Remarks by Martin King
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Philip Morris International Inc.

Investor Day
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(SLIDE 1.)

Good afternoon. I am very pleased to share with you PMI's strong results in the Latin America & Canada Region and our solid prospects for continued growth.

(SLIDE 2.)

I will first give you a brief overview of the Region and our volume, share and financial performance. Next, I will outline our main strategies for the continued delivery of growth and profitability in the Region. I will then cover the challenges and opportunities in our top five markets and finally, following my closing remarks, I will gladly take your questions.

(SLIDE 3.)

PMI has achieved robust share growth across the Region driven by our key markets.

We are experiencing an increasingly predictable excise tax environment that allows us to effectively price for income and share growth.

Illicit trade continues to be a challenging issue in most of the Region. However, we have started to see results in returning volume to the tax-paid market as we implement comprehensive measures and work in conjunction with the authorities to combat illicit trade.

We continue to achieve profit growth year-after-year, and we foresee a positive outlook as we focus on further optimizing our cost base.

We have a strong portfolio of brands with an improving adult smoker profile led by *Marlboro*.

Lastly, our talented organization is highly capable and motivated to drive our strong results.

(SLIDE 4.)

In the Latin America & Canada Region, we are present in 44 markets, employing more than 11,500 people and operating ten cigarette manufacturing facilities.

Industry volume in the Region was 256 billion cigarettes in 2013. Our volume reached 97 billion units and our market share reached 38.0%. PMI is the leader in markets representing approximately 40% of total Regional volume. In most markets where PMI was not the leader, we still achieved strong share growth in 2013.

Our results show that we have the brands and resources to continue contributing to PMI's share and financial growth.

(SLIDE 5.)

In 2013, the Region accounted for approximately 11% of both total PMI cigarette volume and net revenues, and 8% of PMI's adjusted OCI.

(SLIDE 6.)

With regard to the macro-economic environment, the Region has experienced significant progress in poverty reduction and, for the first time, the number of people in the middle class surpasses those living in poverty. This positive trend will continue to fuel our growth as the middle class expands in most of Latin America. Although slowing, our key markets continue to experience GDP growth. GDP per capita is also increasing across the Region while unemployment is low by historical standards. Inflation rates, with the exception of Argentina and Venezuela, are in line with economic and financial fundamentals.

(SLIDE 7.)

Regional industry volume contracted at a 3.4% compound annual rate from 2008 to 2013.

This contraction was mainly driven by the increase of illicit trade in Brazil, Mexico, and Colombia, fueled by significant excise tax increases. However, we have seen some progress in recovering the volume lost to illicit trade in Mexico and Colombia. The growing industry volume in Canada also reflects the successful government actions taken to address illicit trade, particularly in the province of Quebec.

In Argentina, despite economic and political uncertainties, industry volume has remained essentially flat.

(SLIDE 8.)

PMI has been outperforming the industry. Our volume has declined at a moderate 0.4% compound annual rate since 2008 compared to the industry's 3.4% decline, as shown in the previous chart.

This reflects our outstanding market share performance, which reached 38.0% in 2013.

We have achieved excellent share growth of 3.5 share points over the last five years in the Region, with accelerated progress in the last year of 1.1 share points. We believe we can maintain strong momentum in the years to come.

(SLIDE 9.)

Argentina, Brazil and Colombia contributed significantly to the Region's share growth led by the strong performance of *Marlboro*, which has benefited from our focused support, solid brand equity, improving adult smoker profile, and the favorable up-trading environment in these markets. In Mexico, we continue to be a strong market leader with 73.5% share in 2013.

Colombia has turned the corner and has been growing share since 2011, with *Marlboro* achieving a record share of 7.5% in the first quarter of 2014.

Canada has grown share by 1.5 share points since the 2008 acquisition, reaching 37.2% in 2013.

(SLIDE 10.)

Our financial performance has been robust with net revenues increasing by 7.6% on a compound annual basis to $3.4 billion. Excluding the impact of currency, our growth was 10.2% over the five-year period, bolstered by our strength in the premium price segment in most of the markets in the Region.

