Remarks by Jacek Olczak
Chief Financial Officer
Philip Morris International Inc.

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(SLIDE 1.)

It is a pleasure for me to be at the CAGE Conference in London. Let me extend a warm welcome to those joining us on the web cast.

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I will make some initial remarks and then open up the session for Q&A, which will be moderated by Philip Gorham of Morningstar. Please note that I will not be updating guidance today. We will address this subject during our first-quarter earnings call in April and will update our currency projections at that time.

My remarks contain forward-looking statements and, accordingly, I direct your attention to the Forward-Looking and Cautionary Statements section of today's presentation 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 available on our website. Reduced-Risk Products, or "RRPs", is the term we use to refer to products that have the potential to reduce individual risk and population harm in comparison to smoking combustible cigarettes.

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Last year we achieved robust financial results with a growth in adjusted diluted EPS of 7.8%, excluding currency, which was slightly above our November guidance range. We are pleased with these results given that 2014 was an investment year during which we addressed a number of market-specific challenges, further optimized our manufacturing footprint, introduced *Marlboro* 2.0 and launched *iQOS*, our first heat-not-burn RRP platform.

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Coming into 2015, our business momentum is strong. In the international market, that is excluding China and the U.S., we gained a further 0.3 market share points to 28.6%. Our share increased in both OECD and non-OECD markets.

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Our leadership spans across all the major markets outside China and the U.S. In 2014, we achieved number 1 or number 2 positions in 29 out of the 40 largest markets by industry net revenue.

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We maintained our clear leadership position in premium with a 51.0% share of segment, despite the challenges faced by our premium hand-rolled kreteks in Indonesia. We made strong progress in the mid-price segment, where we gained 0.6 points to reach a segment share of 22.4%.

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We have been doing very well in the key growth segments, gaining 0.6 points and 1.9 points, respectively, in the low tar and slims segments, which accounted in 2014 for 42% and 13% of international cigarette industry volume, respectively. We are the leader in the small but fast-growing capsule market with a share of nearly 40%.

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Our international brands are in excellent shape. We own six of the top 15 international cigarette brands. *Marlboro*, *L&M*, *Parliament*, *Bond Street*, *Chesterfield* and *Philip Morris* all increased their share.

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This superior brand portfolio underpins our strong pricing power. In 2014, we achieved a pricing variance of $1.9 billion, slightly above our historic average of $1.8 billion, with which we target to be in line also this year.

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We are off to a positive start in 2015.

The cigarette industry volume decline in the EU Region moderated to 3.1% in 2014 and we are forecasting a decrease of about 4% this year. Our business in the Region is in great shape, with *Marlboro*, *L&M* and *Chesterfield* now the top three best-selling brands and share gains last year in the six largest markets by volume. The year has started on a positive note with industry volume declining in the first two months by an estimated

4.1% on an adjusted basis that takes into account the number of selling days and inventory movements, while PMI's volume decreased at a slower rate.

In Russia, while cigarette industry volume decreased by 9.2% in 2014 and a similar rate of decline is expected this year, margins have been considerably boosted by large price increases that were primarily tax-driven. Furthermore, we reached a record market share of 27.1% last year.

In Indonesia, the first two months of the year confirm the continued growth of this important market and our improved share performance. Through the end of February, our market share of 35.4% was 0.7 points ahead of the same period last year, driven by continued gains for *Sampoerna A* and the machine-made variants of *Dji Sam Soe*, *Magnum* and *Blue*. We are further reinforcing our position in this key segment with the launch this month of *U Bold*.

Finally, we have witnessed further retail price increases at the bottom of the market in the Philippines, which should help to improve unit margins and mix.

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Let me say a few words about plain packaging. While the WTO and BIT claims are ongoing and it may be up to three years until final decisions are made, let us look at the evidence so far from Australia. Illicit trade in cigarettes has reached an all-time high, while adult smoking prevalence trends have not been impacted. In spite of this, the obvious deprivation of property, and the seeming indifference to adult choice, Ireland and the UK have recently passed legislation on plain packaging - though it is not yet in effect. We believe that laws in the EU should provide a stronger basis for legal challenge than under the Australian constitution and we will vigorously defend our intellectual property rights and protect our shareholders' interests.

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We continue to invest behind our combustible business and our Reduced-Risk Products.

In November, we launched *iQOS* and *Marlboro HeatSticks* in the pilot cities of Nagoya, Japan, and Milan, Italy. The pilot marketing program for *iQOS* focuses on innovation and product convenience benefits, such as no ash and less smell. The preliminary results are ahead of expectations and we will commence national expansion in Japan and Italy, as well as pilot or national launches in additional markets, later this year.

We have introduced *iQOS* without a reduced risk claim but are pursuing as planned our very comprehensive scientific assessment with the aim of substantiating such a claim in the future.

We believe that heat-not-burn products provide adult smokers with the best alternative to cigarettes based on taste, satisfaction and ritual. We further believe that we have a significant head start over our competitors in terms of product development, scientific know-how and technology. Our RRP portfolio also comprises other nicotine-containing products, including the products of Nicocigs and *Solaris*, which is the brand under which we introduced Altria's *MarkTen* product line-up in Spain this month.

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Unfortunately, the strength of our underlying business is overshadowed by an unusually severe currency headwind, with the depreciation of the Russian Ruble being the greatest culprit. We have taken a number of measures to mitigate the impact of exchange rate movements.

We seek to hedge transactions where this is appropriate. Our transactional hedging strategy centers on Japan where we have hedged approximately 60% of our forecast 2015 sales and have entered into hedges for 2016. We have an active balance sheet hedging strategy. At the end of 2014, our balance sheet included net assets of 10 billion Euros, which were fully hedged through long-term Euro debt and other financial instruments.

In terms of local content, about three-quarters of our cigarettes are manufactured locally or within the same trade zone in which they are sold. About one quarter of the tobacco leaf is sourced in the country of manufacture. Within the framework of our global sourcing of direct materials, we seek to encourage our suppliers to set up local operations.

Finally, we are focused on managing our cash flow prudently, notably through the judicious management of working capital and capital expenditures.

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Strengthening our business remains our top priority as we believe that doing so will provide our shareholders with a superior return over time. We are also fully committed to returning around 100% of our free cash flow to our shareholders.

We remain steadfast in our determination to offer an attractive dividend to our shareholders, while maintaining the benefits provided by our single-A credit rating in terms of financial flexibility and preferential interest rates. In view of the continued volatility in exchange rates, we do not envisage any share repurchases in 2015, though we will revisit the potential for such repurchases as the year unfolds should the currency environment improve.

Last September, our Board of Directors approved a further increase in our dividend to an annualized rate of $4.00. At the close last Thursday, our dividend yield was 5.1%. This was significantly above that of our proxy peers and 10-year U.S. Treasury Notes. In addition, it was significantly above the dividend yield of our two main international tobacco competitors.

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Thank you for your interest in our company. I am now happy to open the floor to questions.