# Remarks by Jacek Olczak
## *Chief Financial Officer*
## Philip Morris International Inc.

## Investor Day
## Lausanne, June 27, 2014

**(SLIDE 1.)**

Ladies and Gentlemen, I have the privilege of giving the last presentation of this year's PMI Investor Day. There will be a coffee break at the end of my presentation. Afterwards, André and I will be happy to answer any further questions you may have.

**(SLIDE 2.)**

This morning, I will reiterate our revised EPS guidance for 2014, recap the key drivers of our future profit growth, summarize our plans for Reduced-Risk Products, provide our expectations for cash flow and explain our strategic approach to managing our balance sheet and optimizing cash returns for our shareholders. I will conclude with a summary of our outlook for growth in 2015 and beyond.

**(SLIDE 3.)**

We announced yesterday that our revised 2014 reported diluted EPS guidance is $4.87 to $4.97 at prevailing exchange rates, compared to $5.26 in 2013.

Our reported diluted EPS guidance includes:

- A pre-tax charge related to the contemplated decision to discontinue cigarette production in Bergen op Zoom, in the Netherlands, of approximately 24 cents per share. The majority of this charge is expected to be recorded in the second quarter of 2014;
- The 1 cent per share charge recorded as asset impairment and exit costs in the first quarter of 2014 relating to the decision to cease cigarette production in Melbourne, Australia, by the end of this year; and
- An unfavorable currency impact, at prevailing exchange rates, of approximately 61 cents for the full-year 2014.

Our revised 2014 guidance represents a growth rate of approximately 6% to 8%, excluding currency and these restructuring charges, compared to our adjusted diluted EPS of $5.40 in 2013. As we mentioned yesterday, we could be at the lower end of this range should the current price discounting and down-trading situation in Australia persist.

**(SLIDE 4.)**

Industry volume will continue to be mainly impacted by demographic and societal trends, the macro-economic environment, as well as pricing and taxation. Emerging markets benefit from faster population growth and a greater potential for improvements in consumer purchasing power. The non-OECD markets will therefore generate more favorable cigarette industry volume trends.

As André mentioned yesterday, we estimate that in 2013 the cigarette industry volume outside of China and the USA declined by 3.0%. This year, we forecast a decline in a range of 2% to 3% as many emerging markets continue to grow, the tax-paid volume in the Philippines stabilizes, and the unfavorable trend in the EU Region moderates. As of 2015, we are cautiously optimistic that the cigarette industry volume decline should diminish further to its previous historical averages of between 1% and 2% behind an improved global macro-economic situation.

**(SLIDE 5.)**

We have grown our market share in our top 30 OCI markets from 35.7% in 2010 to 37.0% on a 12-month-moving basis year-to-date through this May. While judiciously balancing profitability growth and share performance, we aim to continue to outperform the industry going forward through organic share growth and business development initiatives.

Occasionally, we face share headwinds in certain markets. We have shown you how we are planning to improve our position in Indonesia, Japan, Mexico and the Philippines thanks to the strategies we have in place for our international and local heritage brands.

**(SLIDE 6.)**

We have grown our market share in all four Regions since 2010. In the EU Region, we have consolidated our leading position with a gain of 0.4 share points to reach 38.9% in the last 12 months through the end of May 2014. We have also reinforced our market share leadership in both the EEMA and Asia Regions with gains of 1.4 and 0.4 share points to reach 24.8% and 24.9%, respectively. Finally, we have significantly strengthened our number two position in the Latin America & Canada Region, gaining 1.7 share points to reach 38.1%.

**(SLIDE 7.)**

One of the drivers of our expected market share gains and improved volume performance is adult smokers continuing to trade up to premium brands, particularly in emerging markets. We are ideally positioned to take advantage of this trend as we are the clear leader in the premium segment: our share of segment for the key emerging markets shown on this chart ranges from over one third in Brazil to almost 100% in the Philippines.

**(SLIDE 8.)**

An invigorated *Marlboro* has been gradually increasing its Regional market share, notably with renewed momentum in the EU Region, where its share is up by 0.5 share points since 2010 to 19.0% in the last twelve months through May 2014, in EEMA with a gain of 0.8 share points to 7.2%, and in the Latin America & Canada Region with a 0.6 share point increase to 14.9%. The brand has also been performing well in Asian markets, such as Indonesia and Korea, but its Regional share is down marginally compared to 2010 due to the situation in the Philippines.

**(SLIDE 9.)**

This strong performance has been driven by the new *Marlboro* architecture that was developed just after the spin and the development of a new marketing campaign that expresses in a very contemporary way the traditional values of *Marlboro*.

**(SLIDE 10.)**

We are confident that the roll-out of the new *Marlboro* Architecture 2.0 will further reinforce the brand's excellent momentum.

