



PHILIP MORRIS INTERNATIONAL

2013 First-Quarter Results

April 18, 2013



Introduction

- Unless otherwise stated, we will be talking about results for the first-quarter of 2013 and comparing them to the same period in 2012
- References to PMI volumes refer to PMI shipments
- Industry volume and market shares are the latest data available from a number of internal and external sources
- Organic volume refers to volume excluding acquisitions
- Net revenues exclude excise taxes
- Operating Companies Income, or “OCI”, is defined as operating income before general corporate expenses and the amortization of intangibles. OCI growth rates are on an adjusted basis, which excludes asset impairment, exit and other costs
- Data tables showing adjustments to net revenues and OCI for currency, acquisitions, 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



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 with the potential to reduce the risk of smoking-related diseases; 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-K for the year ended December 31, 2012. 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



2013 EPS Guidance

- Business fundamentals continue to be solid
- Good momentum in key markets and segments
- Increased currency volatility: at prevailing exchange rates, we now forecast approximately 19 cents per share unfavorability for the full year
- New reported diluted EPS guidance for 2013 is \$5.55 to \$5.65, compared to \$5.17 in 2012
- On a currency-neutral basis, the new guidance continues to reflect a growth rate of approximately 10% to 12%, compared to adjusted diluted EPS of \$5.22 in 2012
- This is fully in line with our mid to long-term currency-neutral annual growth target

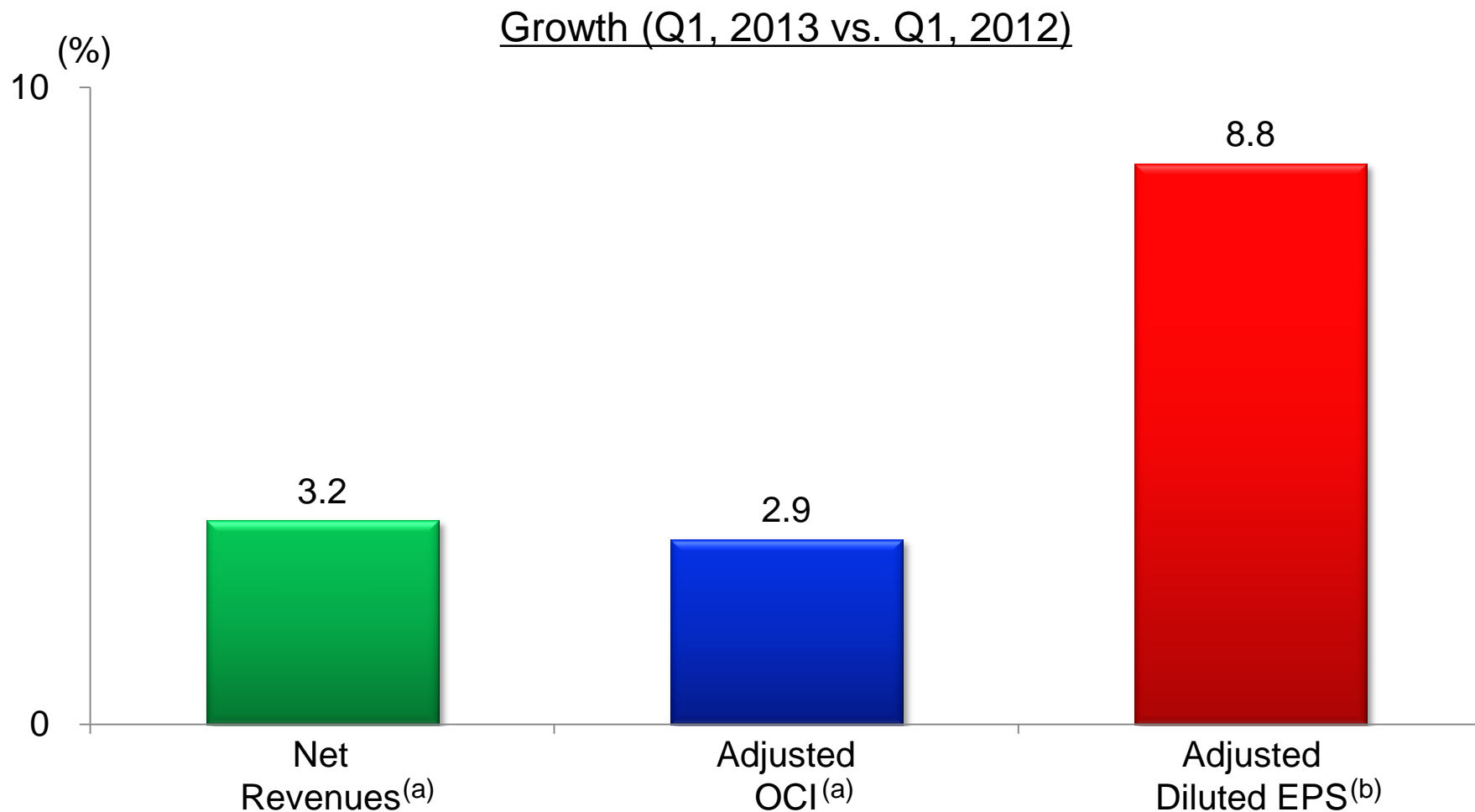


Difficult Volume Comparison in Q1, 2013

- Organic cigarette volume declined by 2.1%, excluding the Philippines:
 - Difficult comparison with prior year's 5.3% organic volume increase
 - Reversal of trade inventory build-ups that occurred in Q4, 2012
 - Continued economic crisis in the EU
- PMI achieved organic cigarette volume growth, excluding the Philippines, in the Asia and EEMA Regions



Solid First-Quarter 2013 Financial Results



(a) Excluding currency and acquisitions

(b) Excluding currency

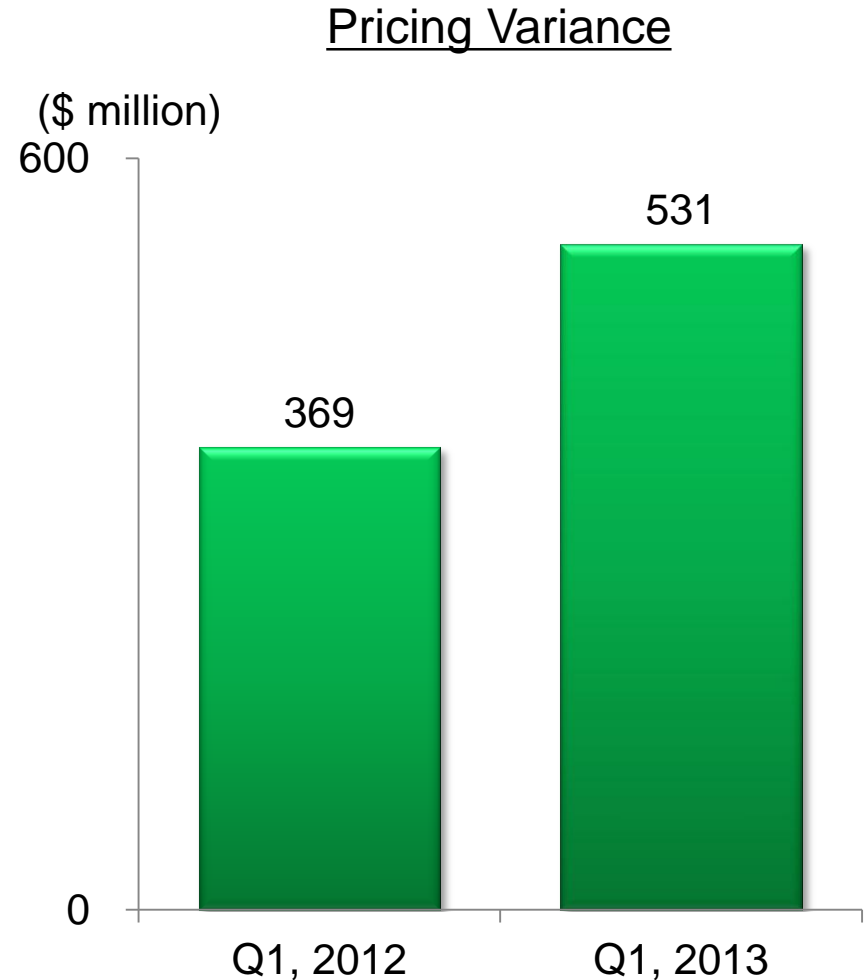
Source: PMI Financials

Pricing Remains Key Driver of Income Performance



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- Since October 2012, PMI has increased prices across a wide range of markets
- New prices announced in Germany
- Favorable pricing environment is backed by our strong, broad brand portfolio and a generally rational tax environment

