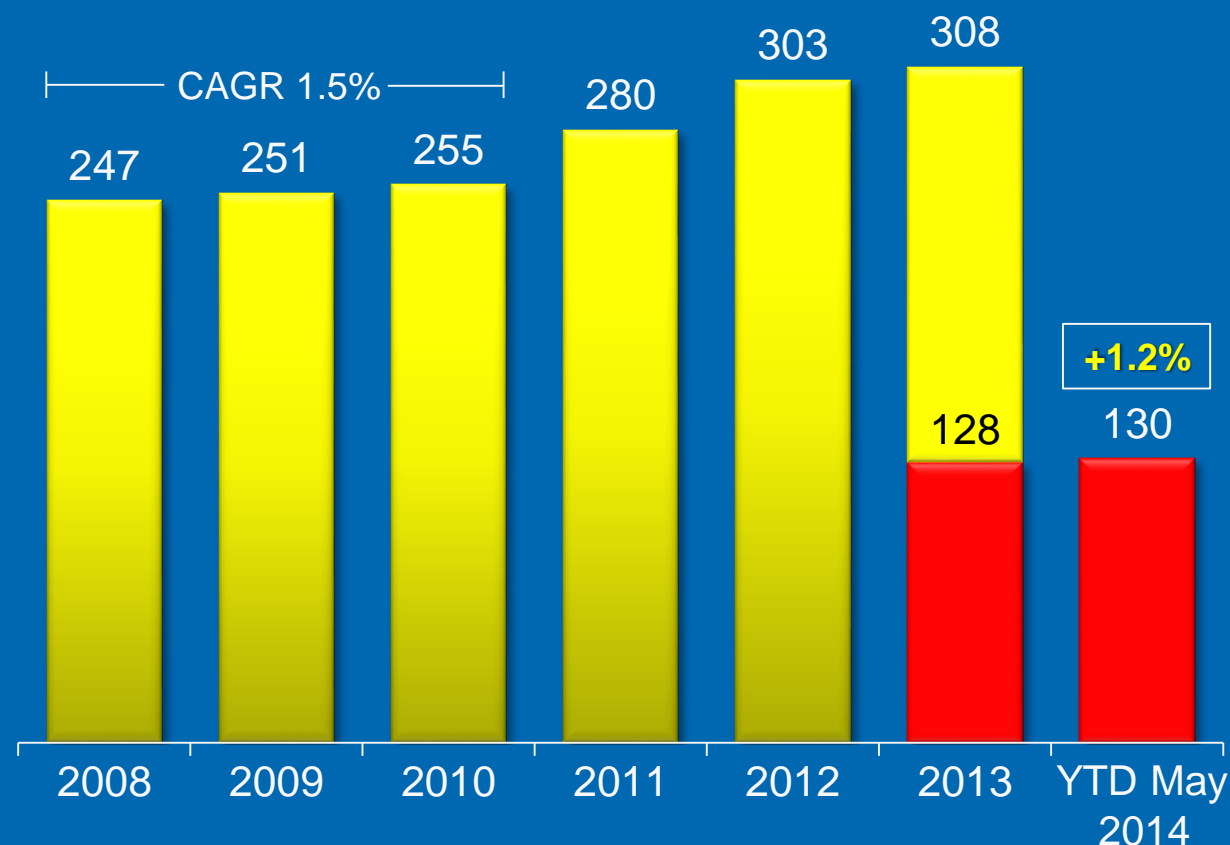
- Home usage studies were positive
- 30% adult smokers adopted the product by the end of the trial
- City test as of Q4, 2014
- Geographical expansion in 2015



Indonesia: Recent Developments

- Industry volume grew by 1.9% in 2013 to 308 billion units
- Economic slowdown and higher fuel and food prices, although GDP growth remains above 5%
- Contraction of low-price segment impacted by the "sister company" legislation (Decree 131)
- Introduction of graphic health warnings in June 2014
- Up to 1% cigarette industry volume growth forecast for 2014

Cigarette Industry Volume (units billion)