**(SLIDE 11.)**

Our profitability growth is expected to continue to be driven predominantly by the pricing power derived from our superior brand portfolio. Since 2008, we have achieved an average annual pricing variance of nearly $1.8 billion a year, a level that, while subject to some annual variations, should be sustainable going forward.

**(SLIDE 12.)**

This sustainability is supported by a rational and reasonable excise tax environment. The frequency of disruptive excise tax increases has moderated and even the most recent example of the Philippines includes welcome structural improvements over time.

**(SLIDE 13.)**

We have been able to further drive continued margin improvements by limiting cost increases and implementing productivity improvements. Since 2008, we have generated over $2.5 billion in cost savings and we target future annual cost increases to be in a range of 1% to 3%, excluding RRPs and currency, but including the savings targeted to be generated by the contemplated factory closures in Australia and the Netherlands. We will achieve this through an enhanced manufacturing footprint, the rationalization of manufacturing processes, the streamlining of specifications and SKUs, improvements in our supply chain and overall spending efficiency.

**(SLIDE 14.)**

Our currency-neutral adjusted OCI margin of 46.0% in 2013 compares very favorably to that of both our Tobacco Peer and our Compensation Survey Groups. Furthermore, the increase of 4.6 points since 2008 is broadly in line with that of our Tobacco Peers and significantly above the 1.0 point improvement achieved by our Compensation Survey Group during this period.

**(SLIDE 15.)**

The combination of an improved performance in challenging markets, better volume trends, an improved product mix, strong pricing and limited cost increases should enable us, as of 2015, to target mid to long-term currency-neutral annual growth rates of 4% to 6% for net revenues and 6% to 8% for adjusted OCI.

**(SLIDE 16.)**

In addition to generating profitable growth from our combustible products, we will continue to invest behind our greatest growth opportunity, namely the commercialization of our Reduced-Risk Products portfolio.

We are targeting a potential incremental volume of some 30-50 billion units within five years. Such sales could generate additional annual margins of some $720 million to $1.2 billion over time. This calculation assumes pricing and manufacturing costs similar to those of combustible products, which we fully anticipate once we achieve economies of scale, and conservatively assumes the same excise tax regime as combustibles.

As André mentioned, we will know more regarding the scale of the likely benefits and the timing of their realization at the end of next year following the completion of our city tests and the start of national roll-outs.

**(SLIDE 17.)**

We will carry out city tests for *iQOS* during the fourth quarter this year and plan to extend further into national markets in 2015. The following year, we intend to gradually expand geographically, focusing on key target markets given that we expect to reach the full capacity of 30 billion units at our plant in Bologna at the end of 2016.

As we explained, consumer preferences for Reduced-Risk Products are not uniform and we therefore have developed a product portfolio approach encompassing heat-not-burn and e-vapor products. We plan to carry out clinical trials for Platform 2 later this year with a view to starting its commercialization in 2016. Platform 2, which is in the final stages of development, offers a ritual for adult smokers that is even closer to combustibles and does not require electronic service support.

In the e-vapor category, we announced yesterday the acquisition of Nicocigs, a leading company in this segment in the UK, and we have a previously announced commercial agreement with Altria. However, we recognize that current technologies of e-vapor products do not provide sufficient adult user satisfaction and we are carrying out fundamental scientific research and product development to address this. We believe that we should have completed this project in 2016 and expect to start city testing in the second half of that year. It should be highlighted that it will be critical not only to attain adult consumer satisfaction, but also to develop a product that can be machine-made under rigorous manufacturing standards and at acceptable cost levels.

**(SLIDE 18.)**

Let me now move on to free cash flow.

Between 2008 and 2013, we increased our free cash flow at a compound annual rate of 5.5% from $6.8 billion to $8.9 billion. The key driver of the $2.1 billion increase was net earnings, which grew by $2.3 billion over this period. Currency movements had an unfavorable impact of $400 million. Working capital requirements, driven principally by higher clove prices and finished goods forestalling needs, were largely offset by tobacco leaf and regular finished goods inventory reductions, which limited the increase over the period to $200 million. Other factors, including capital expenditures, depreciation and restructuring costs, had a net positive impact of $400 million.

This year our free cash flow will be mainly impacted by currency, the finalization of our business development project in Egypt and by the charges related to the optimization of our manufacturing footprint.

Going forward, we expect that the key drivers of our free cash flow will remain essentially the same, with net earnings growth the central element and currency providing both an upside potential and a downside risk. Working capital requirements will be impacted year-on-year by specific individual market forestalling requirements and the build-up of Reduced-Risk Products component and finished goods inventories. However, we plan to partly compensate for this through the further inventory duration reduction program that Antonio spoke to you about, as well as by seeking to convince governments to introduce more rigorous anti-forestalling regulations. Capital expenditures, meanwhile, will be principally driven by the speed of market penetration of our Reduced-Risk Products.

