# Remarks by Jacek Olczak
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# Philip Morris International Inc.

## Barclays Back-to-School Consumer Conference

## September 5, 2012

**(SLIDE 1.)**

It is a great pleasure for me to have the opportunity to talk to you today about our business. I welcome those who are joining us on the web-cast.

**(SLIDE 2.)**

My remarks contain forward-looking statements and, accordingly, I direct your attention to the Forward-Looking and Cautionary Statements slide and our SEC filings. Reconciliations of non-GAAP measures included in this presentation to the most comparable GAAP measures, along with a glossary of terms, are provided at the end of this presentation and are available on our website.

**(SLIDE 3.)**

In the first half of this year, PMI achieved very solid results that were fully in line with our mid to long-term annual currency-neutral growth targets. Organic cigarette volume grew by 1.8%, while net revenues and adjusted OCI, excluding currency and acquisitions, increased by 6.5% and 8.3%, respectively. Finally, adjusted diluted EPS, excluding currency, was 13.3% higher and would have grown by 18.2%, were it not for the Japan hurdle of $0.10 per share.

**(SLIDE 4.)**

Our organic cigarette volume growth of 1.8% in the first half of this year was the strongest since the spin, this despite the Japan hurdle of 6.3 billion units. It was driven by excellent results in both the Asia and EEMA Regions, which more than offset a substantial decline in the EU Region – while the Latin America & Canada Region was essentially stable. Our growth momentum is expected to continue in the second half of the year, albeit at a slower pace as we build off a base that was already higher in the last six months of last year.

In this respect, let me remind you that we face a particularly difficult comparison in the third quarter, when our organic cigarette volume last year grew by 4.4%. We nevertheless expect to achieve our organic volume growth target of 1% for the full year 2012.

**(SLIDE 5.)**

Our strong results in the Asia Region were driven in particular by Indonesia, where industry volume grew by 8.9% in the first half of this year. Furthermore, our volume expanded by a remarkable 21.2%, behind not only the fastest-growing brand in the market, *Sampoerna A*, but also *Marlboro* and our broad portfolio, including mid-price *U Mild*. During the first seven months of the year, we gained 3.3 points to reach a share of 33.6% of a cigarette market that is now larger in volume terms than that of the United States.

During the remainder of the year, we expect to grow our volume and share at a more moderate pace in a market that is forecast to expand by around 8% on a full-year basis.

**(SLIDE 6.)**

Industry volume in Japan grew by 3.2% in the first seven months of 2012 compared to the distorted prior year. For the full year 2012, we are expecting stable industry volume.

Our market share in the second half of 2011 of 28.1% was 3.6 points above the previous year's level, driven by the strong growth of *Lark* and *Marlboro*. *Lark* is the most traditional of our brands in Japan and the one Japanese adult smokers turned to most readily when Japan Tobacco products were out-of-stock. *Lark* has resisted very well to the increased pressure this year from ramped-up new product efforts by JT, while *Marlboro* has continued to expand its share. Our overall share YTD July is 27.9%, confirming our ability to retain nearly all the share gains from last year.

Going forward, we expect to be able to reinforce our overall share thanks to the recent launch of *Marlboro Ice Blast* 5mg and 1mg variants, as well as other consumer-relevant innovative launches that we have in our pipeline.

**(SLIDE 7.)**

The single most important market in EEMA is Russia. Thanks to increasing consumer purchasing power and a return of migrant workers with the resumption of construction, industry volume grew slightly in the first half of this year and we expect it to be stable for the full year.

Our volume increased at a rate of 5.0% in the first six months of 2012, as we gained share behind *Parliament*, *L&M*, *Bond Street* and *Next.* PMI's share reached 26.2% in the first half of 2012, a gain of 0.7 points. We expect the recent launch of *Marlboro ClearTaste* and our continued investment behind our brands and sales infrastructure to reinforce this positive trend.

Furthermore, we increased our prices across our portfolio by three Rubles a pack in July. Let me remind you that this follows a price increase of three Rubles per pack on average in January this year.

**(SLIDE 8.)**

Following large tax-driven price increases at the beginning of 2010, illicit trade in Turkey grew to a national average of 20%. Increased efforts by the authorities to control the transit trade have started to have an impact and illicit trade has declined slightly recently. Along with a strong economy, this helped industry volume to grow by 4.7% in the first half of this year. Our volume meanwhile increased at a faster pace of 9.2% over the same period.

In an uptrading environment, we gained 0.6 points in the first seven months of the year to reach a market share of 45.2% behind the growth of premium *Parliament* and mid-price *Muratti*.

The Turkish Government has received Parliamentary approval to reform excise taxes through the introduction of a specific element that will bring the Turkish system closer to that prevalent in the EU. We are waiting for further details on the implementation and timing. The specific element may be set at a rate up to 20% of the Minimum Excise Tax, currently 2.90 Turkish Lira per pack, and it is expected that it will be indexed to inflation.