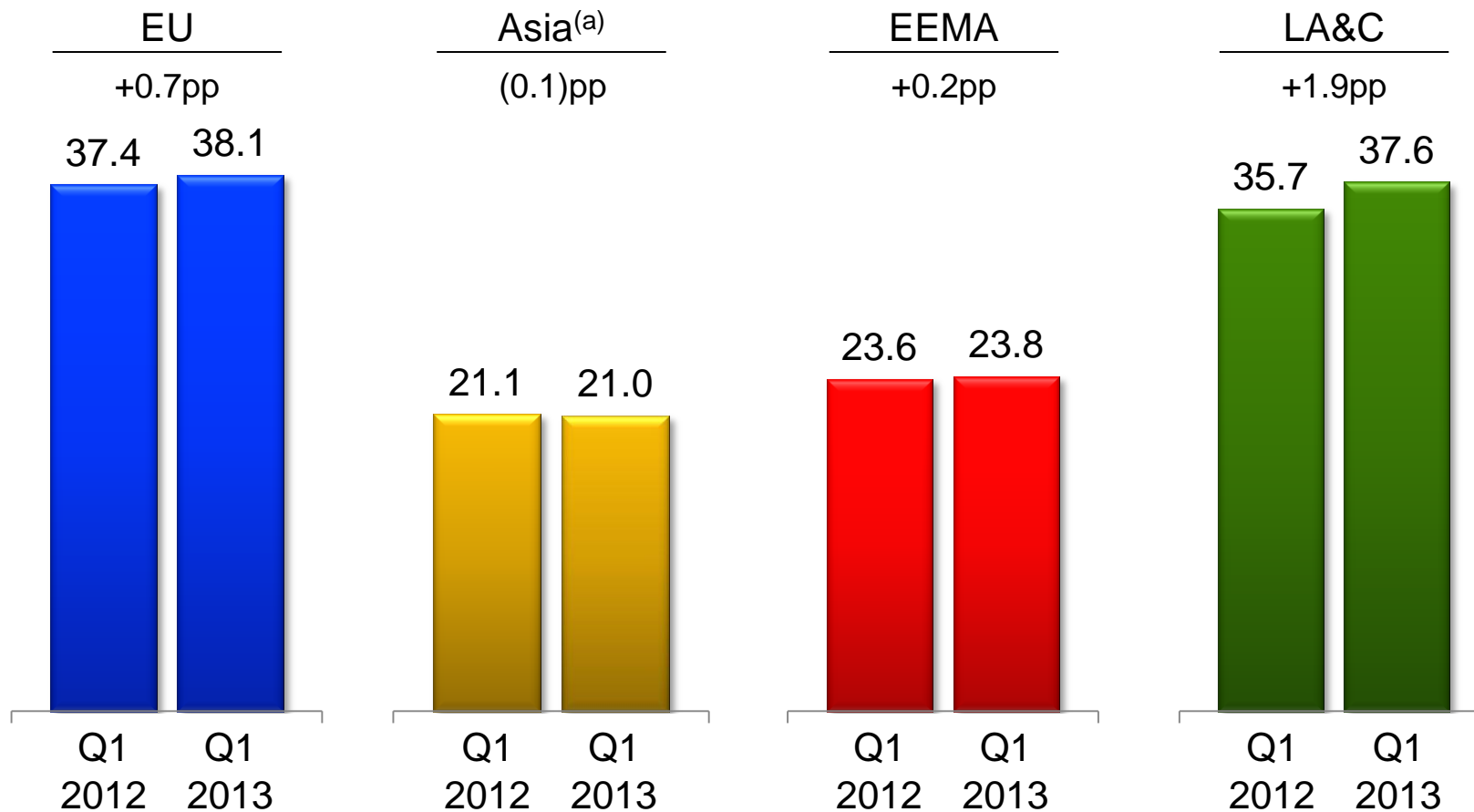


Note: Variances at OCI level
Source: PMI Financials



Continued Market Share Growth Momentum

Regional PMI Market Shares (%)

