



PHILIP MORRIS INTERNATIONAL

Barclays Back-to-School Consumer Conference Boston, September 3, 2014

Jacek Olczak

Chief Financial Officer

Philip Morris International



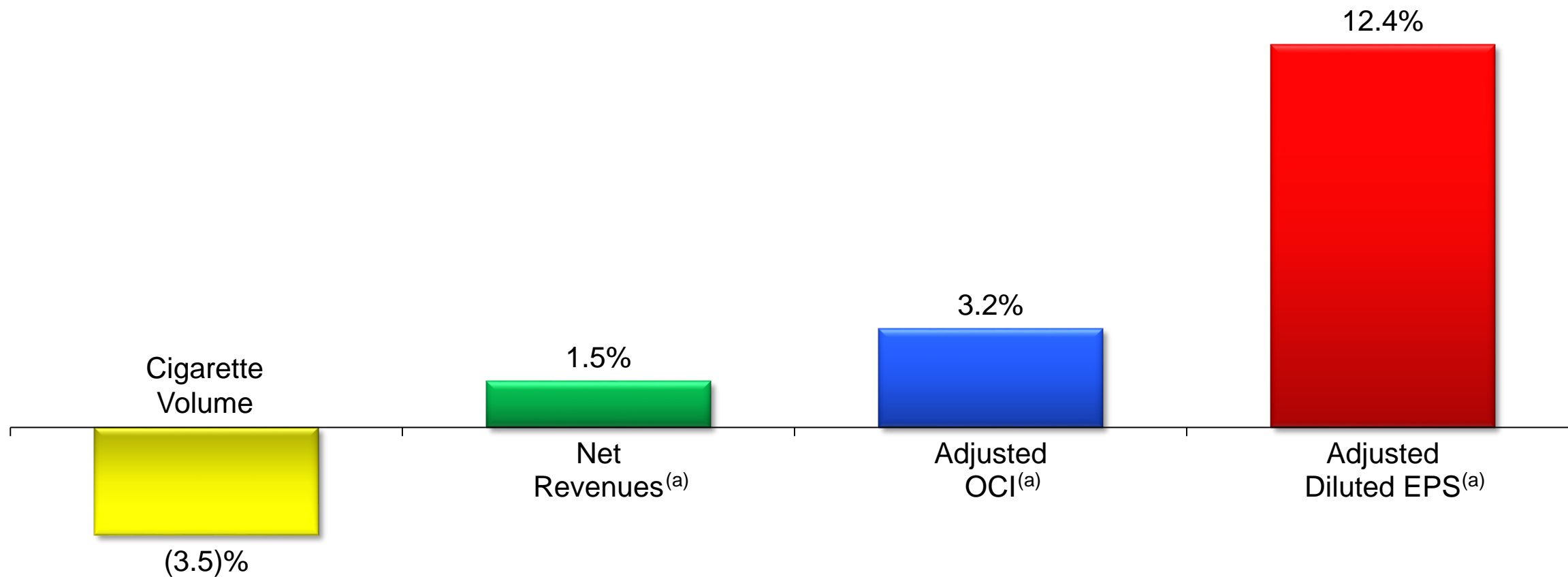
Forward-Looking and Cautionary Statements

- This presentation and related discussion contain forward-looking statements. Achievement of projected results is subject to risks, uncertainties and inaccurate assumptions, and PMI is identifying important factors that, individually or in the aggregate, could cause actual results to differ materially from those contained in any forward-looking statements made by PMI
- PMI's business risks include: significant increases in cigarette-related taxes; the imposition of discriminatory excise tax structures; fluctuations in customer inventory levels due to increases in product taxes and prices; increasing marketing and regulatory restrictions, often with the goal of reducing or preventing the use of tobacco products; health concerns relating to the use of tobacco products and exposure to environmental tobacco smoke; litigation related to tobacco use; intense competition; the effects of global and individual country economic, regulatory and political developments; changes in adult smoker behavior; lost revenues as a result of counterfeiting, contraband and cross-border purchases; governmental investigations; unfavorable currency exchange rates and currency devaluations; adverse changes in applicable corporate tax laws; adverse changes in the cost and quality of tobacco and other agricultural products and raw materials; and the integrity of its information systems. PMI's future profitability may also be adversely affected should it be unsuccessful in its attempts to produce products that have the potential to reduce exposure to harmful constituents in smoke, individual risk and population harm; if it is unable to successfully introduce new products, promote brand equity, enter new markets or improve its margins through increased prices and productivity gains; if it is unable to expand its brand portfolio internally or through acquisitions and the development of strategic business relationships; or if it is unable to attract and retain the best global talent
- PMI is further subject to other risks detailed from time to time in its publicly filed documents, including the Form 10-Q for the quarter ended June 30, 2014. PMI cautions that the foregoing list of important factors is not a complete discussion of all potential risks and uncertainties. PMI does not undertake to update any forward-looking statement that it may make from time to time, except in the normal course of its public disclosure obligations
- A glossary of terms, data tables showing adjustments to net revenues and OCI, for currency, asset impairment, exit and other costs, free cash flow calculations, adjustments to EPS, and reconciliations to U.S. GAAP measures are at the end of today's webcast slides, which are also posted on our web site



2014 First Half: In Line with Our Expectations

Variance (H1, 2014 vs. PY)



(a) Excluding currency
Note: PMI Financials



2014 Second Half: Foreseen to be In Line with Our Expectations

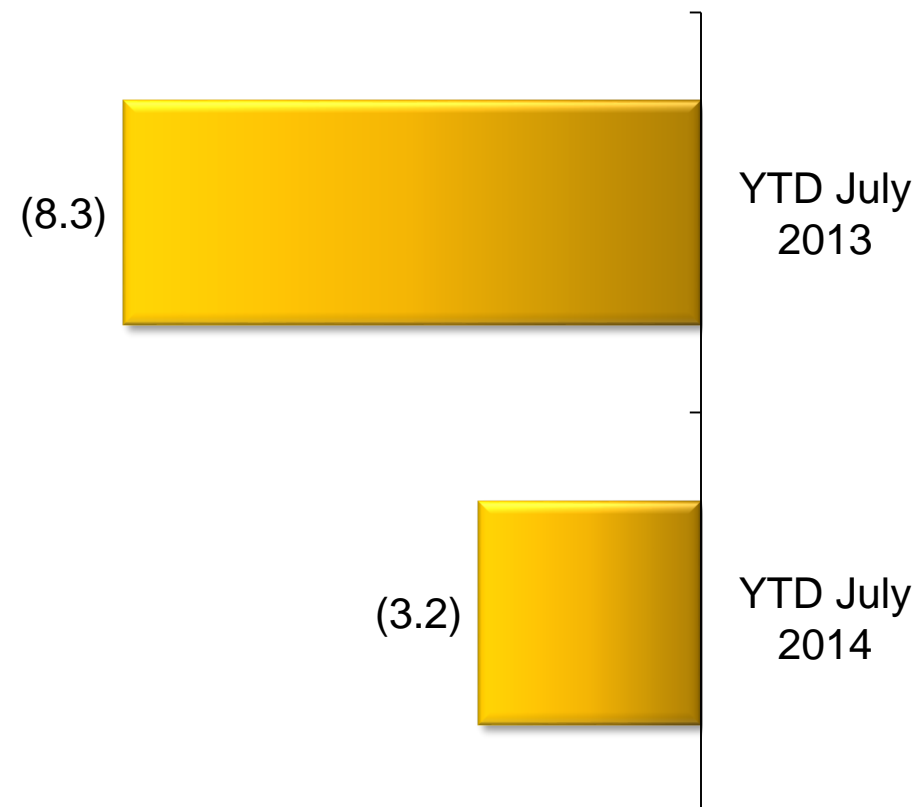
- First-half performance provides confidence for the full year
- Business continues to perform as envisaged, with latest key market-level developments consistent with expectations
- Weaker growth expected for the second half of the year, driven primarily by:
 - More challenging quarterly comparisons, particularly in Q4
 - Investments behind the commercialization of Reduced-Risk Products and the roll-out of *Marlboro* Red 2.0
 - Costs related to our manufacturing footprint optimization initiatives



