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2014  
INVESTOR DAY

## Investor Day – EEMA Region Lausanne, June 27, 2014

Mirosław Zielinski

*President, Eastern Europe, Middle East & Africa Region & PMI Duty Free*

Philip Morris International



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## Investor Day – EEMA Region Lausanne, June 27, 2014

Video

**(Approximately 90-second video)**



# Agenda

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- EEMA Overview and PMI Results
- Growth Opportunities
- Regional Strategic Priorities
- Closing Remarks
- Questions & Answers



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# EEMA Region: Key Facts



- 94 markets
- 1.8 billion people
- 1.1 trillion cigarettes<sup>(a)</sup>
- 12,000+ PMI employees
- PMI results (2013):
  - Volume: 296.5 billion units
  - Share: 24.2%<sup>(a)</sup>
  - Adjusted OCI: \$4.0 billion

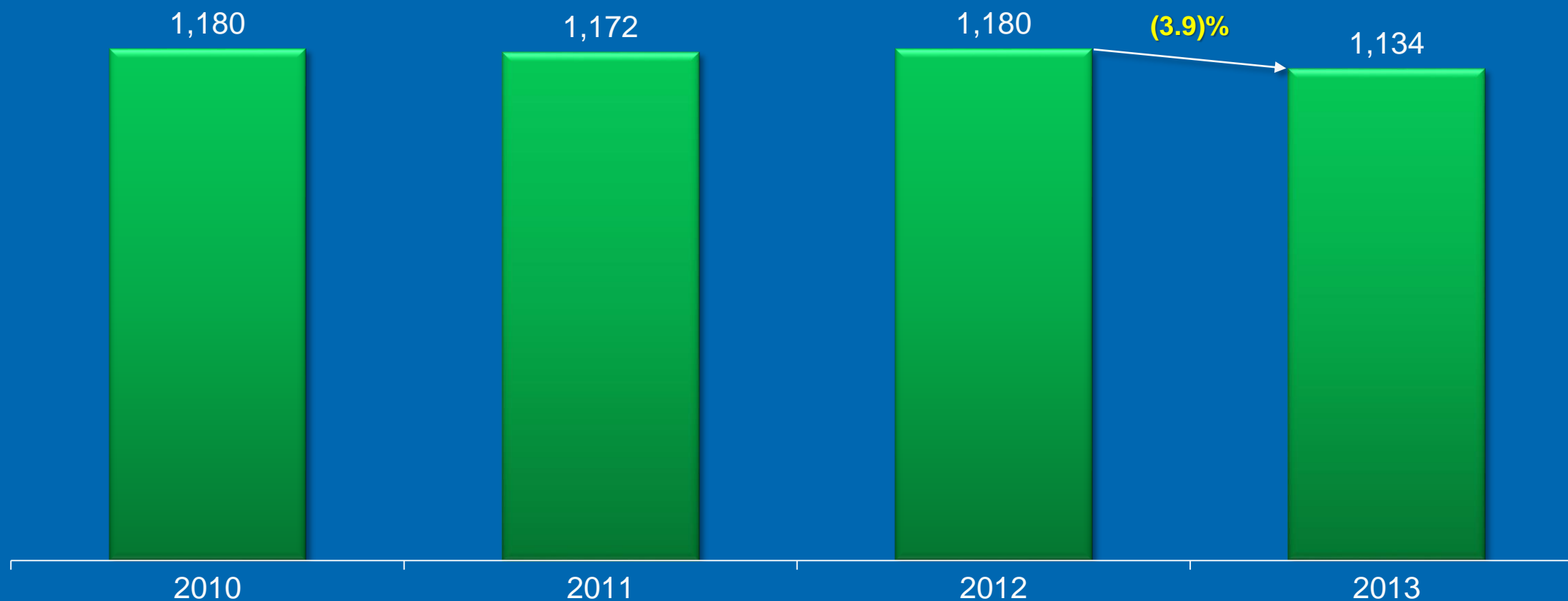
(a) Excluding duty free

Source: Global Insight, PMI estimates and PMI Financials



# EEMA Region: Recent Volume Pressure

Industry Volume (units billion)





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# EEMA Region: Adult Smokers Up-trading

EEMA Industry Volume by Price Segment (units billion)

CAGR  
(2010-2013):

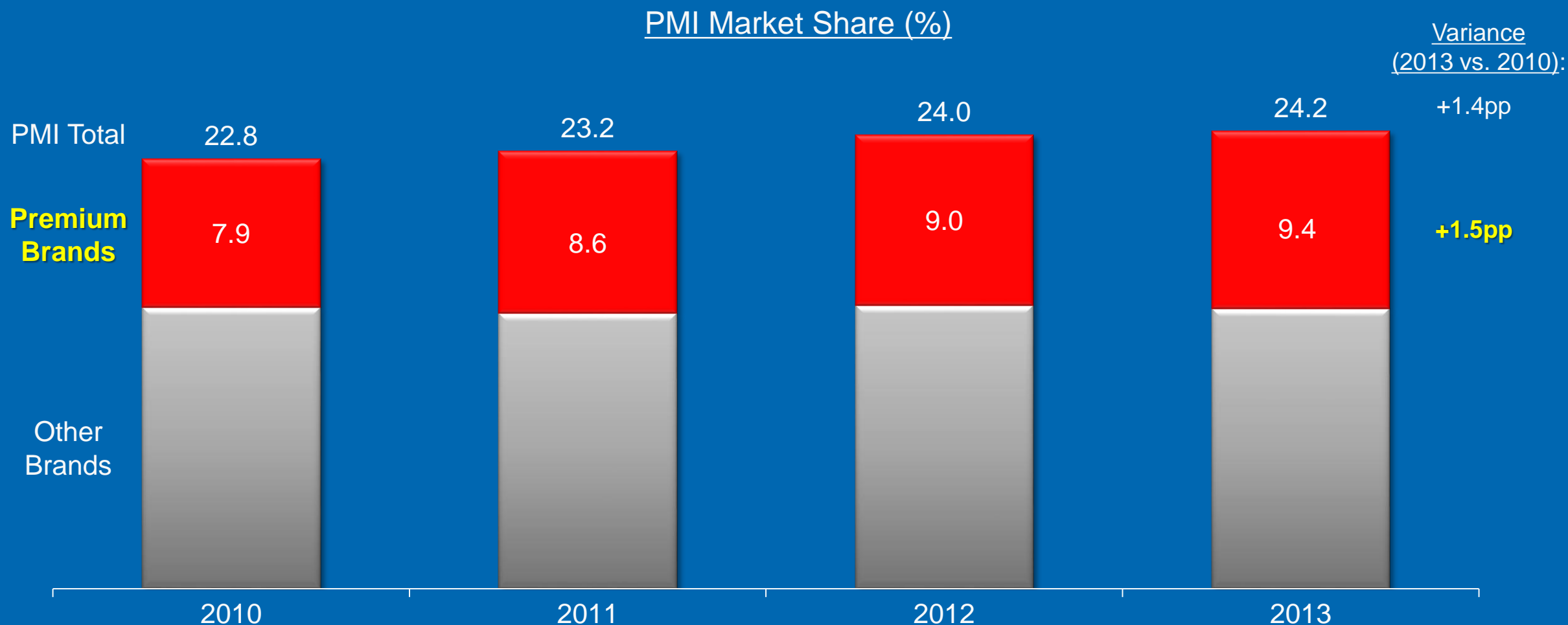


Note: Excluding duty free. Premium includes above premium, Low includes super-Low  
Source: PMI estimates



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# EEMA Region: Market Share Growth Fueled by Premium Brands



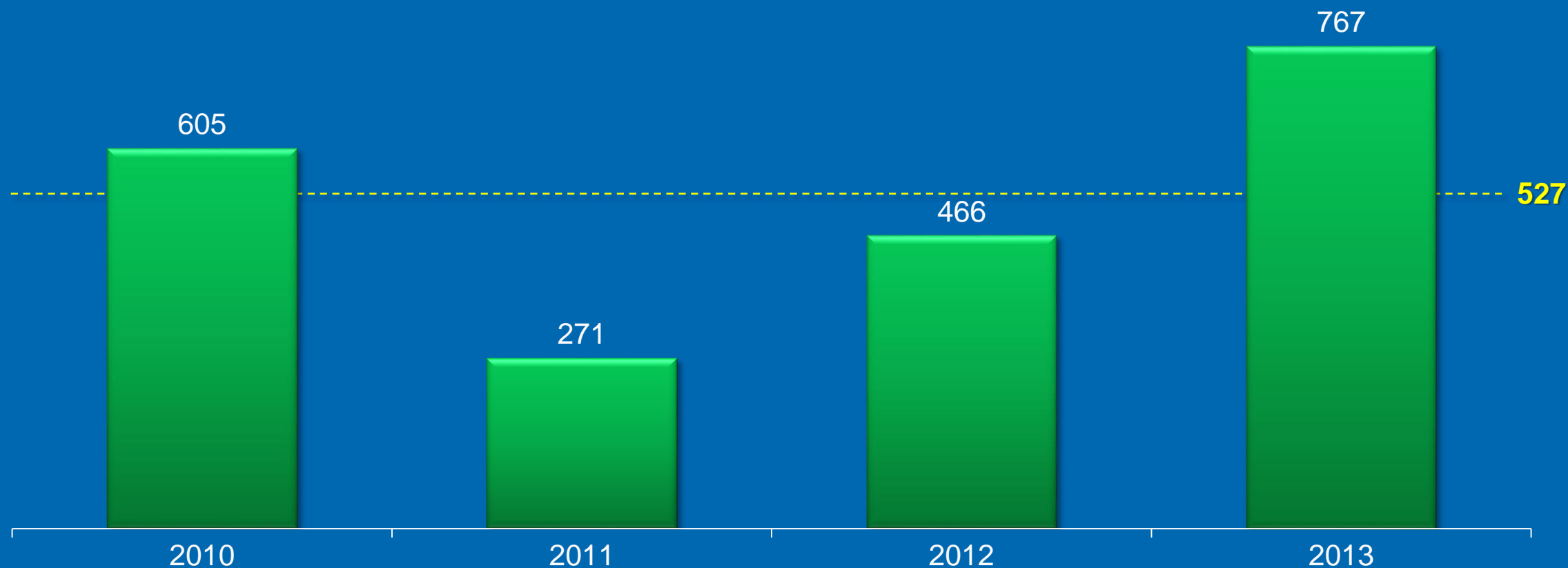
Note: Excluding duty free. Premium includes above premium  
Source: PMI estimates



# EEMA Region: Pricing

Pricing Variance (\$ million)

**Average**  
**2010-2013:**





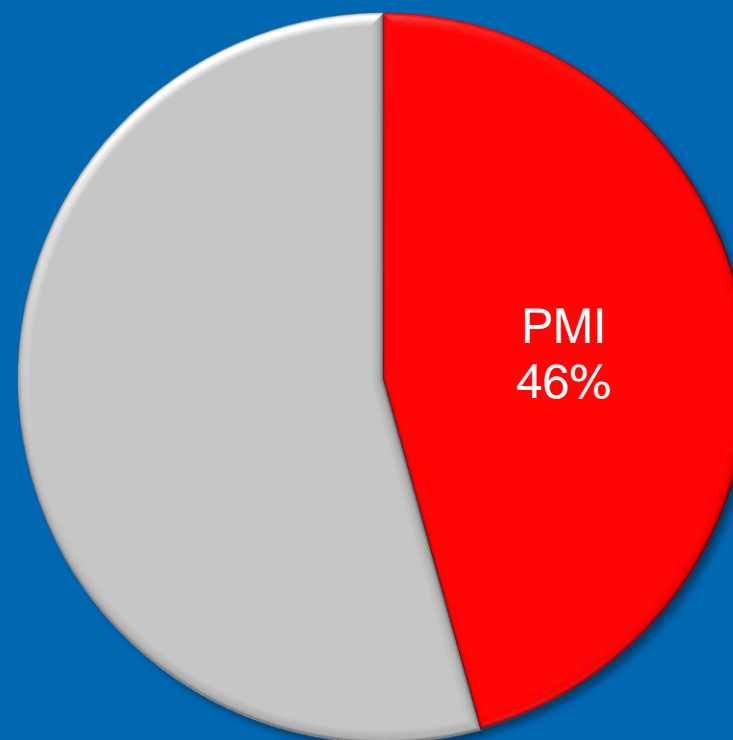


# EEMA Region: PMI Increasing Revenue Generation

PMI Share of  
EEMA Industry Net Revenue (%)



EEMA Industry  
Net Revenue Gain (2010-2013)





# EEMA Region: Strong Profitability Growth

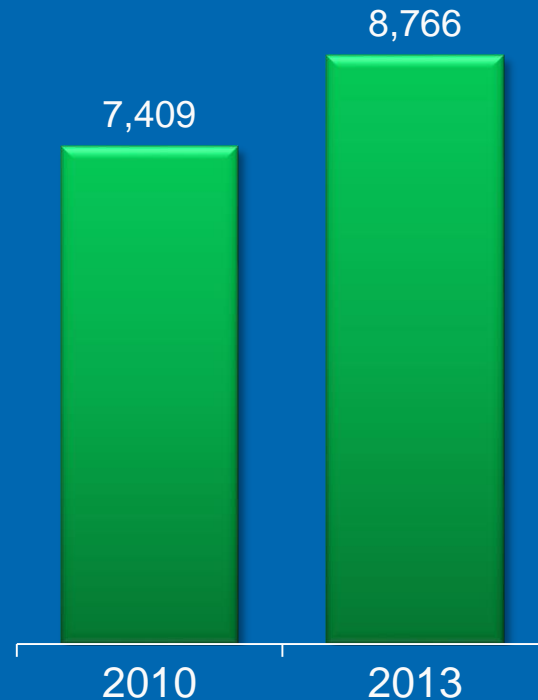
Shipment Volume  
(units billion)

CAGR: +0.8%



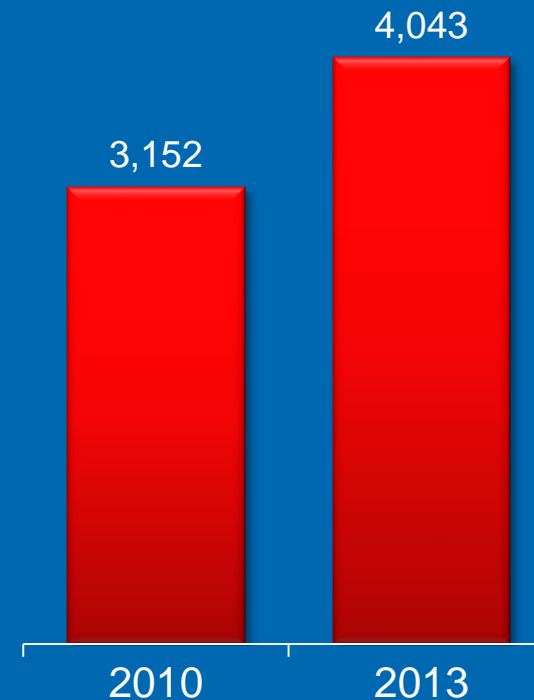
Net Revenues  
(\$ million)

CAGR: +5.8%  
CAGR: +7.8% (ex-currency)



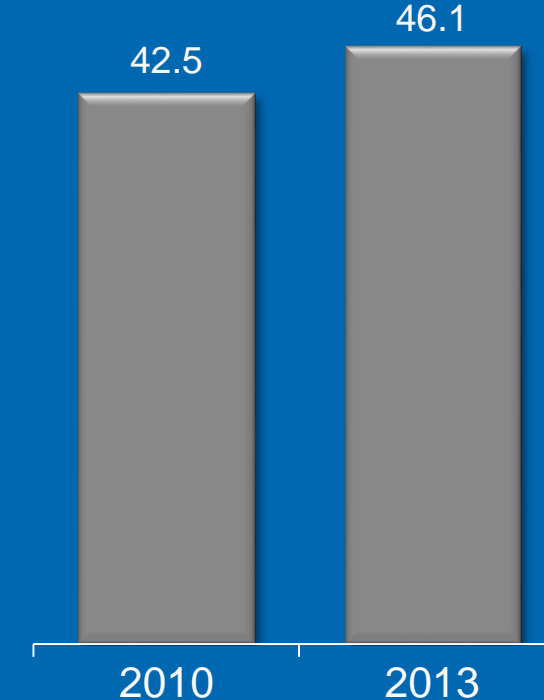
Adjusted OCI  
(\$ million)

CAGR: +8.7%  
CAGR: +12.3% (ex-currency)



Adjusted OCI Margin  
(%)

