Annual Meeting of Stockholders

Philip Morris International Inc.
May 11, 2011
New York, NY

(SLIDE 1.)

Good morning, ladies and gentlemen and welcome to Philip Morris International's 2011 Annual Meeting of Stockholders. The meeting is now called to order.

I am Louis Camilleri, Chairman of the Board and Chief Executive Officer.

I would like to extend my warmest welcome to stockholders and employees who have joined us via a live audio webcast of the meeting, as well as those who are here in person today.

It is my privilege to welcome our Board of Directors, all of whom are in attendance and seated in the front rows.

I would also like to introduce Jerry Whitson, Deputy General Counsel and Corporate Secretary, who is on stage with me.

In addition, I would like to introduce Jim Maher and Jim Schumacher of PricewaterhouseCoopers, our auditors. They are in the audience and will be available to answer questions after the meeting.

The Agenda and the rules for the meeting have been placed on your seats.

It is our intention to proceed in accordance with the Agenda and the rules for the meeting.

(SLIDE 2.)

My remarks today contain certain forward-looking statements and I direct your attention to the Forward-Looking and Cautionary Statements section on this slide. A glossary of terms and reconciliation slides of non-GAAP to US GAAP measures are provided at the end of this presentation and will be posted on our web site.

(SLIDE 3.)

The Secretary will now present certain formal documents. Jerry.

Thank you, Mr. Chairman.

I present to the meeting, together with Affidavits of Mailing, a copy of the Notice of Meeting, form of Proxy, Proxy Statement and Annual Report, including financial statements for the fiscal year ended December 31, 2010.

The holders of record of common stock at the close of business on March 15, 2011, are entitled to vote at this meeting. I am informed that more than 84% of Philip Morris International Inc.'s common stock is represented here today and, therefore, a quorum is present for the transaction of business.

Will the Secretary please file the documents with the records of the meeting.

I appoint as Inspectors of Election, Amilja Regan and Kevin Laurita of Computershare, the Transfer Agent for PMI's common stock.

The Inspectors are instructed to execute the oath, and to take custody of all proxies, and of the certified list of holders of common stock as of the close of business on March 15, 2011.

The list contains the names and addresses of all holders of common stock, and the number of shares held by each.

The list is available for inspection throughout the meeting.

The Inspectors will certify the vote on each of the matters to be presented to the meeting. Proxies and ballots are kept confidential, except where stockholders have written comments on them.

(SLIDE 4.)

2010 was a challenging year as we had to deal with unprecedentedly high excise tax increases in six important markets, the impact on consumer sentiment of stubbornly high and rising unemployment levels in several European markets, and an increase in illicit trade. Even in this environment, our financial results were robust. EPS growth was solid and a significant reduction in working capital helped to drive a very strong increase in our cash flow. This in turn allowed us to continue to generously reward our stockholders. Last year, we increased our dividend by a further 10.3% and spent $5.0 billion to repurchase an additional 97.1 million of our shares.

(SLIDE 5.)

In 2010, PMI's cigarette volume reached just under 900 billion units, an increase of 35.8 billion units, or 4.1%, compared to 2009, driven by our business combination in the Philippines. On an organic basis, volume was down by 2.5%, mainly reflecting the impact of lower industry volume, due to disruptively high excise tax increases in Australia, Greece, Japan, Romania, Turkey and Ukraine, as well as a very difficult economic climate particularly in Spain.

(SLIDE 6.)

Our net revenues totaled $27.2 billion in 2010, up by 8.7%, and by 3.4% excluding both currency and acquisitions. This was driven by our strong pricing power and was based on our brand leadership and broad portfolio.

(SLIDE 7.)

Adjusted OCI was $11.5 billion in 2010, an increase of 10.3%, and 5.8% excluding currency and acquisitions.

(SLIDE 8.)

Adjusted diluted earnings per share reached $3.87, representing an increase of 17.6%, and 14.0% excluding currency.

(SLIDE 9.)

During the first quarter of 2011, our cigarette volume grew 1.6%, driven by our business combination in the Philippines. Our organic volume was unfavorably impacted by anticipated softness in Japan, Mexico, Pakistan, Spain and Ukraine, as well as by the events in North Africa, and was consequently 3.3% lower.

(SLIDE 10.)

During the quarter, we further reinforced our position in our key markets, and our share in our top 30 OCI markets was up 0.5 points compared to a year earlier, despite continued high unemployment levels and fiercer price competition.

(SLIDE 11.)

