



PHILIP MORRIS INTERNATIONAL



**Turhan Talu**  
***Managing Director Turkey***  
**İzmir – Torbalı, June 24, 2009**


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## **Forward-Looking and Cautionary Statements**

**This presentation and related discussion contain statements that, to the extent they do not relate strictly to historical or current facts, constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current plans, estimates and expectations, and are not guarantees of future performance. They are based on management’s expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. PMI undertakes no obligation to publicly update or revise any forward-looking statements, except in the normal course of its public disclosure obligations. The risks and uncertainties relating to the forward-looking statements in this presentation include those described under Item 1A. “Risk Factors” in PMI’s Form 10-K for the year ended December 31, 2008, and Form 10-Q for the quarter ended March 31, 2009, filed with the Securities and Exchange Commission.**

# PM Turkey Management Team

 **Turhan Talu**  
Managing Director 

 **Matthias Knoop**  
Director Operations 



 **Onur Pehlivan**  
Director Sales & Distribution 

 **Taner Kerman**  
Director Finance 

 **Ilker Kaytancı**  
Director Marketing 

 **Oebel Harmsma**  
Director Business Development & Planning 

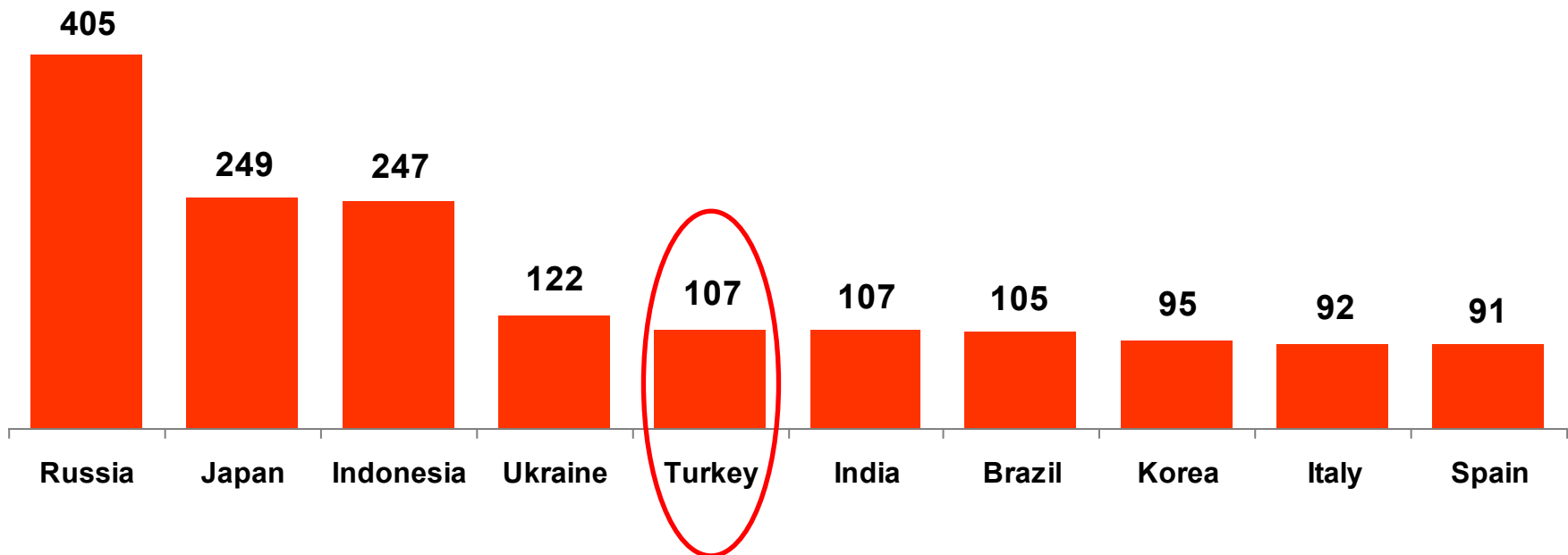
 **Cliff Rumbold**  
Director Human Resources 

 **Bisharah Baroudi**  
Director Corporate Affairs 

 **Çağatay Erten**  
Senior Counsel 

# Top 10 Largest Cigarette Markets (2008)<sup>(a)</sup>

(bio units)



(a) Excludes U.S.A and P.R.C.

Source: PMI estimates.

# **Agenda**

- **Turkey-at-a-glance**
- **Economic environment**
- **Evolution of the cigarette industry in Turkey**
- **Consumer trends**
- **Key PMI strategies**
- **Conclusions**
- **Questions & Answers**

# Turkey at-a-glance

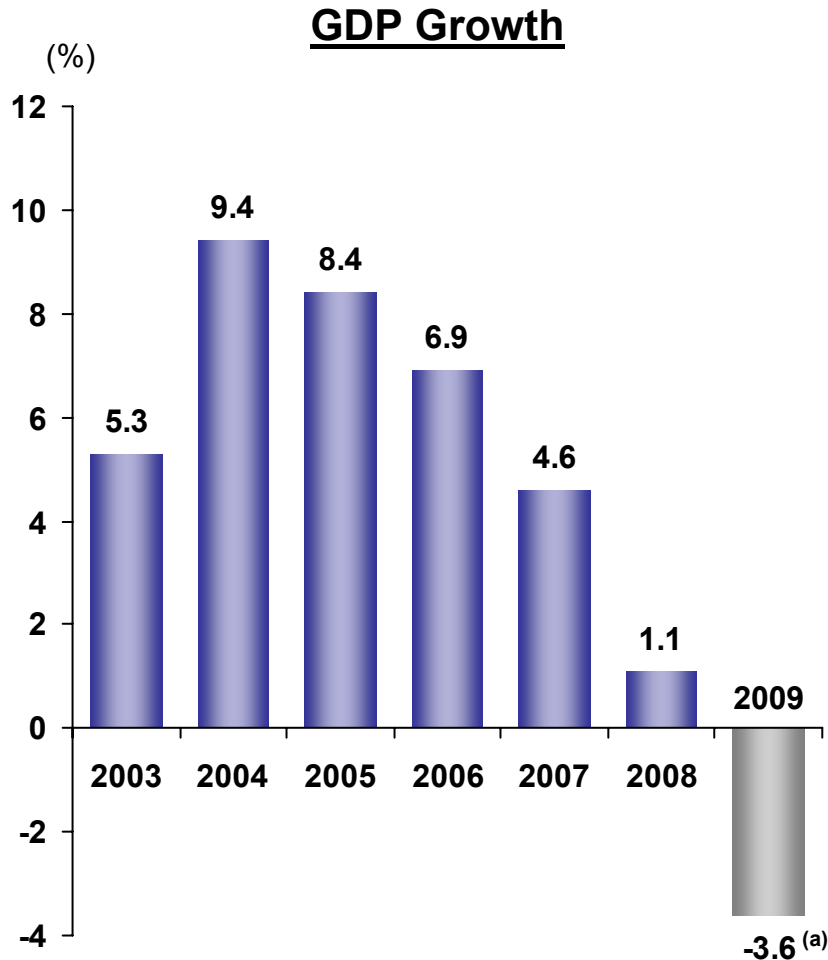


- Population of ~ 72.0 mio (growth: 1.3%)(a)
- Urban and young age profile
- GDP/capita ~ \$10,500(b)
- Aspiring EU member
- AK Party led government

(a) Turkish Statistics Institution (2008).

(b) IMF WEO Database (GDP current prices), data as of 2008.

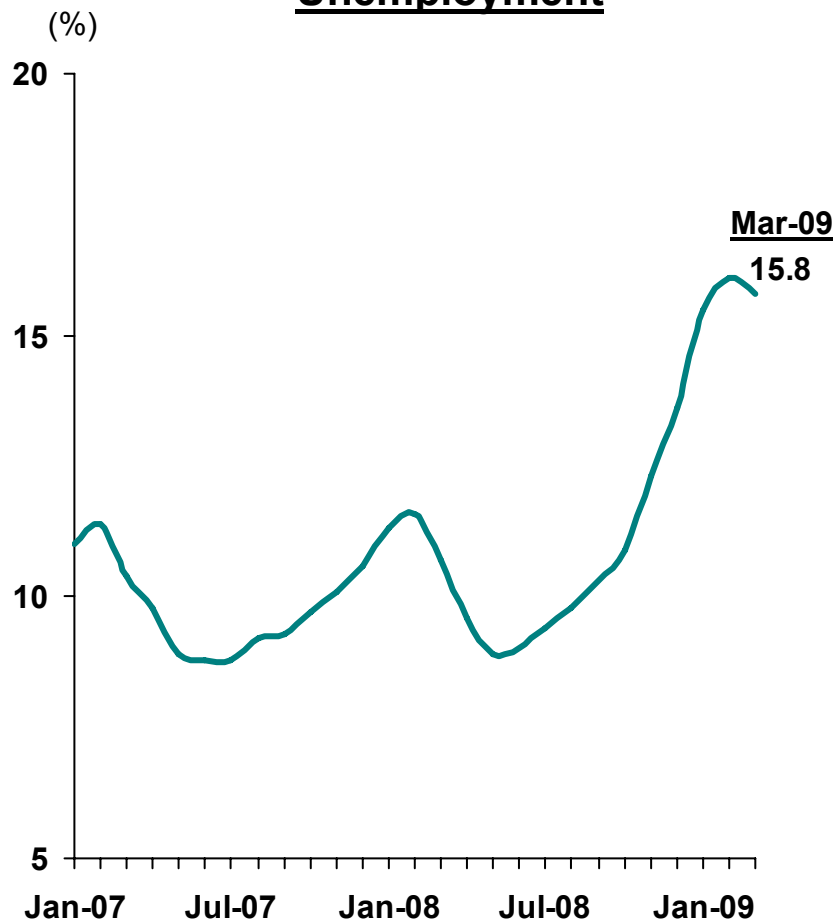
# Economic Environment



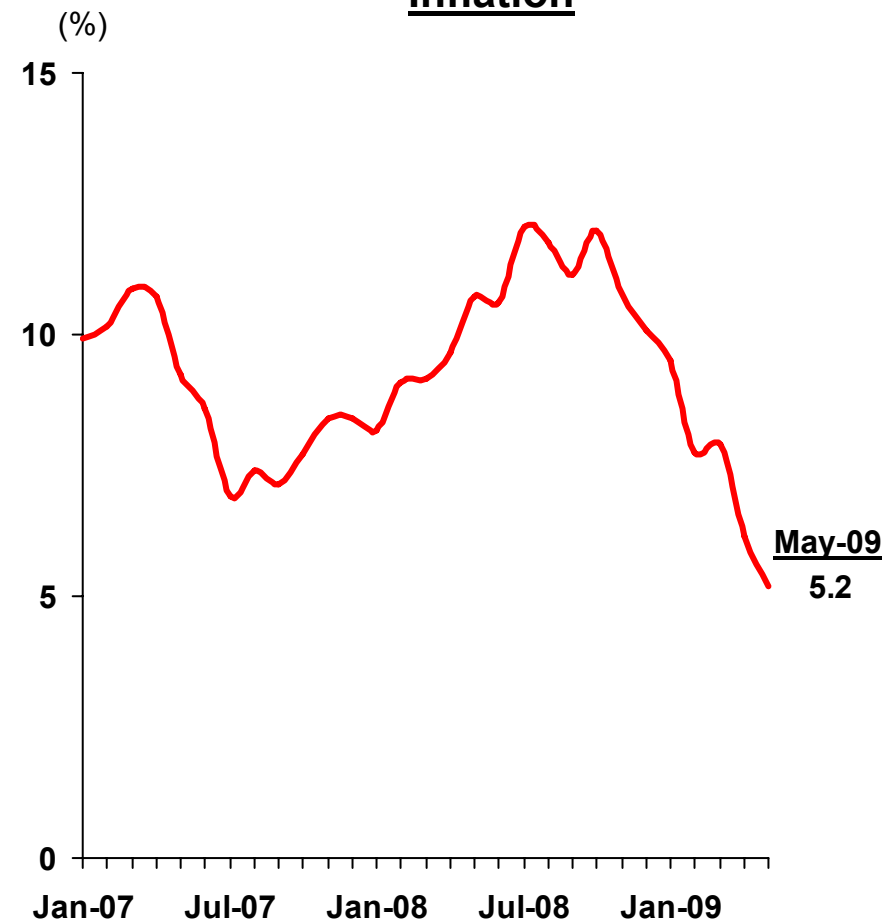
- Strong growth through 2007
- Global crisis now hurting Turkey
- Banking sector has weathered the storm well
- Negotiation of new IMF stand-by agreement ongoing
- Turkey has overcome economic crises in the past
- Economic recovery expected to be gradual