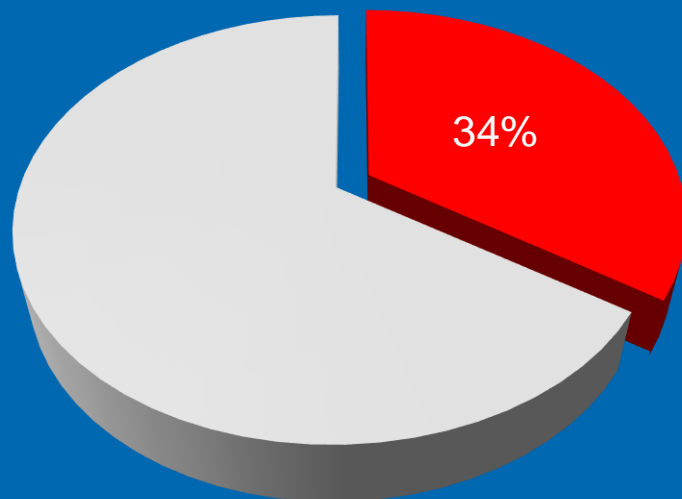
Change: +3.6pp  
Change: +5.6pp (ex-currency)



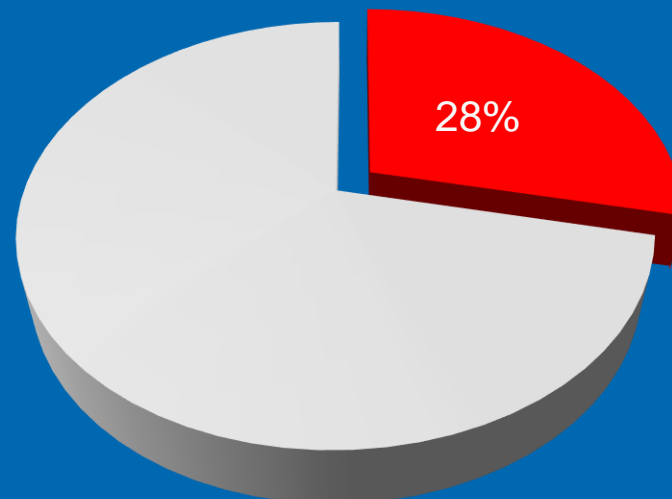


# EEMA Region: Contribution to 2013 PMI Results

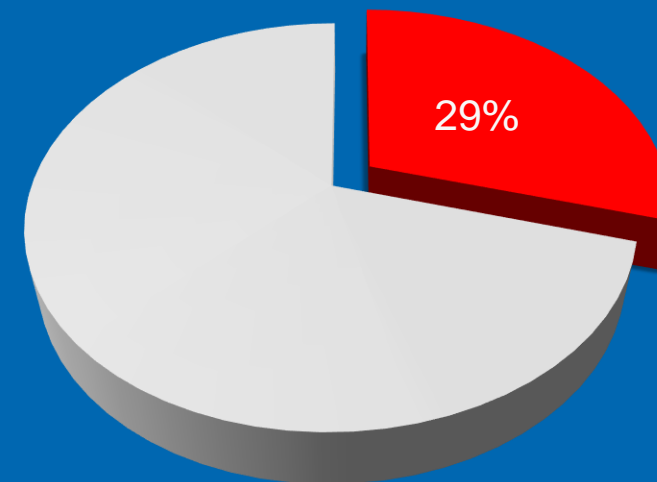
Cigarette Shipment Volume



Net Revenues

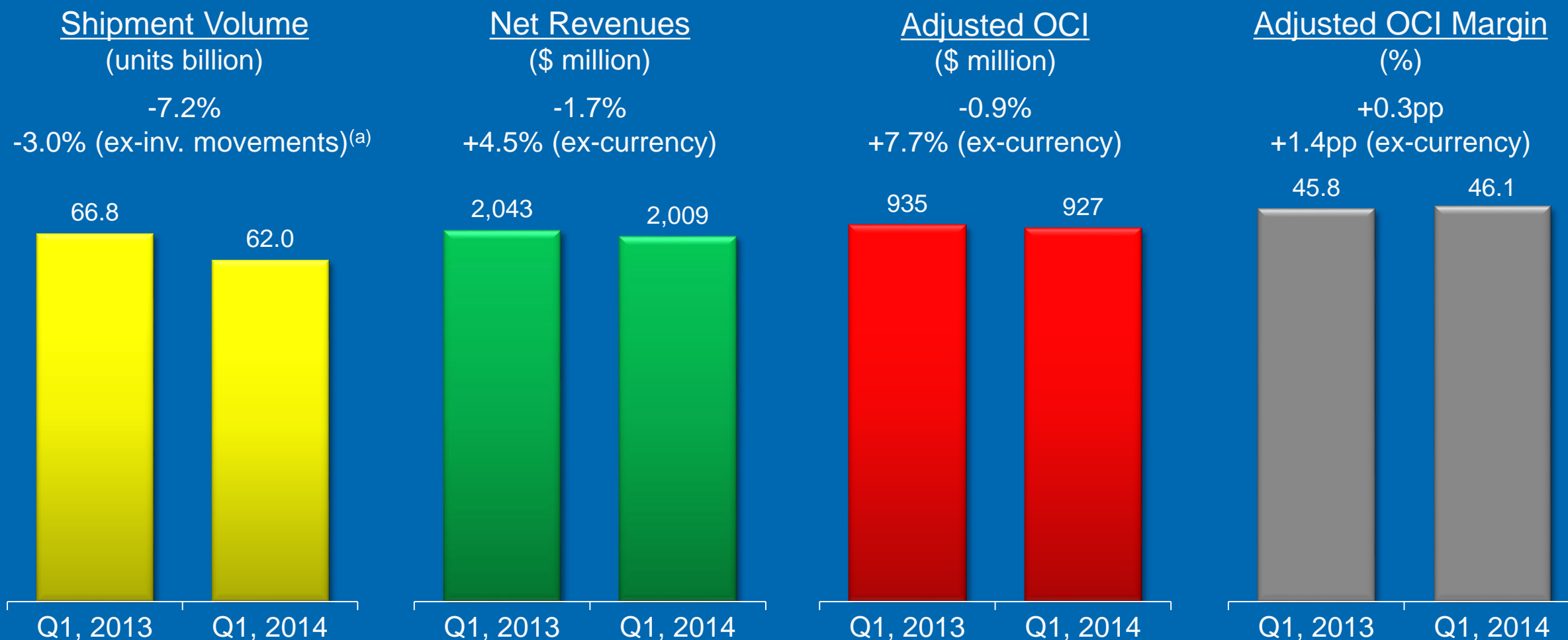


Adjusted OCI





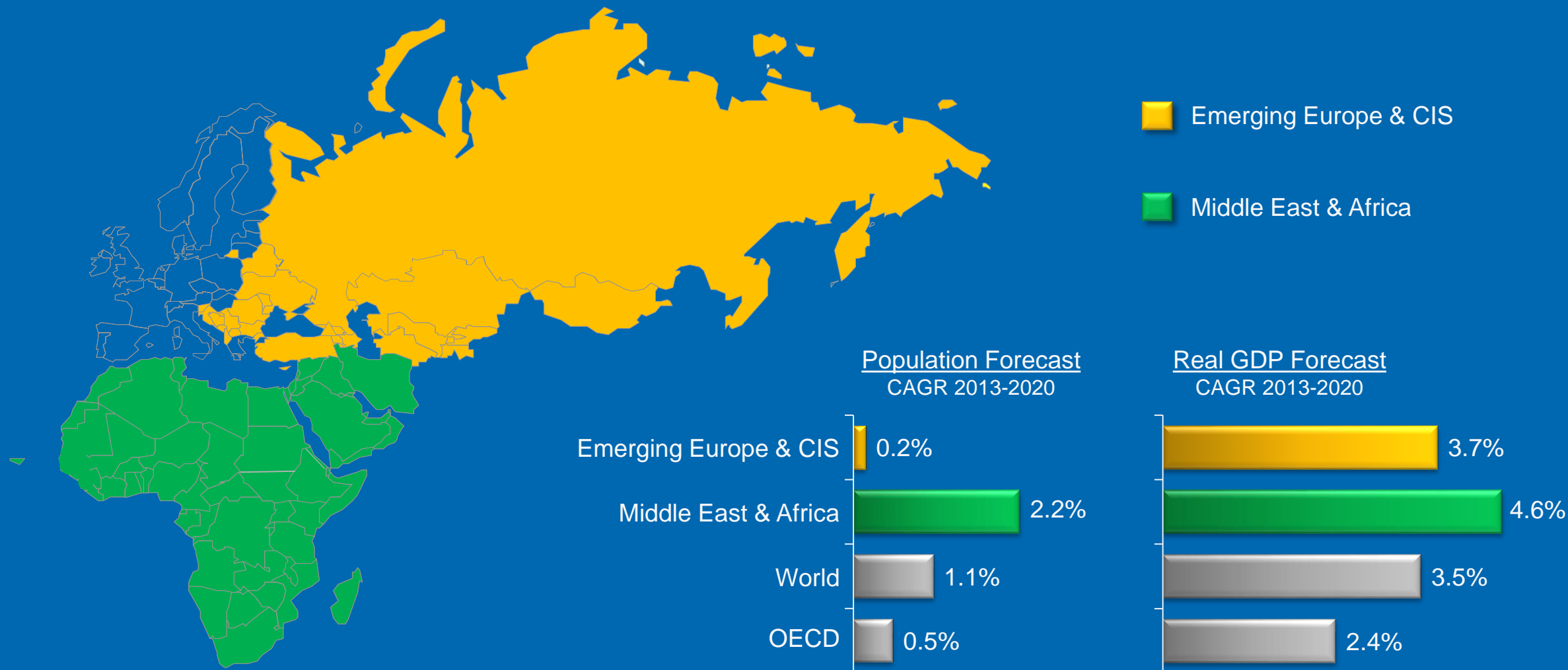
# EEMA Region: First-Quarter Results



(a) ex-inv. movements stands for excluding the unfavorable impact of estimated inventory movements



# EEMA Region: Two Distinct Growth Profiles





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# Emerging Europe & CIS



 Emerging Europe & CIS

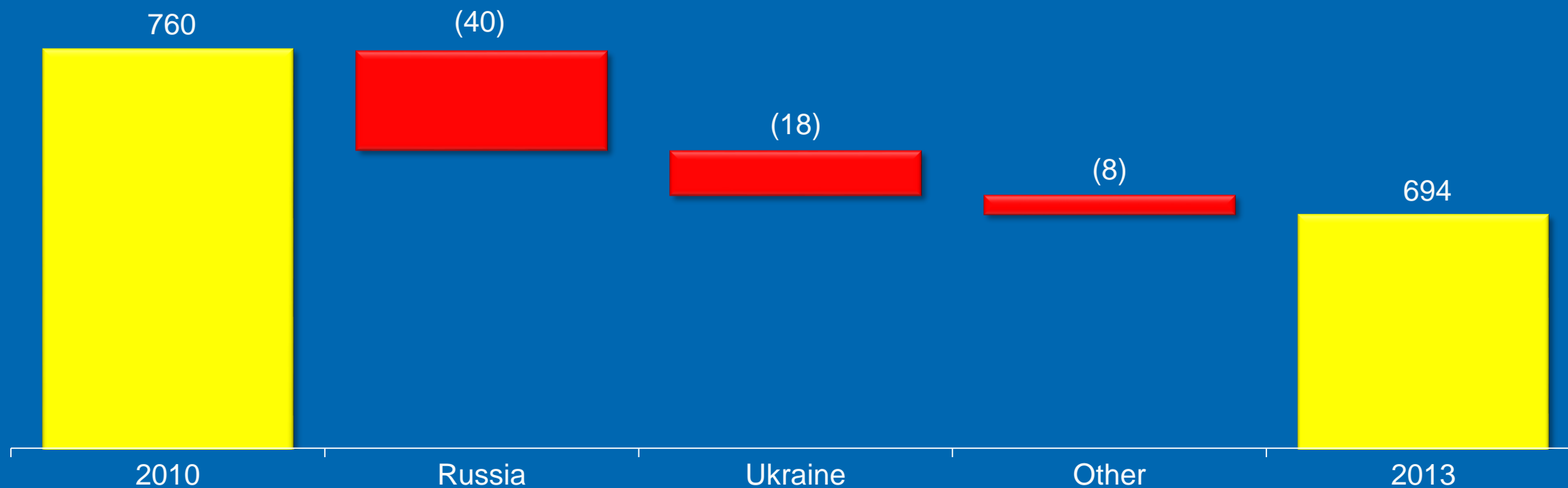
 Middle East & Africa



# Emerging Europe & CIS: Industry Volume Trend

Industry Volume (units billion)

CAGR: (3.0)%

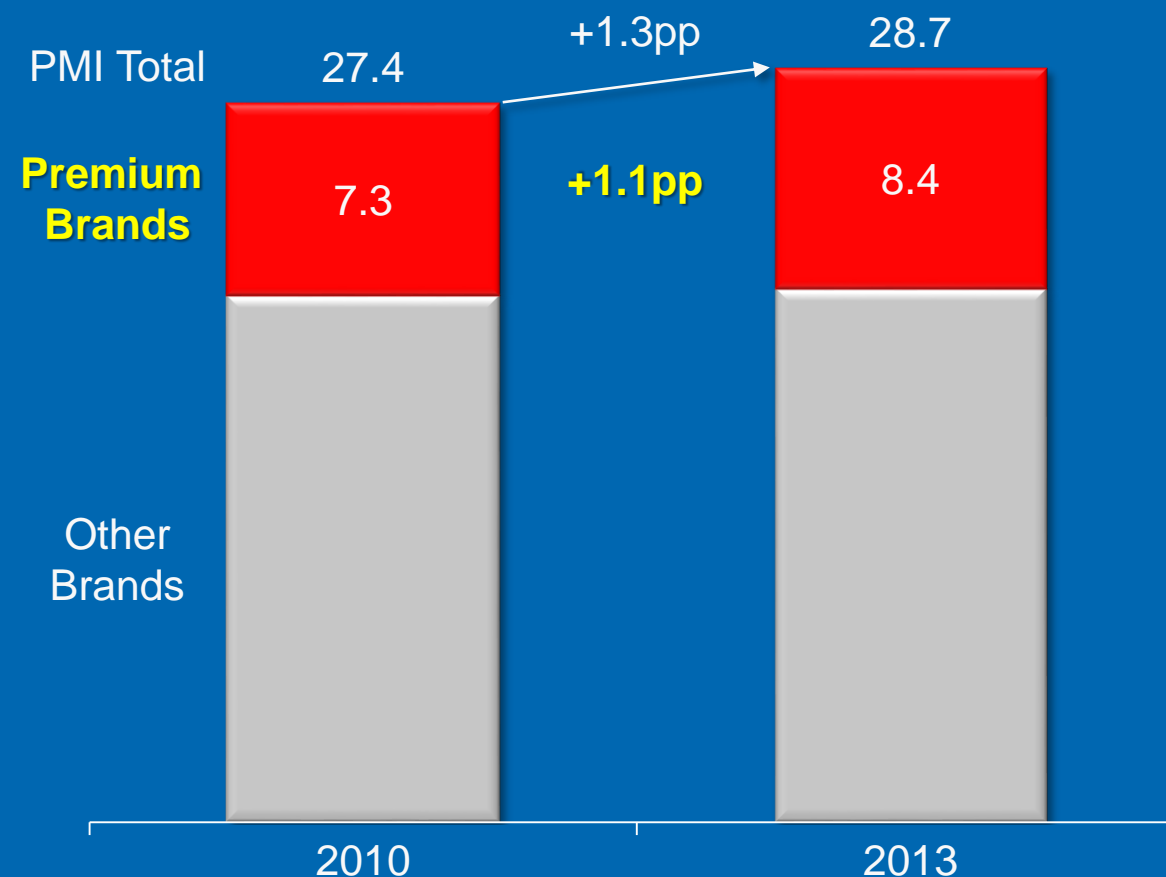




# Emerging Europe & CIS: Growth Drivers

- Pricing opportunities
- Up-trading environment
- PMI organic share momentum driven by premium brands

PMI Share in Emerging Europe & CIS (%)