Marlboro's performance continues to strengthen on a global basis, as shown by its positive market share trend.

(SLIDE 12.)

Net revenues in the first quarter increased by 4.5%, and by 2.7% excluding currency and acquisitions, as higher prices more than offset the impact of lower volumes.

During the same period, our adjusted OCI grew by 11.4%, and by 8.0% excluding currency and acquisitions.

(SLIDE 13.)

Strong pricing, most notably in Japan, as well as our continued focus on productivity improvements, resulted in an increase of 2.2% points during the first quarter in PMI's adjusted OCI margin, excluding currency and acquisitions. The decline in the EEMA Region was entirely attributable to a significant income windfall earned in the prior year period.

(SLIDE 14.)

Our strong business results and our share repurchase program enabled us to increase adjusted diluted EPS by 17.8% in the first quarter, and by 14.4% excluding currency.

(SLIDE 15.)

Our improved business outlook and more favorable exchange rates led us, on April 21st, to increase our reported diluted EPS guidance for 2011 by 20 cents to a range of $4.55 to $4.65.

Compared to an adjusted diluted EPS of $3.87 in 2010, this corresponds to an increase of approximately 17.5% to 20% at prevailing exchange rates, and approximately 12.5% to 15% excluding currency. This 2011 EPS guidance represents a rate of growth that is superior to the mid to long-term currency neutral annual growth target that we established at the time of the spin.

(SLIDE 16.)

We have generally performed very well against our annual mid to long-term financial targets, which are 4 to 6% net revenues growth, 6 to 8% adjusted OCI growth and 10 to 12% adjusted diluted EPS growth, all excluding currency, and net revenues and OCI also excluding acquisitions.

(SLIDE 17.)

We did achieve our 1% organic volume growth target in 2008. Since then, we have generally outperformed the industry, but have been impacted by unfavorable cigarette industry volume trends outside of China and the USA, resulting from unreasonable tax increases and a weak economy. We estimate that industry volume declined by 1.6% in 2009 and by a further 2.2% last year.

(SLIDE 18.)

The key drivers of our strong financial performance since the spin are our superior brand portfolio and global infrastructure, our success in completing strategically and financially attractive business development projects, strong pricing, the evolution of tobacco leaf prices, and productivity and cost savings.

(SLIDE 19.)

Our brand portfolio is composed of leading international and local heritage brands, covering all profitable price segments.

(SLIDE 20.)

We own seven of the top 15 international cigarette brands.

(SLIDE 21.)

These are led by *Marlboro*, the only truly global cigarette brand, which has been re-invigorated by the development and roll-out of the new architecture and consumer-relevant line extensions.

(SLIDE 22.)

Parliament, usually sold at an above premium price, complements *Marlboro* and is performing very well in a number of markets, in particular in Eastern Europe. *Parliament* volume increased by 9.0% in the first quarter of this year, and achieved a 7.5% market share in Turkey and 6.0% in Korea.

(SLIDE 23.)

Chesterfield volume was lower in the first quarter, due to the impact of difficult economic conditions on consumer behavior in Spain and the Ukraine. We have modernized the brand offering and the brand is growing rapidly in Austria and Portugal and continues to expand its market share in Russia.

(SLIDE 24.)

L&M had a strong start to the year with volume up 1.5% on a global basis in the first quarter and growth in all four Regions. The key driver of this performance was share gains in Turkey, Greece, Brazil, Germany, Romania and Thailand, while the brand continues to be weak in Eastern Europe.

(SLIDE 25.)

The strength of our brands and our superior global infrastructure, complemented by geographic expansion through business development projects, has enabled us to establish ourselves as the leader in both the top ten non-OECD markets, excluding China, and the top ten OECD markets, excluding the USA.

(SLIDE 26.)

Pricing has been the key driver of our increased profitability, adding a cumulative $4.9 billion over the three year period.

(SLIDE 27.)

In 2008, we were faced with a significant increase in leaf prices as several years of depressed prices led to a global under-supply of tobacco. This had an immediate effect on our cash flow, while the unfavorable flow through to the P&L was more gradual, impacting 2009 and 2010 in particular.

We have taken several measures to prevent such swings in supply from recurring. The most notable step was our investment in greater vertical integration in Brazil, where we have significantly increased the scope of our direct contracts with farmers with a view to ensuring that the sustainability of the price/quality equation is enhanced. In 2011, we expect tobacco leaf prices to be stable, driven mainly by a larger crop in Brazil, and we forecast that prices over the next few years should increase in line with inflation.

