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INTERNATIONAL

2012  
INVESTOR DAY

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**Investor Day – LA&C Region  
Lausanne, June 21, 2012**

James R. Mortensen

*President, Latin America & Canada Region*

Philip Morris International



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## What Latin America & Canada Offers

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- Favorable environment for uptrading
- Increasingly reasonable excise tax structures
- Volume opportunities in addressing illicit trade
- Strengthening brand portfolios led by *Marlboro*
- Expanding margins
- Talented, results-driven organization



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# Agenda

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- LA&C Region Overview
- PMI Performance
- Regional Strategies
- Key Markets Overview
- Conclusion



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# Regional Overview



● Cigarette Factories

2011

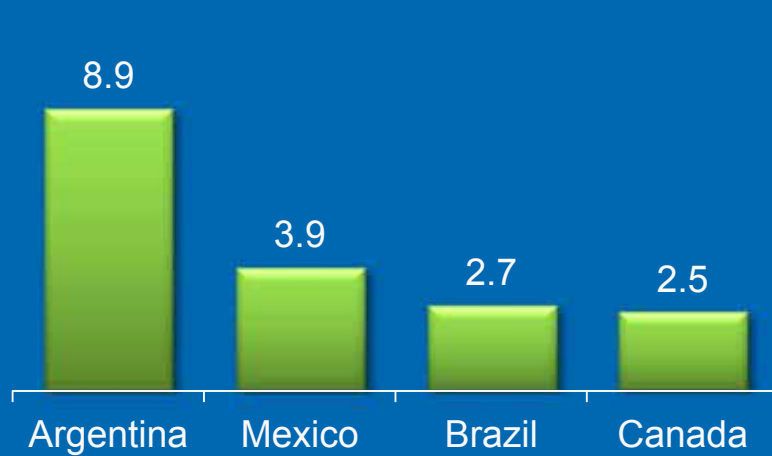
- 44 markets
- 600+ million population
- 281 billion units, industry volume
- 100 billion units, PMI shipments
- 35.6% market share
- \$1.0 billion OCI
- 13 PMI cigarette factories
- 11,000+ employees

Source: PMI estimates

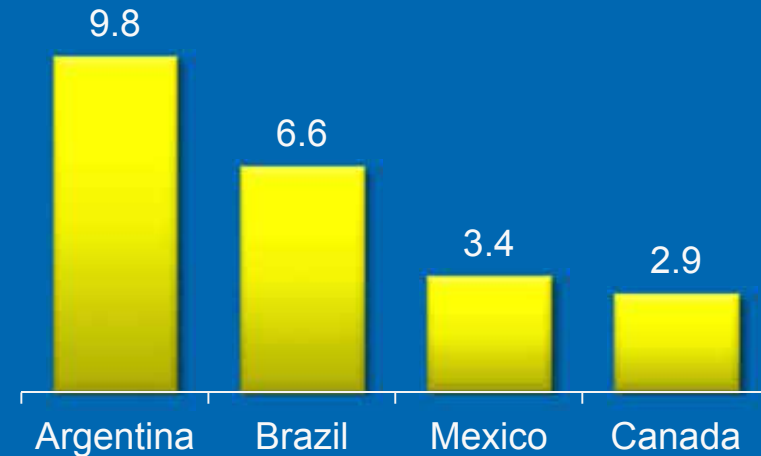


# Macroeconomic Environment (2011)

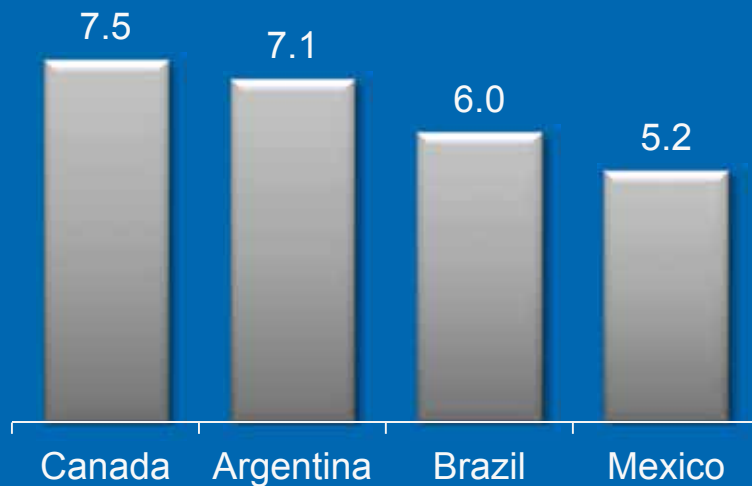
Real GDP Growth (%)



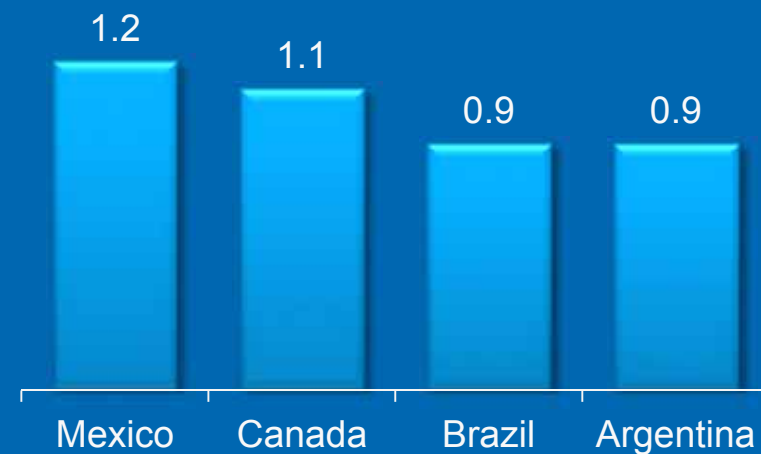
Inflation Rate (%)



Unemployment (%)



Population Growth (%)





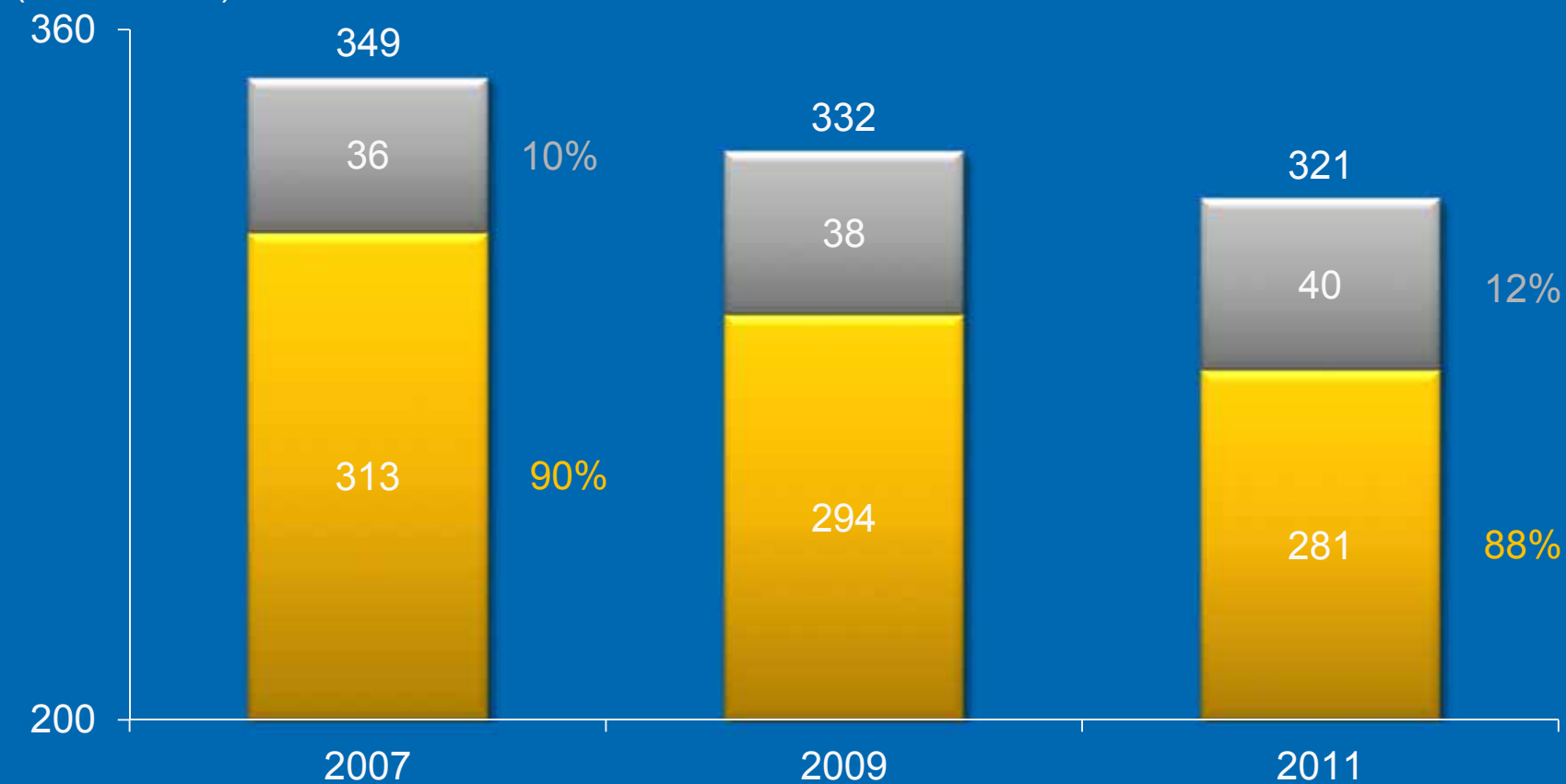
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# Cigarette Consumption

Consumption CAGR: (2.1)%  
Tax-Paid CAGR: (2.6)%

Illicit Trade Volume  
Tax-Paid Volume

(units billion)