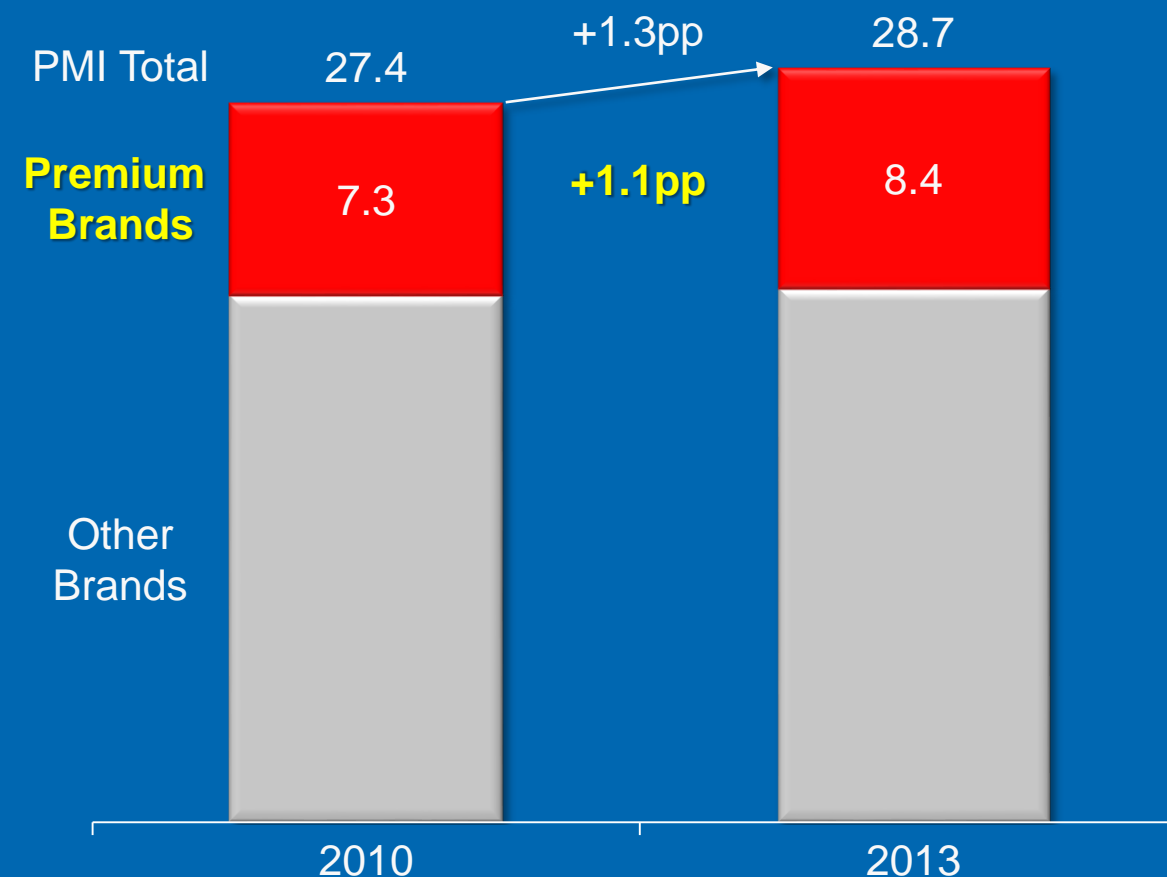




# Emerging Europe & CIS: Growth Drivers

- Pricing opportunities
- Up-trading environment
- PMI organic share momentum driven by premium brands
- One market share point gain estimated to yield incremental net revenues of:
  - \$275 million (premium)
  - \$125 million (non-premium)

PMI Share in Emerging Europe & CIS (%)





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# Middle East & Africa

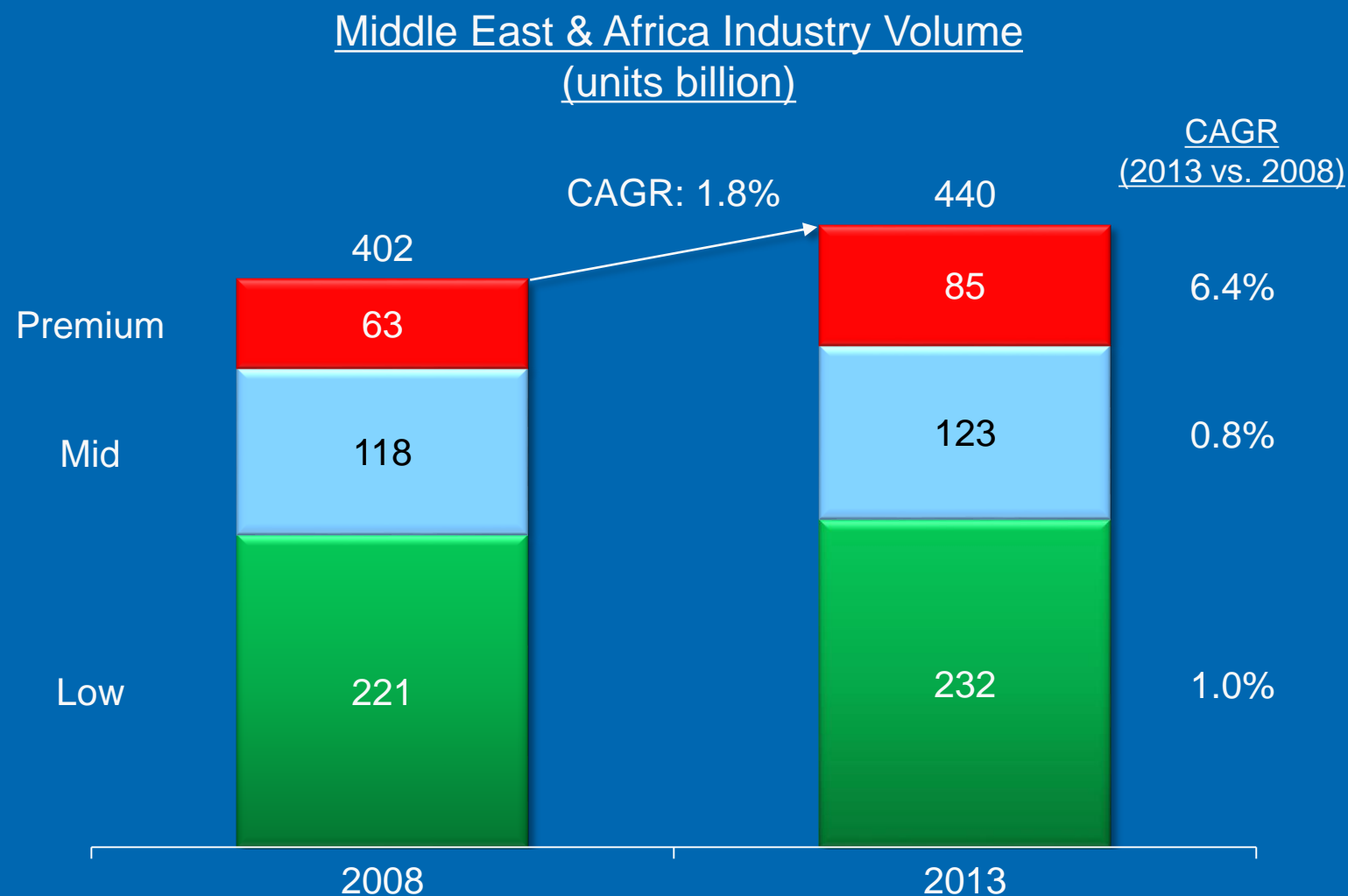


 Emerging Europe & CIS

 Middle East & Africa



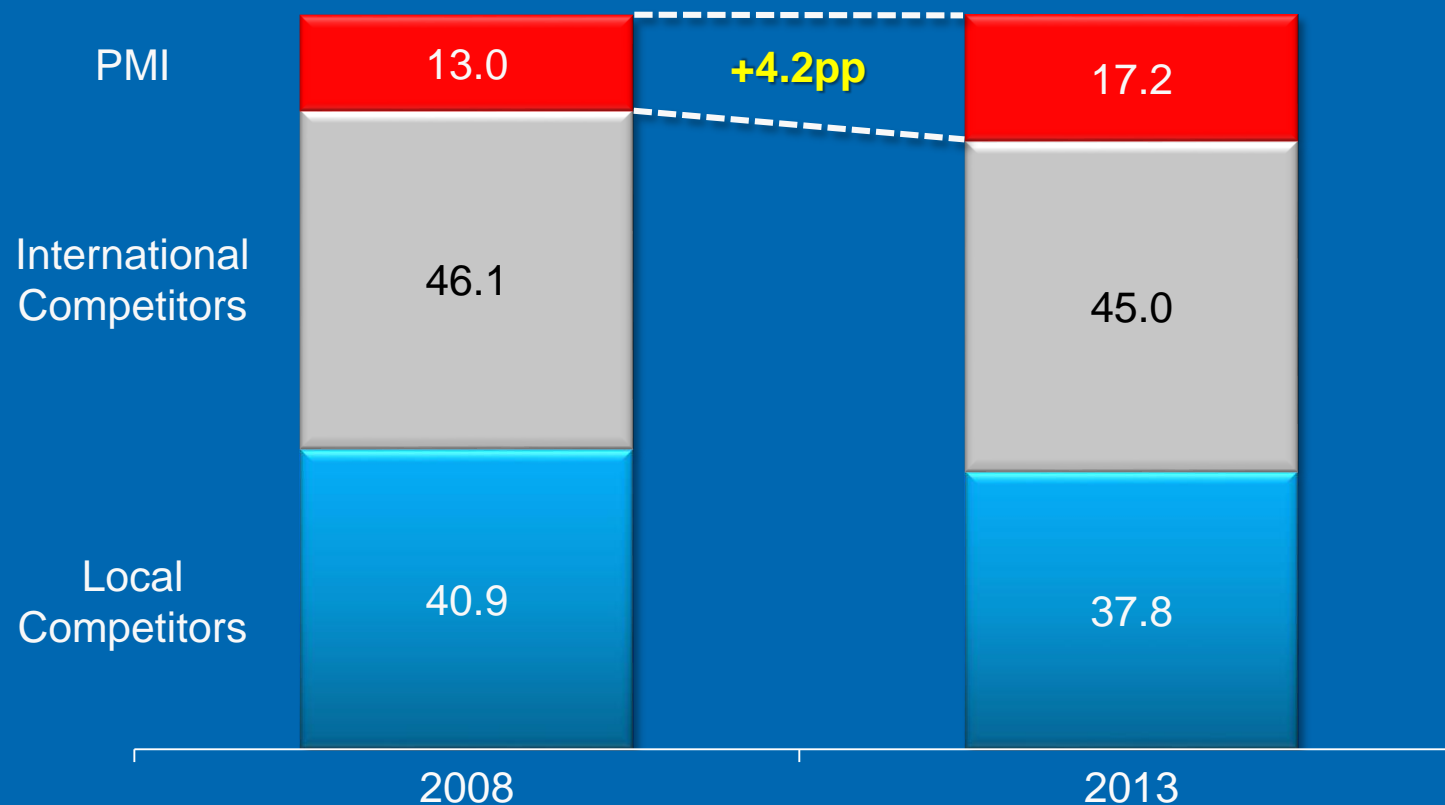
# Middle East & Africa: Up-Trading in a Growing Industry





# Middle East & Africa: Further Volume Growth Opportunity

Middle East & Africa Market Shares (%)



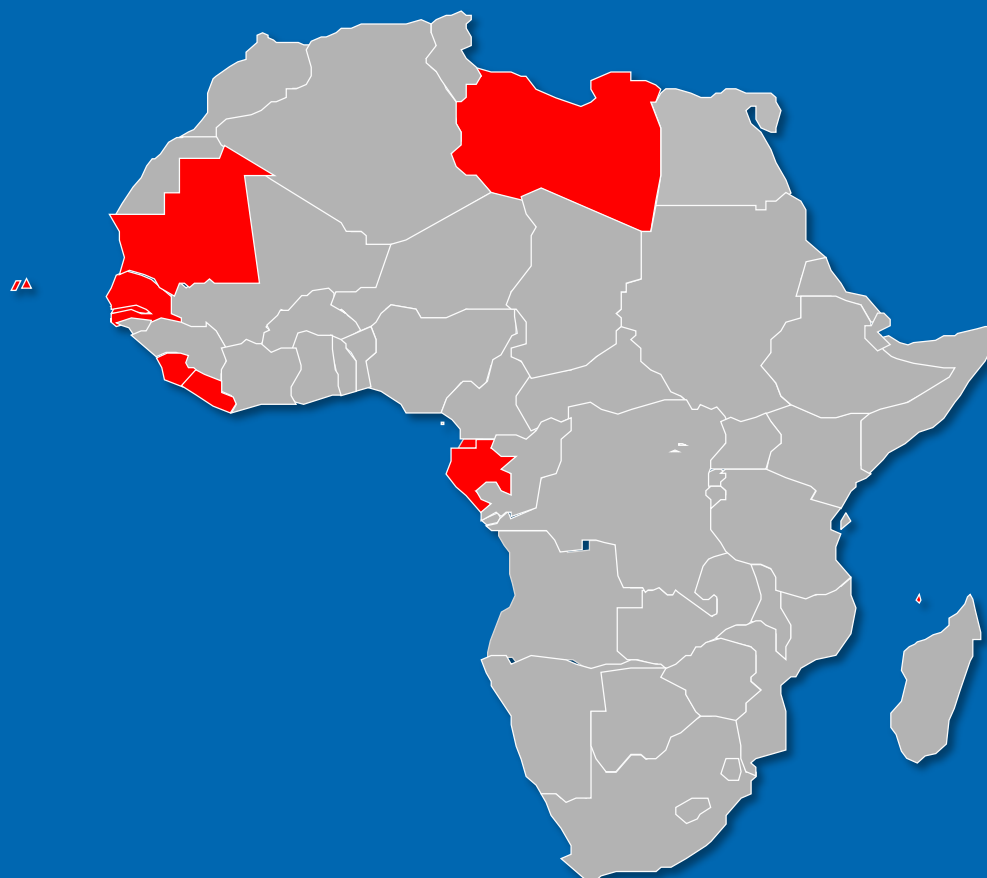


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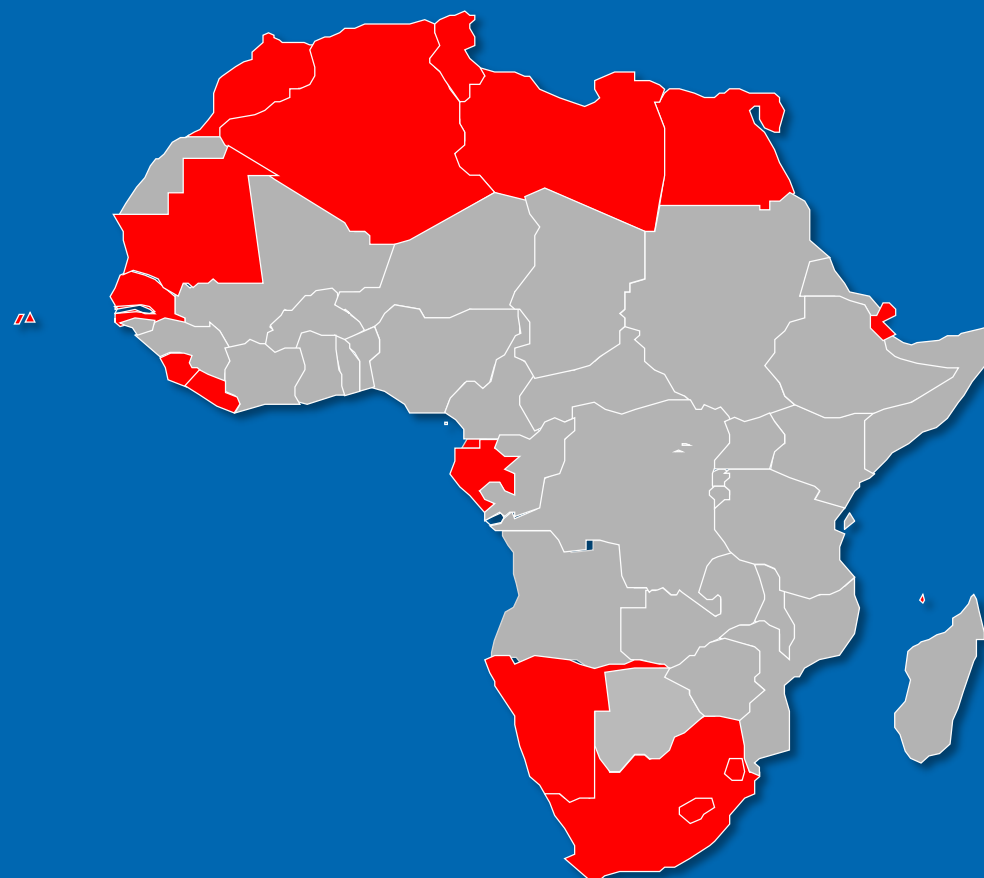
# Geographic Expansion in Africa

■ Significant PMI Presence (2013 Total Tobacco Market Share > 15%)

2008



2013



Note: Market shares include OTP segment  
Source: PMI estimates



## EEMA Region: Growth Outlook

- PMI continues to outpace competition
- Pricing and mix opportunities in both geographic areas
- Emerging Europe & CIS:
  - Improved industry volume outlook
  - Improving mix and premium segment growth momentum
- Middle East & Africa:
  - Industry volume growth
  - Substantial share opportunity
  - Geographic expansion



