Remarks by Hermann Waldemer
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(SLIDE 1.)

It is again a great pleasure for me to be back at the CAGNY Conference. Let me extend a warm welcome to those 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 section of today's news release 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.)

After briefly reviewing our outstanding 2011 results and our significant achievements since 2008, I will talk about the 5 key elements that define what PMI stands for and who we are. These will continue to underpin our strong growth performance in 2012 and beyond. At the end of my presentation, I will, of course be happy to answer your questions.

(SLIDE 4.)

By any criteria, 2011 was an outstanding year for Philip Morris International.

Our cigarette volume reached 915.3 billion units, an increase of 1.7%, and 0.5% on an organic basis. Net revenues were $31.1 billion, up 9.2%, excluding currency and acquisitions. Adjusted OCI climbed to $13.7 billion, an increase of 14.0%, excluding currency and acquisitions. Finally, our adjusted diluted EPS reached $4.88, 82 cents or 21.2% above the 2010 level, excluding currency.

(SLIDE 5.)

We have achieved a compound annual average growth rate in adjusted diluted EPS of 14.9% from our 2007 pro-forma base through 2011, a result that few companies in the world can match.

(SLIDE 6.)

Driven by these outstanding results, in 2011, we outperformed every company in the Dow Jones Industrial Average in terms of total shareholder returns and share price appreciation, with gains of 39.8% and 34.1%, respectively.

(SLIDE 7.)

Despite our tremendous performance, we still trail many of the major fast moving consumer product companies in terms of our price to earnings ratio, indicating that there is still room for a further multiple expansion.

(SLIDE 8.)

Let me now describe to you what PMI stands for and who we are. First and foremost, PMI has a steadfast commitment to shareholder value.

(SLIDE 9.)

During the period 2008 through the end of 2011, we returned $37.0 billion to our shareholders through share repurchases of $21.4 billion and dividends of $15.6 billion.

(SLIDE 10.)

This has played a key role in providing our shareholders with superior returns. Since our spin-off in March 2008, total shareholder returns of 83.9% have been significantly greater than those of our tobacco and company peer groups, and both the S&P 500 and the FTSE 100 indices.

(SLIDE 11.)

Furthermore, we have handsomely outperformed the S&P 500 Index each year since the spin-off as shown on this slide.

(SLIDE 12.)

This strong performance is founded on the second key element of who we are: a superior branded products company with a world-class portfolio of trademarks.

(SLIDE 13.)

We have an excellent and broad portfolio of international and local heritage brands, including seven of the 15 best-selling international cigarette trademarks, led by the only truly global cigarette brand, *Marlboro*.

(SLIDE 14.)

Every single one of our top ten largest brands by volume grew in 2011, whether sold in the premium, mid or low-price segments.

(SLIDE 15.)

Our superior brand portfolio is driving our excellent market share growth momentum. We have gained share in our top 30 OCI markets each year and, on a cumulative basis, we have increased our share by 2.2 points since 2008 to reach 36.3% in 2011. On a retail value basis, our share is even higher at 39.0%.

(SLIDE 16.)

And we continue to invest in our brands. For example, in 2008, we embarked on a worldwide program to revamp *Marlboro*'s architecture and to develop a strong pipeline of consumer-relevant, innovative line extensions. The new architecture, which also included packaging updates, now accounts for over 90% of *Marlboro*'s volume on a global basis and we have launched many successful line extensions.

(SLIDE 17.)

These efforts have allowed us to steadily increase *Marlboro*'s market share outside China and the USA since 2009 to reach 9.2% in 2011. This has been driven by gains in both the Asia and EEMA Regions, which have more than offset the continued pressure on the premium segment in the EU Region.

(SLIDE 18.)

Marlboro line extensions have played their biggest role in our expansion in the Asia Region, where they accounted for 14% of the brand's volume in 2011, followed by 11% in the EEMA Region.

(SLIDE 19.)