EU Region: Moderating Cigarette Industry Volume Decline

- Cigarette industry volume decline of 3.2% YTD July, 2014
- Improved industry trend due in part to:
 - Slight decline in illicit trade
 - Slow-down in the growth of e-vapor products
 - Less out-switching to fine cut products
 - Favorable trade inventory movements
- Full-year cigarette industry volume decline forecast to be approximately 5%
- Price increases recently implemented in Germany, Portugal and Spain
- No substantive improvement in employment levels across the EU

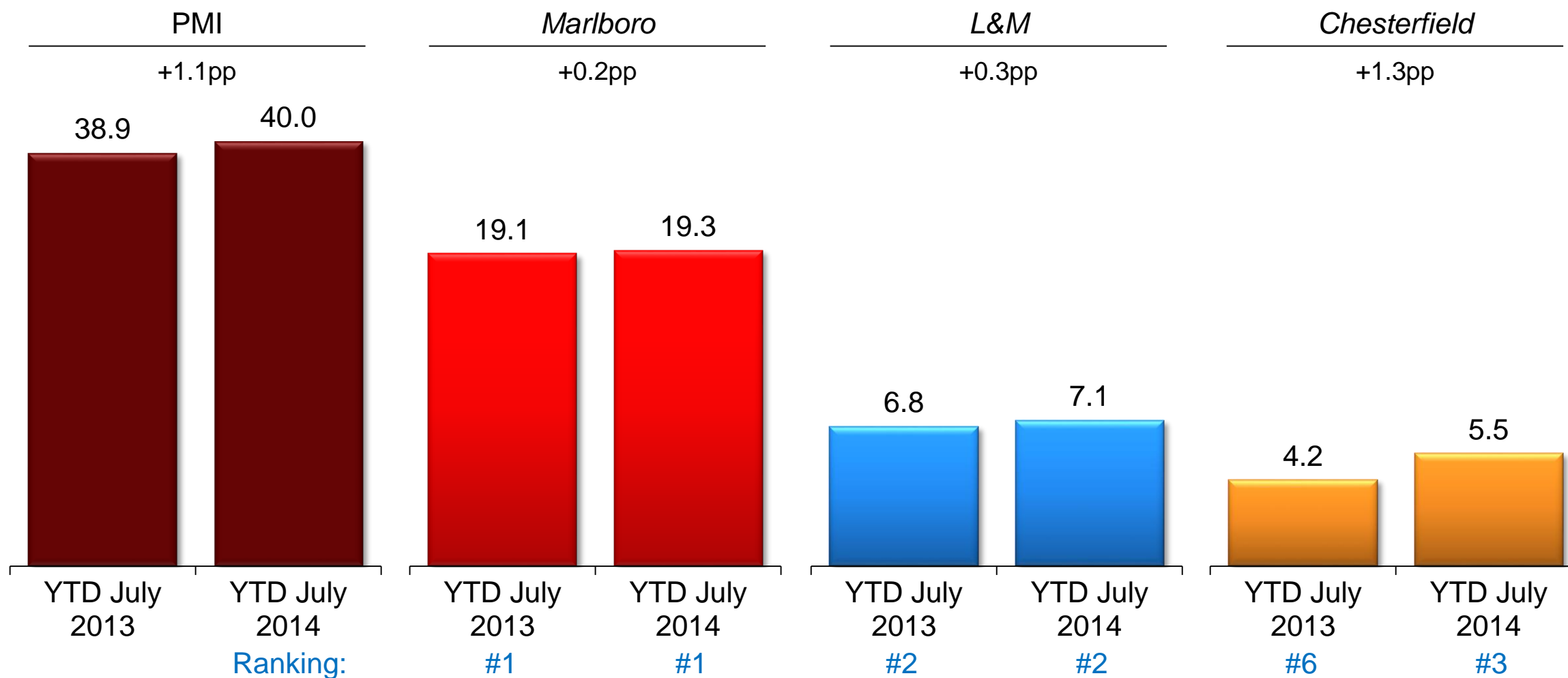
Total Cigarette Industry Volume Decline (vs. PY)