**Target for EEMA Region to deliver annual mid to long-term  
low double-digit adjusted OCI growth, ex-currency**



## Regional Strategic Priorities

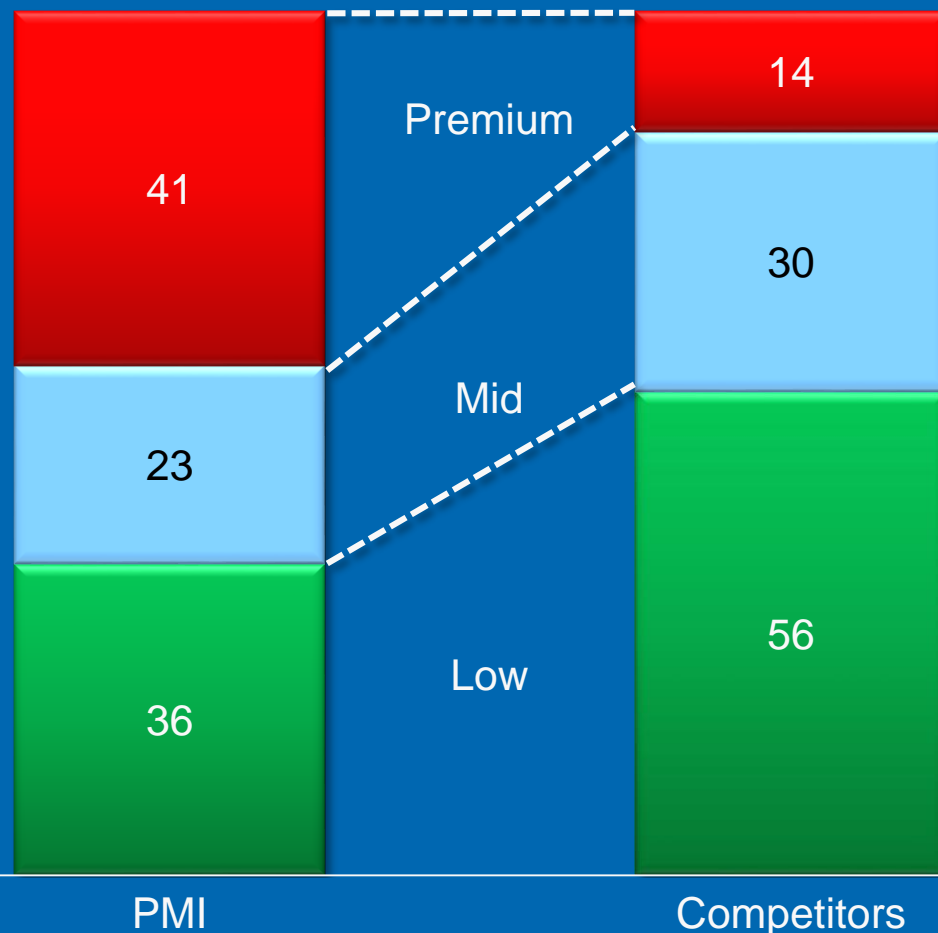
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- Further strengthen our balanced portfolio
- Advocate for reasonable fiscal and regulatory frameworks
- Counter illicit trade
- Enhance our position in the markets
- Seize mid to long-term growth opportunities



# EEMA Region: Superior PMI Positioning and Balanced Portfolio

2013 Volume by Price Segment (%)



Key PMI Brands

## Premium

- **Marlboro** – # 1 in segment
- **Parliament** – # 3 and fastest growing in segment

## Mid

- **L&M** – # 2 brand in segment
- **Chesterfield** – # 4 brand

## Low

- **Bond Street** – # 1 international proposition in segment



# NOUVEAU

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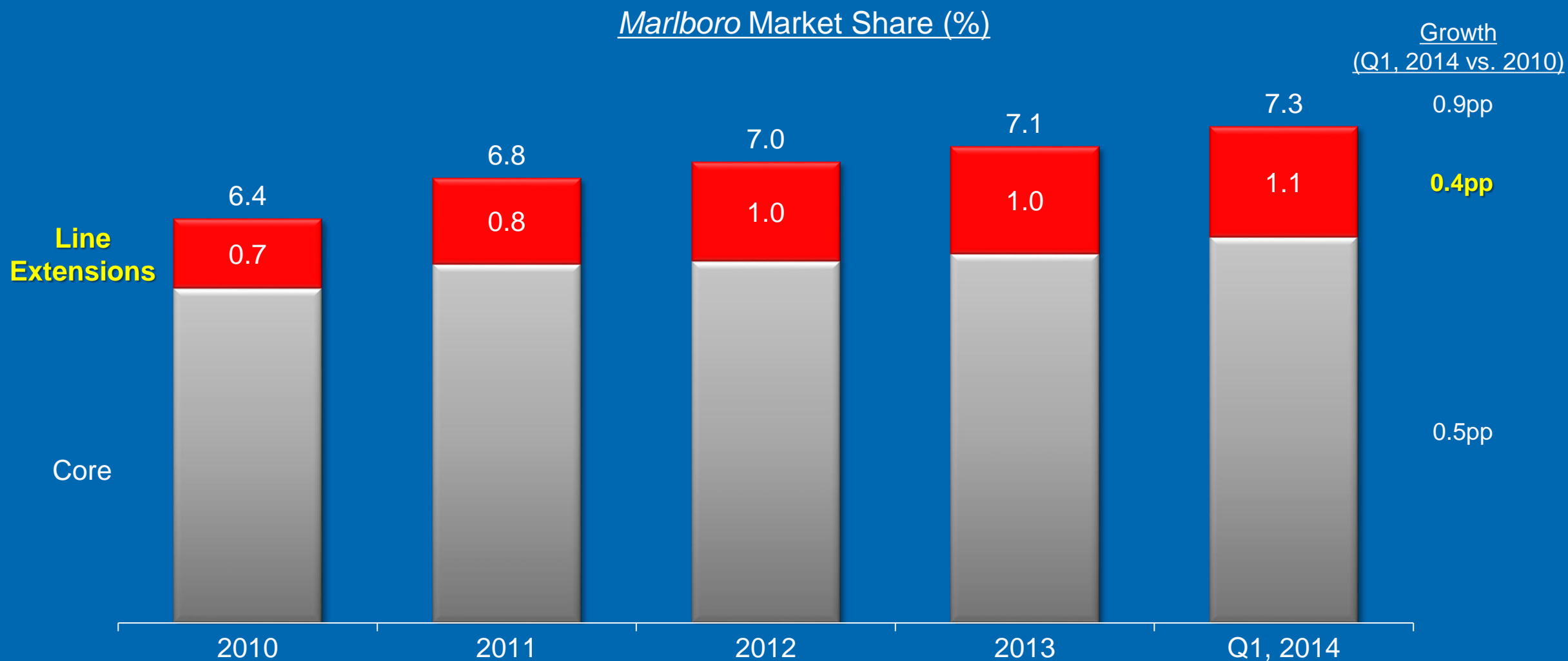
## Smoking kills





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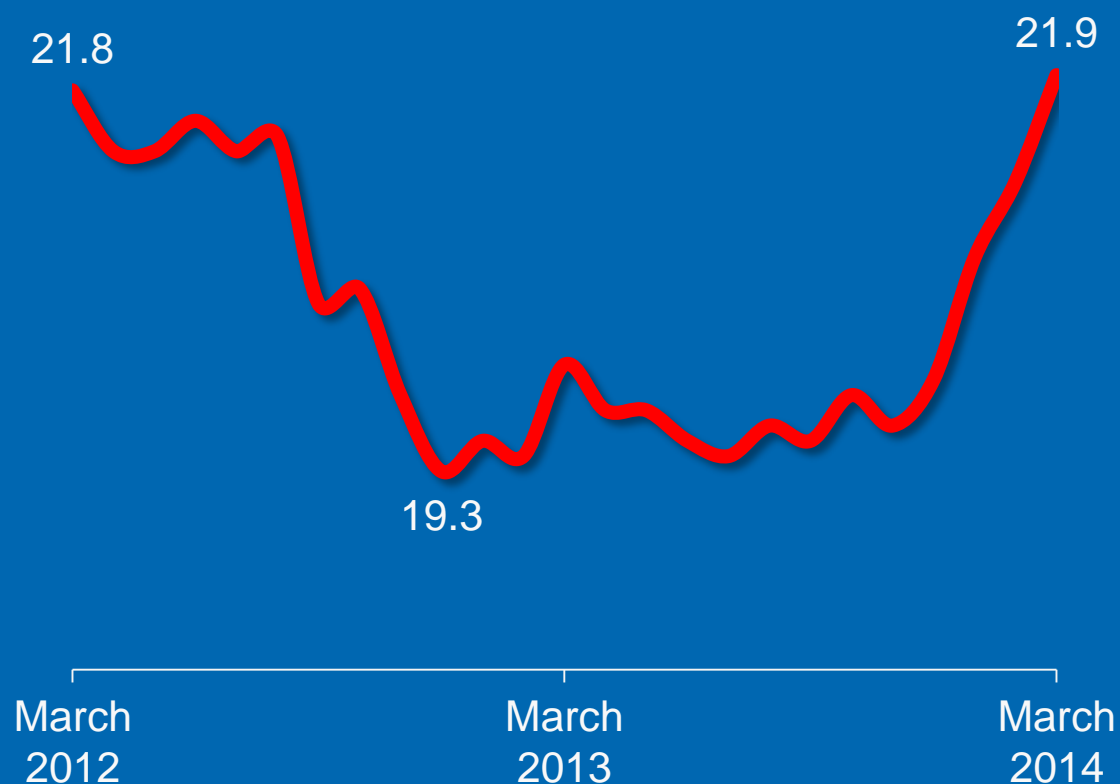
# Marlboro Continues to Grow in EEMA



# Capitalizing on *Marlboro's* Premiumness



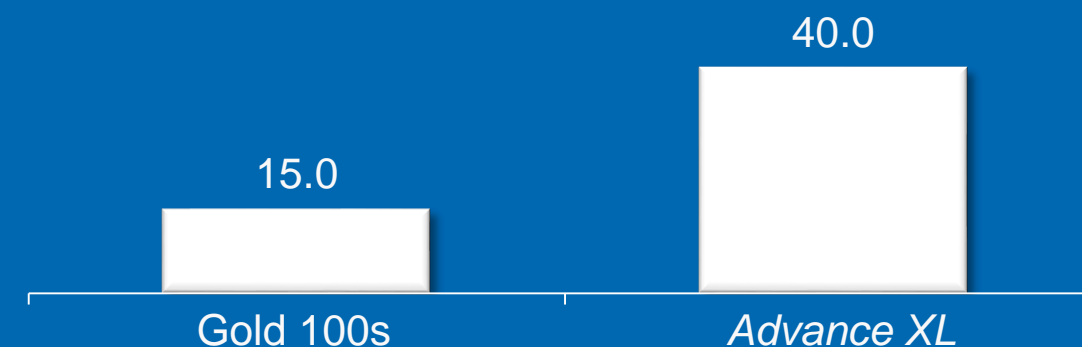
3mm Marlboro Market Share  
in Saudi Arabia (%)



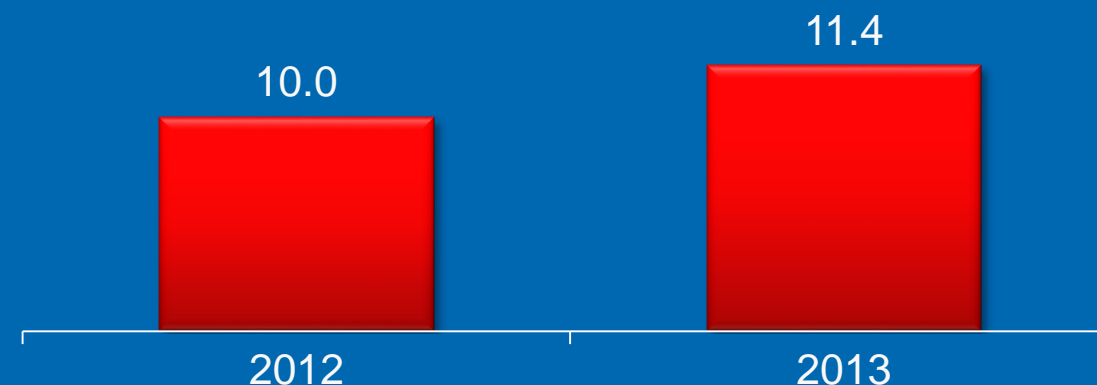
# Marlboro: Increasing Relevance in the Smooth Taste Segment



LA (min.18)-24  
Smoker Profile in Serbia (%)



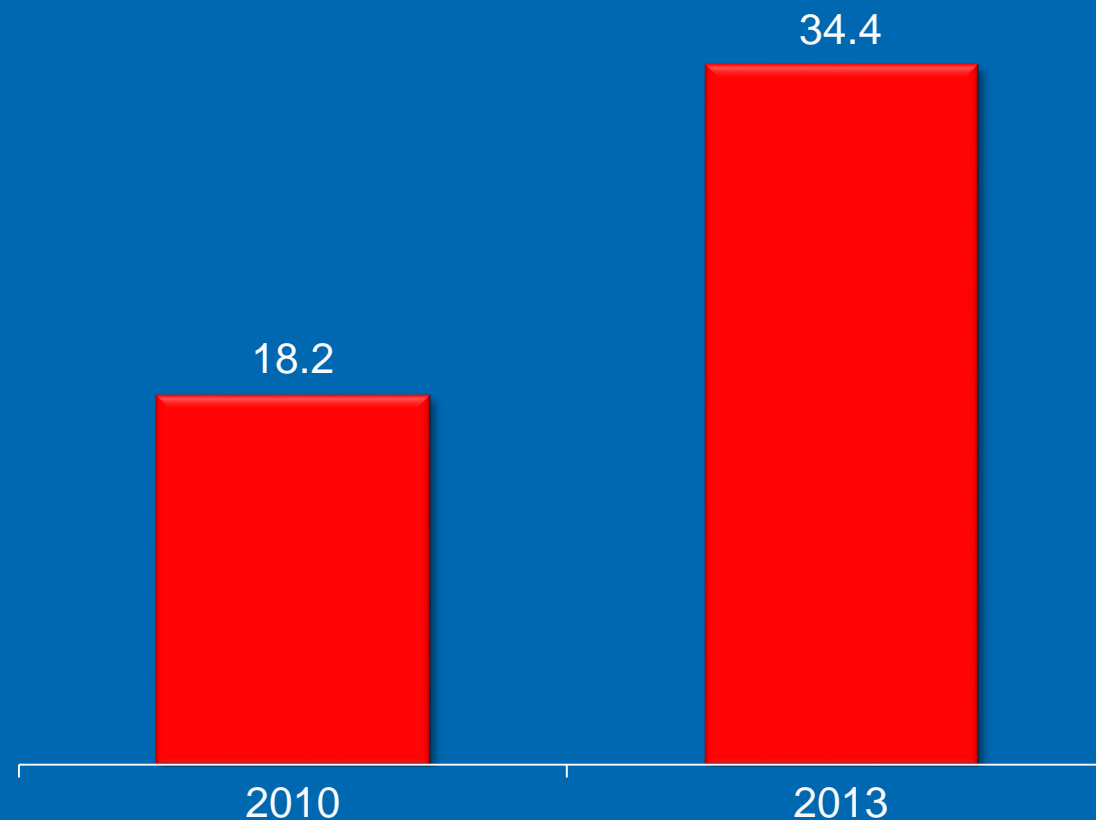
Marlboro Market Share in Serbia (%)



# Marlboro: Further Strengthening the Brand's Appeal



Market Share in Algeria (%)



Note: Translation from French: "How about you finally express yourself? Music, fashion, art, technology: become an expert in one of your passions!"

Source: PMI estimates



# Marlboro: Expanding its Reach to Virginia Blends

## South Africa: Marlboro Beyond

0.5% Market Share (Q1, 2014)



## Senegal: Marlboro Blue

2.6% Market Share (Q1, 2014)



# PARLIAMENT *Carat*

FEATURING  
DIAMOND CUT™ TECHNOLOGY



4MG



إن كمية القطران والنيكوتين وأول أكسيد الكربون التي تستنشقها تعتمد على طريقتك في تدخين السيجارة.  
The amount of tar, nicotine and carbon monoxide you inhale will vary depending on how you smoke the cigarette.

