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Philip Morris International Inc.

Investor Day
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(SLIDE 1.)

Good afternoon, Ladies and Gentlemen.

(SLIDE 2.)

Today, I will begin by describing our strong business fundamentals and our strategies to achieve sustainable mid to long-term profit growth. I will then present the developments in our four most important EU Region markets. After my concluding remarks, I will be happy to take your questions.

(SLIDE 3.)

Before reviewing our performance, let me highlight some key data about our EU Region. It comprises the 28 European Union Member States, except for Bulgaria, Croatia, Romania, and Slovenia, but with the addition of Iceland, Norway and Switzerland.

Our Region's relatively prosperous population of 485 million people grew at a modest rate of 0.3% between 2009 and 2013.

In 2013, the size of the cigarette industry in the Region was 482 billion units. PMI held a Regional market share of 38.5%, making us by far the leading cigarette company. The Other Tobacco Products category, or "OTP," reached 163 billion cigarette-equivalent units in 2013. Within OTP, the fine cut category amounted to 142 billion cigarette equivalent units. We have a Regional market share of 14.6% in fine cut and are focused on further growing our share in this category.

In 2013, adjusted OCI was approximately $4.3 billion, making the EU Region the second-most profitable Region within PMI. Last but not least, I am proud to lead a talented, dedicated and committed organization of more than 11,000 employees, who demonstrate on a daily basis a strong strategic mindset and world-class execution.

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Looking at the macro-economic indicators, and after a number of years of severe economic downturn, we are starting to see encouraging signs of improvement for 2014 and beyond. The unemployment rate seems to have peaked in 2013, and both consumer confidence and GDP growth are expected to evolve favorably in the coming years.

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The economic situation and, more specifically, high levels of unemployment and lower levels of disposable income have had a very strong adverse effect on the cigarette industry. As unemployment rates grew, the industry's decline accelerated to 9.3% in the first half of 2013. However, in the second half of 2013, we already witnessed a significant moderation in the rate of decline, which continued into 2014, resulting in a 4.4% industry decline year-to-date May.

We attribute this moderation to slowly improving macro-economic conditions, a decline in illicit trade as we work with governments to address the issue, a slow-down in the growth of e-vapor products in some markets after a high initial trial, and reduced down-trading to fine cut products due to narrowed price gaps with manufactured cigarettes. We now expect the total industry decline to be in the range of 5.0% to 6.0% for 2014, as the comparisons with 2013 are easier in the first half of this year.

As the macro-economic situation continues to improve, we foresee these recent trends, including a further slow-down in the growth rates of e-vapor products, to remain. As a result, we expect cigarette industry volumes to continue to decline 5% to 6% in 2015 and to moderate to a decline of 4% to 5% thereafter.

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Let me now turn to our business performance. In 2013, PMI held a market share of 38.5%, making us by far the leading cigarette company in the EU Region. This was our first year of strong share growth after a number of years of moderate sequential decline. This growth has continued in 2014. In the first quarter, we reached a share of 38.9%, up by 0.9 share points versus the same period in 2013.

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This share growth momentum is clearly visible in the six largest markets in the Region. Our market share has grown in each of these markets, including a 0.7 share point growth in Spain and a 0.6 share point growth in both France and the UK.

(SLIDE 8.)

In 2013, the EU Region delivered 21% of PMI's cigarette shipment volume, 28% of its net revenues and 30% of its adjusted OCI.

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Despite the difficult macro-economic situation between 2010 and 2013 and the related 6.0% decrease in shipment volume, both net revenues and adjusted OCI decreased by a modest 0.5% and 0.6%, respectively, excluding currency. These financial results reflect our ability to offset very strong volume declines due to the economic downturn with judicious pricing and productivity initiatives, while continuing to invest in our brand portfolio.

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Looking at our first quarter results, we already saw a significant improvement in shipment volumes. These were down by 2.9%, mainly due to a lower industry decline partially offset by our strong market share growth. Financial results, excluding currency, are also improving, with net revenues down by a marginal 0.4% and adjusted OCI up by 1.3%, helped by the timing of marketing spending.

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On the back of a gradually improving macro-economic outlook and a strong business momentum, we are confident in our ability to deliver an annual average low single-digit adjusted OCI growth on a currency-neutral basis over the mid to long-term. This growth will be underpinned by six key strategies, which you see listed on this chart. Let me take you through each of these in detail.

