

**Remarks by Frederic de Wilde
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(SLIDE 1.)

Again good morning ladies and gentlemen and welcome to PMI's 2014 Investor Day. During this session, I will focus on the marketing and sales of our superior brand portfolio of combustible products.

(SLIDE 2.)

My presentation includes a short overview of our brand portfolio and priorities, followed by an update on the recent performance and planned initiatives for *Marlboro*, *Parliament*, *L&M* and *Chesterfield*. Finally, I will give you an update on the progress of our commercial approach global initiative.

(SLIDE 3.)

Despite the recent developments in the category and the various segments present in the tobacco industry, cigarettes remain by far the most important one followed by the segment of fine cut, which you will hear about during the EU Region presentation. We also covered in detail the e-vapor products category in the RRP's presentation earlier on. I will focus my presentation on manufactured cigarettes.

(SLIDE 4.)

We have a terrific stable of brands and, thanks to our global scale, our innovative products and marketing programs, they can be rapidly deployed across geographies.

We are well equipped to compete effectively across all price segments with *Marlboro* and *Parliament* in the premium and above segment as well as brands such as *L&M*, *Chesterfield*, *Philip Morris* and *Lark* in the mid-price segment.

We also count on strong international propositions to compete in the low-price segment with brands such as *Bond Street*, *Red & White* and *Next*, in a number of geographies.

Our portfolio of international brands is complemented by our leading local heritage brands. Examples include *Fortune* in the Philippines, *Sampoerna A* in Indonesia, and *Delicados* in Mexico.

(SLIDE 5.)

Marlboro is the only real global tobacco brand and by far the world's leading brand in the tobacco industry. *L&M* is the third largest brand in the world

Overall, our four key international brands, namely *Marlboro*, *L&M*, *Parliament* and *Chesterfield*, accounted for 53% of our total volume in 2013.

(SLIDE 6.)

The key trends that we identified thanks to our comprehensive understanding of adult smoker preferences are still driving the evolution of the category. Adult smokers increasingly prefer lighter and smoother-tasting products, slimmer diameter formats and also, in some cases, a fresher and less lingering aftertaste.

Adult smoker demand for the ability to customize the smoking experience keeps on expanding, as evidenced, for example, by capsule products or products that allow adult smokers to adjust the taste intensity.

These trends have supported an increase of adult smoker fragmentation, which has led to an acceleration in the pace of product innovation within the industry each year. New line extensions now account for a significant percentage of our global brands' volume.

(SLIDE 7.)

Thanks to our successful product innovation and focus on emerging trends, we have been able to build a very strong position in all key segments - well above our international market share of 28.2% - and managed to reinforce it over time.

The low-tar segment has continued its growth trend and represented 42% of worldwide industry volume in 2013. Over the years, we have been able to grow our share in this major segment, reaching 32% in 2013.

The slimmer diameter segment doubled over the past five years and accounted for 12% of global volume in 2013. PMI continues to strengthen its position in this segment, reaching a 31% share.

We have also been very successful with our menthol taste propositions. While the segment itself was rather stable in the last five years, PMI was able to significantly reinforce its leadership in this segment, reaching a 46% share of segment in 2013. A key development in the menthol segment was the appearance of capsules in 2007. As shown in André's presentation, this segment grew significantly to reach 46.9 billion units in 2013. Despite the fierce competition in this new segment PMI holds a 41.2% share of segment.

(SLIDE 8.)

PMI's key portfolio priorities can be summarized in four main areas:

- First, we intend to further strengthen the equity of our well-established brands through the deployment of differentiated and relevant product initiatives supported

by impactful communication platforms.

- Second, we will keep leveraging our long-term consumer-centric innovation pipeline and deploy initiatives across our brand portfolio. This will contribute to the sustainability of our leadership position in key growing segments such as the ones I described before.
- Whilst new products will continue to play a key role in further expanding our adult smoker base, we will apply the right level of focus and investment behind our core products.
- Finally, the roll-out of our commercial approach initiative worldwide will enable us to support our brands more effectively in existing channels while leveraging new touch points with innovative mobile technologies.

(SLIDE 9.)

Based on a powerful consumer segmentation study that we have conducted in more than 30 markets globally, we have identified the key drivers of adult smokers' brand choice. We use this knowledge to determine the most promising innovation corridors, identify the relevant opportunities for our global brands and build our portfolio strategy.