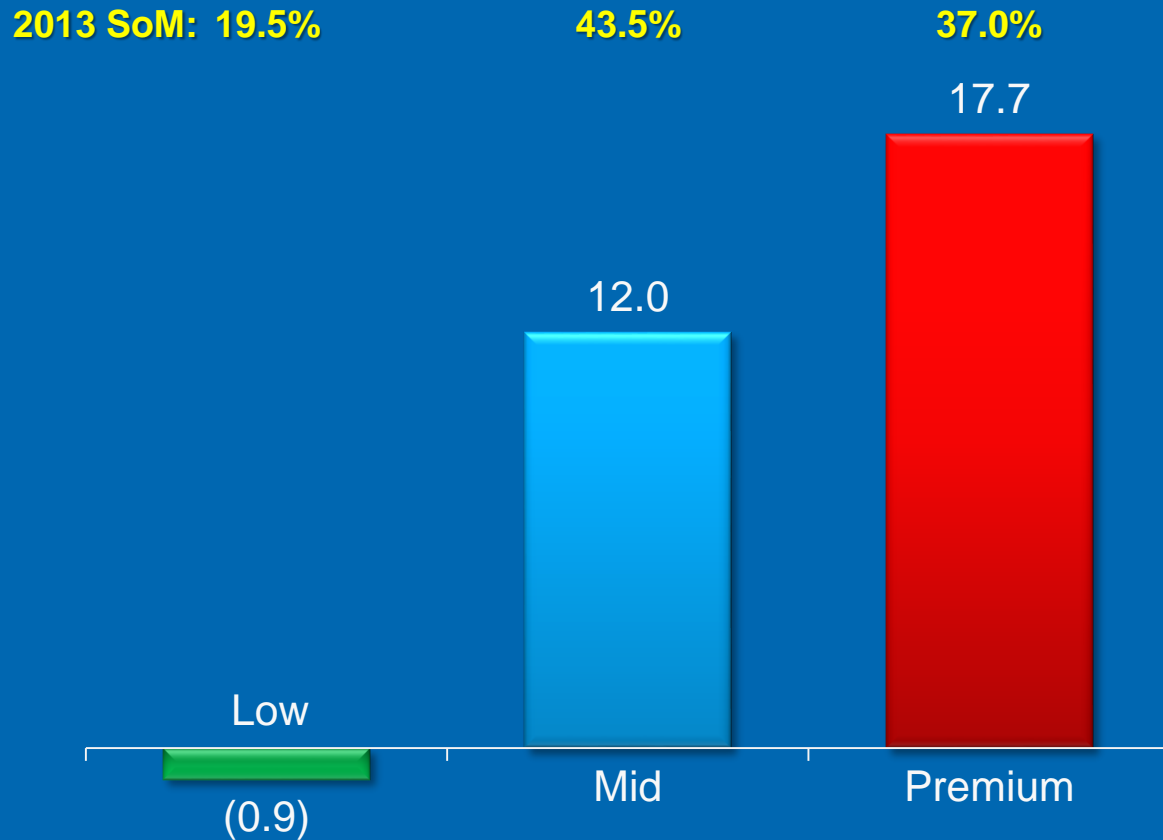


Indonesia: Adult Smoker Up-Trading with Growing Purchasing Power

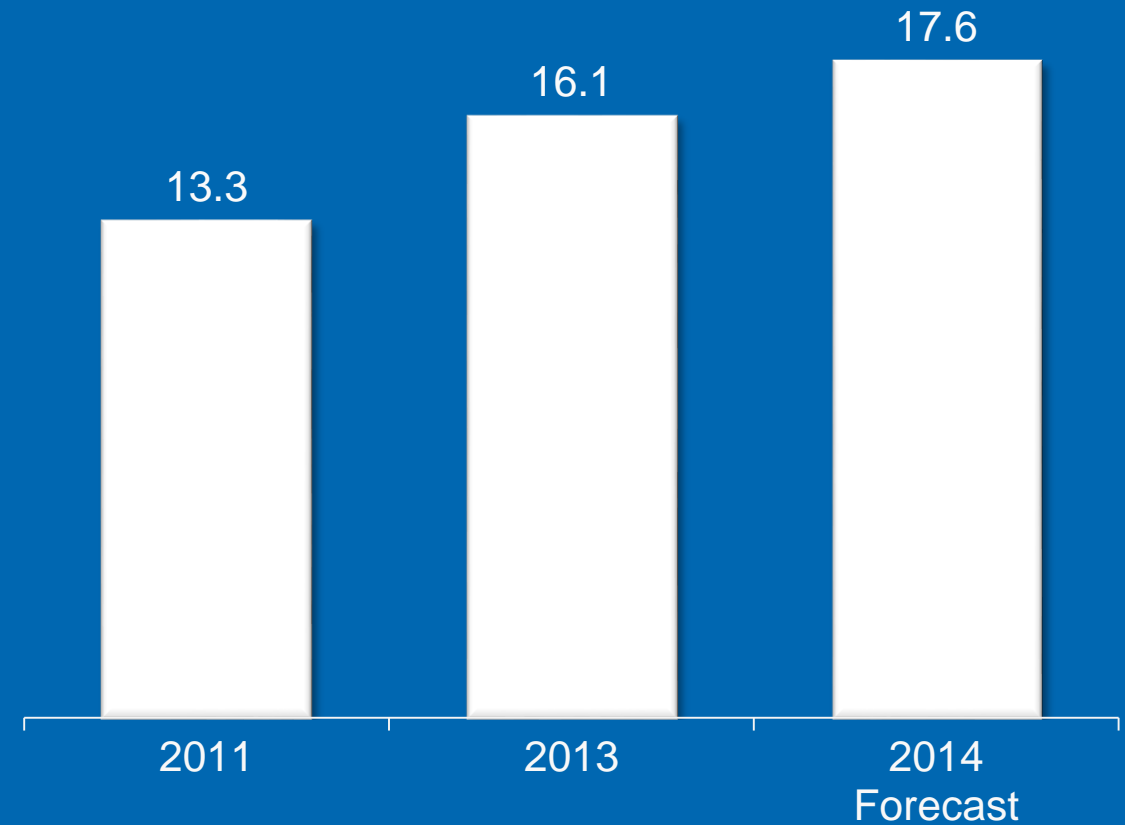


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Industry Volume Variance by Price Segment
(2013 vs. 2011 units billion)



Middle Class (million households)

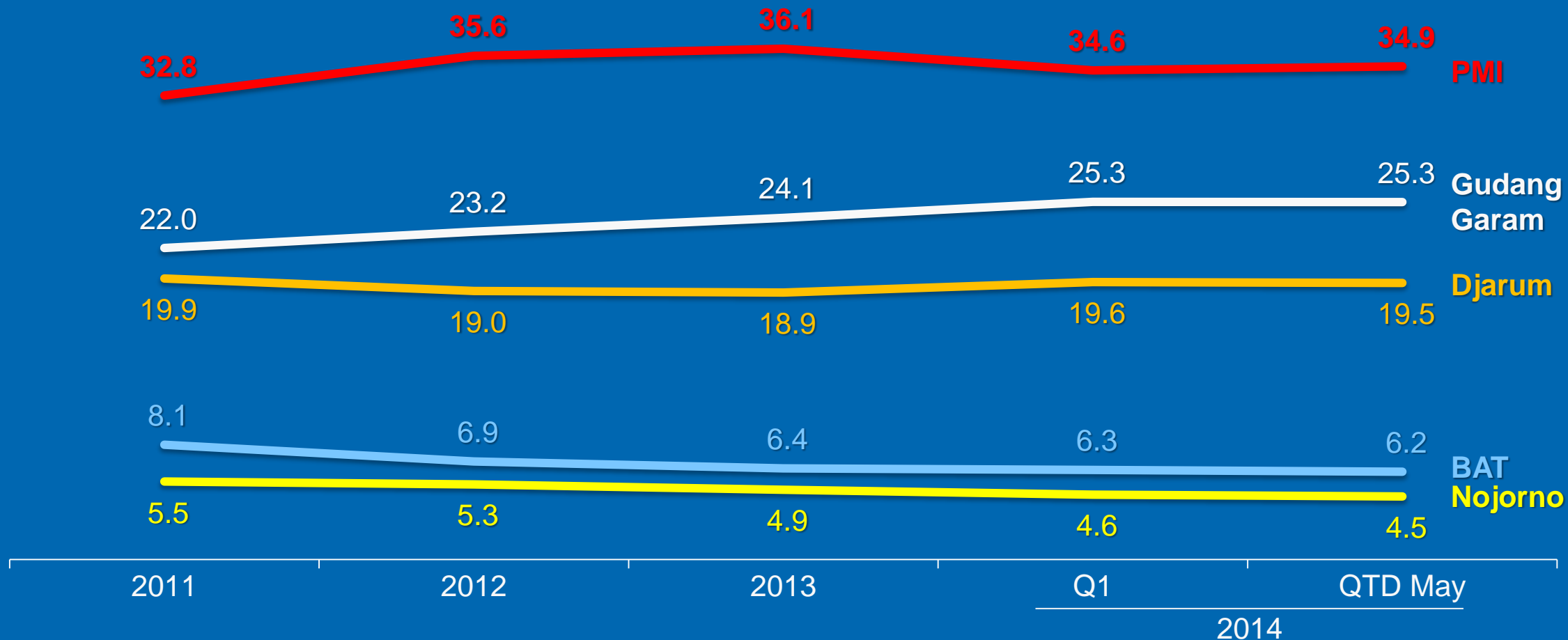


Note: Middle Class means households with an annual disposable income over USD 10,000 (constant)
Source: PMI estimates and Euromonitor



