

**Remarks by Jacek Olczak  
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**(SLIDE 1.)**

It is a great pleasure to be back in Boston at the Barclays Back-to-School Consumer Conference. I am very excited to have this opportunity to discuss our business with you today and would like to extend a warm welcome to everyone joining us, whether in person or via the webcast.

**(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 presentation and our SEC filings. Data tables showing adjustments to net revenues and OCI, for currency, asset impairment, exit and other costs, free cash flow calculations, and adjustments to earnings per share, or "EPS", as well as reconciliations to U.S. GAAP measures and a glossary of terms are at the end of today's webcast slides and are posted on our web site.

**(SLIDE 3.)**

Let me begin with a quick review of our first-half results, which I would describe as in line with our expectations. While our cigarette volume declined by 3.5%, net revenues and adjusted OCI increased by 1.5% and 3.2%, respectively, excluding currency. Adjusted diluted EPS, meanwhile, grew by 12.4% on an ex-currency basis.

The key drivers of our performance in the first half were share gains in many of our top 30 OCI markets, improving cigarette industry volume trends in the EU Region, and strong pricing in the EEMA and Latin America & Canada Regions.

**(SLIDE 4.)**

Based on our performance in the first half, we remain confident in our prospects for the full year. Our business continues to perform as envisaged and the latest developments across our key markets have been consistent with our expectations.

We previously highlighted three factors that will moderate our second-half 2014 growth rates. First, we will face more challenging quarterly comparisons in the second half. This is particularly true for the fourth quarter, which was exceptionally strong in 2013. Second, the balance of the year will include higher investments behind the commercialization of Reduced-Risk Products and the

roll-out of *Marlboro* Red 2.0. Finally, the second half will also include some underlying costs that are attributable to our manufacturing footprint optimization initiatives, most notably related to the termination of cigarette manufacturing in the Netherlands.

**(SLIDE 5.)**

I will now discuss the recent developments in key Regions and markets, starting with the EU Region. Year-to-date July cigarette industry volume declined by 3.2%. This represents a significant moderation compared to the 8.3% decline in the same period last year. We attribute this to a slight decline in illicit trade, a slow-down in the growth of e-vapor products in several markets, and less out-switching to fine cut products, whose prices have been increasing faster than those of cigarettes as their excise tax advantage has been reduced, most notably in Southern European markets.

This July, cigarette industry volume declined by 2.6%. However, this was impacted by favorable trade inventory movements in Italy, implying an estimated underlying rate of decrease of around 4%. This is broadly in line with our full-year forecast decline for the EU Region of approximately 5%, with a stronger expected decrease in the second half of the year attributable in part to recent price increases in Germany, Portugal and Spain. In addition, the industry volume comparisons in the first half of this year were easier than those for the second half, and we have yet to witness any substantive improvements in employment levels in the EU, a key economic indicator for our business.

**(SLIDE 6.)**

We continue to outperform the industry in the EU Region. Year-to-date July, our Regional share was up by 1.1 points to 40.0%, driven by the strength of our key international brands. *Marlboro* gained 0.2 share points to 19.3%, despite the continued weak macro-economic environment. *L&M* grew by 0.3 share points to 7.1%, driven by an outstanding performance in Germany. *Chesterfield* performed particularly well, gaining 1.3 share points to reach a Regional share of 5.5%. The brand's market share has grown very rapidly since we repositioned it in Italy, and it has also benefited from geographic expansion. *Chesterfield* has become the third-best selling cigarette brand by volume in the EU Region, behind *Marlboro* and *L&M*.

**(SLIDE 7.)**

From a geographic perspective, our strong performance has been broadly based, with gains in all of the six largest EU Region markets by volume, as shown on this chart.

**(SLIDE 8.)**

From both a volume and market share perspective, our business is performing very well in Italy. Unfortunately, however, there was no excise tax compensation for the VAT increase last October. At 7.5%, Italy has the lowest

specific-excise-to-total tax ratio in the EU, as well as a weak Minimum Excise Tax. With the government essentially subsidizing price reductions, competitors were encouraged to introduce or re-position brands to the four Euro per pack super-low price segment, which led to a one Euro gap to the premium segment, a much larger gap than in other Western European markets.

