



PHILIP MORRIS
INTERNATIONAL

2014
INVESTOR DAY

Investor Day

Lausanne, June 27, 2014

Jacek Olczak

Chief Financial Officer

Philip Morris International



Agenda

- 2014 EPS guidance
- Key drivers of future profit growth
- Reduced-Risk Products
- Cash flow and balance sheet management
- Returning cash to our shareholders
- Outlook for growth and conclusion



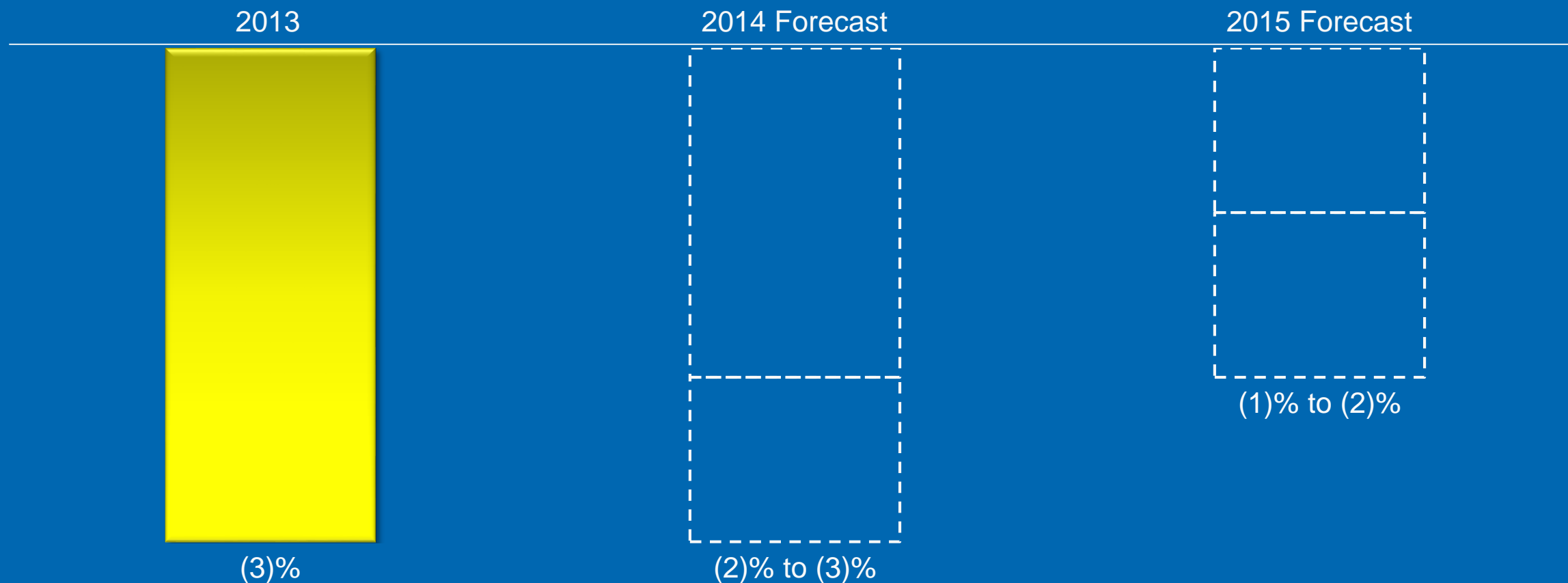
2014 EPS Guidance

- Revised reported diluted EPS guidance for 2014 is \$4.87 to \$4.97 at prevailing exchange rates, compared to \$5.26 in 2013. This includes:
 - A pre-tax charge related to the contemplated decision to discontinue cigarette production in Bergen op Zoom, in the Netherlands, of approximately 24 cents per share. The majority of this charge is expected to be recorded in the second quarter of 2014
 - The 1 cent 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 Melbourne, Australia, by the end of this year
 - An unfavorable currency impact, at prevailing exchange rates, of approximately 61 cents for the full-year 2014
- Our revised 2014 guidance represents a growth rate of approximately 6% to 8%, excluding currency and these restructuring charges, compared to our adjusted diluted EPS of \$5.40 in 2013.



Key Drivers: Industry Volume Trends

International Cigarette Industry Volume Decline Rate^(a)



(a) Excluding China and the USA
Source: PMI estimates and PMI forecasts



Key Drivers: Market Share Momentum

Top 30 PMI OCI Markets^(a)

+1.3pp

35.7%

37.0%

2010

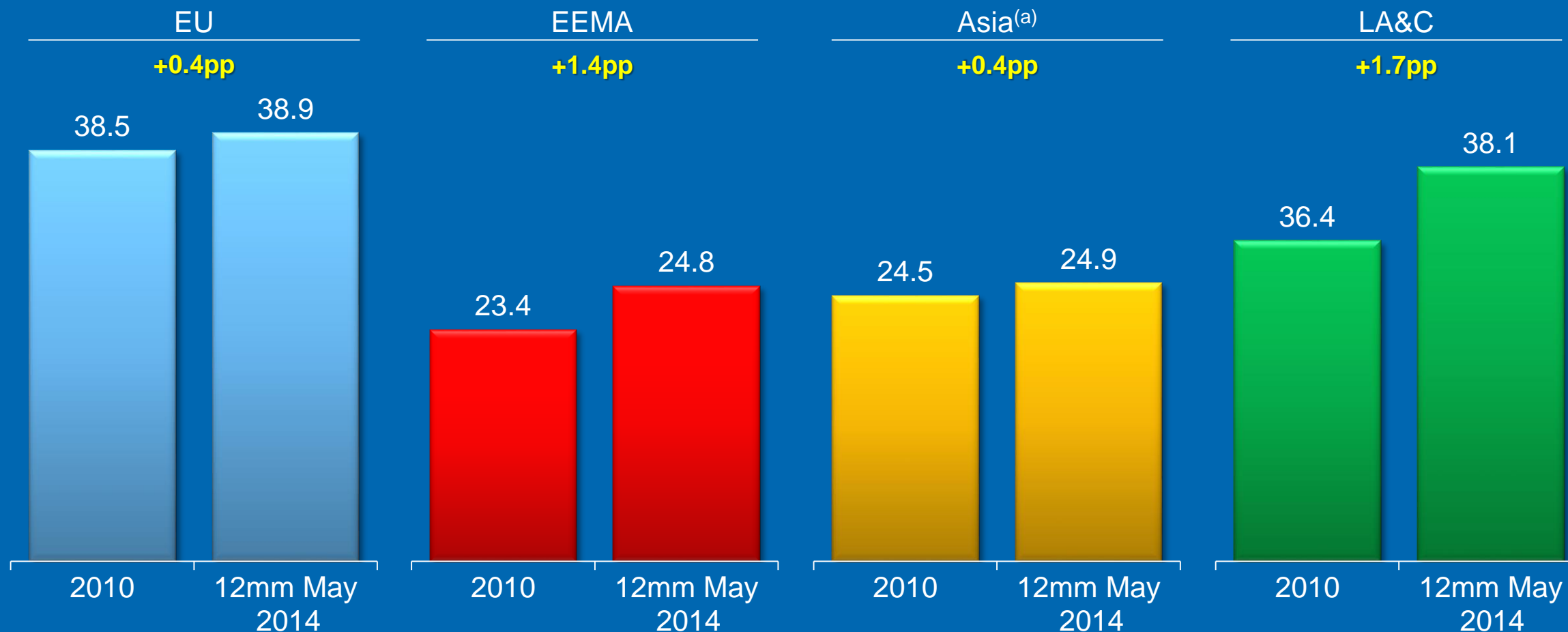
12mm May
2014

(a) Excluding duty free
Source: PMI estimates



Key Drivers: Market Share Momentum

Regional PMI Market Shares (%)