**(SLIDE 9.)**

In contrast to emerging markets, where growth has slowed but economic conditions generally remain favorable, many economies in the EU Region are suffering from high unemployment and weak consumer confidence. Consequently, cigarette industry volume declined in the first half by an average of 5.9% across the EU Region. This unfavorable trend was reinforced by adult smokers switching to lower-taxed fine cut alternatives and to illicit cigarettes.

For the full-year, we are expecting that industry volume will decline at a rate similar to or just above that prevalent in the first half. Higher margins should nevertheless be sufficient to offset the impact of weak cigarette volumes on a full-year basis.

**(SLIDE 10.)**

The two most important markets for us in the EU Region are Italy and Germany. Let me start with Italy, where economic weakness is clearly affecting consumption trends. Cigarette industry volume declined by 8.1% in the first seven months of 2012. This is attributable to reduced consumer purchasing power, the impact of price increases during the previous twelve months, substitution by fine cut – which has grown to reach a level of 6% of total consumption, and an increase in illicit trade.

*Marlboro* is more than holding its own, gaining 0.2 share points YTD July, despite the pressure on the premium segment. *Marlboro*'s strong brand equity has been reinforced by various innovative line extensions and the brand's performance has been supported by its rounded retail selling price of €5.00 per pack. Nevertheless, our total share slipped 0.4 points to 52.9%, as the launch of *Philip Morris Selection* in the international low-price segment has to date been insufficient to offset the decline in our local heritage brand, *Diana*.

In the fast-growing but still relatively small fine cut category, we became the market leader in the first half of the year with a share of 29.8%, behind the success of *Chesterfield*.

**(SLIDE 11.)**

In Germany, with the economy in reasonable shape and unemployment actually lower than the prior year, the total cigarette market declined by a modest 0.7% in the first seven months of 2012.

PMI enjoys share growth momentum in Germany in both the cigarette and fine cut categories. While *Marlboro*'s cigarette share suffered in the first quarter as it was the first to retail at the higher retail prices, it gained share in the second quarter in both categories. Meanwhile, *L&M* continued to grow in the cigarette category, picking up a further 0.6 points during the first seven months of the year to reach a share of 10.9%.

**(SLIDE 12.)**

PMI has clear leadership in the ten largest OECD markets with an estimated share of 35% in the first half of the year. We are the market leader in six of the ten markets, namely Turkey, Italy, Germany, Poland, France and Mexico, and number two in three.

**(SLIDE 13.)**

Very importantly, given industry volume trends, PMI also has established clear leadership in the ten largest non-OECD markets with a growing estimated share of 27%. We are the market leader in Indonesia, the Philippines and Ukraine, and number two in four other markets.

We believe that we have the best geographic balance in our industry and this should provide us with a sustainable competitive advantage.

**(SLIDE 14.)**

In addition, we continue to expand our market share on a global basis in our top 30 OCI markets. Year-to-date July, our share reached 37.0%, up 0.4 points over the prior year, while on a 12-month moving basis, our share of 36.8% was 0.6 points higher than the corresponding prior year period.

**(SLIDE 15.)**

We also have the best brand portfolio, led by the only truly international cigarette brand, *Marlboro*. During the first half of the year, adjusted for the Japan hurdle, eight of our top ten brands increased their volume, with *Marlboro* growing by over 4 billion units and local heritage brands *Fortune* and *Sampoerna A* achieving double-digit growth rates.

**(SLIDE 16.)**

*Marlboro*'s worldwide share, excluding China and the USA, of 9.2% in the first seven months of 2012, was in line with the previous year, when we benefited from the exceptional circumstances in Japan. *Marlboro*'s share is up this year in all four Regions, after taking into account the Japan hurdle.

**(SLIDE 17.)**

One of the key drivers of the strong performance of *Marlboro* is innovation. Since 2008, we have introduced a wide range of consumer-relevant innovative line extensions across the Flavor, Gold and Fresh lines. During the first half of 2012, we sold 2.3 billion units of *Marlboro Flavor* and *Filter Plus* with its innovative tobacco-plug filter, 2.8 billion units of 7.1mm diameter *Marlboro Gold Touch*, and 3.6 billion units of *Marlboro Ice Blast* and other Fresh capsule products. These three innovations – and there were others - accounted for about 6% of *Marlboro*'s volume in the first six months of this year. These innovations not only add incremental volume but also reinforce the brand's overall equity and core franchise.

**(SLIDE 18.)**

We have now extended innovation to other key brands in our portfolio. For example in Poland, *L&M* is the leading brand with a market share of 15.6% in the first half of this year. The recently refreshed core variants achieved a market share of 9.1% and were reinforced by the super-slims *L&M Link* and the menthol capsule *L&M Forward*, which together achieved a 6.5% market share.

**(SLIDE 19.)**

The excise tax environment remains rational and we have not had any disruptive excise tax increases in 2012.

Looking forward, we expect rationality to continue globally, though we are closely watching developments in the Philippines, where a disproportionately large excise tax increase proposal was passed by the House of Representatives and is currently being reviewed by the Senate. We remain hopeful however that reason will ultimately prevail.