(SLIDE 12.)

Our first key strategy is to continue to grow our superior brand portfolio through strong adult consumer insights, relevant innovation and judicious investments.

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Our portfolio today is strongly focused, with our four main brands−*Marlboro*, *L&M*, *Chesterfield* and *Philip Morris*−representing 84% of our total cigarette volume in the Region. We have streamlined our portfolio through disciplined SKU rationalization and the morphing of underperforming local brands, leading to strong organizational focus. This, coupled with the distinct positioning of our brands, was clearly one of the drivers of our share growth last year.

Marlboro, despite the continued adverse economic situation and weak adult smoker purchasing power, grew by 0.4 share points to reach a 19.0% market share in 2013, cementing its position as the leading cigarette brand in the Region. Additionally, our other key brands−*L&M* (the second largest industry brand in the Region), *Chesterfield* and *Philip Morris*−also performed very strongly in their respective segments, underpinning total share growth in the Region.

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The strength of our portfolio is not limited to *Marlboro*, which is by far the largest cigarette brand in the Region. *L&M*, *Chesterfield* and *Philip Morris* together represent a higher share of the total cigarette industry than the combined top three brands of any of our key competitors. This strength is further highlighted by the fact that, in the first quarter of 2014, *Marlboro*, *L&M* and *Chesterfield* were among the top five cigarette brand families in the Region.

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Despite the severe economic downturn, the premium segment share has shown significant resilience at around 32%. *Marlboro* represents more than half of the segment and has continuously grown segment share, reaching a remarkable 57.4% in the first quarter of this year. This outstanding performance has been achieved thanks to its strong brand equity coupled with the deployment of innovation relevant to adult smokers and the *"*Be *Marlboro"* marketing campaign.

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In 2013, *Marlboro* gained, or essentially maintained, share in the Region's largest markets. This performance is not only attributable to its strong brand equity, but also to the flawless execution of our new brand initiatives.

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As you have already seen in Fred's presentation this morning, a key initiative for *Marlboro* is the roll-out of our new *Marlboro* Red across the Region. Our five city tests showed very promising results with 100% retention of current *Marlboro* Red smokers and an increased brand preference amongst Legal-age (minimum 18) to-24 year old and female adult smokers. Based on these positive results, we have already started national roll-outs in France, Germany, Italy, Poland and Switzerland. While it is still early days, initial indications on the national roll-outs are very encouraging.

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Marlboro continues to lead consumer-relevant innovation, as recently demonstrated by the launch in France of *Marlboro Micro Beyond*, the first super-slims cigarette with a mint capsule. Another innovation is *Marlboro Fuse Beyond*, the Region's first-ever regular cigarette with two capsules in the filter, which thereby provides four taste options in one cigarette. It has recently been launched in the Czech Republic and the Netherlands with very positive initial consumer feedback in both markets.

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Another important contributor to *Marlboro*'s growth has been what we call "price-banded" variants, which offer adult smokers a price advantage. This is particularly important in a recessionary environment. As markets polarize into premium and low-price segments, *Marlboro* is catering to the vacated mid-price segment through its "price-banded" variants. This allows *Marlboro* to retain its existing adult smoker base and convert competitive brand smokers who cannot yet afford a full up-trade into the premium segment. Good examples of such "price-banded" propositions are our slimmer *Marlboro Touch* in Italy and Spain, our shorter *Marlboro* Pocket in Portugal and *Marlboro* Maxi packs in Germany and the Netherlands.

In 2013, almost 20% of our total *Marlboro* share came from formats that offer adult smokers such price advantages. It is important to note that, despite the lower price of these formats, they still deliver a marginal contribution close to that of the main franchise, allowing us to continuously grow the aggregate per thousand marginal contribution of the brand family.

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The industry's below-premium price segment is relatively stable at around 68% of the market. PMI is gradually growing its share in this segment, having reached a 26.2% share in the first quarter of 2014. Within our below-premium portfolio, our three international brands–*L&M*, *Chesterfield* and *Philip Morris*–have grown much faster. They attained a combined share of 18.5% of the segment in the first quarter of 2014, up by five share points since 2010.