Indonesia: PMI Remains the Clear Market Share Leader

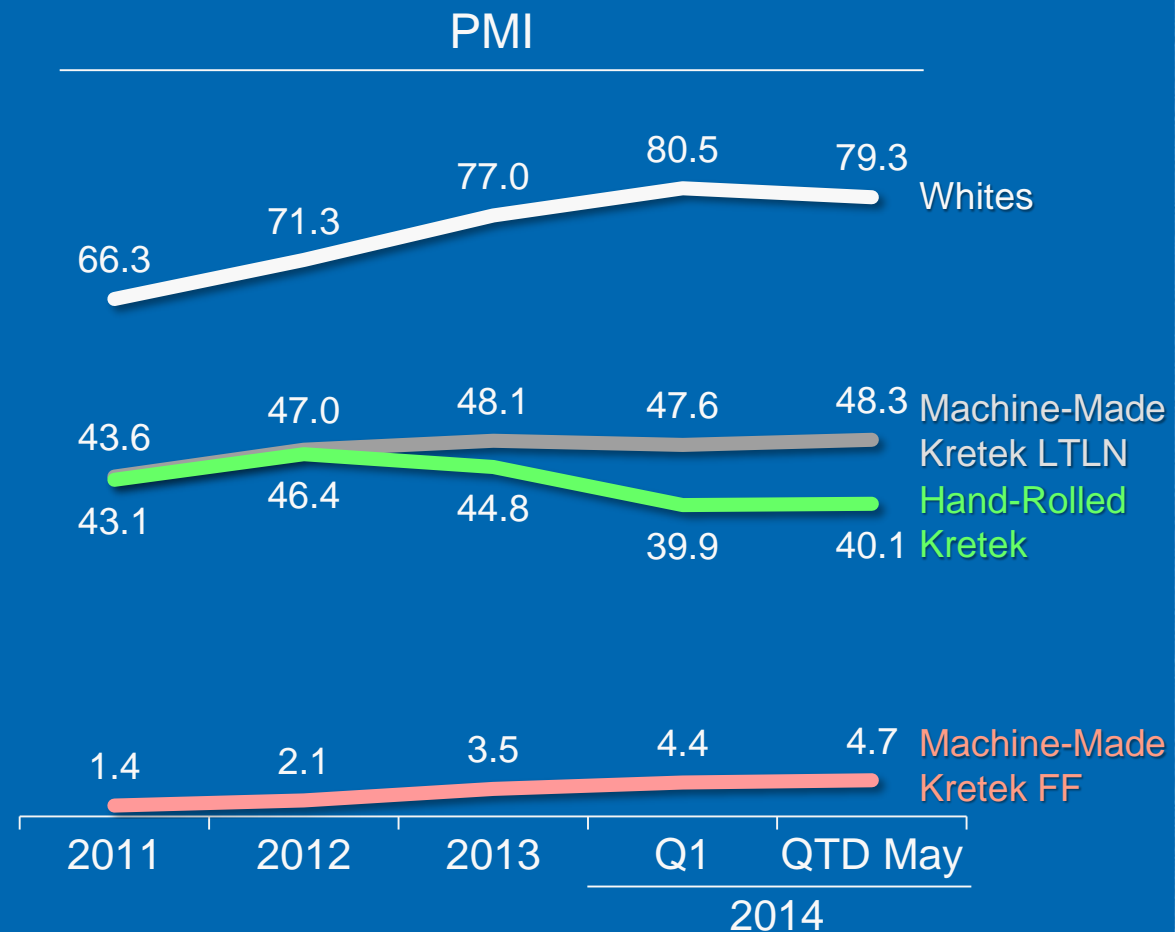
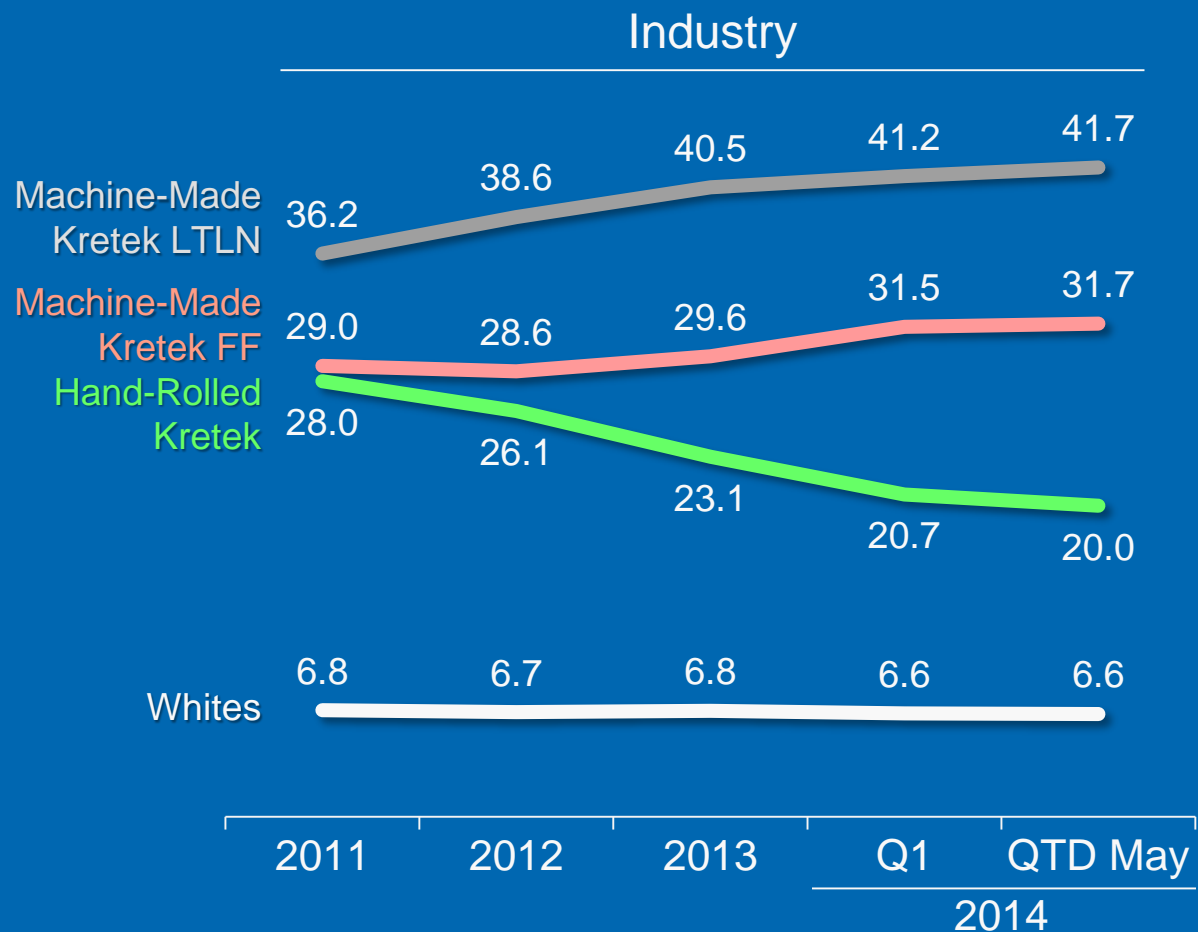
Market Shares (%)





Indonesia: Preference for Growing Machine-Made Kreteks

Share of Taste Segments (%)



Indonesia: Portfolio Skewed Towards Growing Machine-Made Kretek LTLN Segment



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- PMI share of growing machine-made kretek LTLN segment at 48.3% in QTD May
- Led by *Sampoerna A* with 14.0% market share and 33.5% share of segment
- Mid-priced *U Mild* with a growing market share of 5.6% and 13.4% share of segment
- Combined share growth of 1.2 share points YTD May
- Additional offerings during 2014

Note: Translation: "Peaceful Chaos, Go Ahead"
Source: PMI estimates





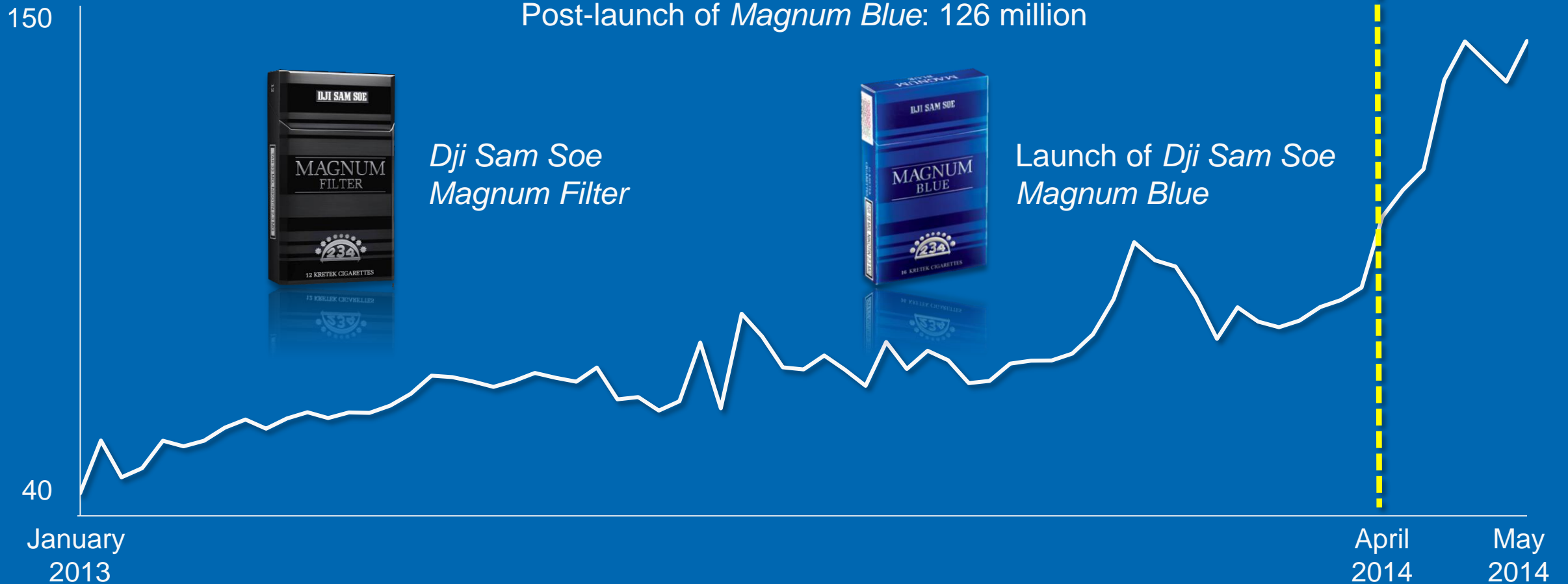
Indonesia: *Dji Sam Soe* Magnum Growth in Machine-Made Kretek