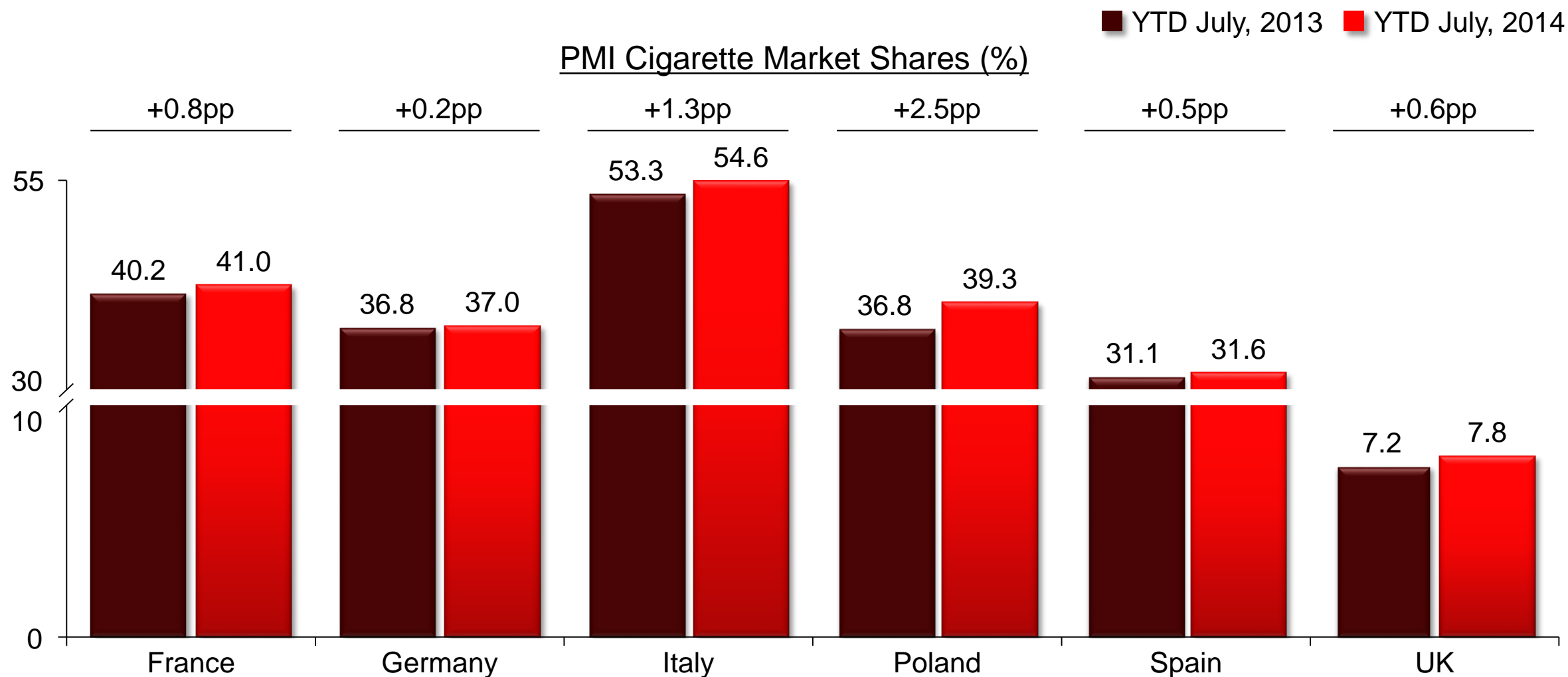
EU Region: Favorable Market Share Momentum

Cigarette Market Shares (%)





EU Region: Favorable Market Share Momentum

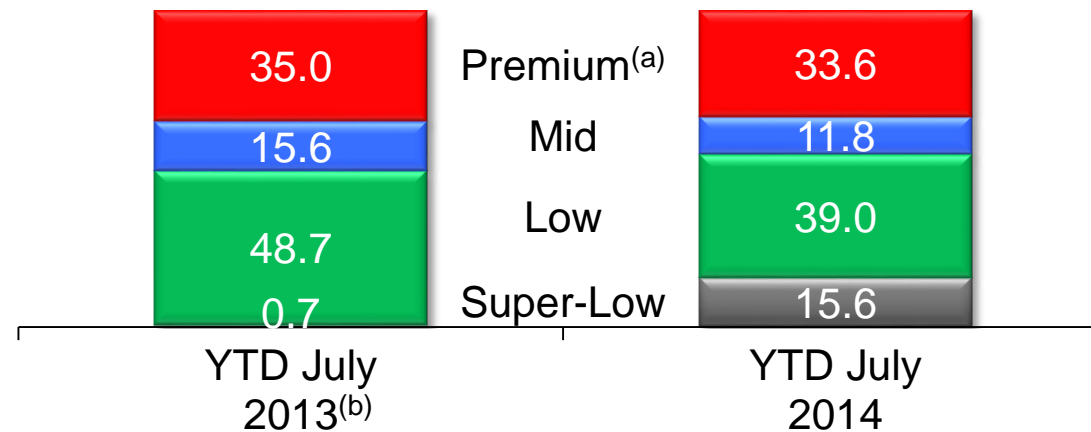




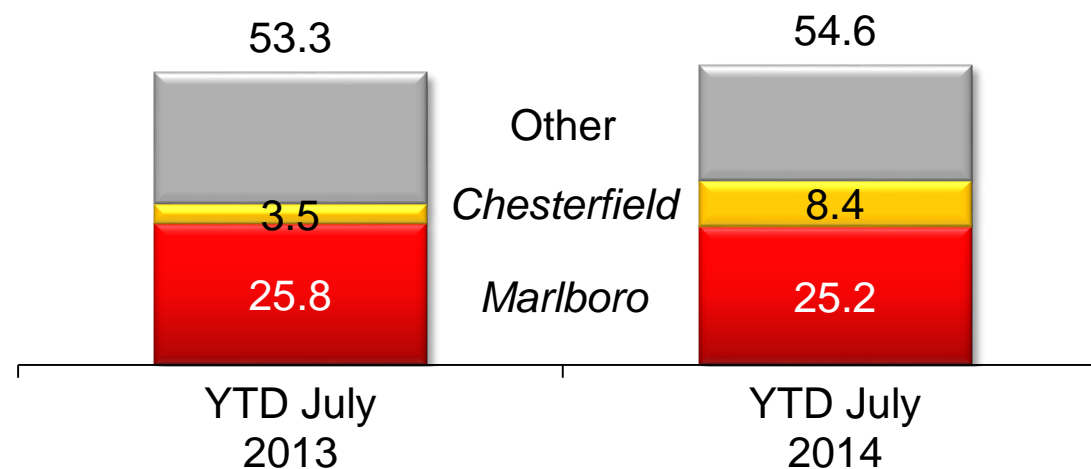
Italy: Excise Tax Reform Needed

- Cigarette industry volume increased by 1.2% YTD July, 2014
- Predominantly ad-valorem excise tax system has resulted in the growth of the super-low price segment and an increase in price gaps
- *Chesterfield* successfully repositioned to the super-low price segment in February 2014
- Premium segment and *Marlboro* have remained resilient

Industry Price Segmentation (%)



PMI Cigarette Market Share (%)



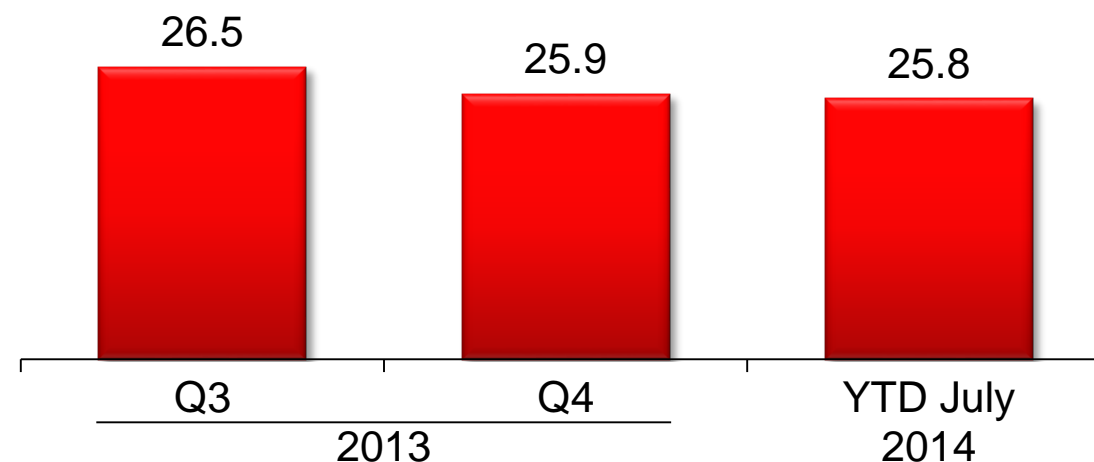
(a) Includes above premium
(b) Based on historical view
Source: PMI estimates