# Economic Environment

## Unemployment

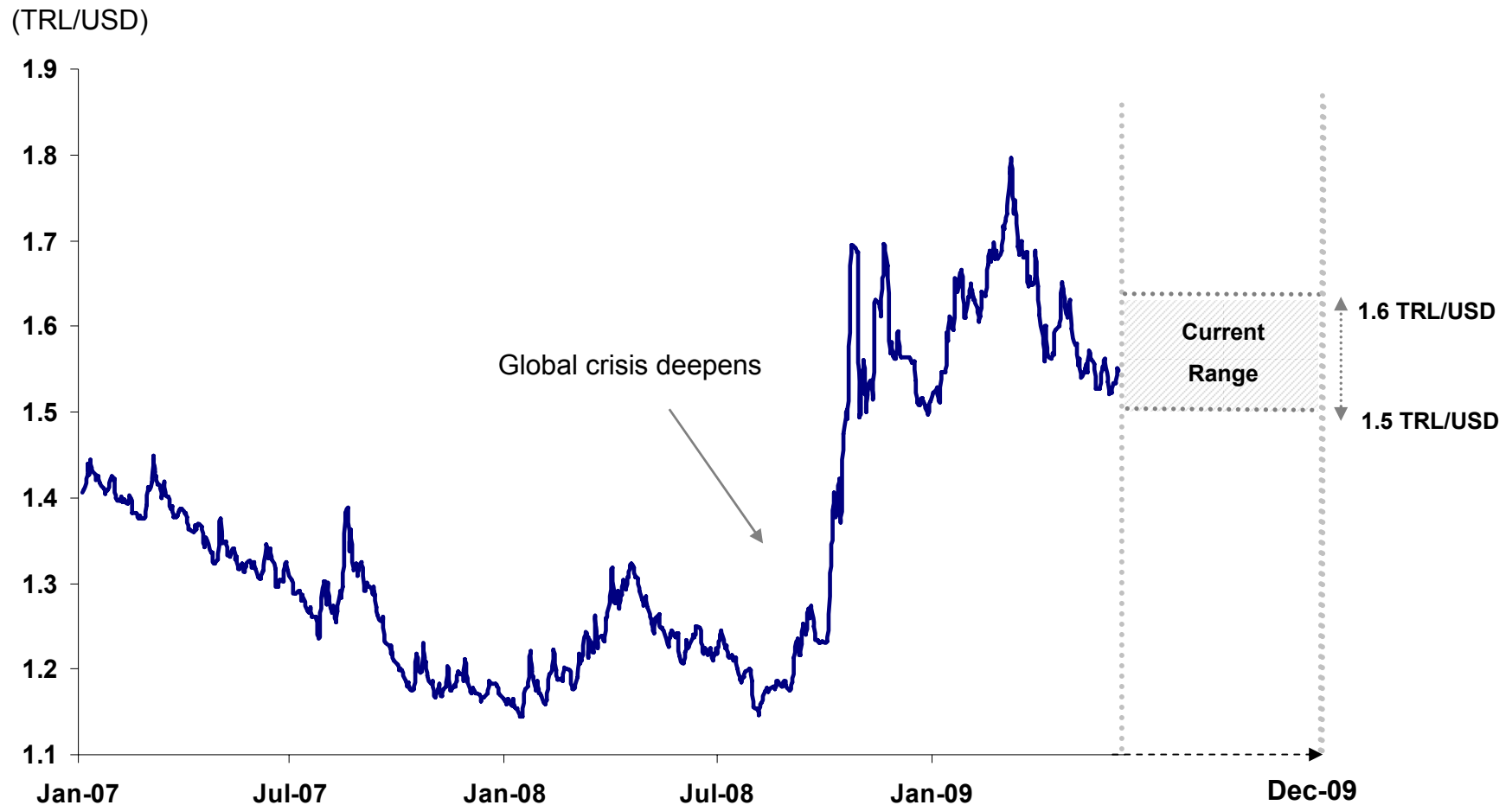


## Inflation





# Exchange Rate

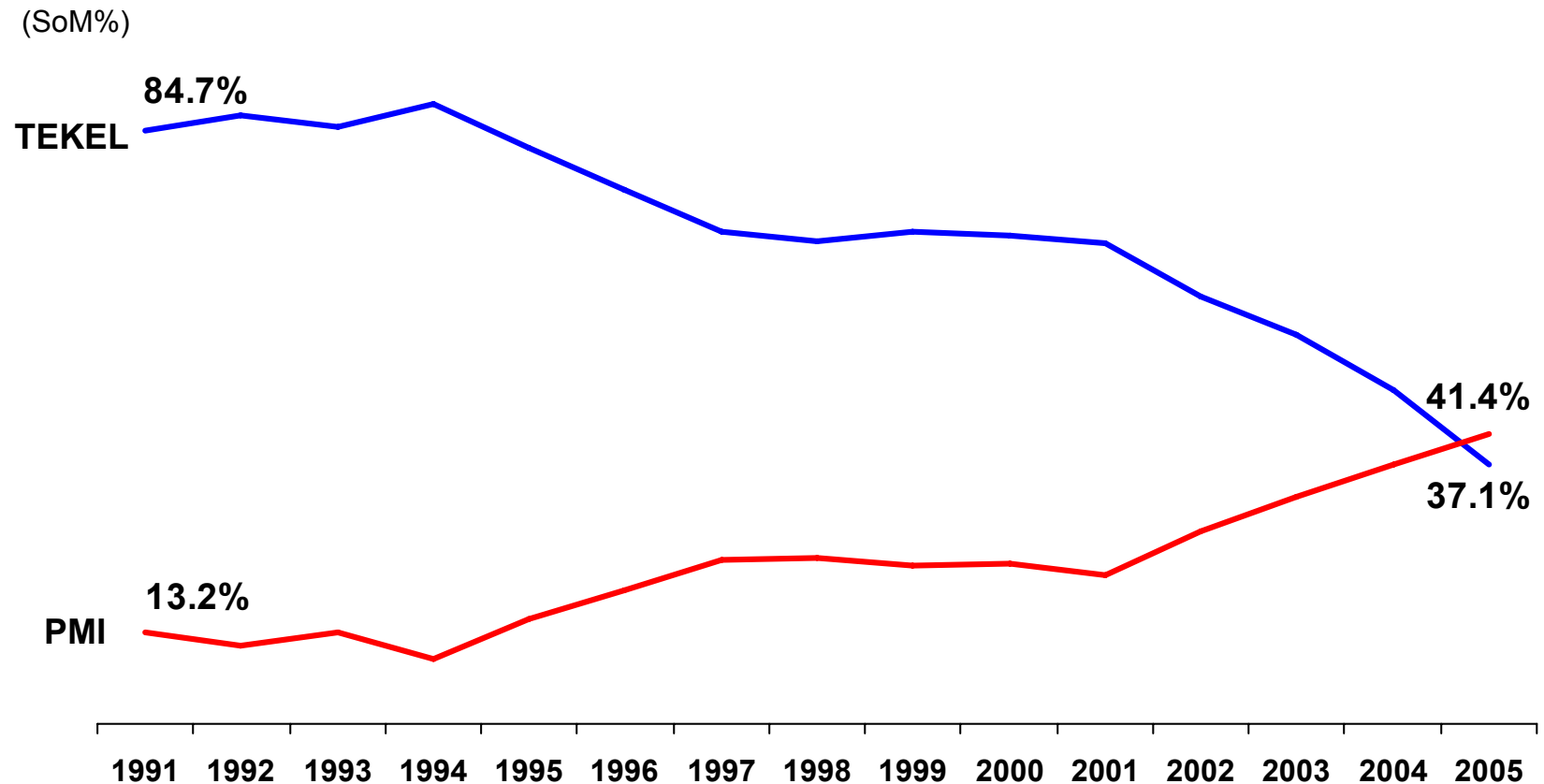


►► Currency stabilizing at TRL 1.50-1.60 to \$

## **PMI Strengths**

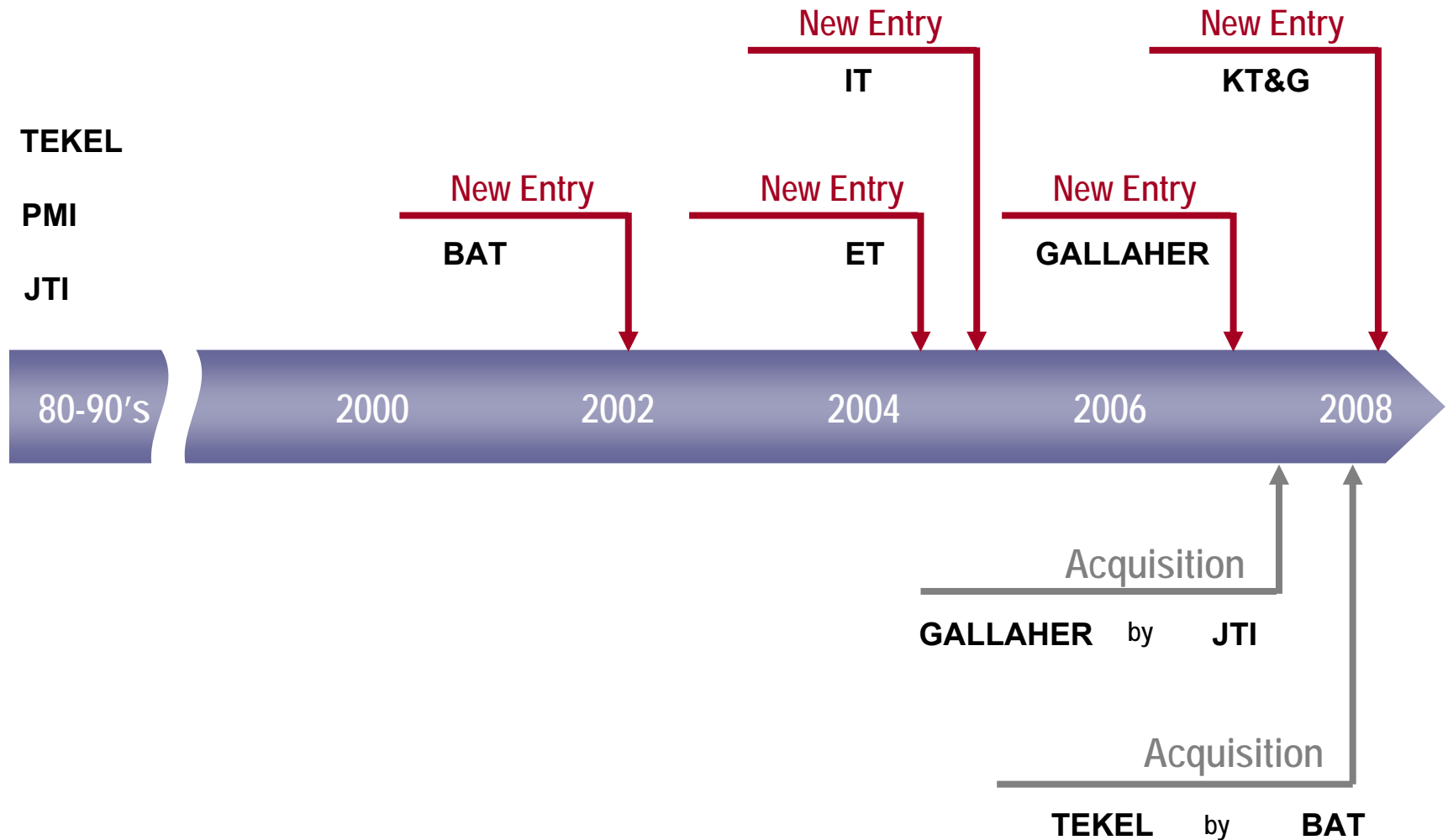
- **Market leader with 42.4% share in Q1, 2009**
- **Superior distribution and sales network**
- **Very broad portfolio with strong brands in all the profitable price segments**
- **Segment share above 90% in resilient premium segment**

# Historical Market Shares



▶▶ PMI became market leader in April 2005

# Competitive Landscape

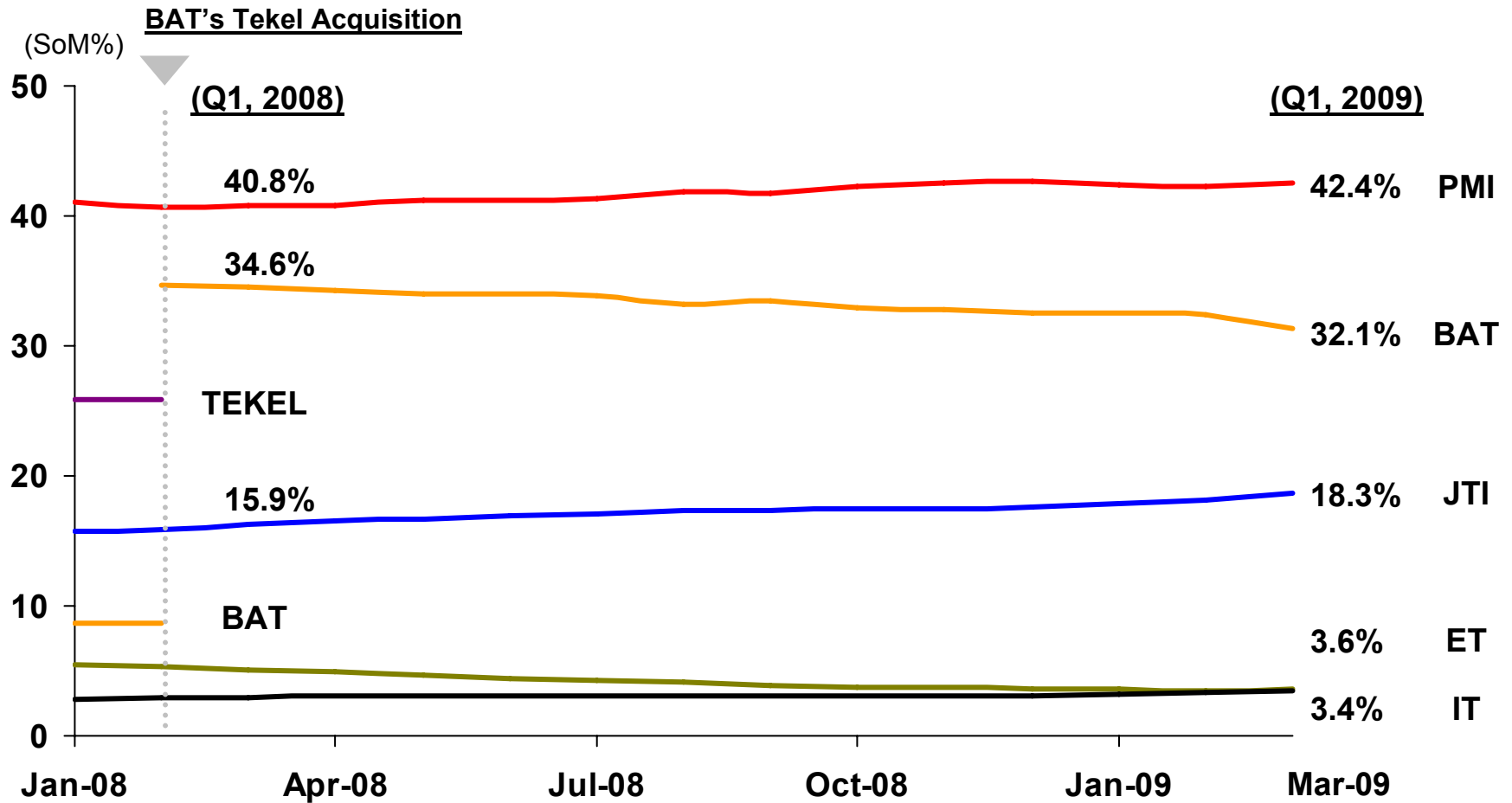


# **Tekel Privatization**

**2008: BAT acquires Tekel with bid of \$1.72 billion**

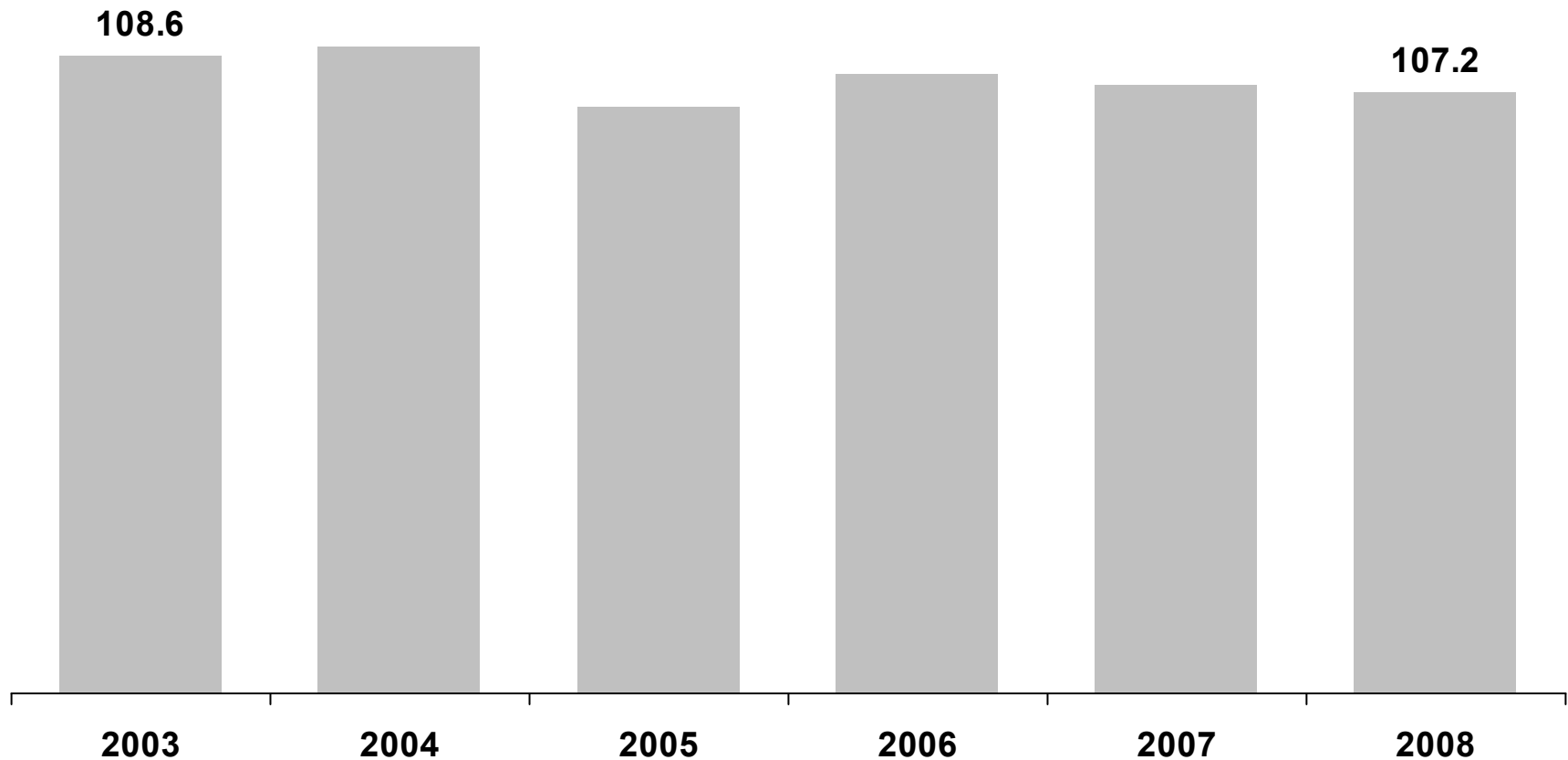
- Asset transfer agreement**
- Tekel market share (Q1, 2008): 25.8%**
  - *Tekel 2001* 11.9%
  - *Samsun* 6.6%
  - *Tekel 2000* 3.2%
- 6 manufacturing facilities, 3 operational**