Source: PMI estimates and media reports



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# Illicit Trade Trends

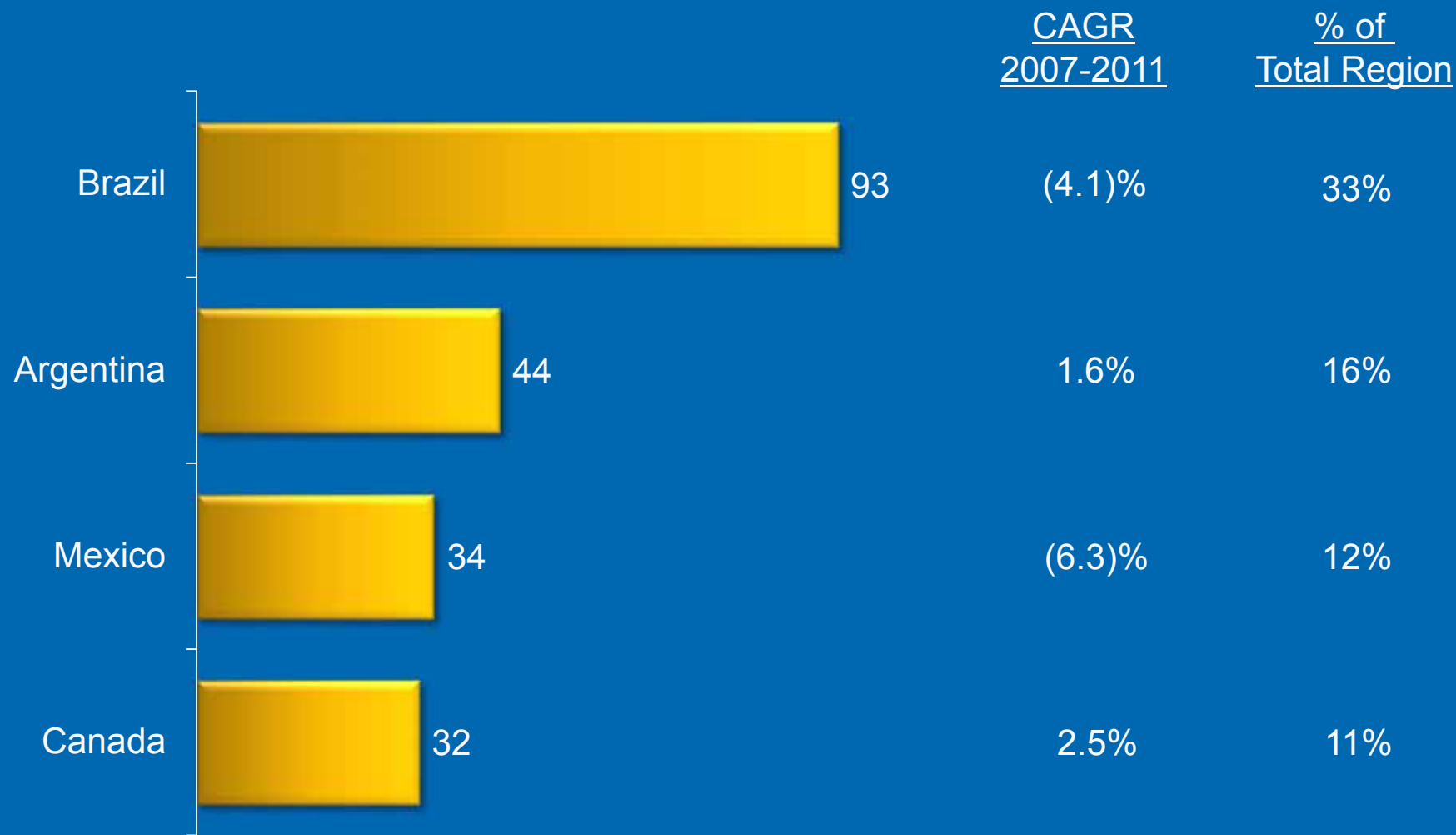


Source: PMI estimates and media reports



# Tax-Paid Industry Volume by Market (2011)

Total Region = 281 billion units







# LA&C Contribution to 2011 PMI Results

Cigarette Shipment Volume



Net Revenues



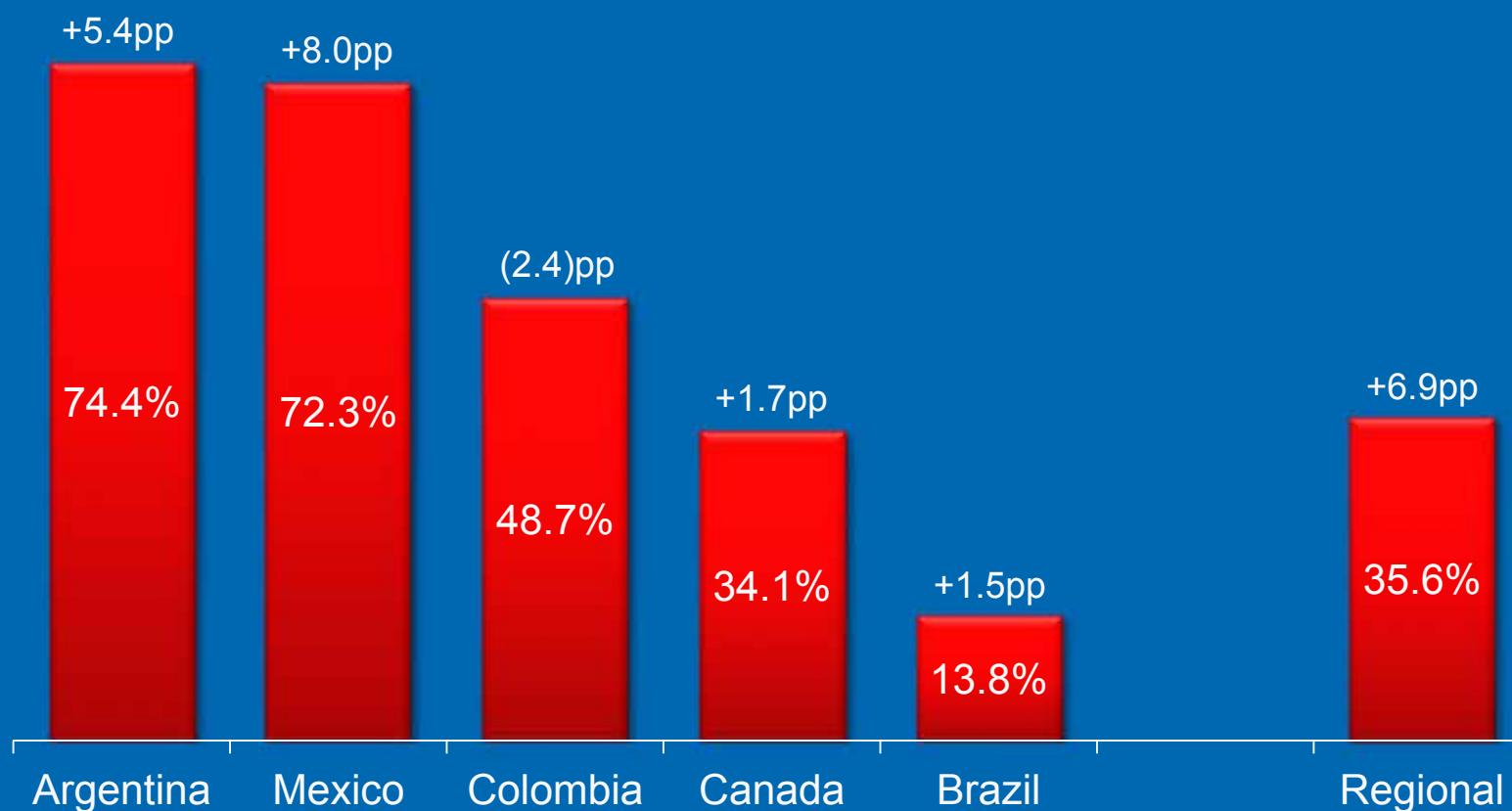
Adjusted OCI





# Growing Market Share

PMI SoM in 2011 (%) and  
Variance in SoM 2011 vs. 2007 (pp)



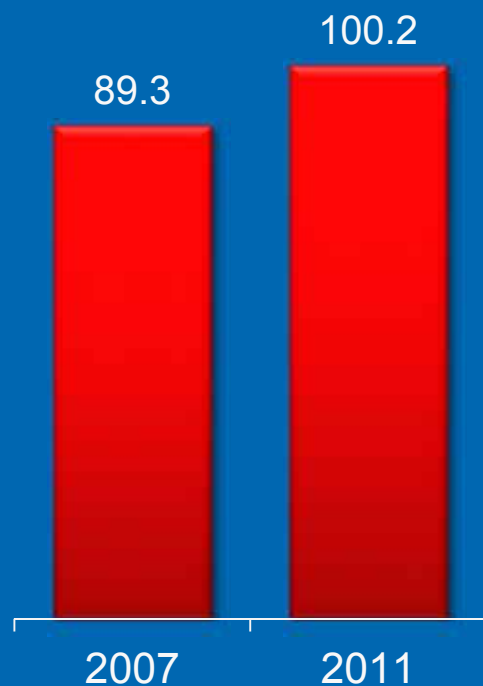
Note: Canada and Mexico share growth shown pro forma  
Source: PMI estimates



# Strong Financial Performance

## Shipment Volume (units billion)

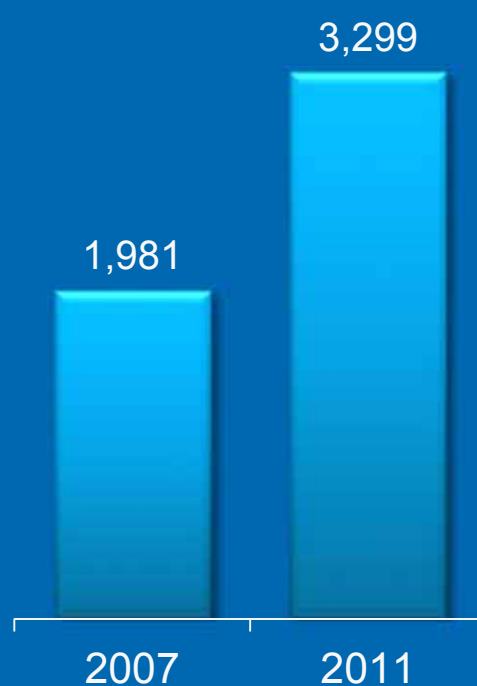
CAGR: 2.9%



## Net Revenues (\$ million)

CAGR: 13.6%

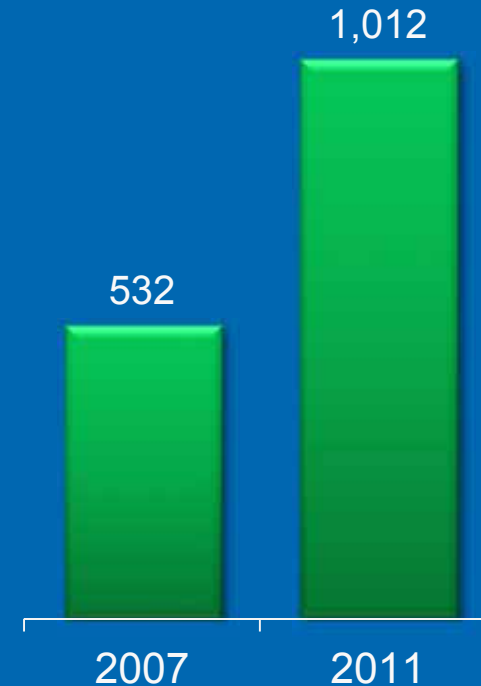
CAGR: 13.9% (excl. currency)



## Adjusted OCI (\$ million)

CAGR: 17.4%

CAGR: 19.8% (excl. currency)