Japan: Share Stabilization Expected by Year End

- Cigarette industry volume declined by 3.0% YTD July, 2014
- YTD July share of 25.8%, down by 1.3 points versus prior year
- Successful morphing of *Philip Morris* into *Lark*
- Market share stabilization expected by year end, behind the "Be *Marlboro*" marketing campaign and new launches



PMI Market Share (%)

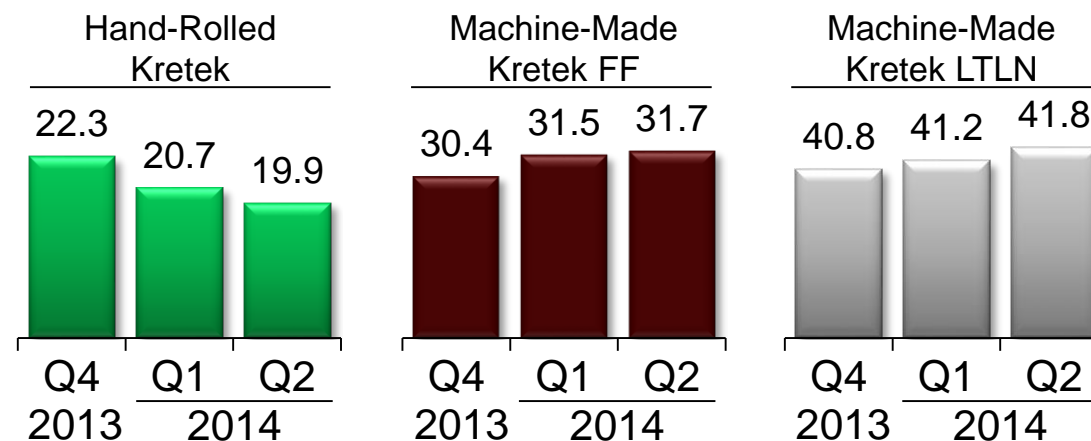




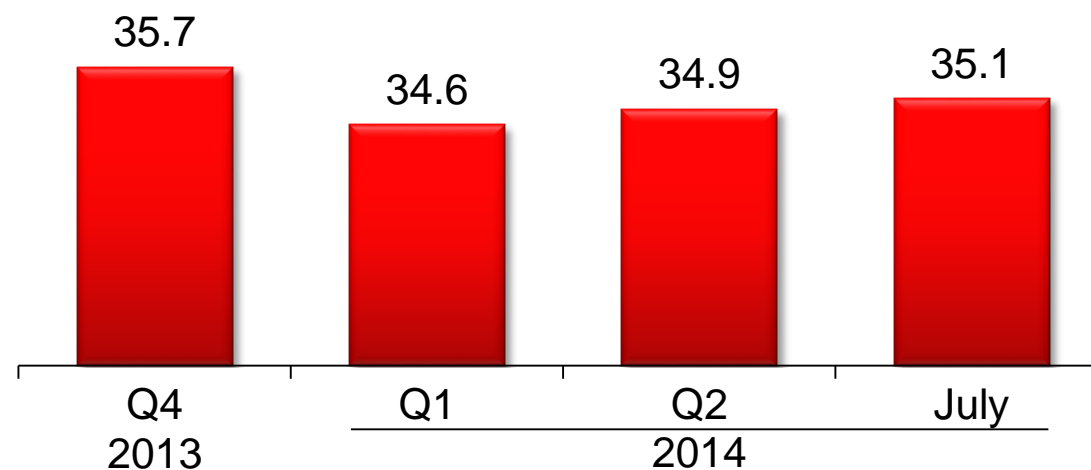
Indonesia: Sequential Market Share Improvement

- Cigarette industry volume increased by 1.4% YTD July, 2014
- Sequential improvement in PMI market share driven by:
 - Continued growth of *U Mild*
 - Successful launch of *Dji Sam Soe Magnum Blue* in April
 - Slight moderation in the decline of the hand-rolled segment

Industry Share of Taste Segments (%)



PMI Market Share (%)