Adjusted OCI exceeded $1.1 billion in 2013, almost double the level of 2008 and, excluding currency, it grew by 15.8% on a compound annual basis.

(SLIDE 11.)

I will now focus on our key strategies for continued growth. They are effective price management, recovery of volume lost to illicit trade, optimization of our cost base, enhancement of our portfolio, and commercialization of Reduced-Risk Products in targeted markets as of 2016.

(SLIDE 12.)

Pricing is an important component of our OCI growth. From 2008 to 2013, we generated over $240 million in pricing per year on average, and we believe these levels are sustainable going forward.

Recently, more reasonable and predictable excise tax systems have provided for a favorable pricing environment, with Brazil exhibiting the most significant change. We have been able to effectively implement better price gap management in Argentina, Brazil and Colombia, among others, contributing to our share growth.

(SLIDE 13.)

We estimate that the total illicit trade in the Region was approximately 48 billion units in 2013. Over the last few years, we have made significant progress in combating illicit trade and working with government authorities to disrupt illegal traffic routes in a number of our markets.

Our strategy consists of gathering intelligence about the dynamics and logistics of illicit trade, increasing national awareness backed by strong media activation, and working with government authorities to implement and enforce effective solutions.

As we implement this strategy across the Region, we are making significant headway in fighting illicit trade with notable success in Canada, Mexico and Colombia. In Canada, Quebec is an excellent example with a reduction in illicit incidence levels from 45% in 2008 to approximately 20% in 2013. The key factors behind this success were government support for strong anti-contraband legislation and its strict enforcement. We are placing emphasis on replicating the Quebec model in Ontario.

In Brazil, where illicit trade accounts for approximately 25 billion units, we are focusing our efforts in the southern area and we are cooperating with the government to achieve positive results.

(SLIDE 14.)

We are focused on optimizing our cost base as we continue to take decisive action to drive productivity and efficiency. We have closed five factories in the last three years in Uruguay, Guatemala, Mexico City, Curacao, and our cast leaf plant in Venezuela. These actions have had a significant favorable impact on our cost base.

We have restructured and redesigned our distribution in several countries and have implemented direct, indirect or mixed models where appropriate. As a result, we have increased our retail coverage and further improved our cost base.

Our leaf growing activity in the Region has been steadily improving, driven by our initiatives in Brazil, and we are now pursuing further synergies in the tobacco supply chain throughout the Region.

Additionally, we have clustered back office activities in several markets and leveraged the functionality of our Regional shared service center. We continue focusing on streamlining processes in the Region.

(SLIDE 15.)

These strategies along with the success of our strong balanced portfolio have resulted in robust and consistent results over the last five years. Our adjusted OCI margin has increased steadily year-over-year from 27.8% in 2008 to 34.0% in 2013. We expect to continue increasing our adjusted OCI margin excluding currency. This will help us to achieve our mid to long-term target of high single-digit annual average adjusted OCI growth, excluding currency, despite significant investment to grow our presence in a number of markets.

(SLIDE 16.)

I will now describe our portfolio strategy in the Region.

(SLIDE 17.)

Our strategies to further strengthen our portfolio are to reinforce *Marlboro's* leadership to fully capture up-trading adult smokers in the Region; expand our international portfolio; and leverage locally-based trademarks with established equity; all while innovating, both through our core variants and focused line extensions, supported by the commercial approach initiative.

(SLIDE 18.)

PMI continues to lead the growing premium segment with a 54% share, capitalizing on the up-trading trend in many key markets and supporting strong marginal contribution growth. In 2013, the premium segment accounted for 47% of our volume - more than twice the level of our key competitor.

Our position in the mid and low-price segments is being strengthened through the expansion of our portfolio with international brands such as *L&M* and *Chesterfield*, as well as through the support of more locally based trademarks.

(SLIDE 19.)

Marlboro has grown by 1.3 share points since 2008, reaching a 15.0% share of market in 2013. In the premium segment, *Marlboro* gained 3.1 share points versus 2008 to reach a 45.7% market share, reinforcing its position as the Region's top selling brand.

(SLIDE 20.)

