Remarks by André Calantzopoulos
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(SLIDE 1.)

Thank you Matt and good morning everyone. It is a pleasure to be here again at the Morgan Stanley Global Consumer and Retail Conference. I would also like to welcome those who are joining us via the web cast.

(SLIDE 2.)

Today's presentation and related discussion contain forward-looking statements. Accordingly, I direct your attention to the Forward-Looking and Cautionary Statements slide for a review of various factors that could cause actual results to differ materially from forward-looking statements. In addition, please note that Reduced-Risk Products, or "RRPs", is the term we use to refer to products with the potential to reduce individual risk and population harm in comparison to smoking combustible cigarettes.

(SLIDE 3.)

At last year's presentation, I alerted you to a number of issues we were facing and that 2014 would be an "investment year" to address a number of specific challenges in certain key markets, to accelerate the launch of our Reduced-Risk Products and to drive further productivity gains. You will recall that, from a macro-economic perspective, we remained somewhat pessimistic and that we feared that the strength of the Dollar would represent a formidable headwind. Nevertheless, despite all these factors, we were still targeting an adjusted diluted currency-neutral EPS growth rate of between 6% and 8%. Fast forward to today and our scorecard is much better than the headline numbers would reveal at first sight.

Regretfully, we have been hammered by currency this year to a much higher degree than we possibly could have anticipated, and this despite an attractive hedge of our Yen exposure. Our full-year reported diluted EPS guidance of \$4.76 to \$4.81, which we disclosed last month and that I am reaffirming today, also included a number of charges to address our manufacturing infrastructure, comprising the closure of a major factory in the Netherlands and one in Australia, the benefits of which will accrue to us next year and beyond.

On a currency-neutral adjusted diluted basis, our 2014 EPS guidance reflects a growth rate of approximately 6.5% to 7.5%. This is squarely in line with what we had anticipated at this time last year. So, how did we fare in terms of addressing the specific market challenges that we confronted?

(SLIDE 4.)

You will recall that, in 2013, we lost share in Japan in light of the huge and widespread support behind JT's *Mevius*. As a consequence, Japan will be the single biggest drag on our EPS growth in 2014. Our objective this year was to decisively address our share issue to position us for further growth going forward.

And that is exactly what we have achieved. Our third-quarter and year-to-date shares of 25.9% were equal to that obtained in the fourth quarter of 2013. Notable actions included the launch of our Be *Marlboro* campaign, the introduction of *Marlboro Clear Hybrid*, which supported our leadership of the important capsule segment, and the successful morphing of the *Philip Morris* brand into *Lark.* We then upgraded the *Lark* brand family and expanded it into the slim and capsule segments. These actions will allow us to focus our resources more effectively on those brands that we believe have the equity, innovation pipeline and growth prospects that will serve our ambitions in this critical market. And all this took place on top of the first global launch of our Reduced-Risk Product in Nagoya earlier this month, which I will cover in more detail momentarily.

(SLIDE 5.)

In Indonesia, we had anticipated that the solid industry growth witnessed in recent years would pause in 2014 due to pressures on consumer discretionary income and an excise tax regime change that pressured the low-price segment. We also knew that our market share would temporarily stumble as we crossed some key retail price points, especially in regard to our flagship premium-priced hand-rolled *Dji Sam Soe* brand. Consumption of cigarettes has actually been stronger than we originally anticipated. We had forecast an industry volume growth of some 1% this year, but it appears this could reach approximately 2%.

Importantly, since the first quarter, our market share has steadily improved as the months have unfolded, which augurs well for next year. Our improved market share reflects our continued strong performance in the growing machine-made segment, where we successfully launched *Dji Sam Soe Magnum Blue* to complement our existing portfolio led by *Sampoerna A* and *U Mild*. There has also been a significant moderation in the volume decline of our hand-rolled products as competitive brands followed *Dji Sam Soe* above the psychologically important price point of 1,000 Rupiah per stick.

The Indonesian Government is continuing to simplify the excise tax system and, as a result, over 60% of the market will be in the same tax tier by January next year. This is a welcome development given our leadership in lighter-tasting machine-made kretek cigarettes. The average excise tax increase of approximately 11% is manageable. Importantly, hand-rolled products will face a significantly lower excise tax increase, which will help stem the decline of a segment where we are the clear market leader.