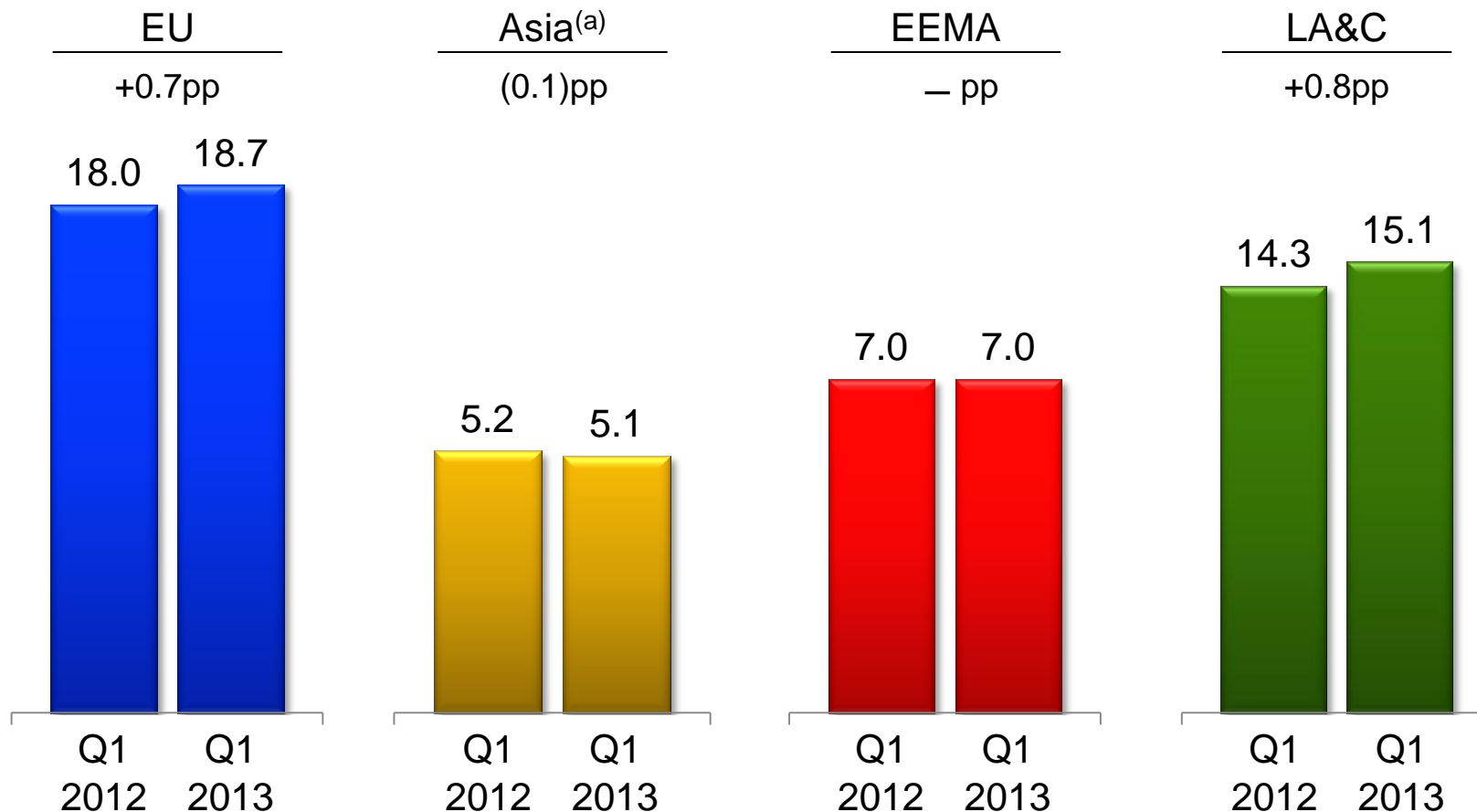


(a) Excluding China and the Philippines
Source: PMI estimates



Marlboro: Solid Share Performance in Q1, 2013

Marlboro Market Shares (%)

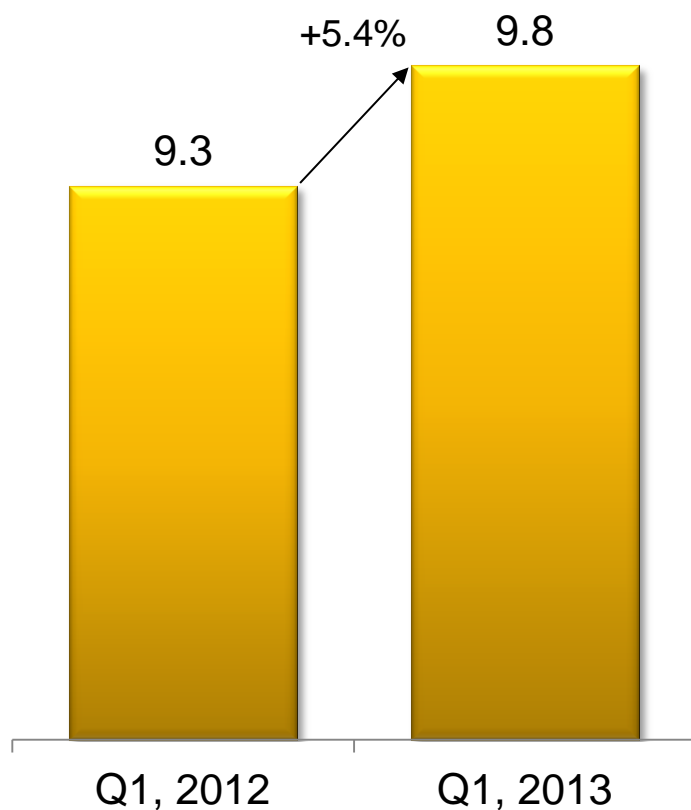


(a) Excluding China and the Philippines
Source: PMI estimates

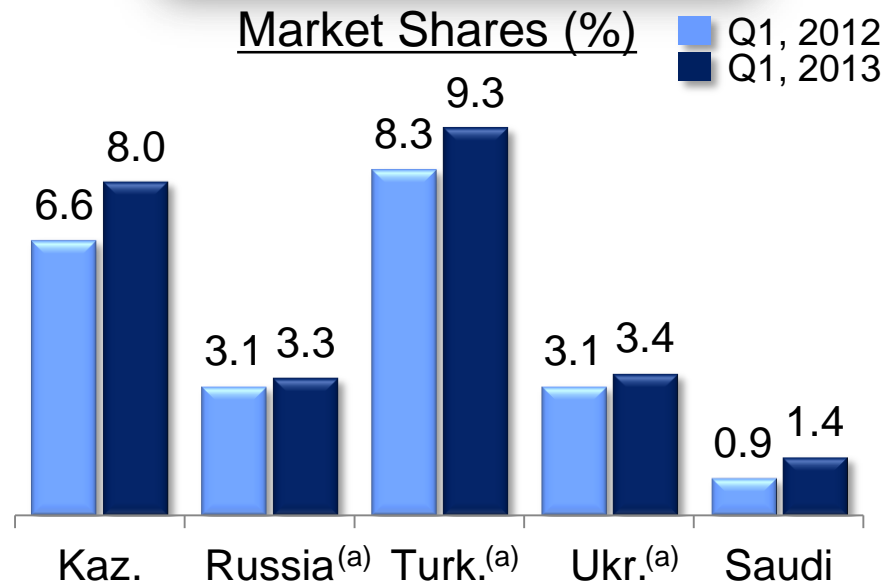


Parliament: Continued Growth in Q1, 2013

Total Volume
(units billion)



Market Shares (%)



(a) YTD February

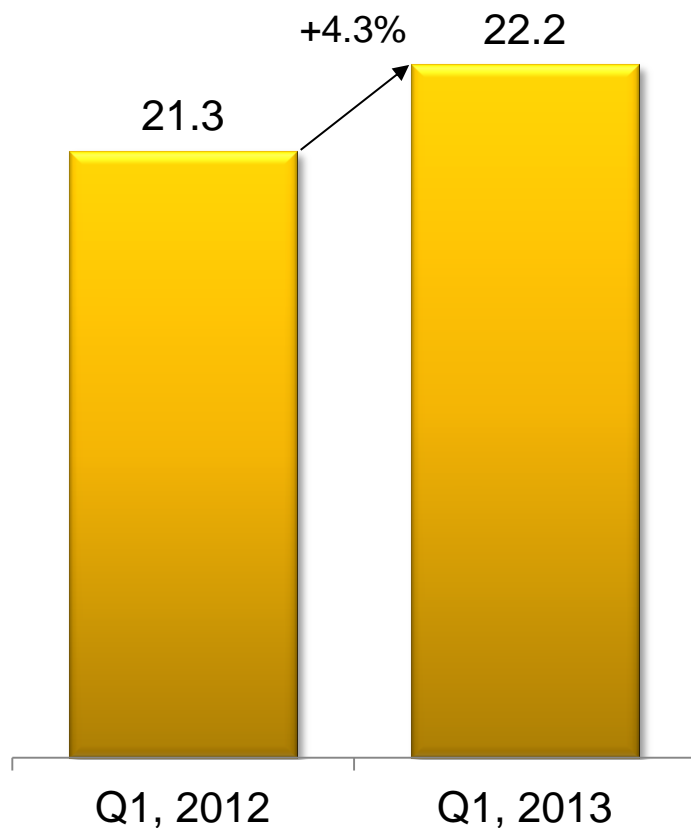
Note: Kaz. is Kazakhstan, Turk. is Turkey, Ukr. is Ukraine and Saudi is Saudi Arabia

Source: PMI Financials, PMI estimates and Nielsen



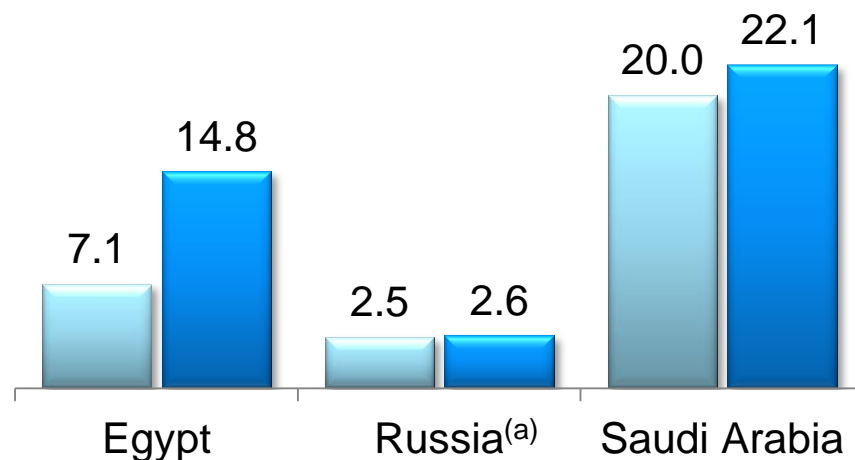
L&M: EEMA Region Driving Growth in Q1, 2013