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L&M is the industry leader in the below-premium price segment. It attained a 10.1% share of segment in the first quarter of 2014, up by 0.4 share points versus the same period in the previous year. *L&M* performed very strongly across the Region, with particularly strong growth in Belgium, Germany and Slovakia. We are further supporting its strong equity by deploying consumer-relevant innovation in key growth segments, including additive-free tobacco and capsules. In addition, we have recently rolled out, with very good results, the new communication campaign in Germany, which Fred described this morning.

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Chesterfield is currently our fastest-growing cigarette brand in the EU Region. Its share of the below-premium price segment grew from 4.1% in 2010 to 7.1% in the first quarter of 2014. Its growth is being achieved through its unique positioning, consumer-relevant innovation–namely additive-free tobacco and capsule products–geographic expansion, competitive pricing, as well as through portfolio optimization.

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Philip Morris and its unique brand promise supplements our below-premium portfolio in selected geographies. It achieved 0.3 points of segment share growth to reach 1.3% in the first quarter of 2014. Its share growth is particularly noteworthy in Latvia and Lithuania, where the brand grew by 12.2 and 10.3 share points, respectively, reflecting morphing initiatives coupled with its strong brand equity and attractive price. It is worth mentioning that *Philip Morris* has recently become the largest brand in Latvia. In addition, *Philip Morris* is a strong cigarette brand in France, where it is positioned in the premium segment and, as such, is not shown in this chart.

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Fine cut industry volumes are very sizeable in the Region. The fine cut market grew steadily until 2013 when it significantly moderated reflecting macro-economic improvements, as well as gradual excise tax harmonization which reduced price gaps with manufactured cigarettes. Growth is mainly driven by fine cut line extensions of cigarette trademarks. Due to our strong cigarette brand portfolio, we have been able to capture 46% of the total volume growth of the fine cut category, a rate more than three times higher than our share of this market.

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Our share of the fine cut category increased from 10.1% in 2010 to 14.6% in 2013 and to 15.2% in the first quarter of 2014, thanks to the deployment of our international cigarette trademark portfolio and innovations in volume tobacco. *Marlboro* has been particularly strong, reaching 4.1% share in the first quarter 2014, compared to a mere 0.6% share in 2010.

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Throughout the Region, our portfolio momentum continues to be enhanced by the deployment of our innovative commercial approach. We are combining our marketing and sales knowledge and resources into entrepreneurial commercial teams with increased autonomy, flexibility and speed to adapt to local conditions. This new approach allows us to support our key brand variants more consistently throughout the year and improve the success rate of new product introductions. In addition, it provides better access and leverage of adult consumer touch points to improve the way we communicate with the trade and with adult smokers.

As you have seen in Fred’s presentation, the initial pilots of our commercial approach in the EU Region generated consistent market share gains in the countries where they were conducted. We firmly believe that this new approach will continue to provide us with a significant competitive advantage going forward and expect to complete most of our national roll-outs across the region by the end of the year.

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Our second key growth strategy is to reinforce our fight against illicit trade. Illicit trade in the EU represents about 11% of the industry cigarette consumption. As such, countering the prevalence of illicit products represents a major opportunity.

During the last few years, we have significantly increased our financial and human resources devoted to combating illicit trade. We are working with policy makers and law enforcement agencies to ensure that effective policies and penalties are introduced and enforced to reduce the attractiveness of cigarette smuggling to organized crime and terrorist organizations. We also have a cooperation agreement with INTERPOL in which one of the key objectives is the control of the supply chain.

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As a result of the increased awareness and focus, illicit trade in the 28 European Member States began to stabilize in 2012 and recorded a significant volume decline of more than 10% in 2013, with the inflow from non-EU countries also decreasing. Although this is an encouraging improvement, one in ten cigarettes consumed in the EU last year were still illicit. As André mentioned this morning, we also continue to see significant growth in consumption of "illicit whites" in the EU.

Whilst it is too early to confirm, we are confident that, if we continue our current efforts on the part of the industry, law enforcement and governments, illicit trade will stabilize or decline over the mid to long-term. This will have, as recently witnessed, a positive impact on the cigarette market recovery.