(units million/week)

2014 Average Weekly Combined Volume

Pre-launch of *Magnum Blue*: 84 million

Post-launch of *Magnum Blue*: 126 million





Indonesia: Strong Fundamentals for Future Growth

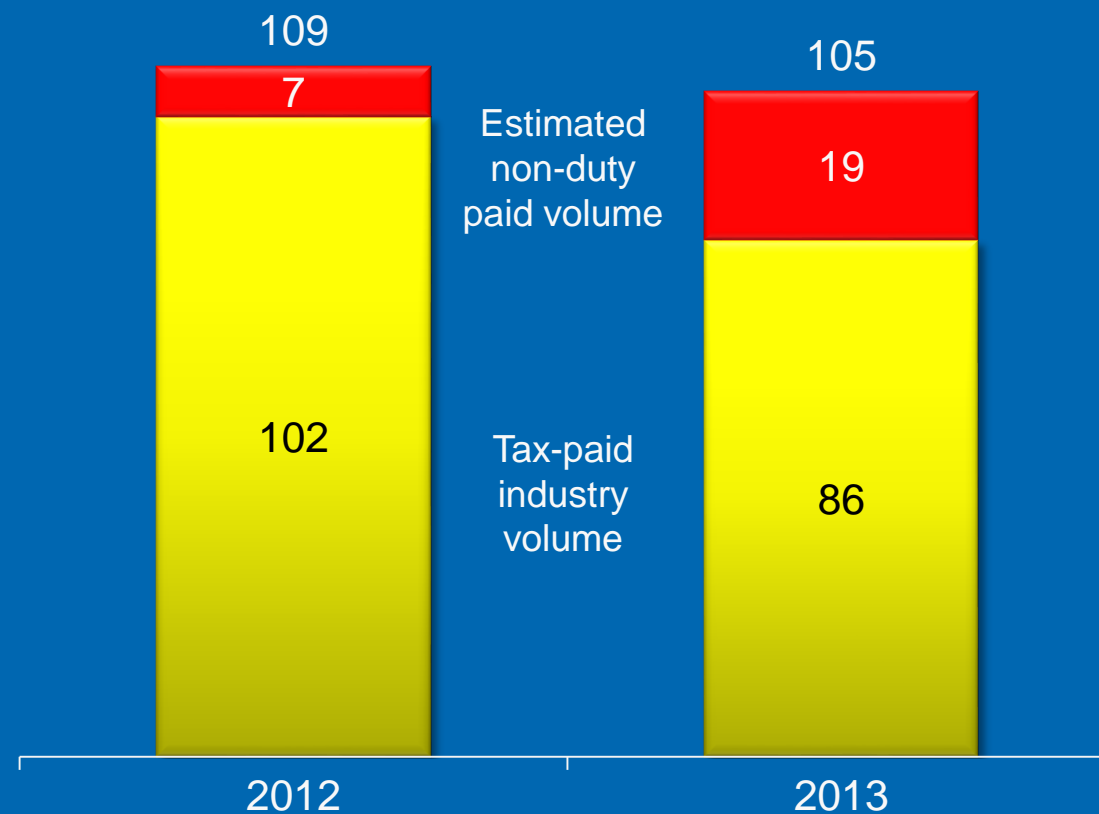
- Favorable economic growth
- Middle class rising with higher disposable income
- Simplified excise tax structure
- Growing cigarette industry
- Superb brand portfolio
- Successful expansion into the growing machine-made kretek segment
- Stabilization of clove prices
- Productivity savings and cost optimization initiatives



Philippines: Recent Developments

- Growing adult population
- Economy backed by foreign remittances and urbanization
- Volume declared for tax purposes at 86 billion units in 2013
- Stable cigarette consumption
- Estimated loss of government revenues approximately \$350 million in 2013

Cigarette Consumption (units billion)

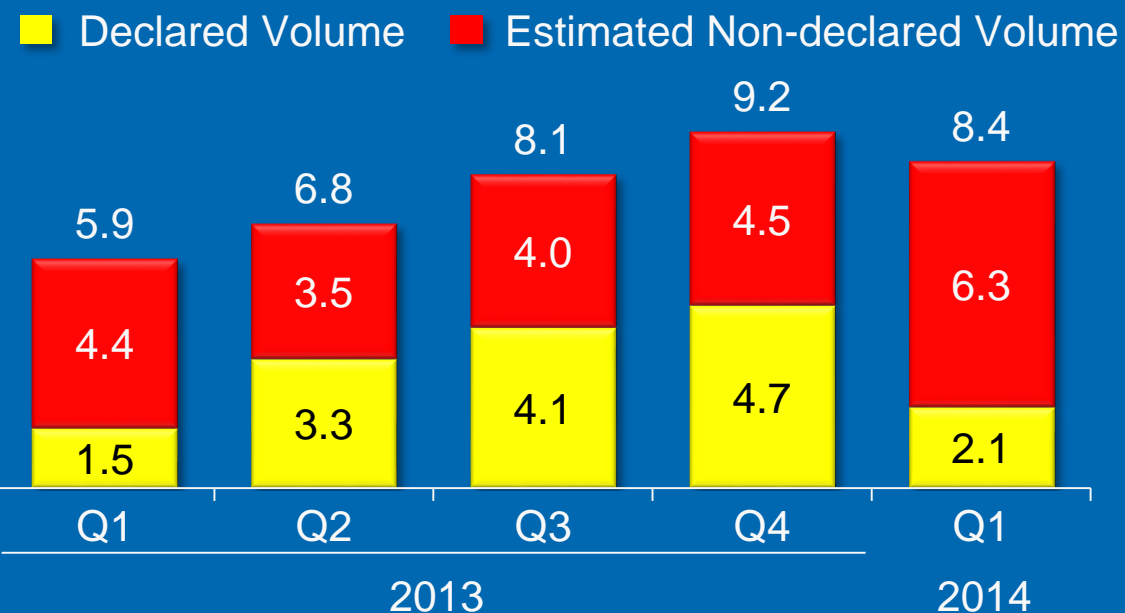




Philippines: Mighty Corporation Tax Under-Declaration is Core Issue

- Mighty Corporation declared only about half of its sales volume for tax purposes in 2013
- Initial penalty of \$20 million issued by the Philippines Customs authority
- Import bonded warehouse remains suspended
- Under excise tax investigation by the tax authorities
- Introduction of tax stamps expected in July

Mighty Corporation Volume (units billion)



Govt loses P5B in cigarette taxes in 6 mos.

'Sin' tax law advocates laud govt probe of Mighty Corp.

CONTINUED FROM A1

Asked to comment on the allegations, Mighty Corp. in an e-mailed statement to the Business Tribune said, "Mighty [Corp.] categorically denies under-declaring its cigarette products. And while our company cannot comment on how other cigarette companies price their cigarettes, what we can say is that our company can sell P1 per stick cigarettes because aside from having comparatively lower administrative and operating expenses, Mighty [Corp.] also does not have to pay royalty fees to foreign companies for the use of our brands of cigarettes."

