



# PHILIP MORRIS

## I N T E R N A T I O N A L

**Andre Calantzopoulos**  
**Chief Operating Officer**  
**London, 27 June, 2008**

## **Safe Harbor Provisions**

- **The presentation may contain projections of future results and other forward-looking statements that involve a number of risks and uncertainties and are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995**
- **PMI is subject to other risks detailed from time to time in its publicly filed documents, including the Quarterly Report on Form 10-Q for the period ended March 31, 2008. PMI cautions that the list of important factors is not complete and does not undertake to update any forward-looking statements that it may make**

# Agenda

- **Company goals**
- **First quarter results**
- **Portfolio strategies for growth**
- **Key market updates**
- **Conclusions**

## **PMI Goals**

- **Top tier performance in global consumer packaged goods industry**
- **Strong, predictable and consistent growth**
- **Enhanced cash flow generation**
- **Superior shareholder returns**

# PMI vs. Global Consumer Companies

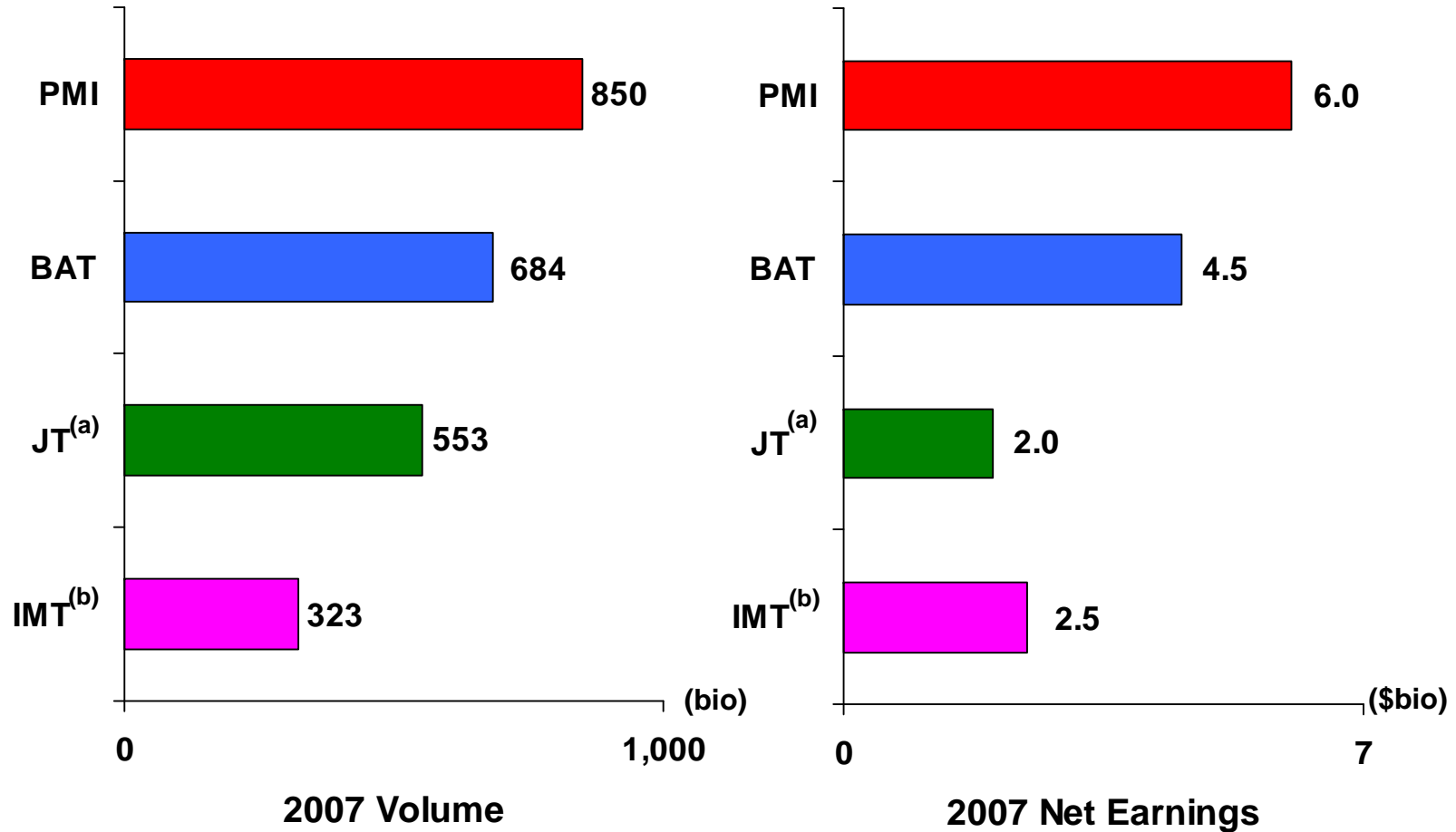
PMI is one of the most profitable consumer packaged goods companies in the world as summarized below:

<i>(In millions)</i>	<u>FY 2007 Net Earnings</u>
Procter & Gamble	\$10,340
Nestle	\$8,904
Unilever <sup>(a)</sup>	\$6,034
<b>Philip Morris International<sup>(b)</sup></b>	<b>\$6,026</b>
Coca-Cola	\$5,981
PepsiCo	\$5,658
BAT <sup>(c)</sup>	\$4,539
Altria <sup>(d)</sup>	\$3,131
Diageo <sup>(e)</sup>	\$3,126
Kraft <sup>(f)</sup>	\$2,590

*(a) €4,136 as of Dec. 31, 2007 at \$1.459 = €1.00; (b) Assumes distribution from Altria on Jan. 1, 2007; (c) £2,287 as of Dec. 31, 2007 at \$1.9849 = £1.00; (d) Assumes distribution of PMI and Kraft on Jan. 1, 2007; (e) £1,556 as of June 30, 2007 at \$2.0088 = £1.00; (f) Assumes distribution from Altria on Jan. 1, 2007*

*Source: Company Filings*

# PMI vs. Competition (2007)



(a) Per JT's reported figures with domestic business incorporated from Apr. 07 to Mar. 08 and international business incorporated from Jan. 07 to Dec. 07 (Gallaher was acquired as of Apr. 18, 2007 and as such is only consolidated for the period April 18, 2007 to December 31, 2007).

(b) Internal estimates with Altadis consolidated according to Imperial's reporting period as if Altadis had been acquired on Oct. 1<sup>st</sup> 2006.

## **Strong Performance 2003-07**

<b>(bio)</b>	<b><u>2003</u></b>	<b><u>2007</u></b>	<b><u>Variance</u></b>	<b><u>CAGR</u></b>
<b>Volume</b>	<b>736</b>	<b>850</b>	<b>114</b>	<b>3.7%</b>
<b>Net Revenues<sup>(a)</sup></b>	<b>\$16.0</b>	<b>\$22.8</b>	<b>\$6.8</b>	<b>9.3%</b>
<b>Operating Income</b>	<b>\$6.2</b>	<b>\$8.9</b>	<b>\$2.7</b>	<b>9.5%</b>
<b>Net Earnings</b>	<b>\$4.0</b>	<b>\$6.0</b>	<b>\$2.0</b>	<b>10.7%</b>

*(a) Excluding excise taxes*  
Source: PMI Financials

## Strong First Quarter Performance

<b>(bio)</b>	<b><u>Q1, 2007</u></b>	<b><u>Q1, 2008</u></b>	<b><u>% Change</u></b>
<b>Volume</b>	<b>213</b>	<b>218</b>	<b>+2%</b>
<b>Net Revenues<sup>(a)</sup></b>	<b>\$5.5</b>	<b>\$6.3</b>	<b>+14%</b>
<b>Operating Income</b>	<b>\$2.1</b>	<b>\$2.8</b>	<b>+32%</b>
<b>Net Earnings</b>	<b>\$1.4</b>	<b>\$1.9</b>	<b>+29%</b>
<b>Diluted EPS<sup>(b)(c)</sup></b>	<b>\$0.68</b>	<b>\$0.89</b>	<b>+31%</b>

(a) Excluding excise taxes

(b) Dollars per share

(c) Pro forma for Q1, 2007

Source: PMI Financials

## **Strong First Quarter Performance**

- **Reported OCI was up by \$683 million, including \$255 million in favorable currency**
- **Excluding currency, acquisitions and divestitures, OCI increased by 17.5%**
- ***Marlboro* volume up in three of four regions**
- **Eight of next ten largest PMI international brands grew**
- **PMI volume up in three of four regions**
- **All regions reported higher net revenues and OCI**
- **Favorable pricing**
- **Lower costs from productivity gains and timing of spending**
- **Unfavorable volume and mix**

## **Longer-Term Annual Growth Targets**

- **Volume:** 1-2%
- **Net revenues<sup>(a)</sup>:** 4-6%
- **Operating income:** 6-8%
- **EPS:** 10-12%

## **Strategies for Growth**

- **Drive growth of our leading brand portfolio through enhanced consumer understanding and innovation**
- **Reinforce our position in profitable consumer segments**
- **Expand geographically**
- **Pursue opportunities for margin improvement**
- **Obtain a fair and reasonable regulatory and fiscal environment**
- **Improve organizational effectiveness and generate productivity savings**
- **Effectively utilize our strong and growing cash flow to increase shareholder returns**
- **Attract, motivate and retain the best global talent**

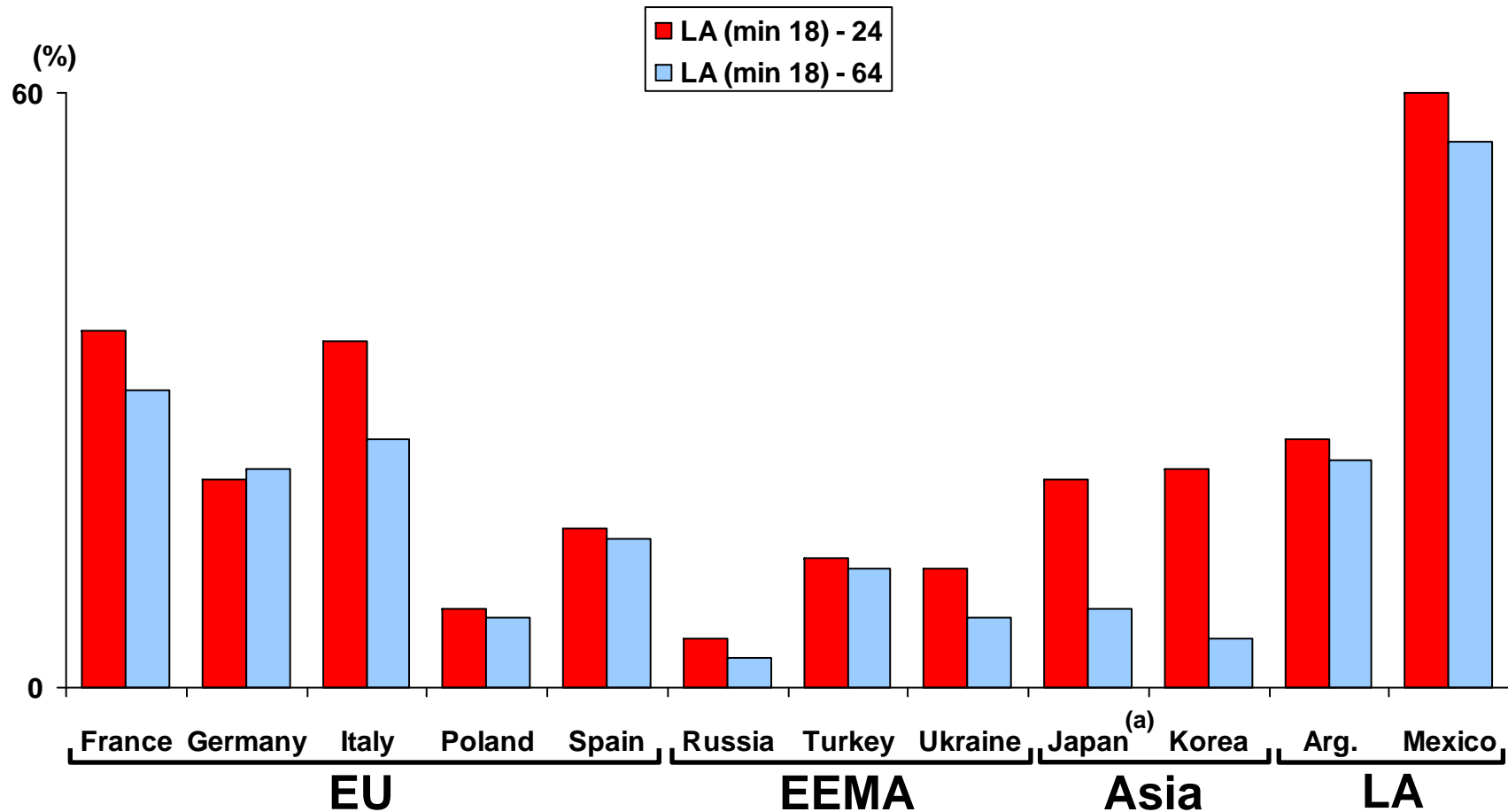
## **Segmentation**

- **Premium: PMI estimated share of 52% in 2007**
- **Mid-price: PMI estimated share of 22% in 2007**
- **Low-price: PMI estimated share of 21% in OECD markets in 2007**
  