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Italy is a prime example of how we are addressing the illicit trade issue by building broad awareness of the topic and involving various stakeholders to tackle the problem. As a result, Italy’s Finance Police organized numerous law enforcement actions that resulted in over 250 people arrested, 23 illegal warehouses closed and several illegal retailers shut down. The results speak for themselves, with a non-domestic incidence that dropped from 11.4% in the fourth quarter of 2012 to 5.2% in the same period of 2013.

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Our third strategy is to protect our ability to differentiate our products. In this context, a key regulatory development for our Region has been the Tobacco Products Directive or “TPD.” On May 19th this year, the TPD came into force and will have to be transposed into national legislation by all EU Member States by May 20th, 2016. The main provisions include a 65% graphic health warning; a prohibition on characterizing flavors, with mentholated products subject to a six-year grace period until 2020; e-cigarettes essentially regulated as tobacco-related products, and a requirement for companies to implement tracking and tracing features. In addition, the Directive purports to give Member States discretion to introduce plain packaging, but that aspect of the TPD does not change the fact that banning the use of IP raises major questions under EU and national law. An initially proposed ban on slimmer format cigarettes was ultimately removed from the Directive.

During the two-year transposition period, our focus will be on ensuring that no additional measures are introduced, achieving a meaningful transposition of the "Novel Tobacco Products Regulation" and supporting the implementation with minimal disruption to the business.

While we are confident we can continue to operate successfully under the new framework, we strongly believe that the adopted TPD represents a clear breach of the careful way the EU Treaties allocate authority between the member states and the EU legislature. We also see the new TPD as a worrying departure from the EU's basic standards of proportionate, evidenced-based policymaking. We therefore reserve our right to explore avenues to challenge the current Directive.

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Let me now turn to our strategy of advocating for a reasonable tax environment that will enhance government and industry revenue predictability while promoting other policy goals, such as public health.

We have always considered the fiscal environment to be one of the most important drivers of our business. In light of this, both tax incidence and tax structure are of paramount importance.

We seek to work with governments to foster regular, reasonable increases, a high proportion of specific-to-total tax elements (including minimum excise taxes), multi-year tax plans and a gradual harmonization of taxation between cigarettes and other tobacco categories. This approach serves government objectives both in terms of fiscal revenues and public health, and provides predictability to our business.

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On the excise tax front, we have in general not witnessed excessive increases in the Region. *Marlboro*'s excise tax yield has increased annually by 4.6% on average from 2010 to April 2014.

(SLIDE 33.)

In the EU, the Excise Tax Directive that entered into force in January 2011 allows Member States to increase the specific-to-total tax ratio on cigarettes. Seventeen countries have made structural excise tax improvements since then. As a result, the weighted average specific-to-total excise tax ratio has risen from 28.7% at the beginning of 2010 to 35.3% in April of this year.

While we have witnessed some modest improvements in excise tax structures in traditionally high ad-valorem countries like France, Italy and Spain, significant work still remains to be done.

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Price gaps between the premium and low-price cigarette segment have narrowed significantly since 2010, partially driven by improved tax structures. The notable exception is Italy, where a predominantly ad-valorem excise tax structure, and the lowest specific excise-to-total tax ratio in Europe, has contributed to a further expansion of the price gaps and a significant shortfall in government excise tax revenues.

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A gradual harmonization of fine cut and cigarette taxation has also occurred during the 2010 to 2014 period. The average excise tax yield ratio between the lowest-priced manufactured cigarettes and fine cut tobacco products has narrowed by over 14 percentage points over the period, as excise tax gaps have been reduced in most of the Region's countries. This is encouraging progress, but more needs to be done.

(SLIDE 36.)

Our fifth strategy is focused on expanding our operating margins such that we can target our ex-currency, low single-digit adjusted OCI growth over the mid to long-term.

(SLIDE 37.)

In 2013, the EU Region generated PMI's highest adjusted OCI margin excluding currency, up by 40 basis points versus the previous year. Judicious pricing, backed by the power of our brands, and cost discipline have been the key drivers of our margin expansion.

(SLIDE 38.)

Historically, our average pricing variance has been around $380 million per year. In any given year, our pricing strategy takes into consideration price gap and price point management. It also takes into account a judicious balance between volume impact and margin enhancement that includes consumer affordability and illicit trade, especially in a period of economic difficulty. For 2014, we estimate that the contribution from pricing will be lower due to the fiscal situation in Italy. Going forward, however, as our strong business fundamentals have been reestablished and the macro-economic outlook improves, we are confident that an average $350 to $400 million in annual pricing is sustainable over the mid to long-term.