# Competitive Landscape



# Cigarette Industry Volume

(bio units)



▶▶ **Maturing market, but favorable underlying demographics**

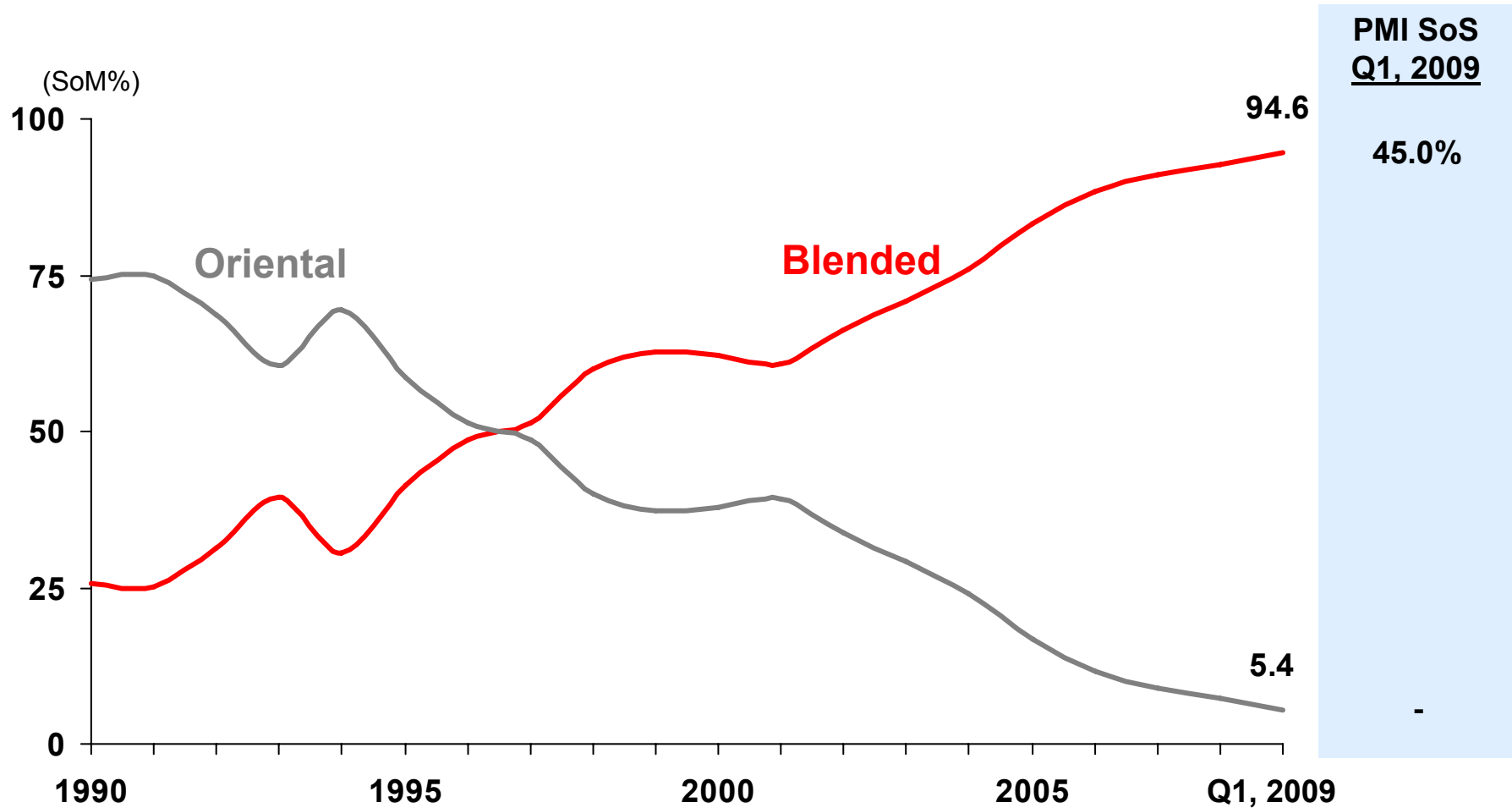
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## **Consumer Data**

- **Smoking incidence: 35.5%**
  - **Adult males: 48.8%**
  - **Adult females: 22.0%**
- **Average daily consumption: 18.9 sticks**
  - **Adult males: 20.8 sticks**
  - **Adult females: 14.6 sticks**

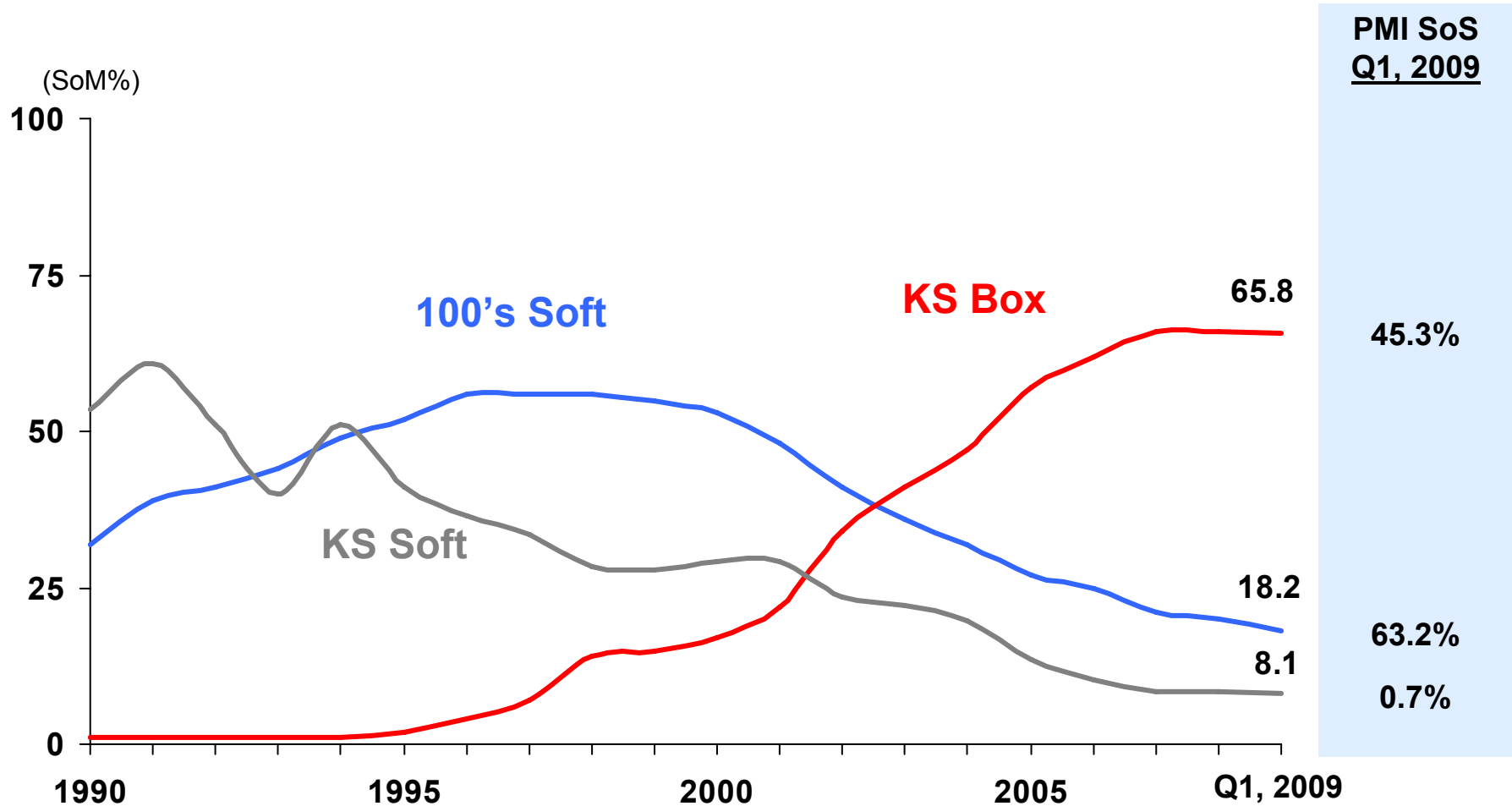


# Cigarette Blends



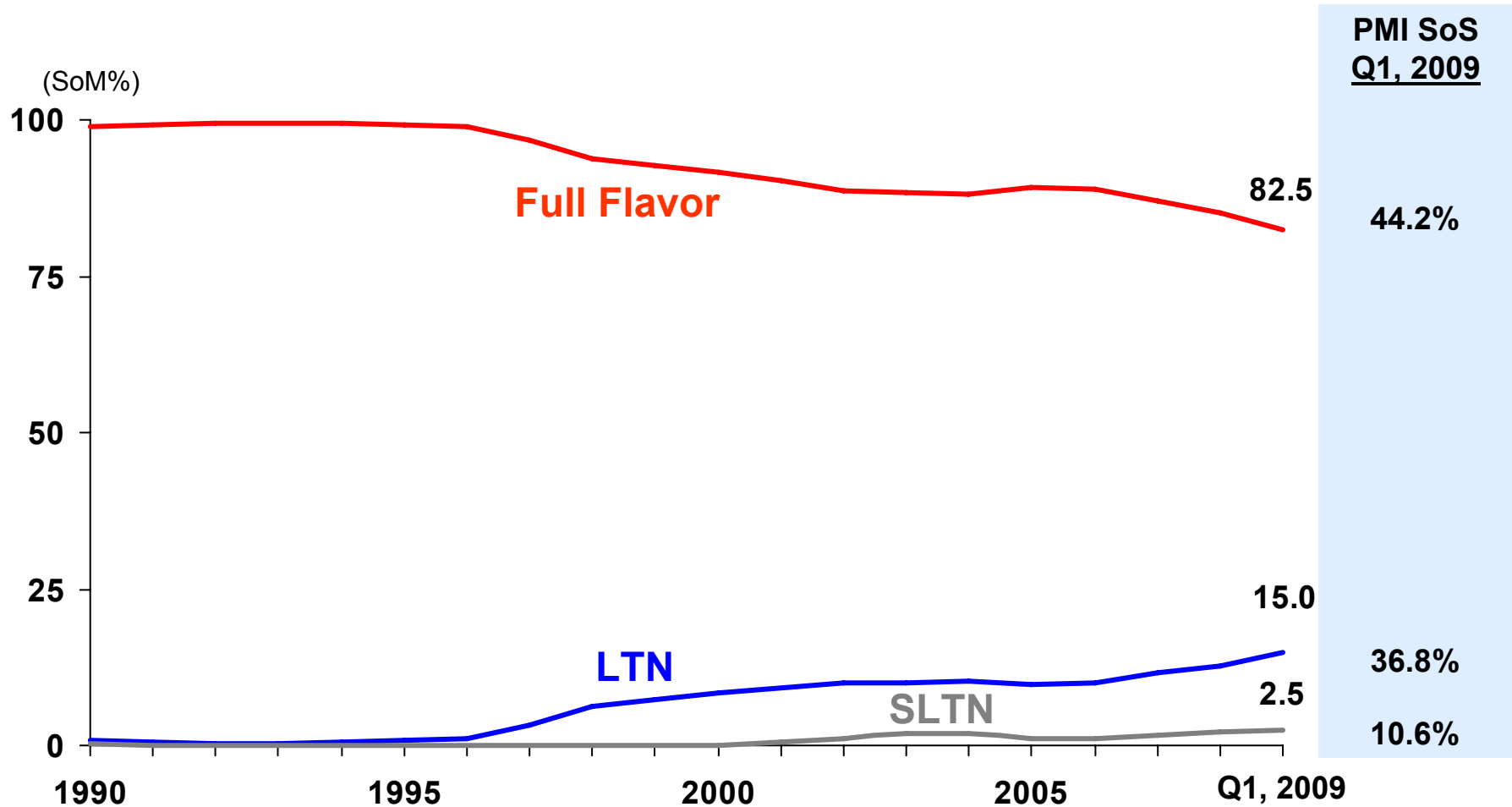
►► Fading appeal of oriental cigarettes

# Packaging and Length



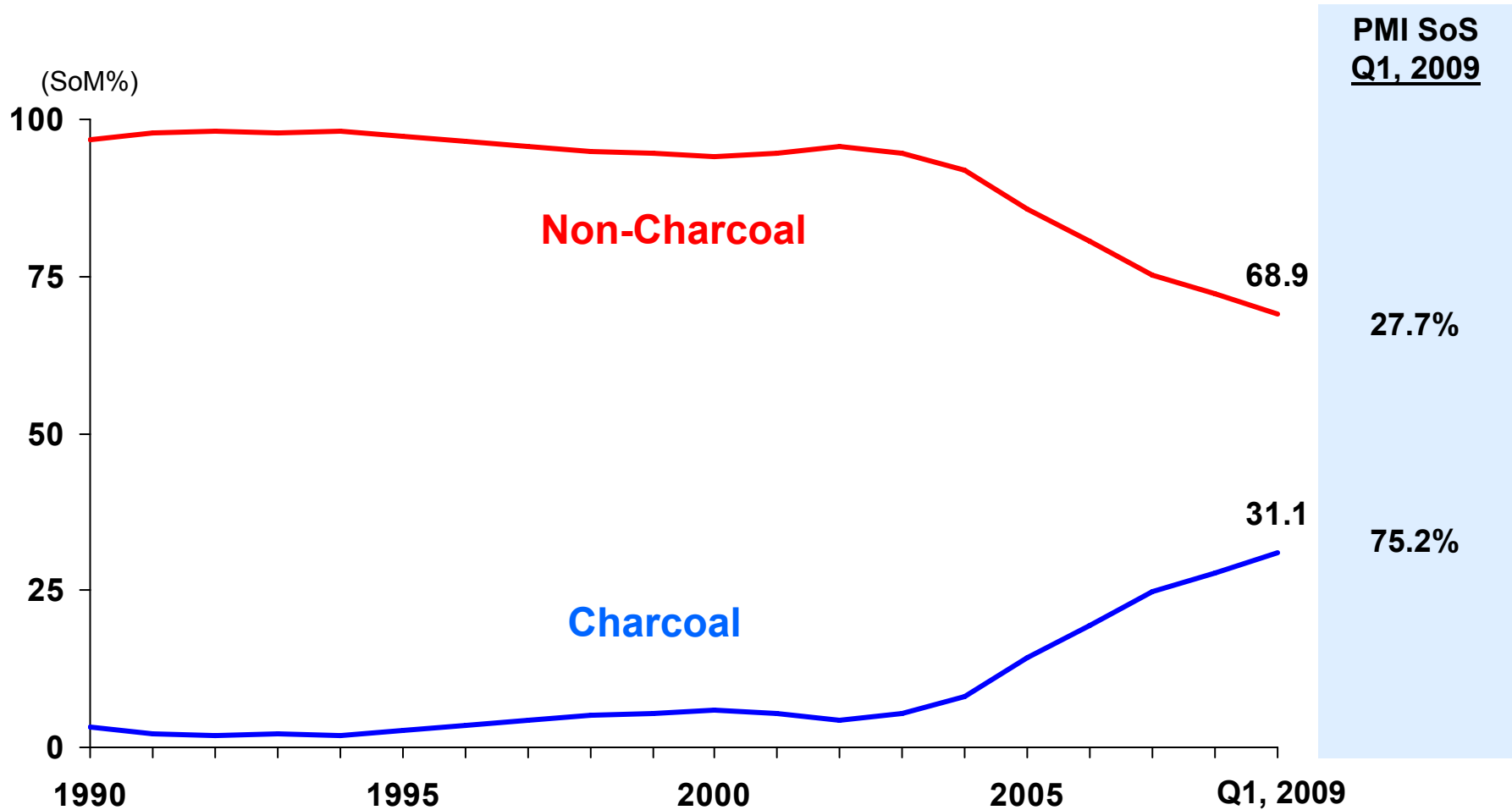
►► Increasing consumer preference for box packaging