(a) Excluding China
Note: Data based on historical view
Source: PMI estimates



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Key Drivers: Adult Smokers Trading-Up to Premium Brands

| | Premium Share of Market | | | PMI Share of Segment |
|-------------|----------------------------|---------------------|-----------------|-------------------------|
| | 12mm May | | | 12mm May |
| | <u>2010</u> | <u>2014</u> | <u>Variance</u> | <u>2014</u> |
| Argentina | 35.7% | 38.5% | 2.8 pp | 73.0% |
| Brazil | 22.2 | 27.1 | 4.9 | 34.5 |
| Egypt | 7.4 | 9.7 | 2.3 | 96.4 |
| Indonesia | 35.5 | 37.3 | 1.8 | 65.9 |
| Mexico | 61.3 | 61.4 | 0.1 | 91.2 |
| Philippines | 26.4 | 19.1 | (7.3) | 99.5 |
| Poland | 13.5 | 14.5 | 1.0 | 80.2 |
| Russia | 13.4 | 13.6 ^(a) | 0.2 | 37.5 ^(a) |
| Turkey | 17.8 | 21.0 | 3.2 | 92.1 |
| Vietnam | 2.6 | 5.6 | 3.0 | 53.1 |

(a) 12mm April

Note: Premium includes above premium

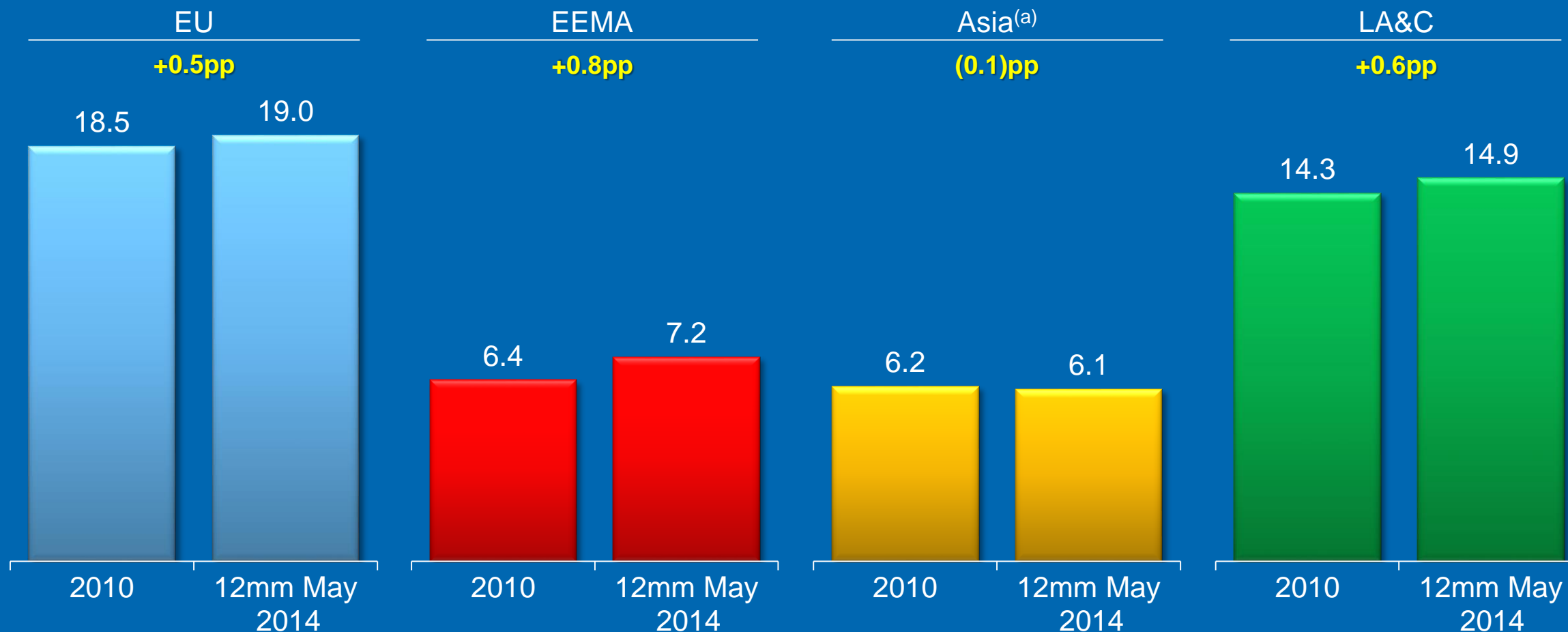
Source: PMI estimates and Nielsen



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Key Drivers: An Invigorated *Marlboro*

Marlboro Market Shares (%)



(a) Excluding China
Source: PMI estimates

Key Drivers: An Invigorated *Marlboro*



A woman with dark hair and bangs, wearing a white t-shirt with dark sleeves and blue jeans, is sitting on the floor of a workshop. She is looking towards the camera. To her left is a large white sign that reads "MAYBE I WILL BE MY OWN BOSS" in bold black letters. The word "MAYBE" is crossed out with a large red 'X'. Below the sign is a pack of Marlboro cigarettes. The background shows a workshop with various tools and equipment.

BE > Marlboro

Το κάπνισμα βλάπτει σοβαρά εσάς και τους γύρω σας

Το Υπουργείο Υγείας προειδοποιεί:

Τ Ο Κ Α Π Ν Ι Σ Μ Α Β Λ Α Π Τ Ε Ι Σ Ο Β Α Ρ Α Τ Η Ν Υ Γ Ε Ι Α

Key Drivers: An Invigorated *Marlboro*



Note: Pack designs are for illustrative purposes only



Key Drivers: Pricing

Pricing Variance (\$ million)