Let me show you some examples of the innovation that we have brought to the *Marlboro* brand. *Marlboro Filter* or *Flavor Plus*, which has now been launched in over 50 markets worldwide, is a cigarette with a unique aromatic tobacco plug in the filter. Volume grew a further 9% in 2011.

(SLIDE 20.)

Another significant innovation was the development of a 7.1 mm diameter cigarette, a size between regular and super-slims, sold in a more compact and elegant box. *Marlboro Gold Touch* was launched in Europe in the first quarter of 2009, and a full-flavor variant, called *Marlboro Core Flavor*, followed in 2010. These variants are now available in 50 and 25 markets, respectively. In 2011, they had a combined volume of nearly 6 billion units worldwide, which represented an annual growth of over 60%.

(SLIDE 21.)

We have also innovated extensively with our *Marlboro Fresh* line, focusing our efforts initially on Asia, where menthol is a very important and growing segment. *Marlboro Black Menthol* is now being sold in sixteen markets and had a total volume of over 6 billion units in 2011. Capsule products, led by *Marlboro Ice Blast*, have been introduced in 25 markets with a rapidly expanding volume that reached nearly 5 billion units in 2011.

(SLIDE 22.)

The success of *Marlboro Black Menthol* and *Marlboro Ice Blast* in key Asian markets has been a key driver of *Marlboro*'s growth. We are now expanding these innovations to Latin America.

(SLIDE 23.)

In the EU Region, where the menthol segment remains generally very small, we have extended the capsule concept to regular cigarettes.

(SLIDE 24.)

Our other brands are also benefiting from our innovation efforts. The most stellar performance in 2011 was that of our luxury brand *Parliament,* which has the highest margin of any of our brands. Volume increased by 12.1% for the full year and by an outstanding 18.7% in the fourth quarter. In 2011, *Parliament* gained market and segment share in its five major markets.

(SLIDE 25.)

Our largest brand after *Marlboro* is *L&M*, positioned mainly in the low-price segment in OECD and in the mid-price segment in non-OECD markets. *L&M* is the number two brand in the EU Region after *Marlboro* with a further 0.2 share point gain in 2011 to reach 6.5%. Its strong momentum in the EU Region is exemplified by a fourth quarter share of 6.6%, confirming that the upward trend is carrying over into 2012.

As shown on the map, *L&M* achieved a market share of 5% or higher in nineteen markets in the EU Region in 2011. This compares to fourteen markets in 2008.

(SLIDE 26.)

L&M is the fastest growing brand in the German market. In 2011, *L&M*'s market share surpassed those of both *JPS* and *Pall Mall* with a gain in that year alone of 1.1 points to reach a 10.4% market share. We believe that there is still further potential for growth as *L&M* is the leading brand amongst Young Adult Smokers with a smoker share of 19%, well ahead of rival brands.

(SLIDE 27.)

We have been successful in stabilizing *L&M's* market share in the EEMA Region at 3.6%, thanks to a very strong performance in Turkey and an appropriate price position in Russia.

(SLIDE 28.)

Chesterfield provides us with a second brand to reinforce our position in the below-premium segment in the EU Region. Its Regional share was up 0.2 points in 2011 to 3.1%, thanks notably to market share growth in Portugal, Austria, Finland, Poland and France, while the brand remained under pressure in Italy and Spain, due to increasing consumer price sensitivity. We believe there is still significant untapped potential as the brand's Young Adult Smoker share is significantly higher than its overall smoker share in nearly every market in the Region, including Italy and Spain.

(SLIDE 29.)

The third key element of who we are is our truly global footprint with a presence in approximately 180 markets. Let me share with you the most important facts and trends around the world and give you a more detailed insight into some of the key markets.

(SLIDE 30.)

Through organic growth, supplemented by judicious acquisitions and business combinations, we have significantly expanded our geographic diversity since 2008. Asia has now become our growth engine and single most important Region in terms of both net revenues with 34% and adjusted OCI with 35%.

(SLIDE 31.)

Within the Asia Region, the three markets of Indonesia, the Philippines and Japan accounted for over three quarters of our 2011 volume. All three were among the 10 largest markets worldwide by industry volume in 2011.