(SLIDE 6.)

Our business in the European Union Region has witnessed steady progress and our market share performance has been simply stellar.

The erosion in industry volume has moderated considerably relative to recent years. This is attributable in large part to a reduction in the consumption of illicit products that I flagged as an opportunity last year, the subdued performance of the e-vapor category that continues to fall short of consumer expectations and a significant moderation in the outflow to fine cut products.

(SLIDE 7.)

Within this steadily improving environment, our market shares have continued to rise strongly, as evidenced by this chart, which highlights our performance in the six largest markets of the EU Region, accounting for nearly 70% of the total EU Region volume. Our Regional share now stands at 39.9%, 1.1 share points ahead of last year and, remarkably, our cigarette volume through the end of October 2014 was stable compared to the previous year.

However, despite this strong volume performance, our OCI growth in the EU Region was impacted by our decision to absorb a tax increase and reposition *Chesterfield* in the low-price segment in Italy. This produced outstanding share gains in that market. It was a painful but necessary step that came at the expense of our short-term income, but which will generate rewards in the years to come.

Importantly, the long-awaited tax reform in Italy is in the final stages of approval. Although the proposed law does not immediately address all of the inefficiencies of the current system, it will be a very critical first step that will hopefully lead to others in the right direction.

To close on the EU, the combination of a moderating cigarette industry volume decline and continued share expansion makes us confident that the Region should become a meaningful contributor to our currency-neutral adjusted OCI growth in 2015.

(SLIDE 8.)

In the Philippines, we continue to face what can only be described as a shameful state of affairs. You will appreciate that it is virtually impossible to compete successfully when one’s principal competitor openly flaunts excise tax legislation. We estimate that this competitor continues to sell some 50% of its volume excise tax-free.

While regretfully our vigorous efforts to remedy this situation have yet to translate into concrete action by the authorities, we do see some light at the end of the tunnel. Congressional hearings, the advent of tax stamps next month and calls for a minimum price will undoubtedly pressure our competitor to act lawfully.

In addition, the increase in excise taxes in January next year is skewed towards the lower price categories and brings us one step closer to the single specific tax tier system that is scheduled to be introduced in 2017.

While the Philippines has been a drain on our recent income performance, we remain bullish over the long term. This optimism rests in part on the fact that the total consumption of cigarettes, as measured by both adult smoking incidence and daily usage statistics, continues to rise in this market of around 100 billion units.

(SLIDE 9.)

In Australia, following a spate of severe excise tax increases and the advent of plain packaging, which obviously adversely affects product differentiation and brand equity, we have witnessed incredibly aggressive discounting by our competitors, especially at the low end of the market.

The super-low price segment has virtually tripled in the last couple of years and now accounts for close to 30% of the market.

We have responded appropriately to safeguard our market share, but regretfully at great expense, as Australia enjoys one of the highest unit margins in the world. It is difficult to predict how long this situation will persist, but the further significant excise tax increases that loom on the horizon may trigger a change.

(SLIDE 10.)

So, all in all, we enter 2015 with improved fundamentals relative to where we stood at this time last year:

- Industry volume in the EU Region has taken on an improved trajectory.
- Our market share performance and momentum is strong and our initiatives behind our brands are proving to be successful.
- The excise tax and pricing environment remains favorable across virtually all markets with very few exceptions.
- Vigorous actions to further reduce our fixed cost base have been taken, including the closure of our largest European manufacturing facility.
- Our recent business development initiatives in Algeria, Egypt, Mexico and Russia have enhanced our growth prospects in those markets and are already meeting our strategic and financial objectives.
- Our actions to resolve the issues we faced in specific markets are bearing fruit.
- And most importantly, our long-anticipated launch of our first Reduced-Risk Product is now a reality.

(SLIDE 11.)

As I have demonstrated, our business fundamentals are strong and the outlook is positive. As we look to 2015, we target annual growth, on a currency-neutral basis, of 4% to 6% for net revenues, 6% to 8% for adjusted OCI and 8% to 10% for adjusted diluted EPS, despite the incremental year-over-year investments in RRPs.

However, I fear that currency will again significantly affect our reported results next year. Predicting currency movements can be a fool's errand, as the Ruble's recent plunge clearly demonstrates. At prevailing exchange rates, the adverse impact to our EPS in 2015 would approach some 60 cents.