On a year-to-date July basis, the super-low price segment reached 15.6%, driven predominantly by down-trading from the low and the mid-price segments. It continued to grow throughout the period, while the premium price segment has remained relatively stable since March this year. Following its price re-positioning in February, *Chesterfield* has been the outstanding performer in the super-low price segment, obtaining a segment share of over 50%.

A critical element going forward will be the government's decision on the restructuring of excise taxation, which might still occur before the end of the year. The small tax increase in August stemmed from previous decisions related to the funding of culture in Italy and was not part of this potential reform. We did nevertheless decide to raise the price of *Chesterfield* to 4.10 Euros.

**(SLIDE 9.)**

I will now discuss some of our key markets in the Asia Region, beginning with Japan.

In July, industry volume declined by 3.9% and PMI's share reached 25.5% after being unfavorably impacted by competitive pipelining of new variants. On a year-to-date July basis, industry volume was down by 3.0%, broadly in line with the minus 3.0% to 3.5% range that we are forecasting for the full year. For the same period, our market share was 25.8%, down by 1.3 points compared to the previous year, but in line with our fourth quarter 2013 market share of 25.9%.

We have successfully morphed *Philip Morris* into *Lark*, retaining an estimated 90% of the brand's adult smokers and attracting competitive adult smokers to *Lark*. In the three months ending in July, *Lark's* market share reached 10.2%, a gain of 0.2 share points. We have further reinforced *Lark* through a revamp of the brand family, which started last month.

We are confident that our overall share should level out by year-end thanks in particular to an expected improved performance of *Marlboro* behind the continued use of the "Be *Marlboro*" marketing campaign and the recent launch of new products, such as *Marlboro Clear Hybrid*, a smooth-tasting, regular-to-menthol capsule product.

**(SLIDE 10.)**

In Indonesia, cigarette industry volume grew by 1.4% year-to-date July, broadly in line with our expectation of an increase of up to 1% for the full year 2014.

Following a sequential increase in our market share from 34.6% in the first quarter to 34.9% in the second quarter, our July share reached 35.1%. This

reflects our continued segment share gains in the growing lighter-tasting machine-made segment behind *U Mild* and the launch earlier this year of *Dji Sam Soe Magnum Blue*, as well as a slight moderation in the decline of the hand-rolled *Dji Sam Soe* variants as competitive brands start to cross critical price points. We forecast that our market share should continue to progress during the second half of the year though it is expected to remain below 2013 levels.

**(SLIDE 11.)**

In the Philippines, the total tax-paid cigarette industry volume was close to flat year-to-date July. Adult consumption appears to have remained stable, as evidenced by adult smoking incidence and adult daily consumption data.

Mighty Corporation continues to significantly under-declare its sales volume for excise tax purposes, distorting the trends in the tax-paid market. We are continuing to work with the authorities to resolve this issue and establish a level playing field. The implementation of tax stickers, initially planned for July, has been delayed due to technical problems with sticker production.

PMI's year-to-date July share of the tax-paid market increased by 1.7 points to 85.3%, driven by the stronger performance of *Marlboro*, which gained 1.4 share points during this period.

**(SLIDE 12.)**

In Australia, we continue to see down-trading, driven by large excise tax increases, a certain commoditization induced by plain packaging, and heavy price discounting, particularly at the bottom of the market. For the year-to-date July period, the super-low price segment reached 29.0% of the market, up by 11.1 share points.

We are investing in tactical price discounts for *choice* and *Bond Street*, which has enabled us to improve our position in the low and super-low price segments. As a result, our overall market share reached 36.5% in the four months from April to July 2014 compared to 32.9% in the first quarter. As we highlighted previously, the volume and mix deterioration, along with the price discounting, is impacting our profitability.