(SLIDE 32.)

A growing adult smoking population and increased economic prosperity have been the key drivers of the 5.9% compound annual growth in the Indonesian cigarette market since 2008. Meanwhile, we achieved a compound annual volume growth of 7.8%, performing particularly well in 2011 with a 16.6% increase.

(SLIDE 33.)

We gained 2.1 share points last year in Indonesia to reach a market share of 31.2% and thus widened the gap with our nearest competitor to over ten share points. The key drivers of this growth were *Sampoerna A*, the leading machine-made LTN kretek, sold in the premium price category; *U Mild*, our mid-price machine-made LTN kretek; and our recent tactical regional low-price entries *Trend Mild* and *Vegas Mild*. This superior kretek brand portfolio, along with *Marlboro*'s clear leadership in the "white" cigarette segment, puts us in a strong position to expand our business further.

(SLIDE 34.)

We sold 92 billion cigarettes last year in the Philippines, a number similar to that of Indonesia. The combination of Fortune Tobacco with our cigarette business in February 2010 provided an excellent fit, due to the complementary nature of the two companies' brand portfolios and the generation of significant synergy opportunities. In 2011, *Fortune*, in the low-price category, and premium-priced *Marlboro* achieved market shares of 47.0% and 21.1%, respectively. With a growing adult smoking population and an economy that has been growing at an average rate of 4%, the Philippines is a market with significant potential for further expansion and consumer uptrading.

(SLIDE 35.)

In Japan, PMI resumed steady share growth in the second half of 2009 and this trend accelerated in 2010. In 2011, PMI was able, through executional excellence and operational flexibility, to achieve a market share of 25.6% in the first quarter and an exceptional 42.0% in the second quarter, when there were shortages of competitors' products in the marketplace.

Despite the resumption of full supplies from Japan Tobacco, we were able to maintain a market share of 27.9% in the third quarter and 28.2% in the fourth quarter, which we consider to be our new base share. In January 2012, we had a market share of 28.3% in Japan.

(SLIDE 36.)

We are further reinforcing *Lark* through the national launch this month of *Lark Hybrid* one milligram in a 100mm format, the fastest growing taste and length segments in the Japanese market, with additional product launches planned for later this year.

(SLIDE 37.)

The Asia Region, including China, houses six of the largest countries in the world by population, and, with the exception of Japan, these have an expanding adult population.

(SLIDE 38.)

There are several opportunities in Asia to further strengthen PMI's growth engine. The combined industry cigarette volume of India, Bangladesh and Vietnam was 274 billion units in 2011. PMI has a combined share of just 0.6%. However, we do have structures now in place that should enable us to achieve steady organic growth in both India and Vietnam going forward, as well as a *Marlboro* license in Bangladesh.

China, with a market of 2.5 trillion units, accounts for over 40% of worldwide cigarette consumption. We have a license agreement with the China National Tobacco Corporation for *Marlboro*, as well as an international joint-venture to manufacture and sell Chinese heritage brands outside China. We are very pleased with this cooperation.

(SLIDE 39.)

The EEMA Region has been and is expected to continue to achieve strong income growth. Excluding currency and acquisitions, OCI in the Region has grown at a compound average annual rate of 13.1% since our 2007 pro-forma base to reach $3.3 billion in 2011.

(SLIDE 40.)

Russia, which accounts for over 30% of PMI's volume in the EEMA Region, illustrates the many positive aspects of the outlook for this Region.

To start with, the Russian economy is showing clear signs of improvement on a wide range of measures. Inflation and unemployment declined to 6.1% in December 2011, and average real wages increased over 11% year-on-year.

(SLIDE 41.)

Second, the focus of the excise tax changes has been on increases in the specific element and, in particular, on raising the minimum excise tax. As a result we have witnessed a significant reduction in relative price gaps, though they still remain high compared to Western Europe. For example, our mid-price brand *Chesterfield* now retails at a 75% premium to *Optima*, compared to a 152% premium three years ago.