- **Menthol: Key growth segment, where PMI is market leader**
- **Slims: Growing niche opportunity in several markets**

## ***Marlboro Volume Performance***

	<u><b>Q1, 2008</b></u>
<b>PMI</b>	<b>- 1%</b>
<b>EU</b>	<b>- 8%</b>
<b>EEMA</b>	<b>+ 3%</b>
<b>Asia</b>	<b>+ 3%</b>
<b>Latin America</b>	<b>+ 6%</b>

# Marlboro Smoker Profiles (2007)



(a) Japan data for Q4 only based on new research methodology  
 Source: PMI General Consumer Tracking Survey for 2007

## ***Marlboro Strategy***

- **New brand architecture with differentiated identities**
- **Build and expand innovation pipeline**
- **Leverage scale and worldwide leadership**

## ***Marlboro* Brand Architecture**

- ***Marlboro* Red will continue to be anchored on its unique rich flavor**
- ***Marlboro* Gold will become the brand that explores new dimensions in smoking**
- ***Marlboro* Fresh will be the brand that provides refreshing sensations**
- **Packaging upgrades, line extensions, effective consumer communications and continued quality improvements**

## ***Marlboro Innovation***

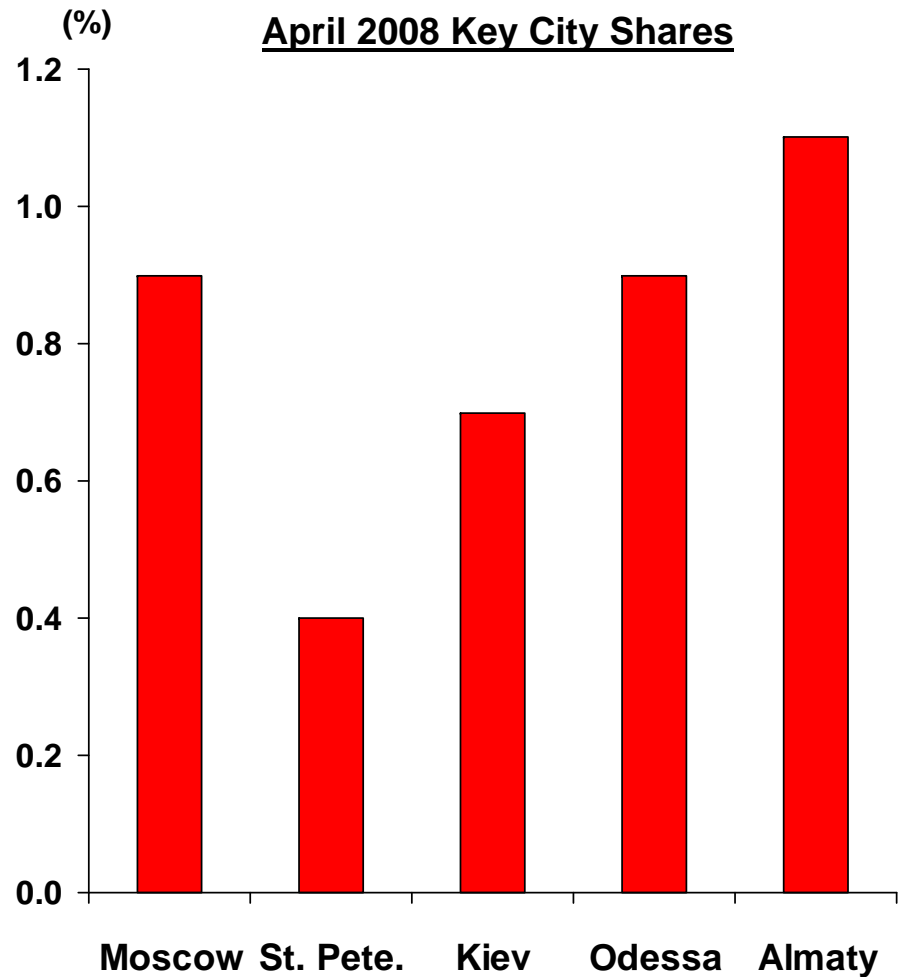
- **PMI is intensifying its innovation**
- **Key initiatives include *Wides, Filter Plus, Intense,* kretek and menthol**
- **Consumer research confirms modernity perception of brand family is improving**
- **Innovation is reinforcing *Marlboro's* brand equity**

## ***Marlboro Filter Plus***

- **Unique four chamber filter including tobacco plug for flavor**
- **Innovative slide pack**
- **Flavorful alternative that builds on *Marlboro* heritage**
- **Generally sold at a premium**
- **First launched in Korea in late 2006, where *Marlboro* family reached record 4.5% market share in Q1, 2008**

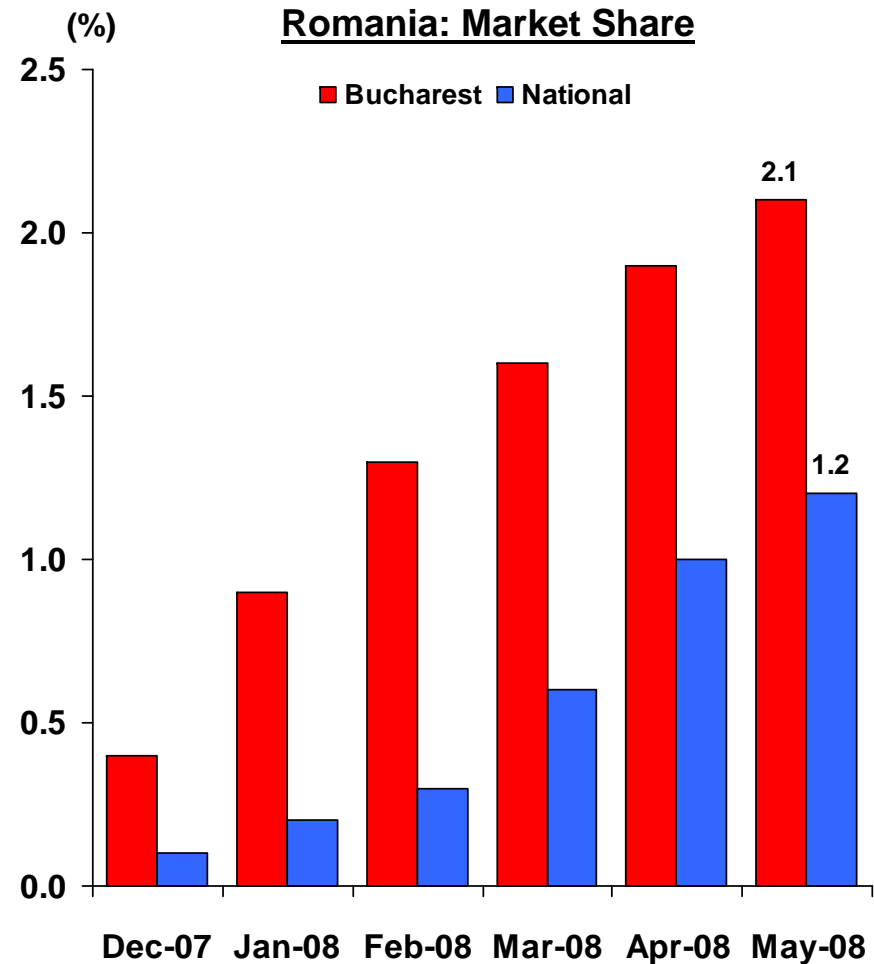
## Marlboro Filter Plus

- Introduced in selected Eastern European cities during 2007
- Good smoker shares and consumer profiles



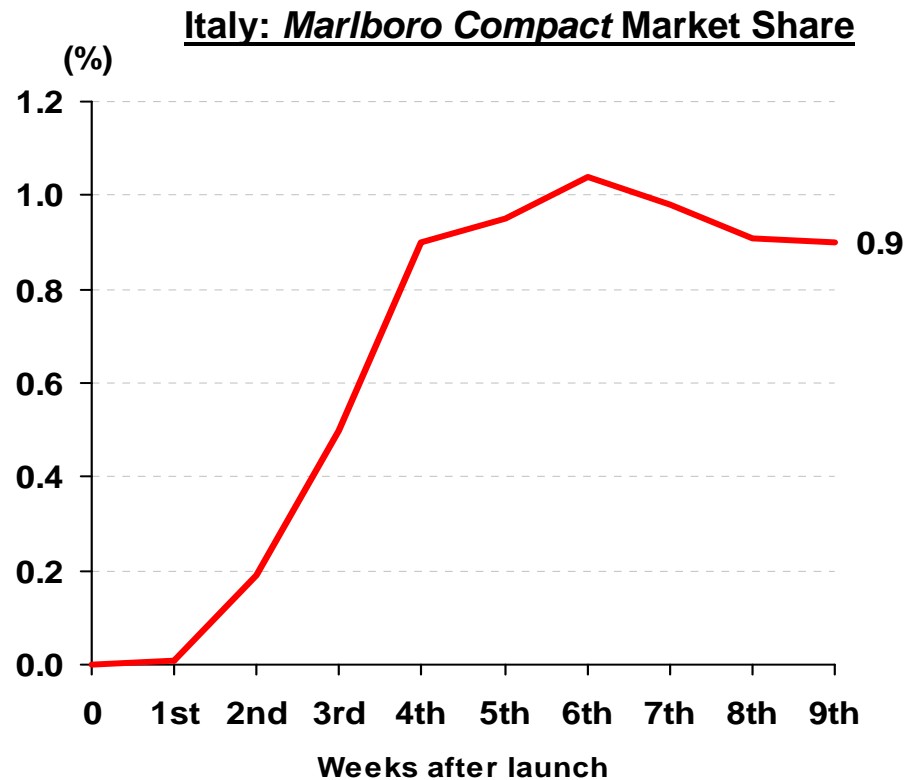
## Marlboro Filter Plus

- Excellent results in Romania
- Kuwait market share of 2.4% in April
- Launched in May in Greece
- Additional markets planned



