

Remarks by Frederic de Wilde
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(SLIDE 1.)

Good morning, ladies and gentlemen and welcome again to PMI's 2012 Investor Day.

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*.

(SLIDE 2.)

We have a terrific stable of brands and, thanks to our global scale, our innovative products and marketing programs 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*, *Lark* and *Muratti* in the mid-price segment.

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

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

(SLIDE 3.)

The focus and investment we dedicated to our major brands have resulted in extremely good performances across the portfolio.

Looking at it from a global standpoint, all of our top ten brands have grown volume in 2011 and some of them such as *Parliament*, *Lark* and our local heritage brands in Indonesia recorded double-digit growth.

Moreover we have repeated this remarkable result in the first quarter of 2012: all of our top-ten brands grew volume versus the same quarter of last year.

(SLIDE 4.)

Our industry leadership and wide geographic presence enables us to have a comprehensive understanding of adult smoker trends. Consumers increasingly prefer lighter and smoother tasting products, slimmer diameter formats and also, in some cases, a more refreshing and less lingering taste.

Adult smokers affected by the economic downturn are attracted by products with excellent value at attractive prices. Finally, the ability to customize the smoking experience as evidenced, for example, by capsule products or products that allow adult smokers to adjust the taste intensity, is also an increasing trend.

As a consequence of these emerging trends, the industry has significantly accelerated the product innovation pace. For example, in Japan, 10% of the market is made out of products not existing just three years ago.

PMI has a strong pipeline of product innovation and is well positioned to play a leadership role in every growing segment or open new ones where we identify untapped opportunities.

(SLIDE 5.)

Capsule products are a good example of the importance and the fast pace of innovation in our industry.

By crushing the capsule in the filter, adult smokers can change the taste of their cigarette either from a regular tobacco taste to a refreshing taste, in the case of non-menthol-to-menthol products, or to increase the refreshing taste sensation in the case of menthol-to-menthol propositions.

Capsule products are now present in 53 markets and 19 brands across different price segments. The fast volume increase of capsule products in just one year, between 2010 and 2011 is a clear indication of adult smoker interest in these innovative products.

PMI capsule products achieved a 49% share of the total capsule segment in 2011 and we have now become the industry leader in this emerging category.

(SLIDE 6.)

Thanks to our successful product innovation and focus on adult smoker emerging trends, we have been able to build very strong position in all key segments.

The low tar taste continued its inexorable trend and represented 41.4% of worldwide market volume in 2011. Over the years, we have been able to grow in this major segment reaching 32.2% low tar segment share in 2011.

The slimmer diameter category almost doubled in four years. We have a strong position there and, as you will see across the presentations, we have plans in place, for all our brands, to further reinforce it.

We have been very successful with our menthol taste offers and benefited from our business combination in the Philippines to further strengthen our leadership in the menthol taste segment. As a result, in 2011, we held more than 50% of this category.

The very strong performance of our core variants, together with focused innovation, translated into an overall PMI market share of 28.1% in 2011. Compared to 2007, this represents a 3.1% worldwide market share gain.

(SLIDE 7.)

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

- First, we intend to keep strengthening the equity of our well-established brands through the deployment of differentiated and relevant communication platforms. We will empower and equip our field forces to support our key brand variants all year long and therefore maximize the retention of our adult smoker base. We have also started to implement our brand initiatives with the use of innovative mobile technologies during our adult smokers and trade engagement activities.
- Second, we will keep leveraging our long-term consumer centric innovation pipeline and deploy initiatives across our brand portfolio. This will contribute to further reinforce our leadership position in key growing segments such as the ones I described before.
- Finally, our renewed communication platforms together with our toolbox of innovative offers will allow us to address the markets where competitive brands have areas of strength.

(SLIDE 8.)

Innovation is not only about launching new products. Importantly, it is also about thinking differently and innovating in the way we market our brands to adult smokers and trade partners.

Thanks to a series of pilot markets and systematic collection of best practices, we have already implemented a series of engagement tools that have proven to be successful. This is part of the implementation of the new commercial approach that Andre talked about in his presentation.

Regarding our consumer approach, we are expanding our touch-point universe by engaging with adult smokers not only at the point of sale but also where their interests bring them. Where permitted, we also create interactive new touch points that did not exist before with, for example, pop-up installations in high traffic areas as illustrated in the pictures on the slide.

We are also deploying new technologies, using tailor-made tablet applications to better understand adult smoker interests and we exploit these insights to maximize the effectiveness of our engagement activities.

(SLIDE 9.)