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Another key strategy to support our currency neutral adjusted OCI growth target is our continuous focus on cost savings and productivity initiatives in every area of the business, while maintaining our steadfast commitment to additional investments that support the long-term growth of the business.

To further optimize our cost base and address manufacturing overcapacity in the EU, as you heard from André this morning, we entered into consultations with employee representatives in the Netherlands on a proposal to discontinue cigarette production at our Bergen op Zoom facility. In addition, we will continue our portfolio rationalization efforts outlined previously and we have a number of initiatives in place to simplify our processes and increase efficiencies.

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One of our greatest growth opportunities lies in the area of Reduced-Risk Products, which were covered in detail this morning. A city test of Platform 1 will be carried out during the fourth quarter of 2014 in Italy, where our recently announced first RRPs factory, with a planned capacity of up to 30 billion *HeatSticks* tobacco sticks, is under construction. Following the city test, we will fine-tune our plans before proceeding with our national expansion of Platform 1 in 2015. In addition, following our acquisition of Nicocigs Limited and our strategic framework agreement with Altria, we plan to introduce Platform 4 products in selected markets.

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Although we have a strong presence in most of our Region markets, there are still a few markets where we are clearly under-represented. A good example is the UK, which is one of the largest tobacco profit pools in the Region, with industry net revenues of about $3 billion. Our market share reached only 7.3% in 2013 compared to our 38.5% share for the total EU Region and it is mostly contributed by *Marlboro* in the premium segment.

Our growth potential in this market is somewhat constrained by our current business model, which limits our ability to deploy our full brand portfolio and leverage our commercial approach. We are therefore restructuring our arrangements to take direct control of sales and distribution in order to increase the focus and support behind our brands, expand our portfolio into all tobacco product categories and establish a platform for the distribution of Reduced-Risk Products. We have already started to build our own capabilities and will take full control by the end of 2015.

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I will now cover our four most important markets in the Region: Spain, Italy, France and Germany.

(SLIDE 43.)

Of these markets, Spain has been the most severely hit by the economic crisis. Its high unemployment level, especially among the younger population, has negatively impacted private consumption. Adult smokers have been down-trading not only to low-price cigarettes and to fine cut, but also to illicit products. As a result, cigarette industry volume declined by 11.1% in 2013, while the fine cut category grew by 6.9%. Encouragingly, year-to-date May 2014, these trends have changed significantly, with industry cigarette volume declining by only 5.2%, while fine cut declined by 16.6%, as the economy shows tangible signs of improvement.

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The fiscal framework in Spain is gradually improving. The specific-to-total excise tax ratio for cigarettes has increased and a higher Minimum Excise Tax has been introduced both for cigarettes and fine cut products. As a result, we have been able to increase prices in both categories, while reducing price gaps within the cigarettes segment, as well as between fine cut and low price cigarettes.

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2013 marked a turnaround in our share performance in Spain. We grew our cigarette market share by 0.7 share points to 31.2%. *Marlboro* grew market share by 0.5 share points to 14.8%, with a further expansion to 15.1% in the first quarter of 2014. Our "price-banded" offerings, such as *Marlboro Touch*, contributed to this performance.

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In the fine cut category, we continue to outpace our competitors by leveraging our superior cigarette brands − *Marlboro*, *Chesterfield* and *L&M*. Consumer-relevant new launches, alongside our increased distribution coverage, enabled us to grow our market share by 8.8 share points to 13.8% from 2009 to 2013. In the first quarter of 2014, we further grew our share to 15.7%, mainly driven by *Marlboro*, which was up by almost two share points.

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Let me now turn to Italy. Total cigarette industry volume in Italy declined by 6% in 2013. Year-to-date May 2014, cigarette industry volume has remained essentially stable due to a significant decline in the sales of e-vapor products and the previously mentioned decline of illicit trade.

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The key issue in Italy remains the ineffective excise tax structure. The country has the lowest specific-excise-to-total tax ratio in the EU at 7.5% versus an average of 35% for the Region and an ineffective Minimum Excise Tax level.