We will provide our 2015 guidance in February.

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Currency fluctuations notwithstanding, my optimism in regard to our growth prospects next year and beyond rests on a number of factors.

While the macro-economic climate and the long awaited recovery are still sputtering, as evidenced by the results posted by other global consumer product companies, we believe that international industry volumes will revert to their historical decline rate of between 1% and 2% in the foreseeable future, after having incurred declines of 3.1% in 2013 and an estimated 2.9% this year. This belief is founded on many of the factors I described earlier relative to the EU Region, together with demographics in emerging markets.

(SLIDE 13.)

We fully expect that we can continue to outperform the industry and gain market share given our geographic footprint, the power of our global sales and distribution infrastructure and the strength of our brand portfolio, which has a commanding presence in all growth segments.

To underscore this, consider that we are the market leader in 59 markets across the globe and we are number two in a further 43 markets. Our market share is equal to or exceeds 25% in 80 markets and 40% in 45 markets.

(SLIDE 14.)

Our actions to invigorate the vitality and consumer appeal of *Marlboro* are paying dividends with widespread share gains across the globe.

The successful Be *Marlboro* campaign that resonates well with adult consumers is now present in over 60 markets and its roll-out is expanding.

(SLIDE 15.)

The brand's architecture has been further refined starting with a revamped *Marlboro* Red pack, which was first introduced very successfully in the EU Region and is now available in 23 markets.

(SLIDE 16.)

This month we introduced the new *Marlboro* Gold pack in Germany and Poland.

(SLIDE 17.)

All these actions have fueled *Marlboro's* momentum with significant share growth in the EU and EEMA Regions. We have also achieved a stable share in the Asia Region, in spite of the specific situations in Japan and the Philippines, as well as in the Latin America & Canada Region.

(SLIDE 18.)

Beyond *Marlboro,* we are very pleased with the performance of *Parliament*, a brand that generally sells at a higher price than *Marlboro* and generates even higher unit margins. *Parliament*'s volume has increased again this year and the brand has expanded its international market share to 1.5%.

(SLIDE 19.)

We have also been investing this year in our other two key brands, *L&M* and *Chesterfield*, with the development of both improved packaging and new marketing campaigns. The new global campaign for *L&M* has resonated very well with adult smokers and, in Germany, where the campaign started, the brand's share is growing.

(SLIDE 20.)

Chesterfield has enjoyed tremendous success notably in Italy, Poland and Portugal, and there is exciting potential for further geographic expansion outside the EU Region.

(SLIDE 21.)

The strength of our brands has translated into positive Regional market share momentum. In the EU Region, *Marlboro*, *L&M* and *Chesterfield* are now the top three brands, an accomplishment that we are particularly proud of and that underscores our brand power.

(SLIDE 22.)

The superior strength of our brand portfolio affords us the luxury of significant pricing power.

Pricing is, and will continue to be, the principal contributor to our income growth, and we remain confident in our continuing ability to increase prices judiciously without impairing our competitive wherewithal.

(SLIDE 23.)

The effectiveness of our pricing is due in large part to the widespread excise tax reforms that have swept across the world in recent years.

Indexation of excise taxes and multi-year plans provide invaluable predictability, while tax structure reform narrows price gaps and reduces multipliers, while assuring the stability and predictability of government revenues.

This slide lists some of the most important markets where improvements have taken place in recent years.

(SLIDE 24.)

However, while there has been immense progress across a wide range of countries, there remains ample opportunity for further improvements across a large swath of countries, including Turkey, Italy, Spain, France and Egypt.

As I previously mentioned, the proposed changes in Italy are encouraging in this regard.

(SLIDE 25.)

Our greatest growth opportunity, as I have often stated, is the advent of Reduced-Risk Products.

We have built a portfolio that addresses a wide array of adult smoker profiles and preferences. In broad terms, our Reduced-Risk Product portfolio is based on technologies that either heat tobacco or aerosolize liquids or other substrates containing nicotine.

(SLIDE 26.)

We were tremendously excited to see our substantial efforts come to fruition in Japan earlier this month with the world's first launch of *iQOS*. I cannot overstate the vast complexity of this commercialization effort for the organization, nor my immense pride in our exceptionally talented body of employees involved in this landmark moment that has opened this ground-breaking new chapter in the history of our company.