Average
2008-2013





Key Drivers: Rational and Reasonable Fiscal Environment

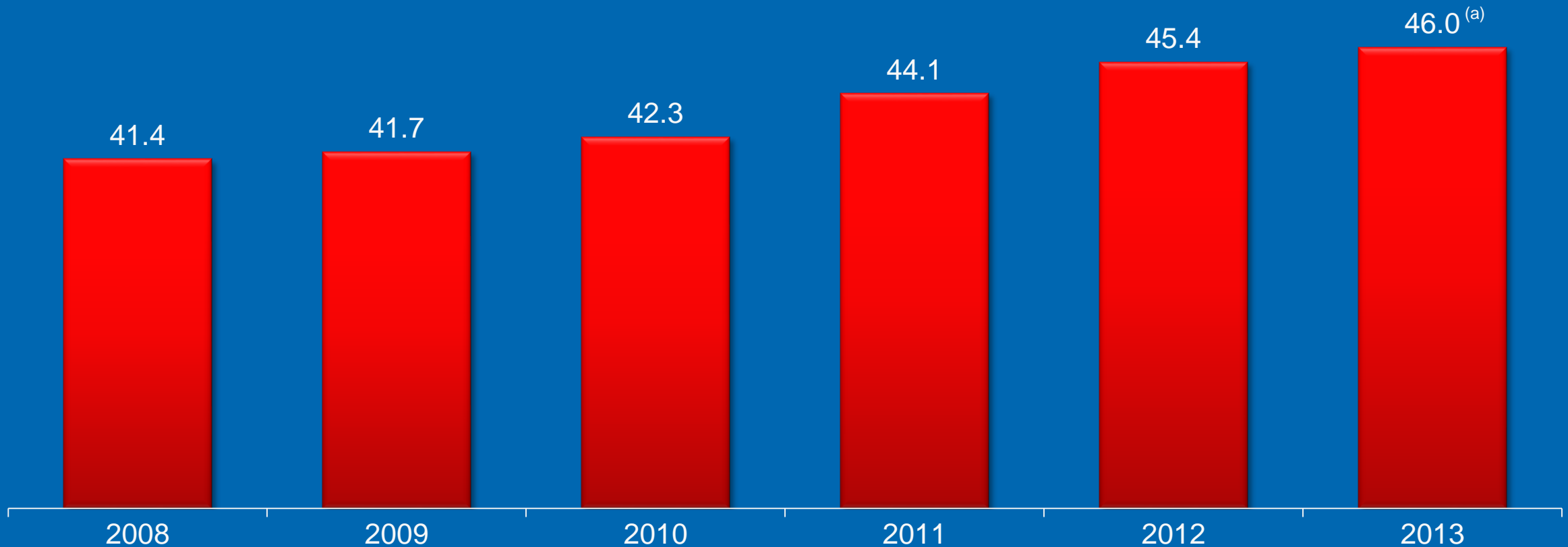
- Disruptive excise tax increases have become less frequent
- Improved excise tax structures:
 - Increase in relative importance of specific elements
 - Reinforced minimum excise taxes
 - Compensation for VAT increases
 - Elimination of discriminatory elements
 - Gradual harmonization of cigarette and fine cut excise taxes
 - Indexation
 - Multi-year programs
- Provide greater visibility and predictability for governments and the industry

Key Drivers: Margin Expansion Through Cost Savings and Productivity Improvements



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Adjusted OCI Margins (%)



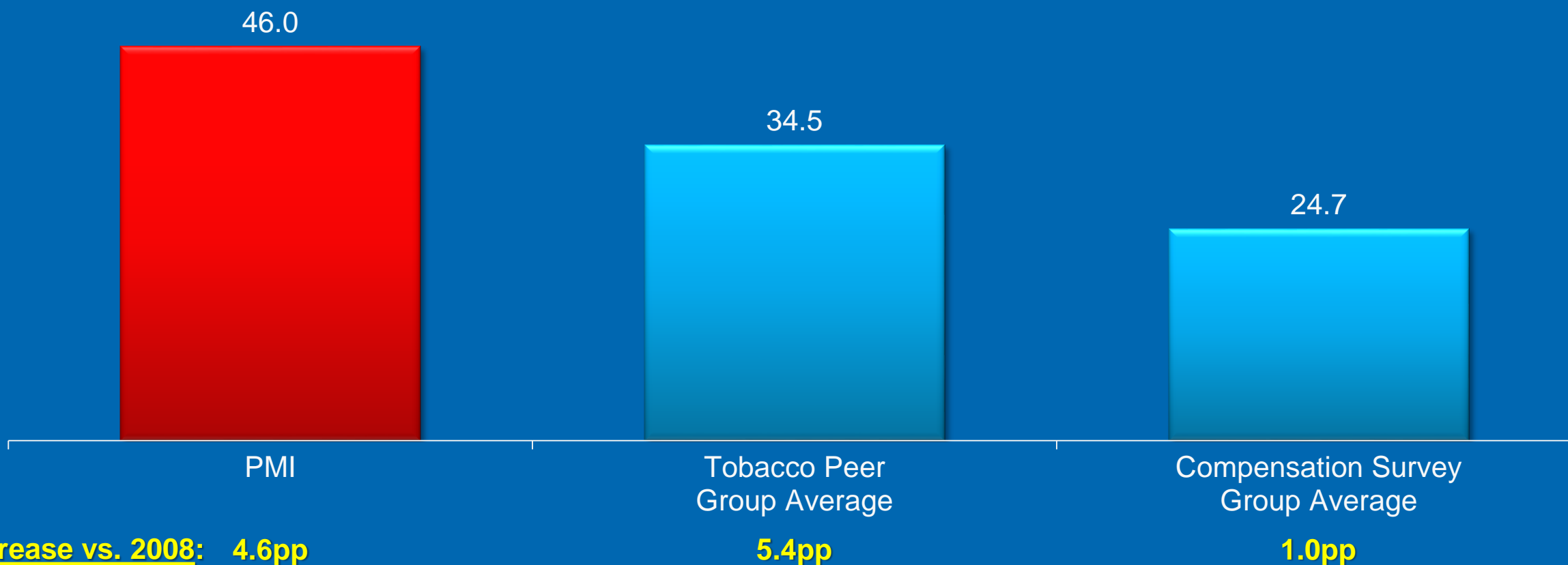
(a) Excluding currency
Source: PMI Financials



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Superior PMI Margins

2013 Adjusted OCI Margin (%)^(a)



(a) Excluding currency where data is available

Note: PMI is not included in the Tobacco Peer Group and Compensation Survey Group averages. Figures are for the 12 month period ending December 31, 2013 or nearest comparable period. A list of the companies in the tobacco peer and compensation survey groups is available in the glossary

Source: FactSet and company filings, compiled by Centerview



Outlook: A Return to Our Revenue and OCI Growth Algorithm

- As of 2015, we target mid to long-term currency-neutral annual growth rates of 4% to 6% for net revenues and 6% to 8% for adjusted OCI:
 - An improved performance in challenging markets
 - Better volume trends
 - Improved product mix
 - Strong pricing
 - Limited cost increases



Reduced-Risk Products: Assessing the Potential

- For the initial five years, the markets in scope for our launches represent consumption of about one trillion units
- Potential annual volume evaluated at 30-50 billion units
- Potential incremental margin estimated at \$720 million to \$1.2 billion per year over time assuming pricing, manufacturing costs and excise taxes similar to combustibles



Reduced-Risk Products: Assessing the Potential

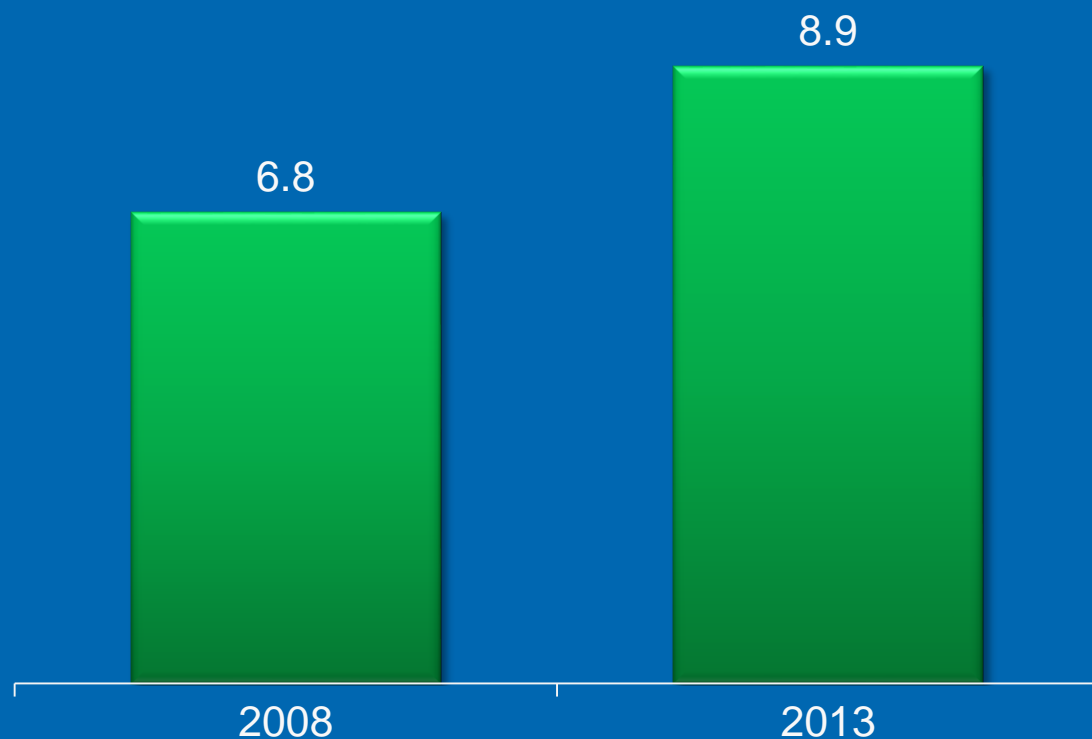
| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--|----------------------------|----------------------|----------------------|-------------------|
| iQOS | City Tests | National | Geographic Expansion | |
| Platform 2 | Final Phase of Development | Clinical Trials | City Tests | National |
| Platform 4 (current generation) | Altria / Nicocigs | Geographic Expansion | | |
| Platforms 3 and 4 (next generation) | Product Development | | | Commercialization |