Marlboro is the brand with the broadest geographical footprint in the Region. It is the premium segment leader in Mexico, Argentina and Colombia, among others. In markets where PMI is not yet the leader, such as Brazil, *Marlboro* still enjoys an over 30% share of the premium segment.

Importantly, *Marlboro*'s Regional Legal Age (minimum 18) to 24 year old smoker share has increased by 3.4 share points versus 2008 to 30.1% in 2013, demonstrating the brand's exciting potential.

(SLIDE 21.)

During the last several years, we have been successfully building the *Marlboro* architecture. We established the three differentiated pillars, Flavor, Gold and Fresh, to address multiple adult smoker groups' preferences.

The result is a balanced share growth where each of the three pillars is showing a solid performance. The Flavor pillar is the core of the brand and accounts for 72% of *Marlboro*'s Regional volume and 30% of its market share growth. The Fresh pillar, which accounts for more than half of the share growth, has become the primary innovation engine for the brand in the Region.

(SLIDE 22.)

As Fred shared with you during his presentation, we are making a bold move to the next stage with the development of the *Marlboro* Architecture 2.0. The Latin America & Canada Region is playing a key role in the *Marlboro* Red transformation with Brazil being the first market in the Region and the fourth worldwide to begin the roll out. We have implemented *Marlboro* Architecture 2.0 in Campinas near Sao Paulo city, prior to national roll out, and have achieved 100% retention of *Marlboro* Red adult smokers and over 10% volume growth during the first month of sales.

(SLIDE 23.)

Marlboro Fresh has continued to lead innovation in the Region with relevant new smoking experiences. With the introduction of the first capsules that offer the choice of higher menthol intensity, *Marlboro* Fresh is leading the growing menthol segment with nearly 21% share.

Marlboro Kretek Mint has opened another dimension in refreshing taste. It was recently launched in Mexico in August 2013 with very promising results, reaching 0.5 share points in OXXO, the leading retail chain.

(SLIDE 24.)

We will continue supporting *Marlboro*'s brand equity with impactful communication platforms for adult smokers as shown in this example of the "Be *Marlboro"* campaign from Argentina.

(SLIDE 25.)

To continue expanding and enhancing our international portfolio, we have been rolling out *L&M* and *Chesterfield* throughout the Region and we will selectively morph some of our local trademarks into these two brands.

L&M has become PMI's fifth-largest brand in the Region, showing great potential where it has been launched. The brand has almost doubled its geographical coverage in the last three years and today is available in 14 markets.

The launch of innovative offers has been a key strategy to further develop the brand in our Region. A remarkable example is *L&M Kretek Mint* in Bolivia where the variant reached a 4.8% share of market in May, only one year after its launch.

(SLIDE 26.)

We have recently started activating *Chesterfield,* leveraging its strong heritage and uniqueness to meet untapped adult smoker needs in our Region. In Guatemala, we launched both full flavor, which includes a mildly refreshing menthol capsule to address the adult smoker preference for a clear taste, and a kretek mint offer. Both initiatives have shown promising early results.

(SLIDE 27.)

Lastly, we are focused on supporting selected trademarks with established local equity, such as *Delicados* and *Philip Morris*.

Delicados is an authentic Mexican brand that has been a staple of the culture for nearly a century. With an 11.2% market share, it is the second largest brand in the country and is the leading low-price offer with an approximately 50% share of the segment.

Delicados is a strong value for money proposition and we are now leveraging the brand's leadership position by widening its appeal among adult smokers through a new communication platform and line extensions.

(SLIDE 28.)

Philip Morris is now the second largest brand in the Latin America & Canada Region with an impressive 8.0% share. The brand has enjoyed solid momentum since 2008 with a growth of nearly 3.0 share points.

Philip Morris' popular appeal is most prevalent in Argentina where it commands a leading 42.7% share in May 2014, further enhanced by the launch of capsules in 2011.

The *Philip Morris* family has a long history and well-established equity in both Paraguay and Ecuador. In Canada, initial results from the late 2013 *Philip Morris* low-price launch are encouraging.

(SLIDE 29.)

Let me now turn to a review of our key markets in the Region.

In Canada, our affiliate has delivered market share growth since our acquisition in 2008, gaining 1.5 share points to reach a 37.2% share in 2013 of this nearly 30 billion unit market. This market share growth demonstrates our ability to succeed in a highly restricted environment.