Total Volume
(units billion)



Market Shares (%)

Q1, 2012
Q1, 2013



(a) YTD February

Source: PMI Financials, PMI estimates and Nielsen

EU Region: Volume Impacted by the Economic Crisis



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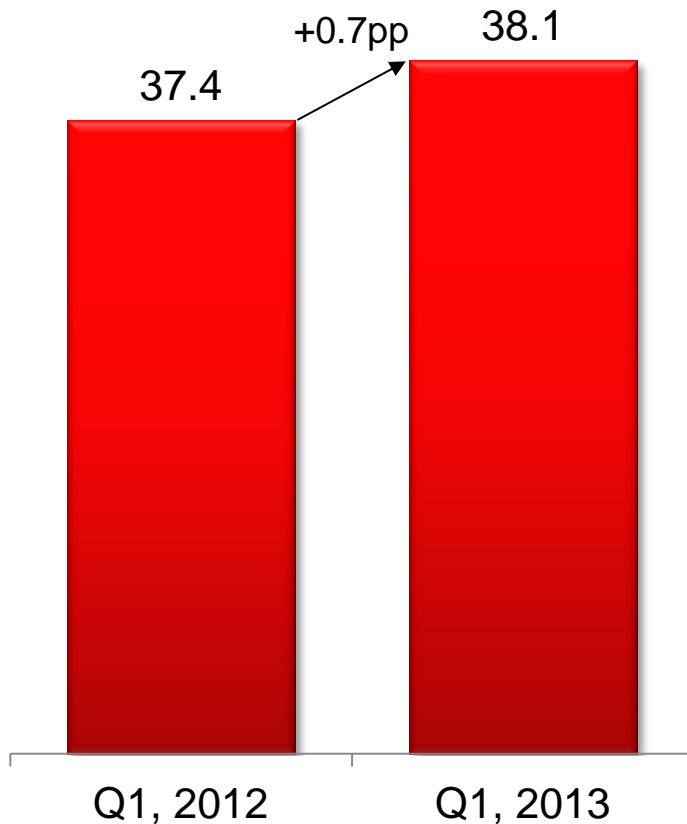
- Cigarette industry volume declined by 10.5% in Q1, 2013, driven by increased unemployment and weak consumer purchasing power
- Q1, 2013 cigarette volume decline exacerbated by:
 - Unfavorable trade inventory movements
 - Fewer selling days (no leap year)
 - Difficult comparison (Q1 was strongest quarter in 2012)
 - Consumer down-trading to fine cut
 - Growth of illicit trade
- We forecast a rate of decline in cigarette industry volume in 2013 broadly in line with last year

EU Region: PMI Gained Cigarette Share in Q1, 2013

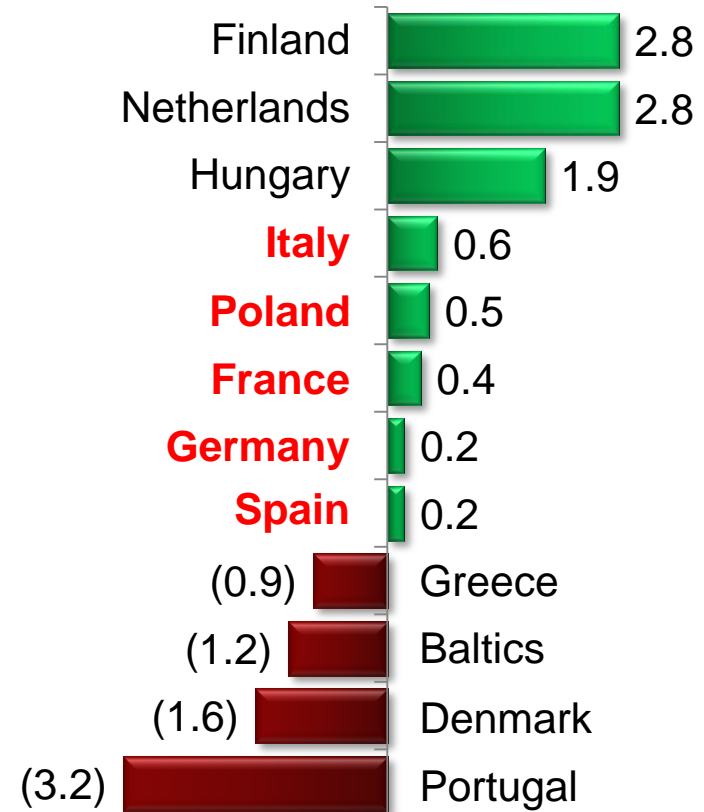


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PMI Cigarette Share (%)



PMI Cigarette Share Variance (pp)
(Q1, 2013 vs. Q1, 2012)





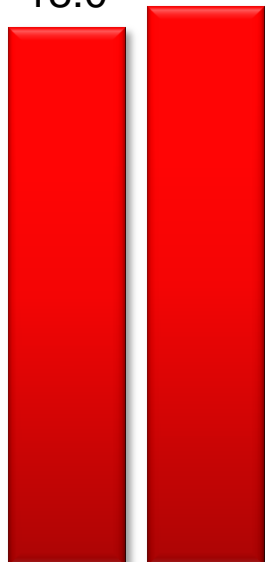
EU Region: Strong PMI Brand Performance

EU Region Cigarette Shares (%)