(SLIDE 42.)

Third, and most importantly, consumer uptrading has resumed. The mid-price and premium segments grew by 0.6 and 0.4 share points in 2011 to 25.5% and 16.4% of the market, respectively. *Parliament* in the above premium segment and *Chesterfield* at the high end of the mid-price segment are performing very well in Russia, and we have numerous plans and initiatives under way to correct the issues of *Marlboro*. We should therefore benefit from accelerated consumer uptrading going forward and thus grow market share and profitability.

(SLIDE 43.)

These positive trends are also true for the Turkish market, where we gained 2.7 share points in 2011, behind *Parliament* in premium, *Muratti* in mid-price, and *L&M* in the low-price segment. The one missing ingredient is excise tax reform. We continue to work with the government on the introduction of a specific excise tax element, the reduction of the ad-valorem rate and the establishment of a more meaningful minimum excise tax.

(SLIDE 44.)

We have a strong presence in the EU Region with a Regional market share of 38.2% and a stable adjusted OCI of $4.6 billion in 2011. We are cautiously optimistic that we will be able to grow profitability in the Region this year on a currency-neutral basis.

(SLIDE 45.)

Market trends in the EU Region are a tale of contrasts. In 2011, cigarette industry volume in Northern and Central Europe declined by 1.6% and 1.8%, respectively. While there was a slight acceleration in the decline in Northern Europe in the fourth quarter, this mostly reflected the timing of shipments and trade inventory movements. We are therefore expecting that the decline in Northern Europe in 2012 will be in line with the longer-term decline rate of around 2.0% to 3.0%.

In contrast, industry volume in Southern Europe decreased last year by 18.8 billion units, or 8.9%. Spain accounted for some two thirds of the total decline, while Greece and Portugal also saw double digit percentage drops in industry volume. Unemployment has continued to climb in all three countries, most notably reaching 22.9% in Spain in December. There is little prospect of any improvement in market trends in Southern Europe in 2012.

(SLIDE 46.)

An important element in the improved financial outlook in the Region is the structural improvement in excise taxes that has been taking place. On a weighted average basis, the specific to total excise tax ratio on cigarettes increased by 1.8 points last year to 30.7% in January 2012. Given that the EU excise tax rules allow governments to have specific to total excise taxes of a level up to 76.5%, you can see that there is still considerable potential for further reform.

Over the same period, governments in the EU have become increasingly focused on obtaining predictable and sustainable revenue streams out of the tobacco industry. As a result, cigarette excise tax increases in the last twelve months have been reasonable.

It is quite possible that higher VAT rates could be introduced later this year in several European countries. However, we believe that such increases should be manageable for us.

(SLIDE 47.)

Our businesses in the Latin America & Canada Region are performing strongly with market share gains in Argentina, Canada, Colombia and Mexico. In 2011, Regional results were negatively impacted by an excessive excise tax increase in Mexico. Since there has been no tax increase there this year, we expect the market to stabilize and the Region as a whole to achieve solid profitability growth.

(SLIDE 48.)

The fourth element that differentiates us from many other consumer products companies is our ability to deliver solid results in a reliable manner in good and in bad economic times. This is based on a favorable pricing and a rational excise tax environment, opportunities for a reduction in illicit trade, limited input cost increases, productivity savings, and a diverse currency basket. Let me discuss each one of these.

(SLIDE 49.)

A cornerstone of our consistency is the favorable pricing environment. In our industry, price reductions are discouraged by governments as it would unfavorably impact their revenue and consumption targets. In addition, our consumers are loyal and the price elasticity is relatively low, generally between minus 0.3 and minus 0.5.

In 2011, we achieved a pricing variance at the OCI level of nearly $1.9 billion, which was slightly above the average variance of $1.7 billion achieved since 2008. This year, we have announced or implemented price increases notably in Germany, Indonesia and Russia, and most recently in Korea. Consequently, we have already in place about 70% of the pricing included in our 2012 EPS guidance.