The first corridor refers to taste smoothness. Adult smokers increasingly prefer lighter and more rounded taste experiences. This is true also for full-flavor products where adult smokers expect a rich and satisfying taste without bitterness perception.

The second one is what we call the ego-social friendly corridor, which is about smoking pleasure and minimizing some of the unpleasant aspects of the smoking experience. Product solutions like reducing unpleasant smell and providing an easier way to stub out a cigarette are becoming important drivers of brand choice among adult smokers.

The third corridor is about fresh taste dimensions. Adult smokers increasingly look for different intensities and varieties of menthol, and even express their desire to customize the taste experience on demand.

Finally, we observe in some markets a need for more environmentally friendly or additive free tobacco blends that deliver authentic tobacco taste. We call this last one the eco-corridor.

(SLIDE 10.)

We have established a new innovation process to better prioritize innovation initiatives, increase our speed to market and maximize the success rate of our launches. This process brings a more structured and disciplined approach to innovation and enables focus and alignment among key stakeholders on big innovation ideas that are applicable to multiple markets. They are coupled with commercialization platforms that can be deployed rapidly worldwide.

The implementation of this process has already helped us to prioritize our development efforts, which resulted in the deployment of successful launches faster and in a wider range of markets. By identifying early in the process relevant innovative features that could increase the premiumness of existing brands, we are now able to optimize our investment between new product launches and existing products. I will

give you some examples later in my presentation.

Our commercial approach has significantly expanded our capabilities to support more brands simultaneously. However, the number of products on which we can focus efficiently is not unlimited. With this in mind we have rationalized our portfolio by morphing non-supported local brands into global franchises. This resulted in a net reduction of 6% of products on the market in 2013.

(SLIDE 11.)

Let me now move to an overview of our key brands starting with *Marlboro*, the only truly global cigarette brand.

(SLIDE 12.)

Despite the challenging economic environment *Marlboro* performed well in 2013 with a global market share of 9.2%. The brand recorded share growth across all Regions including Asia if we exclude the special situation in the Philippines. Including the Philippines, the *Marlboro* share in Asia declined by 0.5 points.

New *Marlboro* line extensions that have been launched since 2007 remain important for the performance of the brand and accounted for 12% of *Marlboro*'s volume in 2013.

(SLIDE 13.)

The *Marlboro* architecture, which was initiated back in 2009, enabled us to give to the three different brand pillars, Flavor, Smooth and Fresh, their own identity and to shape their unique positioning.

Let me first take you through a brief analysis of the *Marlboro* Flavor pillar, which leverages the distinctive red chevron and delivers "superior tobacco taste satisfaction".

(SLIDE 14.)

In 2013, *Marlboro* Flavor volume reached 150 billion units and represented on its own the largest brand in the world in volume terms.

Our growth strategy for *Marlboro* Flavor is to significantly evolve the franchise under what we call the *Marlboro* Architecture 2.0 project. Our objective is to reinforce the leadership of the brand by re-interpreting its design and upgrading the product offer by making it smoother tasting, more approachable and gender inclusive while maintaining its premiumness. We also want to capitalize on the opportunities offered by this significant brand evolution to bring focused and relevant product innovations over time.

Let me share a video with you which highlights the modernization of our flagship brand.

(SLIDE 15.)

[Video]

(SLIDE 16.)

Consequently, I am pleased to present to you the new *Marlboro* Flavor product line. This is the most significant change to this iconic brand since it first became a worldwide success. The minimalistic new pack design further glorifies the famous red chevron and comes together with a new soft touch feel.

The evolution of *Marlboro* Red also incorporates a firm filter that delivers a better mouth feel and makes the cigarette easier to stub out.

With this the brand reaffirms its superior quality and round smoking satisfaction in line with the evolving adult smokers' preferences that I described earlier.

(SLIDE 17.)

In 2013, we undertook a global consumer research program on an unprecedented scale to evaluate and validate the new *Marlboro* Red proposition, followed by six city tests in four markets (Brazil, France, Germany and Italy). The results are consistent and very promising. The new offer is welcomed by current adult smokers of the brand and also represents an opportunity for adult smokers of competitor brands to rediscover *Marlboro* Red.