Marlboro

+0.7pp

18.0 18.7



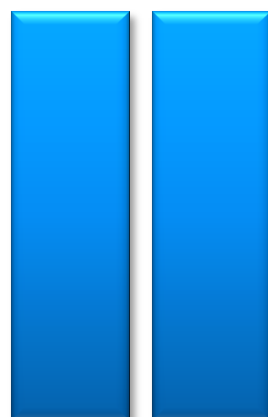
Q1 2012 Q1 2013

Ranking #1 #1

L&M

- pp

6.6 6.6



Q1 2012 Q1 2013

#2 #2

Chesterfield

+0.2pp

3.5 3.7



Q1 2012 Q1 2013

#7 #6

Philip Morris

+0.3pp

1.6 1.9



Q1 2012 Q1 2013

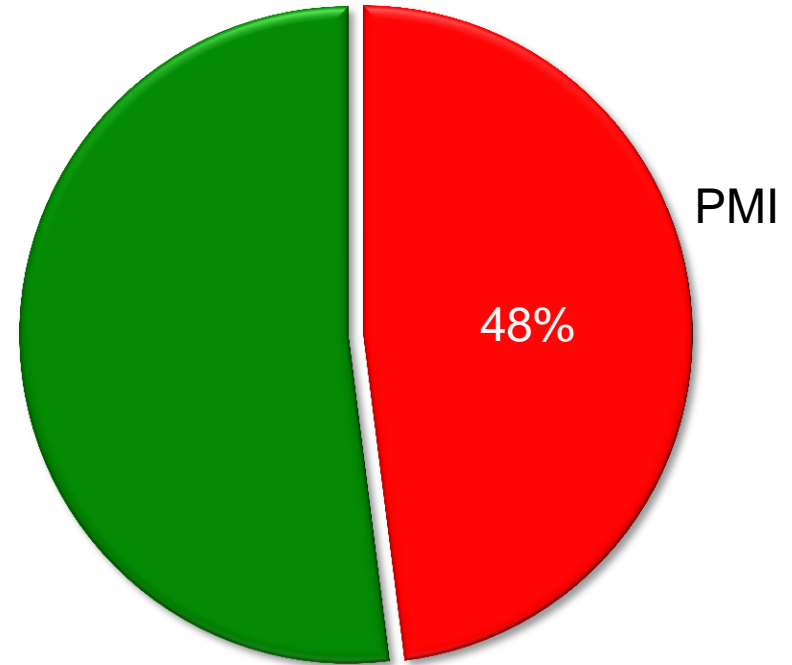
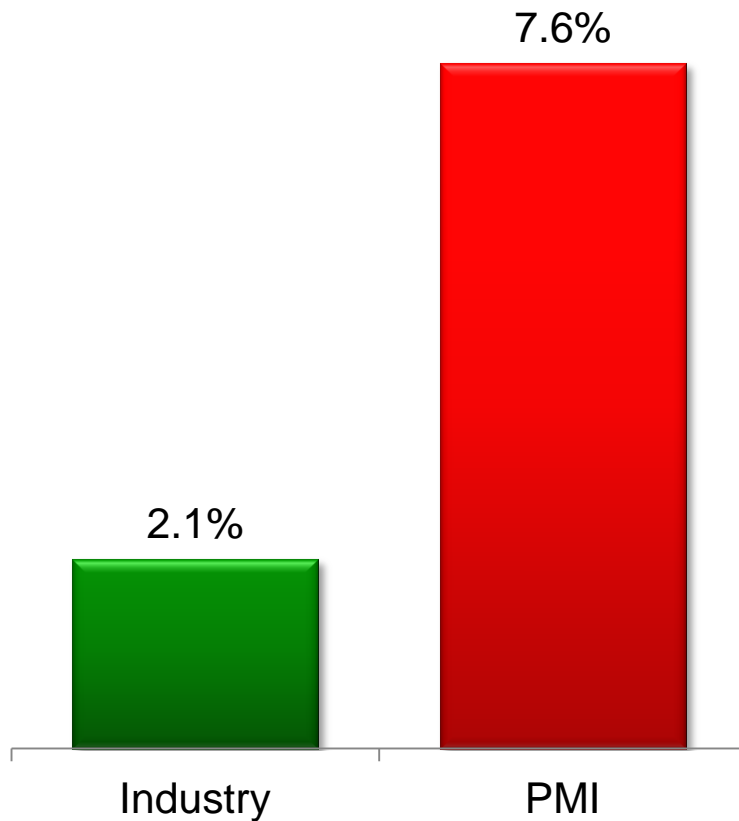
#16 #11

EU Region: Further PMI Gains in Fine Cut Category



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Fine Cut Volume Growth
(Q1, 2013 vs. Q1, 2012)



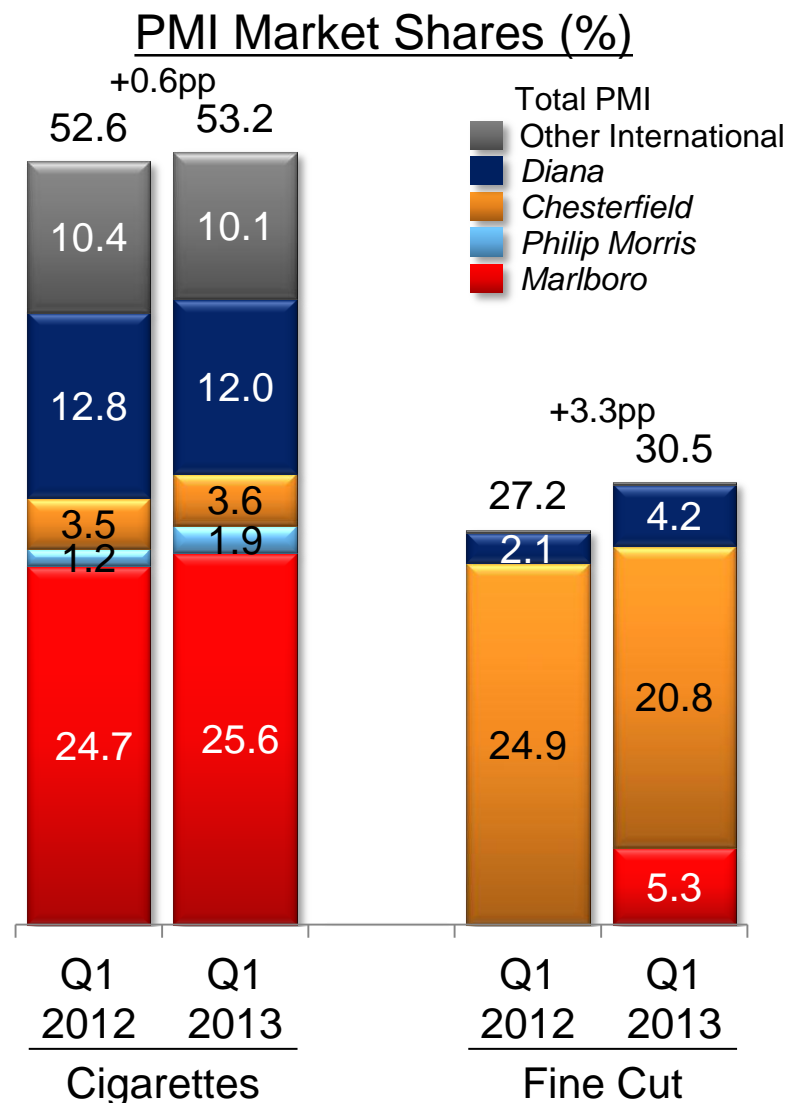
Incremental Fine Cut Industry Volume
(Q1, 2013 vs. Q1, 2012)

Italy: Robust PMI Performance Despite Economic Downturn



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- Q1, 2013 cigarette industry volume declined by 9.5%:
 - Lower consumer purchasing power
 - Incidence of illicit trade has doubled
- Cigarette volume decline rate should moderate if no VAT increase in July
- PMI business fundamentals are strong with share gains in cigarettes and fine cut, behind *Marlboro*