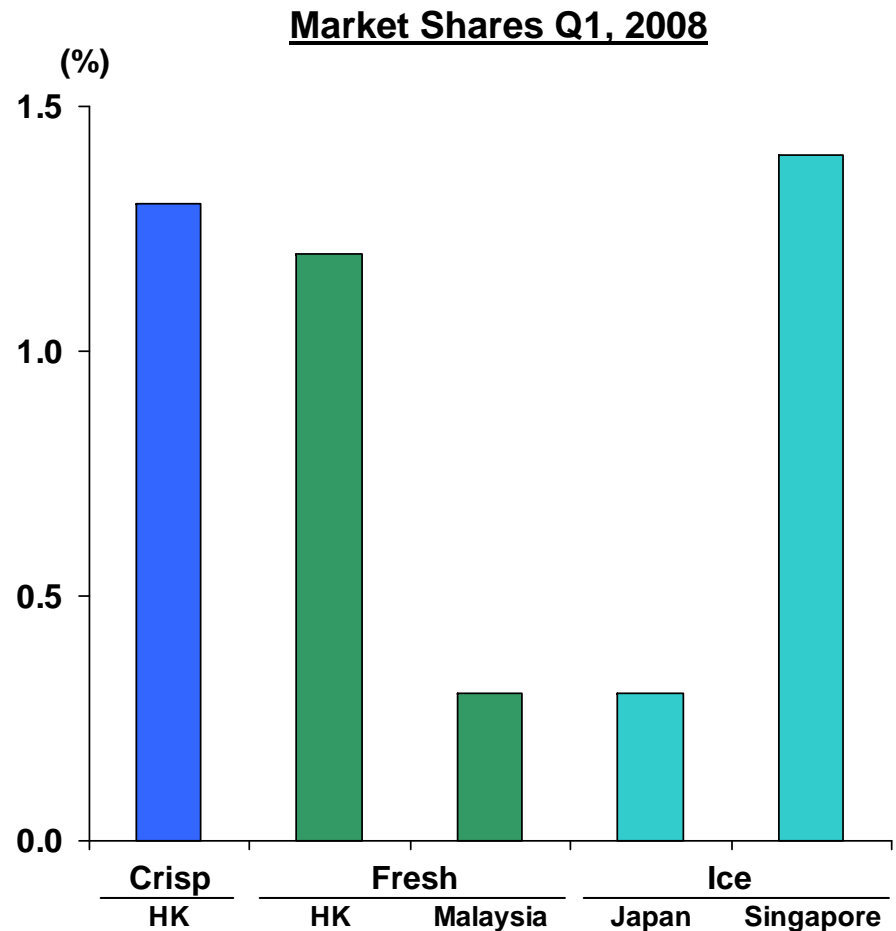
## Marlboro Intense

- A rich, flavorful, shorter cigarette
- First launched in Turkey and now in Belgium and the Netherlands
- *Marlboro Compact* in a silver pack in Italy



## Marlboro Refreshing Sensations

- Goal is to support our leading position in menthol and expand the segment
- Crisp, Fresh and Ice Mint launched in Asia and Latin America

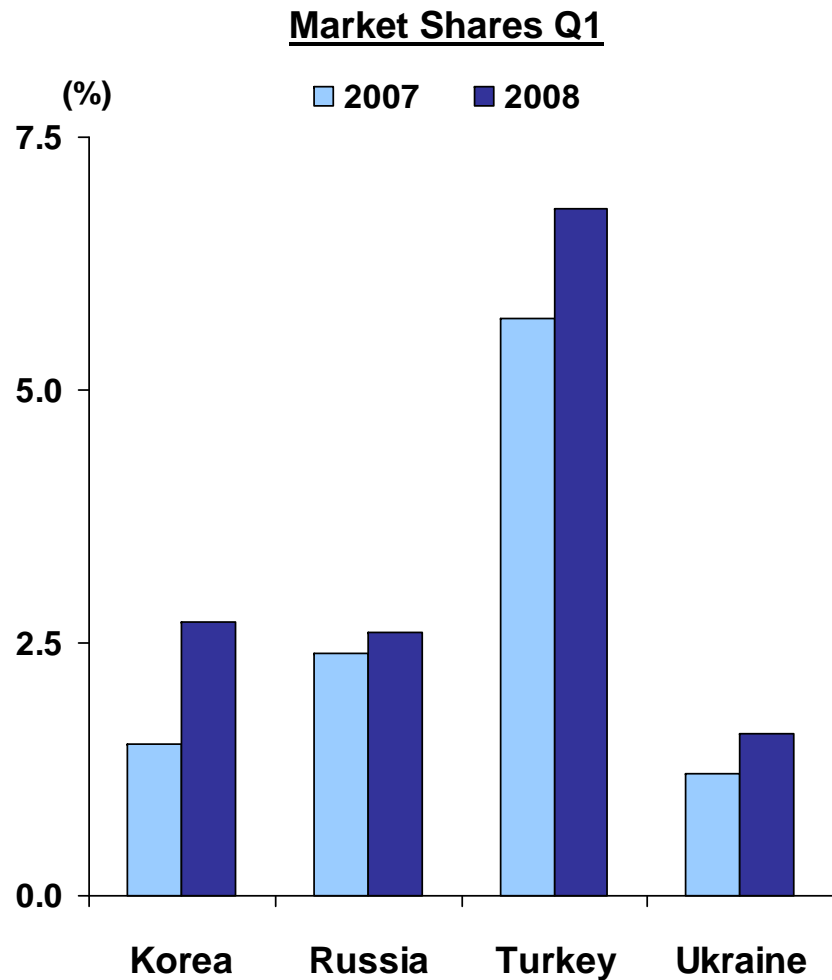


## ***Parliament***

- **Prestige brand with unique recessed filter**
- **Generally above premium price with superior margins**
- ***Parliament* volume grew by 19% in Q1, 2008**

# Parliament

- Key growth markets are Korea, Russia, Turkey and Ukraine
- Super-premium *Parliament Platinum*

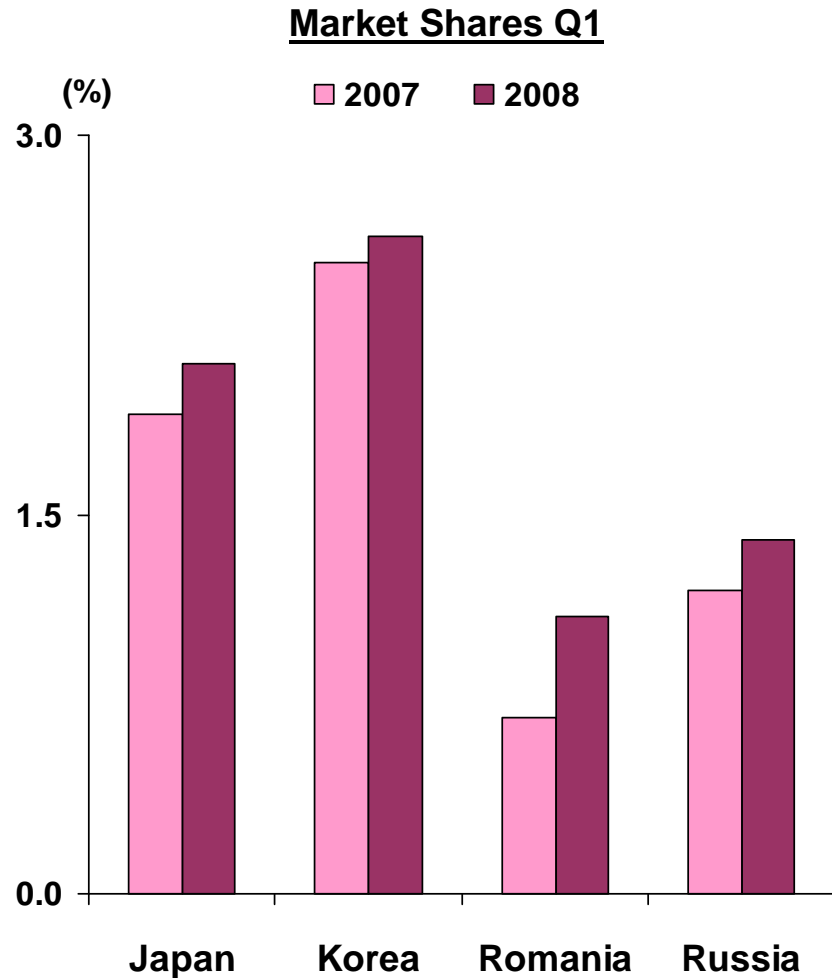


## ***Virginia Slims***

- **Stand alone slims and super slims product**
- ***Virginia Slims* volume grew by 14% in Q1, 2008**
- ***Virginia Slims Noire* performing well in Japan**
- **Unique *Virginia Slims Uno* pack format promoting modern image across our regions**

## Virginia Slims

- Key growth markets are Japan, Korea, Romania and Russia
- Introduced in a number of EU markets

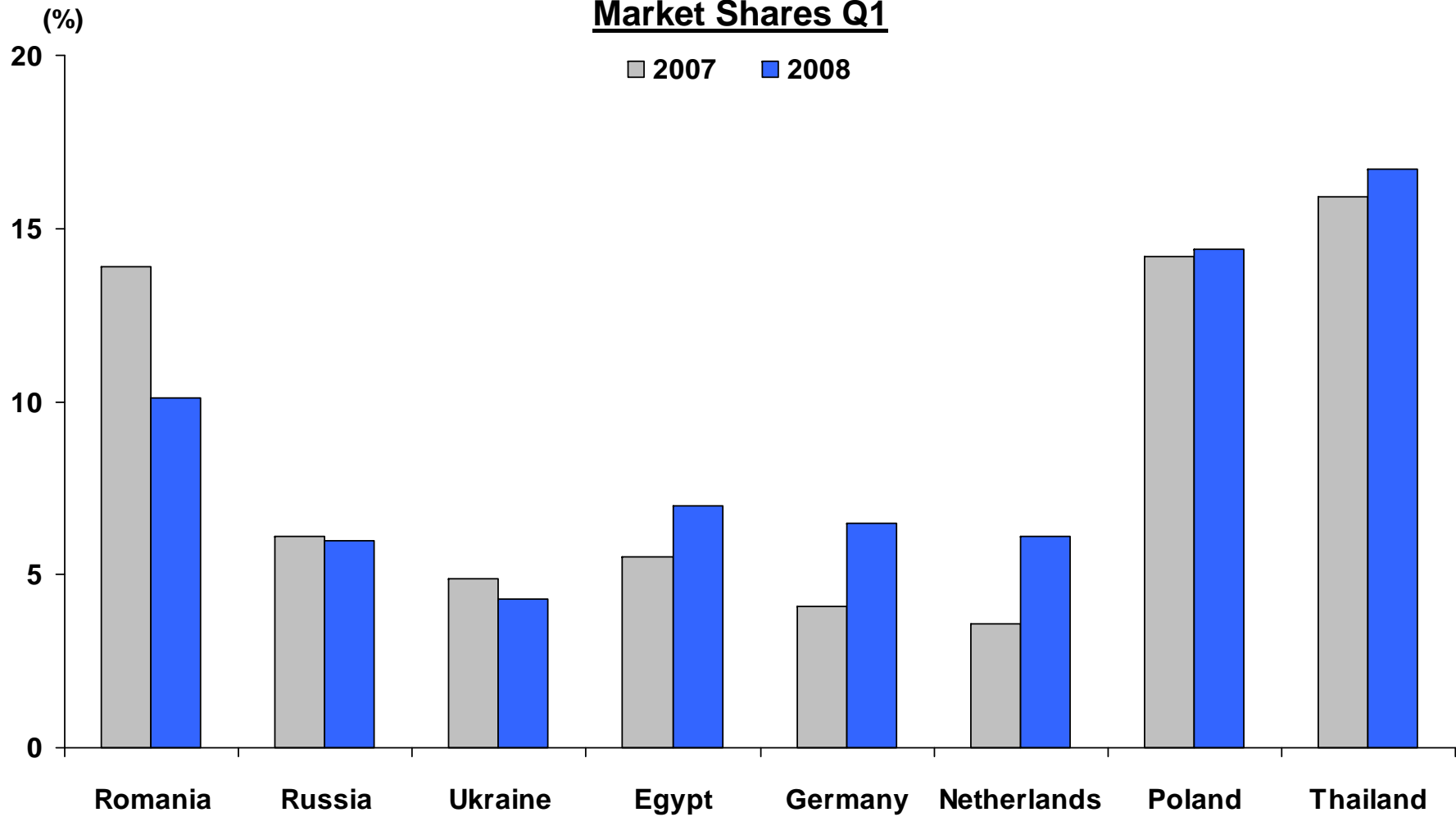


## **L&M**

- **Repositioned as “the progressive international mid-price brand delivering smooth taste”**
- **New product, pack and campaign**
- **Re-launched in 2007 focusing on Romania, Russia and Ukraine**
- **Initial consumer research results are promising**