Based on these strong results we have decided to roll out *Marlboro* Red 2.0 Architecture across the world. In fact, the product is already being introduced in Singapore, Switzerland, Poland and France.

(SLIDE 18.)

The introduction campaign of the new *Marlboro* Red clearly features the new *Marlboro* pack as the hero since its design speaks for itself ...

(SLIDE 19.)

We also highlighted the evolutionary aspect of this bold move ...

(SLIDE 20.)

Emphasizing *Marlboro's* superior and unmatched quality ...

(SLIDE 21.)

And we also encourage adult smokers to rediscover *Marlboro* Red capitalizing on the new firm filter.

(SLIDE 22.)

We celebrated the reveal of the new pack the first days of its launch through impactful point of sale presence.

(SLIDE 23.)

We ensured a strong presence of our commercial field forces to introduce the various benefits of the new offer to adult smokers ...

(SLIDE 24.)

And we leveraged our solid relationship with our trade partners and their enthusiastic reactions to further amplify the awareness of this initiative.

(SLIDE 25.)

Besides our strong focus on the core, we continued injecting innovation into our *Marlboro* Flavor line. A good example of this is *Marlboro Premium Black*.

This above-premium priced *Marlboro* proposition has been designed in collaboration with the world famous designer Pininfarina. The *Premium Black* pack incorporates our innovative *Pro Fresh*, a unique feature that protects the product by automatically resealing the pack every time it gets closed. We have also selected a blend that delivers a fully satisfying but very smooth smoking experience. *Pro Fresh* ensures that this superior quality product is kept in optimally fresh conditions.

In 2013, we have further expanded the reach of *Marlboro Premium Black* throughout the GCC with remarkable results. You will hear more about this success in the EEMA region presentation.

(SLIDE 26.)

Let's turn to our second pillar, *Marlboro Gold*, offering a choice of smooth tastes for progressive adult smokers.

(SLIDE 27.)

In 2013, *Marlboro Gold* reached 110 billion units supported by the launch of line extensions that are helping the brand to enjoy an excellent adult smoker profile. In many markets, *Marlboro Gold* is considered as the reference for smooth taste.

Our strategies for *Marlboro Gold* are threefold:

- First, we want to continue capitalizing on the successful line extensions that were widely deployed.
- Second, we intend to penetrate emerging segments in Asia with the new *Marlboro Advance* proposition.
- And third, following the deployment of the *Marlboro Flavor 2.0 Architecture* that I presented before, we plan also to evolve our Gold franchise in order to further reinforce our leading position in the smooth taste territory.

(SLIDE 28.)

Marlboro Gold Touch is a clear illustration of a relevant and successful product

introduction. This slimmer variant is now present in 57 markets with a total volume of 6.2 billion units in 2013. It has achieved a 0.5% market share or more in 35 markets and more than a 1% share in 17 of them.

Marlboro Gold Touch is a good complement to the Gold family as it shows a strong performance amongst adult smokers of both genders, auguring well for continued growth.

(SLIDE 29.)

With its *Recessed* filter, *Marlboro Advance* meets the need for a smooth-tasting yet satisfying product that also delivers less smoke smell and a cleaner aftertaste.

The brand has been successfully launched in three Asian markets in 2013 - Singapore, Malaysia and Taiwan - and is planned to be rolled out in multiple markets across the Region in 2014.

Thanks to its vibrant design and innovative features, this proposition has reached high awareness and trial levels among adult smokers, and encouraged in-switching from key competitor brands.

(SLIDE 30.)

Let me now cover the *Marlboro Fresh* pillar. It invites adult smokers to experience a variety of fresh taste sensations.

(SLIDE 31.)

Marlboro Fresh reached 31 billion units in 2013, thanks to the introduction of innovative and successful line extensions, which accounted for 57% of the Fresh line volume.

The strategy is to keep deploying our innovative product range to remain the reference in taste freshness and expand to new taste sensations, and to invest in the core by evolving it to the Architecture 2.0 design.

(SLIDE 32.)

Based on the new *Marlboro Red* direction, the Fresh line has been completely renewed. The packs have been upgraded with a soft touch and metallic roof top. As with *Marlboro Red 2.0*, the new firm filter was incorporated in the core to provide a consistent refreshing taste sensation from first to last puff.