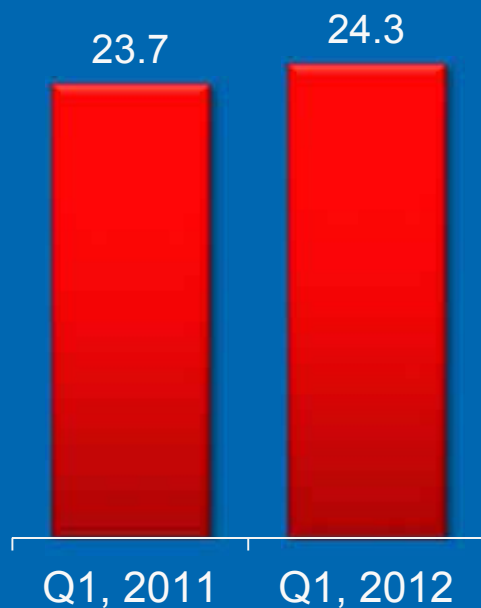




# Momentum Continued in Q1, 2012

## Shipment Volume (units billion)

+2.9%



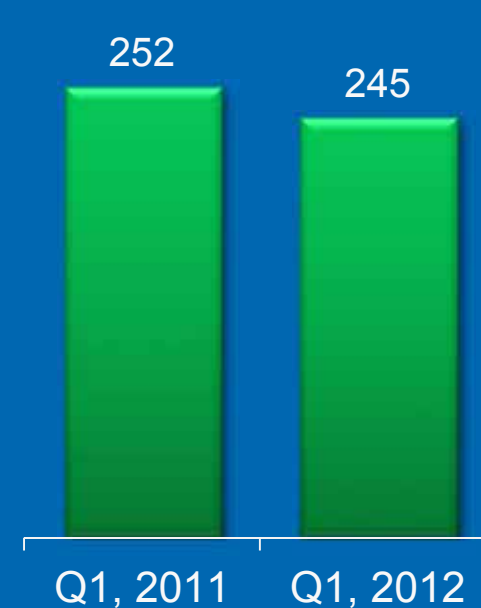
## Net Revenues (\$ million)

+0.4%  
+5.4% (excl. currency)



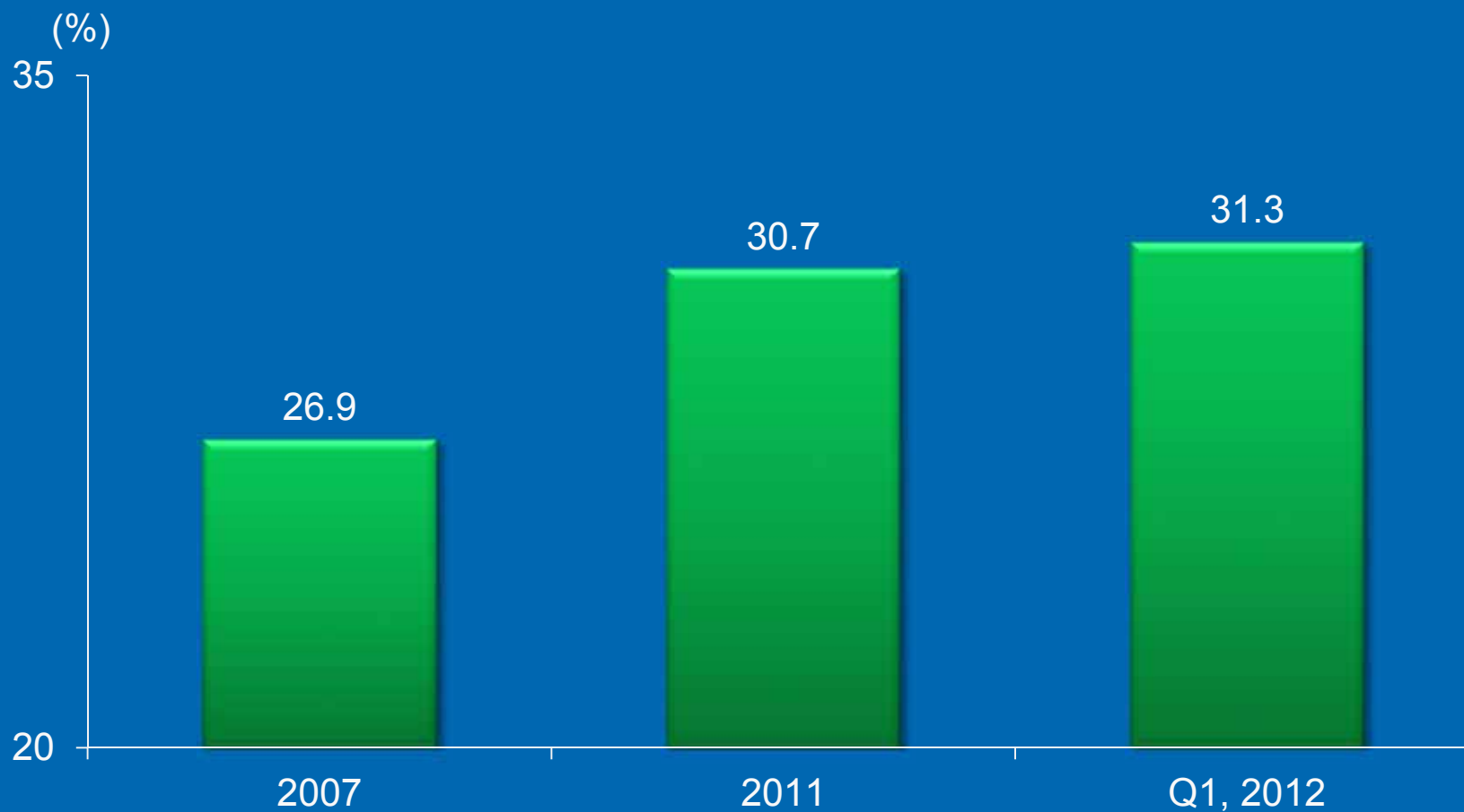
## Adjusted OCI (\$ million)

(2.8)%  
+4.0% (excl. currency)





# Expanding Adjusted OCI Margin



Note: Adjusted OCI margins are calculated as adjusted OCI, divided by net revenues, excluding excise taxes  
Source: PMI Financials



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## Regional Strategies

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- Strengthen portfolio
- Expand margins
- Seek a fair and reasonable regulatory / fiscal environment
- Confront illicit trade

# Improving Mix



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Total Tax-Paid Industry Price Mix (%)

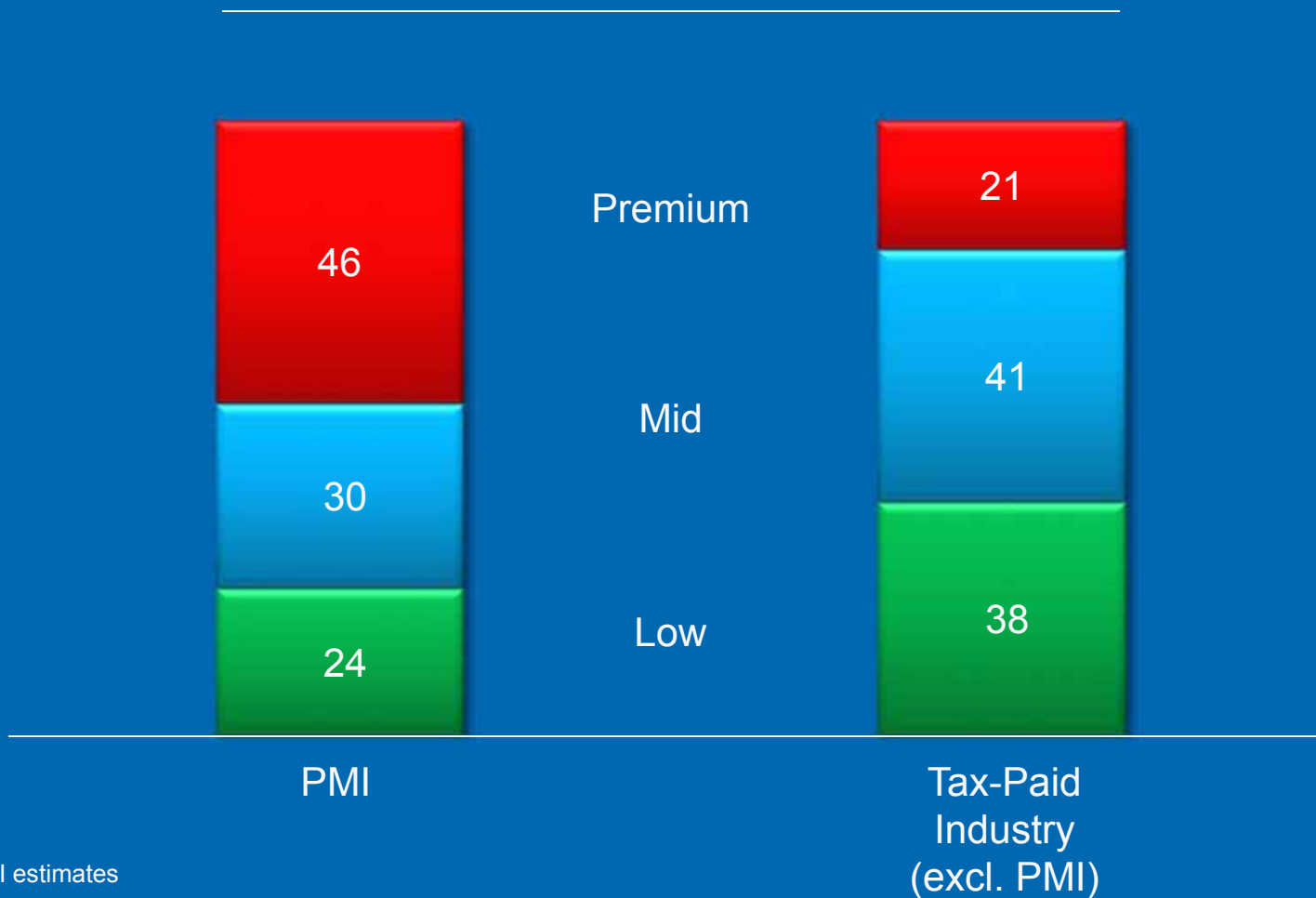


Source: PMI estimates



# Superior PMI Positioning in Premium Segment

2011 Price Mix (%)







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## Strengthen Portfolio

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- Solidify *Marlboro* as the Region's #1 selling brand:
  - 2011 market share: 13.8%
  - 2011 premium segment share: 46.7%
- Support local brands that enjoy established equities
- Expand international brands



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# Marlboro Has the Broadest Geographic Footprint



Source: PMI estimates



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# Solidify *Marlboro's* Position as #1 Brand

## Rolled Out the *Marlboro* Architecture



Note: Packs are for illustrative purposes only



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# Solidify *Marlboro's* Position as #1 Brand

## Modernized Core Variants

FILTER CIGARETTES

100 CLASSIC

Marlboro

TRUE FLAVOR

MARLBORO

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 alerta:  
Respirar a fumaça deste produto causa  
pneumonia e bronquite.

**PARE DE FUMAR**  
SUSQUE SAUDE  
8800 41 1997



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# Solidify *Marlboro's* Position as #1 Brand

## Launched Innovative Line Extensions – Flavor



EXCLUSIVO

TABACO NO FILTRO

SABOR

DESIGN

UNIQUE MULTI-ZONE FILTER

FILTER PLUS

SLIDING-LID PACK

MARLBORO  
FILTER PLUS

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.

GANGRENA

O Ministério da Saúde advertir: O uso deste produto obtura os artérios e dificulta a circulação do sangue.

**PARE DE FUMAR**  
DISQUE SAÚDE  
0800 61 1997



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## Solidify *Marlboro's* Position as #1 Brand

### Launched Innovative Line Extensions – Gold

El fumar es perjudicial para la salud

DIFFERENCES BRING US TOGETHER.



MARLBOROGOLD.com.ar

MARLBORO GOLD | now. 