Similarly, we are innovating and applying new technologies to our trade partner engagement. We have developed dedicated multiple tablet applications for our field forces to help them understand the retailer profile and his willingness to deliver our product messages to adult smokers.

An example of these activities is illustrated in the picture on this slide where you can see how a Russian shop assistant is interacting with one of our engagement tools. In addition, new point of sale segmentation methods allow us to identify the shopper profile in any given shop and even at different hours of the day.

With this information, our territory sales managers are equipped to activate the right set of brands in the shop where we have more opportunities to find a specific consumer profile.

(SLIDE 10.)

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

(SLIDE 11.)

In 2011, *Marlboro* volume reached 300 billion units, reflecting increasing share of the global cigarette market and of the premium price segment in particular. *Marlboro* alone is larger than BAT's four global drive brands combined and is also larger than JTI's top four global brands combined.

The *Marlboro* brand architecture, with its three distinctive pillars, Flavor, Gold and Fresh, has been successful in unleashing *Marlboro*'s ability to compete in all growth segments.

This major initiative has been undertaken globally and has led so far to close to 500 new *Marlboro* product launches and pack upgrades worldwide. 51% of PMI's global brands total launches in 2010 and 2011 were dedicated to our number one brand, *Marlboro*.

(SLIDE 12.)

Despite a difficult economic environment, our flagship brand is growing and reached a 9.2 % global market share in 2011, excluding China and the USA.

Flavor continues to be the largest pillar of the *Marlboro* franchise, maintaining its strong share in a declining full-flavor segment.

At the same time, the Gold franchise in the smooth-tasting segment and the Fresh pillar in the menthol segment are gaining global market share.

(SLIDE 13.)

Our growth strategies for *Marlboro* reflect our ambition to keep building our core variants and our undisputed brand image with the development of a renewed global campaign.

This will allow us to maintain *Marlboro*'s vibrancy and relevance among Legal Age (minimum 18) to 24 year old smokers and, at the same time, reinforce the brand where we face image deficits.

We also want to capitalize on the opportunities offered by the new brand architecture to fully exploit the potential of each pillar in its respective taste territory, bringing relevant product innovation and line extensions where appropriate.

(SLIDE 14.)

Across all three pillars, *Marlboro* is a brand with a promise – “*Marlboro* offers the best, most enjoyable smoking experiences in a charismatic, engaging, fresh and innovative way.”

Each pillar contributes to the overall brand promise with its own specific character: superior tobacco taste in the case of Red, smoothness and progressiveness for the Gold pillar and refreshing taste sensations when it comes to the *Marlboro* Fresh pillar.

(SLIDE 15.)

For decades the brand image has been built upon the famous *Marlboro* country campaign. However, the global communication landscape has evolved and so have adult smoker expectations.

The brand needed a new communication platform, staying true to its promise but also in line with emerging global societal trends. At the same time we still wanted to capitalize on *Marlboro* timeless values which remain fully relevant nowadays: freedom, authenticity, confidence and leadership.

Based on this we developed the new “*Be Marlboro*” campaign which has been inspired by our deep understanding of adult smoker insights. We know, for example, that young adults feel overwhelmed by the flood of information and options that new technologies offer. In this time of uncertainty, they have very few life compasses that can provide them with guidance.

With the new campaign, *Marlboro* encourages them to be decisive, trust themselves and follow their inspiration. The concept is very simple: there are three ways to react when faced with a decision: Yes, No, or Maybe. *Marlboro* does not believe in Maybes.

The campaign that I invite you to see now, was launched in Germany in December 2011.

(SLIDE 16.)

We first hit the streets with a teaser campaign without revealing the brand and where the word “May” was crossed out of “Maybe”.

(SLIDE 17.)

We deployed the teaser campaign at different locations and in different formats to quickly build awareness.

(SLIDE 18.)

We then started introducing the concept of “Don’t be a Maybe” and revealed the brand name with our “*Be Marlboro*” graphic signature: sit or stand, don’t be a Maybe.

(SLIDE 19.)

“Yes or No, Don’t be a Maybe.”

(SLIDE 20.)

“Left or right, Don’t be a Maybe.”

(SLIDE 21.)

The message generated many reactions and some even started interacting with the campaign adding messages to the posters. In the meantime, we also introduced the campaign in movie theaters with a cinema commercial that I invite you to see now.

(SLIDE 22.)

(Commercial)

(SLIDE 23.)

Once the campaign concept was established, we started introducing image visuals to add emotional elements and anchor “*Be Marlboro*” in real situations. In this case, for example, we recognize the value of becoming a self-starter.

(SLIDE 24.)