# Taste Segmentation



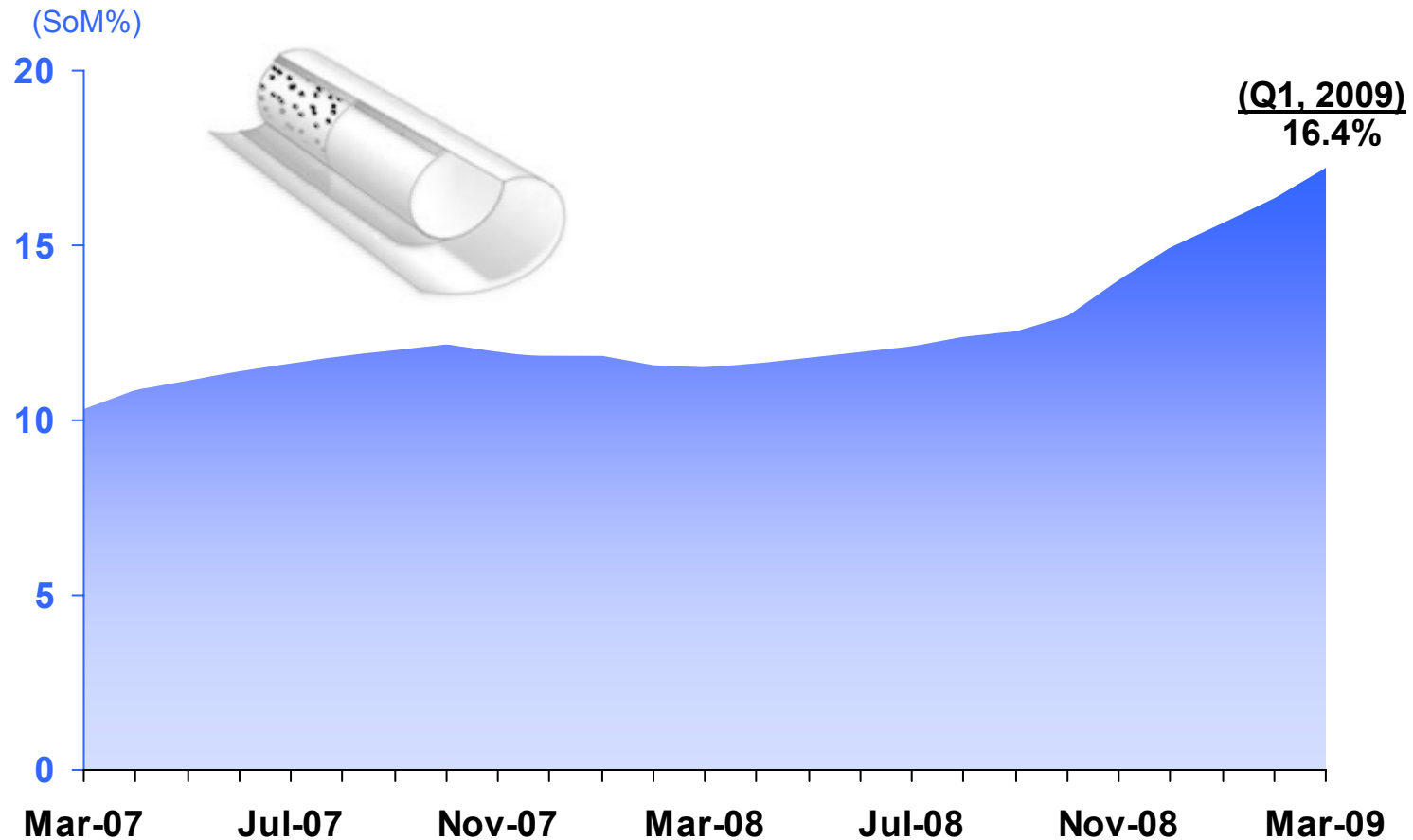
►► Predominantly a full flavor market

# Charcoal



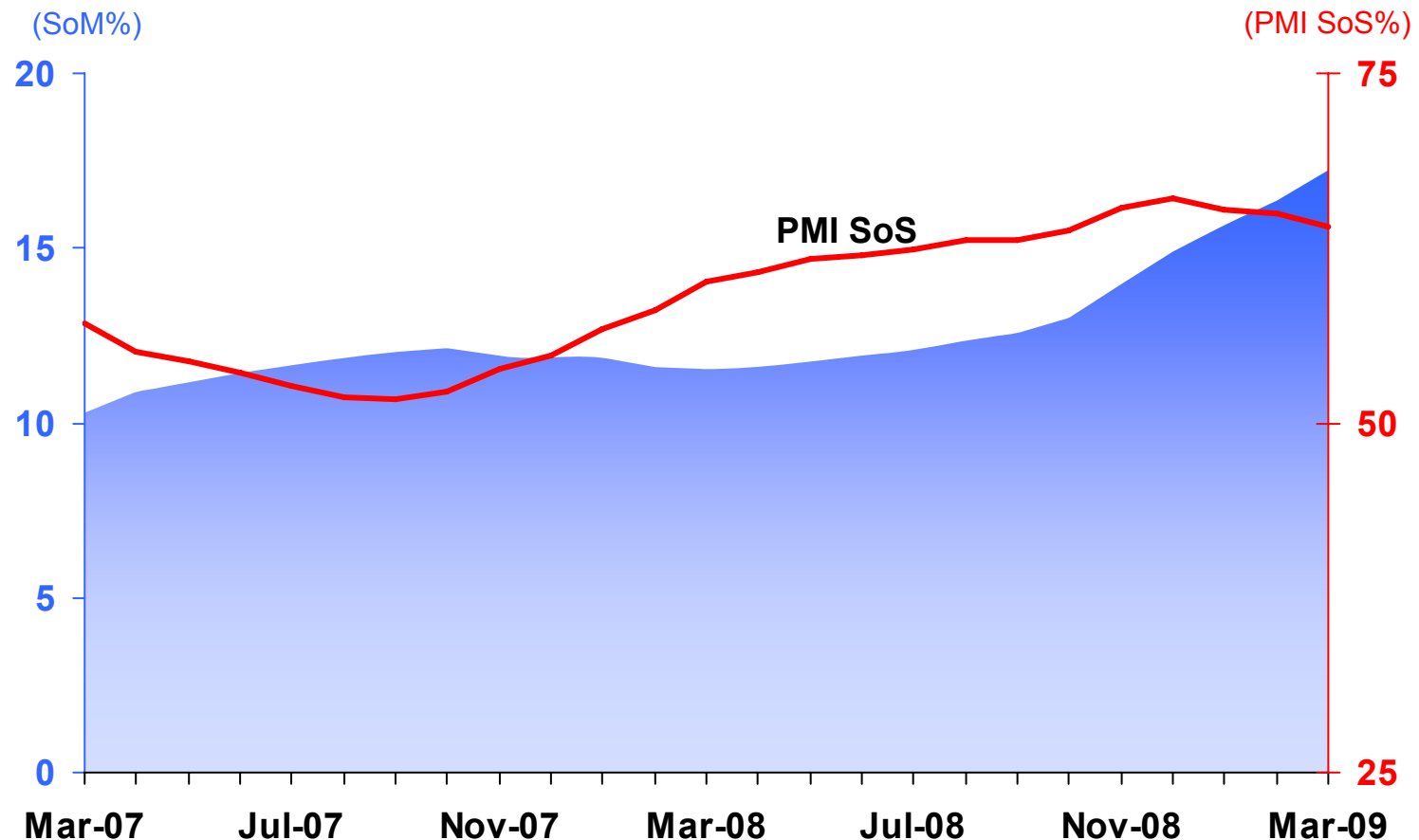
►► Increasing consumer preference for charcoal filter products

# Recessed Filter Segment



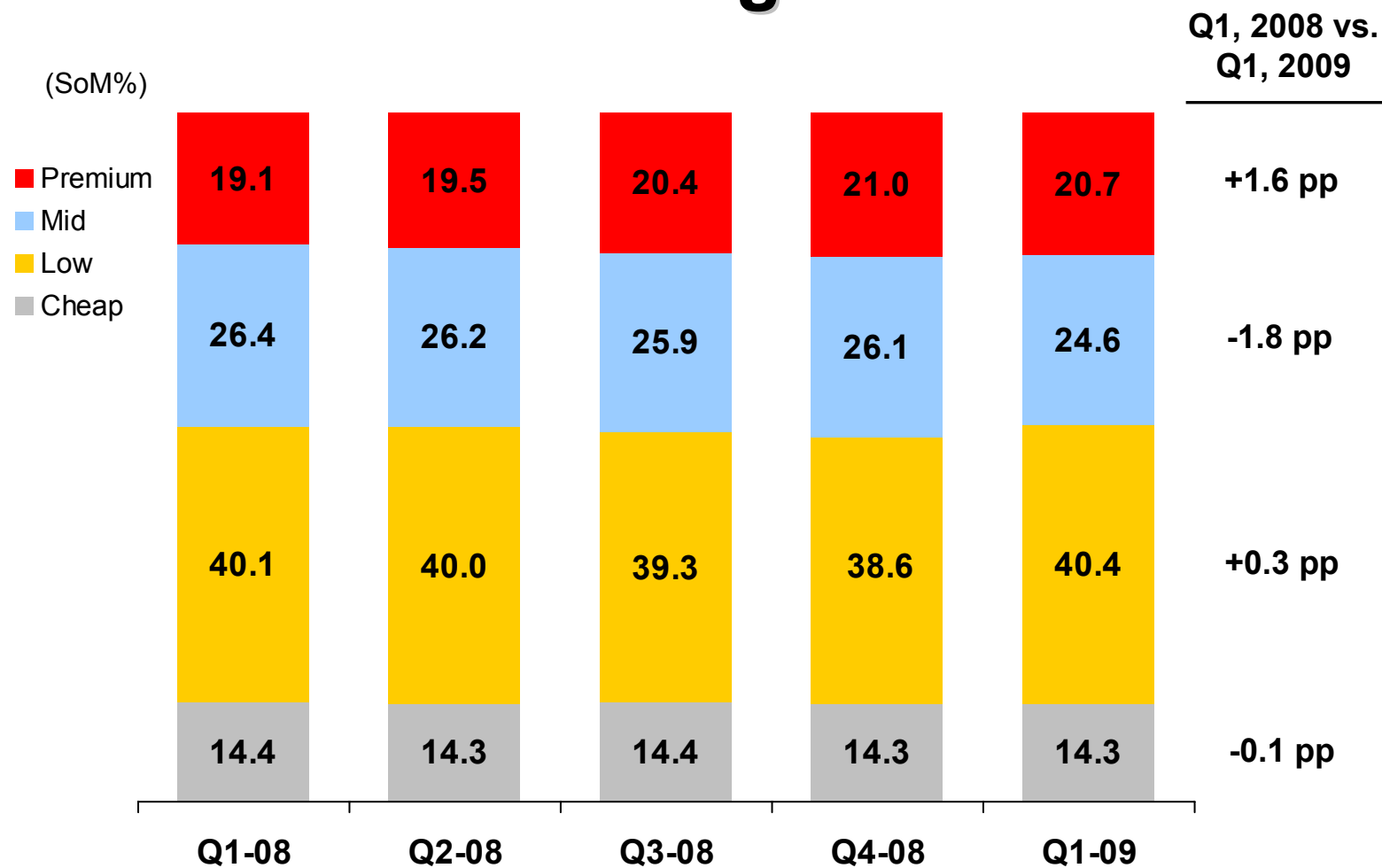
►► Increasing popularity of recessed filter cigarettes

# Recessed Filter Segment



▶▶ PMI has 60% + of the fast growing recessed filter segment

# Price Segments































# Competitive Landscape

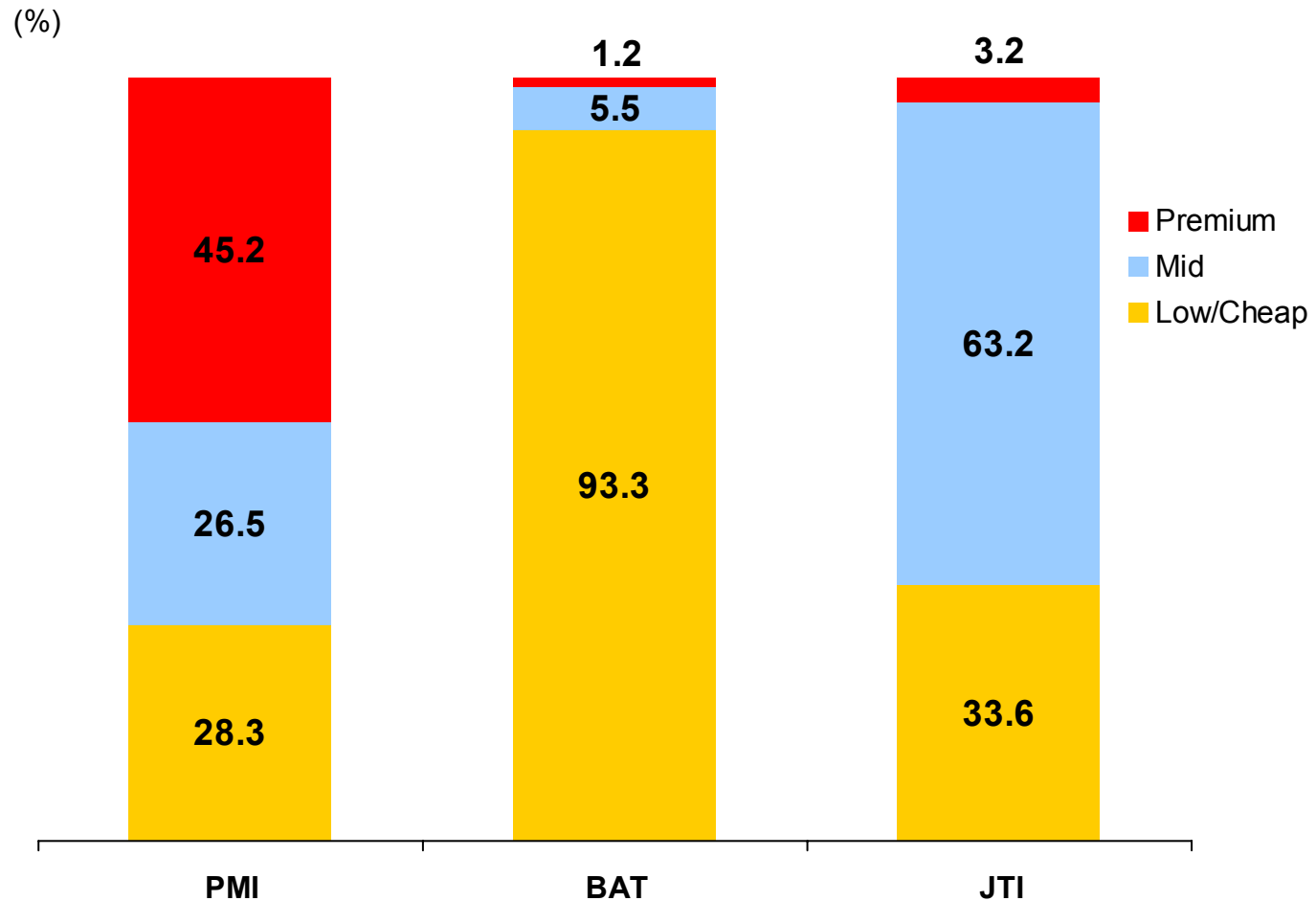
Q1, 2009	PMI
Premium	 The image shows two cigarette packs side-by-side. On the left is a red Marlboro pack with the brand name in white. On the right is a blue and white Parliament pack with the brand name in blue. Both packs have a warning label at the bottom that reads 'Sigara içmek size ve çevreye ciddi zararlar verir' (Smoking causes serious harm to you and the environment).
Mid-price	 The image shows two cigarette packs side-by-side. On the left is a blue and white Muratti pack with the brand name in blue. On the right is a red and white EM pack with the brand name in red. Both packs have a warning label at the bottom that reads 'Sigara içmek size ve çevreye ciddi zararlar verir' (Smoking causes serious harm to you and the environment).
Low-price	 The image shows two cigarette packs side-by-side. On the left is a red and white Lark pack with the brand name in red. On the right is a red and white Bond pack with the brand name in red. Both packs have a warning label at the bottom that reads 'Sigara içmek size ve çevreye ciddi zararlar verir' (Smoking causes serious harm to you and the environment).
Cheap	