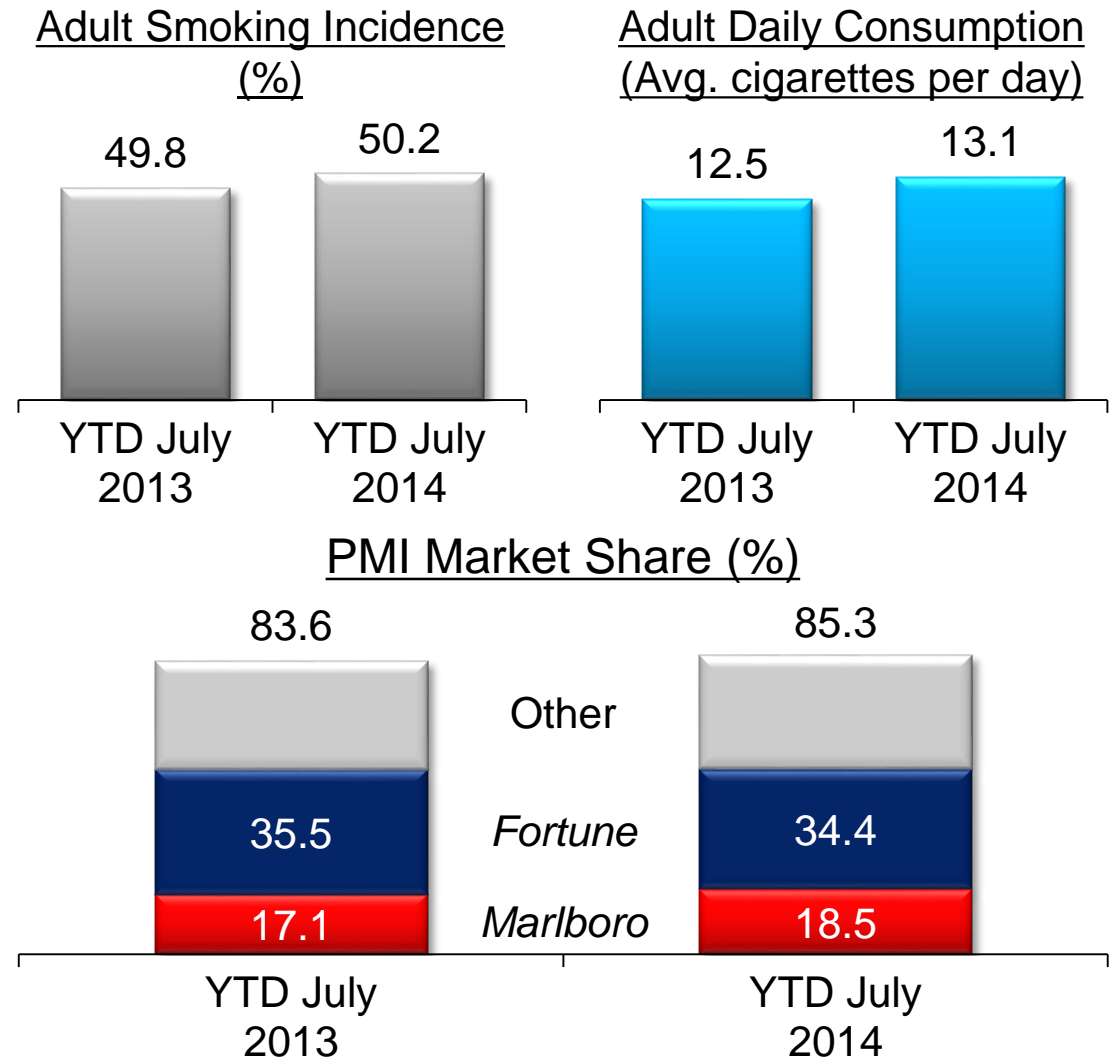


Philippines: PMI is Regaining Share, but Mighty Corporation Under-Declaration Continues



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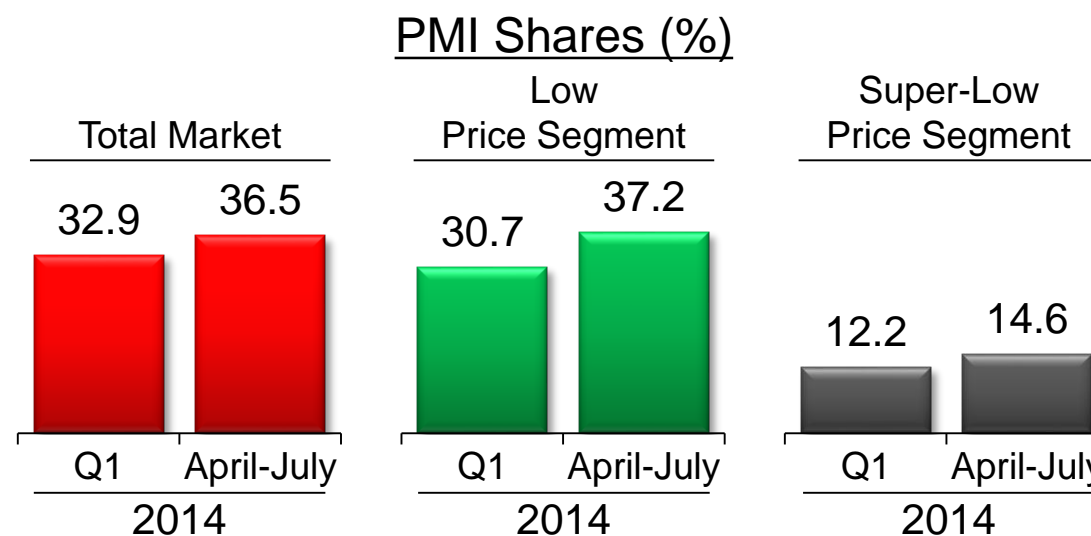
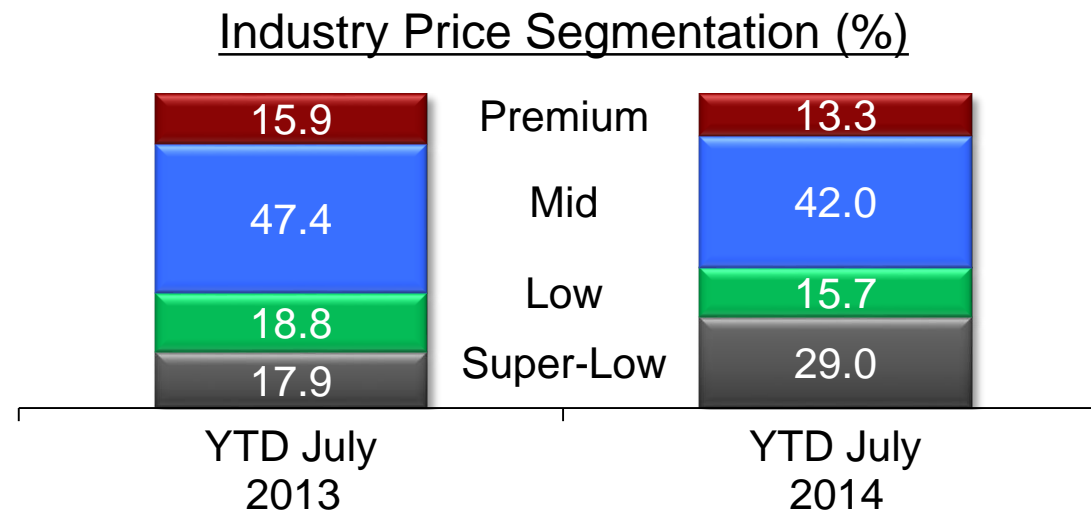
- Tax-paid industry volume close to flat YTD July
- Mighty Corporation continues to significantly under-declare its sales volume for excise tax purposes
- Implementation of tax stickers delayed by technical problems
- PMI gained share this year in the tax-paid market behind a stronger *Marlboro* performance