We are further encouraged by our share growth of 2.8 share points in the provinces of Ontario and Quebec, which account for over 55% of industry volume, and where we have been historically under-indexed.

We are now the clear market leader among Legal Age (minimum 18) to 29 year old smokers in Canada with a 45.9% share in 2013, gaining a robust 13.7 share points since 2008, driven by premium brand *Belmont* and below-premium *Next*.

This, combined with strong brand equity and the recent government commitments to invest $92 million over four years to combat illicit trade, makes Canada a market with a high potential for continued growth.

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With Canada's solid economic growth, we have taken price increases, which led to incremental OCI, net of volume and mix erosion.

Our product quality and brand equity have secured PMI's ability to sustain pricing in the premium segment, as evidenced by *Belmont*.

Our strong brands in the below-premium segment, such as *Next,* are well positioned to capture price-sensitive adult smokers.

This will pave the way for continued success and profitable growth in Canada.

(SLIDE 31.)

Since 2009, premium brand *Belmont* has continued to grow in its stronghold of Ontario. *Belmont*'s 2013 share among Legal Age (minimum 18) to 29 year old smokers in Ontario reached 23.8%, a clear sign the brand is well positioned in this important province.

Belmont's growth is also expanding in British Columbia, where the brand is showing great results. This highlights an exciting opportunity to further repeat Ontario's success in other provinces.

(SLIDE 32.)

The combination of Canadian heritage and a focus on producing a superior quality product with a classic taste have propelled both *Canadian Classics* and *Quebec Classique* to become core powerhouse brands.

The brands have successfully demonstrated resilience against down trading and market contraction. Combined, these two trademarks represent the largest-selling brand in Canada.

(SLIDE 33.)

Next has achieved the largest and fastest growth of any brand in Canada, gaining an impressive 9.9 share points since its launch in 2009. *Next* has outpaced the growth of the below-premium segment by gaining 14.7 segment share points since 2009, underlining the strength of its strong brand equity at an affordable price.

The recently launched *Philip Morris* will further reinforce our position in the below-premium segment by bringing another recognized trademark to the Canadian market. Since its November 2013 launch in Ontario and Quebec, the brand has achieved a respectable 0.4% share of market.

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On June 9th, as part of our distribution and commercial strategy, our affiliate in Canada announced a new mixed distribution model to be implemented in September 2014.

This new model will offer direct-to-store delivery as a means to improve efficiency and to enable us to better implement our portfolio strategies through enhanced direct interaction with retailers. We will also continue leveraging on the capabilities of our current contracted wholesalers to supply selected accounts and geographies.

(SLIDE 35.)

PMI has been the market leader in Mexico since 1998. We grew by 5.8 share points from 2008 to 2013, reaching 73.5% of this 34.6 billion unit market.

We currently hold a leadership position in the premium and low-price segments with two of the largest brands in the market – *Marlboro*, the undisputed number one brand, with a 52.3% market share in 2013, followed by *Delicados*. We are also the leader of the growing menthol segment, which has more than doubled since 2008 to approximately 11% of total market volume.

Despite our strong position in Mexico, more recently, we have been impacted by down-trading with our May year-to-date share declining by 4.0 share points versus the same period last year, partly driven by trade inventory movements in the beginning of the year. Adjusting for inventory movements, our May year-to-date share was down by 1.9 share points. We are very focused on regaining share growth, as I will explain in a few minutes.

(SLIDE 36.)

Since the disruptive excise tax increase in January 2011 that triggered a surge in illicit trade, we have not experienced any additional tax increase. The overall market size has stabilized as we are addressing the illicit trade issue, which decreased to 12.7% in 2013. Our approach consists of the creation of the Alliance Against the Illicit Trade of Tobacco Products, compilation of information on illicit trade dynamics, fostering the involvement of government authorities, and the launch of super-low price brands in targeted illicit trade strongholds to help recover volume to the tax paid market.