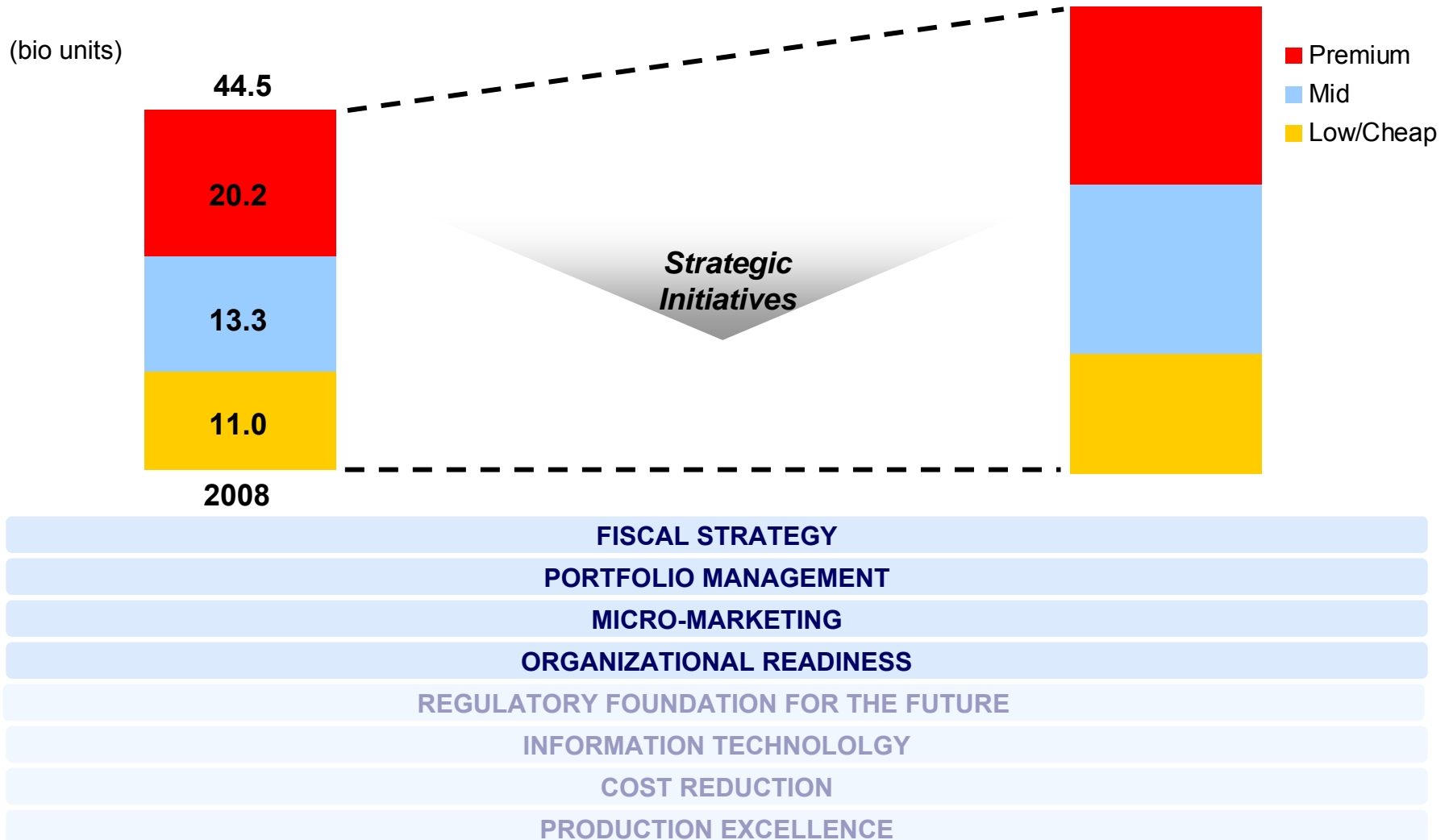
# Competitive Landscape

Q1, 2009	PMI	BAT	JTI	IT	ET
Premium	 				
Mid-price	 				
Low-price	 	   			 
Cheap		   	 		

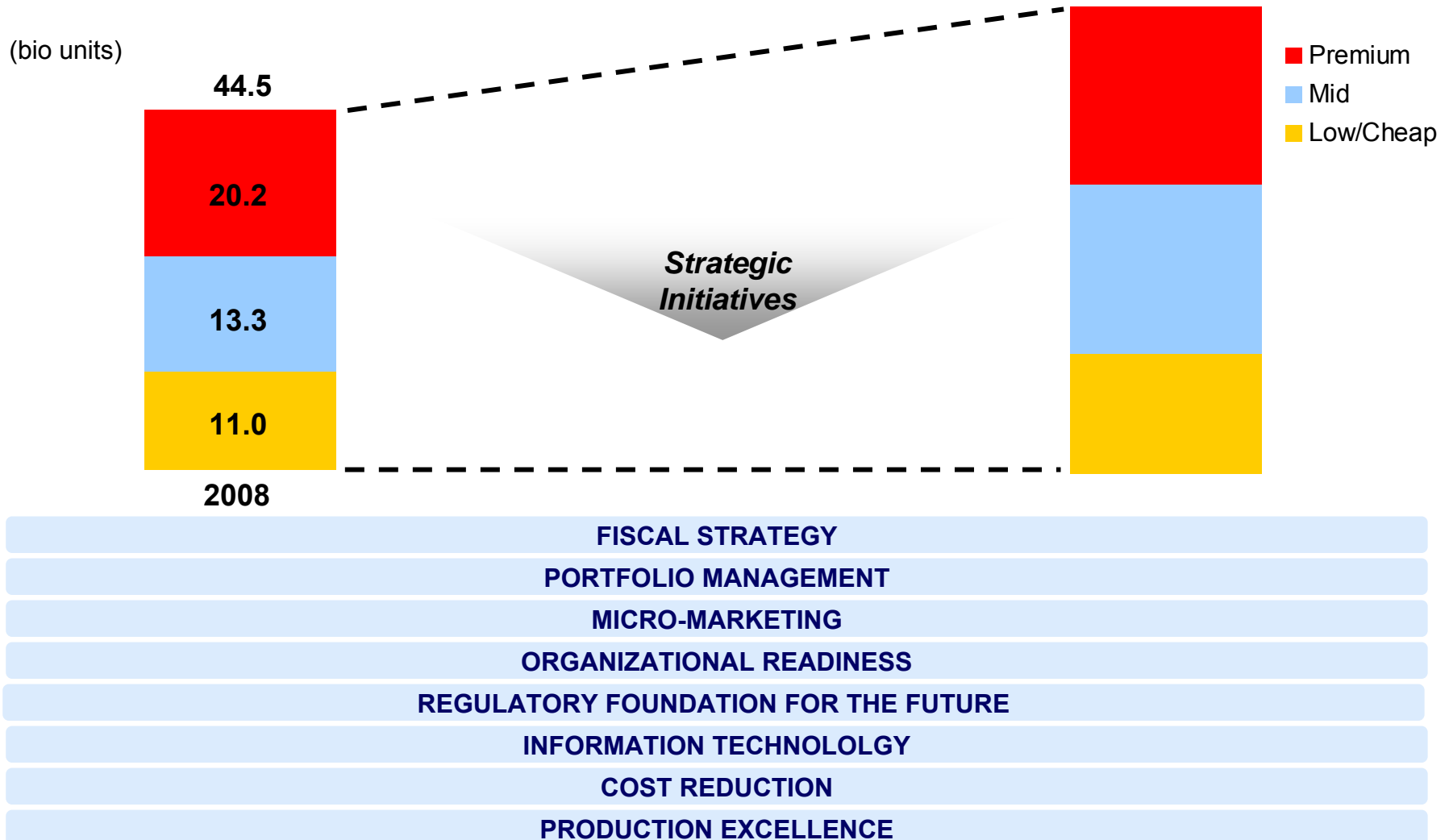
# Price Segment Mix (Q1, 2009)



# Growth Model



# Growth Model



# Fiscal Environment

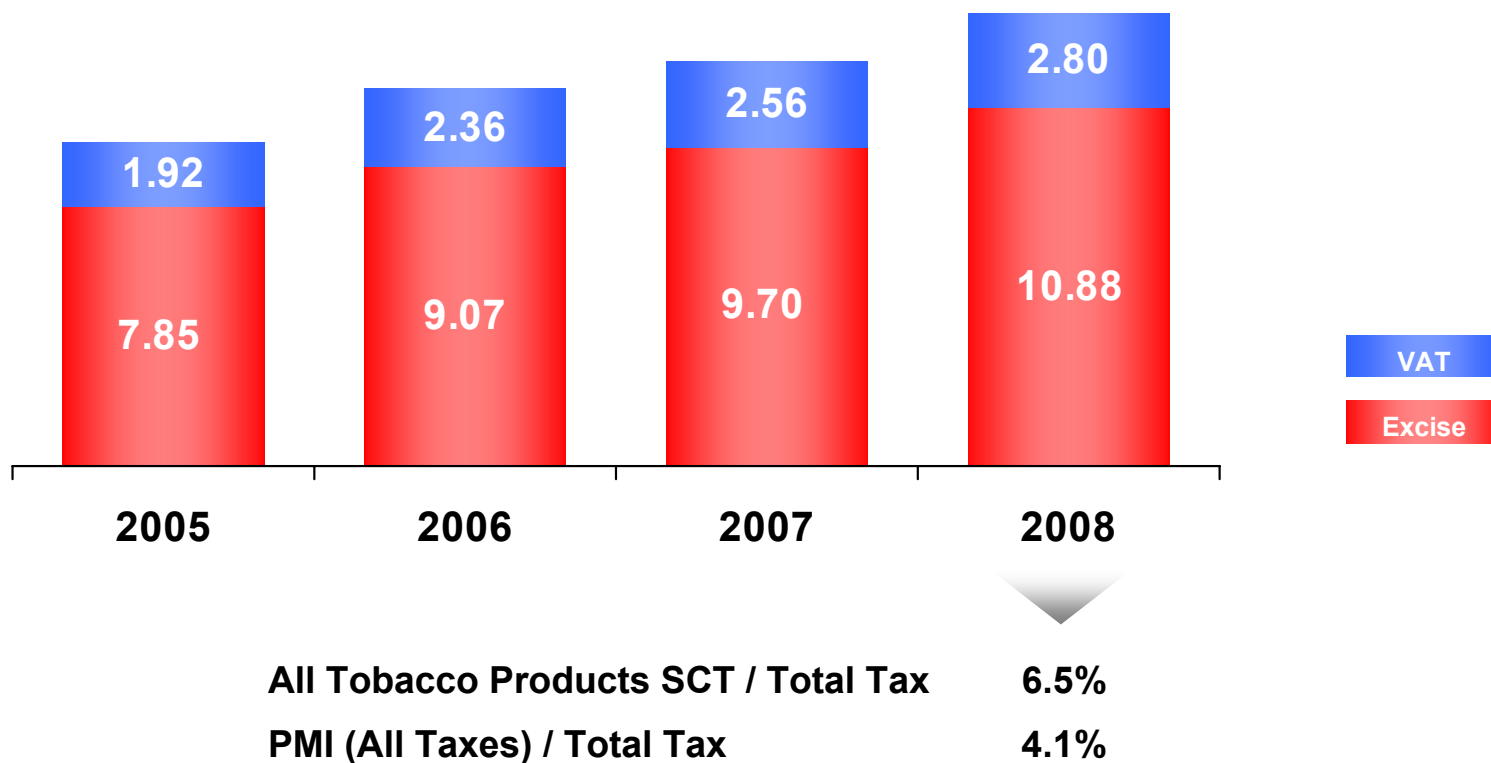
## Tax Structure

(June 2009)

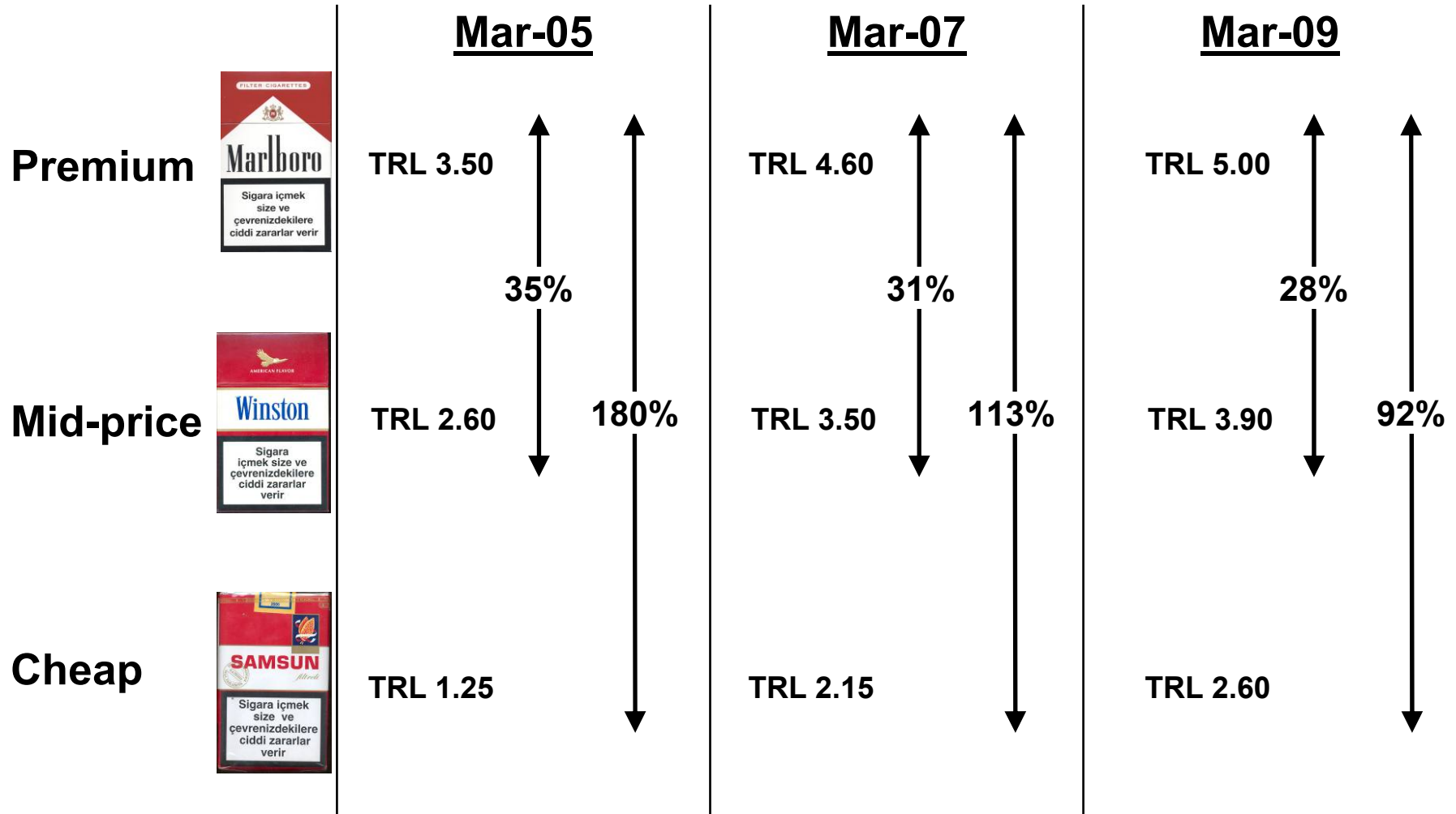
<b>VAT</b>	▷	<b>18%</b>
<b>Ad Valorem Excise</b>	▷	<b>58% of retail price</b>
<b>Specific Ratio</b>	▷	<b>-</b>
<b>Minimum Excise Tax</b>	▷	<b>TRL 2.05 / pack</b>
<b>Total Excise</b>	▷	<b>58% minimum</b>