Australia: Down-Trading Environment

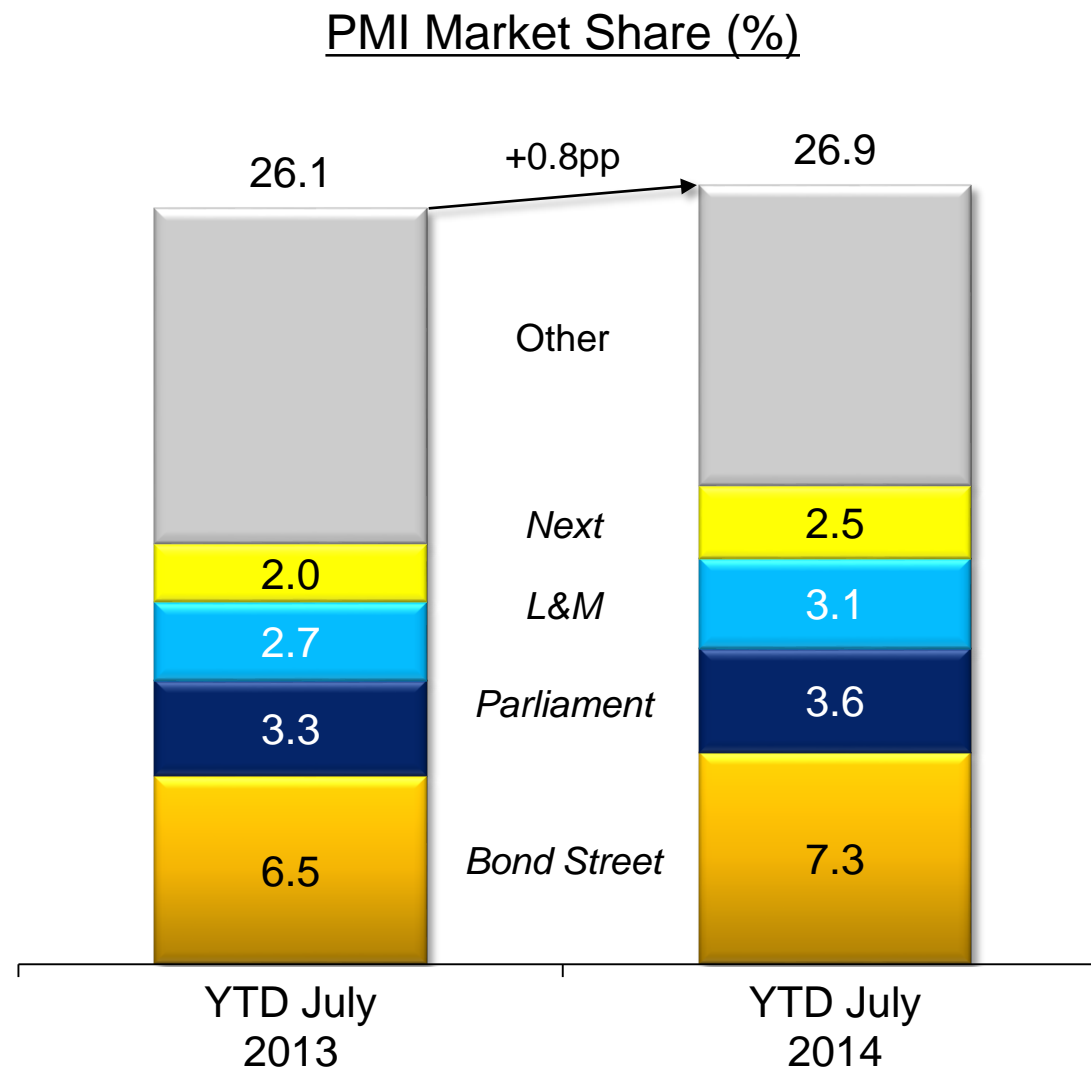
- Super-low price segment growing, impacted by large excise tax increases, plain packaging and heavy price discounting
- Tactical investments in *choice* and *Bond Street* driving share recovery
- Volume/mix deterioration and discounting are unfavorably impacting our profitability





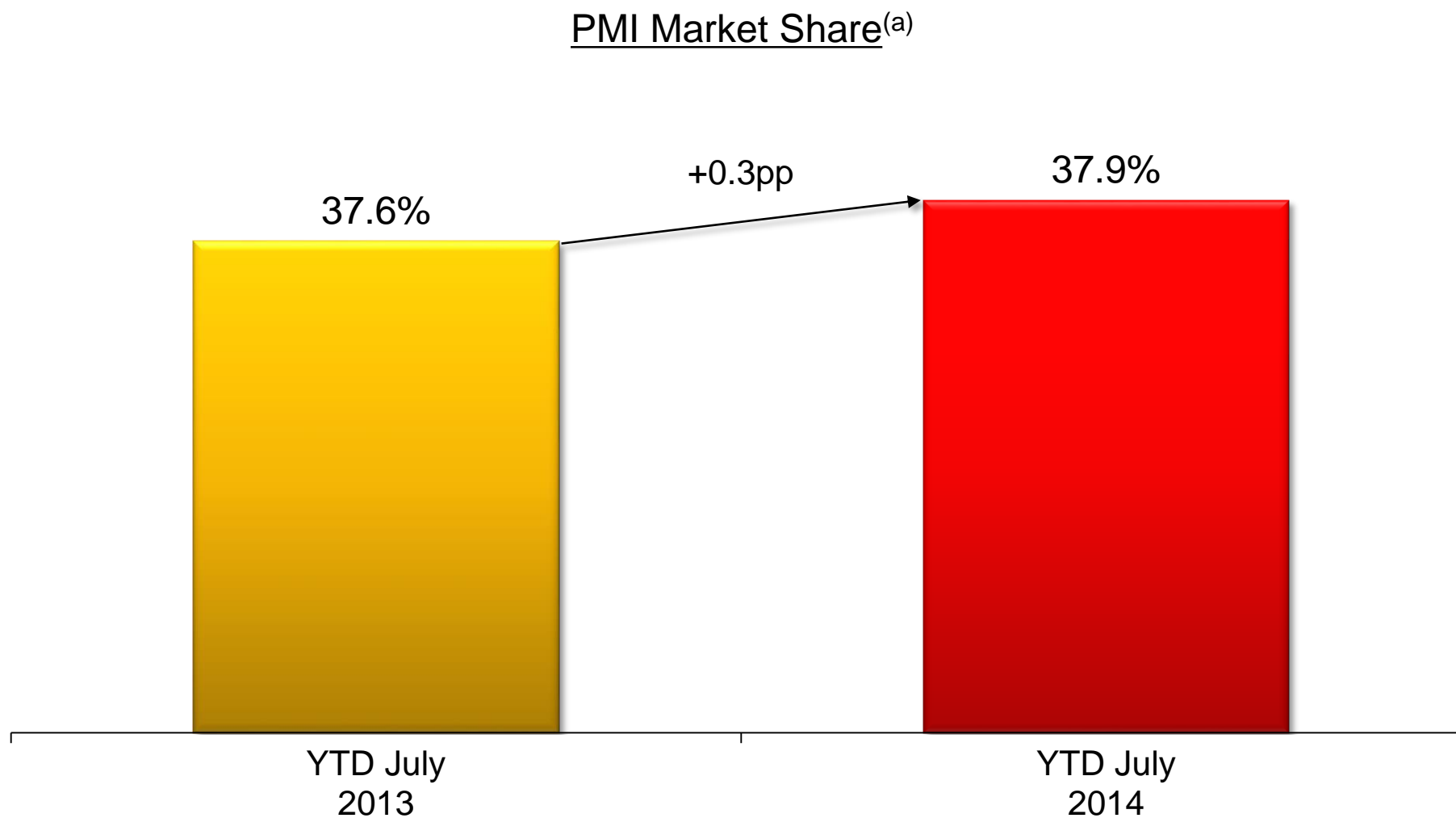
Russia: PMI Gaining Share While Increasing Prices