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## Solidify *Marlboro's* Position as #1 Brand

### Launched Innovative Line Extensions – Fresh



Fumar es dañino para la salud



## Growing *Marlboro's* Share

### *Marlboro* Share of Market

	<u>2007</u>	<u>2011</u>	<u>Variance</u>
Mexico	47.7%	52.3%	4.6pp
Argentina	21.6	24.1	2.5
Brazil	6.0	7.1	1.1
Colombia	2.7	4.8	2.1

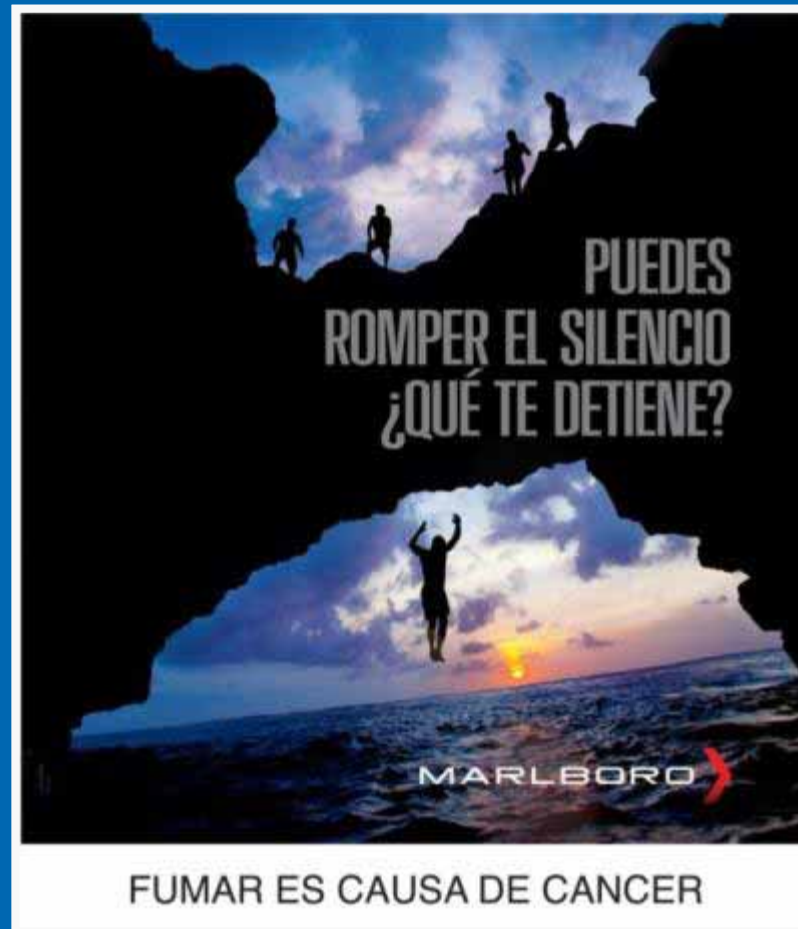




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## Solidify *Marlboro's* Position as #1 Brand

### Energizing New Communication Platform: “*Be Marlboro*”





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## Strengthen Portfolio

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- Solidify *Marlboro* as the Region's #1 selling brand
- Support local brands which enjoy established equities



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# Delicados: a Mexican Icon

2011



- Clear, unique positioning
- Authentic Mexican brand
- Value for money

- # 2 brand in Mexico:
  - 10.9% market share
- # 1 brand in low-price segment:
  - 50.3% segment share





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# *Nacional and Diplomat are Market Leaders*

## Dominican Republic



2011

SoM 60.7%  
+1.8pp vs. 2010



## El Salvador



2011

SoM 36.9%  
+1.1pp vs. 2010





## Strengthen Portfolio

---

- Solidify *Marlboro* as the Region's #1 selling brand
- Support local brands which enjoy established equities
- Expand international brands:
  - Launch in markets which exhibit the potential for success
  - “Morph” local brands with weak equities



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## L&M Gaining Traction in Bogota



- Launched in Bogota in Nov. 2011
- 1.3% SoM in April 2012



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# “Morphing” to Build Brand Equity





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## Regional Strategies

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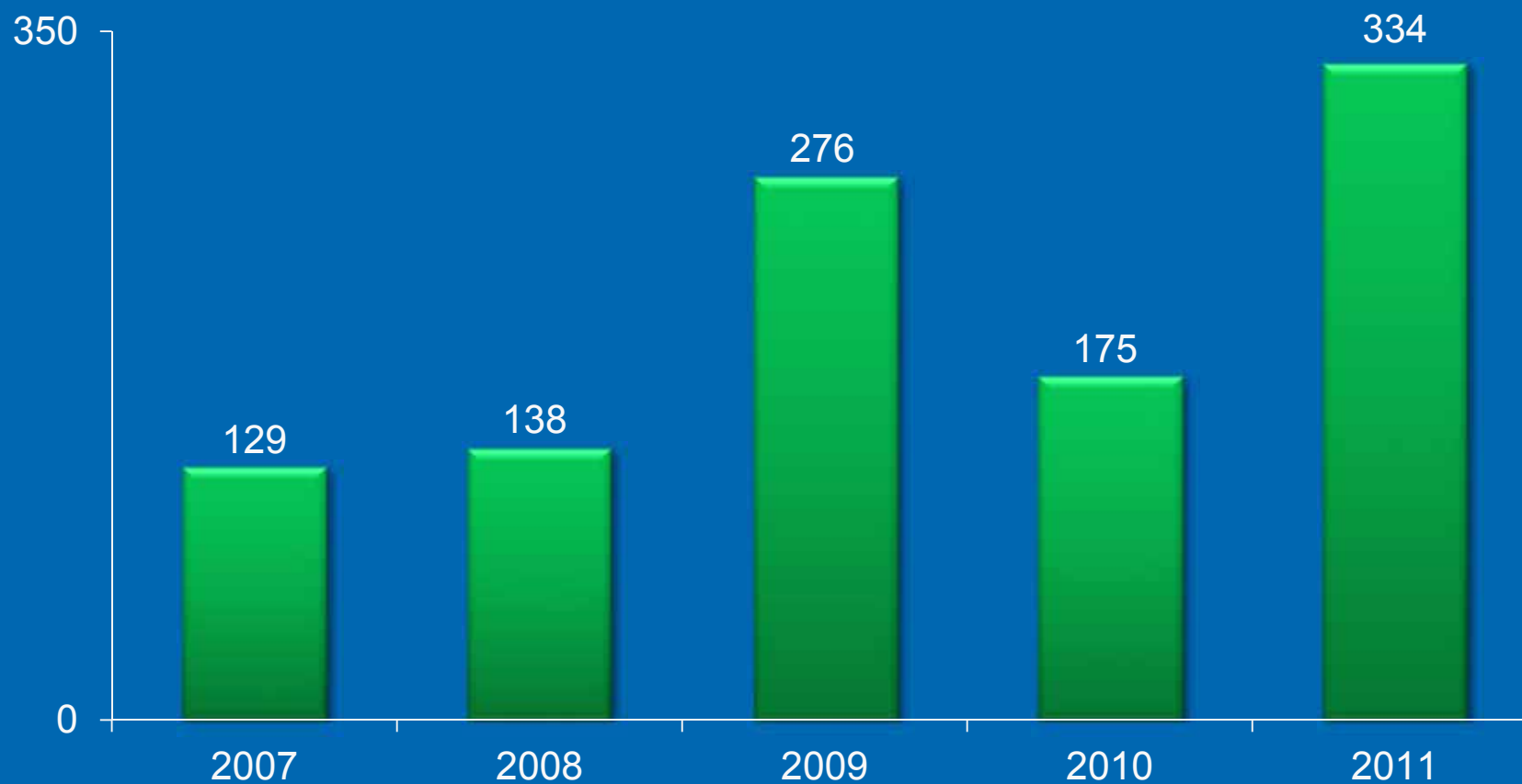
- Strengthen portfolio
- **Expand margins**
- Seek a fair and reasonable regulatory / fiscal environment
- Confront illicit trade





# Favorable Pricing Environment

LA&C Pricing Variance (\$ million)





## Focus on Cost Base

- Rationalize factory footprint:
    - Venezuela Cast Leaf
    - Uruguay Plant
    - Mexico City Plant
- Savings: US\$ 20 million per year
- Reduce SKUs
  - Lower overhead costs:
    - Established shared service and other centers of expertise



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## Regional Strategies

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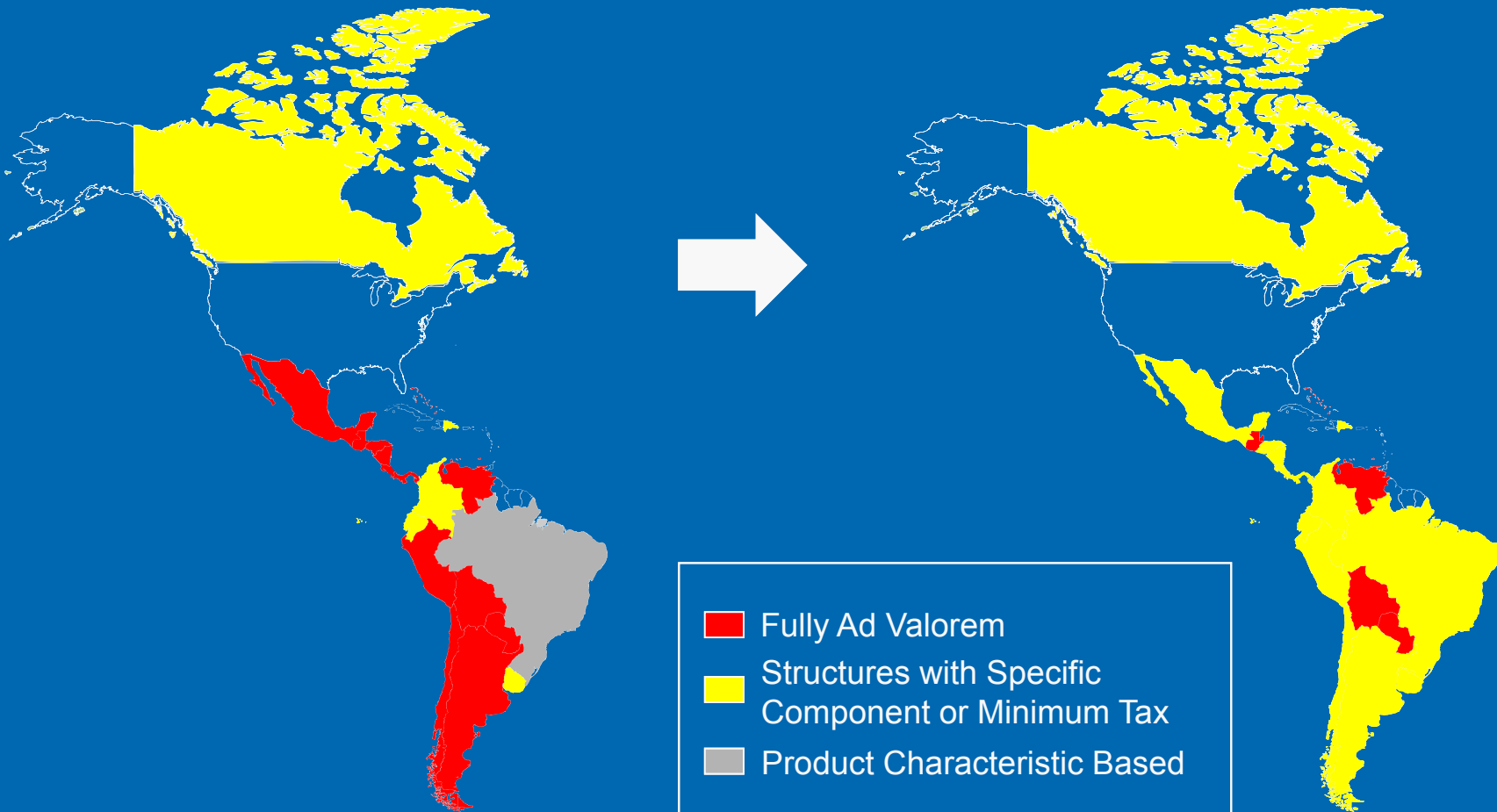
- Strengthen portfolio
- Expand margins
- **Seek a fair and reasonable regulatory / fiscal environment**
- Confront illicit trade