We also encourage adult smokers to demonstrate their true feelings.

(SLIDE 25.)

Or, in this case, metaphorically, find your way in life and don’t be held back by obstacles.

(SLIDE 26.)

Trusting the others to share a common emotion is also something “Maybe’s” would not consider.

(SLIDE 27.)

Reaching the top to live the moment just depends on your decisiveness.

(SLIDE 28.)

Communicate and take your chances, don’t hesitate it’s up to you.

(SLIDE 29.)

Savor every moment even the simple ones.

As you have seen in this selection, the campaign is rich and leverages multiple situations, from more active to more emotional ones. We all made decisions, right or wrong, but we moved forward.

To complement the image campaign, we recently aired a second cinema commercial that I would like to share with you now.

(SLIDE 30.)

(Commercial)

(SLIDE 31.)

In Germany, the preliminary results and reactions to this new campaign are very promising. The “*Be Marlboro*” message is well understood and cuts across the cluttered advertising landscape.

This is true not only when we compare the “out of home” results versus other competitive cigarette brands but, also, when we compare them versus the advertising recall scores achieved by other product categories such as, for example, fast food and clothing brands.

Additionally, one out of two Legal Age (minimum 18) to 39 year old smokers recall seeing the campaign visuals and one out of two talked about it. This shows the ability of the “*Be Marlboro*” campaign to generate strong word-of-mouth.

Not only adult smokers talked about it but also the press, as illustrated in the picture on this slide, started talking about the “Maybe” generation.

In his presentation, Jacek will show you how this new and bold *Marlboro* initiative has already translated into very positive in-market results.

(SLIDE 32.)

In summary, the new “*Be Marlboro*” communication platform has met our expectations. It is based on a simple but powerful concept that can be adapted to different cultural environments and degrees of restrictions.

It has become our new global campaign allowing us to support initiatives across all three of the *Marlboro* brand architecture pillars.

We plan to deploy “*Be Marlboro*” across PMI markets starting with 40 markets in the course of 2012.

(SLIDE 33.)

Let me now bring you through a brief analysis of each of these pillars, starting with Flavor, the largest one which leverages the distinctive red chevron and delivers “superior tobacco taste satisfaction”.

(SLIDE 34.)

The Flavor pillar achieved 158 billion units in 2011 and represents on its own the number one worldwide brand in volume. *Marlboro* Flavor managed to maintain share in a declining global full flavor segment.

Throughout Q1, 2012, 98% of the total volume has been transitioned to the new architecture with upgraded packs and specific product communication.

In the meantime, we constantly upgrade the quality of the Flavor products to make sure that the smoking experience they offer addresses the evolving preferences of adult smokers.

On the innovation front, we have taken advantage of our new architecture to introduce new offers within the Flavor pillar.

(SLIDE 35.)

An example of this is our new *Marlboro Premium Black*.

This above premium price *Marlboro* proposition has been designed in collaboration with the world famous designer Pininfarina. We have selected superior tobacco grades to ensure a flavorful but, at the same time, extremely smooth smoking experience.

The *Premium Black* pack incorporates our innovative *Profresh* seal, which automatically protects the product when the pack is closed. It ensures optimal freshness of this superior quality product. We have plans to introduce *Marlboro Premium Black* in selective markets during the second half of 2012.

(SLIDE 36.)

Marlboro Filter Plus and *Flavor Plus* is another innovation in the Flavor pillar. It delivers taste satisfaction in a low Tar cigarette thanks to a four chamber filter with a tobacco plug.

Marlboro Filter Plus was first introduced in Korea in November 2008 and has now been successfully deployed in 48 markets accounting for 5.1 billion units in 2011.

Marlboro Filter Plus / Flavor Plus already achieved more than a 1% share of market in 13 countries and more than half a share point in 27.

(SLIDE 37.)

The *Marlboro Pocket Pack* is a shorter version of the Flavor king size variant and allows price sensitive consumers to enjoy the *Marlboro* quality at a more affordable price.

It is now available in twelve EU markets. In its second full year after introduction, it reached a volume close to 2 billion units and captured nearly half a share point of the total industry volume in the markets where it was sold.

(SLIDE 38.)

Another illustration of innovation is *Marlboro Beyond*, a non-menthol-to-menthol product using capsule-in-filter technology. It allows adult smokers to get a hint of fresh taste sensation by crushing the menthol capsule in the filter at their desired moment.

The *Beyond* pack features a new “sideways” roofline design, a symbol of progressiveness and was introduced in seven EU markets, reaching a level of 0.5 % share of market and above in four of them.

(SLIDE 39.)