# L&M

## Market Shares Q1

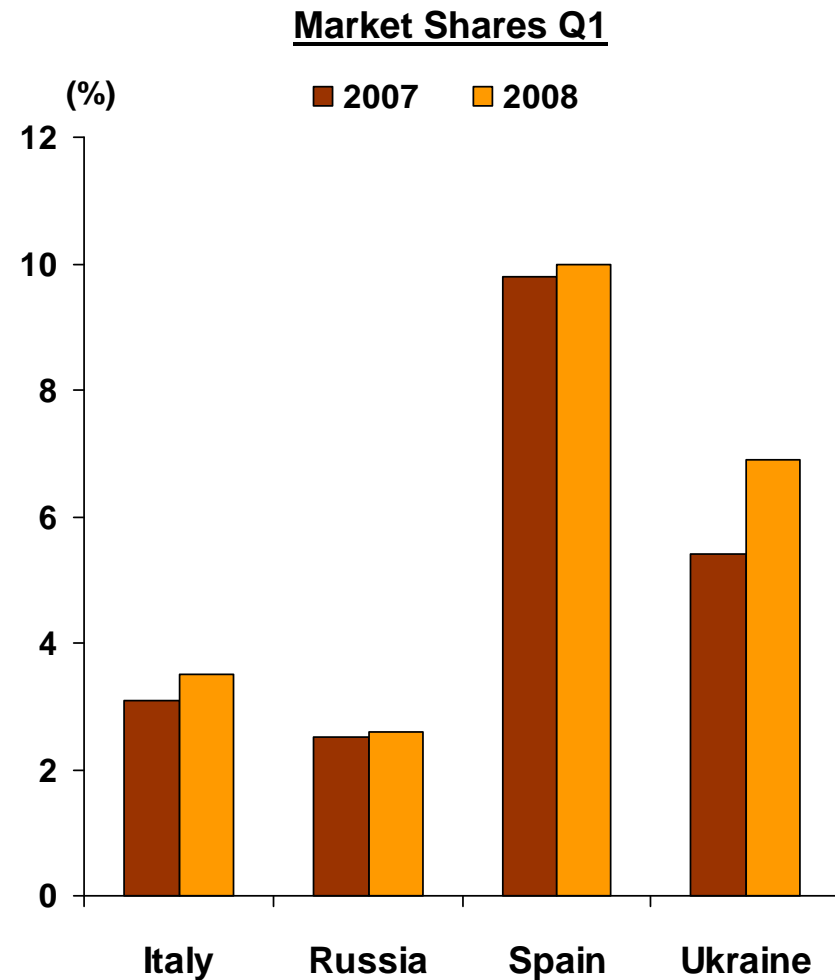


## ***L&M***

- ***L&M* is growing in the EU, where it is the second largest brand behind *Marlboro***
- **New product offer being expanded to additional markets**
- **Slimmer line extensions**

# Chesterfield

- **Chesterfield volume grew by 18% in Q1, 2008**
- **Key markets are Italy, Russia, Spain and Ukraine**



## ***Philip Morris***

- ***Philip Morris* brand volume increased by 5% in Q1, 2008**
- **Adapted to local consumer requirements**
- **Argentina and Japan are key growth drivers**
- **Low-odor variants launched in Switzerland**

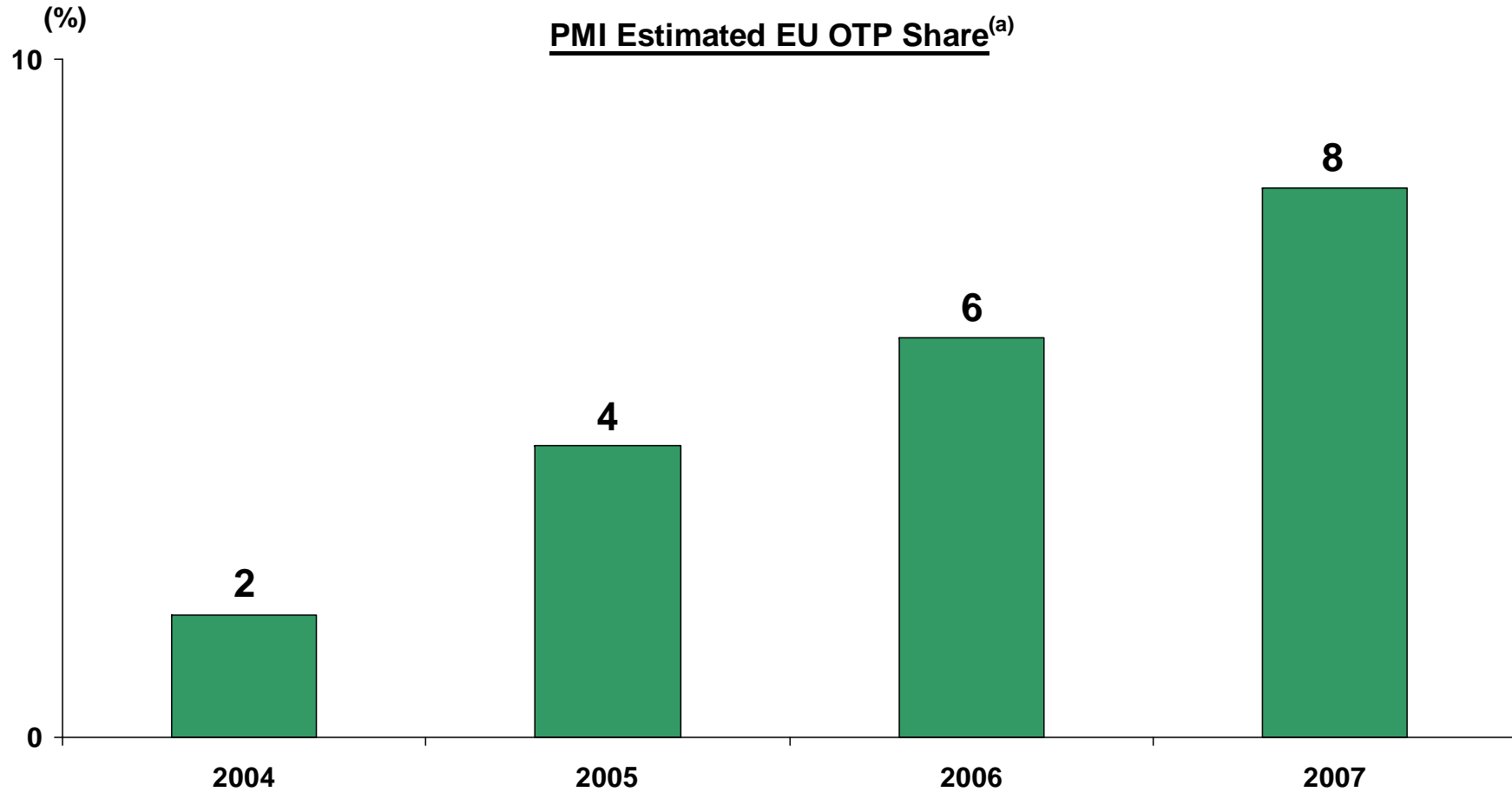
## ***Muratti***

- ***Muratti* volume up 5% in Q1, 2008**
- **Russia and Turkey are key growth drivers**
- **Slimmer line extensions**

## **Low-Price Brands**

- **PMI reinforcing its position in profitable low-price segments**
- ***Bond Street* and *Next* volume up in first quarter**
- **Vibrant local heritage brands in several markets**

# Other Tobacco Products



(a) RYO/MYO and pipe, exc.l tobacco portions  
Source: PMI estimates

## **Business Development**

- **Acquisition of leading French RYO brand *Interval***
- **PMI actively pursuing other opportunities that are strategically and financially attractive in cigarettes and other tobacco categories**
- **PMI has an excellent track record in acquiring and integrating companies**

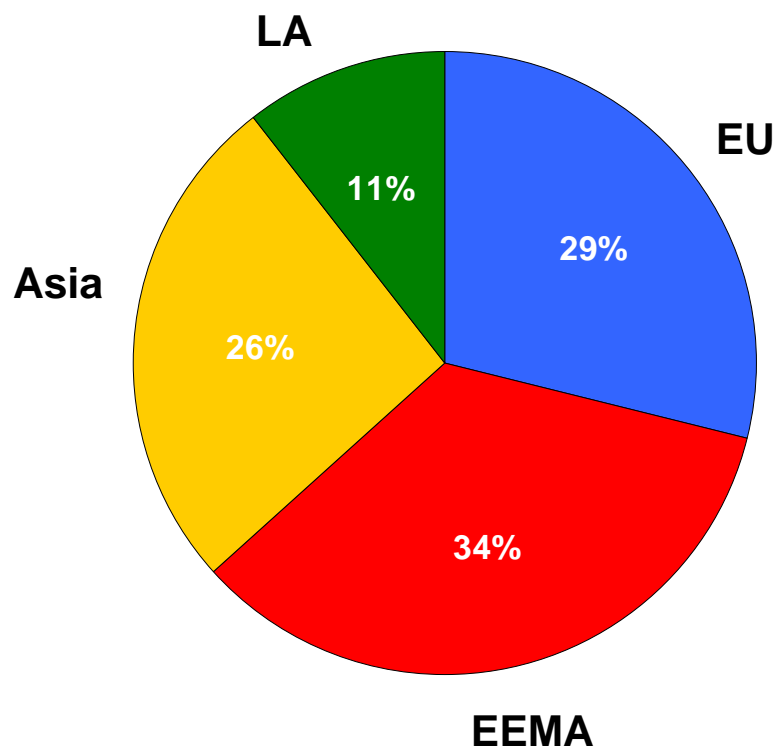
## **Regulatory Environment**

- **More restrictive but manageable regulatory environment**
- **PMI has a successful track record of competing effectively in highly regulated markets**
- **Regulation can create a level playing field and help address illicit trade and youth smoking**
- **Product regulation needs to be based on sound scientific evidence**
- **PMI strongly opposed to generic packaging**

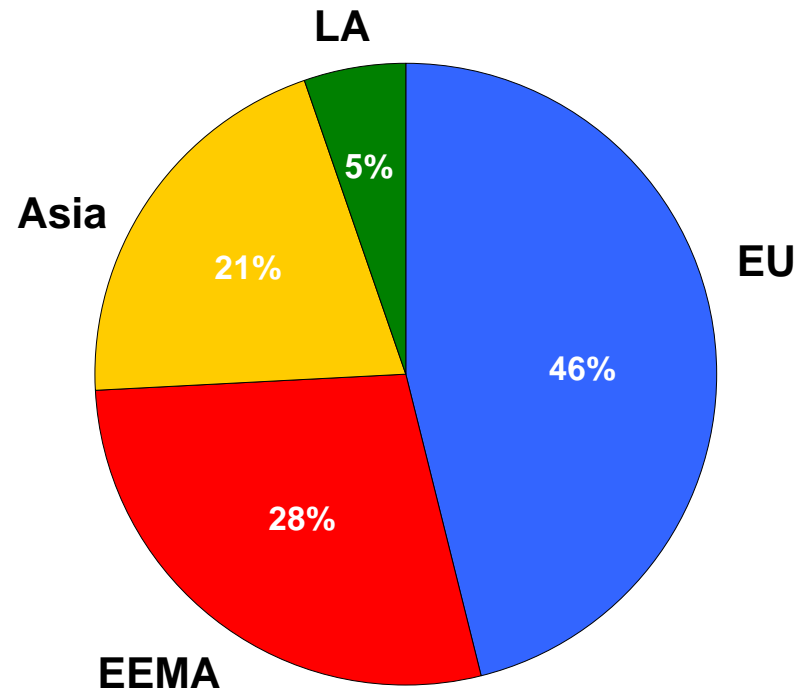
## **Fiscal Environment**

- **Fairer and more predictable excise tax environment**
- **Appropriate excise tax structures in place in most of our top 25 OCI markets**

# PMI Segment Profile



Q1, 2008 Volume



Q1, 2008 OCI

## **Italy Business Update**

- **Industry volume in 2007 down 1.1% at 93 billion units**
- **Total market down 1.5% in Q1, 2008**
- **PMI share increased to 54.7% in Q1 driven by *Chesterfield, Diana and Merit***
- **Premium brands under pressure due to price point**
- **Launch of *Marlboro Compact***