Free Cash Flow: Key Drivers

Free Cash Flow (\$ billion)

CAGR: 5.5%



Variance:

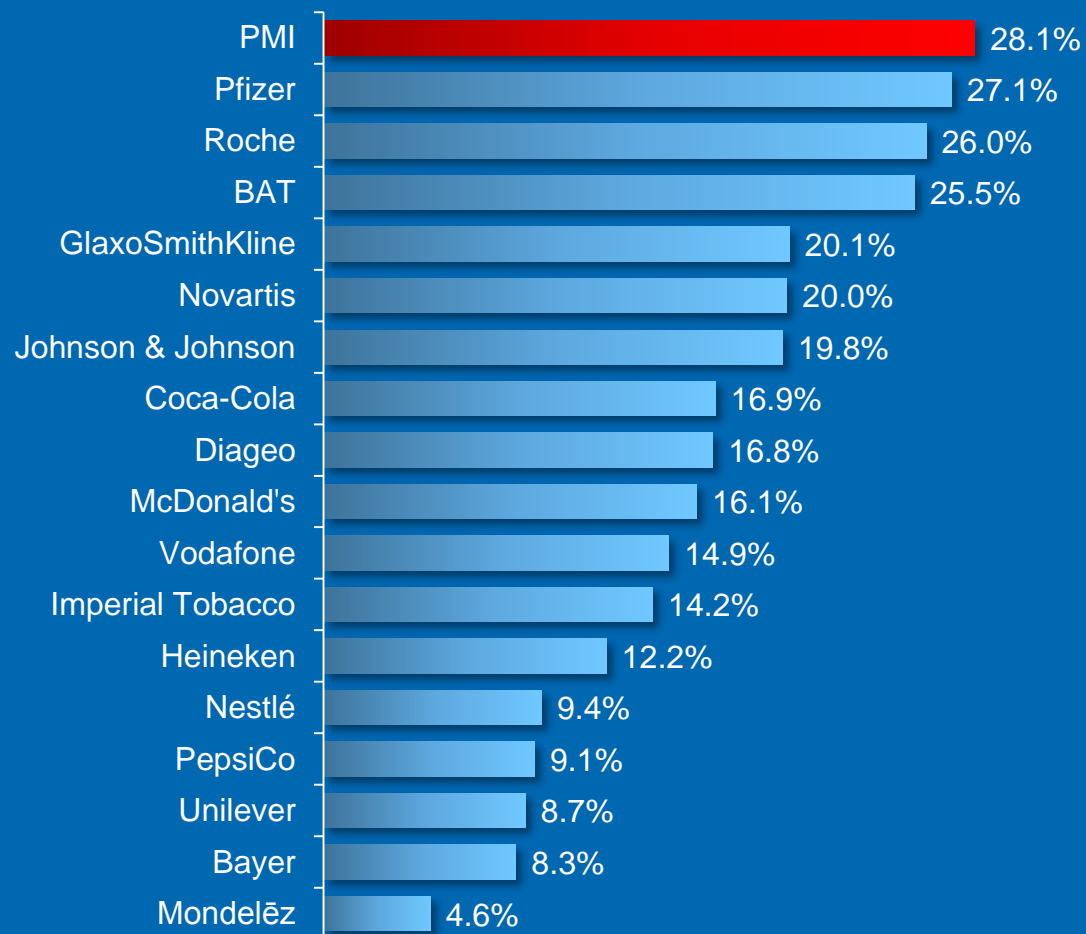
| | <u>(\$ billion)</u> |
|-----------------|---------------------|
| Net Earnings | 2.3 |
| Currency | (0.4) |
| Working Capital | (0.2) |
| Others, net | 0.4 |
| Total | 2.1 |



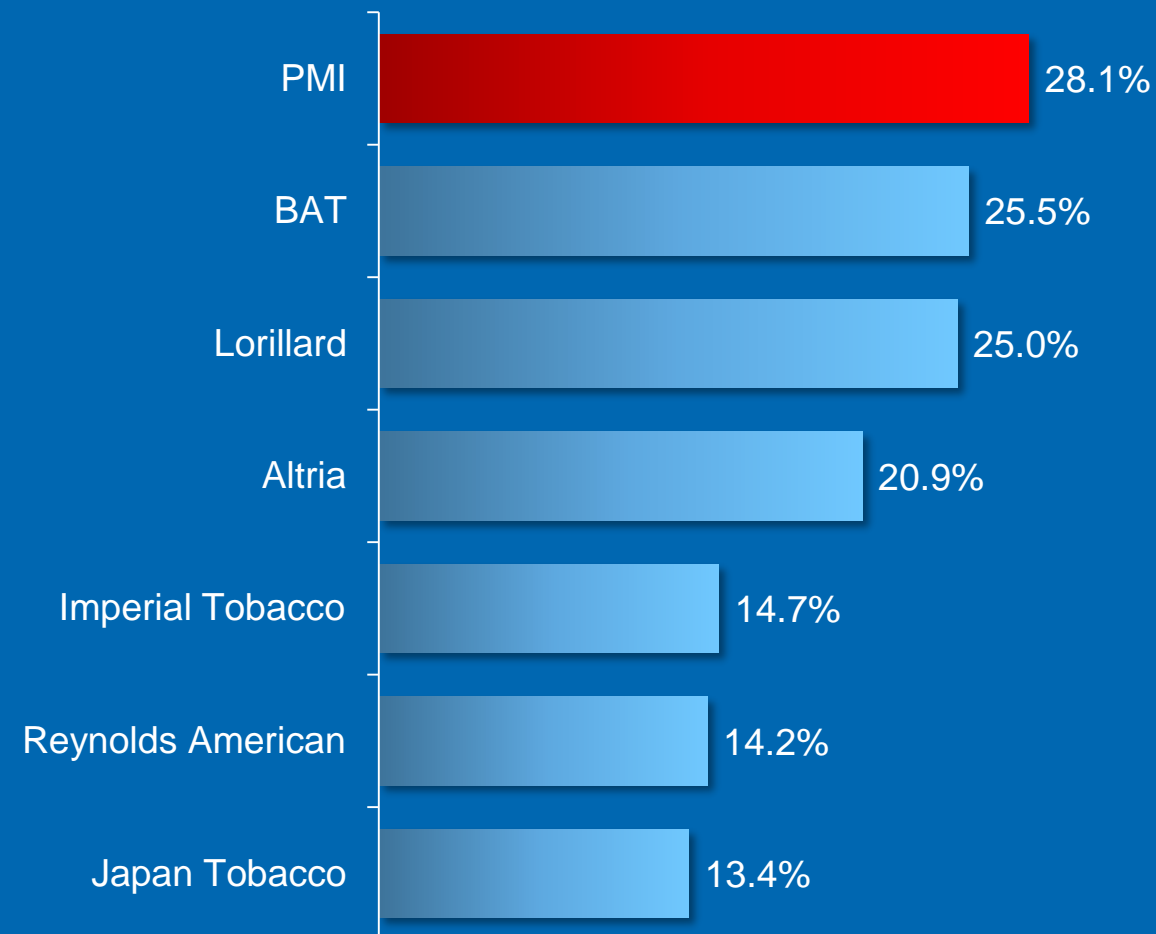
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Free Cash Flow as a % of Net Revenues (2008 – March 31, 2014)