The Gold pillar provides “progressiveness in smooth taste” and has delivered share gains in the past two years.

(SLIDE 40.)

In addition to the significant upgrade of the core pack design, we expanded the *Marlboro Gold* franchise by launching new line extensions addressing different taste and style preferences.

The strategy’s success is clearly illustrated through these results showing our ability to maintain Gold’s core variant market share and, at the same time, generate incremental volume via line extensions.

(SLIDE 41.)

Marlboro Gold Touch is a good example of this. Our gold slim variant is now present in 48 markets with a total volume of 5.0 billion units sold in 2011. It has achieved 0.5% market share or higher in 26 markets and more than 1% in 11 of those 26.

Touch also shows a strong performance amongst legal age (minimum 18) to 24 year old smokers, auguring well for future growth.

(SLIDE 42.)

As you know, we are determined to strengthen *Marlboro’s* performance in Russia and we have put plans in place to address it.

A major initiative in this regard, is the new *Marlboro ClearTaste* product range that represents *Marlboro’s* response to the evolving preferences of the Russian adult smoker for smoother tasting products.

This completely new *Marlboro* line is offered in a range of taste intensities and formats featuring the “sideways” roofline on the pack.

The product itself is also very innovative. The four chamber filter with activated carbon and cellulose beads is a unique feature that delivers on the product promise.

Mirek will talk more about this new bold step by *Marlboro* in Russia in the course of his presentation.

(SLIDE 43.)

Marlboro Fresh provides “refreshing taste sensations” and uses innovative technologies, from menthol filter threads to menthol capsules. With this, *Marlboro* Fresh is able to cover a wide range of refreshing taste expectations.

The Fresh line represents a significant growth opportunity, both in traditional menthol strongholds as well as in markets where refreshing taste is an emerging preference.

(SLIDE 44.)

Marlboro Fresh, which achieved 29 billion units in 2011, continued to record sequential market share gains thanks to the introduction of many innovative line extensions that are very relevant for that segment.

These new offers contributed to the overall brand growth and consolidated *Marlboro*'s leadership in the highly competitive Fresh segment.

(SLIDE 45.)

Marlboro Black Menthol, the first *Marlboro* black pack providing high-cooling sensations achieved volume of 6.3 billion units in 2011 across 16 markets. It was first launched in Japan and its immediate success contributed to our positive performance in this important market.

This impactful proposition has also helped to further strengthen the vibrancy of the overall *Marlboro* brand image. It has achieved a strong market share performance in many places, reaching 0.5% or more in five markets and a record market share of 3.9% in Hong Kong in Q1, 2012.

(SLIDE 46.)

Another key initiative in the Fresh segment is *Marlboro Ice Blast* which contains a special mentholated capsule in the filter that allows adult smokers to add a boost of fresh taste when crushing it.

This variant also reached a record share of 9.0% in Hong Kong in March 2012. It is worth noting, that *Ice Blast* success did not affect the positive trend of *Marlboro Black Menthol*, which continued to grow.

Matteo will talk more in depth about the success of *Marlboro Black Menthol* and *Marlboro Ice Blast* during his presentation of the Asia Region.

You will also see later that we have already started to deploy *Marlboro Ice Blast* to markets outside of Asia.

(SLIDE 47.)

In conclusion for *Marlboro*, we have every confidence that the brand is on solid ground for strong future gains. We have a great campaign providing a new modern angle of our timeless values and brand heritage.

The new architecture is working. It has allowed us to differentiate the three pillars and cater for different adult smoker taste and format preferences. Each pillar has been able to unleash its growth potential by deploying an unprecedented level of product innovation.

The positive response to our product initiatives has already resulted in market share gains and contributed to the strengthening of *Marlboro* brand image in many key markets.

(SLIDE 48.)

Our other key premium international offering is *Parliament*, a prestigious above premium brand that provides a refined smoking experience with its elegant packaging and unique *recessed filter*.

(SLIDE 49.)

The brand is a symbol of superior quality, prestige and status. It achieved a record high volume of 39 billion units in 2011.

Parliament has been growing at a fast pace for the last six years and recorded a 12% growth in 2011 versus 2010.

Parliament's performance and its price positioning strongly contribute to PMI's profitability. The brand accounts for about 4% of PMI's cigarette volume but its contribution to our profitability is almost double.

(SLIDE 50.)

Parliament enjoys a strong position in several key markets in the Asia and EEMA Regions and it keeps growing market share in most of them. It is supported by a new communication platform and inspiring adult smoker activities that I would like to share with you now.

(SLIDE 51.)