(SLIDE 50.)

Industry volume is of course dependent not only on pricing but also on the excise tax environment. The sheer size of our business enables us to absorb an occasional disruptive increase that may occur in a specific market. However, most governments appear to have understood that excessive increases in excise taxes and incidence rates do not generate targeted government revenue increases and are not sustainable as large excise tax increases encourage the growth of illicit trade. So far this year, there have been no disruptive excise tax changes implemented or announced in any of our key markets.

(SLIDE 51.)

Illicit trade is a significant phenomenon. It is estimated at 600 billion units, or about 10% of global cigarette consumption. Peaks in illicit trade occur most frequently in conjunction with excessive excise tax increases or unreasonable new regulations, particularly in markets where border controls and other forms of enforcement are weak. You can see on this slide a list of some of the countries where illicit trade is above the global average.

(SLIDE 52.)

However, we believe that illicit trade is an opportunity and not only a risk over the mid to long-term. Assuming that PMI were to obtain a fair share, we would gain approximately 100 billion units from a 50% reduction in illicit trade. Such a reduction would also bring significant additional revenues to governments that are often today in difficult financial straits. We are cooperating very effectively with enforcement agencies around the world to combat this debilitating phenomenon.

(SLIDE 53.)

The feasibility of reducing illicit trade can be illustrated by Canada, where the provincial authorities made a concerted effort to curb smuggling out of the Native American reservations, starting in 2009. Subsequently, the tax-paid market grew by 12.2% to 32.1 billion units in 2011. We believe that illicit trade would be further reduced if the Ontario Government were to introduce additional measures to fight illicit trade, using the legislation in Quebec as a blueprint.

(SLIDE 54.)

Our sustained profit growth is also enhanced by relative stability in our input costs. Tobacco leaf is not traded on any commodity exchange. The annual global demand for tobacco is predictable and it is grown in a wide range of countries and regions. Finally, our increased vertical integration allows us a greater control over quality and price stability.

After a substantial increase in 2008, average prices for tobacco have in fact remained stable on a global basis, and our forecast for 2012 is a moderate increase broadly in line with inflation.

(SLIDE 55.)

Tobacco leaf accounted for 35% of our Cost of Goods Sold, or "COGS", in 2011. The next largest component was direct materials with 27%. Future increases in the cost of direct materials are also expected to be broadly in line with inflation, and PMI will continue to benefit from economies of scale and global purchasing arrangements.

(SLIDE 56.)

We have established a new productivity program for 2012 that targets savings of $300 million in manufacturing and the further optimization of the supply chain. This should be enough to offset the foreseen increases in tobacco leaf and direct material costs, with the exception of the one-time cost step-up related to the mandated introduction of Reduced Cigarette Ignition Propensity, or "RCIP", paper, in the EU, a process which started in the fourth quarter of last year.

(SLIDE 57.)

We are working with a broad basket of currencies both on the revenue and the cost side.

When looking at the transactional currency impact, our costs need to be divided into two main components. For tobacco leaf and direct materials, the Euro accounts for nearly half the base currency. This reflects the fact that, although tobacco leaf is principally traded in US Dollars, we keep significant stocks of tobacco in Western Europe where they are denominated on the balance sheet in Euros, and Western Europe is an important manufacturing center not only for local markets but also for exports to Japan and the Middle East. The relatively high US Dollar component in direct materials reflects the fact that several of our global contracts with key suppliers use the Dollar as a reference base.

(SLIDE 58.)

Other COGS and marketing, sales, administrative and other costs above OCI reflect the geographic diversity of our business. This last category also includes a significant Swiss Franc component, which relates to the location of our operations center and R&D facilities in Switzerland.

Out of our total cost base, excluding sales allowances and below OCI items, of $18.8 billion, the Euro accounted for 32%, the US Dollar for 12% and the Swiss Franc for 8%.

(SLIDE 59.)