Compensation Survey Group



Tobacco Peer Group



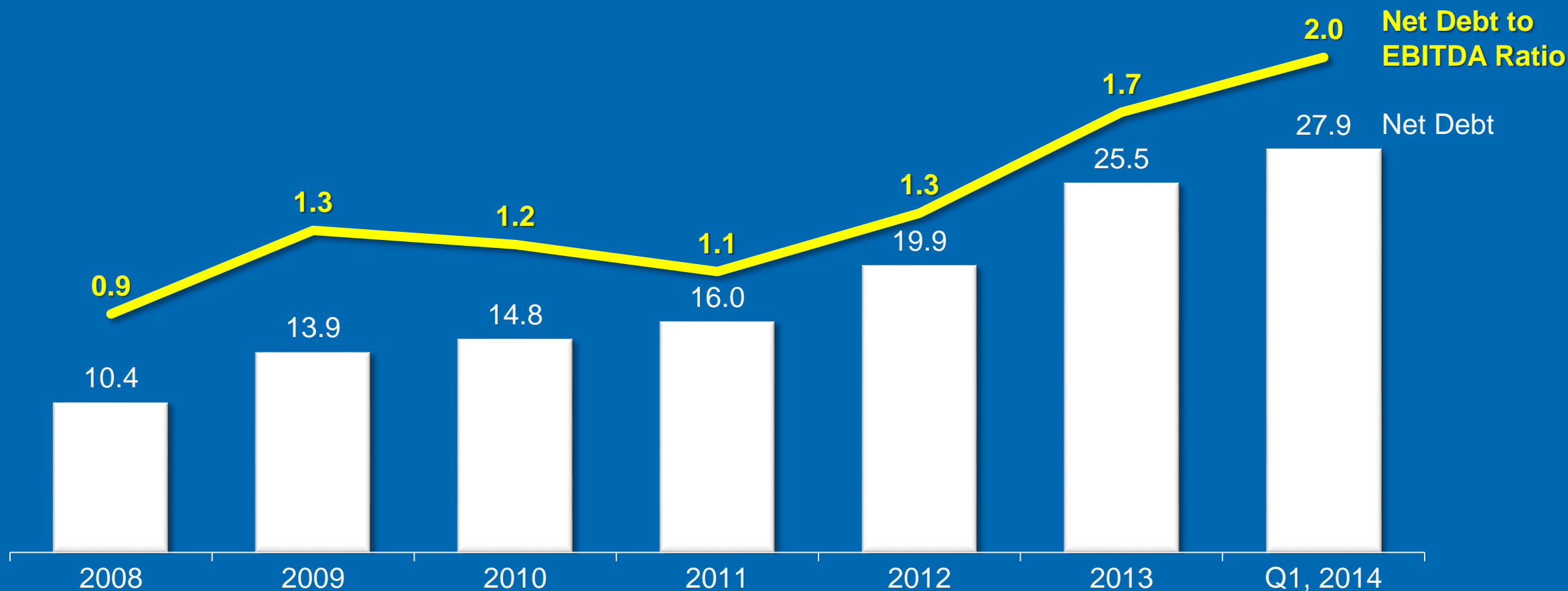
Note: Free cash flow as a percentage of net revenues is defined as total 2008 – March 31, 2014 period free cash flow over total 2008 – March 31, 2014 period net revenues. PMI's free cash flow and net revenues for the period were \$50.1 billion and \$178.6 billion, respectively. Nearest comparable period is used where the 2008 – March 31, 2014 comparison is not available

Source: Company filings, compiled by Centerview



Credit Rating, Earnings and Debt

Net Debt to EBITDA (\$ billion, except ratios)



Note: EBITDA calculation method changed in 2013 and amounts restated back to 2008 to adjust for extraordinary, unusual or non-recurring expenses, net
Source: PMI Financials

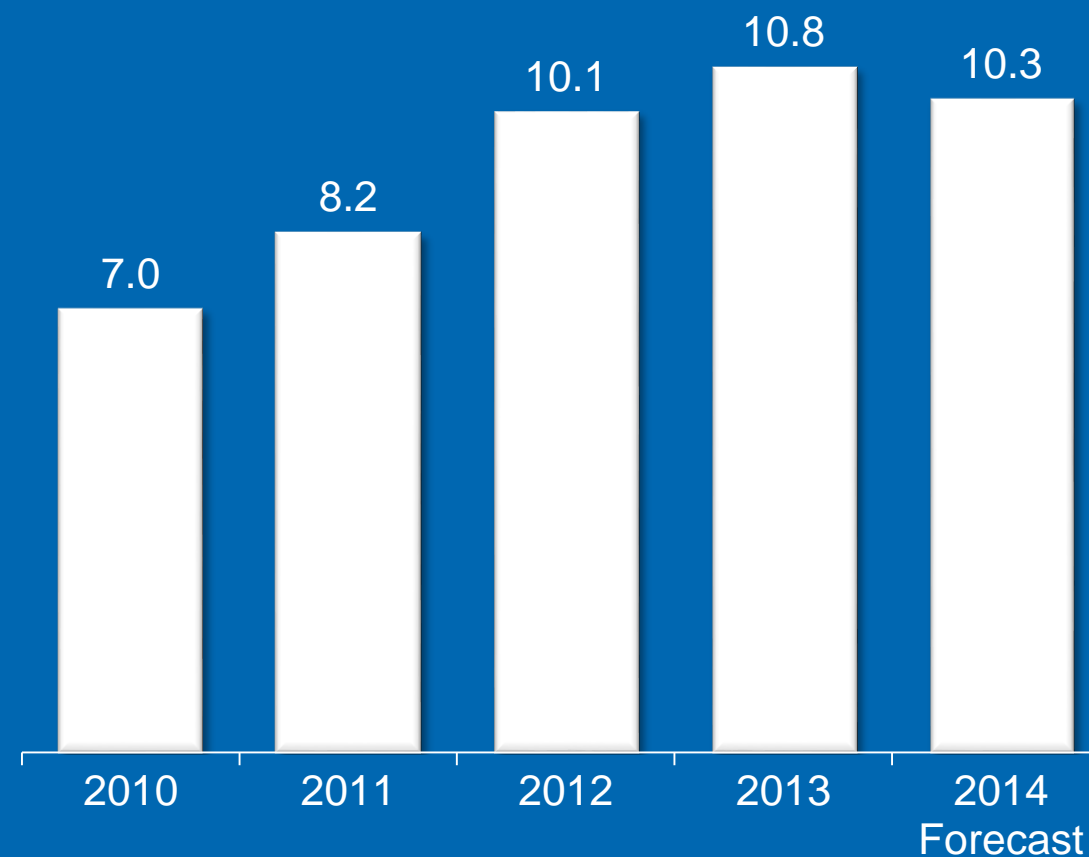


Debt Financing at Increasingly Attractive Terms

Weighted-Average Coupon
of Total Bond Portfolio (%)