When it comes to structure, we have seen several favorable developments. There has been a continued improvement over the last 18 months in the specific-to-total tax ratio on cigarettes in the EU, increases in Minimum Excise Taxes in many countries, and significant increases in taxation levels on fine cut in several EU markets.

**(SLIDE 20.)**

On the regulatory side, you know that last month the Australian High Court ruled that the plain packaging legislation does not violate the Australian Constitution. While we still await the Court's reasoning, plain packaging will consequently come into effect in Australia this December.

It should be highlighted that laws in countries other than Australia may provide greater protection against the expropriation of intellectual property rights, including a requirement to pay compensation.

The legality of plain packaging under international trade and investment treaty laws, including whether Australia will have to pay billions of dollars in compensation to Philip Morris Asia, remains unresolved and will be considered in other ongoing legal challenges. These challenges, namely the claim by Philip Morris Asia against Australia for multiple breaches of its Bilateral Investment Treaty ("BIT") with Hong Kong and the challenges against Australia by several countries before the World Trade Organization ("WTO") will take two to three years to resolve. We believe that the international legal cases are strong, and there is still a long way to go before all the legal questions about plain packaging are fully explored and resolved.

Furthermore, we remain convinced that there is no concrete evidence that plain packaging will reduce either youth or overall adult consumption and that there will be significant unintended consequences, in particular a rapid growth of illicit trade.

**(SLIDE 21.)**

Also last month, the UK Government completed the extended public comment phase of a consultation regarding cigarette packaging. We expect the UK Government to take some time to consider the massive amount of information that it has received and it may clarify its intentions towards the end of this year. In any event, the legislative process to secure whatever course the Government ultimately chooses will take us well into 2013 with any specific timing beyond that being mere speculation.

By the end of this year, we also expect that the European Commission will make public its intentions regarding revisions to the Tobacco Products Directive. Plain packaging is one of the many measures being considered, though the Health Commissioner has publicly stated that it will not be recommended.

**(SLIDE 22.)**

With a positive volume variance offset by an unfavorable geographic mix, pricing remains the key driver of our increased profitability. In the first half of 2012, our favorable pricing variance reached $832 million. This year, we have implemented price increases in a wide range of markets, including Argentina, Australia, Brazil, Germany, Indonesia, Italy, Korea, Mexico, the Philippines, Poland, Russia, Saudi Arabia, Spain, Ukraine and the UK.

**(SLIDE 23.)**

We are fully on track to achieve the $300 million pre-tax annual productivity savings target that we announced at the beginning of this year. Along with pricing and only very moderate increases in tobacco leaf and direct material costs, this has enabled us to expand our adjusted OCI margins, excluding currency and acquisitions, by a further 0.8 points to 46.4% in the first half of 2012.

**(SLIDE 24.)**

While our free cash flow has been unfavorably impacted this year by currency movements and an increase in working capital, it still reached $4.9 billion in the first half.

**(SLIDE 25.)**

Last month, we accessed the global capital markets and issued $2.25 billion in US Dollar denominated debt, evenly split between a 5-year 1.125% coupon, a 10-year 2.5% coupon and a 30-year 3.875% coupon. Additionally, we issued a CHF 325 million 8-year bond with a coupon of 1.0%. Investor interest was very strong even though these represented the lowest coupons ever for PMI in each respective tranche. Taking advantage of the low interest rate environment, we have significantly increased the time to maturity of our long-term debt bond portfolio, expected to reach 10.2 years by the end of 2012.

**(SLIDE 26.)**

Our continued strong cash flow, the strength of our balance sheet, our ability to raise additional financing at attractive terms and conditions, and, most importantly, the very positive outlook for our business, led to the establishment in June of a new three-year $18 billion share repurchase program. This program started in August and, in total, we continue to target spending this year of $6 billion.

The share repurchase programs have been substantial and highly beneficial since the spin. Through the end of June this year, we spent $24.4 billion to repurchase 449.9 million shares at an average price of $54.21 per share.

**(SLIDE 27.)**

In conclusion, while we are not immune to the impact of economic conditions, in particular high and rising unemployment levels and currency swings, we expect to deliver very strong underlying business results again this year.

We remain confident that, for the full year 2012, we should be able to deliver solid organic cigarette volume growth, driven by strong performances in the Asia and EEMA Regions. The excise tax environment remains globally very rational and the pricing environment remains favorable. Tobacco and direct material cost increases are limited and should be covered by our $300 million productivity savings program. Furthermore, we are making progress in expanding our business in markets that we have identified as growth opportunities, such as Vietnam, and in the development of Next Generation Products.

We continue to invest behind innovation and in the growth momentum of our business.

Most importantly, we remain very focused on delivering superior returns to you, our shareholders, by returning the cash we generate through a judicious balance of share repurchases and dividends.

**(SLIDE 28.)**

Thank you for your interest in our company. I will now be happy to take your questions.