The largest impact of currency movements is from translation. We operate in 180 markets and it is therefore important to fully consider the very wide range of currencies, both in developed and emerging markets that make up our sales revenues. In 2011, the

Euro accounted for 26% of our net revenues and other developed currencies accounted for 32%, of which the Japanese Yen is the most important. Key emerging currencies, namely the Russian Ruble, the Ukrainian Hryvna, the Turkish Lira, the Indonesian Rupiah, the Philippine Peso and the Mexican Peso, accounted for 29%, in other words for more than the Euro, and other emerging markets accounted for the remaining 13%.

(SLIDE 60.)

Our broad basket of currencies provides, to a certain extent, a natural hedge as currencies do not usually all move in the same direction against the US Dollar. That being said there will always be times when currency is in our favor and times when it is a headwind.

Interestingly, the cumulative currency variance between our 2007 pro-forma adjusted diluted EPS base of $2.80 and our actual 2011 adjusted diluted EPS of $4.88 was just 7 cents unfavorable, a rather insignificant impact.

(SLIDE 61.)

The fifth key element that defines who we are is our ability to generate tremendous amounts of free cash flow each year.

(SLIDE 62.)

Our strong business results and our focus on the optimization of working capital enabled us to increase our free cash flow at a compound annual rate of 12.2% a year since 2008 to reach $9.6 billion in 2011.

(SLIDE 63.)

In fact, if you look at the ratio between our stock price and our free cash flow, you can see that our valuation on this basis is very significantly below those of other major international fast-moving consumer products companies.

(SLIDE 64.)

We have supplemented our free cash flow with judicious debt financing at increasingly attractive terms and with an extended tenure. Our weighted-average all-in financing cost has declined from 5.0% in 2010 to 4.4% in 2011. We expect to be able to drive this cost down further in 2012. The weighted-average time to maturity of our long-term debt has increased from 7.0 years at the end of 2010 to 8.2 years at the end of 2011.

(SLIDE 65.)

Over the period 2008 through 2011, we generated $42.3 billion in cash, with $32.4 billion coming from free cash flow and $9.9 billion sourced from net debt issuance and other sources. We used $18.6 billion, or 44%, on dividend payments; $21.4 billion, or 51% on share repurchases; and $2.3 billion, or 5%, on acquisitions.

(SLIDE 66.)

This brings me back to the first and most important element of what we stand for and who we are: our steadfast commitment to shareholder value.

(SLIDE 67.)

We increased our dividend rate by a cumulative 67.4% since the spin, including a 20.3% raise last September. As of last Friday, our dividend yield was an attractive 3.8%.

(SLIDE 68.)

Behind a 65% target pay-out ratio, we have increased our dividend at a much faster pace than the average of our wider consumer products and tobacco peer groups.

(SLIDE 69.)

Through the end of 2011, we had purchased 414 million shares, representing 19.6% of the shares outstanding at the time of the spin. The average cost per share was $51.57.

For 2012, the Board has approved a target of $6 billion for share repurchases, which represents an increase of just over 10% compared to 2011.

(SLIDE 70.)

In addition, we of course plan to continue to deliver strong financial results. This is confirmed by our superior mid to long-term currency-neutral annual growth targets. Let me remind you that these are 4 to 6% net revenue growth, 6 to 8% adjusted OCI growth, and 10 to 12% adjusted diluted EPS growth.

(SLIDE 71.)

We have excellent business momentum going into 2012, which will enable us to fully compensate for the EPS hurdle of 10 cents related to the exceptional circumstances in Japan in 2011. The comparison for Japan will of course be especially difficult in the second quarter of this year.

For the full-year 2012, we are forecasting reported diluted EPS guidance, at prevailing exchange rates, to be in a range of $5.25 to $5.35, compared to $4.85 in 2011. Excluding the currency headwind of approximately 10 cents, this new guidance range represents a growth rate of approximately 10% to 12%, compared to adjusted diluted EPS of $4.88 in 2011.

Thus, I am delighted to confirm that we expect to achieve results in 2012 that will again meet our mid to long-term currency-neutral annual growth targets.

(SLIDE 72.)

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