Mighty Corp. also said it "does not pay service fees or management fees to any foreign company. Mighty Corp. also uses more local components compared to its other competitors. Finally, it might interest the public to know that Mighty is not the only company that currently sells P1 per stick cigarettes."

Finance Secretary Cesar V. Purisima said the government lost P5 billion in cigarette taxes in the first six months of 2013. He said the government is looking into the matter and may issue a penalty to the company.

AC Nielsen, a market research firm, said that the government's estimate of cigarette sales is based on data from the MTA on their actual domestic leaf purchases, one can come up with a conservative estimate of the company's actual domestic sales, which totaled 334 million cigarette packs in 2011, approximately the same level established by the retail-trade audit of AC Nielsen. However, BIR records for the same year reflected sales of only 209 million tax-paid packs.

For 2012 the AC Nielsen reports indicated an estimated sales of 518 million cigarette packs for Mighty in the local market. BIR records reportedly reflected sales of only 213 million cigarette packs.



Philippines: Improving Shipment Volume

(units billion)

PMI Total Volume

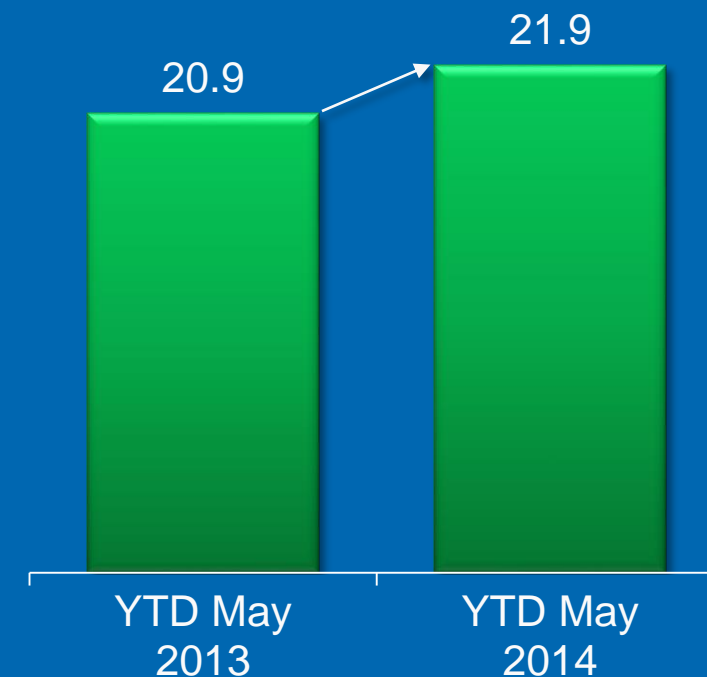
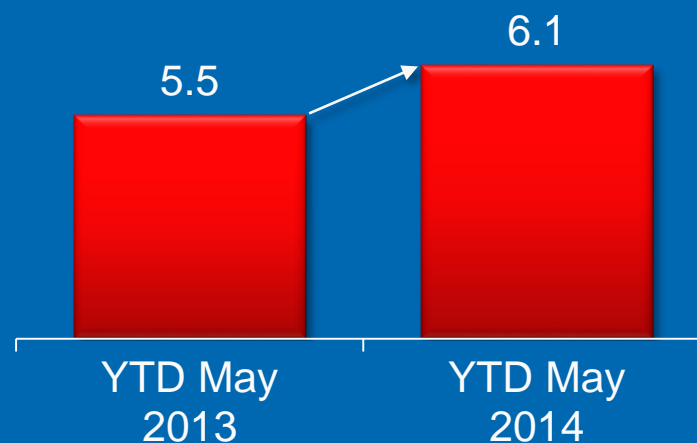
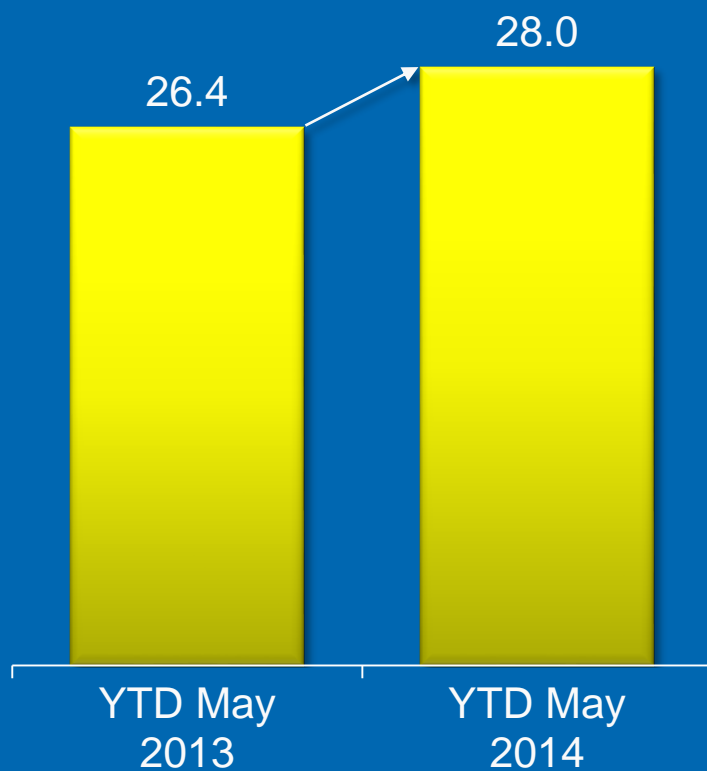
6.1%

Marlboro Volume


10.3%

Other Brands Volume

5.0%



Philippines: Outstanding Portfolio

2013 Industry Share	2013 PMI Share of Market: 79.3%
Premium 18.6%	PMI SoS 100%  
Mid 9.9%	67%  
Low 32.1%	98%   
Super-Low 39.4%	57%  



GOVERNMENT WARNING: CIGARETTE SMOKING IS DANGEROUS TO YOUR HEALTH







GOVERNMENT WARNING: CIGARETTE SMOKING IS DANGEROUS TO YOUR HEALTH

Note: Images are for illustrative purposes only. Translation: "The New Look of Fortune"
Source: PMI estimates



Philippines: Shifting to Single-Tier Excise Tax Structure

Brand	RRSP (PHP)		Excise Tax (PHP/pack)					2018 onwards
	Per pack	Per stick	Current	2015	2016	2017	2017	
	51/55	3.00	27	+1	+1	+1		
	25.5	1.75	17	+4	+4	+5	30	+4% annually
	25	1.50						
	22	1.25						