# Excise Tax Structural Improvements

January 2009

Current





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## Regional Strategies

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- Strengthen portfolio
- Expand margins
- Seek a fair and reasonable regulatory / fiscal environment
- **Confront illicit trade**



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## Initiatives Against Illicit Trade

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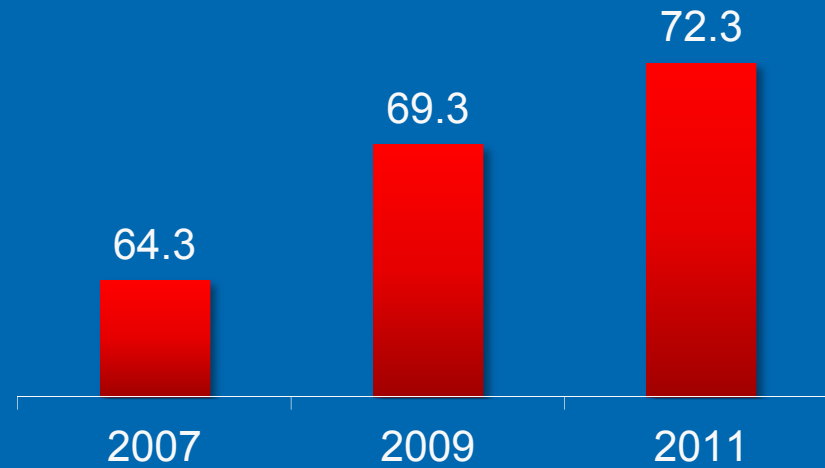
- Expand dedicated resources
- Act to prevent excessive tax increases and counter-productive regulations
- Provide information on illicit trade logistics; train authorities
- Foster cross-border cooperation and share best practices
- Engage other stakeholders



# Mexico: Market Profile



PMI Share of Market (%)



- PMI market leader since 1998
- *Marlboro*: #1 brand
- *Delicados*: #2 brand; #1 in low-price segment
- *B&H*: #1 brand in 100's and menthol segments

Key Brands



2011 Market Share

52.3%

10.9%

6.1%

Note: 2007 share shown pro forma  
Source: PMI estimates



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## Mexico: Excise Tax

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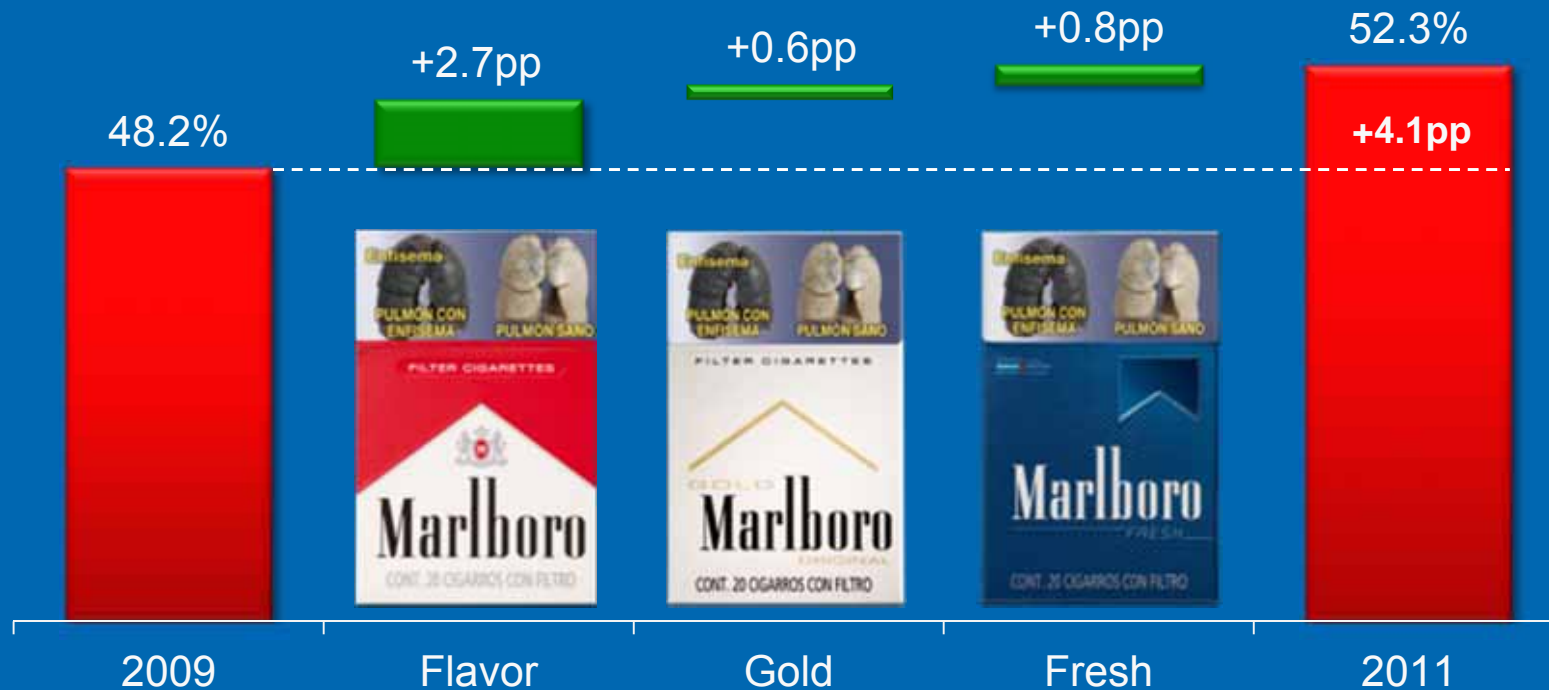
- January 2011 dramatic excise tax increase
- Average retail selling price increased by 32%
- Tax-paid industry volume declined 21% in 2011
- Illicit trade surged
- Failed to deliver expected government revenues
- May YTD, 2012 tax-paid industry indicates market has returned to historic annual decline of 2% to 3%





# Mexico: *Marlboro* Growing across all Pillars

Share of Market (%)



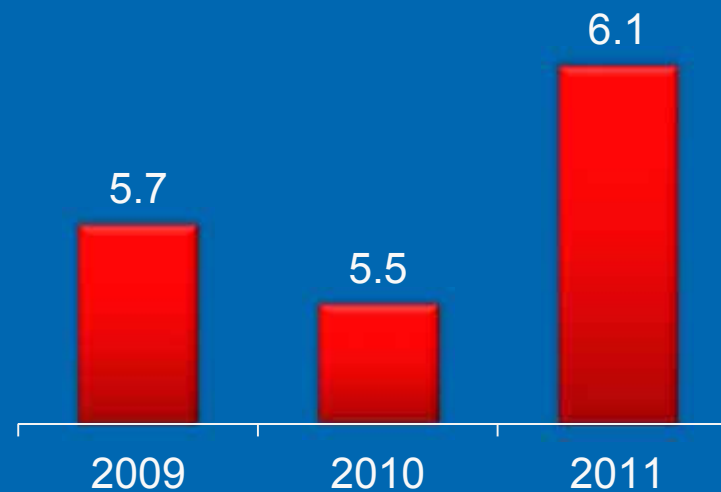


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## Mexico: *B&H* Share Growing

# B&H

Share of Market (%)



- Launched 14's pack
- Introduced *Polar Blue*
- Launched *UNO* in a super slim format



Source: PMI estimates



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## Mexico: Key Priorities

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- Capitalize on *Marlboro* growth with *Be Marlboro*
- Address expanding taste preferences of adult smokers
- Recover volume lost to illicit trade:
  - Record product seizures YTD May 2012

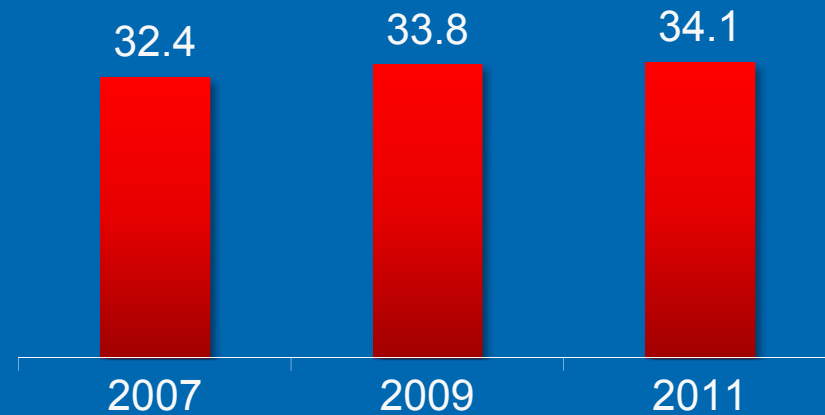


# Canada: Market Profile



Industry Volume:  
32.1 billion units

PMI Share of Market (%)



- Highly profitable market
- PMI leader among LA (min. 18) – 29
- Encouraging reduction in illicit trade