Weighted-Average Time to Maturity
of Total Long-Term Debt (years)

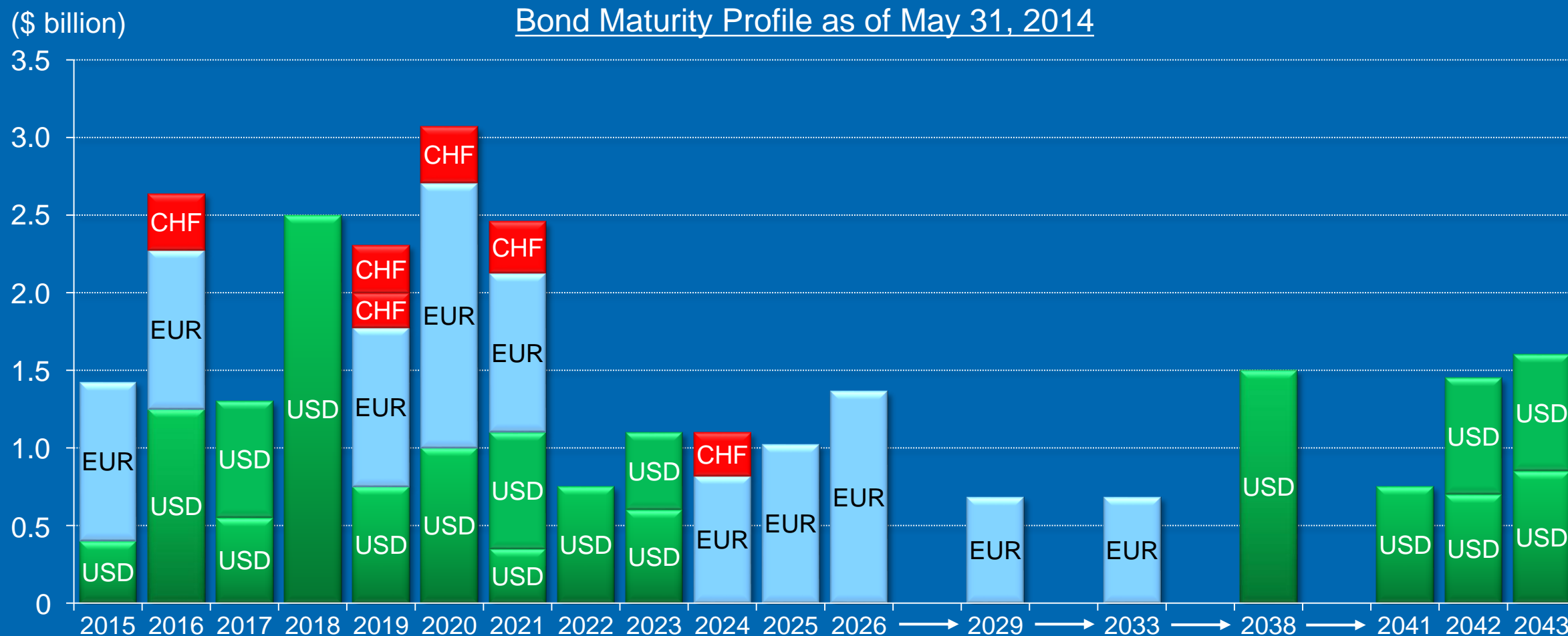


Note: Weighted-average coupon of total bond portfolio is calculated based on historical exchange rates. Weighted-average time to maturity of total long-term debt excludes the current portion of the bond portfolio and reflects the weighted-average at the respective year-end. Year-end 2014 time to maturity and total bond portfolio are based on the outstanding bonds as of May 31, 2014