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The industry price segment dynamics in Mexico have changed significantly during the last two years. Increased down-trading resulting from weakening economic conditions, declining consumer confidence, breaking the 40 pesos per pack price point, and higher illicit trade have impacted *Marlboro* and *B&H*. We are vigorously addressing this issue with increased market activities to support the brands.

The low-price segment growth was driven by increased value offers in the second half of 2013, such as the 100s format, smaller pack sizes and capsules. The super-low price segment reached 3.9% share of market, mainly attributable to volume recovery from the illicit market.

Even though facing unfavorable market dynamics, PMI has been able to solidify its leadership position in the premium price segment, reaching a 91.3 segment share, led by *Marlboro*. We are also the leader in the low-price segment with *Delicados.*

(SLIDE 38.)

We are focused on restoring share growth in Mexico by enhancing the brand equity of our trademarks and addressing affordability to revert unfavorable market segment dynamics, all while implementing the new commercial approach.

Although *Marlboro* has demonstrated resilience in the face of down-trading, as shown by its growth in the premium segment, we are increasingly investing in the brand through offers such as *Ice Xpress* and *Kretek Mint*, one of our most successful new launches.

We launched *Marlboro* 18s in all three pillars in the first quarter of 2014 with a rounded price of 40 Mexican pesos. We have early indications that our strategies are having an impact with *Marlboro* 18s reaching 3.2 share points in May and total *Marlboro* share declining less than one share point versus May of last year.

In addition, we are nurturing *Delicados'*s growth with new formats including 14s, 15s, and 24s and new packaging at an attractive price.

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To sustain growth in a challenging environment, Mexico was selected as a pioneer in the implementation of the new commercial approach in the Region. This initiative empowers the sales force to execute activities using innovative and customized systems in an entrepreneurial manner that address adult smoker needs in their territories. After a successful pilot, we are now rolling out the commercial approach throughout the country.

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In Mexico, we are focused on maintaining our leadership in the premium segment through reinforcing *Marlboro*'s market position and addressing price segment dynamics.

We will continue to implement a comprehensive approach to recover illicit market volume to the tax-paid market.

As a key production center for the Region, we will leverage our efficient manufacturing capability and continue to drive productivity.

We will advocate for a predictable and reasonable fiscal environment.

Finally, we will fully capture the benefits of the new commercial approach.

(SLIDE 41.)

In Colombia, economic growth and GDP expansion are driving adult smoker up-trading, which has helped us to solidify our market leadership, growing by 3.3 share points since 2010.

Marlboro achieved a record share of 7.8% in May 2014, while *L&M* has gained share of market over the past three years, supported by the launch of *L&M EVO Blue* in November 2011.

(SLIDE 42.)

Marlboro has demonstrated outstanding share performance, growing by 3.1 share points since 2010, mostly fueled by the Fresh and Flavor variants, which posted 2.1 and 0.8 share points growth, respectively, versus 2010.

Marlboro is the premium segment leader and also became the market leader among Legal Age (minimum 18) to 24 year old smokers in 2013.

(SLIDE 43.)

In Brazil, total industry volume was 76.5 billion units in 2013, making it the largest market in the Region. PMI has delivered consistent share growth over the last five years to reach a 16.1% May year-to-date share of market, leveraging on our three key brands *Marlboro*, *L&M* and *Shelton*.

With favorable economic conditions leading to a growing middle class, an improved leaf and manufacturing footprint, and a more equitable tax and competitive environment, we believe we have the appropriate business fundamentals in place to further accelerate our growth.

(SLIDE 44.)

In 2011, Brazil's complicated, six-tiered excise tax system was restructured. The current excise tax regime has been gradually eliminating the difference in tax between box and soft packs. As of January 2015, the box and soft tax rates will fully merge. Additionally, a minimum retail selling price was established and the structure and rates have been set through 2015.

This reasonable and predictable excise tax structure has allowed for efficient price gap management and portfolio development. As an example, we were able to optimize *Marlboro* Box's price gap versus the most popular price category to 1.00 Real per pack.

(SLIDE 45.)

PMI is gaining share within the premium and mid-price segments, with 1.4 and 0.6 share points of growth, respectively, since 2010. Our strategy is to continue focusing resources on these growing segments and on our successful international brands *Marlboro* and *L&M*.