This has encouraged competitors to introduce or re-position brands to the newly created super-low four Euros per pack price segment. As a result, the price gap with premium brands has increased from 70 Euro cents to one Euro per pack, which is a much wider gap than in markets such as France and Germany. Consequently, the super-low price segment share grew from 3.0% in the fourth quarter of last year to 9.3% in the first quarter of this year, driven predominantly by down-trading from the mid and low-price segments, as well as by in-switching from e-vapor products and fine cut. We successfully entered the super-low segment in March this year by repositioning Chesterfield and grew our super-low price segment share to 44.3% in the first quarter of 2014.

In 2013, the government incurred a decrease in excise tax revenues for the first time in over a decade, and the decline accelerated in the first quarter of this year. We therefore hope that the government will soon address the issue of excise tax reform.

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Marlboro's market share in Italy has demonstrated a strong resilience despite the down-trading experienced by the market. *Marlboro Gold Original* grew by 0.3 share points in the first quarter of 2014 versus the same period of last year. In addition, *Marlboro Gold Touch Slims*, a "price-banded" proposition, grew by 0.2 share points during the same period.

Overall, we have established a very strong brand portfolio and organizational fundamentals that, combined with our exciting RRPs launch plans, give us considerable optimism about our business prospects in the years to come. Appropriate excise tax reform should further enhance these prospects.

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In France, the cigarette market faced a sharp decline in 2013. This decline further accelerated year-to-date May, coupled with the first-ever decline in the fine cut segment. This was driven by three consecutive retail price increases in October 2012, July 2013 and January 2014, which resulted in an average 80 Euro cents increase per pack and *Marlboro* now retailing at 7 Euros per pack, by far the highest price in continental EU. The combined magnitude of these increases in such a short period of time accelerated the incidence of illicit trade and significantly increased the use of e-vapor products, while total consumption is estimated to have remained essentially stable.

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Despite the sharp total cigarette market volume decline, PMI successfully gained market share, growing by 0.9 share points in the first quarter of 2014 versus the same period last year. This improvement was mainly driven by our premium brand *Marlboro*, which regained momentum, benefiting from first-mover product innovations such as *Marlboro Micro Beyond* and the continued success of *Marlboro Beyond* and *Marlboro* 100s.

Philip Morris, the second-largest cigarette brand on the market, which retails just 10 Euro cents per pack below *Marlboro*, maintained its robust growth, achieving a 9.4% market share in the first quarter of 2014, driven by its strong brand equity.

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Since the beginning of 2011, PMI's market share in the fine cut category has grown continuously, reaching a level of 27.0% in 2013. The main drivers behind this growth have been the good performance in key growth segments, such as volume tobacco of *L&M* and *Marlboro*, as well as additive-free offers of *Interval* and *Philip Morris*.

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Finally, let me talk about Germany. In 2013, the total cigarette market declined by 4.6%. Year-to-date May 2014, the cigarette market grew by 0.7%, helped by inventory movements.

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PMI continues to grow market share in Germany, reaching 36.9% in the first quarter of 2014, up by 0.9 share points versus the same period last year. Our growth momentum is mainly driven by *L&M*, which continued its remarkable performance and achieved an 11.7% share in the first quarter of 2014, up by 1.2 share points versus the same period in 2013. This makes *L&M* the fastest-growing cigarette brand in Germany.

Marlboro gained 0.7 share points in 2013 and is showing strong resilience despite crossing the 5 Euro price point for the 19s pack in May 2013.

We are also very well positioned for future growth, with strong and growing legal-age-(minimum 18) to-24 year old smoker shares across our portfolio.

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As you have seen, our business in the EU Region is underpinned by very strong fundamentals: first, our undisputed market leadership; second, our superior brand portfolio led by *Marlboro*, *L&M*, *Chesterfield* and *Philip Morris;* third, our sustainable pricing power; fourth, a reasonable excise tax environment with improving tax structures; and fifth, opportunities to further reduce our cost base. These strong fundamentals, combined with a gradually improving macro-economic environment that should provide lower cigarette market declines and more robust pricing opportunities, bode well for our ex-currency, annual average low single-digit adjusted OCI growth target over the mid to long-term.

In addition, we enjoy exciting opportunities to further accelerate the growth of our business through a successful market entry with our Reduced-Risk Products.

I am confident that our Region is poised to regain its position as a significant contributor to PMI's growth objectives.

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