Source: PMI Financials and PMI forecasts



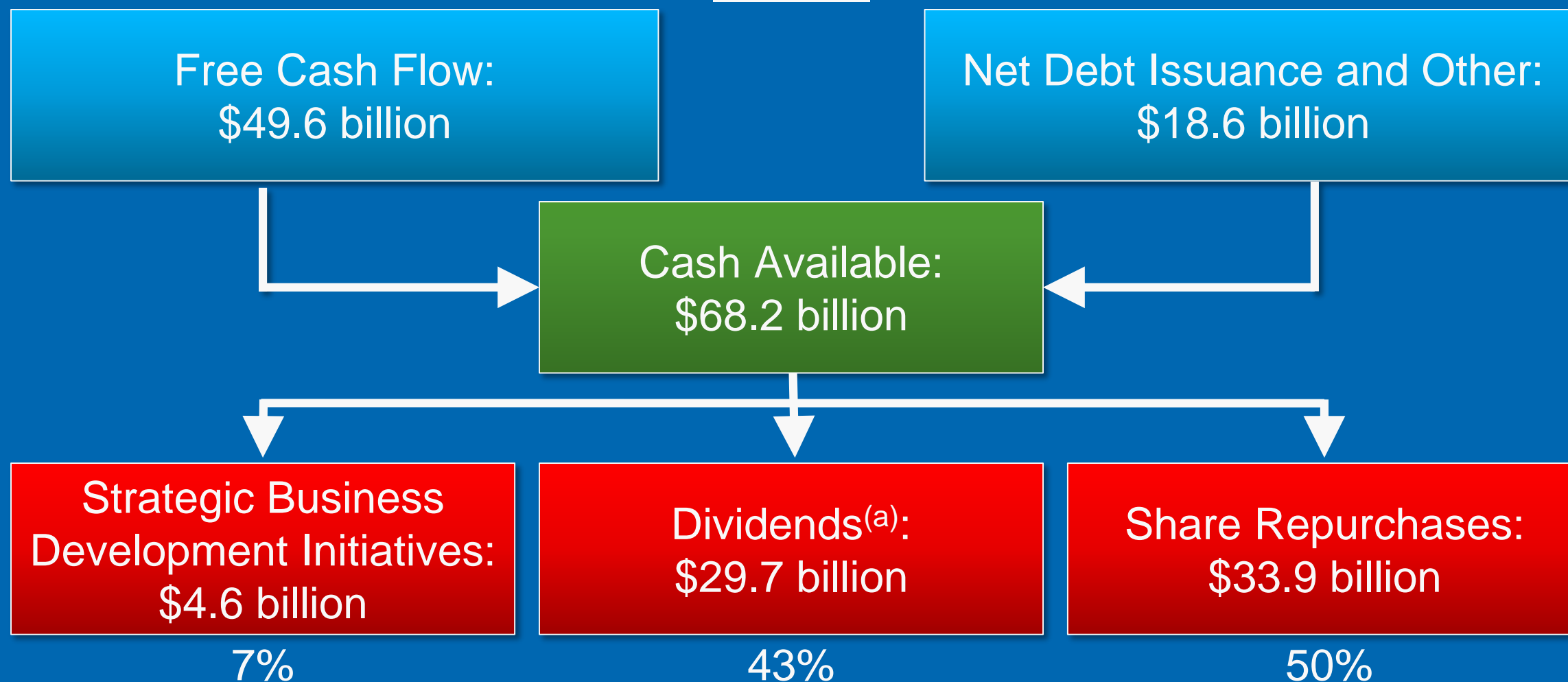
Very Well-Laddered Bond Portfolio





Focused Use of Cash Flow to Enhance Shareholder Returns

2008-2013



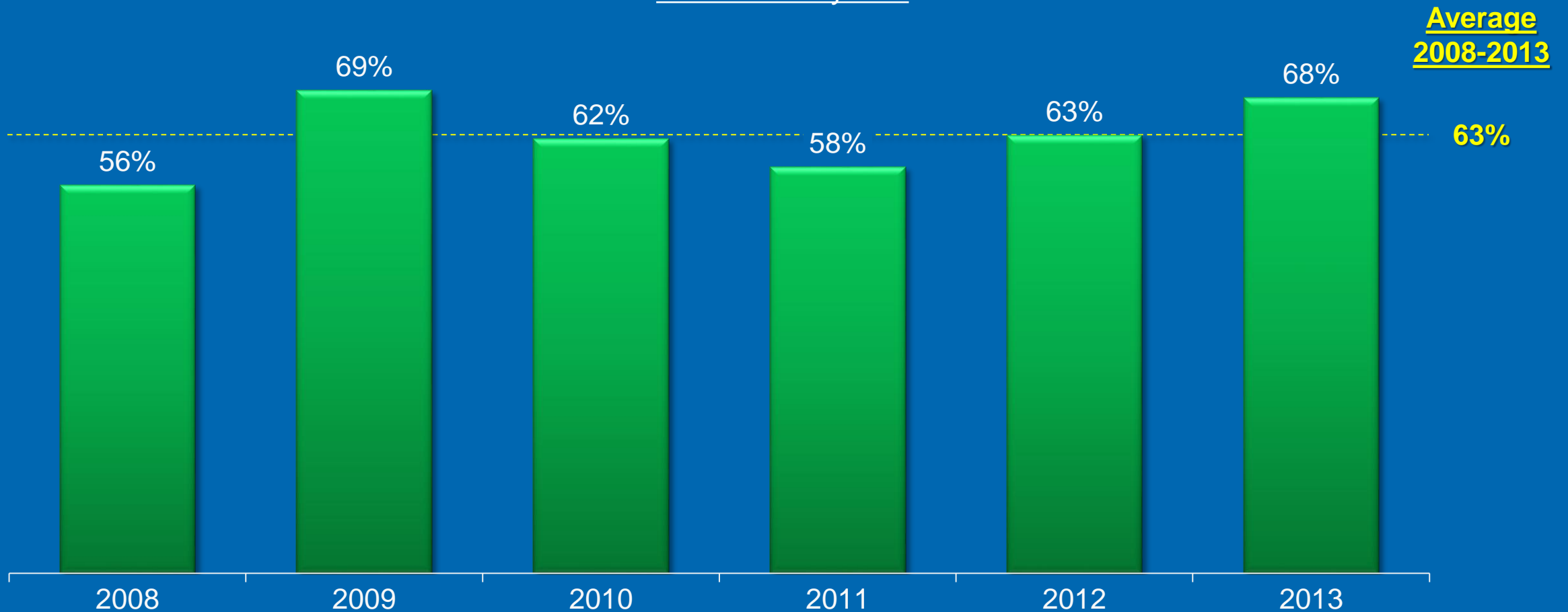
(a) Including dividend of \$3.0 billion paid in April 2008 to Altria Group, Inc.
Source: PMI Financials

Returning Cash to Our Shareholders: Dividend Pay-Out Target Ratio of 65%



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Dividend Pay-Out

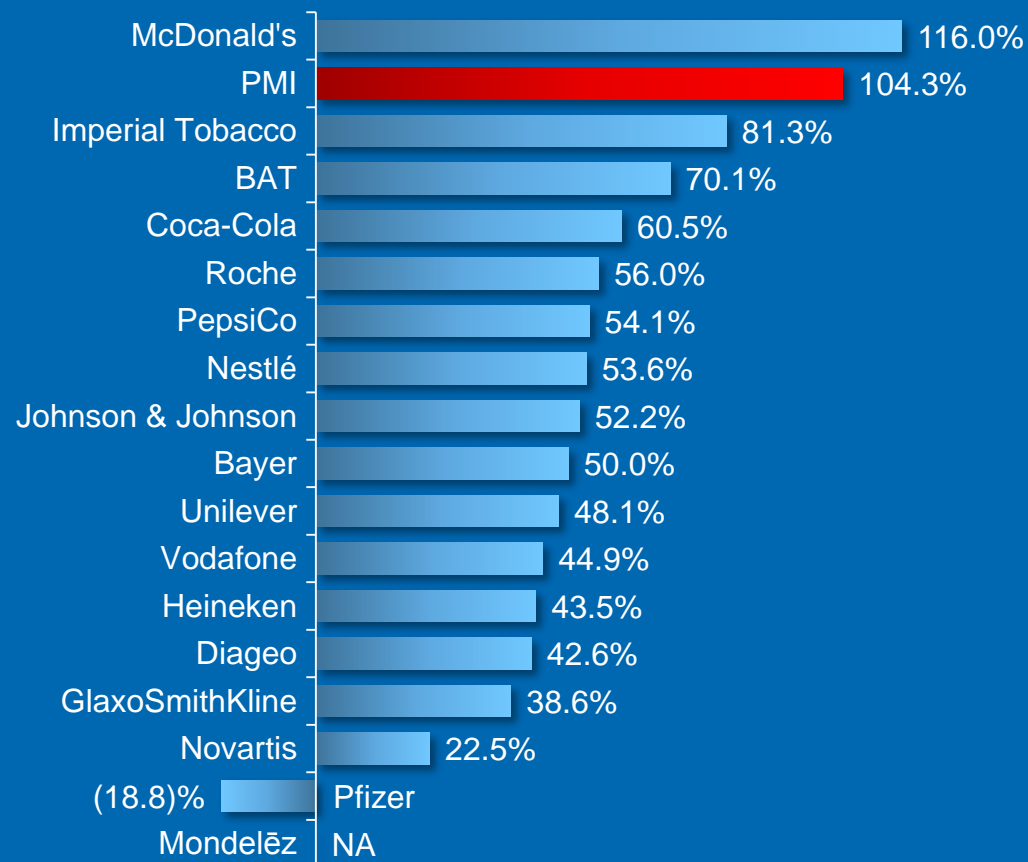


Note: 2008 annualized rate is based on a quarterly dividend of \$0.46 per common share, declared June 18, 2008
Source: PMI Financials