(SLIDE 28.)

Sustainable tobacco growing is of course about more than the quality and the price of the crop. It is also about protecting the environment and ensuring labor practices that promote the safety, well-being and social and economic security of tobacco farmers and workers. Specifically with respect to labor practices, we are committed to achieving safe and fair working conditions on all farms from which we source tobacco and to progressively eliminate child labor and other labor abuses where they are found.

With this objective in mind, we have undertaken both an internal and third party review of our practices and policies worldwide. In doing so, we have sought the advice of local and international non-profit organizations with expertise in the area of fair labor practices.

We are now in the process of implementing a strong, comprehensive Agricultural Labor Practices Code, which strengthens and expands our existing practices and policies. This Code and its supporting programs go well beyond child labor and worker safety and will also vigorously address issues such as work hours, wages, migrant worker treatment, and potential forced labor situations. Among other things, this includes tailored, in-depth training programs for our tobacco crop professionals and suppliers, farmers and their workers; as well as external third party assessments to monitor the progress we're making. As we previously announced, these assessments, as well as information about our labor practices, are available on our website.

Of course, as the International Labor Organization recognizes, eliminating child labor and other labor abuses that stem from systemic issues such as poverty and lack of education, requires the serious and lasting commitment from everyone in the supply chain, as well as governments and other stakeholders. Accordingly, we are continuing to work with a range of governmental and nongovernmental organizations in our tobacco growing markets, including our significant contributions in the field of poverty eradication and education.

(SLIDE 29.)

We were able to more than offset tobacco cost increases over the last three years through the successful completion in 2010 of the $1.5 billion productivity and cost savings program that we announced at the time of the spin. Key elements of the program were the repatriation of production from the USA to Europe, the further optimization of our manufacturing footprint, the streamlining of tobacco blends and product specifications, the establishment of service centers in Poland and Argentina for finance and human resources, and a rationalization of back office support functions and staff in the European Union Region.

(SLIDE 30.)

The two key challenges that we face in our business are excise taxation and regulation.

(SLIDE 31.)

The global outlook for excise taxation this year is more favorable than in 2010. Most governments have implemented reasonable rate increases with Mexico the only major market to have raised excise taxes disproportionately. Moreover, a number of countries in the EU have introduced structural improvements in their excise tax systems and both the Czech Republic and Germany have new multi-year excise tax programs. Excise taxation will nevertheless remain a key factor influencing the profitability of our business going forward.

(SLIDE 32.)

One of our important long-term strategies is the pursuit of comprehensive regulation and fiscal policies that govern the manufacture, marketing, sale and use of tobacco products, based on the broader goal of harm reduction. This strategy is explained in depth on our web site and I encourage you to visit it to learn more about the company's commitment to addressing the complex issues surrounding tobacco use.

We have successfully managed regulatory challenges in the past, such as public smoking restrictions, marketing constraints, graphic health warning labels and the ban on descriptors in many markets. In fact, we have largely supported these measures within the framework of comprehensive, effective and uniform tobacco regulation.

(SLIDE 33.)

We do not, however, support regulation that prevents adults from buying and using tobacco products or that imposes unnecessary impediments to the operation of the legitimate tobacco market.

Unfortunately, the three most recent regulatory proposals, namely product display bans, bans on the use of ingredients and plain packaging, go in this direction. There is no sound evidence that any of these measures would reduce consumption, smoking incidence or youth smoking or provide any other public health benefit. Furthermore, these measures ignore the considerable severe adverse consequences, such as impeding competition, imposing significant costs and other burdens on retailers, encouraging adult smokers to make choices based on price rather than product characteristics, and fostering the illicit trade in tobacco products.

(SLIDE 34.)

The most critical of these proposals is plain packaging. The current Australian Government seems determined to be the first to introduce such a measure, despite its rejection when studied previously, and has released an exposure draft of its plain packaging bill for consultation through June 6th. This bill would mandate plain packaging in 2012.

PMI is firmly opposed to such a measure as there is no credible evidence that it will achieve any reduction in smoking rates, and the Government has ignored the fact that it may actually be counterproductive to public health. Plain packaging will lead to price erosion over time and will further encourage the growth of illicit trade, which already increased in Australia by over 25% in 2010, according to a recent Deloitte study. Plain packaging will also result in the illegal confiscation of our trademarks and branded assets, in violation of international trade laws and treaties.