# Government Tax Revenues From Cigarettes

(TRL bio)



# Price Gaps



# Portfolio Strategy

## Premium



▶ **Marlboro**

- Flagship brand, iconic, flavorful enjoyment

▶ **Parliament**

- Sophisticated and refined

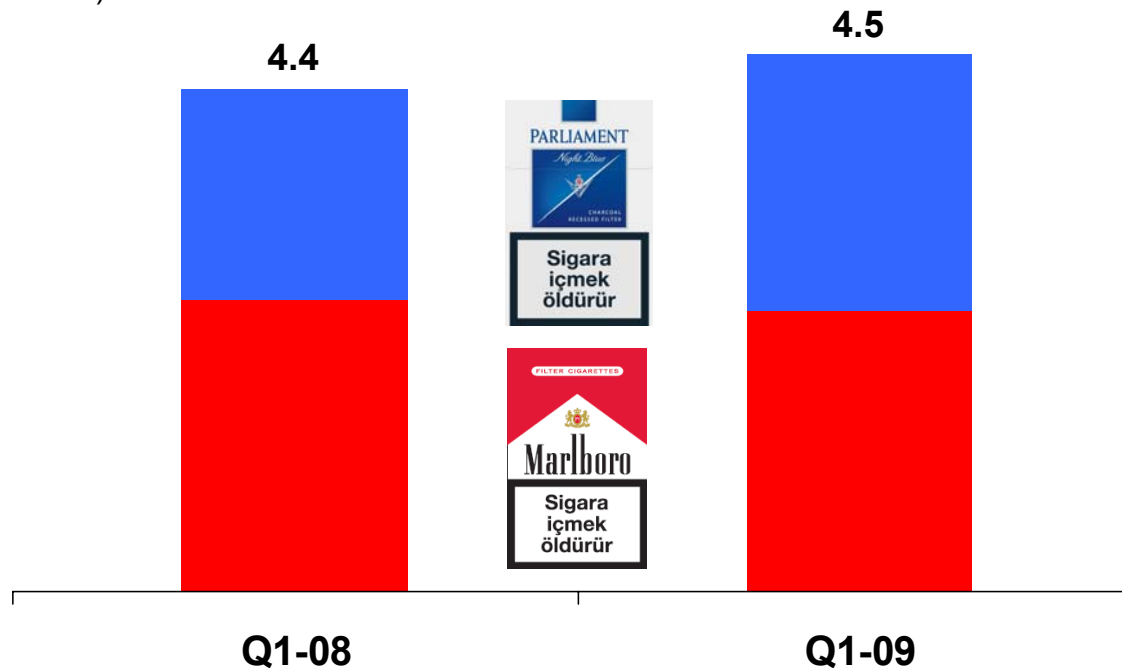


# Premium Strategy

- Reinforce premium segment leadership:
  - ***Marlboro:***
    - Increase relevance for Legal Age (min. 18) - 24 consumers through continuous innovation
    - Reinforce leadership via new brand architecture touching all consumer preferences and motivations
  - ***Parliament:***
    - Sustain growth momentum and retain the #1 prestige brand position

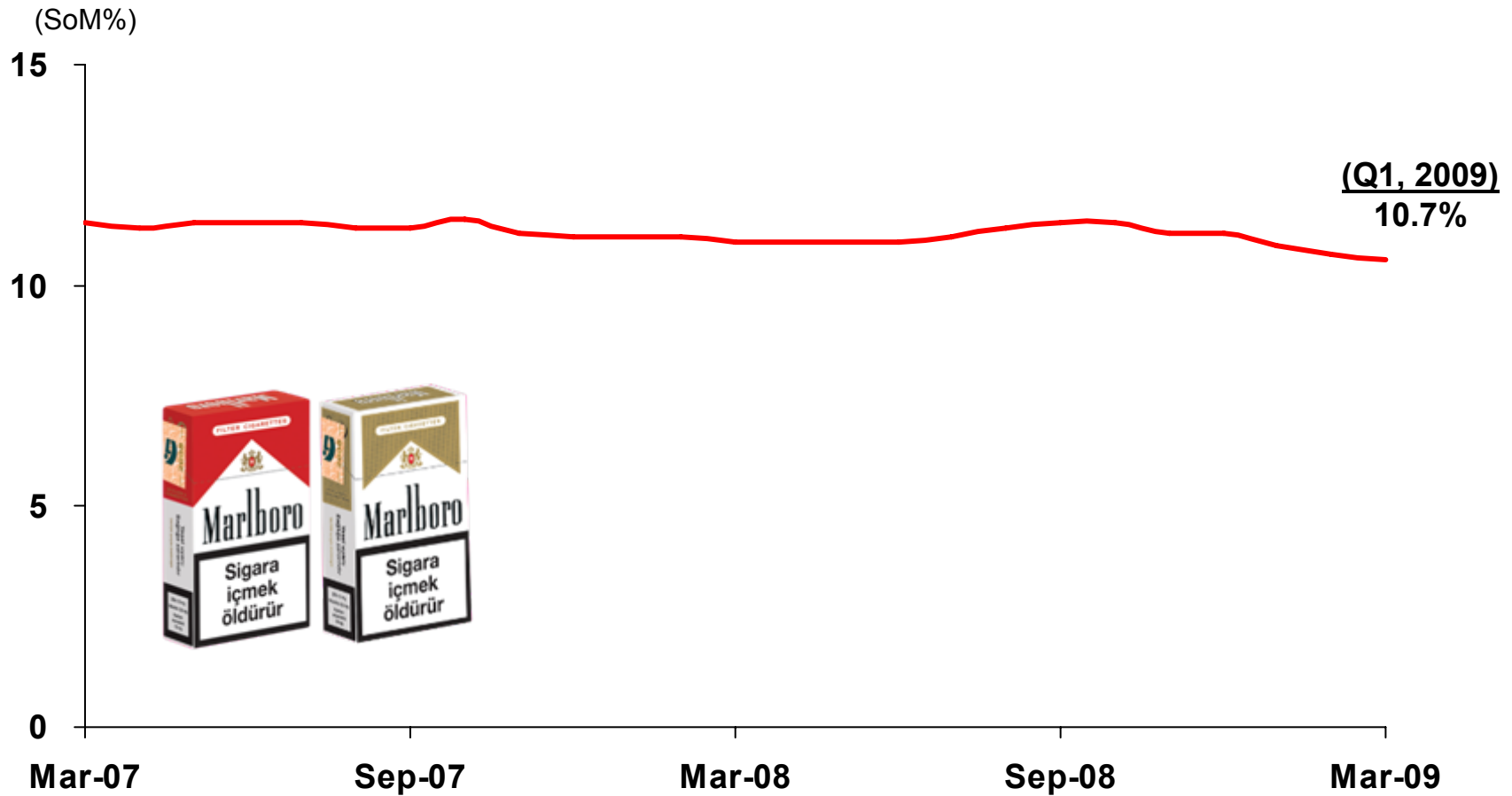
# PMI Premium Volume

(bio units)



►► **Parliament** growth more than off-setting slight decline in **Marlboro**

# Marlboro Performance



# Marlboro Consumer Perception

The most liked brand in the market among all smokers

## Product Perception

Excellent taste

Highest quality tobacco

Attractive pack

Consistent quality



The brand with the strongest brand equity

## Brand Perception

Prestigious

Highly visible

Modern

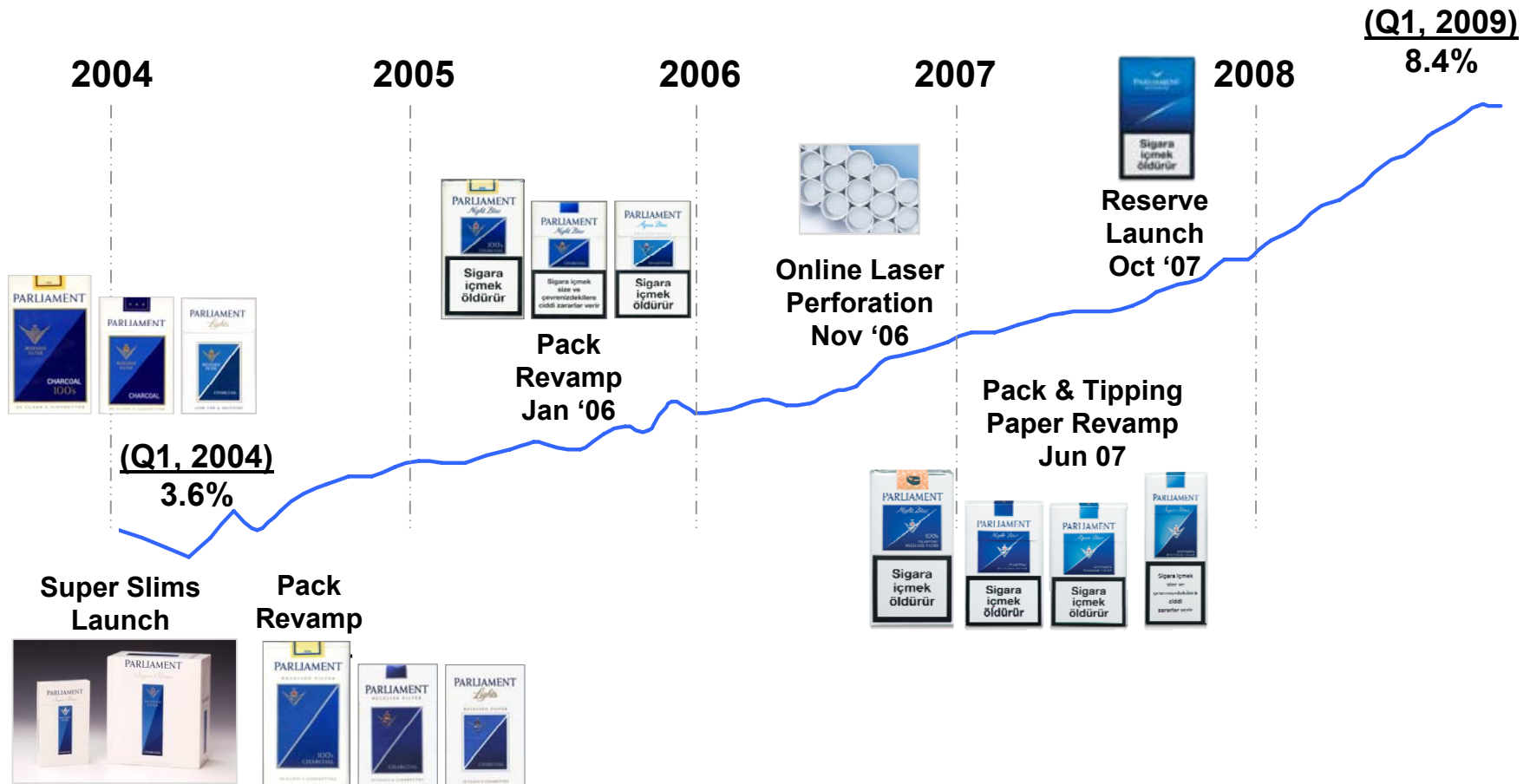
Stylish / elegant

►► **Marlboro** has the highest esteem of all cigarette brands amongst Turkish adult smokers

# Marlboro Brand Family



# Parliament Market Share



►► Superior performance driven by continuous, consumer-relevant enhancements

# Parliament Brand Family



# Portfolio Strategy

## Premium



▶ **Marlboro**

- Flagship brand, iconic, flavorful enjoyment

▶ **Parliament**

- Sophisticated and refined

## Mid-price



▶ **Muratti**

- Distinctive elegance

▶ **L&M**

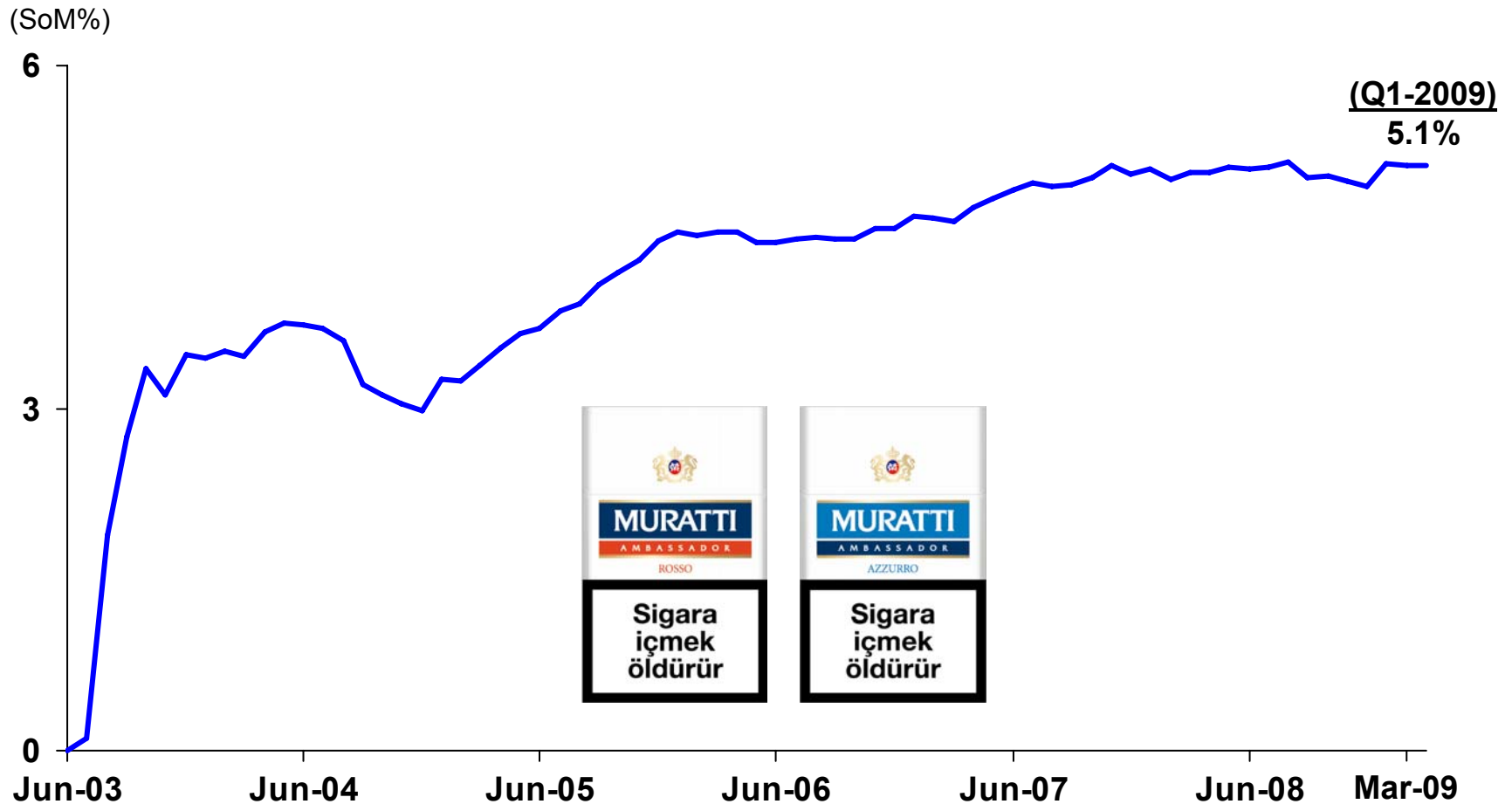
- Affordable international brand



## Mid-Price Strategy

- Reinforce our position:
  - *Muratti*:
    - Strong sales support nation-wide
  - *L&M*:
    - Nurture traditional *L&M* smoker base
    - Reposition *L&M* brand for future growth