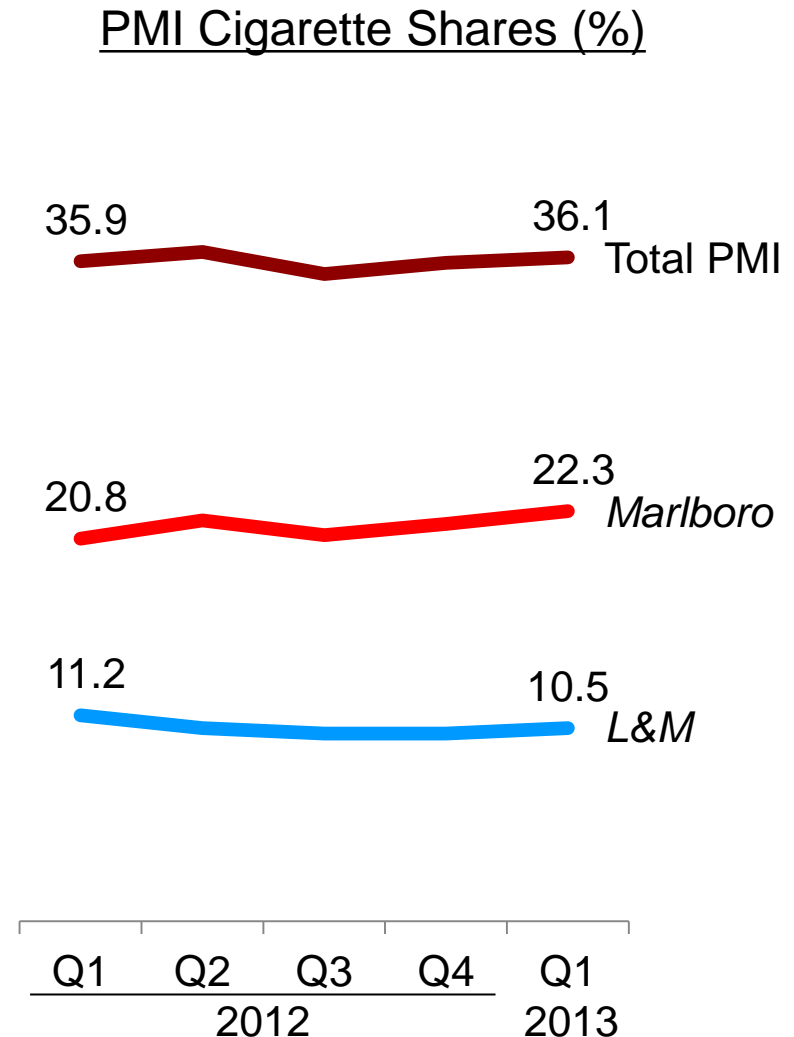


Note: VAT stands for value added tax
Source: PMI estimates



Germany: Strong *Marlboro* Performance

- Cigarette industry volume declined by 6.6% in Q1, 2013, though underlying decline was 2.8%
- Fine cut industry volume increased by 1.2% in Q1, 2013
- Strong performance of *Marlboro* in cigarette and fine cut categories
- We have announced a €0.20 per 19 cigarettes price increase across our portfolio

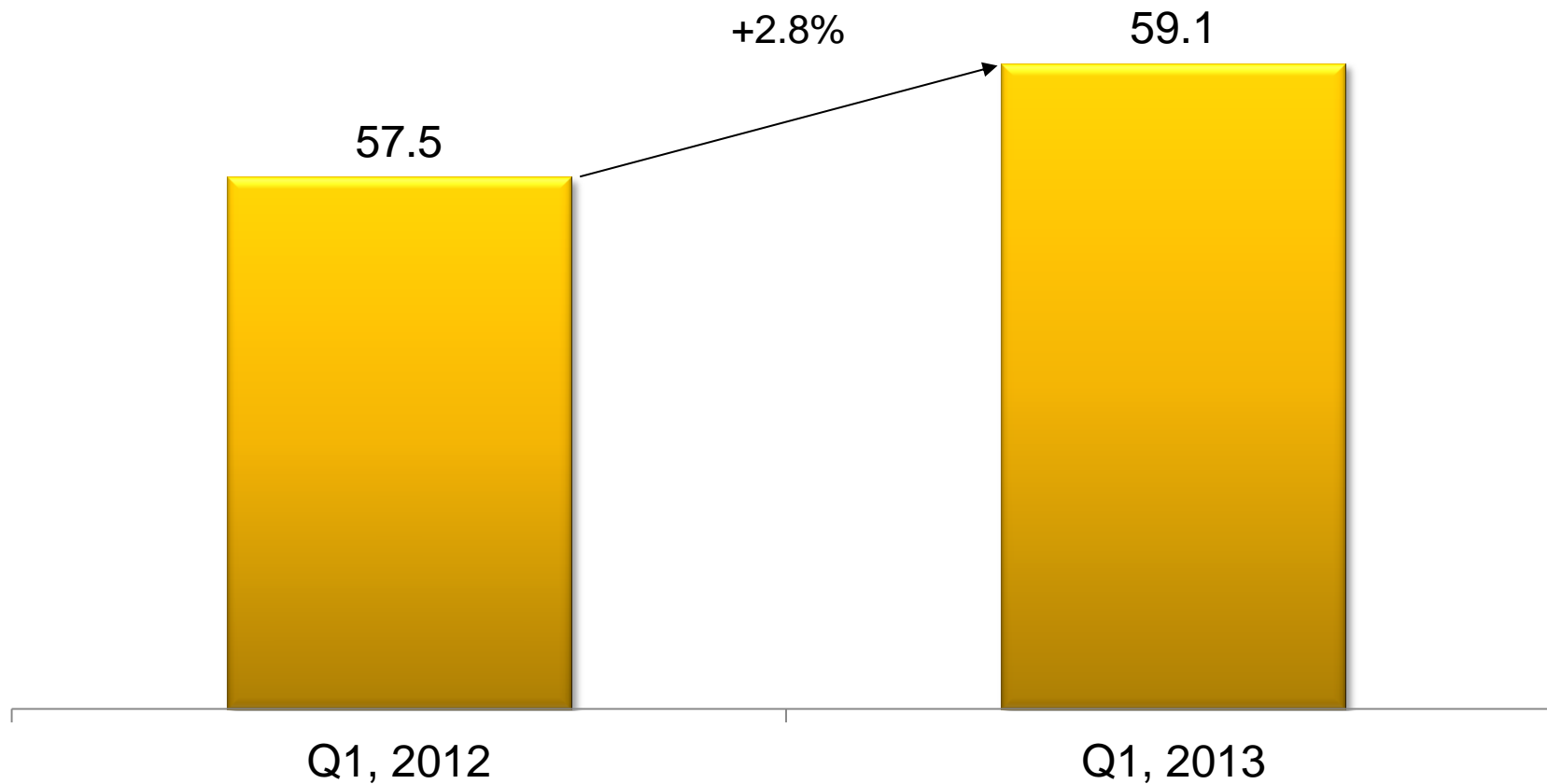


Asia Region: PMI Volume Growth Outside the Philippines



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PMI Organic Volume Growth (%)^(a)



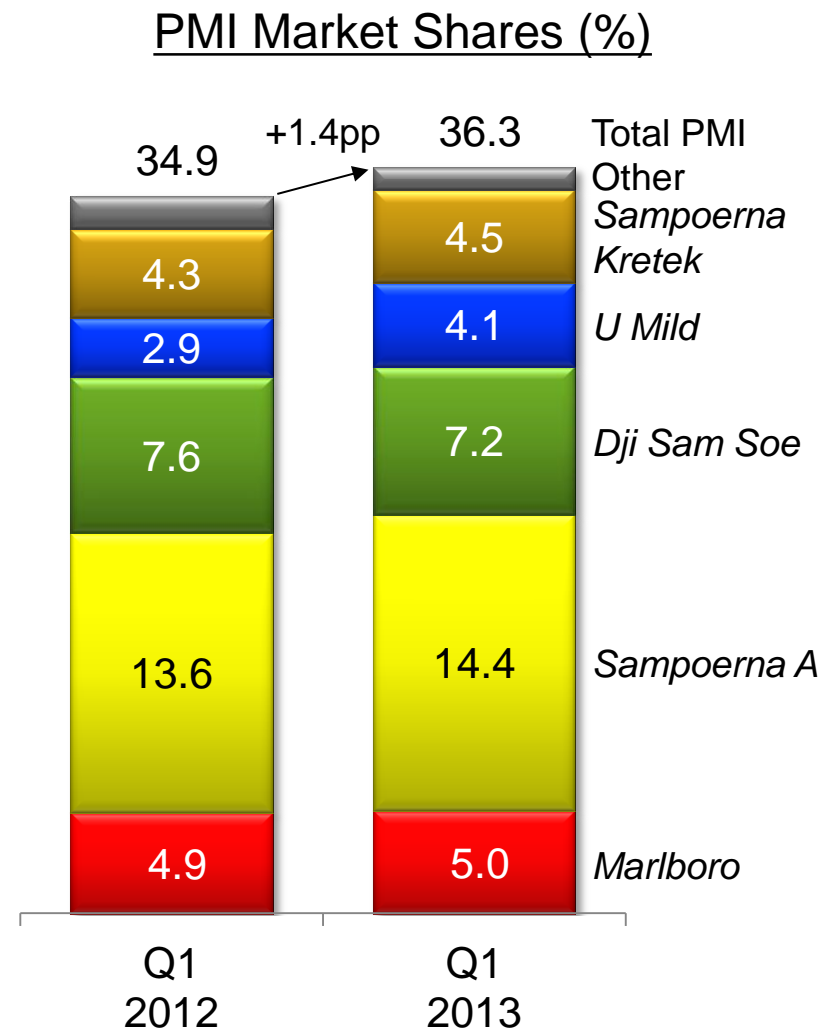
(a) Excluding the Philippines
Source: PMI Financials

