

Philip Morris International Inc.
Investor Day 2012

Louis C. Camilleri
Chairman of the Board and Chief Executive Officer

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Opening Remarks

Good morning, everyone.

A heartfelt welcome to you all – both those here in the auditorium and those listening to the audio webcast.

This is our second Investor Day and its dual purpose is to:

- Provide you with more insights into our strategies and prospects for continued growth; and
- Importantly, meet and familiarize yourself with our senior management team that includes the presenters and all its other members.

Our results in 2011 were simply superb across all measures. We returned to organic volume growth, witnessed wide-spread market share gains and achieved record net revenues, operating companies income, earnings per share and cash flow.

This momentum was sustained in the first quarter of this year with our best quarterly volume performance since the spin-off, in part fueled by the leap year and some timing favorabilities.

It will not come as a shock to you that currency has moved in the wrong direction since April. Accordingly, we are revising our 2012 full-year reported diluted EPS forecast, for these adverse currency movements only, and now project an EPS range of \$5.10 to \$5.20 versus \$4.85 earned in 2011.

Absent the 25 cents currency hit to EPS for the full-year, our reported diluted earnings per share are projected to increase by approximately 10% to 12% versus our adjusted diluted earnings per share of \$4.88 generated in 2011.

While it continues to be our steadfast practice not to provide quarterly guidance, I wish to remind everyone that we face a 10 cent hurdle in the second quarter attributable to last year's exceptional circumstances in Japan.

Furthermore, as Jacek will mention, we now anticipate a weak volume performance for the second quarter in the EU Region, reflecting significant quarterly erosion in total industry volumes in Southern Europe, particularly in Spain and Italy.

Elsewhere, we will enjoy strong volume growth, particularly from the Asia and EEMA Regions.

All in all, we remain optimistic that our full-year 2012 organic volume performance will be in line with our mid to long-term annual organic volume growth target of 1%, a significant achievement given the Japan hurdle we confront.

There has been considerable debate over our volume target and whether or not it is realistic. 2012 will mark the second consecutive year of organic volume growth and the third year of organic growth since the spin-off, hopefully putting to bed this somewhat endless debate.

I remember quite vividly that when we announced our mid to long-term annual growth targets at the time of the spin in terms of our key metrics, these were greeted with a warm welcome, but also with some degree of skepticism given our track record at the time.

Fast forward to today and you all know that we have not only met each of our key financial metrics on most occasions, but have often handsomely surpassed them, and this despite unprecedented economic and political turmoil in Europe and elsewhere.

So the key question over the next day and a half is whether we can sustain our strong operating performance in the years ahead. We firmly believe that we can.

Indeed, last week's announcement of a new, \$18 billion, three-year share repurchase program is an unambiguous testament to our confidence in the future.

I do not wish to steal the other presenters' thunder, but I do wish to highlight the key drivers of our future growth and the challenges that we will need to successfully manage.

Our volume performance will naturally be a function of total market trends, geographic and brand mix and market share performance.

On this score, we continue to be cautiously optimistic. Industry volumes are holding up better than we had anticipated some time ago, as exemplified by improved trends in Germany, Japan and numerous emerging markets.

Our broad geographic presence is a key strength and we are reaping the fruits of countless actions taken over the last few years to secure industry leadership in key emerging markets, most notably in both our Asia and EEMA Regions.

Excluding China, our market share has grown by 3.1 percentage points over the 2007 to 2011 period, with clear leadership in both OECD and non-OECD markets. We have grown share in all key price segments and are the leader in three key growth segments, namely low tar, slims and menthol.

We strategically penetrated the growing OTP or fine cut market in the European Union, with resounding success both through acquisitions and organic growth.

Pricing has been, and will continue to be, the key income driver going forward. As you all know, pricing and excise taxes go hand-in-hand and are thus inexorably linked. As André will highlight shortly, the progress on securing excise tax structure reform over the last few years has effectively enhanced our pricing flexibility. There is still much to do on this front, but the outlook is positive given governments' wide and growing recognition that a higher specific-to-total tax ratio, combined with minimum taxes or prices, address their voracious appetite for sustainable and predictable revenues while also addressing public health concerns. You will see that the progress achieved on this front in each Region has been nothing short of remarkable.

An improving excise tax framework, narrowed price gaps and the level of relative pricing compared to other consumer products are the foundation upon which we rest our optimism.

A disruptive increase in excise tax incidence in any given market is always a risk, but recent history has highlighted that such increases entail serious unintended consequences and governments increasingly understand the peril.

Indeed, this year we have not witnessed any increase that we would deem to be excessive, somewhat surprising given the endless search by governments for more revenue.

There have been calls for excessive excise tax increases most notably in the Philippines and the member countries of the Gulf Cooperation Council, but these initiatives are still in their early phase and we trust that reason will ultimately prevail.