Unlike other Governments, which have focused on establishing whether there is any credible evidence to demonstrate that plain packaging would have public health benefits after taking into consideration issues such as competition, trade and legal implications, as well as the likely impact on illicit trade, the Australian Government seems to be forging ahead without due consideration of any of these important issues. PMI will take all measures it deems appropriate, including recourse to the courts if necessary, to oppose the Australian Government's proposal.

(SLIDE 35.)

The key goal of our business strategies is to increase our cash flow. At the time of the spin, we established an ambitious target to generate a cumulative operating cash flow of $21.7 billion over three years. We surpassed that objective by $3.5 billion, or 16%.

(SLIDE 36.)

This was helped by the establishment of a three-year working capital reduction program in November 2009, which targeted savings of $750 million to $1 billion. The main focus of the program was tobacco leaf and finished goods inventories. It was supported by a $15 million investment in systems. A reduction of approximately $1 billion in total working capital was in fact achieved by the end of December last year, two years ahead of target.

(SLIDE 37.)

We seek to use the cash that we generate to reward our stockholders generously. Last September, we increased our dividend by a further 10.3% and, since the spin, the cumulative increase has reached 39%.

(SLIDE 38.)

This has been complemented by a two-year $13 billion share repurchase program that we completed in April last year, and a second three-year $12 billion program that is scheduled to run through the end of April 2013.

Since the spin, we have used a total of $17.3 billion to repurchase 355.7 million shares, representing 16.9% of the shares outstanding at the time of the spin.

(SLIDE 39.)

Our strong financial performance and the judicious use of our growing cash flow have been appreciated by our stockholders, who have driven the share price of PMI up by 36.0% between the spin and the end of last month. This compares very favorably to the 3.7% appreciation of the S&P 500 over the same period.

(SLIDE 40.)

Once the reinvestment of dividends is taken into consideration, the total PMI post-spin shareholder return was 57.7% through the end of April this year, a performance well ahead of our industry peers and the market as a whole. This year alone, the total shareholder return that we have generated is a superior 19.8%. This reflects not only our achievements over the last three years, but the confidence that you, our stockholders, have shown in our ability to continue to grow profitably, generate a generous return and remain a very attractive investment.

(SLIDE 41.)

I will now open the meeting for questions and comments. This period will be followed by the resolution of items for voting.

I would ask that we *all* remember that this meeting represents an opportunity for stockholders, or their representatives, to express their views, whether favorable or otherwise. Whilst I value highly the chance to listen to your opinions and address your questions, I do expect the process to be based on mutual respect for the differing views represented in the audience.

As noted in the Agenda, each speaker is kindly asked to limit his or her comments to two minutes to allow everyone an opportunity to be heard. Stockholders should confine their remarks to matters that relate directly to the business of the meeting.

Also, please note that those who wish to speak a second time may do so only after all others who wish to speak have had their turn.

I have asked Jerry to serve as timekeeper, so that everyone will have an equal amount of time.

We have allowed up to one hour for questions. There is a microphone in each of the two aisles.

If there is not enough time for all of your questions during this morning's meeting, please feel free to ask an usher for a card, fill it out and return it to an usher at the end of the meeting. We will respond to you as soon as possible.

Please address your questions or comments directly to me, and be sure to identify yourself.

Are there any questions or comments?

That concludes our question and comment period. We will now move on to the next stage of the meeting.

(SLIDE 42.)

The matters set forth in the notice of meeting will be put before the meeting at this time. Comments on each matter can be made after each one has been formally presented.

Now, I would like to ask the ushers to distribute Proxy Cards to any stockholders who may not have returned their proxies for voting on the matters to come before the meeting.

Stockholders who have already returned proxies need not submit a new Proxy Card. If anyone requires a Proxy Card, please raise your hand now.

The ushers will collect these cards, and deliver them to the Inspectors of Election, after the final item of business has been presented.

The first order of business is the election of ten directors.

The following individuals have been nominated for election as director each to hold office until the next Annual Meeting of Stockholders or until his or her successor shall have been duly chosen.

(SLIDE 43.)

Harold Brown

(SLIDE 44.)

Mathis Cabiallavetta

(SLIDE 45.)

Louis C. Camilleri

(SLIDE 46.)

J. Dudley Fishburn

(SLIDE 47.)

Jennifer Li

(SLIDE 48.)

Graham Mackay

(SLIDE 49.)

Sergio Marchionne

(SLIDE 50.)

Lucio A. Noto

(SLIDE 51.)