(SLIDE 33.)

Let me now talk about *Marlboro Ice Blast*, one of our most successful capsule line extensions. It achieved 8.5 billion units in 2013 and is sold in 41 markets.

This variant reached a 0.3% market share globally and a share of 0.4% or more in 22 markets. It even achieved a record share of 11% in Hong Kong in 2013. By its boldness and balanced adult smoker profile *Marlboro Ice Blast* helped to further strengthen the

vibrancy of the overall *Marlboro* brand image.

(SLIDE 34.)

Two years ago we introduced *Marlboro Beyond*, a regular-to-menthol product using capsule technology in the filter. The brand is now present in 37 markets with very positive market share performances in many of those.

Given the success of *Marlboro Beyond*, *Marlboro Fuse Beyond*, the first non-menthol-to-menthol cigarette with two capsules in the filter has been developed. It provides a choice of refreshing taste sensations thanks to its spearmint and menthol capsule. It was first launched in the Netherlands in April 2014 and expansion to several markets is in the pipeline for this year.

To further leverage the success of *Marlboro Beyond*, we launched in the first quarter of this year in France *Marlboro Micro Beyond*, the first super-slimes offer from *Marlboro* with a mint capsule.

(SLIDE 35.)

Marlboro continues to explore different taste segments with the introduction of *Marlboro Kretek Mint*. This product combines a clove flavor together with a mint taste. It was launched in Mexico in August 2013 and reached a 0.5% share of market in the largest key account chain after six months. Given this success, we plan to expand this offer to several other markets this year and next.

(SLIDE 36.)

Almost three years ago, we undertook the modernization of the *Marlboro* campaign and its communication platform. The “Be *Marlboro*” campaign expresses the timeless *Marlboro* values of freedom, authenticity, confidence and leadership in a way that is relevant to today’s adult smokers and their evolving preferences, preoccupations and communication style.

Since then, “Be *Marlboro*” has been rolled out in more than 50 markets worldwide and its powerful concept has been adapted to different cultural environments and brand priorities. “Be *Marlboro*” continues to receive strong positive adult smoker acceptance leading to significant improvements in the brand’s image attributes, including product perception, among adult smokers.

(SLIDE 37.)

The idea of encouraging adult smokers to make their own decisions can be easily expressed using simple graphics or by evocative visuals.

This is an example from Indonesia establishing the campaign...

(SLIDE 38.)

Here a visual used in Germany ...

(SLIDE 39.)

Another example from Indonesia ...

(SLIDE 40.)

This is the adaptation of the campaign to the Japanese context where we play with a well-known proverb as an expression of the campaign...

(SLIDE 41.)

And this how we adapted the campaign for Saudi Arabia.

(SLIDE 42.)

As we continue to roll-out the “Be *Marlboro*” campaign, we have extended the visual pool with a wider range of subjects to inspire adult smokers to be decisive, trust themselves and follow their inspiration. The execution has been upgraded to better showcase the new *Marlboro* Red pack as we rollout Architecture 2.0.

Let me show you some examples of the new pool.

(SLIDE 43.)

Marlboro inspires adult smokers with confidence when they need to step out of their comfort zone.

(SLIDE 44.)

Take your chance and trust.

(SLIDE 45.)

Nothing big started with a Maybe.

(SLIDE 46.)

And Maybe never made history.

(SLIDE 47.)

The “Be *Marlboro*” communication platform has been deployed in POS across the globe and has proven to be adaptable to different trade environments.

(SLIDE 48.)

The “Be *Marlboro*” idea is also expressed through a variety of consumer engagement activities ranging from events, direct interactions with adult smokers and the utilization of digital tools.

(SLIDE 49.)

In conclusion, we are reinvigorating *Marlboro* on all fronts to ensure its continued growth. The *Marlboro* Red upgrade is a major milestone in the brand's history and is inspiring the future evolution of the Gold and Fresh pillars. We will continue to roll-out our "Be *Marlboro*" campaign and enrich it with new visuals and consumer engagement activities. Finally, an unprecedented level of product innovation both on the core and with selected line extensions will continue to fuel the brand's success.

(SLIDE 50.)