**(SLIDE 19.)**

Since the spin through March 31st, 2014, we have been able to convert a greater proportion of our net revenues into free cash flow than the companies in both our Compensation Survey and Tobacco Peer Groups.

**(SLIDE 20.)**

We have supplemented our free cash flow through a gradual build-up of debt, with net debt climbing from just over $10 billion at the time of the spin to nearly $28 billion at the end of March 2014. This increase outpaced our growth in earnings and, consequently, our net debt to EBITDA ratio increased over the same period from 0.9 to 2.0 times, or above 2.0 times if applying certain credit rating agency methodologies. We remain fully committed to preserving our single-A credit rating because of the financial flexibility this provides and therefore will have to bring our cash outflow in line with our inflow.

**(SLIDE 21.)**

Taking advantage of market conditions and our strong credit rating, we have been able to finance our debt at increasingly attractive terms. We expect to have reduced our weighted-average coupon on our total bond portfolio from 5.4% in 2010 to a projected 3.4% at the end of this year, while increasing our weighted-average time to maturity of total long-term debt from 7.0 years to a projected 10.3 years at the end of this year.

**(SLIDE 22.)**

We have thus maintained a strong balance sheet and complemented it with a very well-laddered bond portfolio, whereby no more than an aggregate of around $3 billion becomes due in any one year.

**(SLIDE 23.)**

In total, between 2008 and 2013, net debt and other sources of cash added $18.6 billion to our free cash flow of $49.6 billion to provide us with $68.2 billion in available cash.

We are very focused on using all the available cash to enhance shareholder returns. This comprises business development initiatives, dividends and share repurchases. During the period from 2008 through 2013, we spent $4.6 billion on strategic and financially-attractive business development projects, including our acquisition of the majority of Rothmans Inc. in Canada, the purchase of the remaining 20% of our Mexican business, a 20% stake in our Russian distributor, Megapolis, investments related to certain North African markets and the acquisition of fine cut and other tobacco product businesses and trademarks in Europe and South Africa.

The remaining cash was returned to shareholders in the form of dividends totaling just under $30 billion, or 43% of the cash available, and via share repurchases for just under $34 billion, or half the cash available. In total, we have returned nearly $64 billion to our shareholders since 2008.

**(SLIDE 24.)**

Our annual dividend target pay-out ratio of 65% is neither a floor nor a ceiling. In September last year, we increased our annual dividend rate by 10.6%, bringing the cumulative increase since 2008 to 104.3%. With regards to future dividends, this is clearly a Board decision, which takes into consideration a number of factors, including currency headwinds. If you look at our history, we have a proven track record of rewarding our shareholders generously even in turbulent times.

**(SLIDE 25.)**

Our dividend yield on Tuesday was 4.2%, which is at the upper end of the range of our Compensation Survey Group.

**(SLIDE 26.)**

We have complemented our generous dividend policy with substantial share repurchase programs. Since the spin through the end of the first quarter this year, we spent $35.1 billion to repurchase nearly 572 million shares, or 27.1% of the shares outstanding at the time of the spin. The average price was $61.41.

**(SLIDE 27.)**

We are fully committed to our share repurchase program with a target this year of $4.0 billion in share repurchases. Given the current limitations imposed by our credit rating, we foresee an annual target range of approximately $2.0 to $3.0 billion in share repurchases in 2015 and 2016, depending on exchange rates and business development opportunities. Due to the reduction in the funds available for share repurchases, the multiplier in our mid to long-term constant currency annual growth algorithm between adjusted OCI and adjusted diluted EPS has become stretched. In addition, we will need to allocate additional investments to support the commercialization of our portfolio of RRPs. As a result, for the years 2015 and 2016, we target a growth in currency-neutral adjusted diluted EPS in a range of 8% to 10%.

However, as the environment in which we operate improves, as we continue to take advantage of additional business development opportunities in combustibles and we expand our portfolio of Reduced-Risk Products geographically, including the development of a meaningful presence in geographies where we have a limited market penetration today, we believe that there could be an upside to our OCI and EPS growth targets beyond this period.

**(SLIDE 28.)**

In summary, the outlook for our company is very promising. Our confidence is based on our superior brand portfolio, led by an invigorated *Marlboro* that will be further strengthened through the roll-out of Architecture 2.0, our optimized global footprint and infrastructure, sustainable strong pricing power based on our brands, limited input cost increases, significant opportunities for further productivity improvements, best-in-class Research and Development capabilities, the tremendous potential of our Reduced-Risk Products, and a talented, highly motivated and diverse professional workforce.

**(SLIDE 29.)**

Thank you. We will now have a short coffee break, after which André and I will be happy to answer any further questions that you may have.