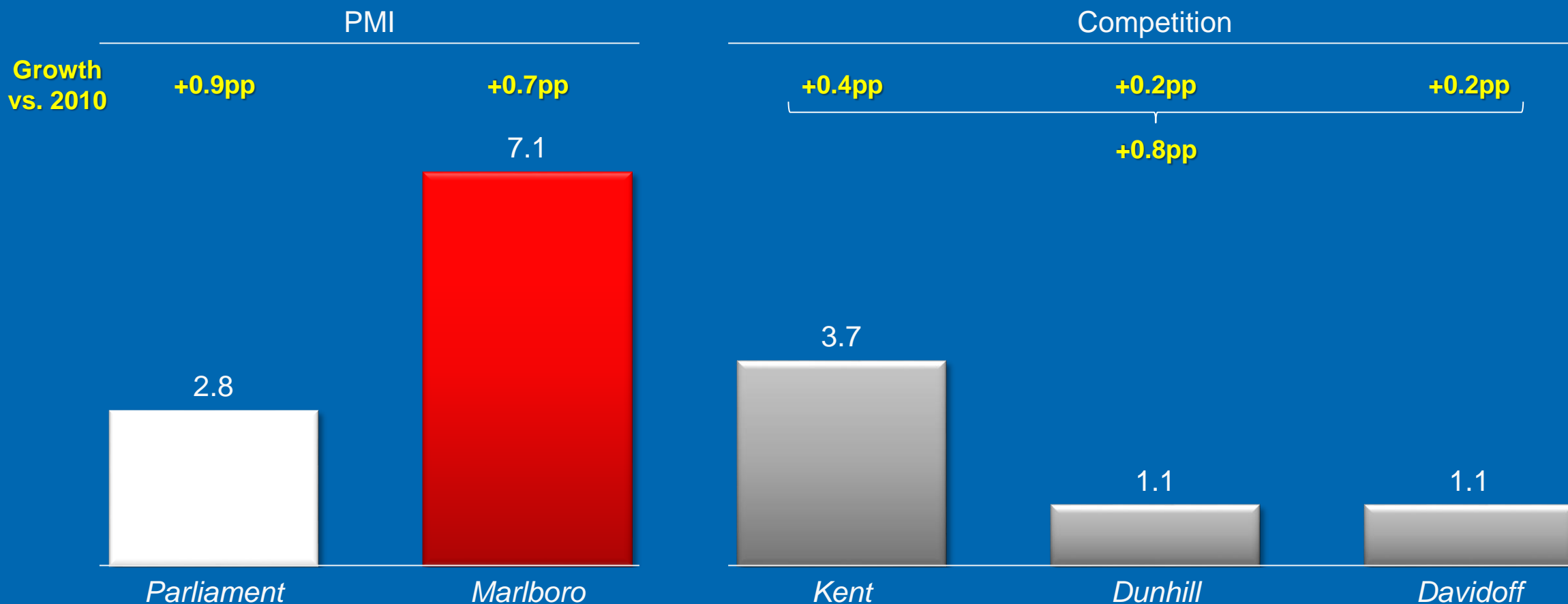
التدخين يحرق أعضاء الجسد بأكثر من ٢٥ مرضاً بما في ذلك السرطان والأمراض القلبية  
Smoking increases risk of more than 25 diseases including cancer and cardiovascular disease



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# Parliament is the Fastest-Growing Premium Brand

## 2013 EEMA Region Market Shares (%)



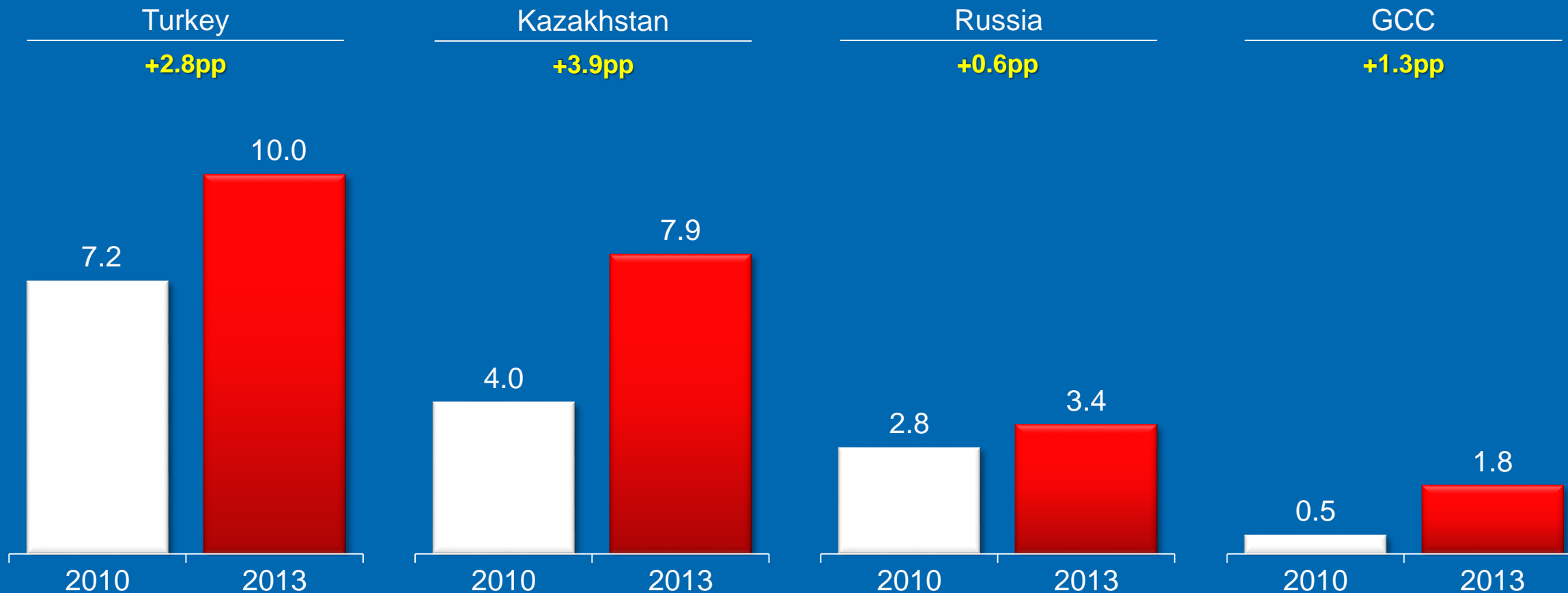




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# Parliament Has Share Growth Momentum Across the Region

## Parliament Market Shares (%) and Share Growth



Note: GCC stands for Gulf Cooperation Council  
Source: PMI estimates and Nielsen

# ЭВОЛЮЦИЯ КАЧЕСТВА

ЗНАМЕНИТЫЙ  
ФИЛЬТР RECESSED™  
ОТ СОЗДАТЕЛЕЙ PARLIAMENT



# КУРЕНИЕ УБИВАЕТ

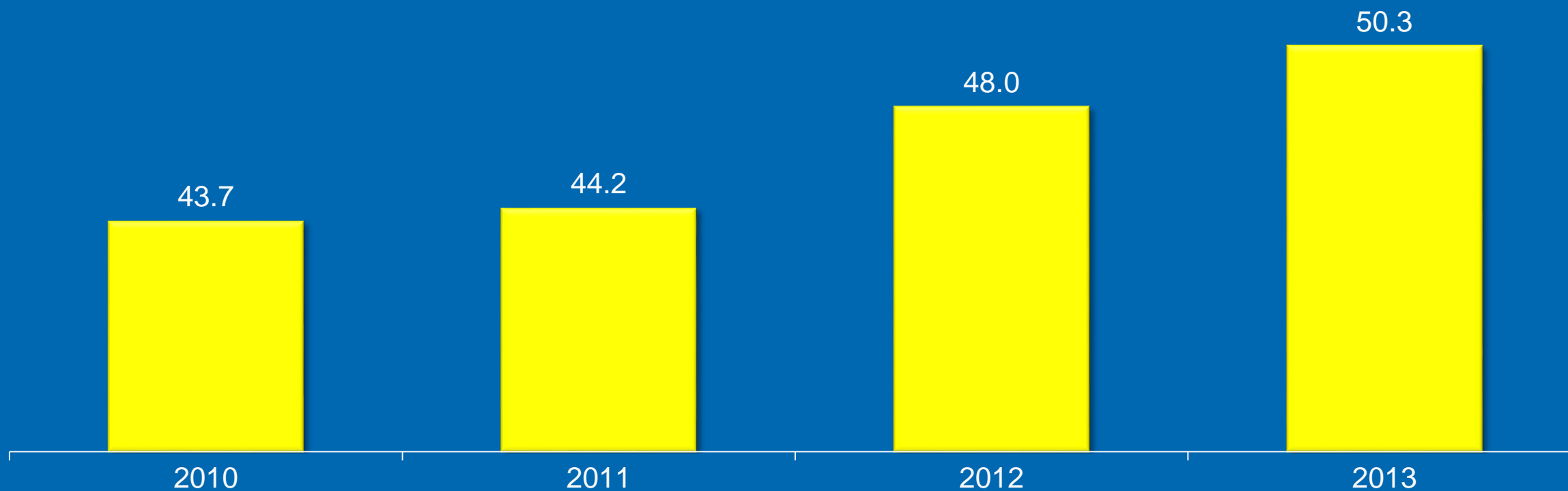
Note: Translation from Russian: "Quality evolution - Famous Recessed Filter from the Makers of Parliament"



# ***L&M* Initiatives Deliver Solid Volume Growth in EEMA**

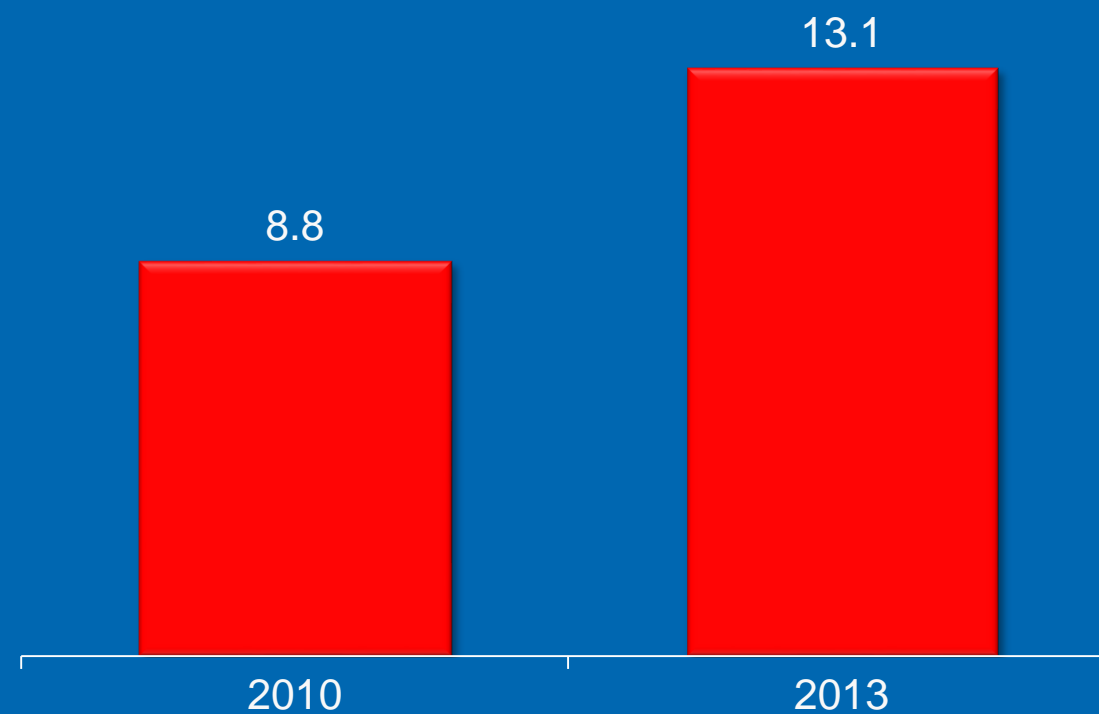
*L&M* Volume (units billion)

CAGR: 4.8%



# L&M Growing Share in Egypt

L&M Market Share in Egypt (%)





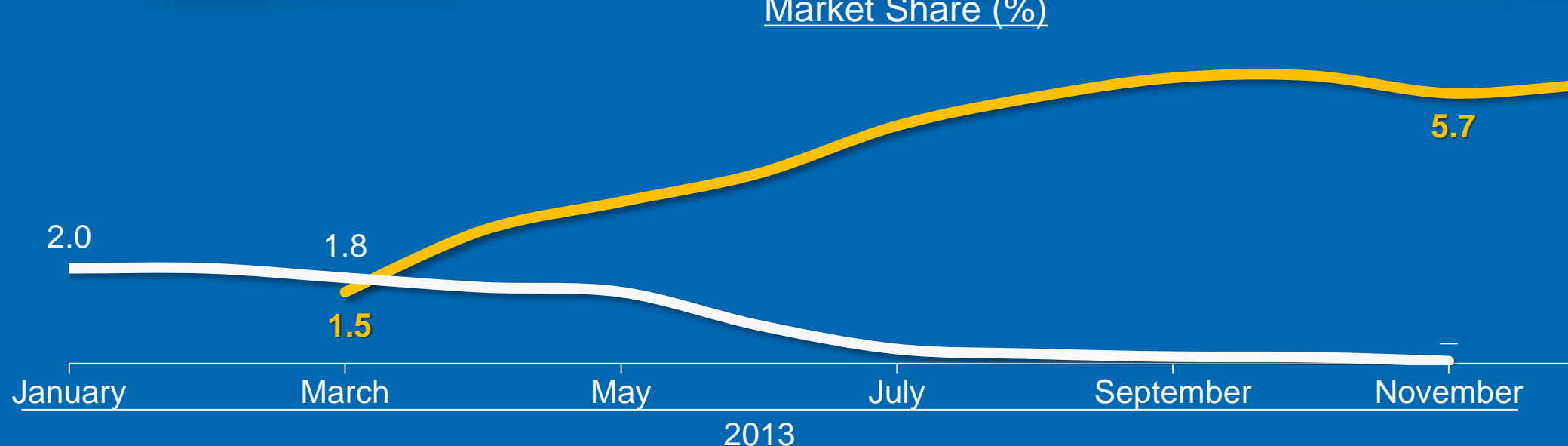
Chesterfield



# Chesterfield Driving Share Growth in Croatia



Market Share (%)





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# Chesterfield Panther Growing Our Presence in South Africa

3mm Market Share (%)





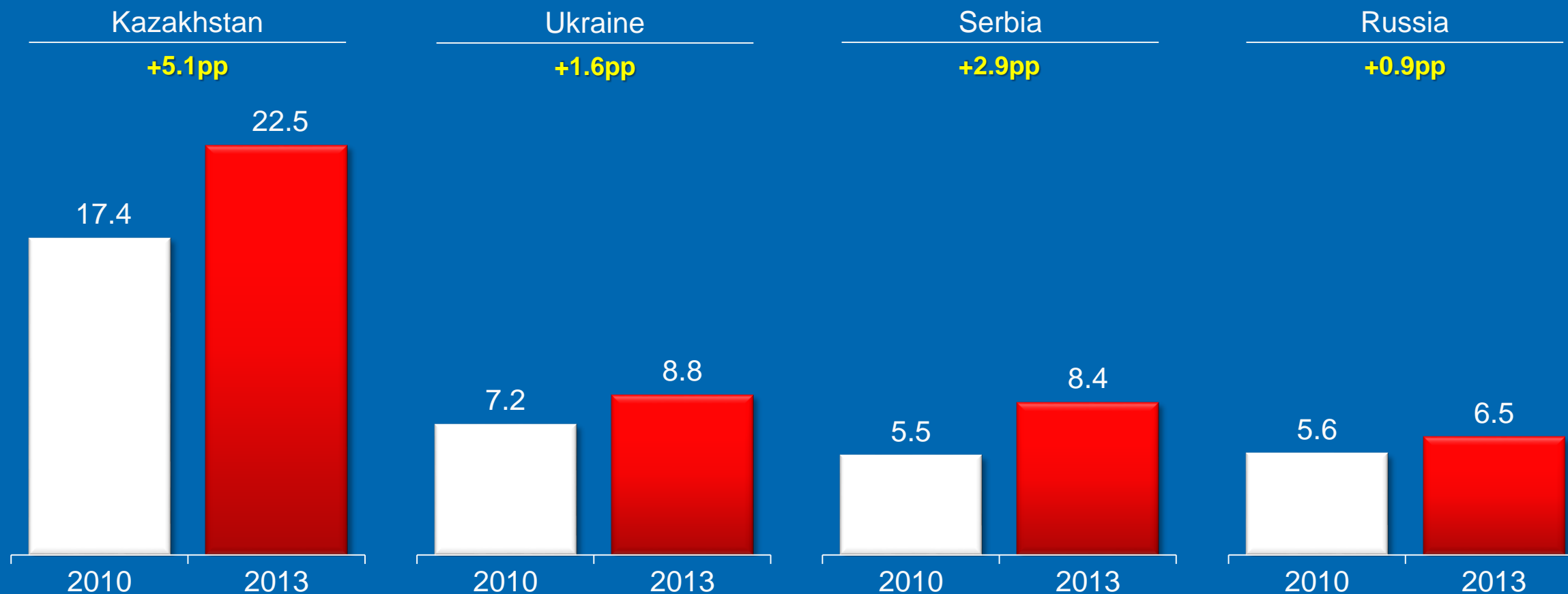






# Bond Street's Strong Performance

## Bond Street Market Shares (%) and Share Growth





# Advocate for Reasonable Regulatory and Fiscal Frameworks

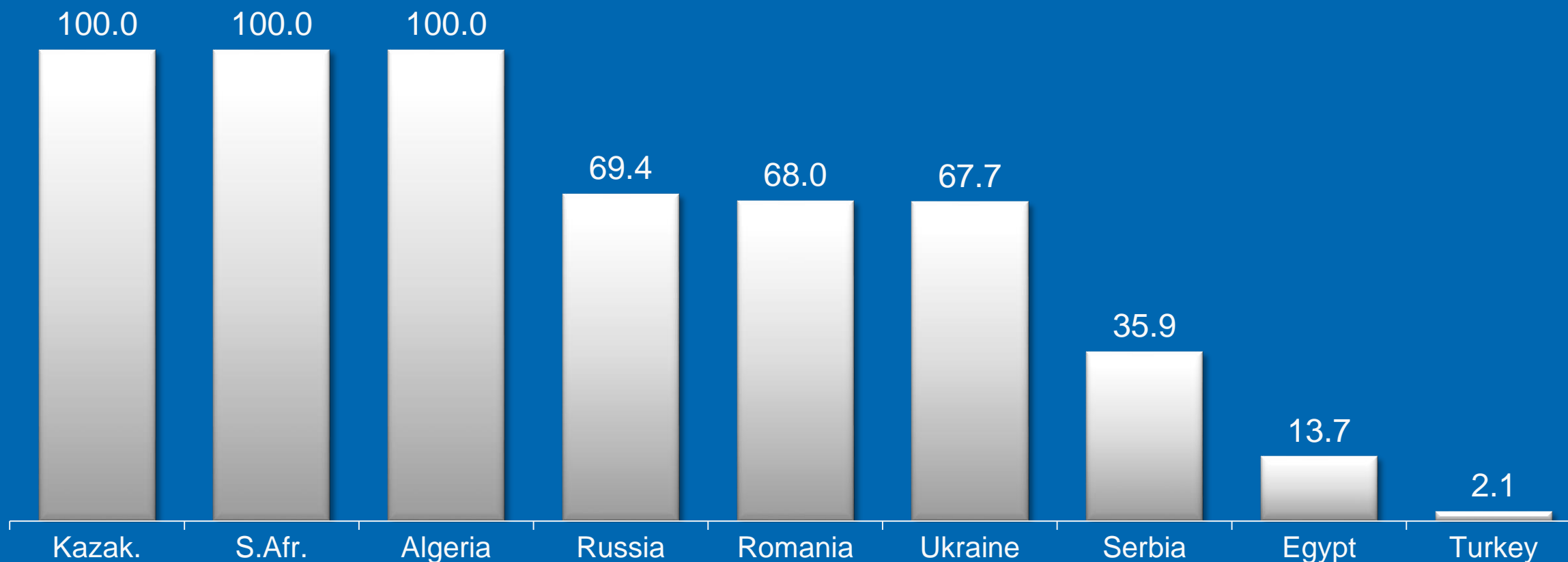
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- Regulatory environment continues to be manageable
- Governments shifting toward more rational tax structures:
  - Multi-year programs
  - Higher specific component