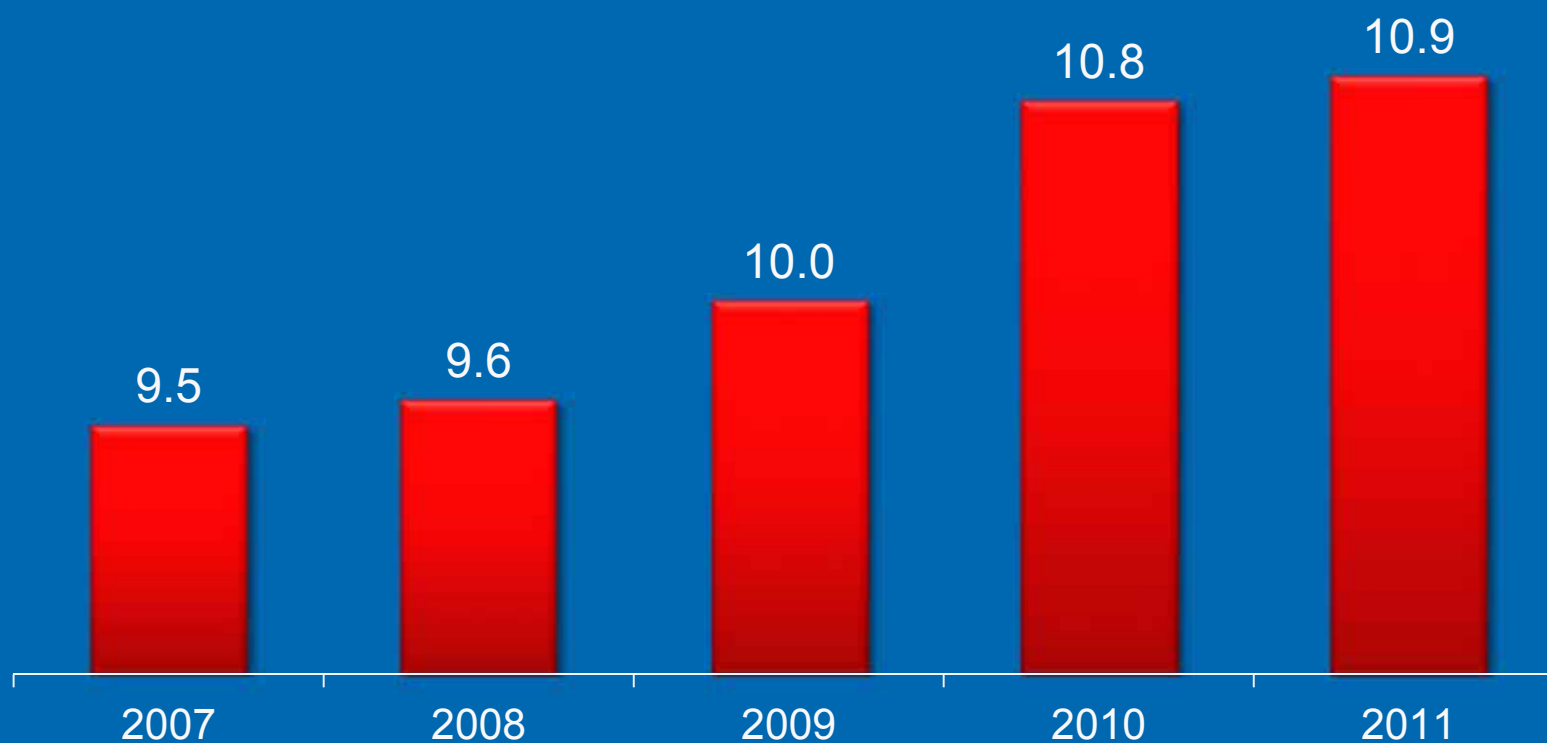
Note: PMI share for 2007 shown pro forma  
Source: PMI estimates



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# Canada: Cigarette Volume Continues to Grow

PMI Shipment Volume (units billion)

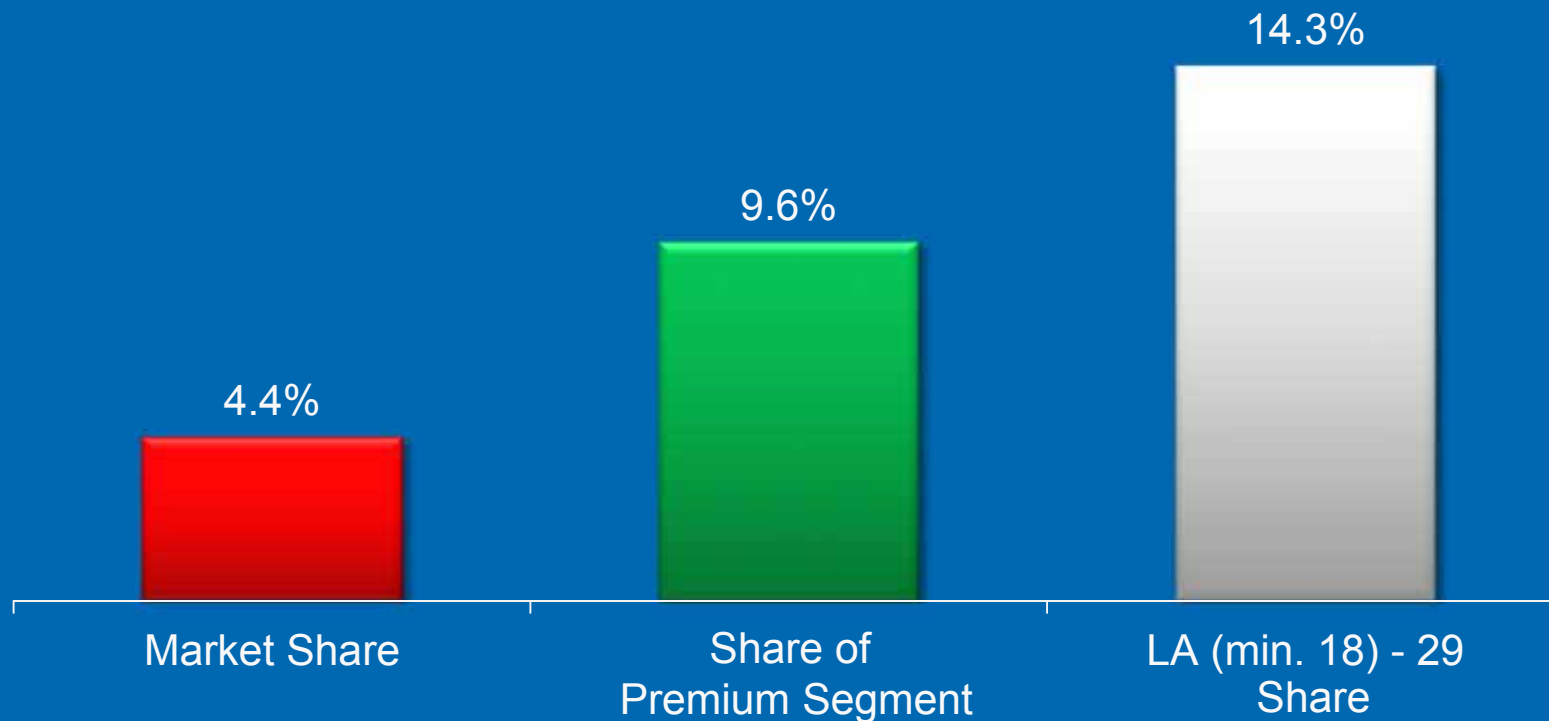


Note: Volume for 2007 and 2008 shown pro forma  
Source: Rothmans Inc. and PMI Financials



# Canada: *Belmont* Has a Promising Future

## *Belmont* in Ontario (2011)



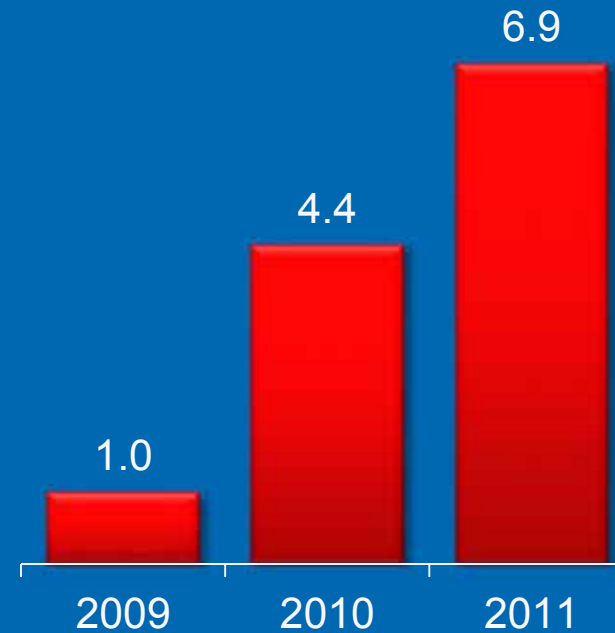
- Gradually expand to select geographies; maintain brand image



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## Canada: *Next* is the Low-Price Segment Leader

Share of Market (%)



- Fastest growing brand
  - Sells at a modest premium
  - Margin expansion
- 
- Build equity, leadership and profitability in the low-price segment
  - Create the low-price brand that consumers ask for by name



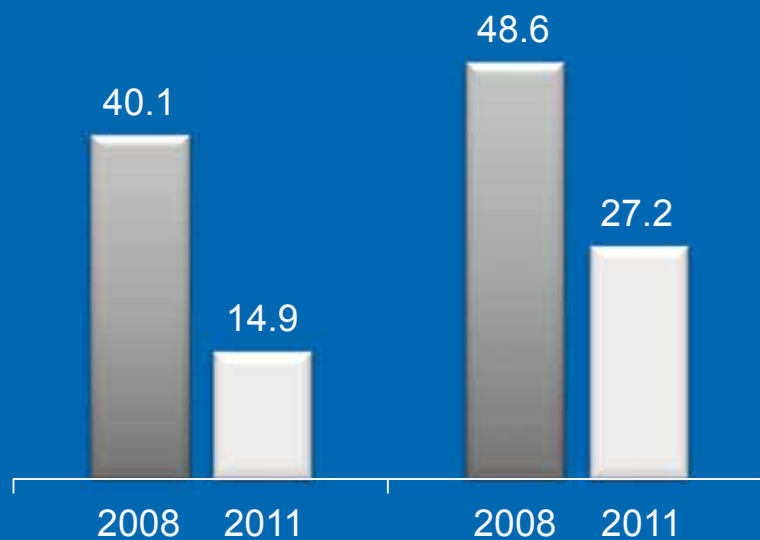
# Canada: The Opportunity in Reducing Illicit Trade

## Illicit Trade Incidence

(%)

Quebec

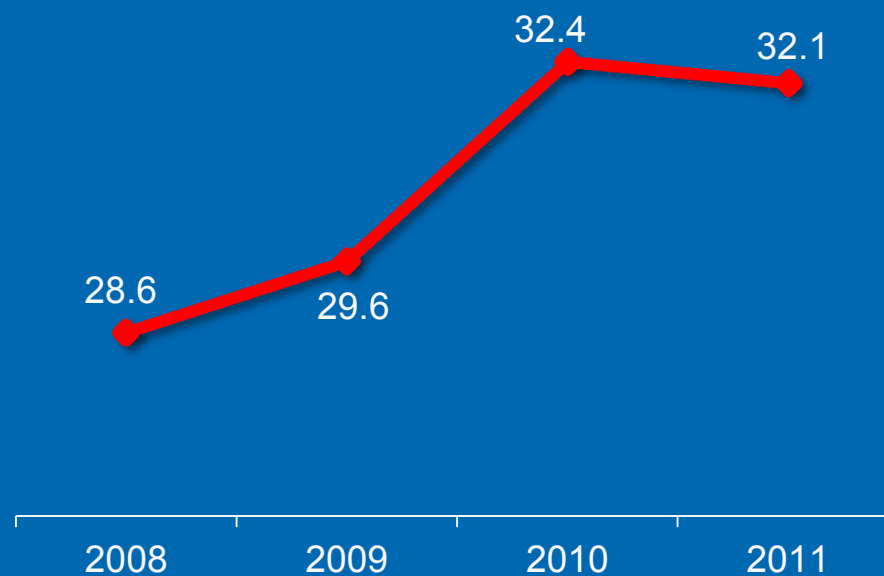
Ontario



## Tax Paid Industry Volume

(units billion)