- Strong market share gains, with YTD July, 2014, share up by 0.8 points to 26.9%
- Cigarette industry volume decline of around 8.5% YTD July, 2014
- May 2014 price increase of RUB 4/pack started to impact adult smokers in late July
- Full-year cigarette industry volume decline expected to be in a range of 9% to 11%





Market Share: Top 30 OCI Markets

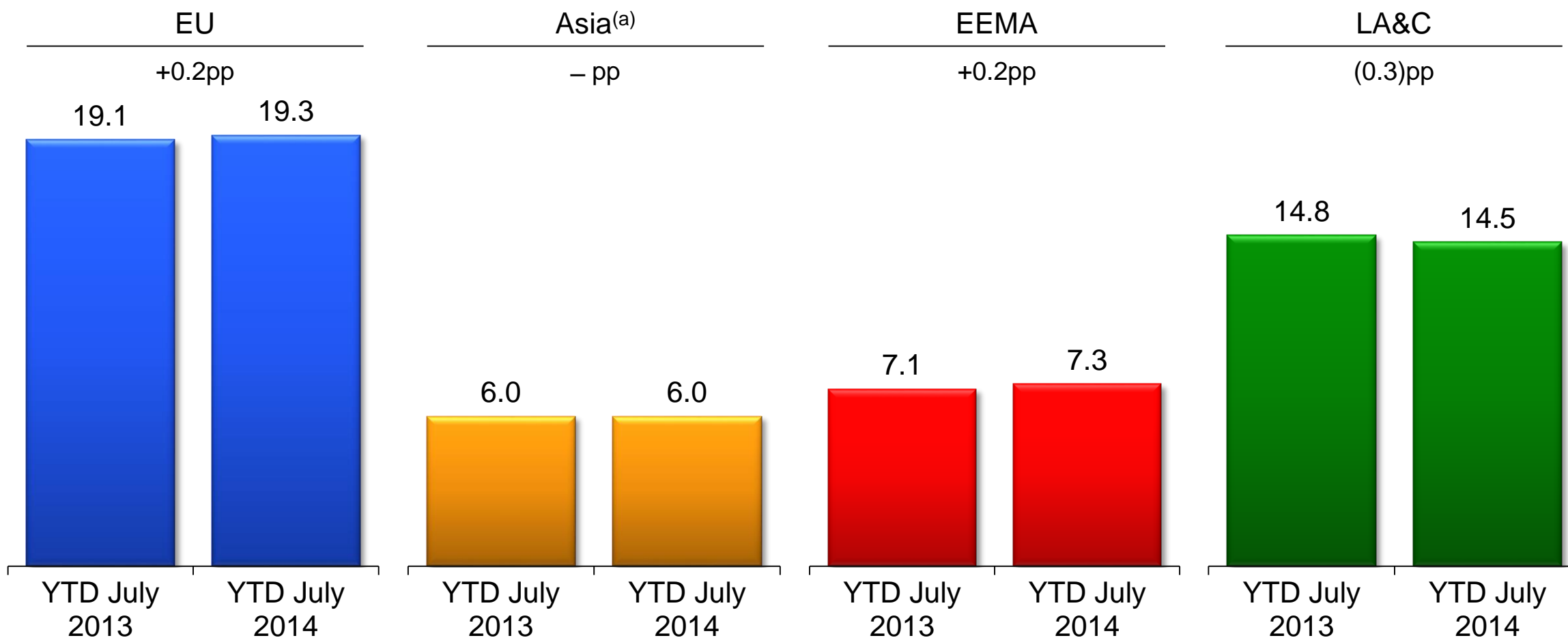


(a) Excluding duty free
Source: PMI estimates



Marlboro: Regional Market Share

Marlboro Market Shares (%)



(a) Excluding China
Source: PMI estimates



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Reduced-Risk Products: Preparing the City Tests of *iQOS*

iQOS



Note: Reduced-Risk Products ("RRPs") is the term we use to refer to products that have the potential to reduce individual risk and population harm. Reference images only



PMI: Focused Use of Cash Flow to Enhance Shareholder Returns

- Investing in the development of our Reduced-Risk Product portfolio and value-enhancing business development projects
- Nearly \$69 billion returned to shareholders in the form of dividends and share repurchases since the time of the spin
- Target dividend payout ratio of 65%
- Cumulative increase in dividend per share of 104.3% since 2008
- Balancing returning at least 100% of our available free cash flow and single A credit rating
- \$4.0 billion share repurchase target for 2014
- YTD June, 2014, \$2.25 billion spent to repurchase 27.0 million shares at an average price of \$83.27



PMI: Business Outlook is Positive

- First-half 2014 performance in line with our expectations
- On track, though second half will be impacted by:
 - Investments in the launch of *iQOS* / roll-out of *Marlboro Red 2.0*
 - Underlying costs related to the optimization of our manufacturing footprint
 - More challenging comparisons, particularly in Q4
- For 2015/2016, we have the following currency-neutral targets:
 - 4% to 6% annual growth in net revenues
 - 6% to 8% annual growth in adjusted OCI
 - 8% to 10% annual growth in adjusted diluted EPS



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Chief Financial Officer

Philip Morris International

QUESTIONS & ANSWERS



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Barclays Back-to-School Consumer Conference

Boston

September 3, 2014



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Glossary and Reconciliation of Non-GAAP Measures



Glossary: General Terms

- PMI stands for Philip Morris International Inc. and its subsidiaries
- Until March 28, 2008, PMI was a wholly owned subsidiary of Altria Group, Inc. ("Altria"), since that time the company has been independent and is listed on the New York Stock Exchange (ticker symbol "PM")
- PMI volumes refer to PMI cigarette shipment data, unless otherwise stated
- Organic volume refers to volume excluding acquisitions
- References to total international cigarette market, total cigarette market, total market and market shares reflect our best estimates based on a number of internal and external sources
- Acquisitions, for the purposes of this presentation, also include our business combination with Fortune Tobacco Corporation in the Philippines
- Trademarks are italicized



Glossary: Financial Terms

- Adjusted OCI is defined as reported OCI adjusted for asset impairment, exit and other costs
- EPS stands for Earnings per Share
- Free cash flow is defined as net cash provided by operating activities less capital expenditures
- Historical view extracts the share data as reported at a given period, while current view generates the restated data across all periods as per the latest attribute information
- Net revenues exclude excise taxes
- Operating Companies Income, or "OCI", is defined as operating income, excluding general corporate expenses and the amortization of intangibles, plus equity (income) or loss in unconsolidated subsidiaries, net. OCI growth rates are on an adjusted basis, which excludes asset impairment, exit and other costs



Glossary: Industry/Market Terms

- EEMA refers to the Eastern Europe, Middle East & Africa Region
- EU refers to the European Union Region
- Fine cut includes Make Your Own (MYO), MYO volume tobacco and Roll Your Own (RYO)
- FF stands for full flavor
- Fine cut is converted to cigarette equivalent on the basis of 0.60g per unit for MYO volume tobacco and RYO, and 0.73g per unit for MYO
- LA&C refers to the Latin America & Canada Region
- LTLN stands for low tar/low nicotine