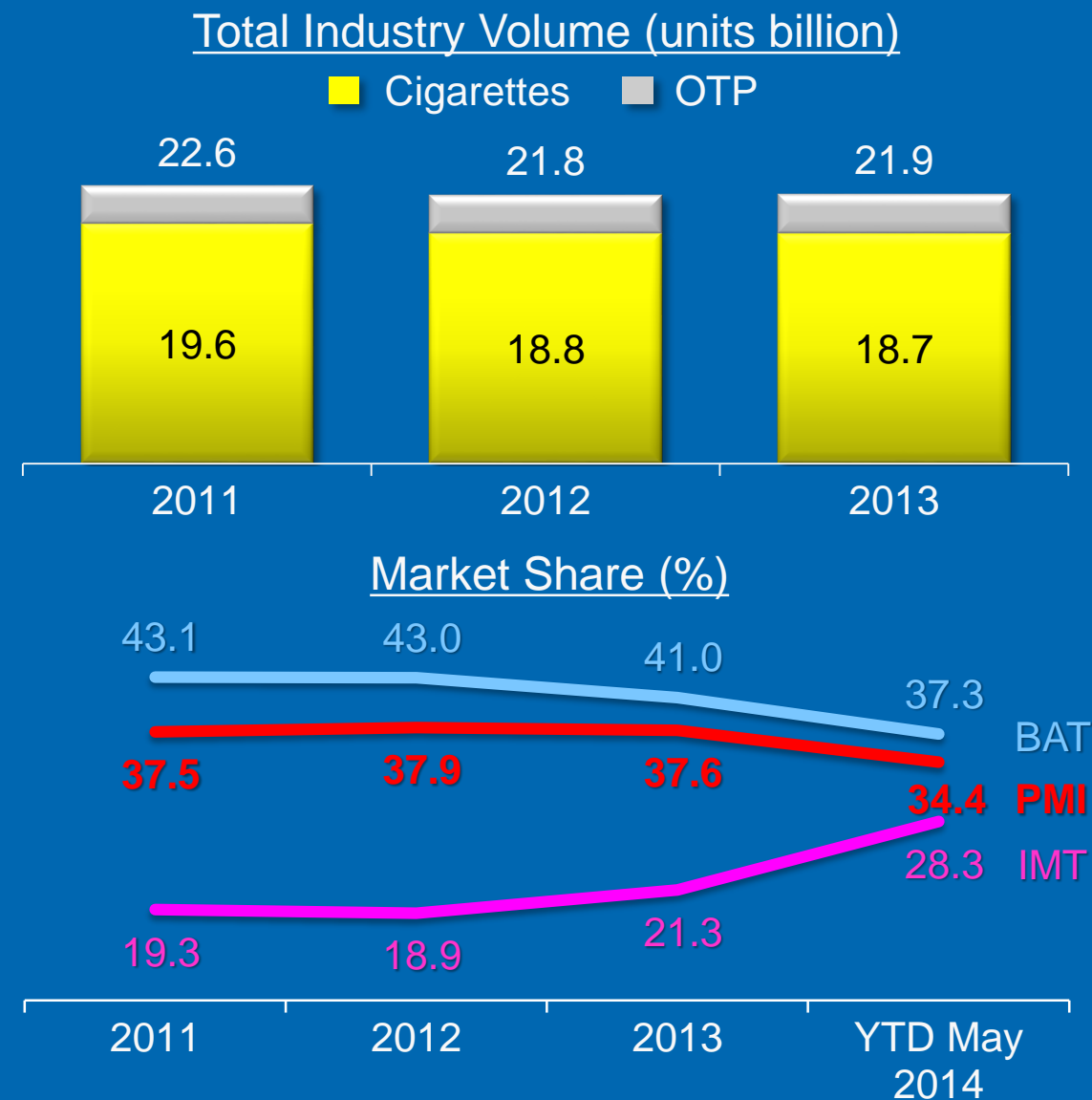
Philippines: Strong Potential for Profitable Growth

- Favorable socio-economic trends
- Sizable cigarette consumption volume
- Balanced portfolio with a strong premium segment share, led by *Marlboro*
- PMI volume growing
- Fiscal tax stamp implementation
- Expected narrowing of price gaps with single-tier excise tax structure



Australia: Recent Developments

- Cigarette industry volume stable at 18.7 billion units in 2013
- 2013 market share at 37.6%
- 12.5% excise tax increase in December 2013
- Market share under pressure in 2014 due to competitive price discounting



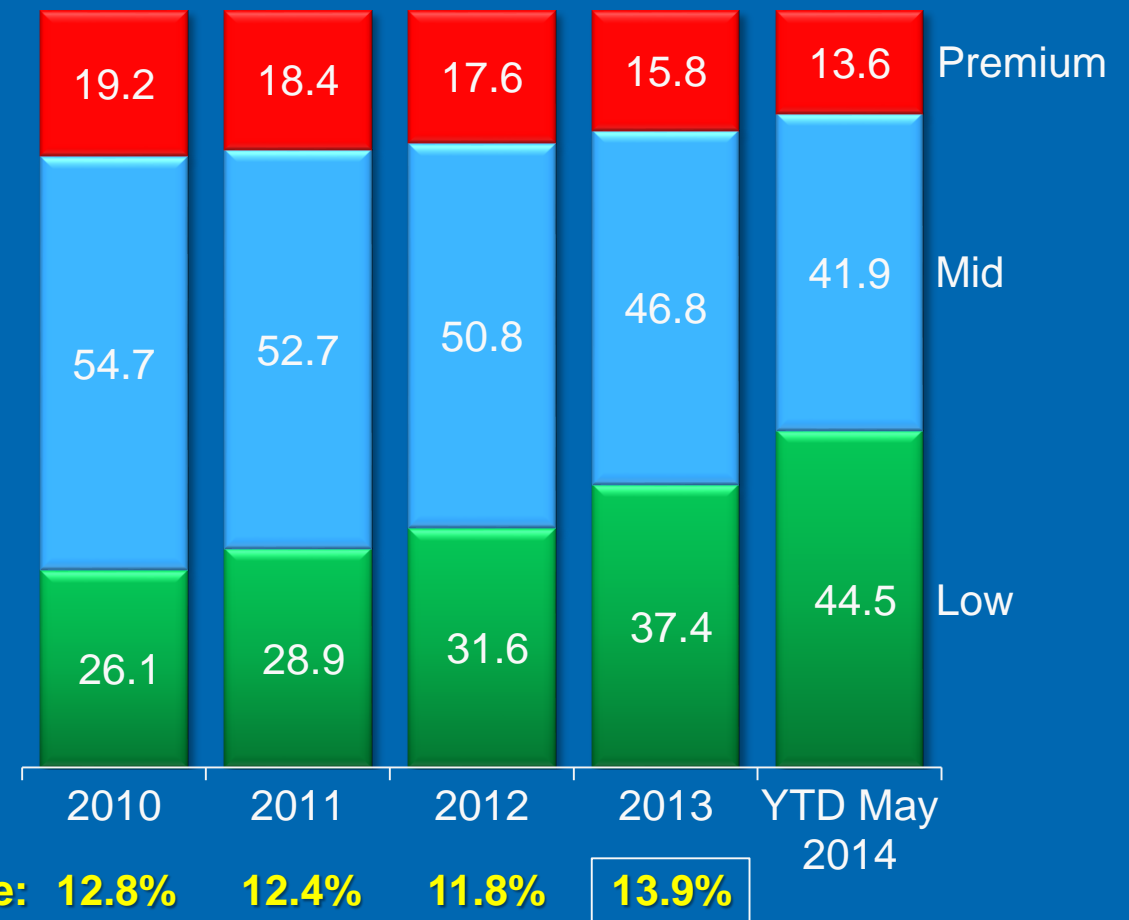
Australia: Adult Smoker Down-Trading Acceleration Driven by Commoditization and Affordability



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- Low price segment growth fueled by discounting and plain packaging
- Investments in *Bond Street* and *choice* to regain market position
- Improved market share in May to 36.8% vs. 34.4% YTD May, 2014
- Further excise tax increases of 12.5% in September 2014, 2015 and 2016
- Illicit trade increased to 13.9% after years of decline