Parliament continues to be the jewel in the crown within PMI's global portfolio. Positioned as an above-premium, luxury proposition and distinguished by its famous *Recessed* filter, *Parliament* offers adult smokers a refined smoking experience that has propelled the brand into the top ten international cigarette trademarks.

(SLIDE 51.)

In 2013, the brand again demonstrated share growth momentum and grew in volume to 45 billion units.

Going forward, we will continue to invest in the brand, reinforcing its aspirational image that has made the brand the preferred choice for adult smokers seeking a contemporary expression of status and prestige. In the future we plan to expand *Parliament's* geographical footprint, particularly in markets where adult smoker demand for luxury goods is growing.

(SLIDE 52.)

The EEMA Region drove the brand's performance over the last three years, with Russia and Turkey as the biggest contributors. The brand has experienced notable growth in Korea and we see further potential in Japan and other markets. Regardless of the region, *Parliament* displays a favorable adult smoker profile.

(SLIDE 53.)

Last year, we further refined and enhanced *Parliament's* visual communication pool, adding new subjects that feature the unique and aspirational world of *Parliament*. Here are some examples of the campaign, all of them are featuring

(SLIDE 54.)

Upscale settings ...

(SLIDE 55.)

A recognizable visual identity...

(SLIDE 56.)

Keeping always a reference to the famous *Parliament Recessed* filter.

(SLIDE 57.)

The *Carat* line is a new range of *Parliament* products positioned at an even higher price level than the core family. It has been designed for adult smokers that aspire to high exclusivity and distinction. So far, *Carat* has nicely contributed to the brand's overall share performance in urban areas while enjoying a balanced gender profile among adult smokers. Further expansion of the *Carat* line is underway.

(SLIDE 58.)

Another success story in the *Parliament* family is the launch of *Hybrid* in Korea. This was the first ever product offer with a capsule in a *Recessed* filter. Based on its positive performance we recently complemented it with a 1mg king size and 1mg superslims product.

(SLIDE 59.)

Let me now move to *L&M*, PMI's second biggest brand.

(SLIDE 60.)

L&M is our largest international below-premium offering and the third-largest international cigarette brand. *L&M* has been growing in volume and share for the last three years. In 2013, our shipments grew by 1.3 billion units to reach 95 billion units.

The cornerstones of the brand's success are its attractive value for money equation, its approachable image and successful product innovation. Going forward, we will continue strengthening *L&M's* equity with a new communication platform that I will show you in a moment. We will also roll out pack and product upgrades that will deliver premium attributes beyond its price point and pursue the introduction of innovative line extensions.

(SLIDE 61.)

L&M enjoys a strong presence in a wide range of markets mainly throughout the EEMA and EU Regions. The brand has an excellent adult smoker profile in the majority of its key markets, particularly in Thailand, Poland and Egypt.

(SLIDE 62.)

An example of our successful *L&M* strategy is Russia. We have upgraded *L&M's* entire franchise with the incorporation of the *Recessed* filter. At the same time we upgraded the pack design and adapted our blend. As a result, *L&M's* share of market started growing again, and for the first time in five years the brand's net switching balance turned positive.

L&M stands for quality and experiences beyond its price. Let me now share with you

a new communication campaign called “And is more” that expresses the brand’s promises and its approachable image.

(SLIDE 63.)

This campaign has been launched in Germany with very positive adult smoker reactions and here are some examples of the visuals that we plan to deploy in several markets:

Unique & United.

(SLIDE 64.)

Teach & Learn.

(SLIDE 65.)

Apart & Together.

(SLIDE 66.)

Free & United.

Let me move now to the product and pack upgrade that we will roll-out across several markets.

(SLIDE 67.)

This new, more contemporary and confident pack design reinforces the premiumness of the brand and emphasizes the iconic elements of the trademark. We have also introduced a *FineCut* blend which is perceived by adult smokers as a quality enhancement that we appropriately feature on the pack.

(SLIDE 68.)

Let me share with you one example of the successful product innovations that have fueled *L&M* growth in EU Region.

L&M Forward is a non-menthol-to-menthol product that has been launched in 11 markets across the EU Region achieving significant market share.

Last year, we successfully extended the *L&M Forward* family with the first superslims 100’s capsule product in Poland. It was launched in July 2013 under the name *L&M Forward Link* and reached a 0.6% market share in the first quarter of this year.