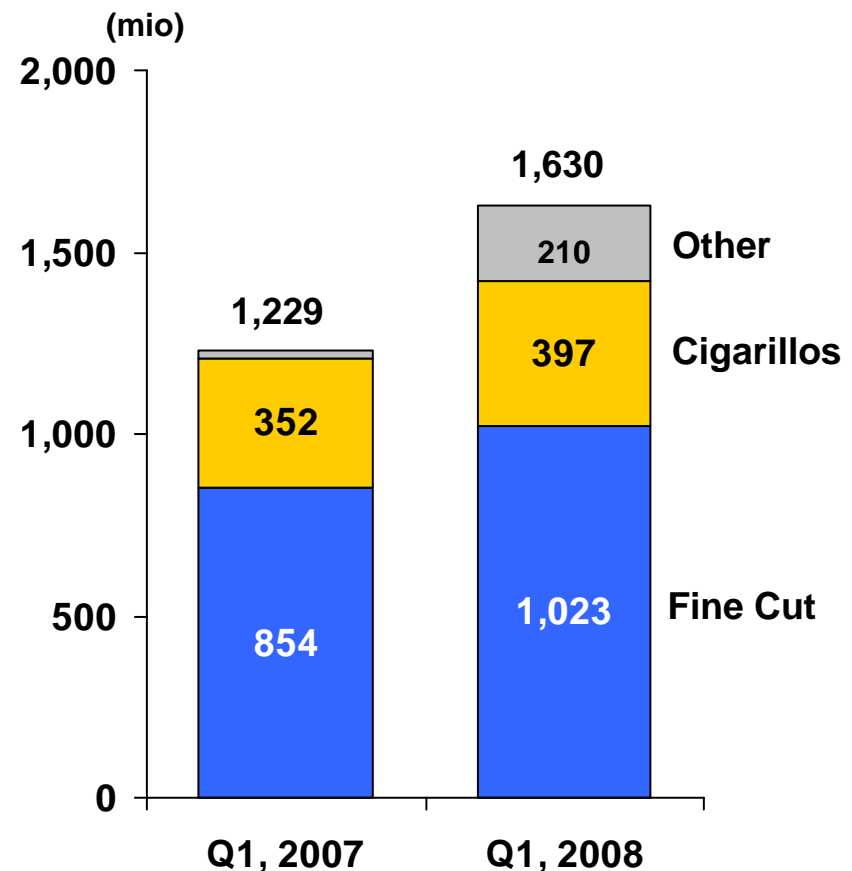
## **Germany Business Update**

- **Cigarette industry volume down 4.0% in 2007 at 89 billion units**
- **Cigarette market down about 6% on an adjusted basis in Q1, 2008, driven by smoking restrictions**
- **PMI adjusted cigarette market share reached 36.7% in Q1, up 0.9pp, driven by strong *L&M* growth**

## Germany Business Update

- **OTP accounted for 30% of tobacco market in Q1, 2008**
- **PMI fine cut share up 2.6 share points in Q1 thanks to innovation behind *Next* and *L&M***

Germany: PMI OTP Volume<sup>(a)</sup>



(a) In million units equivalent

## France Business Update

- Industry volume down 1.5% in 2007 to 55 billion units
- Higher prices and extended public smoking restrictions as of January 2008 driving a 5.0% market decline in the first quarter
- Premium brands under pressure due to price points
- PMI share down 2.4pp at 40.9% in Q1, but now stable
- *Virginia Slims* launched in March

### Market Shares

(%)	Q4, 07	Q1, 08	Apr/May, 08
PMI	40.9	40.9	40.9
<i>Marlboro</i>	28.1	27.6	27.7

## **Spain Business Update**

- **Industry volume down 1.2% in 2007 to 90 billion units**
- **Strong recovery of profitability in Q1 from higher prices and improved volume**
- **PMI market share slightly up in Q1 behind *Marlboro* and *Chesterfield***

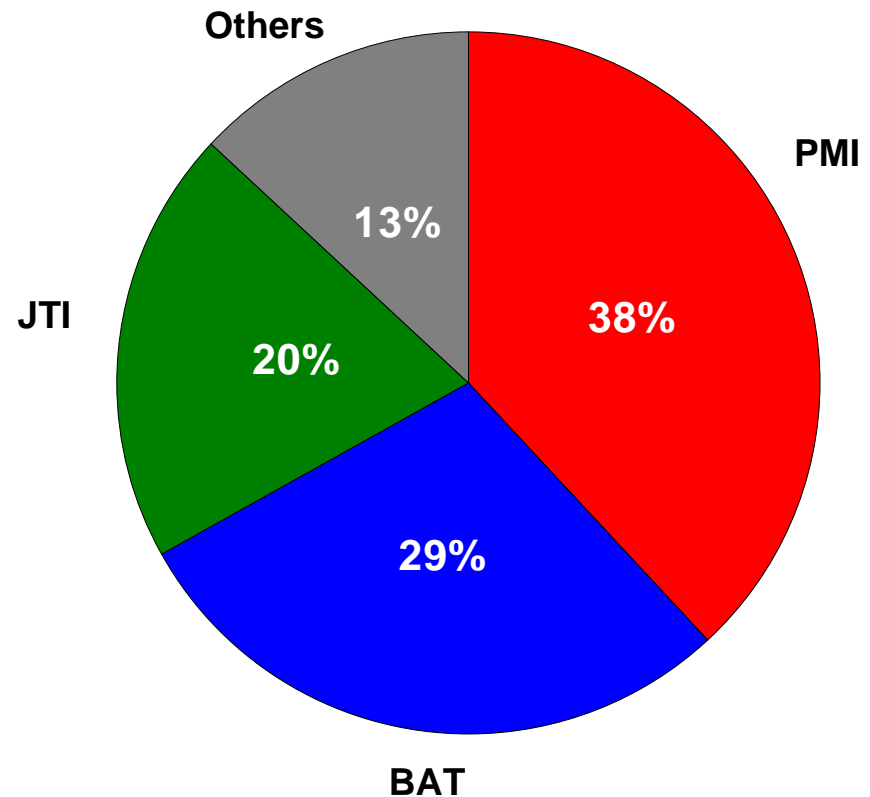
## **Russia Business Update**

- **Estimated industry volume down 1.5% in 2007 to 387 billion units, but strong recovery in Q1, 2008**
- **PMI shipment volume up 7.8% in the first quarter**

## Russia Business Update

- **Consumer uptrading continues to be strong**
- **PMI leader in premium / above premium segment**
- **Higher prices and favorable mix driving strong improvement in PMI profitability**

Estimated Share of Premium Q1, 2008<sup>(a)</sup>



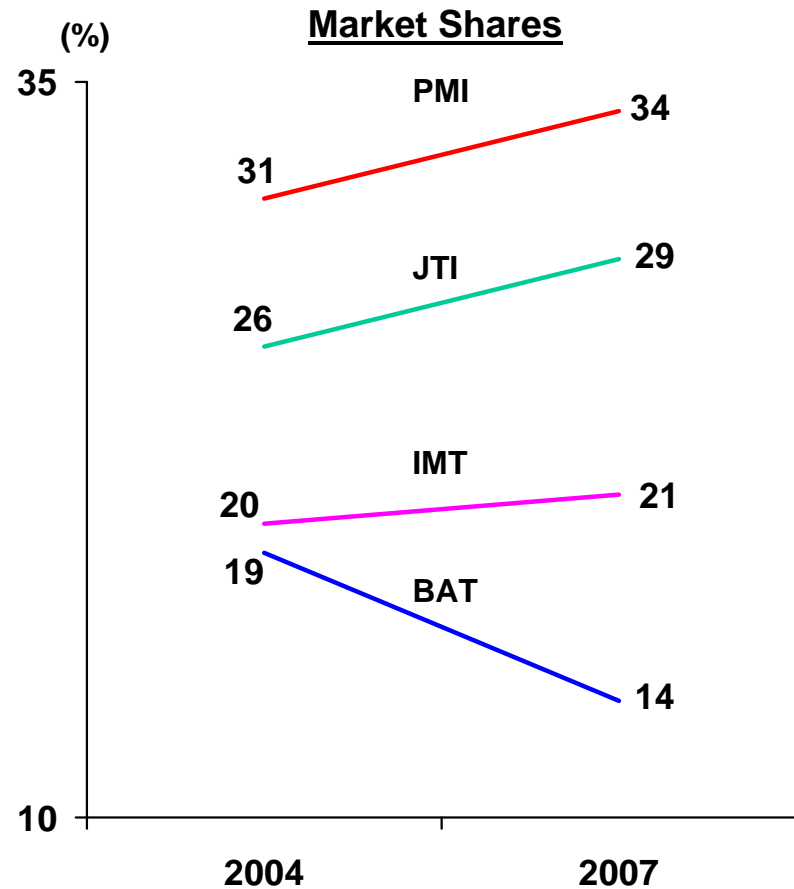
(a) Including above premium price category

## **Russia Business Update**

- **PMI share up slightly to 26.7% in Q1, 2008**
- ***Marlboro, Parliament, Chesterfield and Muratti* performing well**
- **Line extensions launched to sustain momentum**

# Ukraine Business Update

- Estimated industry volume up 4.5% to 119 billion units in 2007
- PMI share in Q1 up a further 1.5pp to 34.7%
- *Chesterfield, Marlboro and Parliament* are our key growth brands



## **Turkey Business Update**

- **Industry volume declined 0.4% to 108 billion units in 2007**
- **PMI volume stable, with improved mix driving higher profitability**
- ***Parliament* up one share point at 6.6% in Q1, 2008**
- ***Marlboro Intense* helping to support the brand franchise**
- **Slims launches**

## **Japan Business Update**

- **Industry volume down 4.8% in 2007 at 261 billion units and down 3.6% in Q1, 2008**
- **Age control on vending being introduced this year**
- **Debate on tax policy and industry pricing**

## Japan Business Update

- **PMI Q1 volume declined by 4.0%, helped by favorable inventory movements**
- **PMI share down in Q1 by 0.8pp to 23.9%, mainly due to *Lark***
- **PMI share stable compared to Q4, 2007**

	<u>Market Shares</u>					
	<u>2007</u>				<u>2008</u>	
(%)	Q1	Q2	Q3	Q4	Q1	Apr/ May
PMI	24.7	24.2	24.3	23.9	23.9	24.0
<i>Marlboro</i>	9.9	9.8	10.1	9.9	9.9	9.8
<i>Lark</i>	7.3	6.9	6.7	6.7	6.7	6.8

## **Japan Business Update**

- **Pipeline of new *Marlboro* line extensions, with strong focus on menthol**
- **Increased marketing support**

## **Japan Business Update**

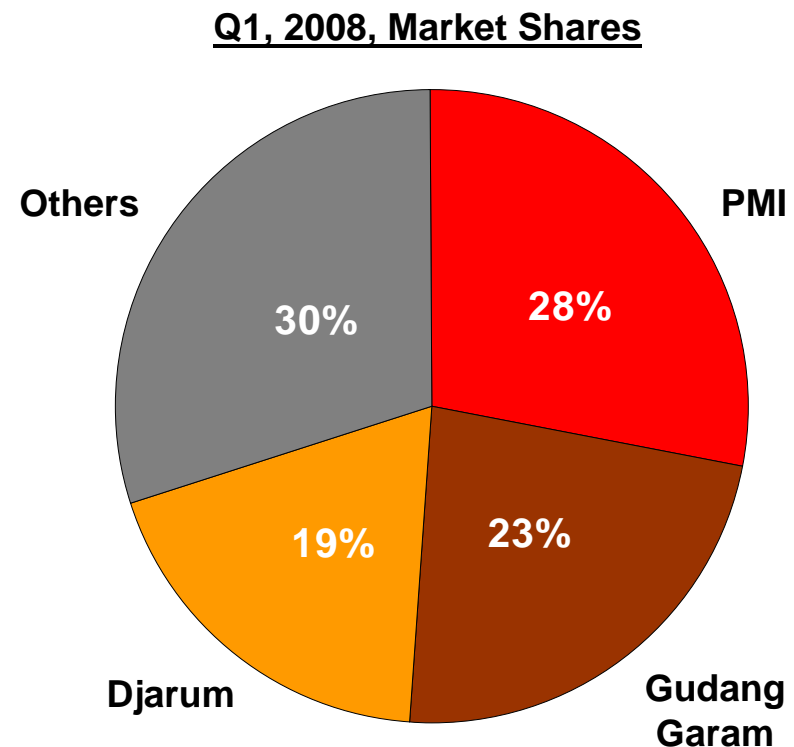
- ***Lark* turnaround is key objective**
- ***Lark Menthol X* and *Lark Classic Milds* introduced**