On the cost front there has been significant progress and we remain fully on track to meet our 2012 \$300 million productivity target. Martin will review this important strategy and outline our plans to pursue further material productivity initiatives in the coming years to consolidate our best in class position.

On the regulatory front, we are witnessing more frequent calls for measures that are not only arbitrary and alarming, but that stand little or no chance of achieving the benefits that their proponents claim.

We remain steadfast in our resolve to fight measures that, at best, rely on spurious evidence and that, in our opinion, will ultimately be contrary to public interests. These key measures include: product display bans, stringent ingredient restrictions and plain packaging. None of these will affect consumption meaningfully and all will further open the door to the scourge of illicit trade.

Plain packaging is a very flawed policy. As you all know, the Australian legislation is being challenged through three avenues:

1. The first is a domestic constitutional claim and we expect a High Court ruling sometime in the Fall. I should remind everyone that the claim is a very narrow one and, accordingly, our prospects for victory may be somewhat limited;
2. The second is a claim under the Bilateral Investment Treaty between Hong Kong and Australia. We feel that the merits of this case are very strong. In terms of process, the Arbitration panel has now been formed and a procedural meeting is scheduled at the end of July in Singapore. Resolution is expected within a two to three-year time frame;
3. The third avenue relates to WTO actions that have already been filed by Ukraine and Honduras. The Dominican Republic has announced its intention to file and other countries may possibly follow. We expect that these actions will also take two to three years to reach resolution.

While all eyes are on Australia, many have expressed a legitimate concern regarding the possible contagion of this measure to other countries. New Zealand has intimated that it will follow suit. The UK has initiated a public consultation process while recognizing that due consideration must be given to the possible implications related to the UK's legal exposure and its commitments and obligations under its trade agreements, and that the evidence must be strong and convincing that such a measure would reduce smoking incidence.

We are comforted by the fact that several countries have considered and rejected plain packaging and that, most recently, the EC Health Commissioner has stated that a plain packaging measure will not be included in the revised EU Tobacco Product Directive.

A key driver of our success has been innovation. Over the course of the next day and a half, you will undoubtedly note numerous initiatives in that regard. Product innovation will be front and center as exemplified by the actions taken on all our key brands and especially, *Marlboro*. All our brands are responding very positively to the actions taken and we continue to fill our pipeline with promising, adult smoker-relevant innovations.

But innovation goes well beyond the product. It includes our integrated campaigns, our adult smoker engagement platforms, our initiatives to build commercial organizations that will provide us with a sustainable, competitive advantage and numerous other initiatives across all functions and Regions.

Innovation is often incremental or evolutionary and, now and again, something arises that is truly revolutionary and that leap frogs all prior innovation in a given category.

We believe that the advent of Next Generation Products (NGPs), or Modified Risk Tobacco Products, is such an innovation. As André will point out, there has been enormous progress on this front in terms of product development, risk assessment, the regulatory framework, our manufacturing infrastructure, adult smoker research and communication, and ultimate commercialization.

We are on the eve of what we all believe could be a paradigm shift for our industry and for PMI, in particular. The advent of NGPs has the very real potential to not only be a game changer, but also be the key to unlock several hitherto virgin territories, most notably the huge Chinese market.

You will hear much about the growth of illicit trade in all Regions and concrete examples of actions taken to address this issue and return those volumes to the legitimate industry. We are steadfast in our resolve to combat this destructive phenomenon. We recently set up a centralized function to coordinate our efforts in this regard and, just this morning, announced a wide-ranging cooperation agreement with Interpol to fight illicit trade.

Ultimately our success will depend on our organization and culture. We are blessed with an employee base that is talented, committed and determined. You will meet the cream of the crop over the next couple of days, but rest assured that the bench strength has never been stronger at PMI.

Since the spin-off, we have become more entrepreneurial, faster, more decisive and more audacious. Combined with our brands, this strength is ultimately the basis for my confidence and optimism.

Before I hand over the podium to André, I need to say a few words about Hermann's forthcoming retirement. While he will lead the second-quarter earnings conference call, this is most likely the last time you will meet him face-to-face.

His achievements over a career that spanned a quarter of a century are too numerous to mention here, but we all know that he proved to be a tremendous CFO. He managed our balance sheet and

cash flow in an exemplary manner and many, especially me, will remain forever grateful for all that he has done for this great company and its owners.

Jacek, his successor, will fill some rather large shoes, but I have every confidence that he will soon gain your collective respect and admiration. Had you read the biographies of both Hermann and Jacek you will be struck by the similarities of their respective career paths. In many ways, they literally mirrored each other's.

I trust that the next day and a half will prove to be insightful and informative and I encourage you to ask as many questions as you desire and to interact with all the members of our fabulous management team. In my humble opinion, it is the best team that PMI has ever had in the last 30 years.

Thank you. André will now begin his presentation.