Indonesia: Continued PMI Volume and Share Expansion



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- PMI volume grew by 4.9% in Q1, 2013
- PMI share growth driven by premium *Sampoerna A* and mid-price *U Mild*
- Industry volume up by 0.8% in Q1, 2013, reflecting comparison with 13.9% surge in Q1, 2012
- Full-year industry volume growth forecast at around 5-6%



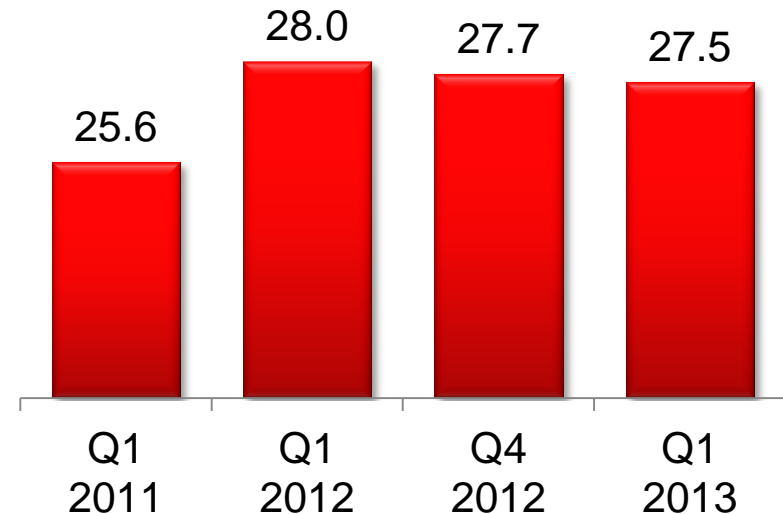


Japan: Solid *Marlboro* Performance

- Industry volume declined by 3.2% in Q1, 2013. We forecast a full-year underlying decline of around 2%
- PMI volume increased by 6.9% in Q1, 2013, reflecting favorable distributor inventory movements
- Solid *Marlboro* performance offset by the impact on *Lark* and the *Philip Morris* brand of intense competitive activities
- *Lark Ice Mint 5* and 1 (natural mint 100mm capsule variants) launched in March
- *Marlboro W-Burst 5* (innovative double capsule menthol variant) to be launched in May



PMI Market Share (%)





Philippines: Disruptive Excise Tax Increase

- New tax law as of January 2013:

Tax Tier	Net Retail Price (PHP/pack)	Share of Total Market 2012	Excise Tax (PHP/pack)						
			Old Law	New Law					
			<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018 onwards</u>
1	> 11.50	35%	12	25	27	28	29	30	+4% annually
2	≤ 11.50	65%	2.72	12	17	21	25		

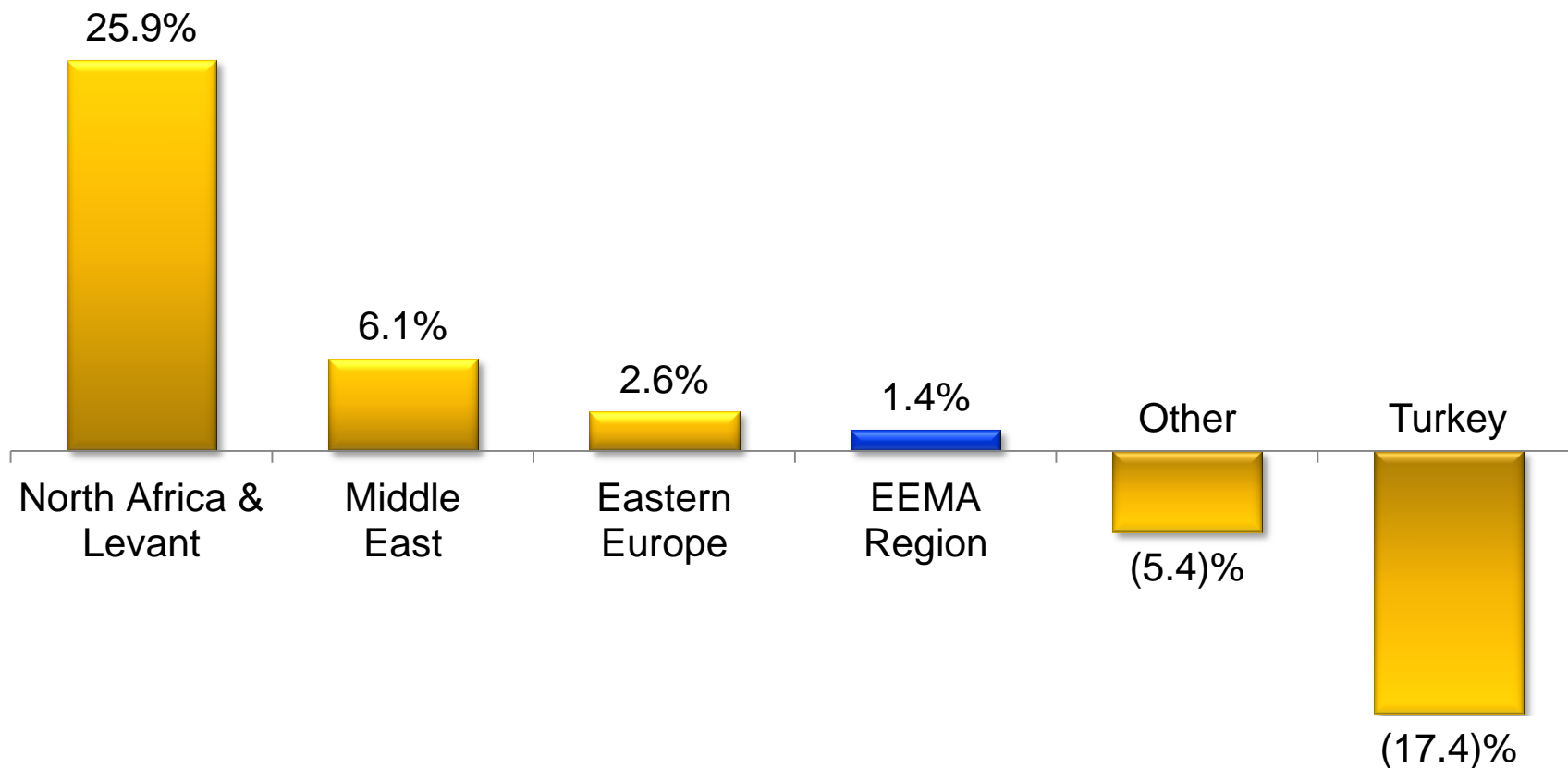
- We increased recommended retail prices of key brands by 60-70%
- PMI volume down by 42.5% in Q1, 2013, reflecting consumer and trade reactions, as well as a surge in illicit sales
- Industry volume forecast to decline by 20-25% in full-year 2013