(SLIDE 27.)

The official launch of *iQOS* took place in Nagoya, Japan's fourth-largest city, on November 4th. *iQOS* kits and *Marlboro HeatSticks* in regular and menthol variants are available in over 1,000 retail outlets in Nagoya, including the world's first *iQOS* Flagship Store. The initial consumer reaction has been very positive and we are encouraged by this response. Whilst it is early days, our results already surpass our expectations. We should have greater visibility as the weeks and months unfold.

The *Marlboro HeatSticks* are priced at 460 Yen per pack of 20, at price parity with *Marlboro* cigarettes. Our *HeatSticks* have been classified by the Ministry of Finance in a category that results in an effective excise tax rate that is lower than cigarettes.

(SLIDE 28.)

Here you can see our flagship store in Nagoya.

(SLIDE 29.)

Tomorrow, we will launch *iQOS* in Milan. As in Japan, *Marlboro HeatSticks* will retail at the same price as *Marlboro* cigarettes, namely 5 Euros per pack of 20. Although our *HeatSticks* have temporarily been classified for excise tax purposes in Italy at a rate that is in line with that incurred by *Marlboro* cigarettes, we remain optimistic that future legislation will result in reduced taxation.

(SLIDE 30.)

Neither launch is being made with any health claim. The marketing focus is on innovation and product benefits, such as no fire or ash and less smell. Health claims, if any, will only be made once our vigorous scientific assessment is completed and in compliance with applicable regulations.

(SLIDE 31.)

During 2015, our manufacturing capacity will grow gradually as our first facility in Bologna, Italy, comes on stream. Once we complete the national roll-outs in Japan and Italy, short-term capacity is likely to constrain further expansion to a few additional markets. As of 2016, we plan a broader roll-out.

For the initial five years, the markets currently in scope for our contemplated launches represent an aggregate total cigarette consumption in excess of one trillion units. If we assume that 3% to 5% of this potential adult smoker base, net of cannibalization, fully adopts our Reduced-Risk Products, this implies potential incremental volume for PMI of some 30-50 billion units. Based on what we know today, we view this as a floor and aspire to do much better.

While these targets are eminently achievable, we will know more regarding the scale and timing of the likely financial benefits at the end of next year following the completion of our city launches and national roll-outs.

We also continue to believe that the acceptance of these products will provide a path to enter geographies where we have a very limited presence today.

(SLIDE 32.)

Our ability to generate superior cash flow distinguishes us from other global consumer product companies. The robustness of our base business and the tremendous opportunity provided by Reduced-Risk Products give us confidence in our ability to continue to deliver superior cash returns going forward. We remain steadfast in our commitment to return this growing free cash flow to our shareholders through dividends and share repurchases.

(SLIDE 33.)

Our net debt to EBITDA ratio stood at 1.9 at the end of September this year. While the methodology varies from one rating agency to another, we are now operating in a debt level corridor that is close to the maximum that would still allow us to maintain our current credit ratings. In the future, therefore, we aim to return around 100% of our free cash flow to our shareholders through dividends and share repurchases after taking into account the funding of any attractive business development initiatives.

We wish to maintain our single A credit rating as it provides access to tier 1 commercial paper at very favorable rates. For example, for the most recent quarter, our average cost of these borrowings was just 12 basis points. Our credit rating also reduces the interest rate that is payable on new debt issuance and provides the flexibility to respond rapidly to attractive business development opportunities.

(SLIDE 34.)

Since 2008, we have increased our dividend by 117.4% to an annualized rate of $4.00 a share. Our dividend yield last Friday was 4.6%.

The decision of our Board last September to increase the dividend by a further 6.4% confirmed its confidence in the strength of our underlying business fundamentals and our ability to grow free cash flow over time. It also illustrated the desire to reward our shareholders even in a challenging economic and currency environment.

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The spread between our dividend yield and yields of key benchmarks is very attractive as it compares very favorably to historical averages. Our yield is 136 basis points above our Compensation Survey Group and our tobacco peer average, compared with 25 basis points historically. The yield spread between our dividend and the 10-year US Treasury bill is also well above historical levels.

(SLIDE 36.)

I trust that I have conveyed our optimism regarding the future to you. Yes, there are challenges but these are far outweighed by the opportunities that lie ahead for both our combustible products and RRPs.

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