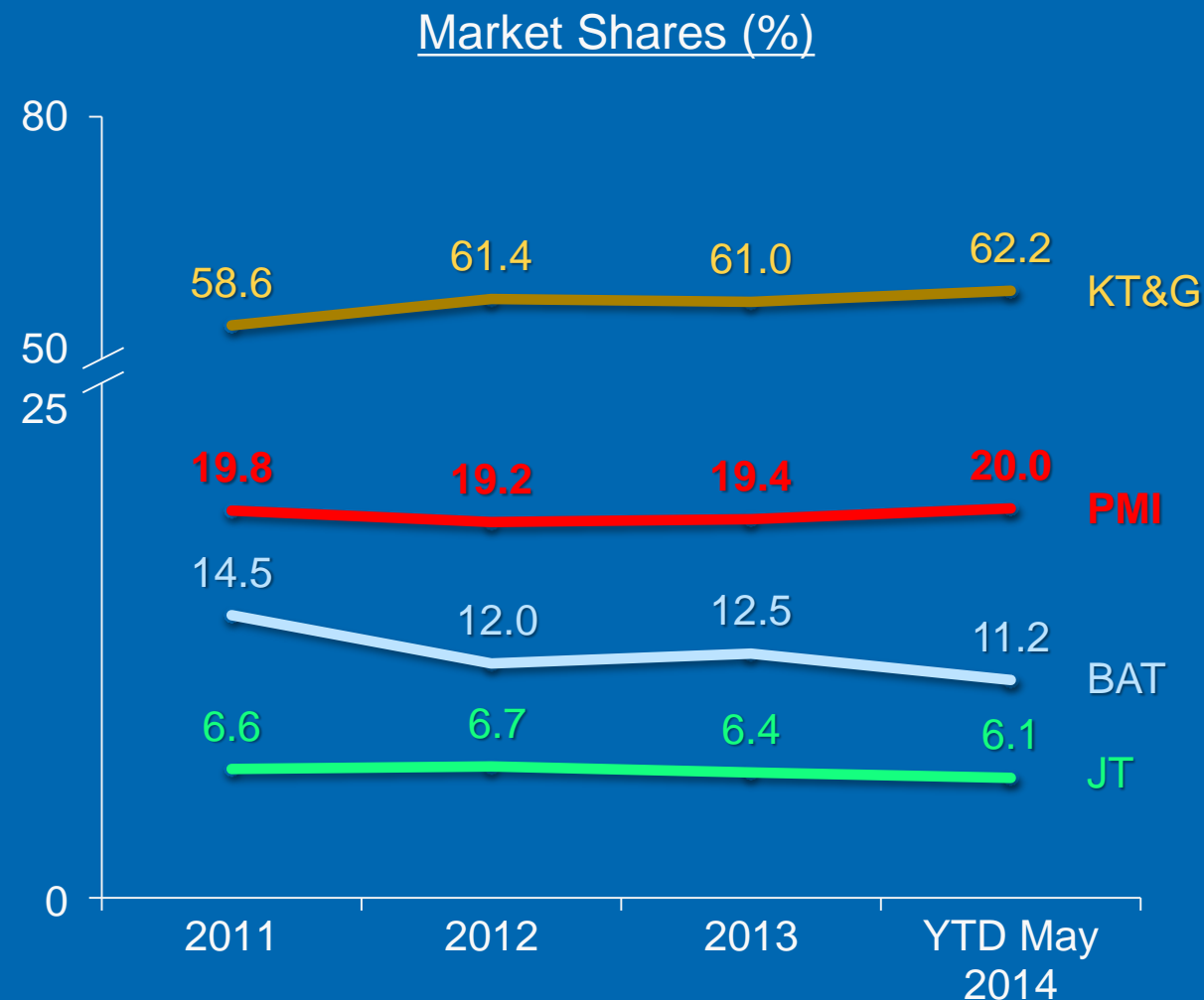
Industry Share of Price Segments (%)





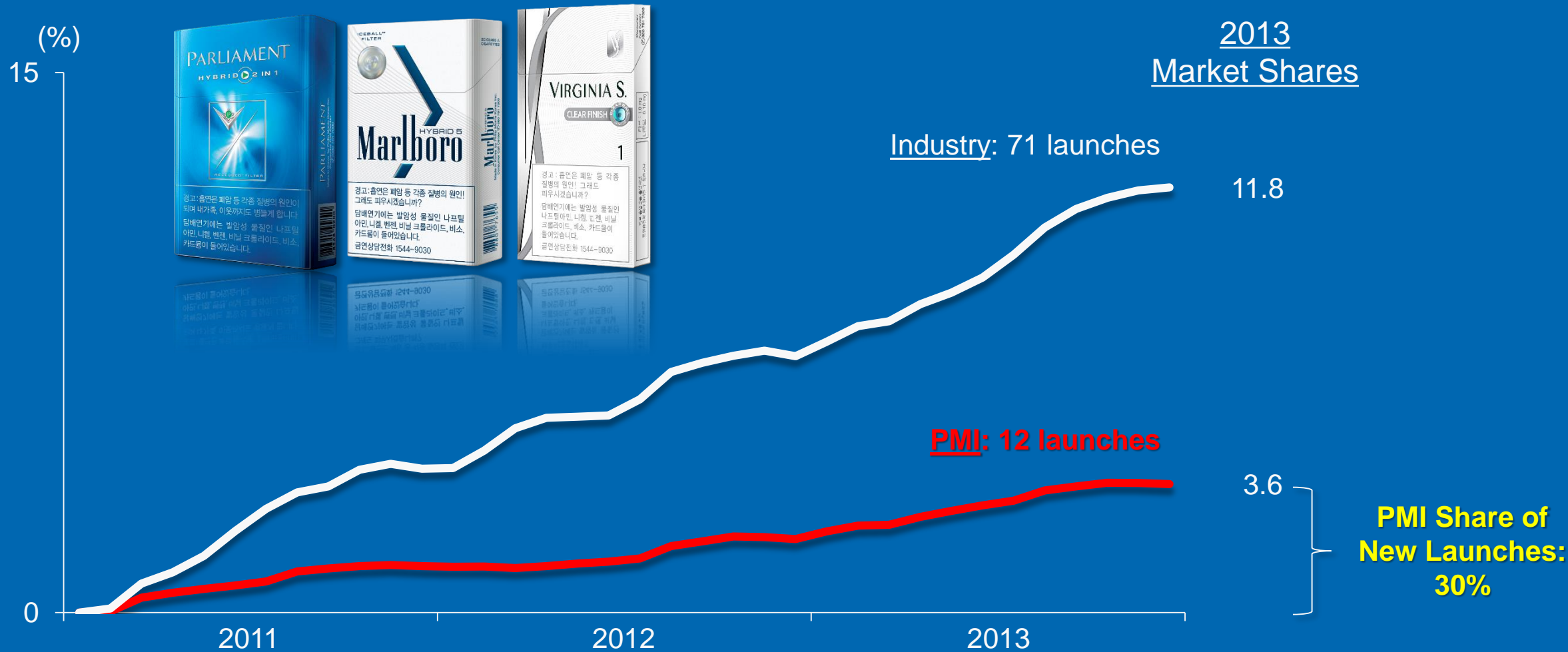
Korea: Recent Developments

- Cigarette industry volume at 88 billion units in 2013
- Industry volume declined over the past 3 years at an annual rate of 1%
- Market share growing, achieving 20.0% YTD May
- Capitalize on innovative product launches
- Entry into new taste segments