With the new campaign, *Parliament* opens up a new world of upscale experiences, where the ultimate luxury is to live on one's own terms and feel indulged.

(SLIDE 52.)

Parliament believes that the new expression of luxury goes beyond pure status symbols. It is about having the freedom to materialize your dreams and create your own experiences.

(SLIDE 53.)

This can also mean to be different and to have the luxury to define your own rules.

(SLIDE 54.)

Parliament, Your world. Your rules.

(SLIDE 55.)

Everything about *Parliament* must be exceptional and our *Midnight Magic* packs and events are no exception. The "*Midnight Magic*" pack features a unique look obtained via innovative multiple-layer printing technology.

Adult smoker reactions have been very positive and we recorded a significant boost in our sales data. The "*Midnight Magic*" platform delivers on the promise to inspire and provide emotional experiences through luxurious moments and rewarding escapes.

(SLIDE 56.)

Let me now move to *L&M*, our second-largest brand.

(SLIDE 57.)

L&M has been growing in three out of four PMI regions, reaching in 2011 a total volume of 90 billion units. This makes *L&M* the third largest brand in the world.

The cornerstone of the brand's success is based on its value proposition and its progressive and optimistic image. *L&M*'s performance has been fueled by the introduction of a new communication platform and innovative product offers.

(SLIDE 58.)

Most of *L&M*'s volume is sold in the EU and EEMA Regions. *L&M* is the number-two brand in the EU and enjoys both strong market shares and significant growth in many key markets. In Russia, where the brand had lost momentum, it is showing signs of recovery.

(SLIDE 59.)

L&M offers quality and experiences beyond its price. It invites adult smokers to move forward with a more fulfilling life. The new communication campaign delivers against this promise: it encourages adult smokers to progress and live a life definitely above average.

(SLIDE 60.)

Defy average and be driven by your spontaneity,

(SLIDE 61.)

Defy average and live your passion,

(SLIDE 62.)

And this is the last example of the *L&M* campaign I wanted to share with you.

(SLIDE 63.)

Competition for value-seeking young adult smokers is intense.

L&M can provide these adult smokers with product innovation more commonly associated with higher-price brands, as illustrated by this selection of line extensions beyond the core variants. The first on the left, *L&M Forward*, is a non-menthol-to-menthol capsule product that was launched last year in Poland and reached a market share of 1.1% in the first quarter of 2012.

L&M U-Spin is another example of PMI's ability to translate adult smoker insights into tangible product innovation. With *U-Spin*, adult smokers can adjust the taste intensity of their cigarette by twisting the filter. We have used the Baltics as a test market for this new technology that we intend to further develop with the aim to expand it to other brands and markets in the future.

L&M Extra Menthol completes our innovation toolbox with a product that delivers an extra refreshing taste sensation thanks to its filter thread technology.

(SLIDE 64.)

Chesterfield, with its modernized pack design, is our seventh largest brand.

(SLIDE 65.)

The brand, which is mainly present in EEMA and the EU, achieved 37 billion units in 2011 showing strong potential for geographical expansion which we already started successfully. The brand stands for heritage, prestige and uniqueness.

The new campaign capitalizes on these assets and invites adult smokers to look at life from a different angle in a clever and fresh way. I would like to share with you now a couple of examples of the *Chesterfield* clever twist campaign.

(SLIDE 66.)

Be clever and prolong the good times,

(SLIDE 67.)

With a clever twist, be imaginative and invent your own solutions,

(SLIDE 68.)

The concept is also applicable to trademark campaigns as illustrated here. It enables the brand to display its unique character and always triggers an interaction with the audience.

(SLIDE 69.)

We are also developing a strong product innovation pipeline for *Chesterfield* that we are starting to deploy.

For example, building on the growing slimmer diameter segment in the EEMA Region, we have recently introduced a super slims 100 millimeters line extension in Ukraine.

(SLIDE 70.)

And in Russia, we just launched a super slim variant in a King Size format featuring an innovative sliding-lid pack format.

(SLIDE 71.)

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

I invite you all to visit our brand showroom later on today, where we will bring you through comprehensive and tangible executions of our global strategy.

(SLIDE 72.)

To sum up, we have a superior brand portfolio which is well equipped to deliver future growth. New and differentiated communication platforms are in place for all our major brands.

We have also deployed an unprecedented level of product innovation and we keep building our pipeline to ensure that our product portfolio is responsive to evolving adult smoker preferences.

Finally the new commercial approach represents a great opportunity to significantly enhance our engagement capabilities.

We are convinced this will position PMI to deliver accelerated organic growth.

(SLIDE 73.)

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