**(SLIDE 13.)**

Let me now turn to Russia, where our strong and diverse brand portfolio is driving market share gains and enabling us to increase prices. On a year-to-date July basis, our Nielsen market share increased by 0.8 share points to 26.9%, thanks to premium *Parliament*, mid-price *L&M* and low-price *Bond Street* and *Next*.

Year-to-date July cigarette industry volume is estimated to have declined by some 8.5%. For the full year, we continue to expect a decline in cigarette industry volume of between 9% and 11%, due to the impact of our May price

increase – which only began to impact adult smokers as of late July – and the implementation of the second round of restrictions on public smoking that were introduced in June.

The sanctions imposed on Russia have had no material impact on our business to date.

**(SLIDE 14.)**

Let us now quickly look at PMI's share performance a bit more broadly. For our top 30 OCI markets worldwide, our share for the year-to-date July period increased by 0.3 share points to 37.9%. This increase was broad-based, with share gains in 18 out of 30 markets.

**(SLIDE 15.)**

*Marlboro* has been one of the key drivers of our favorable market share momentum. Year-to-date July, the brand gained 0.2 share points in both the EU and EEMA Regions. The brand's share in the Asia Region was stable, despite the lower share in Japan. In the Latin America & Canada Region, we gained share in Argentina, Brazil and Colombia, but this was not sufficient to offset the impact of down-trading in Mexico.

**(SLIDE 16.)**

While the focus of this presentation has been on our conventional combustible business, I would like to give you a brief update on one of our Reduced-Risk Products. Reduced-Risk Products is the term we use to refer to products that have the potential to reduce individual risk and population harm. As I speak, we are actively preparing for the city tests in Italy and Japan for our heat-not-burn *iQOS* product (previously referred to as "Platform 1"). The city tests will start during the fourth quarter. Based on the consumer testing that we carried out last year, we are optimistic that this product will be very well received by adult smokers in both markets. This product is currently undergoing rigorous scientific evaluation to determine its potential to reduce risk.

**(SLIDE 17.)**

While we are investing in the launch and further development of our portfolio of Reduced-Risk Products and continue to seek value-enhancing business development projects, we remain very focused on using our cash to enhance shareholder returns. From 2008 through the end of June this year, we have returned nearly \$69 billion to shareholders through dividends and share repurchases.

Our annual dividend payout ratio target is 65%, and we have increased our dividend per share by 104.3% on a cumulative basis since 2008. While future dividends are clearly at the discretion of the Board, a look at our dividend history reveals that we have a proven track record of rewarding our shareholders even in turbulent times.

Our target for share repurchases in 2014 is \$4.0 billion. Through the end of June this year, we spent \$2.25 billion to repurchase 27.0 million shares at an average price of \$83.27. We aim to balance our dual goals of returning at least 100% of our free cash flow after acquisitions and other business development projects to our shareholders while maintaining our current single A credit rating.

**(SLIDE 18.)**

Let me conclude with a summary of our business outlook. For 2014, we remain confident in our business prospects given our performance during the first half of the year, coupled with the latest developments across our key markets. We have highlighted the fact that the timing of several expenditures, notably the launch of *iQOS*, the roll-out of *Marlboro Red 2.0* and underlying costs related to the optimization of our manufacturing footprint, is skewed to the second half, and in the case of *iQOS* the fourth quarter. We will also face more challenging comparisons during the second half, again particularly the fourth quarter, which was exceptionally strong in 2013.

As we look to 2015 and 2016, we aim to return to currency-neutral, net revenue and adjusted OCI annual growth within our 4% to 6% and 6% to 8% mid- to long-term annual target rates, respectively. These target rates take into account anticipated incremental investments behind the commercial expansion of our Reduced-Risk Products. On this basis, we target a currency-neutral adjusted diluted EPS annual growth rate of 8% to 10%.

**(SLIDE 19.)**

Thank you for your interest in our company. I will be happy to answer any questions that you may now have.