## **Indonesia Business Update**

- **Estimated industry volume rose 3.9% in 2007 to 238 billion units**
- **Industry volume up 8.1% in Q1, 2008**
- **More moderate industry growth expected during rest of the year**
- **Price gaps narrowed, helped by excise tax reform**

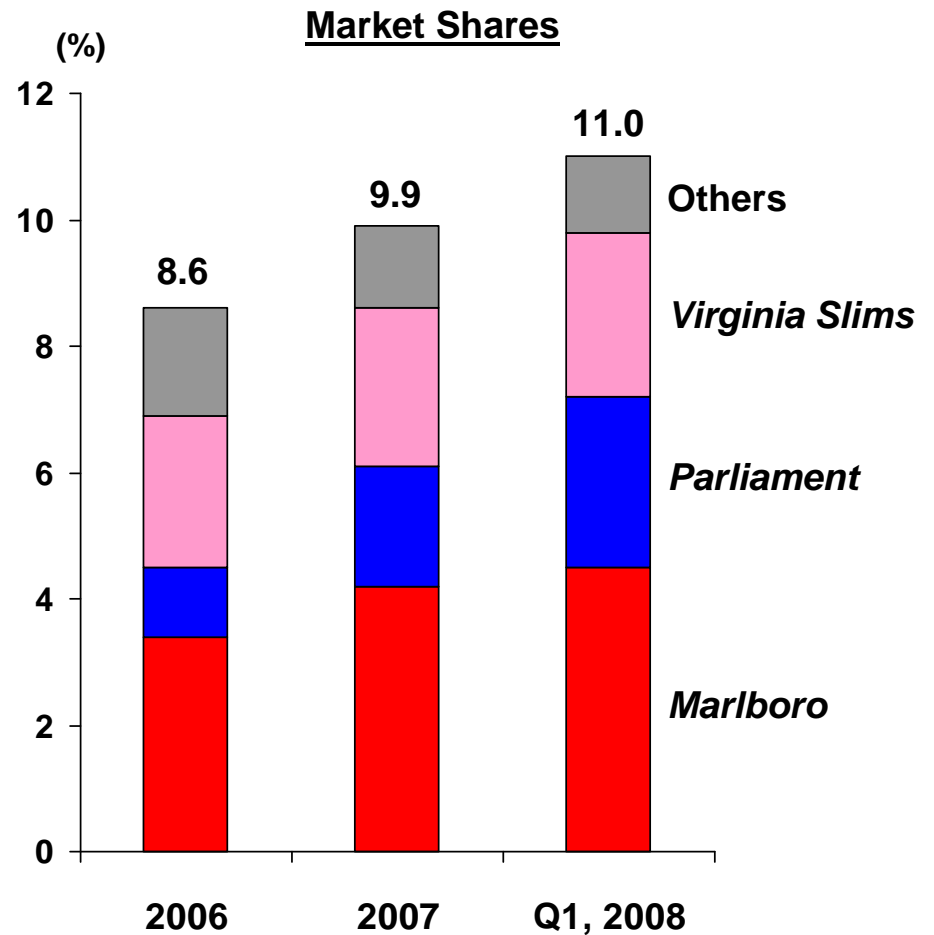
## Indonesia Business Update

- **PMI shipments up 5.6% in first quarter**
- ***A Volution* slims line extension for A Mild**
- ***Marlboro* market share up 0.6pp in Q1 to 4.6% helped by launch of kretek variant**



## Korea Business Update

- Industry volume up 4.6% in 2007 to 92 billion units
- Industry volume up 5.3% and PMI shipments rose by 17.9% in Q1, 2008
- PMI market share up 1.2pp to 11.0% in Q1



## **Korea Business Update**

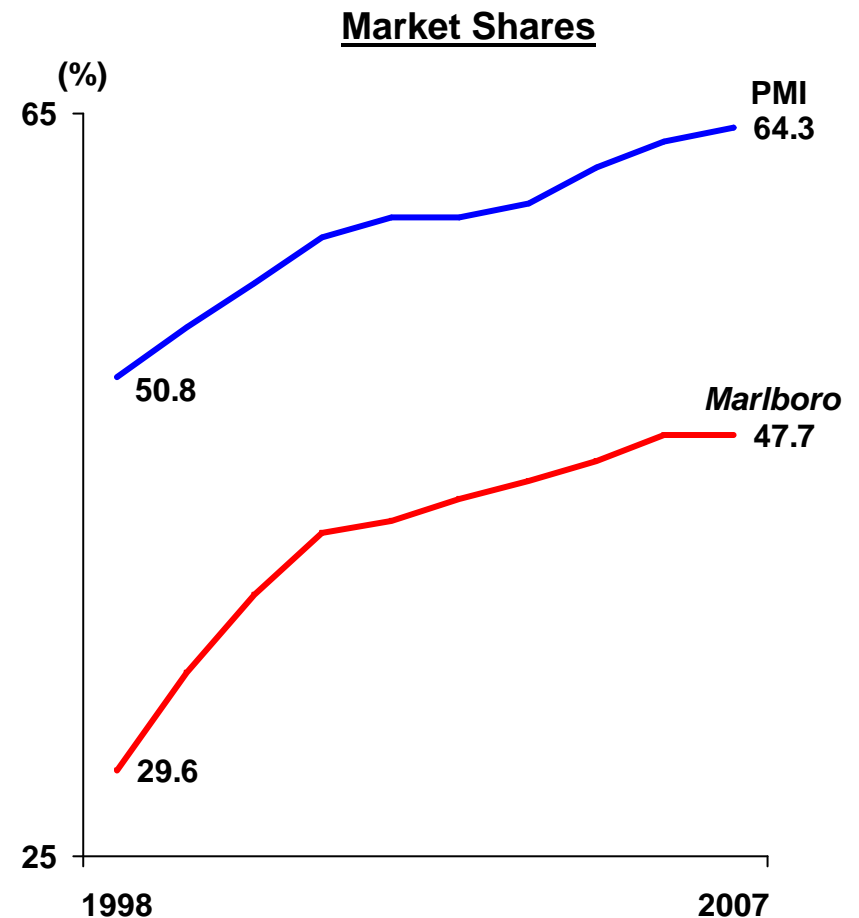
- ***Marlboro* performance helped by *Filter Plus***
- ***Parliament* supported by new marketing campaign and line extensions**

## **China Business Update**

- **Excellent relationship developed with CNTC**
- **Joint venture has launched *RGD* and *Dubliss* in Europe**
- ***Marlboro* to be launched under license in China during the summer**

## Mexico Business Update

- Industry volume down 6.3% in 2007 to 45 billion units but stable in Q1, 2008
- PMI share increased by 4.7pp to 67.0% in Q1

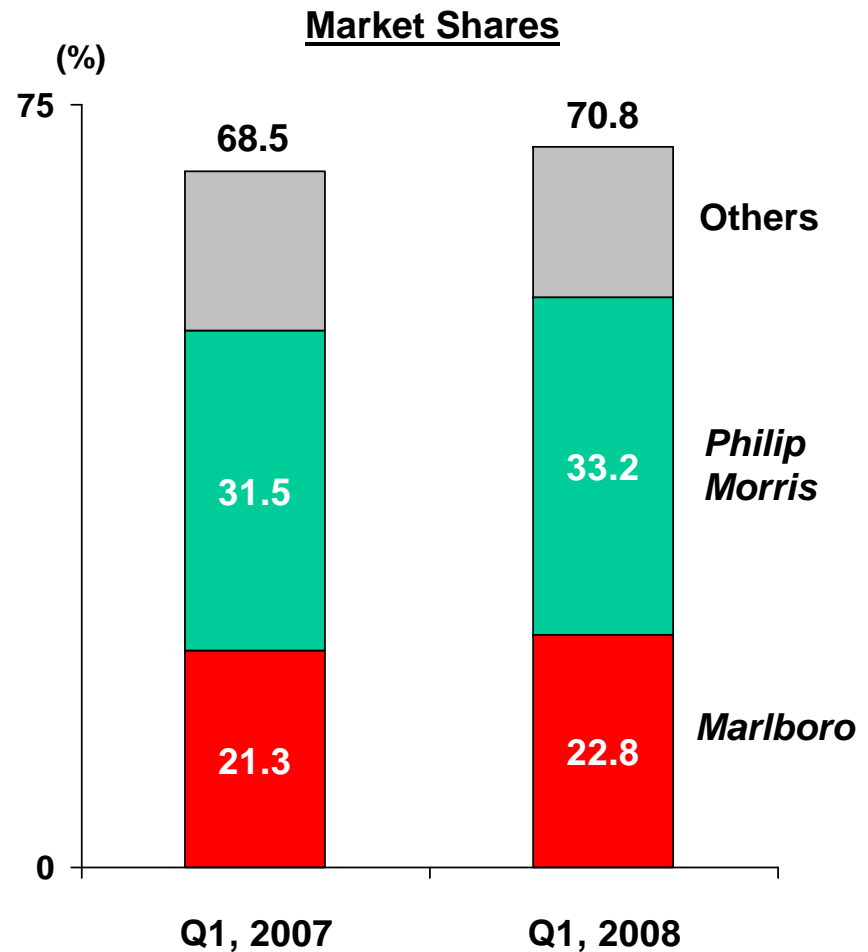


## **Mexico Business Update**

- ***Marlboro, Benson & Hedges and Delicados*** gaining
- ***Delicados*** menthol line extension launched

## Argentina Business Update

- **Estimated industry volume up 3.2% in 2007 to 41 billion units and 6.7% higher in Q1, 2008**
- **PMI shipment volume up 10.2% during the first quarter**