# Muratti Market Share



►► **Muratti** has become a major player in the mid-price segment

## ***Muratti***

- **Distinctive elegant style**
- **16.5% share of growing charcoal filter segment in Q1, 2009**
- **Build on regional strongholds and develop national presence and appeal**

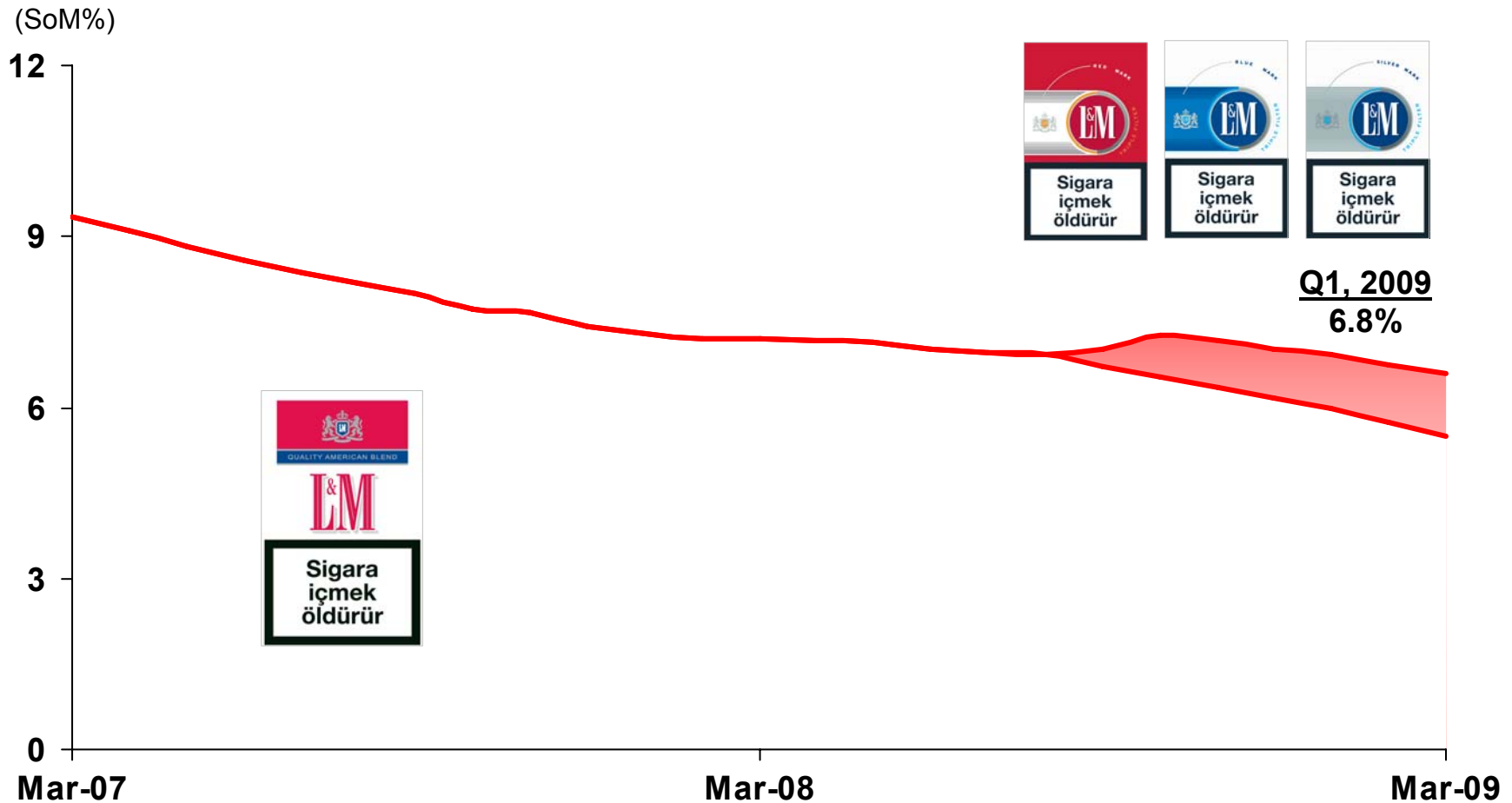


# L&M

- Declining performance of traditional *L&M* due to aging smoker profile and price sensitivity
- *L&M Mark* introduced to reposition *L&M* for future growth



# L&M Market Share



►► **L&M Mark launch has slowed the decline of the L&M brand family**

# Portfolio Strategy

## Premium



▶ **Marlboro**

- Flagship brand, iconic, flavorful enjoyment

▶ **Parliament**

- Sophisticated and refined

## Mid-price



▶ **Muratti**

- Distinctive elegance

▶ **L&M**

- Affordable international brand

## Low-price



▶ **Lark**

- “Premium” of low-price segment

▶ **Bond Street**

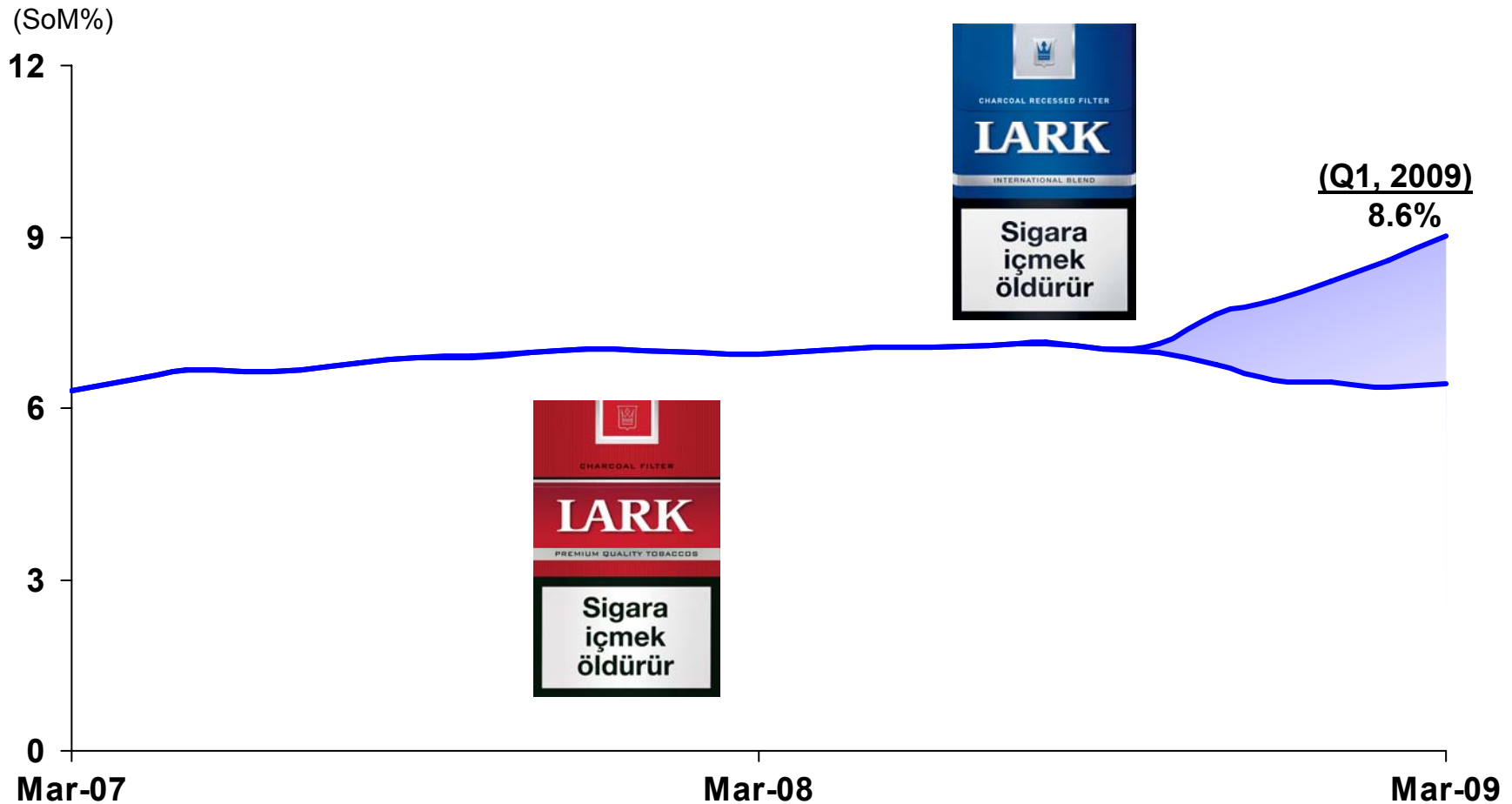
- International heritage

## ***Lark***

- The “premium” of the low-price segment:
  - Premium packaging, value price
- Fastest growing brand on the Turkish market:
  - In-switchers from competitor brands
  - Launch of *Lark Recess Blue*



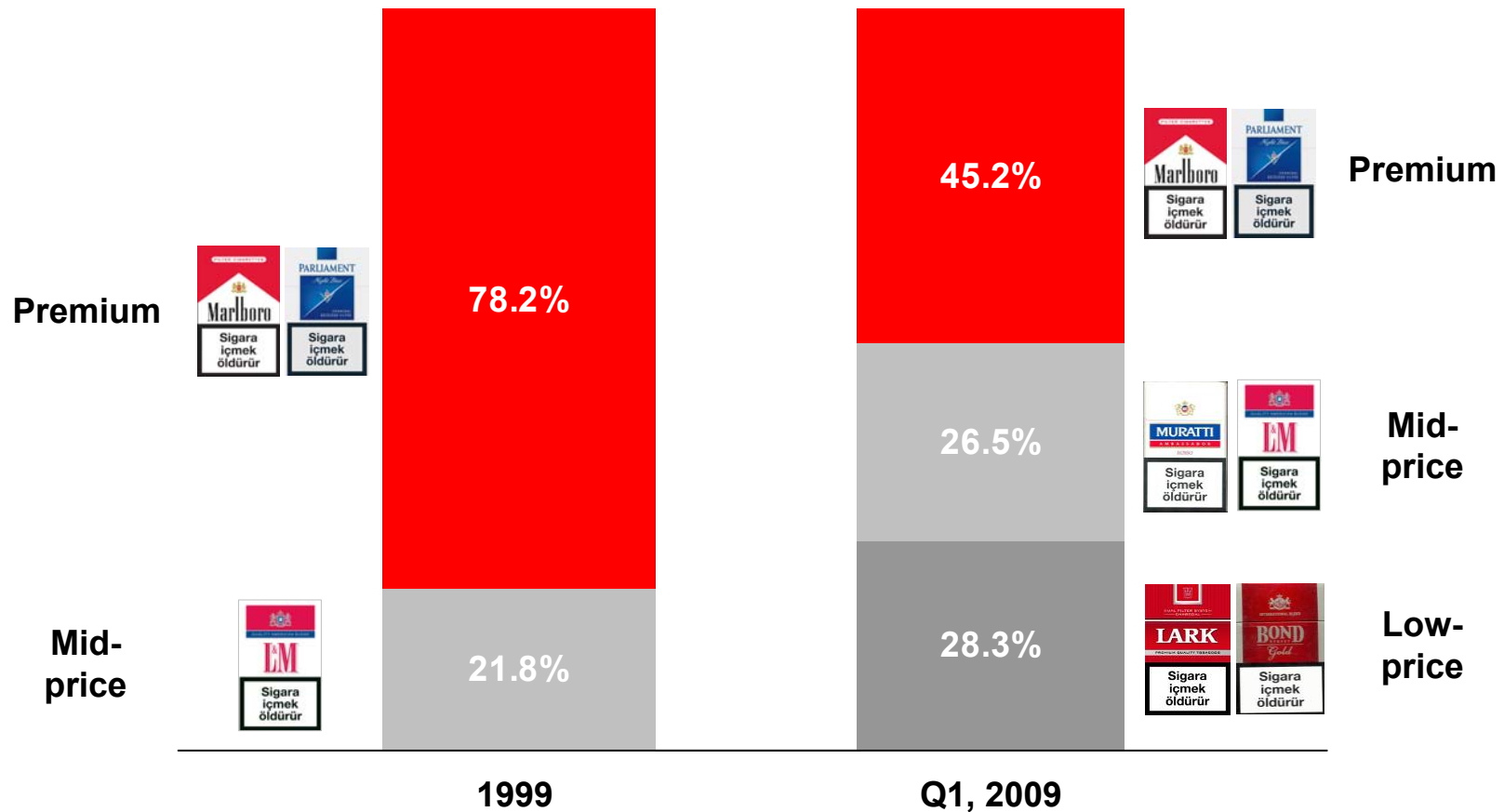
# Lark Market Share



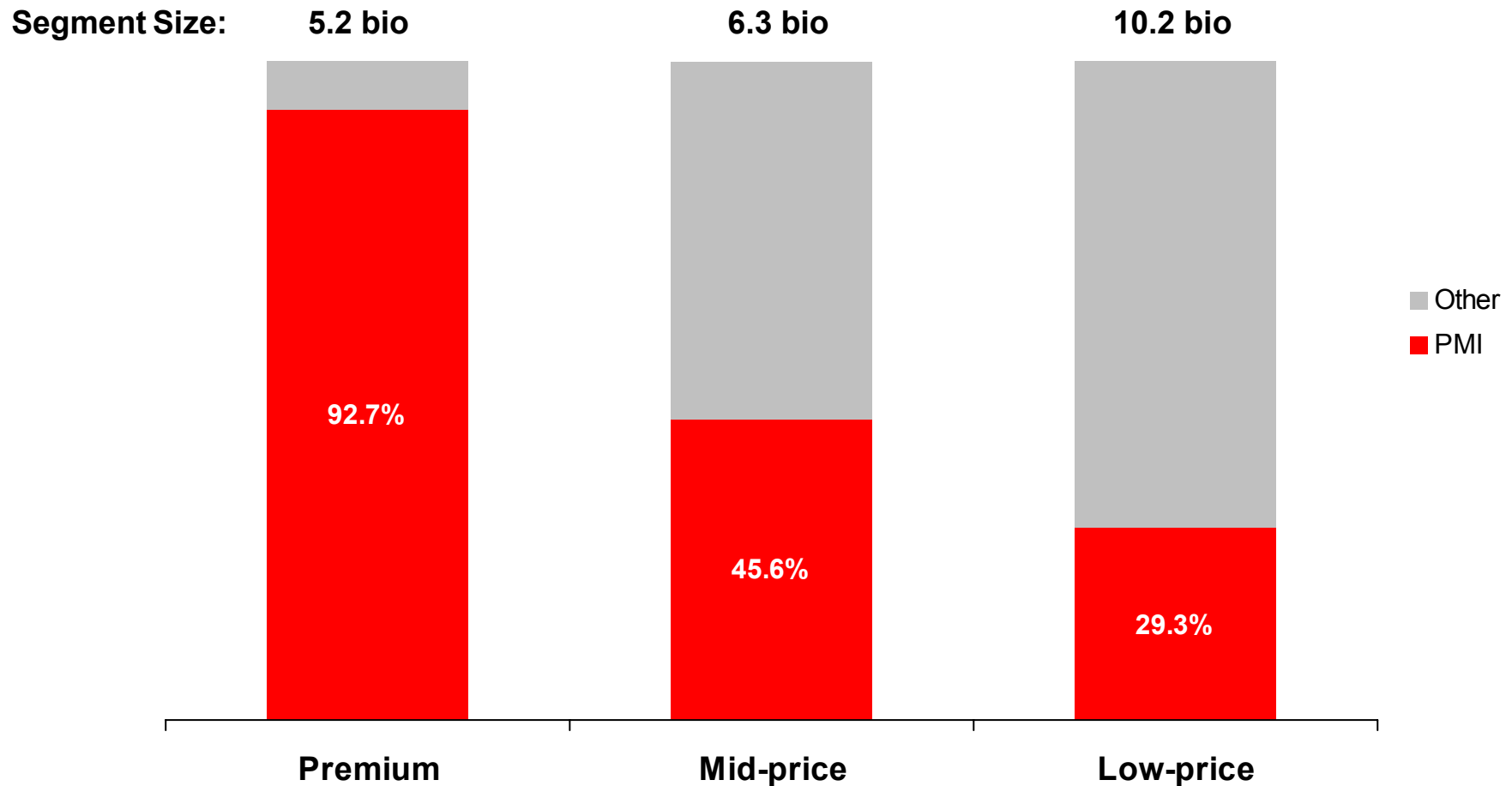
► **Lark is the fastest growing cigarette brand in the market**