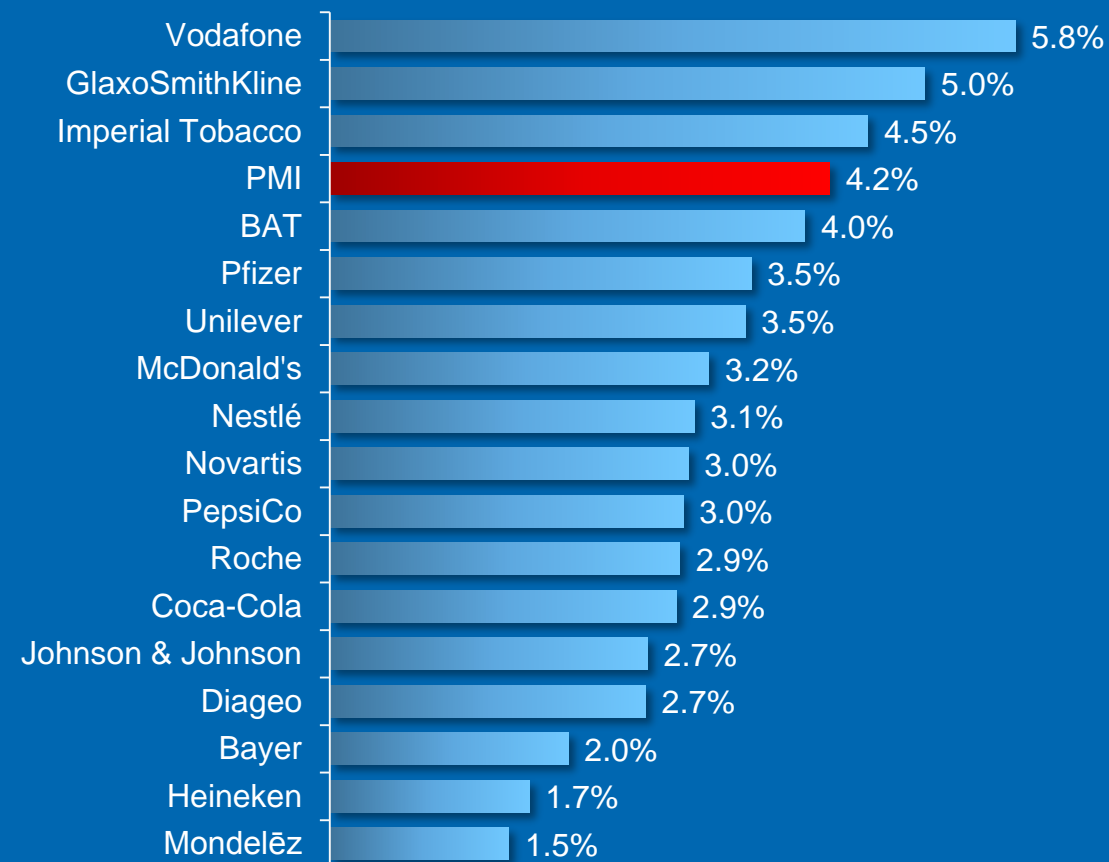


Returning Cash to Our Shareholders: Dividend Increase and Yield

Dividend Growth: Compensation Survey Group
(2008 – June 24, 2014)



Dividend Yield: Compensation Survey Group
(June 24, 2014)



Note: PMI reflects absolute growth in annualized announced dividends from time of first PMI dividend of \$0.46 in June 2008 through June 24, 2014. Companies in the Compensation Survey Group reflect absolute growth from FY 2008 dividends or Q2, 2008 annualized dividend through current last twelve months dividends or current last quarter annualized dividend as appropriate. 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. All peers reflect calendar year figures

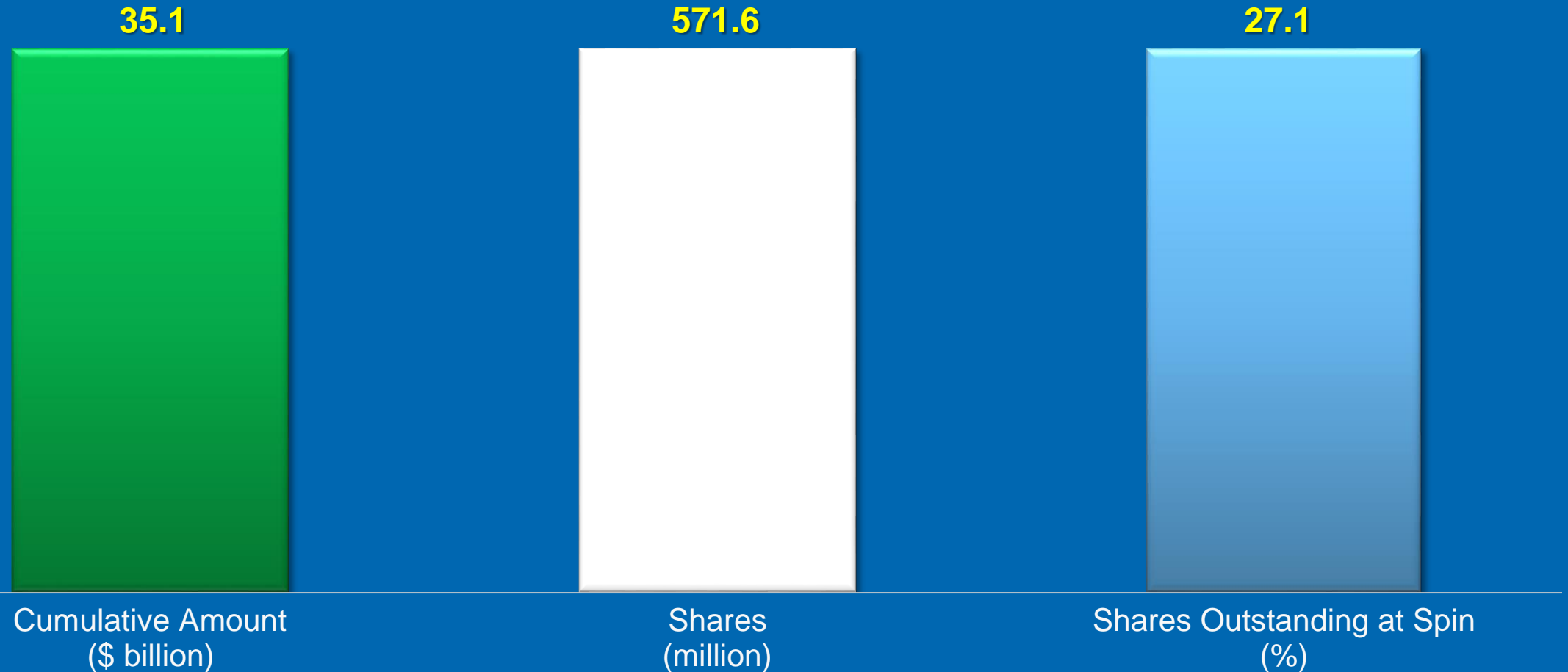
Source: FactSet and company filings, compiled by Centerview

Returning Cash to Our Shareholders: Substantial Share Repurchase Programs



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PMI Share Repurchase Programs (2008 – Q1, 2014)



Note: The outstanding PMI shares at the time of the spin were 2,109 million
Source: PMI Financials



From OCI to EPS: Key Considerations and Outlook

- Fully committed to our share repurchase program. Target spending of \$4 billion in 2014 and approximately \$2-3 billion a year in 2015 and 2016
- Investments required to support the commercialization of RRPs
- For 2015 and 2016, we target a growth in currency-neutral adjusted diluted EPS in a range of 8% to 10%
- An improved operating environment, additional business development initiatives and the geographic expansion of RRPs could provide an upside beyond this period



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PMI Outlook is Very Promising

- Superior brand portfolio, led by an invigorated *Marlboro*
- Optimized global footprint and infrastructure
- Sustainable strong pricing power based on our brands
- Limited cost increases and significant productivity improvement opportunities
- Best-in-class R&D capabilities
- Tremendous potential for our Reduced-Risk Products
- Talented and highly motivated employees



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Investor Day
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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