EEMA Region: Continued Robust PMI Volume Growth



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PMI Volume Variance (Q1, 2013 vs. Q1, 2012)



Note: North Africa includes Algeria, Egypt, Libya, Morocco and Tunisia. Levant includes Jordan, Lebanon and the Palestine Authority Area (PAA). The Middle East includes Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates (UAE) and Yemen
Source: PMI Financials



Russia: Higher Margins Through Pricing

- Estimated industry volume decline of 5.5% in Q1, 2013 should moderate to around 3% for full-year
- PMI volume increased by 1.8% in Q1, 2013, reflecting favorable timing of shipments
- PMI share stable at 26.2% YTD February – *Parliament, L&M, Bond Street* and *Next* are growing

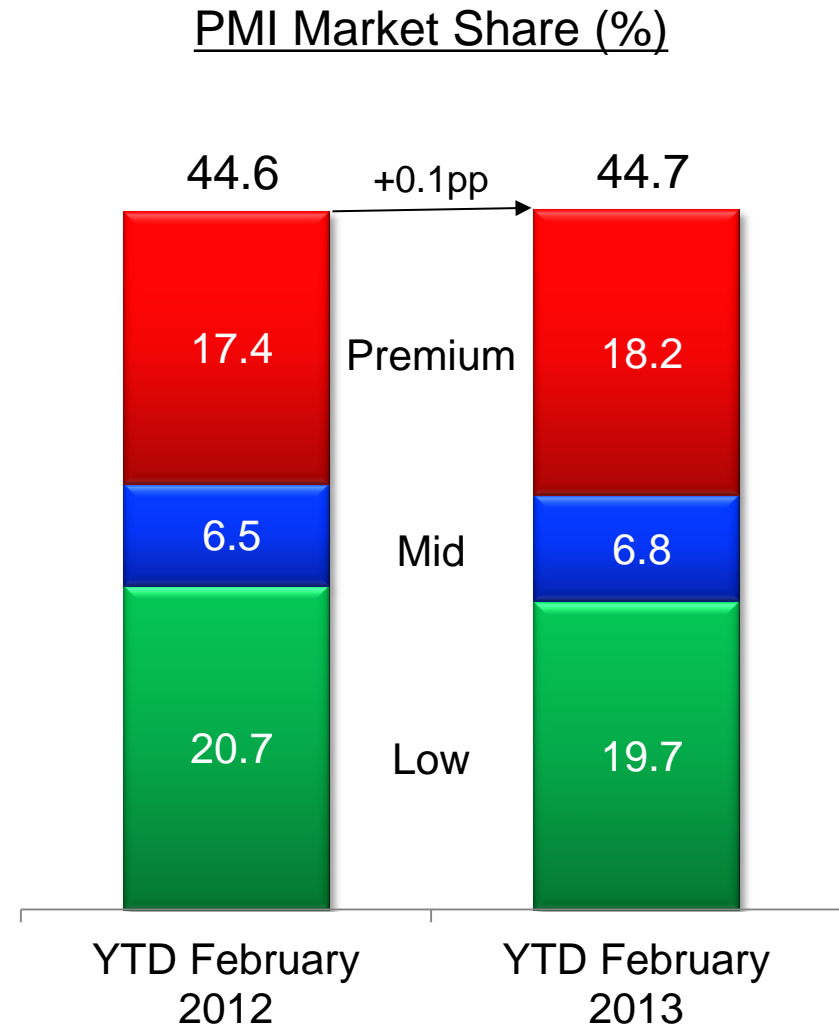
	RUB/pack		USD/pack
	January 2012	January 2013	January 2013
<i>Parliament</i>	72	82	\$2.68
<i>Marlboro</i>	60	70	\$2.29
<i>Chesterfield</i>	42	52	\$1.70
<i>L&M</i>	34	43	\$1.41
<i>Bond Street</i>	31	40	\$1.31
<i>Optima</i>	24	33	\$1.08





Turkey: Major Distortions in Q1, 2013

- Reversal of Q4, 2012 trade inventory build-up distorted industry and PMI volumes in Q1, 2013
- Full-year underlying industry volume expected to be relatively stable
- PMI share up slightly YTD Feb, 2013:
 - *Parliament* and *Muratti* growing in premium and mid-price
 - Low-price *L&M* and *Lark* unfavorably impacted by the lower prices of competing brands at the bottom end of the market





We Expect to Deliver Strong Results in 2013

- We believe we should be able to generate organic cigarette volume growth, excluding the Philippines
- We expect to again achieve the financial targets in our annual growth algorithm
- Our new reported diluted EPS guidance of \$5.55 to \$5.65 continues to reflect a growth rate of approximately 10% to 12% excluding currency, compared to our 2012 adjusted diluted EPS of \$5.22
- We anticipate strong free cash flow growth, excluding currency, in 2013
- We remain committed to generously rewarding our shareholders while judiciously investing in the business

Note: Free cash flow is defined as net cash provided by operating activities less capital expenditures

Source: PMI forecasts



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2013 First-Quarter Results

Questions & Answers

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



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Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS For the Year Ended December 31, (Unaudited)

	<u>2012</u>
Reported Diluted EPS	\$ 5.17
Adjustments:	
Asset impairment and exit costs	0.03
Tax items	0.02
	<u>0.05</u>
Adjusted Diluted EPS	<u>\$ 5.22</u>

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

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 Quarters Ended March 31,
(\$ in millions)
(Unaudited)

2013							2012					% 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		
\$ 938	\$ -	\$ 938	\$ (12)	\$ 950	\$ -	\$ 950	European Union	\$ 1,030	\$ -	\$ 1,030	(8.9)%	(7.8)%	(7.8)%	
935	-	935	(3)	938	-	938	EEMA	810	-	810	15.4%	15.8%	15.8%	
1,342	(3)	1,345	(103)	1,448	-	1,448	Asia	1,407	-	1,407	(4.4)%	2.9%	2.9%	
254	-	254	(4)	258	-	258	Latin America & Canada	237	(8)	245	3.7%	5.3%	5.3%	
\$ 3,469	\$ (3)	\$ 3,472	\$ (122)	\$ 3,594	\$ -	\$ 3,594	PMI Total	\$ 3,484	\$ (8)	\$ 3,492	(0.6)%	2.9%	2.9%	

2013							2012					% 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		
\$ 950	\$ 1,943	48.9%	\$ 950	\$ 1,943	48.9%	European Union	\$ 1,030	\$ 2,053	50.2%	(1.3)	(1.3)		
938	2,033	46.1%	938	2,033	46.1%	EEMA	810	1,835	44.1%	2.0	2.0		
1,448	2,911	49.7%	1,448	2,911	49.7%	Asia	1,407	2,777	50.7%	(1.0)	(1.0)		
258	800	32.3%	258	800	32.3%	Latin America & Canada	245	783	31.3%	1.0	1.0		
\$ 3,594	\$ 7,687	46.8%	\$ 3,594	\$ 7,687	46.8%	PMI Total	\$ 3,492	\$ 7,448	46.9%	(0.1)	(0.1)		

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

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

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 Quarters Ended March 31,
(Unaudited)

	<u>2013</u>	<u>2012</u>	<u>% Change</u>
Reported Diluted EPS	\$ 1.28	\$ 1.25	2.4%
Adjustments:			
Asset impairment and exit costs	-	-	
Tax items	0.01	-	
Adjusted Diluted EPS	\$ 1.29	\$ 1.25	3.2%
Less:			
Currency impact	(0.07)		
Adjusted Diluted EPS, excluding Currency	\$ 1.36	\$ 1.25	8.8%



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