# Predominance of High Specific Excise Tax Structures

Specific-to-Total Excise Tax Ratio on *Marlboro* (%)





# Counter Illicit Trade

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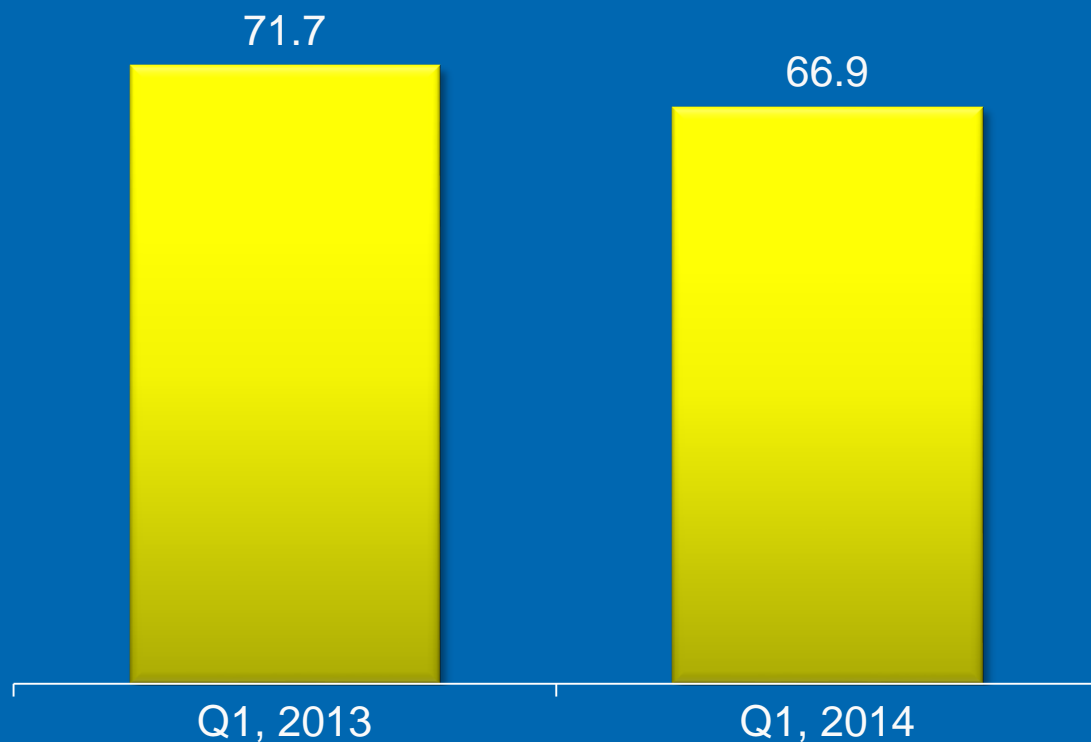
- Estimated to represent over 130 billion units in EEMA
- Regional initiatives:
  - Expanding resources
  - Supporting law enforcement
  - Creating awareness among adult smokers and other stakeholders
  - Engaging regulators



# Russia: PMI Growing Share and Profit

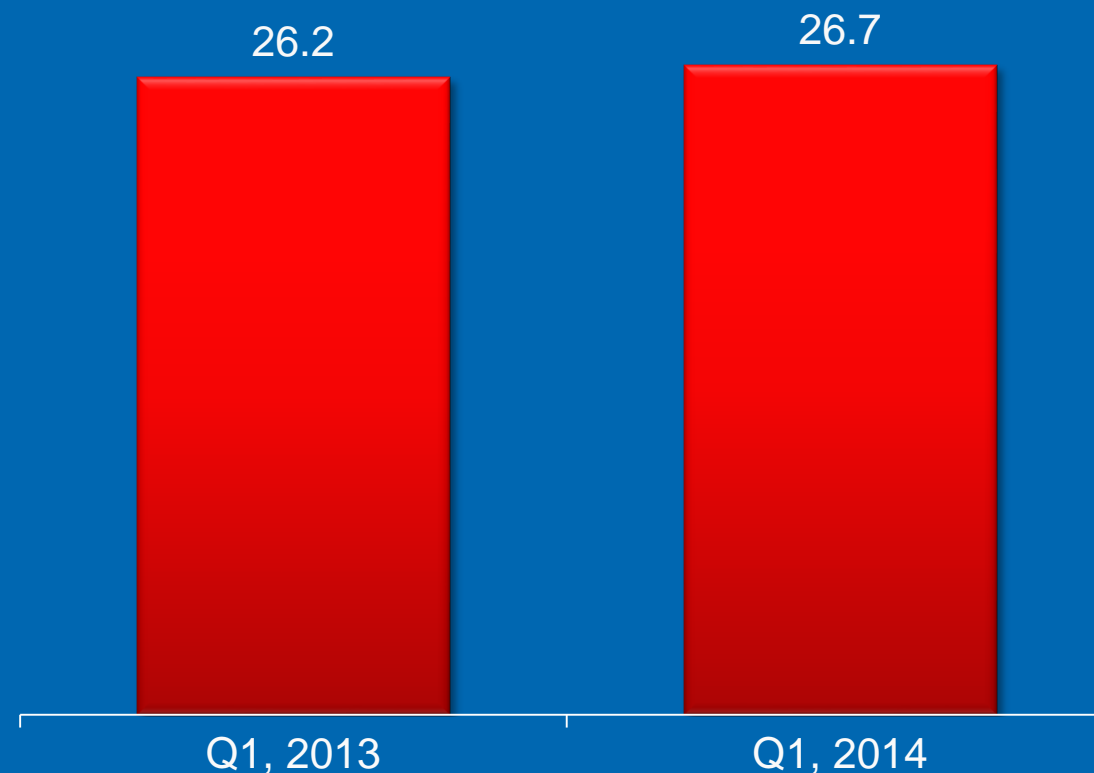
Industry Volume (units billion)

(6.7)%



PMI Market Share (%)

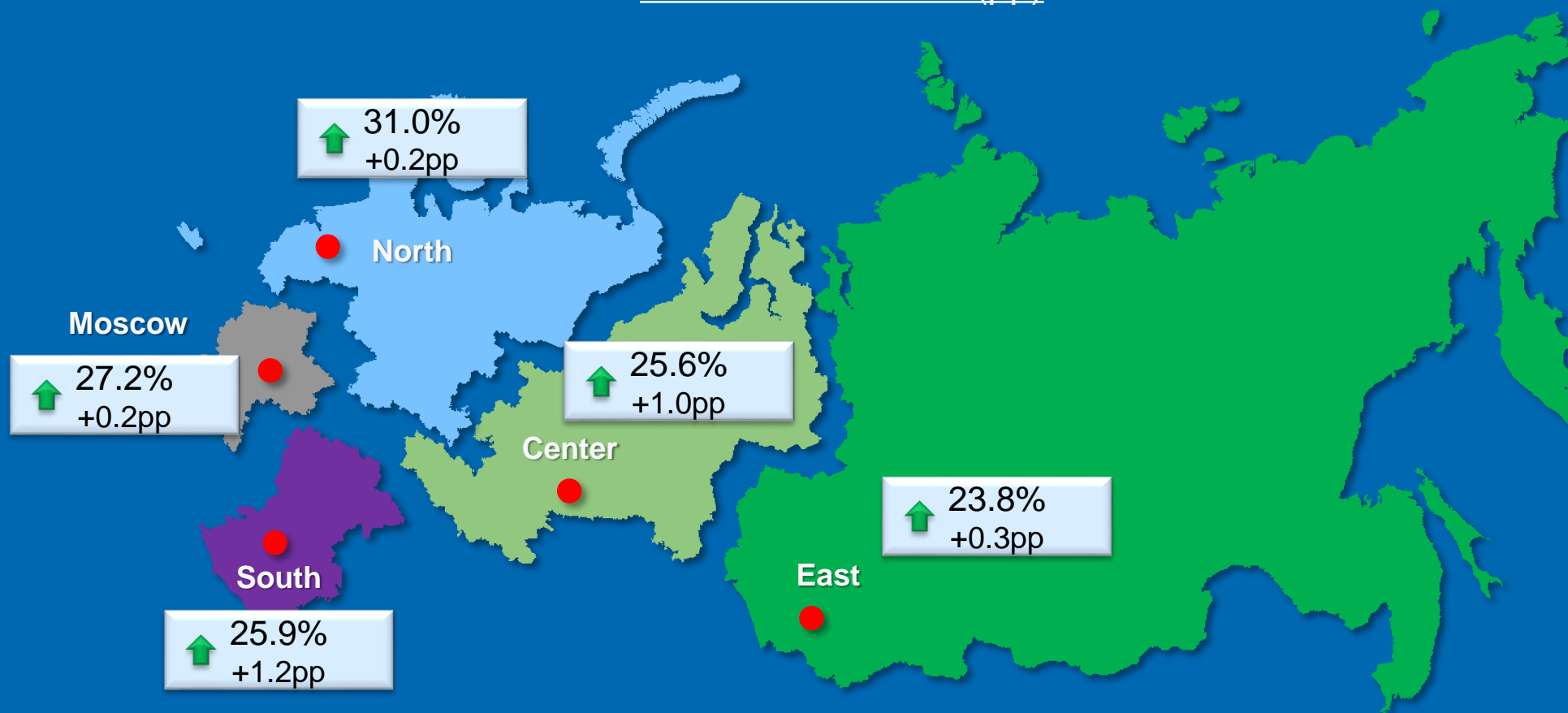
+0.5pp





# Russia: Commercial Approach Driving Results

Q1, 2014 PMI Market Shares (%)  
and Growth vs. PY (pp)

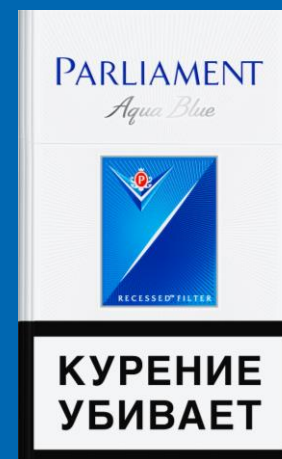
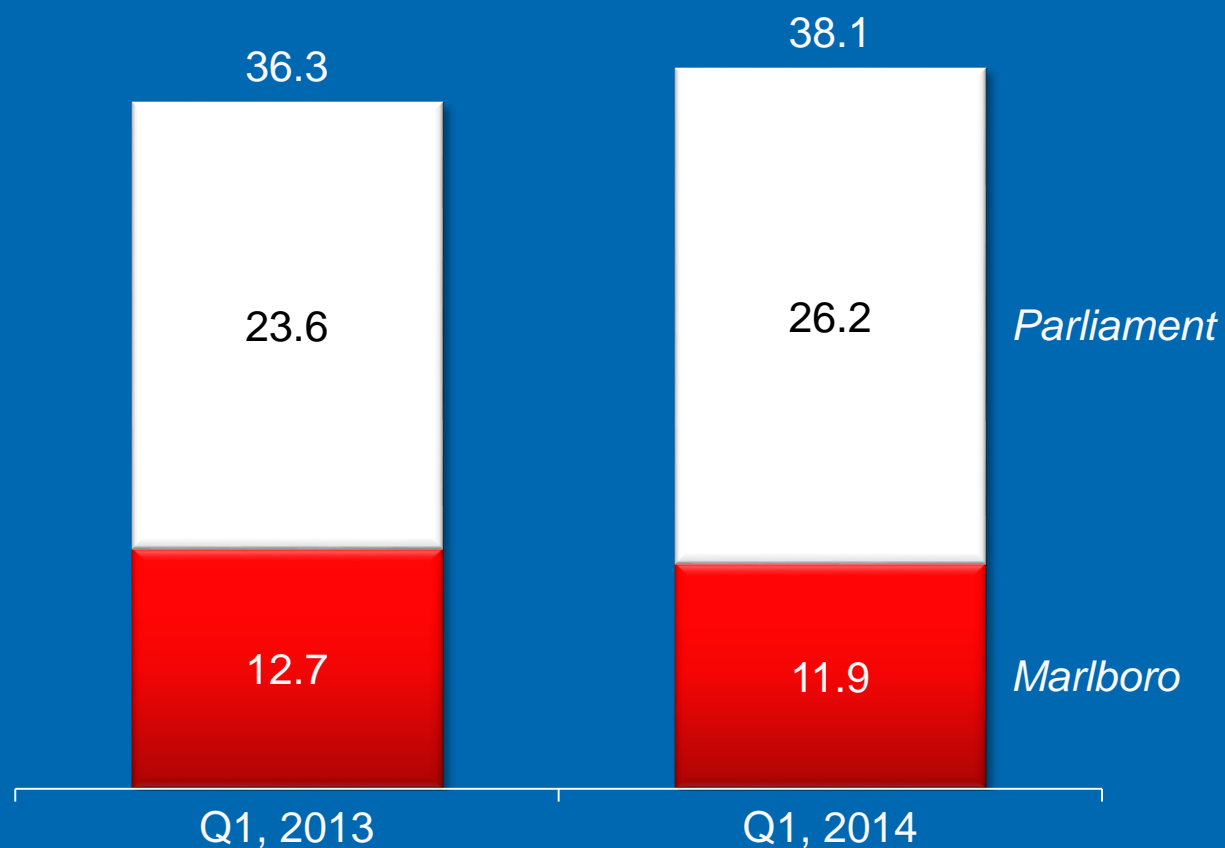




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# Russia: Growing in Premium

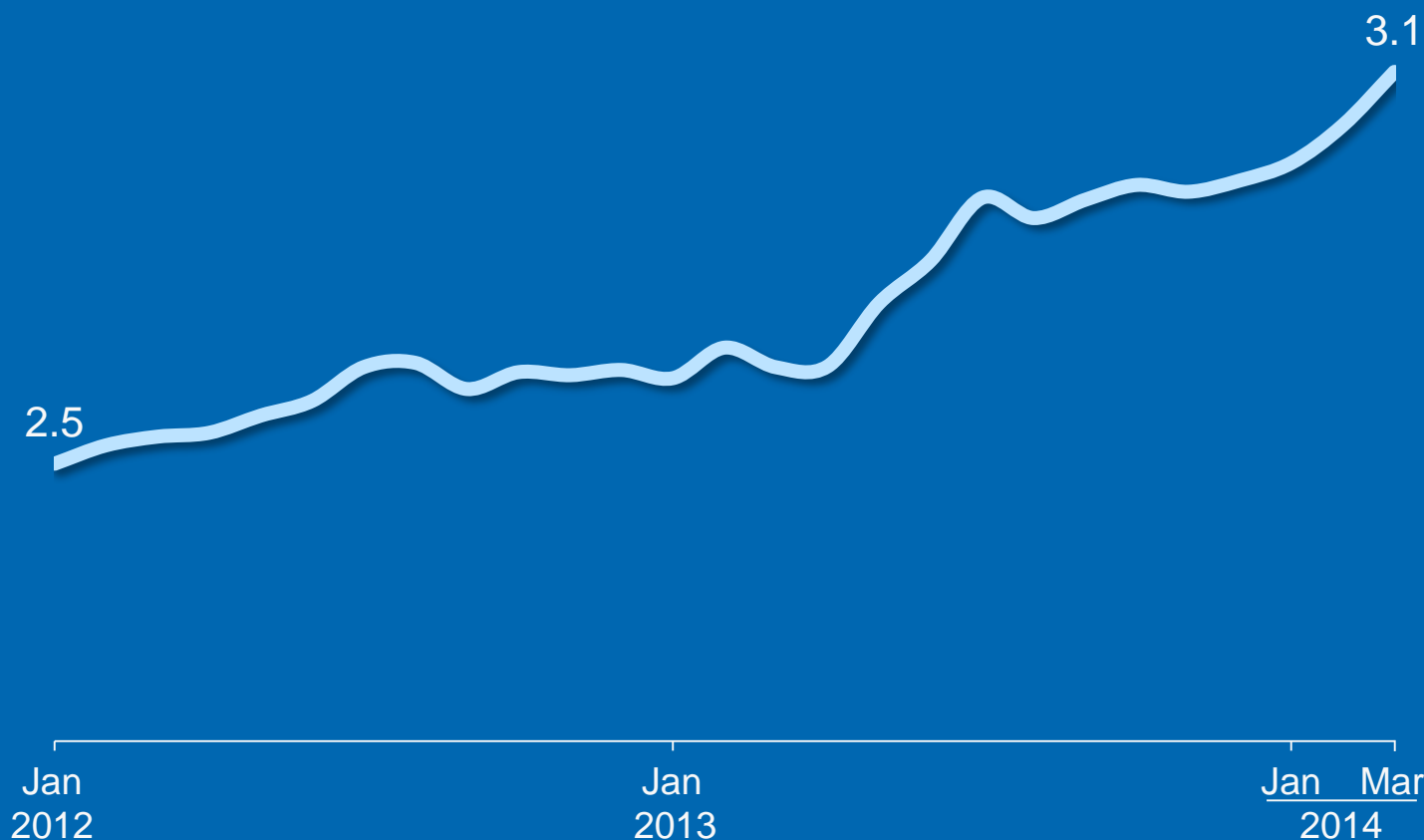
PMI Share of Premium Segment (%)