(SLIDE 69.)

Chesterfield stands for heritage, prestige and differentiation. It was established almost 120 years ago and today is our seventh largest brand.

(SLIDE 70.)

The brand, which is today mainly present in EEMA and the EU, achieved 34 billion units in 2013. It is showing strong potential for geographical expansion. In 2013, we launched *Chesterfield* successfully in new markets such as Turkey and Croatia and we completed the morphing of local brands into *Chesterfield* in markets such as Poland and the Czech Republic.

Chesterfield has a truly unique character, a strong asset on which we plan to further capitalize and complement with innovative new offers.

(SLIDE 71.)

As it is the case for our other global brands, we have redesigned the entire pack line-up with the aim of modernizing and simplifying its appearance while maintaining the brand character and its premium perception. This new core packaging was launched in Serbia in May 2014 and further expansion is planned during the year.

(SLIDE 72.)

In order to address the evolving ego-social friendly preferences of adult smokers, a new progressive line from *Chesterfield* was introduced in Ukraine and Russia at the beginning of this year. This *7.0 Crown Line* slimmer proposition offers tangible innovative product features such as “Ash Control” and “Less Smell”. It comes with a new design and a new brighter blend that delivers smooth taste.

(SLIDE 73.)

Another interesting *Chesterfield* innovation is *Chesterfield Duo*, which is a menthol kretek offer that combines the cooling taste experience of menthol with the spicy notes of clove. This offer was launched in Guatemala and El Salvador as test markets and we plan to expand it further.

(SLIDE 74.)

With *Chesterfield* I have completed my overview of our global brand initiatives.

Let me now finish with a short overview of what we have achieved through our commercial approach project.

(SLIDE 75.)

Two years ago we initiated a fundamental transformation of our commercial organization under the commercial approach global initiative.

It is based on three key principles. First, it ensures that adult smokers are at the center of every commercial activity. Second, it empowers our front line commercial teams to design their own territory plans and manage their own resources accordingly. In order to become true territory managers, our staff has been extensively trained and equipped with segmentation and state-of-the-art engagement tools. Finally, we have

integrated our marketing and sales teams to design tailored initiatives to fully exploit the opportunities offered by these entrepreneurial territory managers.

(SLIDE 76.)

The new capabilities developed thanks to the commercial approach allow us to be more effective and innovative when it comes to consumer engagement activities for adult smokers.

We have significantly expanded our touch point universe and included some unconventional ones. With our new segmentation tools we now have the capability to identify different adult smoker profiles by shop and, even, by the time of the day. This enables us to achieve targeted execution and increase the effectiveness of our adult smoker interactions.

(SLIDE 77.)

As far as retailer engagement is concerned, the commercial approach tools help to identify the retailers' profile, to segment them based on their category knowledge and areas of interest, and to equip them to convey messages to adult smokers.

(SLIDE 78.)

In 2013, we started the roll-out of commercial approach by initiating city pilots in 37 markets, Russia being the first one. During the pilots, we consistently gained share of market, as illustrated in this slide, showing you first the positive results in Europe ...

(SLIDE 79.)

And in the rest of the world.

(SLIDE 80.)

In summary, the commercial approach entails a major transformation of our Marketing & Sales organization. The change in the in-call mission of our territory executives requires a massive training exercise that we started in 2013 with more than 9,000 people. Our pilot results have been consistently positive and we will roll out the commercial approach globally during 2014 and 2015.

(SLIDE 81.)

[Visual all brands]

(SLIDE 82.)

To sum up, we have a superior brand portfolio that is well equipped to deliver future growth.

New and differentiated communication platforms are in place for all our major brands.

Marlboro, our flagship brand, is undergoing a significant evolution with the implementation of the Architecture 2.0.

We are also deploying an unprecedented level of product innovation both with line extensions and on our core product ranges to ensure that our product portfolio is responsive to evolving adult smoker preferences.

Finally, the new commercial approach represents a great opportunity to significantly strengthen our commercial capabilities.

We are convinced this will further enhance PMI's already exceptional portfolio fundamentals and will ideally position PMI to deliver accelerated organic growth.

Thank you very much for your attention. I will be glad to take your questions.