Korea: Share Gains from New Product Launches

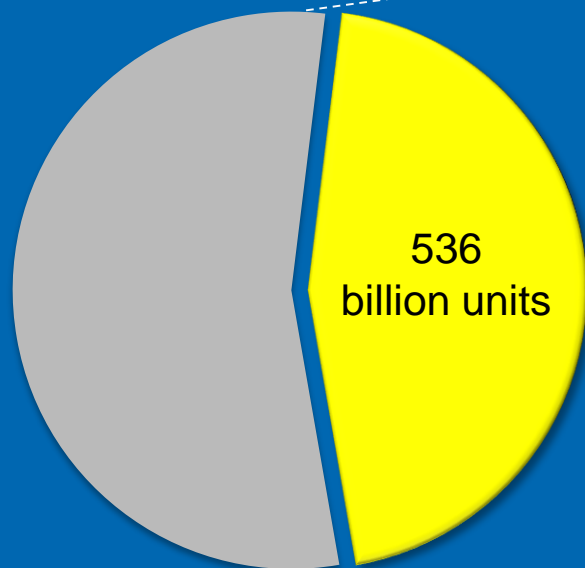




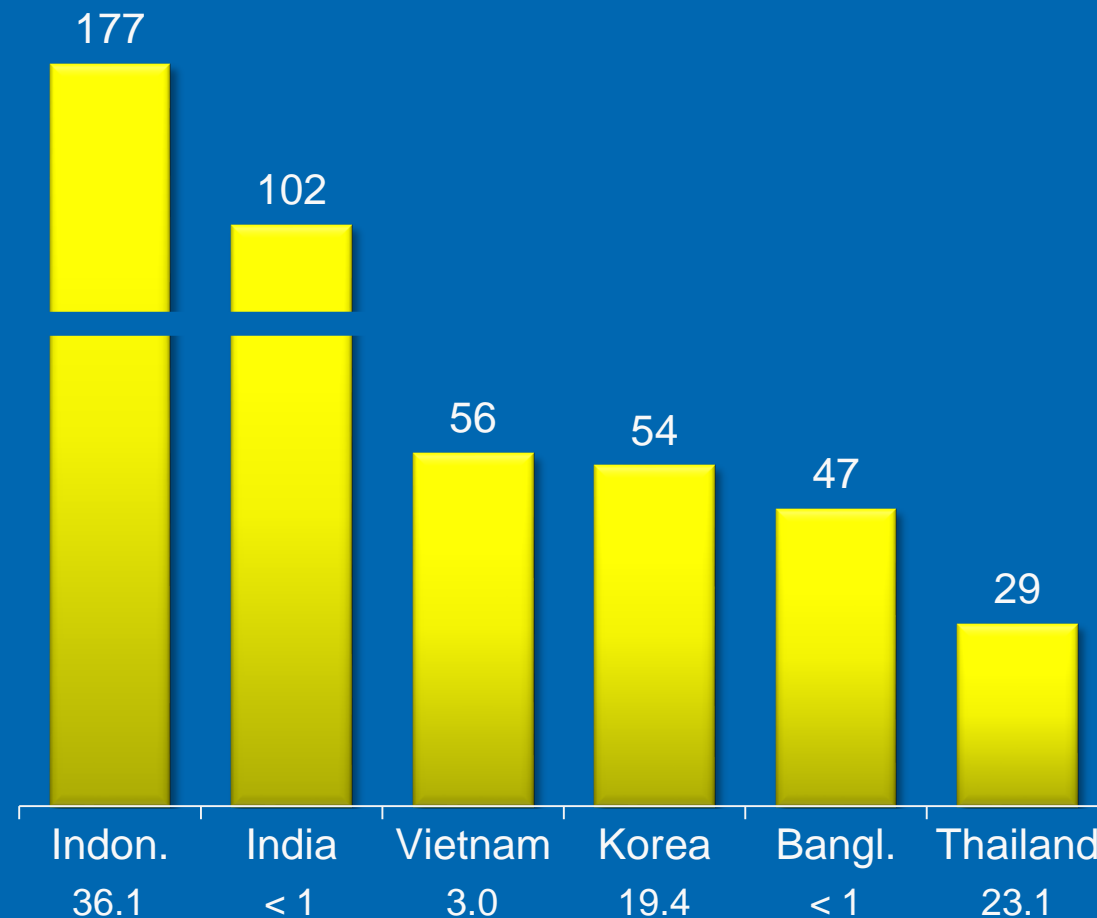
Opportunities for Future Growth

2013 Asia Region Industry Volume:
1.2 trillion units^(a)

■ International Competitors ■ Others



Main Geographic Opportunities (units billion)



2013 PMI SoM (%)

(a) Excluding China

Note: International competitors are PMI, BAT, JT and IMT. Indon. is Indonesia and Bangl. is Bangladesh

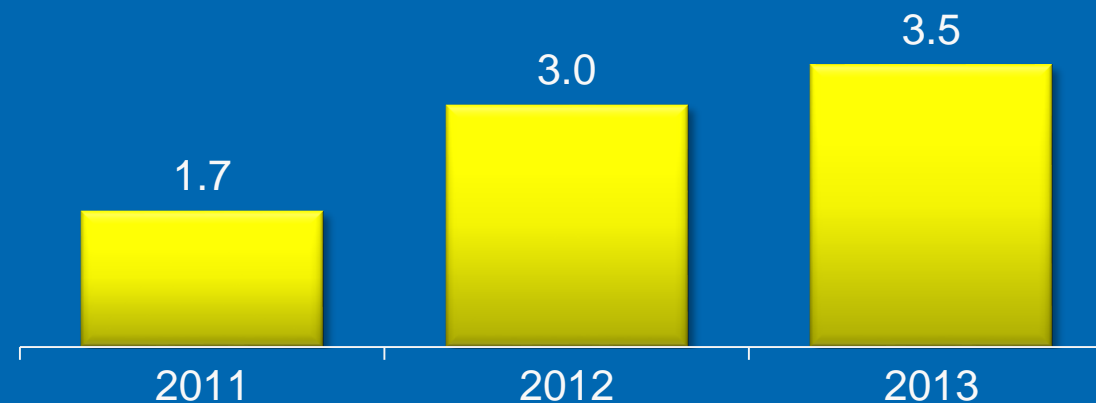
Source: PMI estimates



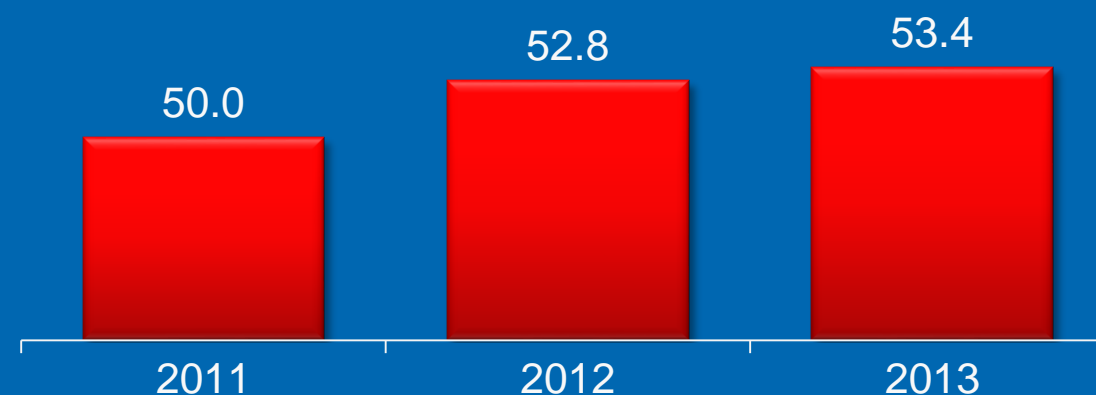
Huge Opportunities: Vietnam, India and Bangladesh

- Focus on *Marlboro* in key cities
- In Vietnam premium segment leadership achieved
- Favorable demographics and increasing adult smoker confidence
- Continued investments in distribution, visibility, adult smoker engagement and organization
- Building on a solid foundation and strong momentum

PMI Combined Total Cigarette Volume (units billion)^(a)



Vietnam: *Marlboro* Share of Premium (%)



(a) Vietnam, India and Bangladesh
Source: PMI Financials and PMI estimates



Diverse, Talented and Committed Organization

- Over 1,800 people were hired in 2013
- 64 Asian talent moved to international assignments
- Implemented two leadership development programs to build future leaders from Asia
- Launched a regional internship program to build entry level talent pipeline across Asia



Indonesia



Philippines



Japan



Vietnam



Asia Business Outlook

- Positive economic and demographic outlook
- Clear market share leadership
- Leading brand portfolio with a focus on innovation
- Sustainable pricing
- Investments to unlock long-term growth potential
- Tremendous opportunity for Reduced-Risk Products
- Annual average mid to long-term high single-digit adjusted OCI growth target, ex-currency



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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