# Russia: L&M Share Momentum



L&M Market Share (%)



Note: Translation from Russian: "Quality evolution - Famous Recessed Filter from the Makers of *Parliament*"  
Source: Nielsen

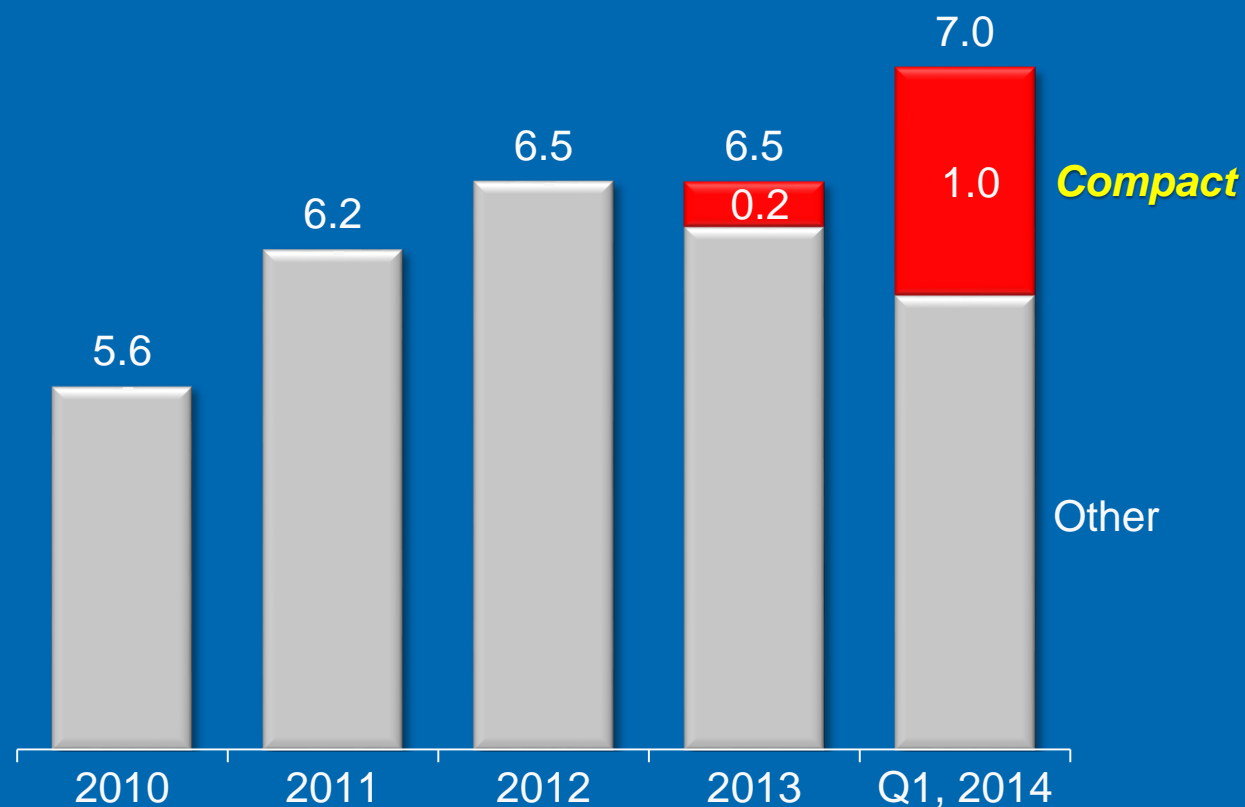




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# Russia: *Bond Street Compact* Accelerating the Brand's Growth

Bond Street Market Share (%)



# Russia: Megapolis Investment



- Long-term sustainability of distribution
- Attractive financial return
- Increased coverage in rural areas
- More efficient route to market



# Russia: Growth Outlook

- Industry volume decline expected to moderate:

- Excise tax developments

<u>Key Movements in Excise Tax<sup>(a)</sup></u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Specific Excise Increase vs. Prior Year	45%	20%	25%
Ad Valorem Excise (% of MRSP)	8.5%	9.0%	9.5%

- Reduction in relative price gaps

(a) As per current legislation

Note: MRSP stands for Maximum Retail Selling Price

Source: PMI forecasts and Russia Ministry of Finance

## Turkey: PMI Competing Successfully Across Price Points

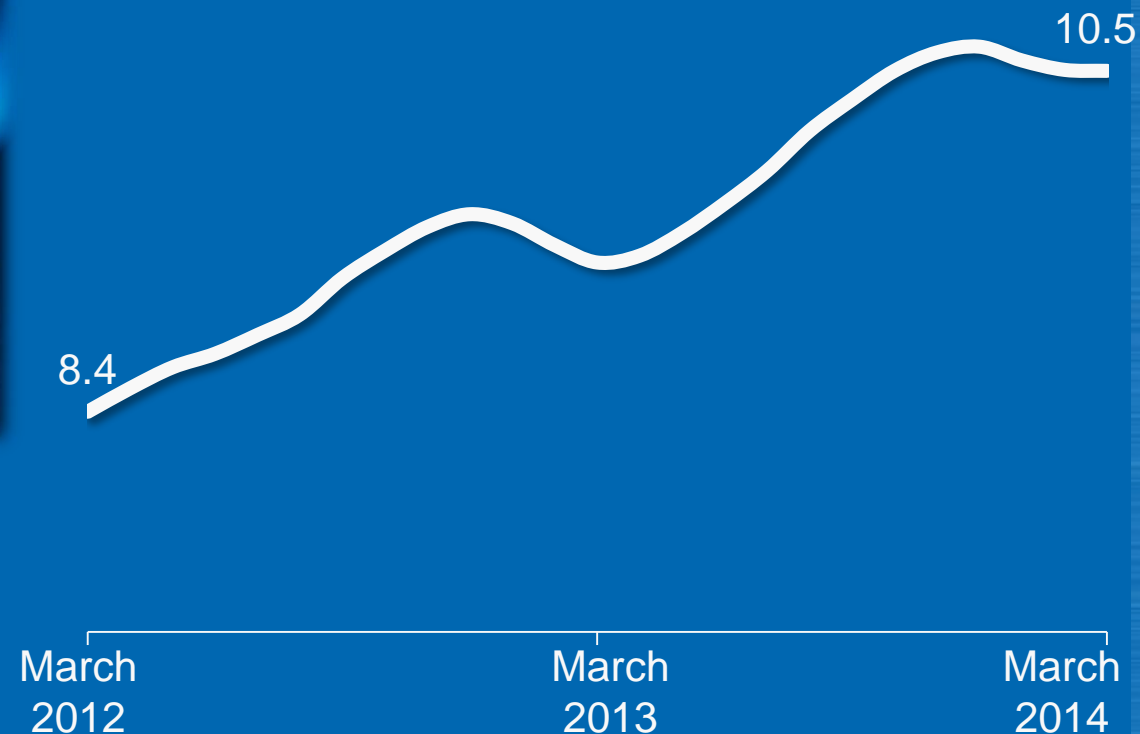
- Industry decline of 7.6% in 2013, with signs of stabilization in 2014
- PMI leading brand portfolio that covers all price points
- Q1, 2014 PMI volume growth of 9.7% versus prior year, driven by *Parliament*, *Marlboro* and *Chesterfield*





# Turkey: *Parliament's* Stellar Performance

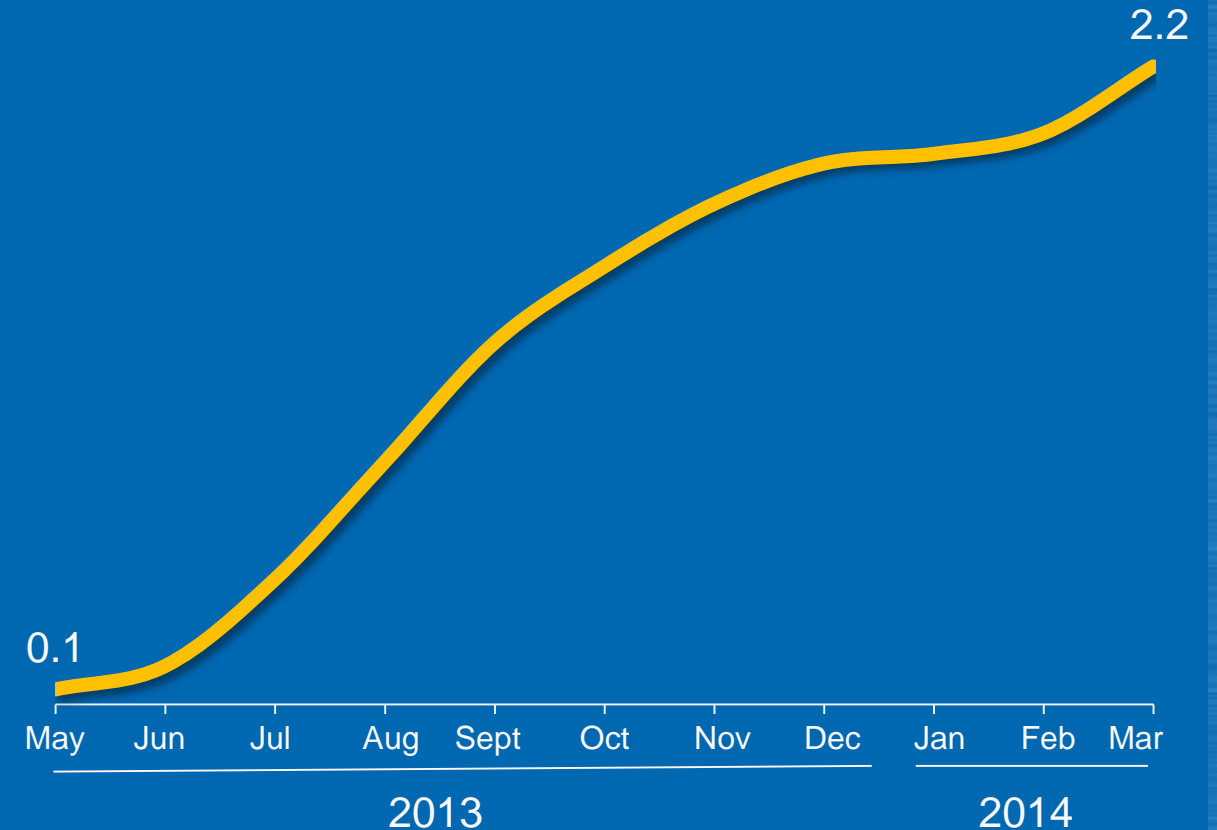
## 3mm *Parliament* Market Share (%)



# Turkey: *Chesterfield's* Growth Momentum



3mm *Chesterfield* Market Share (%)



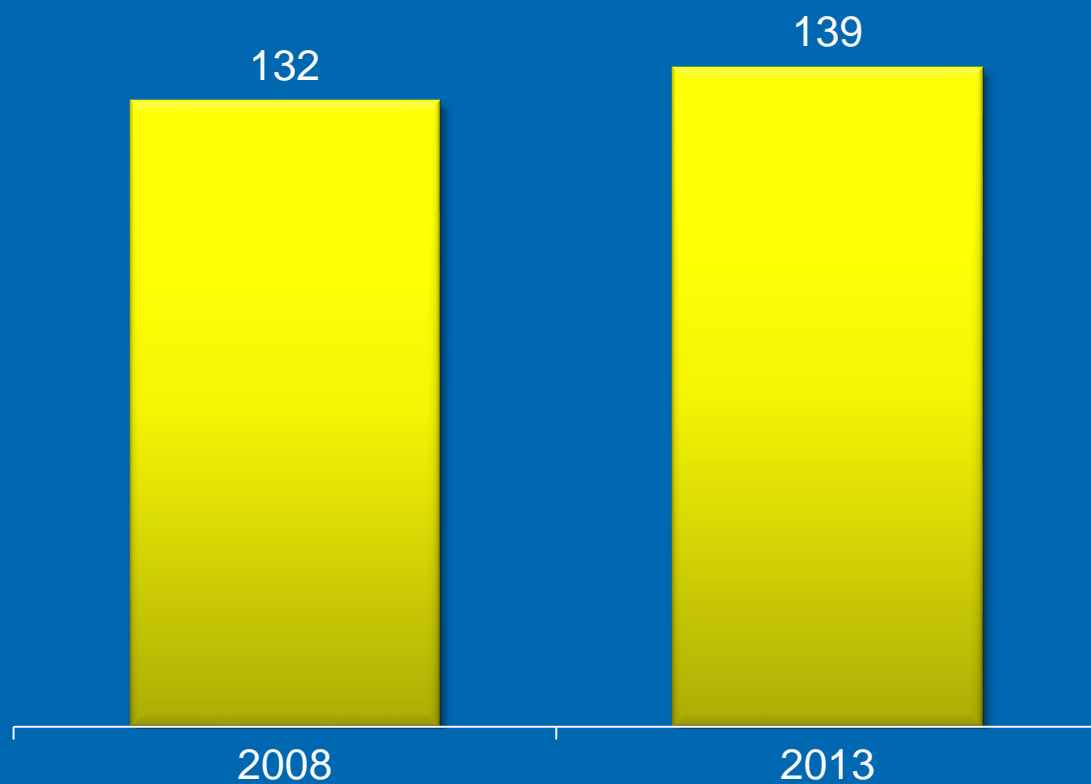




# North Africa: PMI's Expansion in a Growing Market

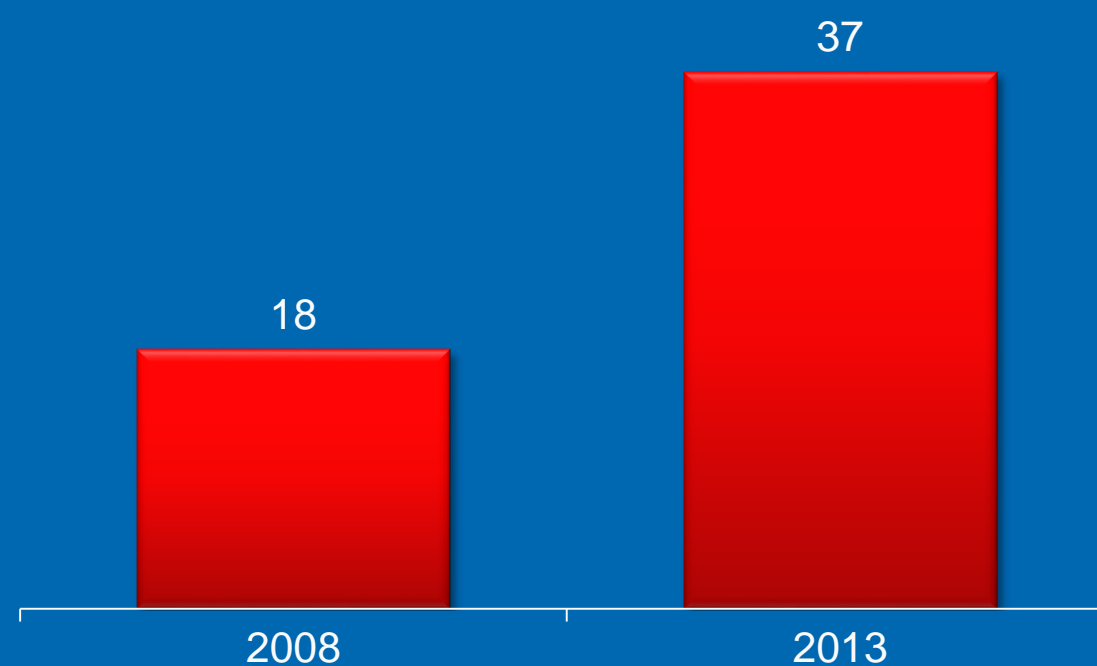
Industry Volume (units billion)