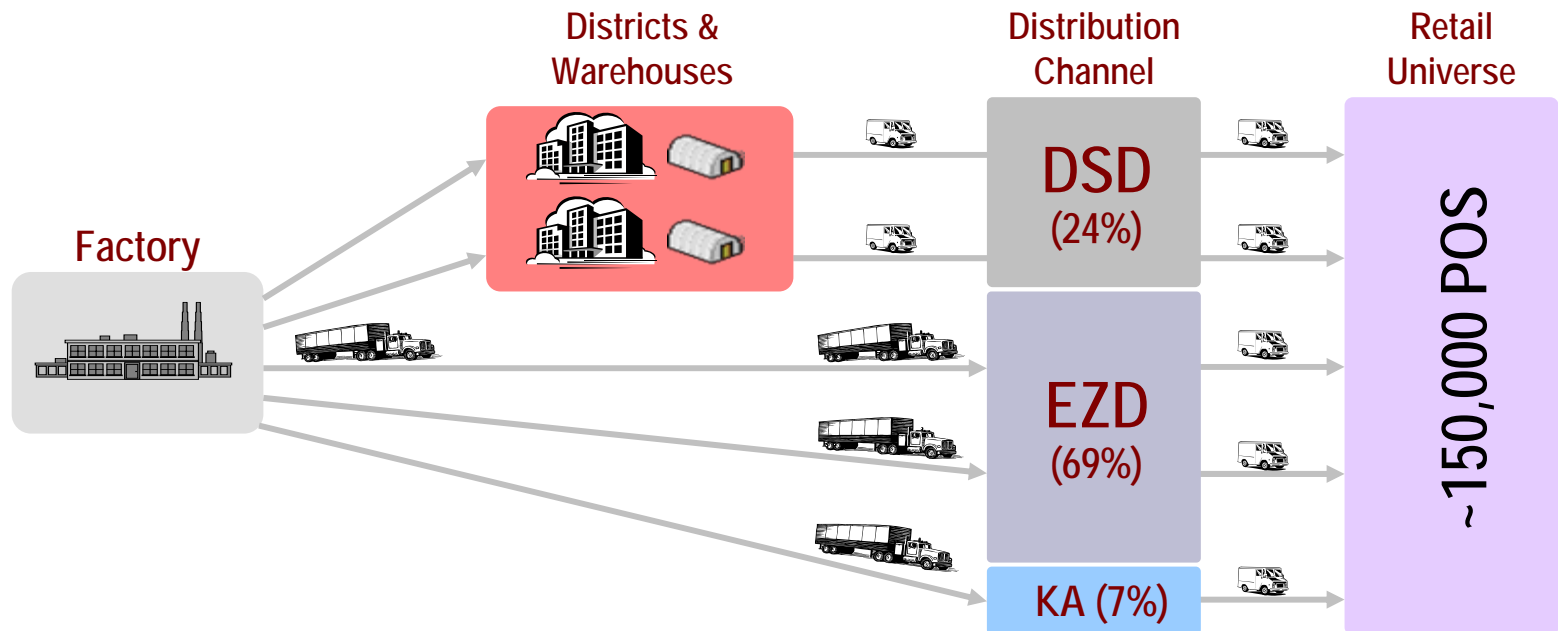
# Balanced Brand Portfolio



# PMI Share of Price Segments (Q1, 2009)



# Sales & Distribution Infrastructure



# Sales Architecture

## #1 in Field Force Execution

### FLEXIBLE PAYMENT TERMS



+4 Days  
Payment Terms



Bank Guarantee  
in DSD

### DISTRIBUTION CAPABILITIES



%100 Coverage  
in EZD Area



Low-End  
Segment

### NEW PRODUCT LAUNCHES



*L&M Mark*



*Lark Recess Blue*

### CONSUMER ENGAGEMENT



Adult Smoker  
Dialogue



Sales Support

# Micro-Financing Initiative

## ► Microfinance – DSD



- **Weekly credit line**
- **Bank guaranteed credit sales**
- **“First” for cash collection in FMCG**

## ► News Coverage

### Garanti ve PMSA'dan bakkallara mikro finansman

İZMİR -DÜNYA

Philip Morris SA (PMSA), Garanti Bankası Ortak Kart işbirliği ile bakkallara yönelik “mikro finansman projesi” başlatarak sektörde bir ilke imza attı. Çalışma, Garanti Bankası Ortak Kart ile PMSA ürünlerinin alımlarında bakkalların işletme sermayelerine destek olarak alım gücü sağlıyor. Proje çerçevesinde, Garanti Ortak Kart’ın sağladığı güvence ile satış noktalarına belli bir işletme sermayesi tahsis edilirken, PMSA ürün alımlarında peşin yerine 7 güne kadar vade yaptırılabilir. Ayrıca tahsis edilen Garanti Ortak Kart’la satış noktaları mikro finansman limitleri dahilinde alımlarını vadeli olarak yapabiliyor.

PMSA satış temsilcilerinin “ödemeler noktası” özelliği de taşıyan Garanti POS terminallerinden Ortak Kart borç ödemelerini de tahsil edebilmesi aynı bir kolaylık sağlıyor. Satış temsilcilerinin yanı sıra POS cihazları ile PMSA ürün alımlarına karşılık satış noktalarından ödeme tahsilatı yapabilmeleri, genelde gün boyu bir kişi tarafından işletilen bakkalların dükkanlarını kapatarak bankaya gitme sorununu ortadan kaldırıyor. Toplumsal paylaşımı artırarak sermayenin tabana yayılmasına da katkı sağlayacağı düşünülen projeye bürokrasinin de en aza indirilerek verimin artırılması hedefleniyor. Proje kapsamında, her türlü soru ve öneri için Garanti Bankası Çağrı Merkezi desteği de verilecek.



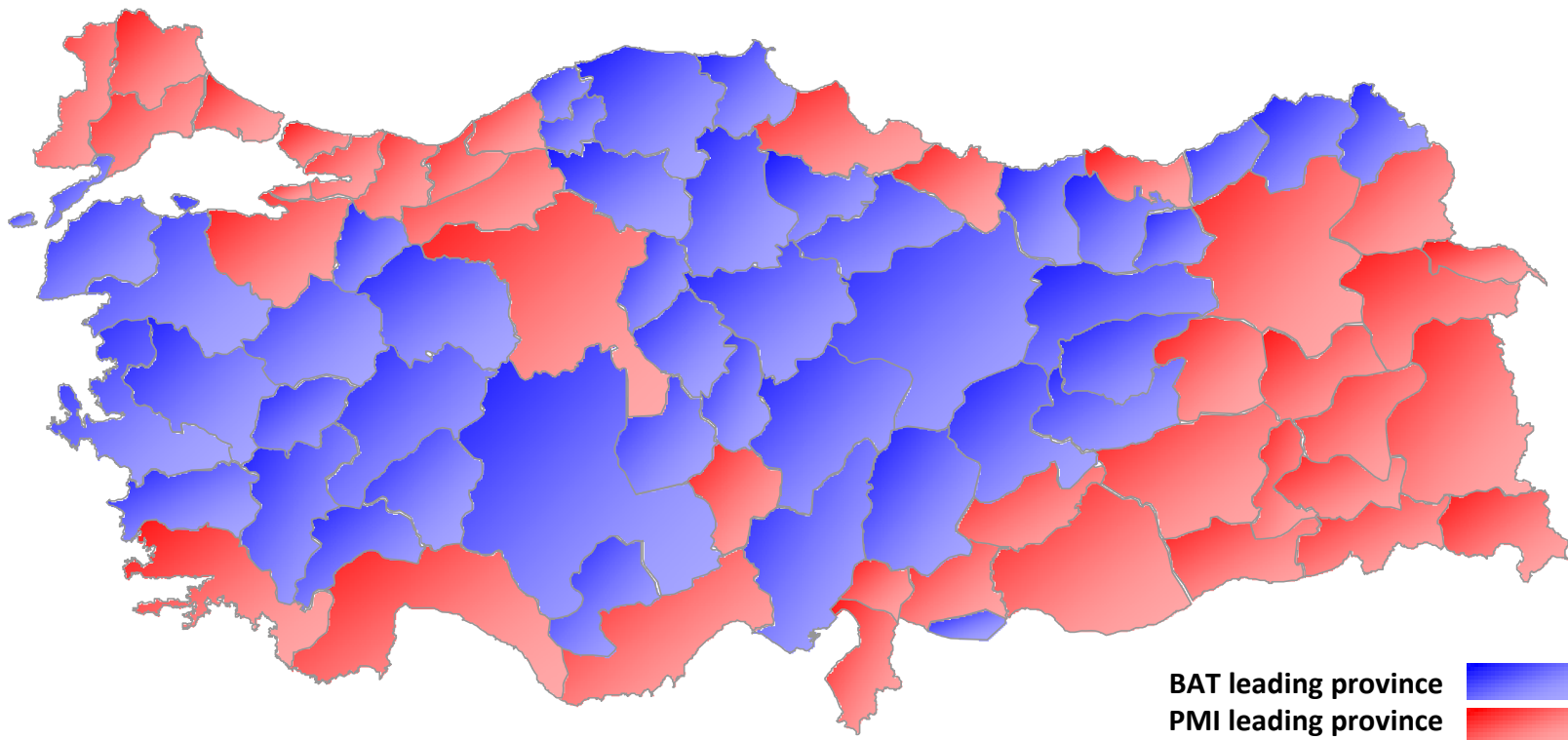
# Consumer Engagement

- **Adult Consumer Dialogue:**
  - Provide adult consumers with factual product information through:
    - PMI sales force
    - Sales support employees with extensive training in 33 key cities



# Market Leadership by Province (Jun-08)

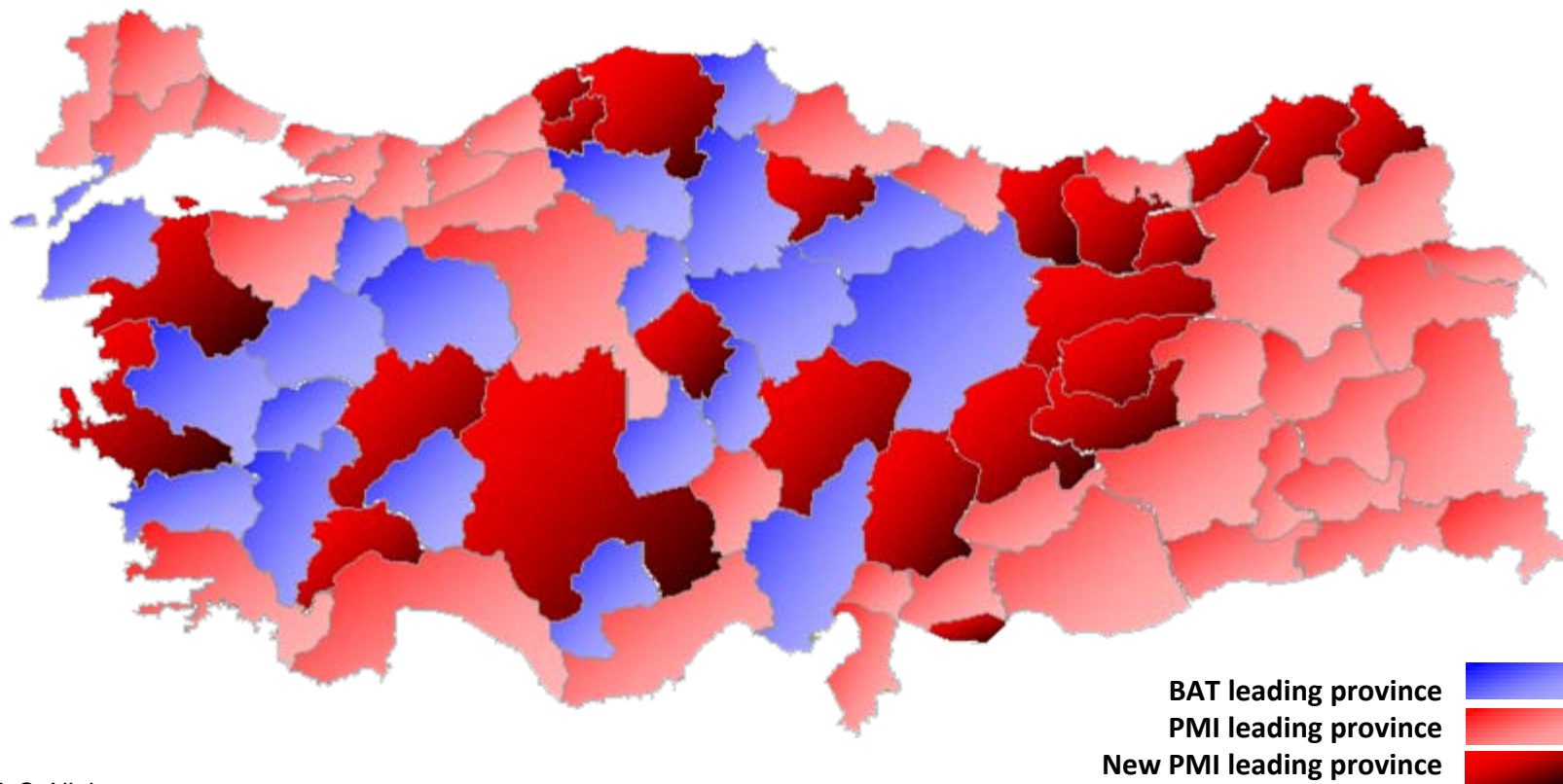
	PMI	BAT
Market Share	41.2%	34.0%
# of Leading Provinces	38	43





# Market Leadership by Province (Mar-09)

	PMI	BAT
Market Share	42.5% (+1.3 ppt)	31.3%
# of Leading Provinces	61 (+23 cities)	20





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# **Organizational Readiness**

- **1,535 employees**
  - **99% Turkish nationals**
  - **90% in Sales, Marketing, Manufacturing**

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- **Sustained drive for growth & agility**
  - **“Culture Shift” and “Speed-to-Win” initiatives**
  - **Empowerment and open communication**

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# **Organizational Readiness**

- **1,535 employees**
  - 99% Turkish nationals
  - 90% in Sales, Marketing, Manufacturing
- **Sustained drive for growth & agility**
  - “Culture Shift” and “Speed-to-Win” initiatives
  - Empowerment and open communication
- **Employer value profile**
  - Focus on talent recruitment & retention, people and career development
  - Talent source for PMI
  - Sustained market credibility as career-oriented employer

## Conclusions

- **Large and profitable market**
- **Successful strategies have been implemented:**
  - 90+ % of premium segment with *Marlboro* and *Parliament*
  - Superior, balanced brand portfolio
  - Excellent Sales & Distribution infrastructure
- **PMI market share grew 1.6pp to 42.4% in Q1, 2009**
- **Increased speed-to-market**
- **Very talented organization**
- **State-of-the-art manufacturing facility**



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**Questions & Answers**