Total Canada



**At 10% incidence level in Quebec and Ontario, industry volume upside ~3 billion units**





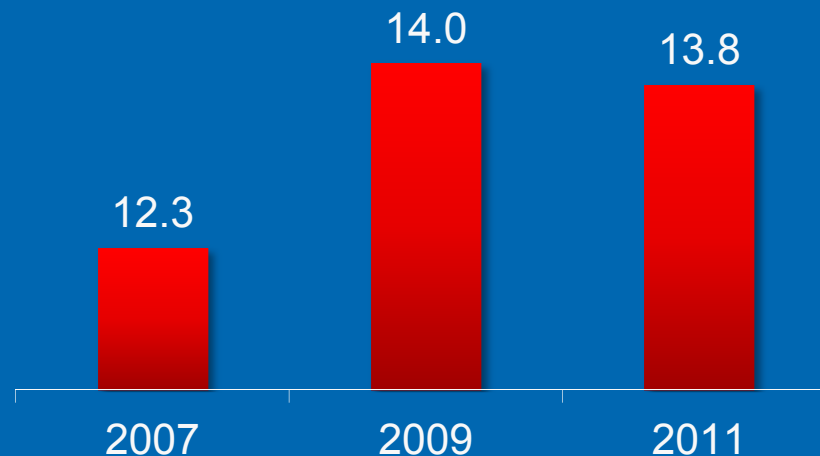
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# Brazil: Market Profile



Industry Volume:  
92.7 billion units

PMI Share of Market (%)



- Large and challenging market
- Significant illicit trade issue
- Favorable economic conditions
- Improvement in excise tax structure

Key Brands



2011 Market Share

7.1%



2.2%



1.9%

Source: PMI estimates



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## Brazil: New Tax Structure Levels Playing Field

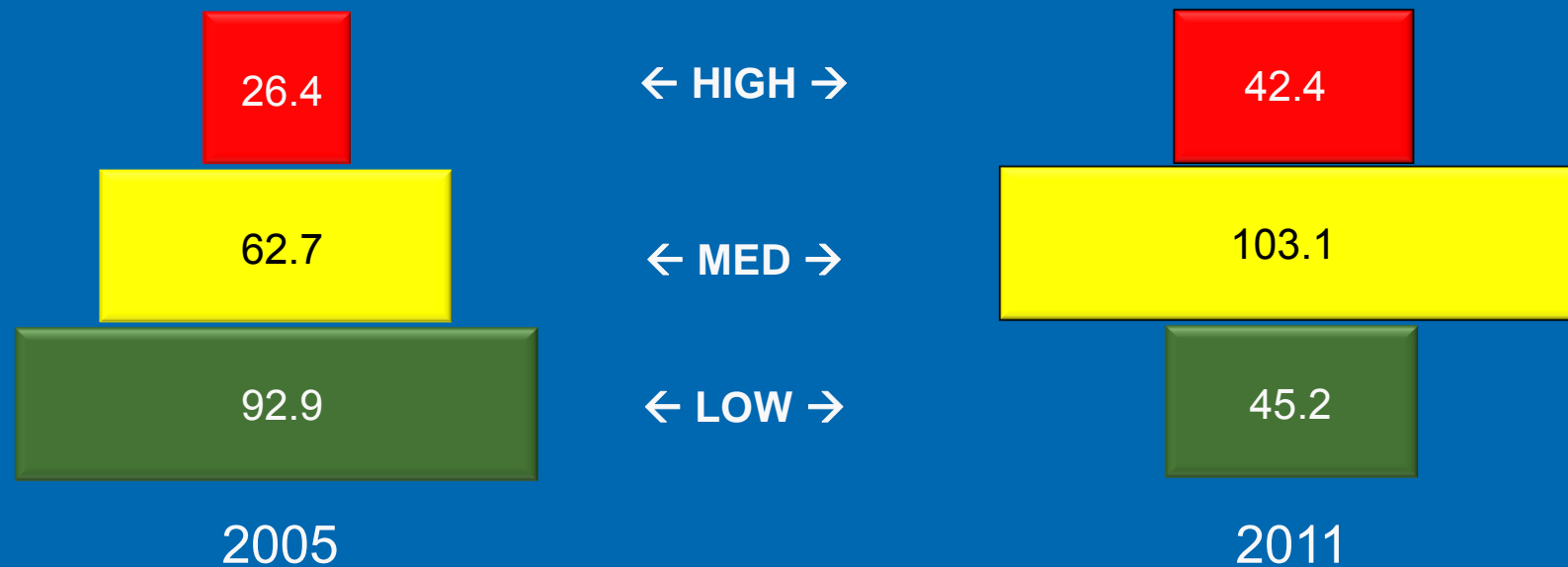
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- Dismantles complex, market-distorting structure
- Ultimately aligns the specific component at one rate
- Establishes minimum retail selling price
- Structure and rate published through 2015



# Brazil: Upward Socio-Economic Movement

## Population Distribution by Socio-Economic Level – (million)



- 40+ million people entered middle class in last 6 years
- Increasing disposable income

# Brazil: Conditions Conducive to Improving Performance

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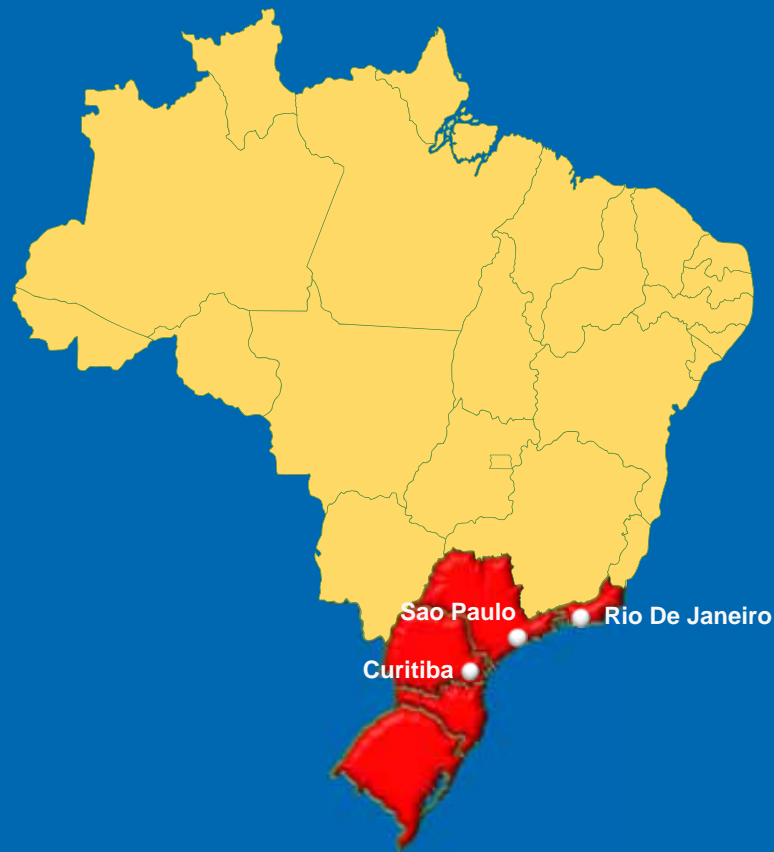


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- Level playing field in taxation
- Upward socio-economic movement



# Brazil: Focused Resources



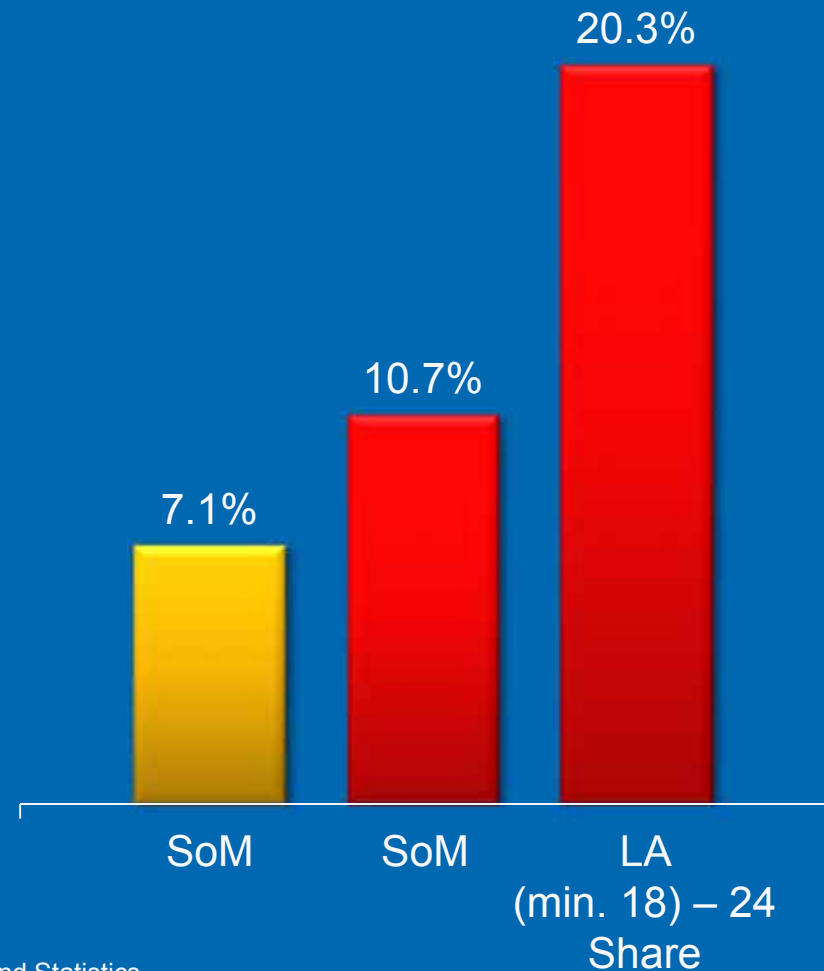
 Focus Area

- 44% of total population
- 66% of tax paid industry volume

## Marlboro

National

Focus Area

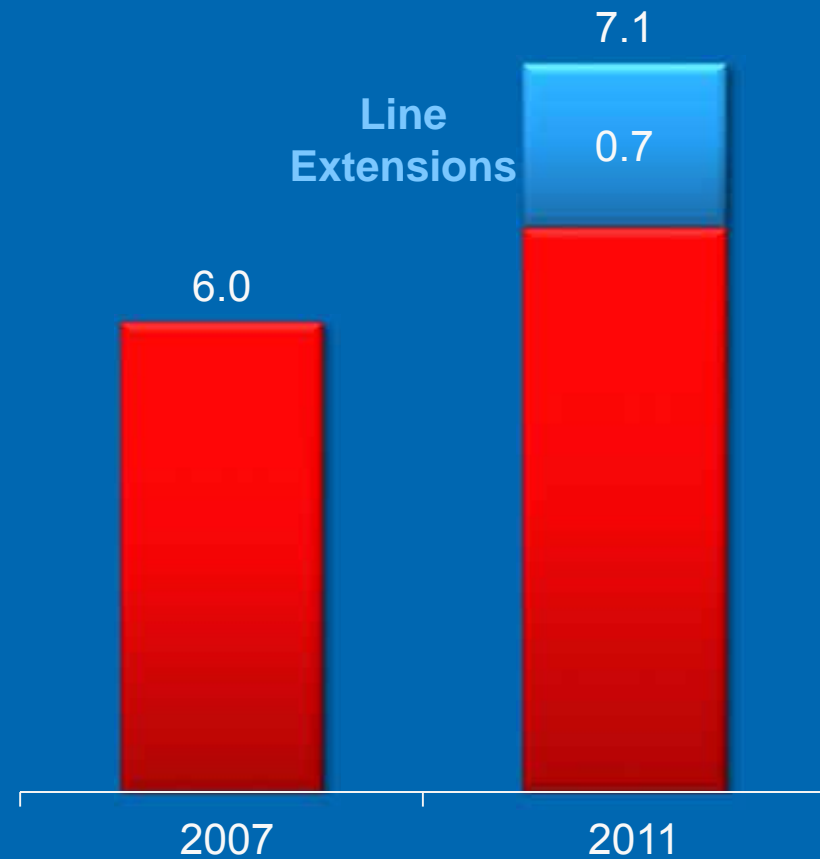


# Brazil: *Marlboro* Line Extensions Contributing to Growth



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Share of Market (%)



Source: PMI estimates



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# Brazil: L&M Innovation

**PODE AGITAR.  
SEU L&M NÃO CAI DO MAÇO.**

NOVO  
**L&M**  
PROTECT

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 de Saúde alerta: Respire a fumaça deste produto como prevenções e sintomas: **PARA DE FUMAR PORQUE SADE POR 31 1997**

**press ▶ change**

SEU BLUE LABEL VIRA MENTOL QUANDO VOCÊ QUISER.