CAGR: 1.0%



PMI Volume (units billion)

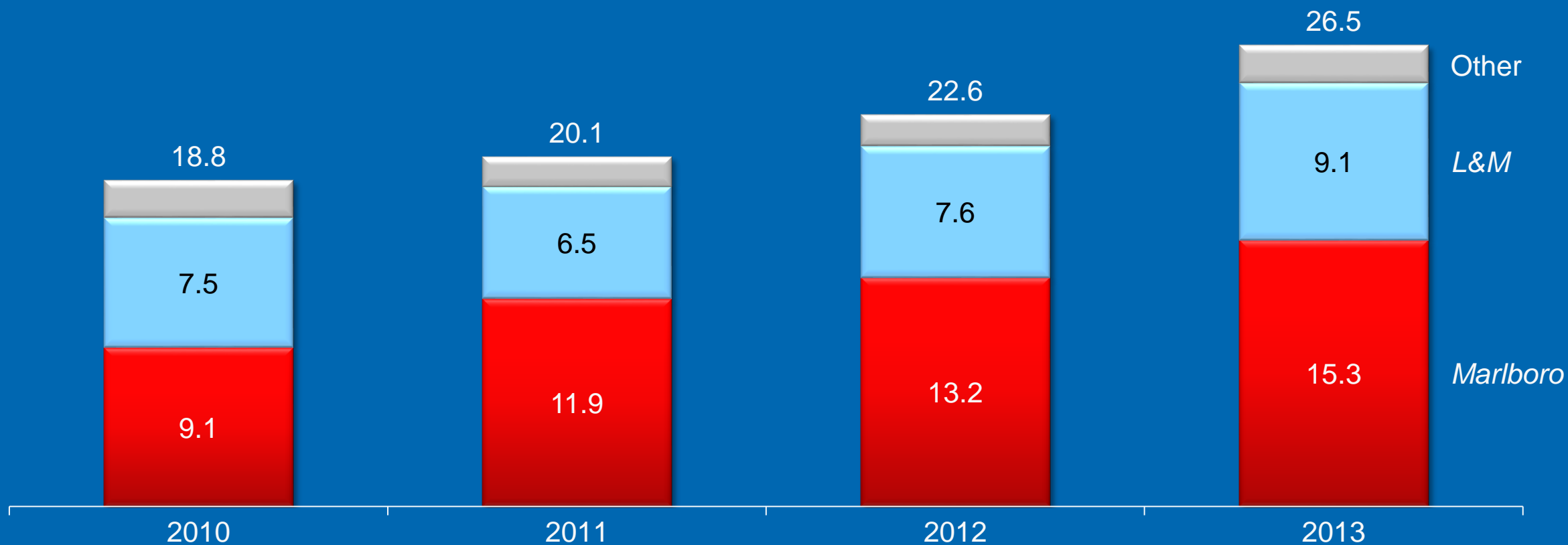
CAGR: 15.8%





## North Africa: *Marlboro* and *L&M* Drivers of Growth

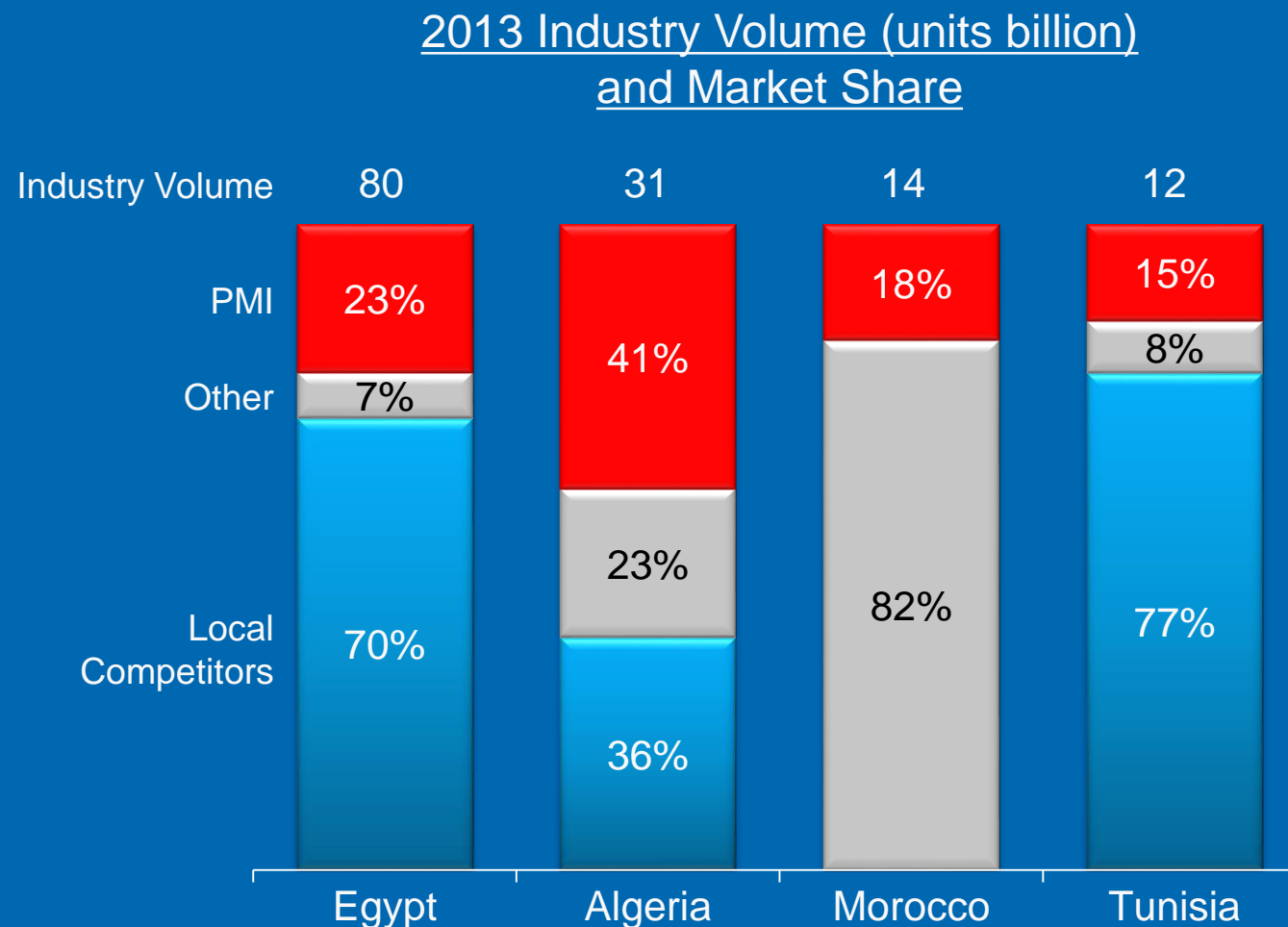
PMI Market Share in North Africa (%)





## North Africa: PMI Reinforcing Its Competitive Position

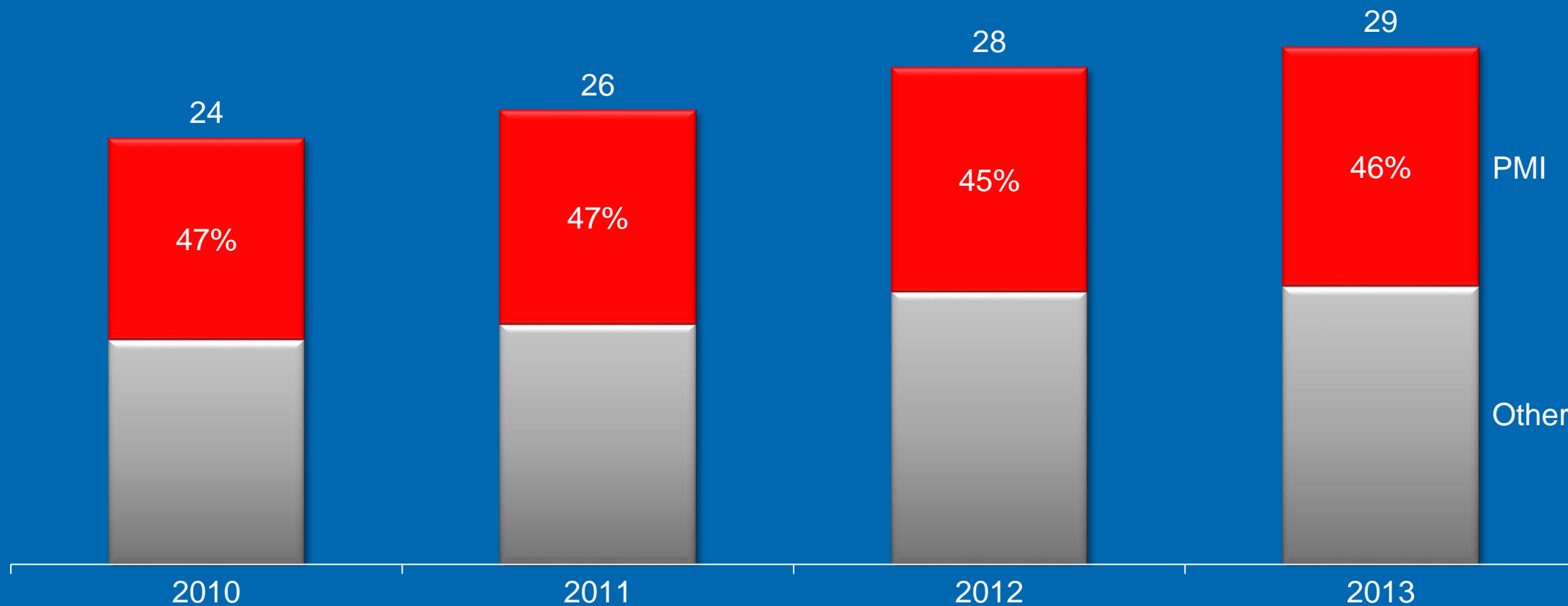
- Enhance participation in market profits pool
- Direct presence in Egypt
- Acquired 49% in Arab Investors-TA (Algeria)
- Opportunity is substantial





# Saudi Arabia: PMI's Strength in an Expanding Market

Industry Volume (units billion) and Market Shares

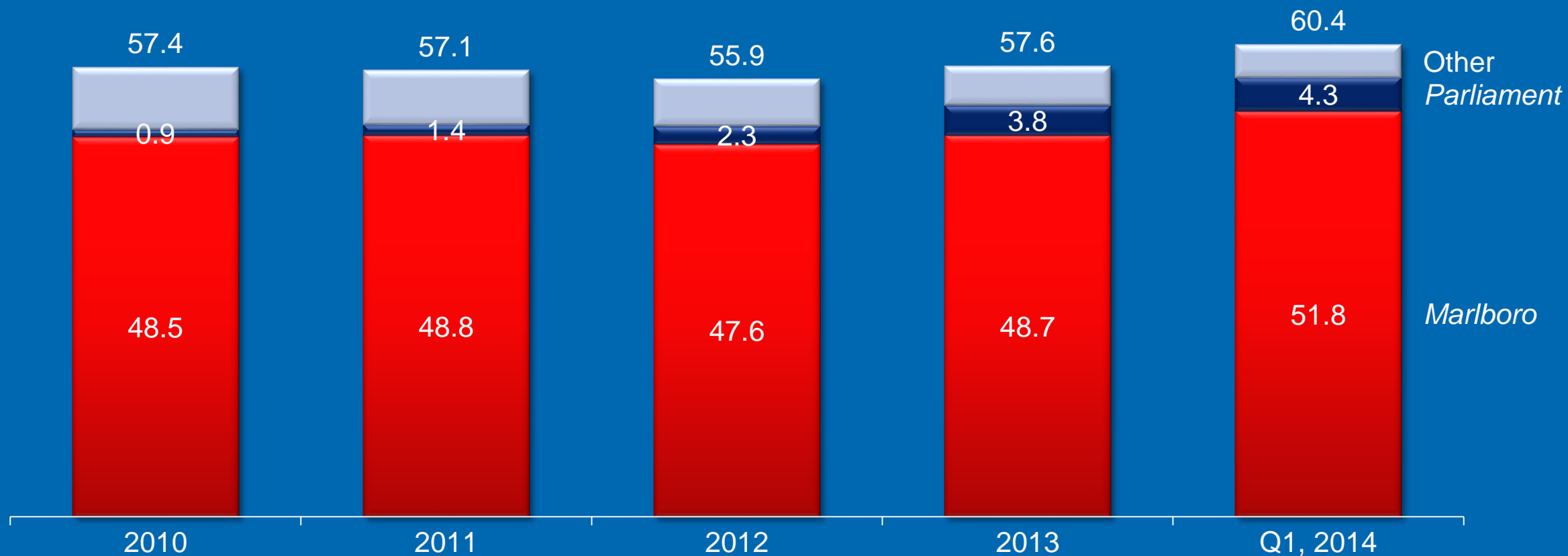




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# Saudi Arabia: Growing in Premium

PMI Share of Premium Segment (%)

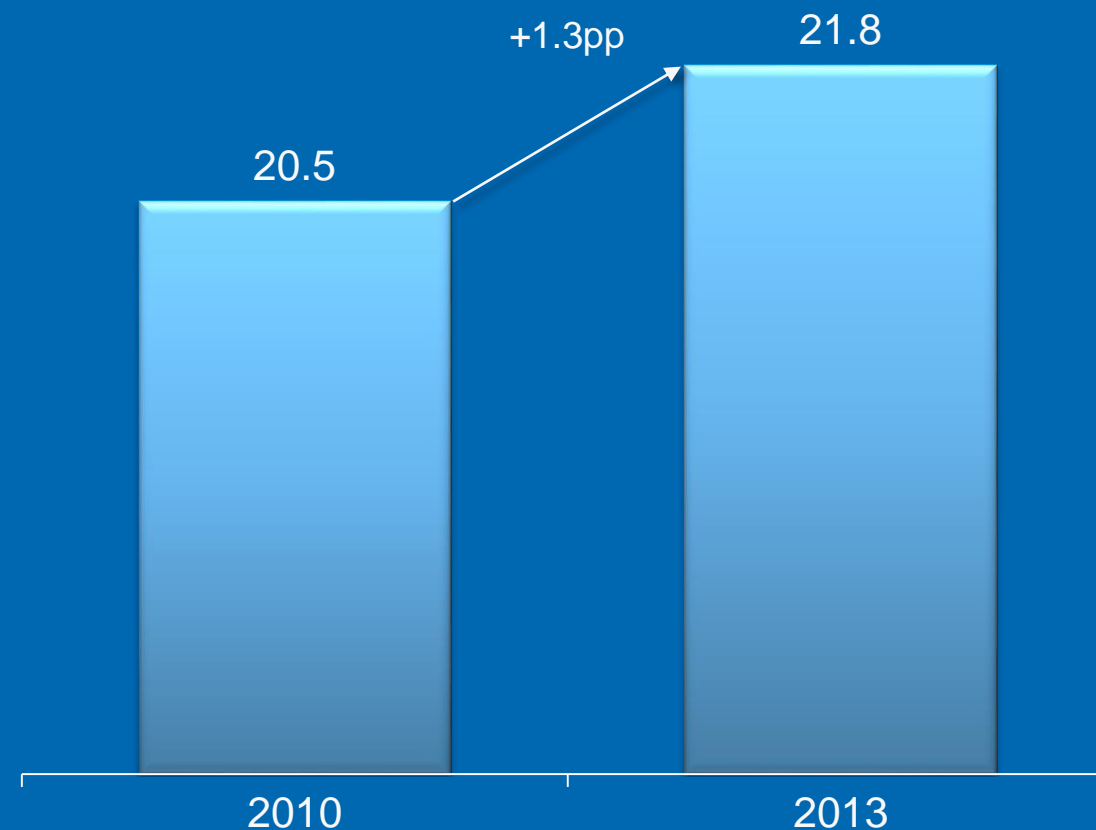




# Saudi Arabia: L&M Reaches Record Share



L&M Market Share (%)



Note: Translation from Arabic: "On average, the commute home offers the same old view. Defy Average."

Source: PMI estimates



# EEMA Region: Seizing Mid to Long-Term Growth Opportunities

- Strong momentum of business expansion
- Focused on building foundation for further growth:
  - Adapt to geopolitical challenges
  - Further strengthen our position in established markets
  - Accelerate our growth momentum in the Middle East and Africa
  - Initiate the commercialization of Reduced-Risk Products



## Conclusion: PMI's Growth Outlook in EEMA

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- Expected growth of industry profit pool
- Superior brand portfolio
- Strong organizational capabilities
- Continued industry outperformance



**Significant contribution to PMI's superior results**



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**Investor Day – EEMA Region  
Lausanne, June 27, 2014**



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# 2014 INVESTOR DAY

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)