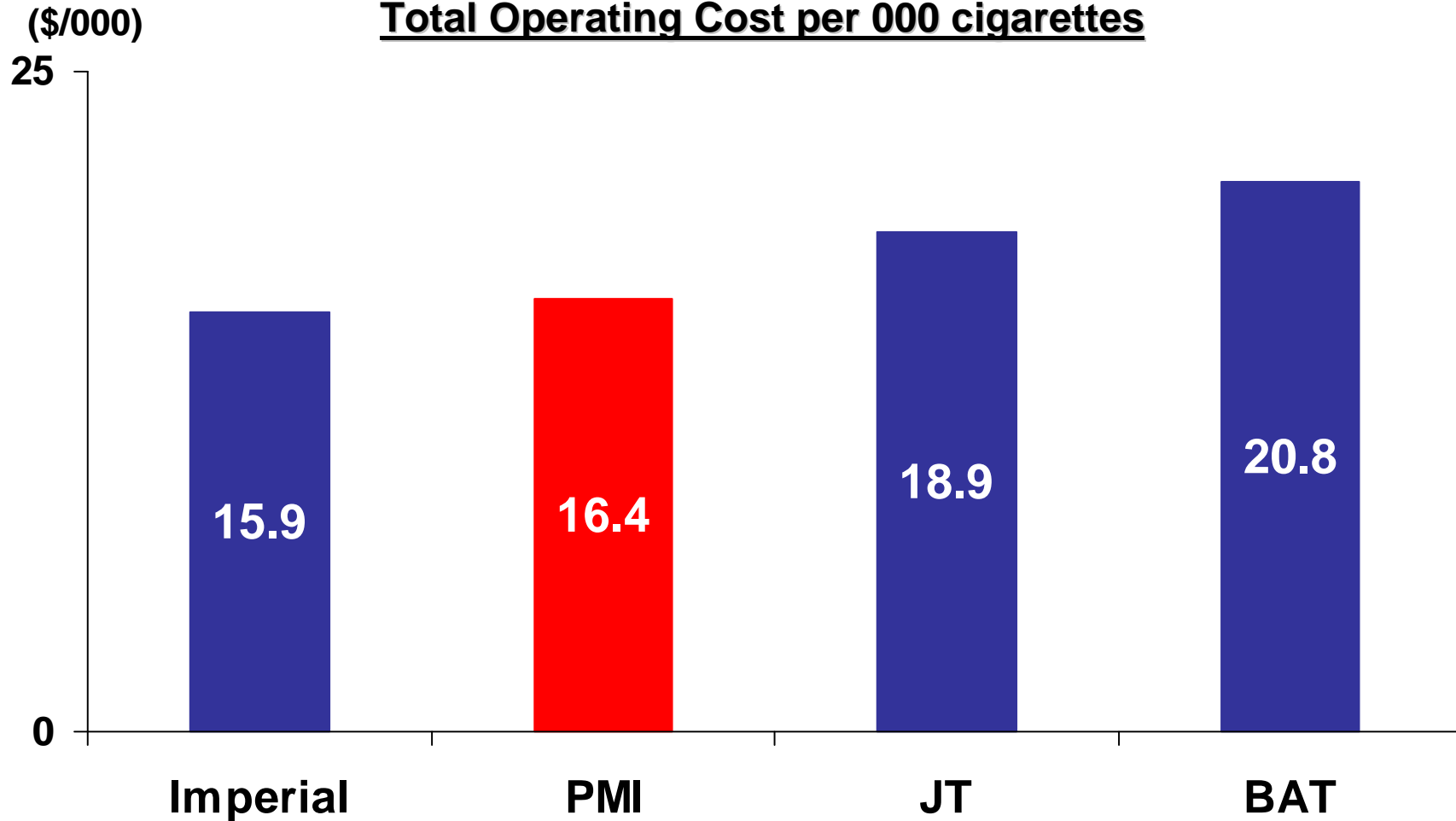


## **PMI Business Update**

- **Very promising start to 2008**
- **Unit margin expansion in EU driving higher profitability**
- **Consumer uptrading and strong premium portfolio driving growth in emerging markets**
- **PMI on track to deliver against targets**