NOVO **L&M**  
ACTIVATE  
SIN1

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.

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## Brazil: Ingredient Restrictions – RDC 14

- Prohibits the use of most ingredients in tobacco products:
  - De-facto ban on existing blended cigarettes; 99% of market
  - Effectively eliminates menthol and kretek products
  - Arbitrary and irrational
- Manufacturers compliant by September 2013:
  - Retail inventories compliant by March 2014
- Further encourages illicit trade:
  - Price and product disadvantage
  - Easy access to illegal cigarettes





## Brazil: Challenge RDC 14

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- Anvisa lacks authority to ban ingredients
- Underlying basis for RDC 14 is unsupported
- Considering various avenues, including litigation



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## Brazil: Key Priorities

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- Ensure *Marlboro's* relevance to emerging middle class
- Position *L&M* as mid-price brand with premium features
- Manage our price gaps
- Forge effective partnerships with key accounts
- Expand distribution in focus area

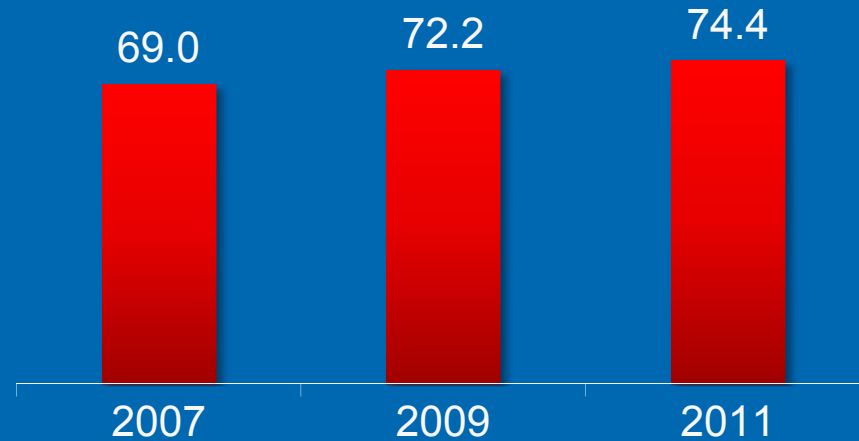


# Argentina: Market Profile



Industry Volume:  
43.8 billion units

PMI Share of Market (%)



- Uptrading market
- Outstanding share performance
- Balanced portfolio

Key Brands



2011 Market Share 24.1%

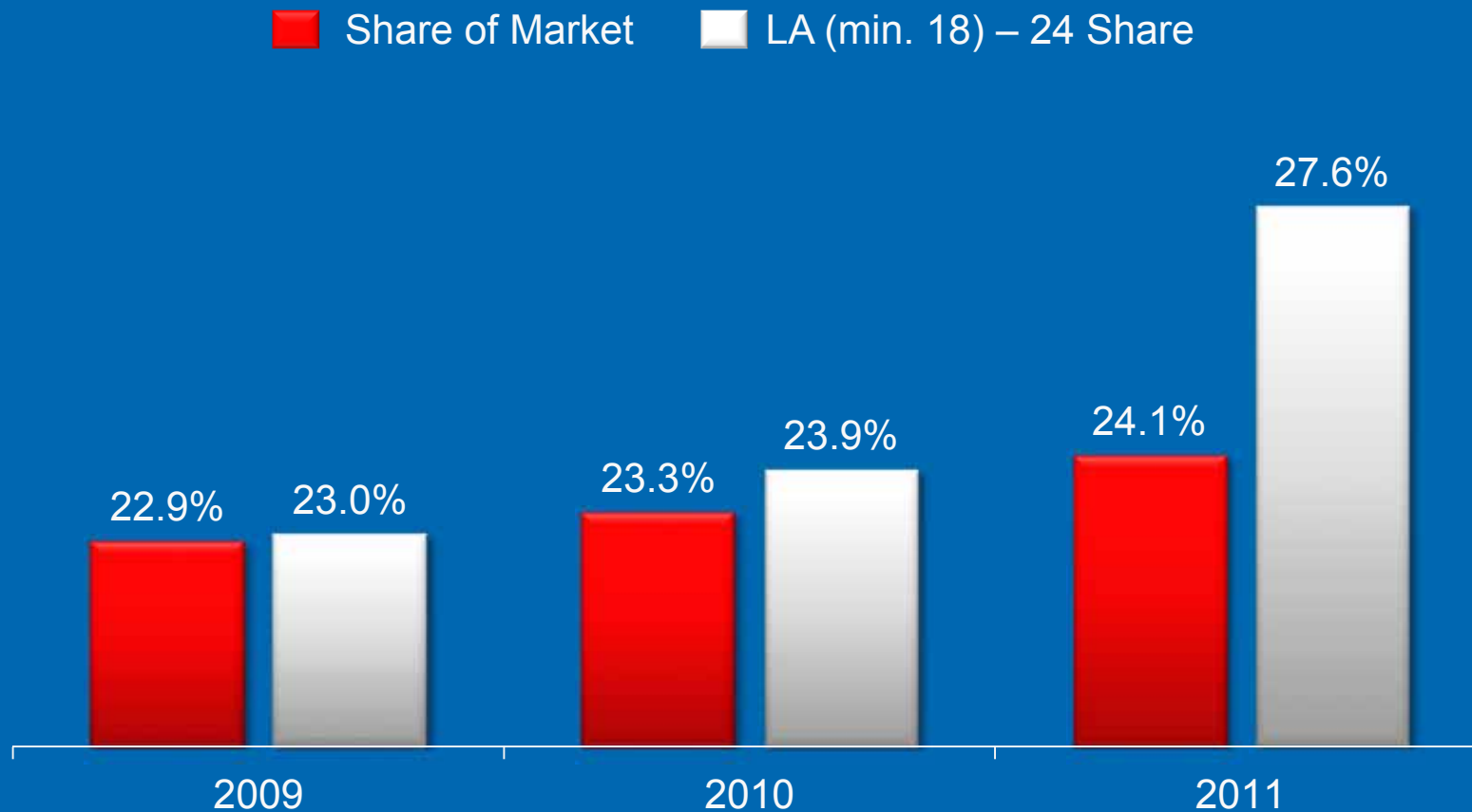
38.0%

3.6%

# Argentina: *Marlboro* Growing Share and Improving Profile



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## Argentina: *Philip Morris* Continues to Lead

Share of Market (%)



- #1 brand in market
- Safety net for *Marlboro*
- Smart and approachable attitude
- Leader among LA (min. 18) – 24 smokers

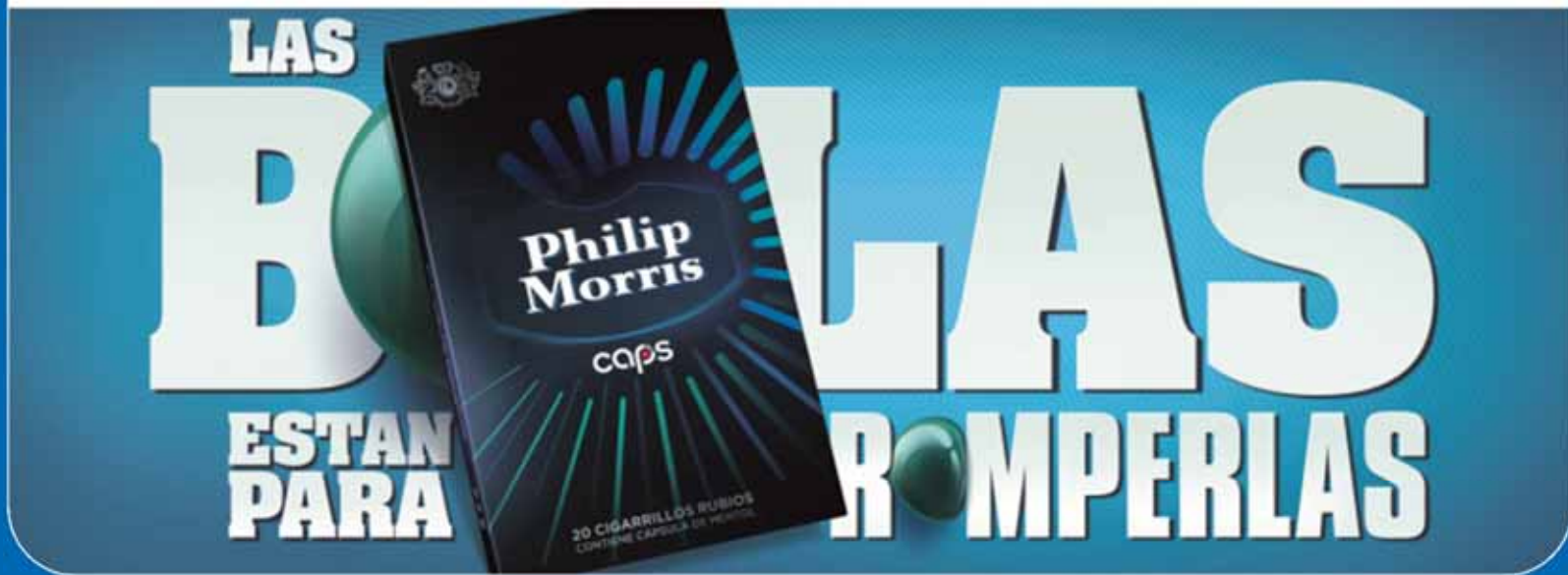
Source: PMI estimates and Market Research



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## Argentina: *Philip Morris Caps*

Fumar causa cáncer





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## Conclusion

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- Our brand portfolios have never been stronger
- *Marlboro* is in great shape
- Proper balance between international and local brands
- More equitable tax structures
- Environment conducive to profitability growth
- Illicit trade conversion to tax-paid products will lead to volume and income growth



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## Investor Day – LA&C Region Lausanne, June 21, 2012

Questions & Answers





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Reconciliations of non-GAAP measures included in this presentation to the most comparable GAAP measures are provided on our website at: [www.pmi.com/2012InvestorDay/RecSlides](http://www.pmi.com/2012InvestorDay/RecSlides)