Carlos Slim Helú

(SLIDE 52.)

And Stephen M. Wolf

(SLIDE 53.)

In accordance with the Company's by-laws, no other nominations may be made at this time.

If you would like to comment on the nominations, please proceed to a microphone.

Again, each speaker is asked to limit his or her comments to two minutes.

Please identify yourself before you begin.

The meeting is now open for comments on the nominations.

Are there any comments?

Thank you.

We will now turn to the second item on the agenda, the ratification of the selection of PricewaterhouseCoopers as independent auditors of the Company for the fiscal year ending December 31, 2011.

Are there any comments on this matter?

Thank you.

We will now turn to the third item on the agenda, that the Company's stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company's Proxy Statement for the 2011 Annual Meeting of Stockholders.

Are there any comments on this matter?

Thank you.

The next item seeks stockholder input with regards to the frequency of future advisory votes on our executive compensation. As disclosed in the proxy statement, the Company recommends a vote of once every year as the frequency with which the stockholders are provided an advisory vote on executive compensation.

Are there any comments on this matter?

Thank you.

As you know, the proxy statement contains two stockholder proposals.

For a variety of reasons we think stockholders should vote against each of these proposals. Our views are fully set forth in the proxy statement and I urge stockholders to read each of the proposals as well as our responses. In the interest of time and for the sake of clarity, I do not intend to elaborate on the proposals or our views on them.

We ask that the proponent of each of the stockholder proposals keep his or her statement limited to four minutes. We also ask that other speakers restrict their comments to the stockholder proposal and limit their comments to two minutes. In advance, I thank you for your cooperation and understanding.

Is the proponent of the first stockholder proposal present?

Thank you. Are there any further comments on this proposal?

Thank you.

We will now move on to the second stockholder proposal. Is the proponent of the second stockholder proposal present?

Thank you. Are there any further comments on this proposal?

The matters to be voted on have now been formally presented to the meeting. If you have not already done so, please complete your proxy card. After you have done so, raise your hand, and the ushers will collect all the proxy cards and deliver them to the Inspectors of Election.

Since all stockholders have now had time to vote, I declare the polls closed.

The ushers should now have collected all the proxies, and they are directed to deliver the proxies to the Inspectors of Election for counting.

Philip Morris International operates in more than 180 markets worldwide and we employ more than 78,000 people.

Our employees are an integral part of the communities in which they live and work. It is their recommendations which begin the process by which we select our charitable giving programs around the world. This is because they are best placed to recognize their communities' needs, given their inherent understanding of their environments, close relationship with local non-governmental organizations and, often, their own desire to volunteer themselves on projects to help improve the well-being of their fellow citizens.

In some cases, these factors converge around an urgent need for assistance, as was the case earlier this year when we announced our $1.2 million donation to the broad relief efforts following the tragic events in Japan. In others, the object of our charitable giving has historically deeper roots.

One such example can be found in Russia and the former city of Leningrad, now St. Petersburg, home, since 1998, to one of our two factories in the country.

In late 1941, the city of Leningrad came under siege where it was to remain for some 900 days, a period in its history that was marked by tremendous suffering. Today, Russian government officials and citizens alike are troubled by the fact that so many of their war heroes now find themselves impoverished.

To assist this group, Philip Morris Russia funds multiple programs to provide basic food and other items to nearly 19,000 veterans. Many of our local employees, together with their families, participate in these programs by visiting these veterans to personally deliver donations as a mark of respect for their remarkable heroism and personal sacrifice.

One such program, called "A Day of Kindness," takes place around the anniversary of the lifting of the Leningrad siege on January 27, 1944. I invite you to watch a brief video highlighting this year's event.

Last year, more than three million people benefited from PMI grants covering the areas of hunger and poverty, education, domestic violence, environmental sustainability and living conditions, and disaster relief. As part of that assistance, our employees participated in charitable programs in over 30 countries. Please join me in applauding, with deep gratitude, their hard work, dedication and professionalism, without which our company would not be what it is today.

(SLIDE 54.)

I will now ask one of the Inspectors of Election to deliver their report to the Secretary.

Will the Secretary please read the report.

Thank you, Jerry.

I would now ask the Secretary to file with the records of the meeting, the Inspector's Report, the oath of the Inspectors of Election, their certificate and the proxies. Final voting results will be included in a Form 8-K that we will file with the SEC in the next couple of days.

And now, there being no further business to come before the meeting, I hereby declare the meeting adjourned. Thank you all very much for coming.