Glossary: Reduced-Risk Products and E-Vapor Products

- E-vapor products are products that generate nicotine containing aerosols without combustion
- *HeatStick* tobacco sticks are novel patented tobacco products specifically designed by PMI for use with PMI's *iQOS* system. The tobacco in the *HeatStick* is heated by our *iQOS* technology to provide adult smokers with real tobacco taste and satisfaction without combustion
- *iQOS* is the new brand name under which PMI has chosen to commercialize the Platform 1 electronic system
- Reduced-Risk Products ("RRPs") is the term the company uses to refer to products in various stages of development for which it is conducting extensive and rigorous scientific studies to determine whether it can support claims of reduced exposure to harmful and potentially harmful constituents in smoke, and ultimately claims of reduced disease risk, when compared to smoking combustible cigarettes. Before making any such claims, the company will need to rigorously evaluate the full set of data from the relevant scientific studies to determine whether they substantiate reduced risk. Any such claims may also be subject to government review and approval, as is the case in the USA today

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Reconciliation of Non-GAAP Measures



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Adjustments for the Impact of Currency and Acquisitions For the Six Months Ended June 30, (\$ in millions) (Unaudited)

2014								2013					% Change in Reported Net Revenues excluding Excise Taxes		
Reported Net Revenues	Less Excise Taxes	Reported Net Revenues excluding Excise Taxes	Less Currency	Reported Net Revenues excluding Excise Taxes & Currency	Less Acquisitions	Reported Net Revenues excluding Excise Taxes, Currency & Acquisitions		Reported Net Revenues	Less Excise Taxes	Reported Net Revenues excluding Excise Taxes	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions		
\$ 14,448	\$ 10,042	\$ 4,406	\$ 179	\$ 4,227	\$ -	\$ 4,227	European Union	\$ 13,768	\$ 9,592	\$ 4,176	5.5%	1.2%	1.2%		
10,236	5,944	4,292	(322)	4,614	-	4,614	EEMA	9,800	5,576	4,224	1.6%	9.2%	9.2%		
9,572	5,079	4,493	(651)	5,144	-	5,144	Asia	10,632	5,150	5,482	(18.0)%	(6.2)%	(6.2)%		
4,574	3,051	1,523	(223)	1,746	-	1,746	Latin America & Canada	4,810	3,191	1,619	(5.9)%	7.8%	7.8%		
\$ 38,830	\$ 24,116	\$ 14,714	\$ (1,017)	\$ 15,731	\$ -	\$ 15,731	PMI Total	\$ 39,010	\$ 23,509	\$ 15,501	(5.1)%	1.5%	1.5%		

2014								2013					% Change in Reported Operating Companies Income		
Reported Operating Companies Income		Less Currency	Reported Operating Companies Income excluding Currency	Less Acquisitions	Reported Operating Companies Income excluding Currency & Acquisitions			Reported Operating Companies Income		Reported Operating Companies Income	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions		
\$ 1,689		\$ 109	\$ 1,580	\$ -	\$ 1,580	European Union		\$ 2,020			(16.4)%	(21.8)%	(21.8)%		
2,014		(210)	2,224	-	2,224	EEMA		1,880			7.1%	18.3%	18.3%		
1,815		(396)	2,211	-	2,211	Asia		2,470			(26.5)%	(10.5)%	(10.5)%		
467		(111)	578	-	578	Latin America & Canada		509			(8.3)%	13.6%	13.6%		
\$ 5,985		\$ (608)	\$ 6,593	\$ -	\$ 6,593	PMI Total		\$ 6,879			(13.0)%	(4.2)%	(4.2)%		

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Reconciliation of Non-GAAP Measures



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Reconciliation of Reported Operating Companies Income to Adjusted Operating Companies Income &
Reconciliation of Adjusted Operating Companies Income Margin, excluding Currency and Acquisitions
For the Six Months Ended June 30,
(\$ in millions)
(Unaudited)

2014							2013					% Change in Adjusted Operating Companies Income		
Reported Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Less Currency	Adjusted Operating Companies Income excluding Currency	Less Acquisitions	Adjusted Operating Companies Income excluding Currency & Acquisitions	Reported Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions		
\$ 1,689	\$ (488)	\$ 2,177	\$ 109	\$ 2,068	\$ -	\$ 2,068	\$ 2,020	\$ -	\$ 2,020	7.8%	2.4%	2.4%		
2,014	-	2,014	(210)	2,224	-	2,224	1,880	-	1,880	7.1%	18.3%	18.3%		
1,815	(24)	1,839	(396)	2,235	-	2,235	2,470	(8)	2,478	(25.8)%	(9.8)%	(9.8)%		
467	-	467	(111)	578	-	578	509	-	509	(8.3)%	13.6%	13.6%		
\$ 5,985	\$ (512)	\$ 6,497	\$ (608)	\$ 7,105	\$ -	\$ 7,105	\$ 6,879	\$ (8)	\$ 6,887	(5.7)%	3.2%	3.2%		

2014							2013					% Points Change	
Adjusted Operating Companies Income excluding Currency	Net Revenues excluding Excise Taxes & Currency ^(a)	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income excluding Currency & Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions ^(a)	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions	Adjusted Operating Companies Income	Adjusted Operating Companies Income	Net Revenues excluding Excise Taxes ^(a)	Adjusted Operating Companies Income Margin	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions		
\$ 2,068	\$ 4,227	48.9%	\$ 2,068	\$ 4,227	48.9%	\$ 2,020	\$ 4,176	48.4%	48.4%	0.5	0.5		
2,224	4,614	48.2%	2,224	4,614	48.2%	1,880	4,224	44.5%	44.5%	3.7	3.7		
2,235	5,144	43.4%	2,235	5,144	43.4%	2,478	5,482	45.2%	45.2%	(1.8)	(1.8)		
578	1,746	33.1%	578	1,746	33.1%	509	1,619	31.4%	31.4%	1.7	1.7		
\$ 7,105	\$ 15,731	45.2%	\$ 7,105	\$ 15,731	45.2%	\$ 6,887	\$ 15,501	44.4%	44.4%	0.8	0.8		

(a) For the calculation of net revenues excluding excise taxes, currency and acquisitions, refer to previous slide

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Reconciliation of Non-GAAP Measures



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Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS and Adjusted Diluted EPS, excluding Currency
For the Six Months Ended June 30,
(Unaudited)

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Reported Diluted EPS	\$ 2.35	\$ 2.58	(8.9)%
Adjustments:			
Asset impairment and exit costs	0.25	-	
Tax items	-	0.01	
Adjusted Diluted EPS	\$ 2.60	\$ 2.59	0.4%
Less:			
Currency impact	(0.31)		
Adjusted Diluted EPS, excluding Currency	\$ 2.91	\$ 2.59	12.4%