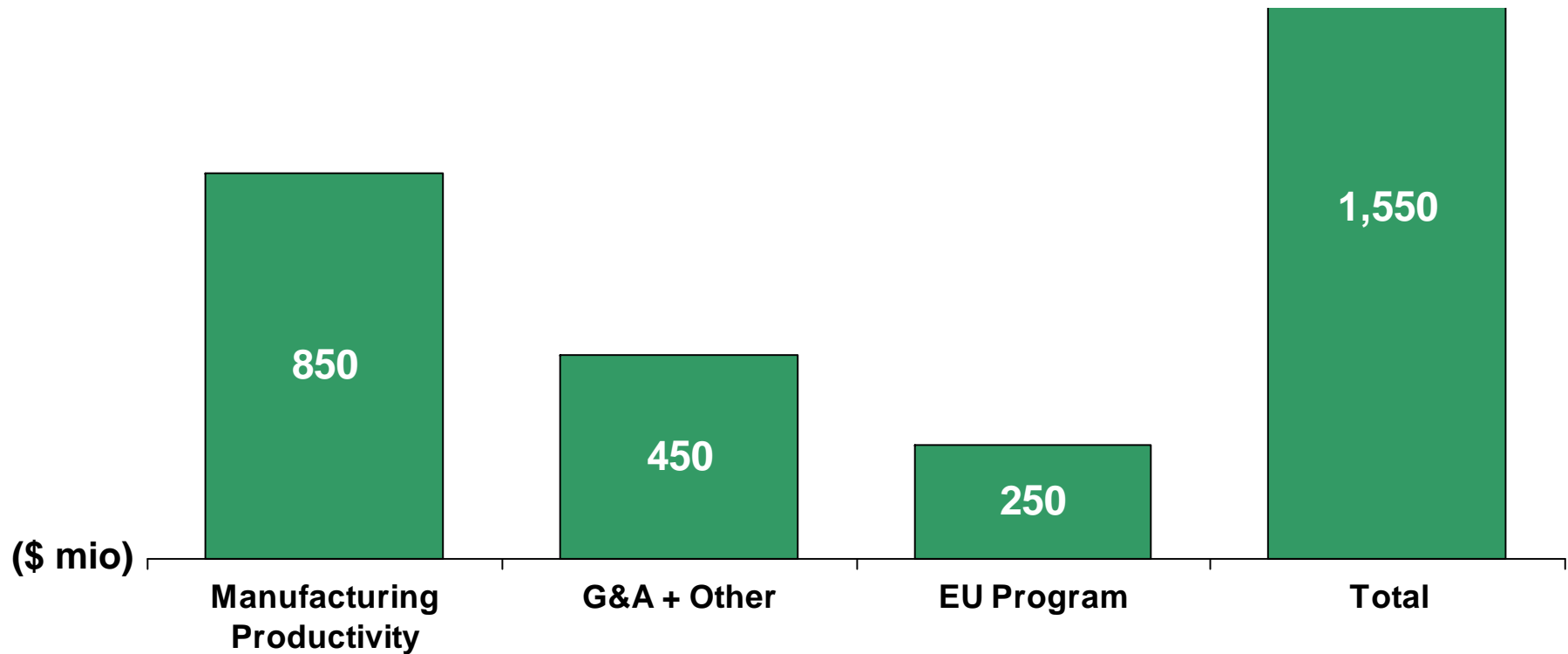
# Manufacturing Efficiency

Total Operating Cost per 000 cigarettes

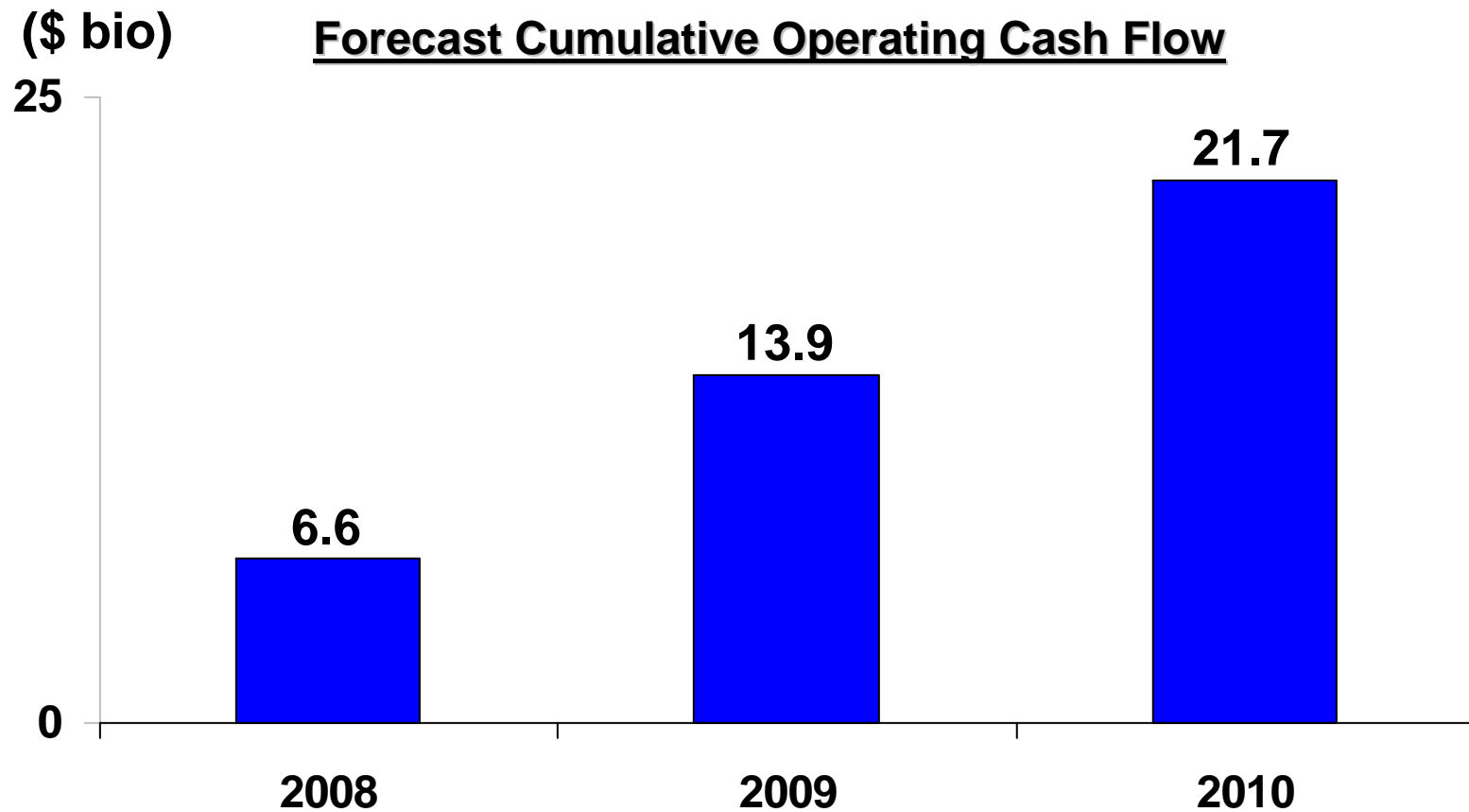


# Productivity and Cost Savings

## Forecast Cumulative Gross Cost Savings (2008-10)



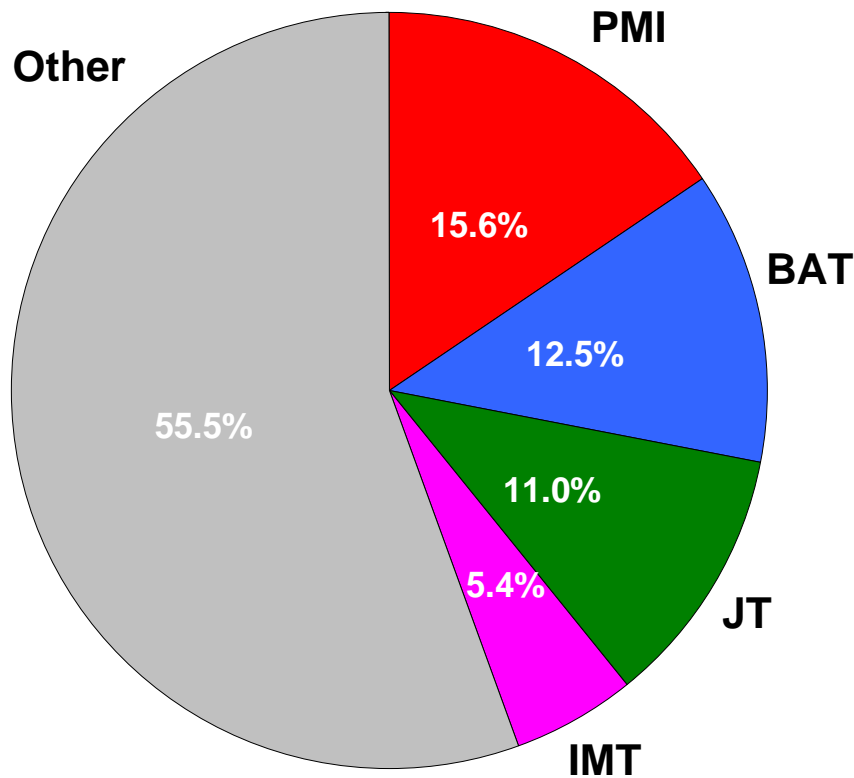
# Tremendous Cash Flow



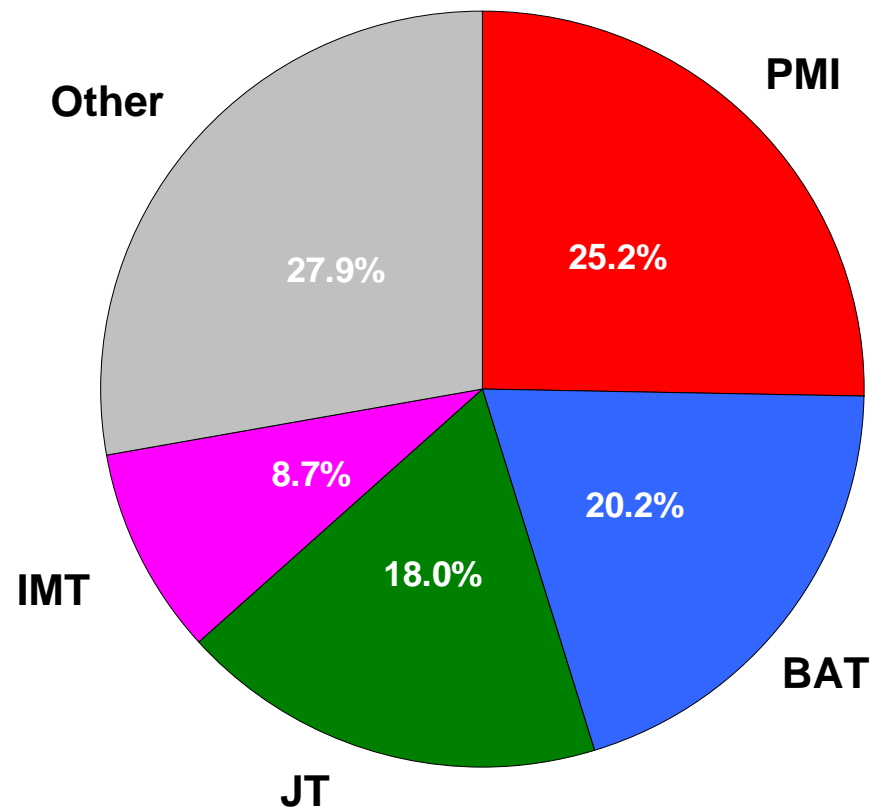
# Capital Structure and Shareholder Returns

- **PMI raised \$6.0 billion in 5/10/30 year bonds in May**
- **Dividends:**
  - Pay-out ratio of 65%
  - Initial quarterly dividend set at \$0.46 per share
- **Share repurchase programs:**
  - Board of Directors has authorized two year share repurchase program of \$13 billion
  - Share repurchases initiated in May
- **Total return to shareholders expected to reach \$21 billion over next two years**

# Global Leadership and Scale



**International Market**<sup>(a)</sup>



**International Market excl. PRC**<sup>(a)</sup>

(a) Assumes JT's acquisition of Gallaher and Imperial's acquisition of Altadis were effective as of January 1, 2007. Source: 2007 competitive data derived by PMI from 2007 company reports. PMI data and total market from GIMS.

## Estimated Market Shares (2007)

(%)	<u>EU</u>	<u>EEMA</u> <sup>(a)</sup>	<u>Asia</u> <sup>(b)</sup>	<u>Latin America</u>
<b>PMI</b>	<b>39</b>	<b>22</b>	<b>18</b>	<b>30</b>
<b>BAT</b>	<b>16</b>	<b>20</b>	<b>15</b>	<b>53</b>
<b>Japan Tobacco</b> <sup>(c)</sup>	<b>15</b>	<b>22</b>	<b>17</b>	<b>3</b>
<b>Imperial</b> <sup>(c)</sup>	<b>21</b>	<b>10</b>	<b>2</b>	<b>-</b>

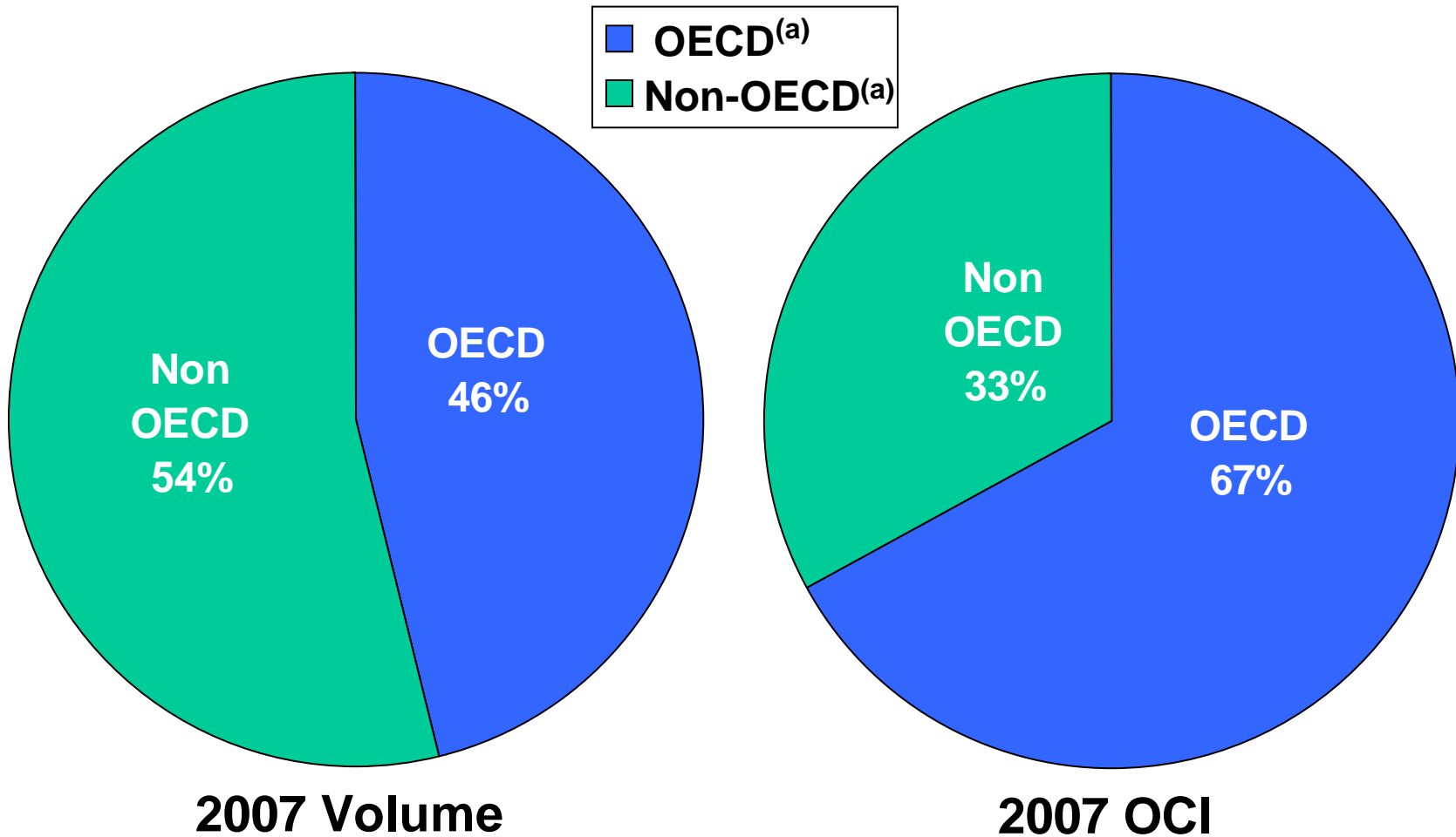
(a) Excluding duty-free

(b) Excluding the PRC

(c) Assumes JT's acquisition of Gallaher and Imperial's acquisition of Altadis were effective as of January 1, 2007

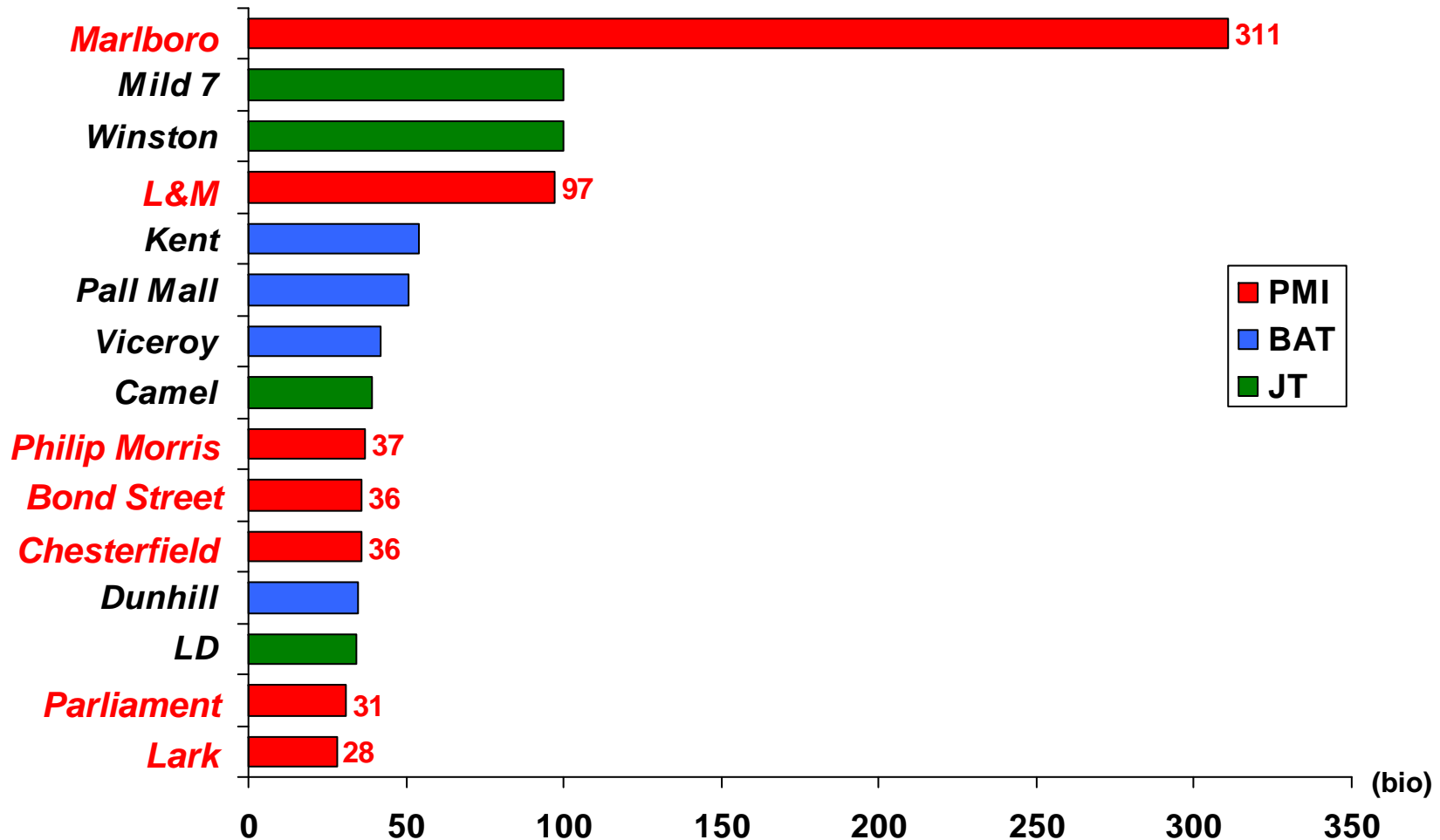
Source: PMI data from GIMS. BAT data derived from 2007 company report. JT and Imperial data derived from 2006 company reports using PMI estimates of 2007 evolution

# Geographic Balance



(a) Excluding PRC and duty-free  
Source: PMI Financials

# Leading International Brands



Source: 2007 competitive data derived by PMI from 2006 company reports using PMI estimates of 2007 evolution. Competitive data for BAT Global Drive Brands from 2007 company report. PMI data from financials.

## **PMI – A Compelling Investment**

- **Global leadership and scale**
- **Excellent geographic balance**
- **Powerful brand portfolio, led by *Marlboro***
- **Favorable business environment**
- **Manufacturing efficiency and productivity savings**
- **World class R&D capabilities**
- **Excellent track record on acquisitions**
- **Tremendous cash flow**
- **Significant return to shareholders**
- **Depth of management talent**



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