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Our resources and efforts are concentrated in the southeastern corner of the country, which we refer to as the "focus area". It comprises 44% of the country's population and nearly two-thirds of the industry's volume, namely 51.7 billion units in 2013. As a reference, this volume is almost double that of Canada and one and a half times that of Mexico.

In 2013, PMI's national market share reached 15.7%, an increase of 1.7 share points versus 2010, while our share in the focus area was substantially higher at 24.2%.

(SLIDE 47.)

Marlboro is the leading brand in Brazil's largest city, São Paulo, with a 21.7% share of market in December 2013. The brand has consistently grown share nationwide since 2006, and in the last three years, it gained 1.9 share points.

In the focus area, *Marlboro*'s share among Legal Age (minimum 18) to 24 year old smokers is over 18% and the brand is the leader in that important demographic, another indication of future growth potential.

One of the brand's key developments for this year is the deployment of the exciting new *Marlboro* Red 2.0, as mentioned earlier in my presentation.

(SLIDE 48.)

We have devoted considerable efforts to grow *L&M,* which has a 2.7% share of market nationwide and nearly double that in the focus area. In 2013, *L&M* was the fastest-growing brand in the mid-price segment within the focus area. This growth was supported by product and packaging innovations, such as the first box variant in its price segment.

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In conclusion, our main priorities to support our growth in Brazil are the following:

We will ensure *Marlboro*'s appeal to the emerging middle class adult smokers.

We will continue leveraging the 2012 ruling by the anti-competition authorities that provided a more level playing field to expand our distribution and visibility in retail outlets across the focus area.

And we aim to continuously improve our cost base, seeking efficiencies to finance further investments.

(SLIDE 50.)

Argentina is the second-largest market in the Region with industry volume of nearly 43 billion units. Despite a challenging economic and political environment in the country, PMI posted solid results while maintaining an effective long-term presence.

We have achieved a strong market share performance, growing by 6.0 share points since 2008 in an up-trading market environment.

With our strong portfolio of local and international brands, including *Marlboro* and *Philip Morris*, we are well positioned for continued success in Argentina.

(SLIDE 51.)

Marlboro's overall market share growth of 0.8 share points since 2008 has been the result of the brand's encouraging and improving adult smoker profile and relevance in Argentina. Its share of Legal Age (minimum 18) to 24 year old smokers reached 30% in 2013.

(SLIDE 52.)

With its smart and approachable attitude, *Philip Morris* is positioned in the mid-price segment and is the market leader in Argentina with a 42.7% share of market in May 2014. Brand growth has been fueled mainly by capsule innovations, which accounted for eight points of share growth from 2011 to May 2014, as well as other innovations such as a kretek offering.

(SLIDE 53.)

PMI's strength in innovation has been clearly demonstrated in Argentina. Since the introduction of capsules in 2011, they have shown significant growth reaching a nearly 13% share of market year-to-date May. *Philip Morris Caps* and *Marlboro Ice Blast* have been the main contributors to our leading 68% share of this growing segment as of year-to-date May 2014.

(SLIDE 54.)

We are the undisputed market leader in Argentina with a strong footprint.

We have been successful in navigating through a complex economic and political environment, while we have been able to implement pricing to cover inflation and cost increases.

Our winning portfolio is benefiting from innovation and, going forward, we plan to continue leveraging on our strength in the country.

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In conclusion, we are confident in our ability to deliver solid results in the Latin America & Canada Region. We have the right plans in place to address the temporary challenges that we are facing in Mexico.

Sustainable pricing and cost optimization will provide a strong base for our mid to long-term target of high single-digit annual average adjusted OCI growth, excluding currency.

Our strong share momentum, driven by *Marlboro*'s leading brand position and improving adult smoker profile, coupled with increasing purchasing power in the Region, will fuel projected market share growth in the years to come.

Illicit trade remains an opportunity to recover volume and profitability to the industry. We have had recent successes in combatting illicit trade in targeted markets and we will replicate these efforts across the Region.

And finally, we will commercialize Reduced-Risk Products in selected markets within Latin America & Canada Region.

(SLIDE 56.)

Thank you for your interest in our business. I welcome any questions you may have.