

ANNUAL MEETING OF STOCKHOLDERS

Remarks by Louis C. Camilleri
Chairman and Chief Executive Officer
Philip Morris International Inc.

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BUSINESS REVIEW

The highlight of 2008 was clearly our spin-off from Altria Group, Inc. in March. While we were not completely spared the effects of the global financial erosion and volatility in the capital markets during the latter part of the year, we transitioned flawlessly to our new status as the largest publicly traded tobacco company. PMI's strong 2008 results underscore that our business fundamentals are in excellent shape and our solid business momentum has set the stage for further growth in the years to come.

In 2008, PMI's cigarette volume reached 869.8 billion units, an increase of 21.1 billion, or 2.5%, compared to 2007. On an organic basis, excluding the impact of acquisitions, volume was up 1.0% versus 2007, reflecting our best performance in recent years as we accelerated the development and roll-out of new products and significantly improved our speed to market.

We successfully grew share in 2008 in both the more mature OECD markets, as well as the emerging non-OECD markets, with a particularly strong performance in the fourth quarter.

Net revenues, excluding excise taxes, reached \$25.7 billion, an increase of \$2.9 billion, or 12.7% versus 2007, and up \$1.5 billion, or 6.6%, excluding currency.

Operating companies income, or OCI, grew by an impressive \$1.5 billion, or 16.7%, to \$10.4 billion and was up \$1.0 billion, or 11.3%, excluding currency.

Reported diluted earnings per share, or EPS, of \$3.32 grew by 16.1% versus 2007, and by 10.8% on a constant currency basis.

During the first quarter of this year, our cigarette shipment volume was stable at 203.4 billion units, but was 1.1% lower excluding acquisitions. However, on a per selling day basis, organic volume was stable in spite of significant price increases. This represents a solid achievement in light of our strong results during the first quarter of last year and was achieved in spite of the continued industry volume decline in Western Europe and Japan and a 10.5% decline in duty-free sales resulting from the impact of reduced travel.

In the first quarter, net revenues, excluding excise taxes, of \$5.6 billion increased by 6.3%, excluding currency, driven by price increases across a broad range of markets.

OCI of \$2.4 billion grew by 8.8% excluding currency, driven by strong performances in the

Eastern Europe, Middle East and Africa, or EEMA, and Asia Regions.

Reported diluted EPS were \$0.74, up 12.7%, excluding the impact of unfavorable currency.

As anticipated, our first quarter results were severely impacted by the strength of the US Dollar, with net revenues, OCI and EPS adversely impacted to the tune of \$700 million, \$400 million and 15 cents, respectively.

The currency environment has become more favorable recently but remains very volatile.

Higher pricing is expected to offset any potential softness in our volume. Therefore, based on these results and our current expectations for the balance of the year, we remain confident that, in 2009, we will be able to deliver against our mid to long-term currency neutral growth targets of 4% to 6% in net revenues, 6% to 8% in operating income and 10% to 12% in EPS. Indeed, our guidance for this year calls for constant currency EPS growth of between 10% and 14%.

Our confidence is based on the successful implementation of the strategies that we outlined at the time of the spin-off and, in particular, on the successful acceleration of innovation across our key brands and the roll-out of a new brand architecture for *Marlboro*.

Our innovation efforts are focused on four key consumer trends. These are a greater preference for lighter-tasting, smoother cigarettes; an increased consumer interest in innovation and new products; a growing preference for slimmer diameter products amongst both male and female adult smokers; and an increase in demand in certain markets, most notably in Asia, for menthol cigarettes.

Let me share with you a couple of examples of our success with the launch of new products, focusing on *Marlboro*.

Marlboro Filter Plus, also sold as *Marlboro Flavor Plus*, has a unique multi-chambered filter, one of which contains tobacco for added flavor and is sold in a novel sliding pack. It was first introduced in Korea and has since been successfully expanded to a wide range of markets. It has been a notable success in Romania, where it achieved a 2.5% market share in the first quarter of 2009 and continues on an upward trend.

Marlboro Black Menthol was launched last August in Japan, where it has become our most successful new launch ever in this important market. It has achieved a 1.0% share of market and has enabled the *Marlboro* brand family to resume its growth, reaching a 10.4% market share in the first quarter of this year.

Following its success in Japan, *Marlboro Black Menthol* has been introduced in both Hong Kong and Indonesia.

Marlboro remains by far the best selling international cigarette brand in the world, but we

have also successfully developed a broad portfolio of other brands across all price categories.

Parliament is a prestige brand noted for its recessed filter. Its volume grew by 5.9% in the first quarter of this year. The brand generates superior margins and is particularly successful in Korea, Russia, Turkey and Ukraine. In Russia in fact, *Parliament* outsells *Marlboro* by some 25%.

L&M is one of the world's leading mid-price brands. Although *L&M*'s volume declined by 0.5% in the first quarter of this year, this was a relatively solid performance attributable mainly to the European Union Region, where it is the second largest cigarette brand, and most notably Germany, where *L&M* is the fastest growing brand on the market.

Chesterfield is a mid-price brand that generally sells at a premium to *L&M* and therefore generates higher margins. During the first quarter of this year, the brand's strong performance in the EU Region, where volume was up 5.5% most notably due to its strength in Austria, France and Portugal, was partially offset by a decline in Russia.

The success of our diverse portfolio of brands is driven, in part, by the environment in which we operate, which is why one of our important long-term strategies is the pursuit of comprehensive regulation and fiscal policies that govern the manufacture, marketing, sale and use of tobacco products, based on the broader goal of harm reduction. This strategy is explained in depth on our website and I encourage you to visit it to learn more about the company's commitment to addressing the complex issues surrounding tobacco use.

While we have actively supported ratification, and many of the provisions, of the World Health Organization's Framework Convention on Tobacco Control, we do not support each and every proposal made by the FCTC's Conference of the Parties or by all public health groups. We believe that tobacco companies should be permitted to communicate directly with adult smokers within well-defined – and enforced – rules. The ability to communicate with adult smokers about our brands is fundamental to fair and vigorous competition which is why we do not agree to unilaterally stop all advertising, marketing or promotions. However, we will continue to press for effective legislation restricting tobacco marketing, including bans on television, radio, cinema, and billboards, provided that the rules apply to, and are enforced against, all tobacco products and all industry participants.

Similarly, we do not support unreasonable product standards that are intended to prevent the manufacture of products that adult smokers prefer.

Nor do we support the growing call for product display bans and plain packaging. The imposition of point-of-sale display bans and generic packaging are inappropriate measures – fraught with legal and anti-competitive problems – with no evidence whatsoever to support the claim that either action would lead to a reduction in smoking prevalence among youth or adults. Proponents of these measures also ignore the potential unintended consequences that would likely result, particularly a decrease in prices and an increase in illicit trade, both of which undermine public health objectives. Finally, generic packaging would strip

manufacturers of their valuable trademarks, resulting in governmental expropriation for no legitimate purpose.

Our opposition to these radical proposals does not mean we oppose effective steps to prevent youth smoking. On the contrary, we continue to focus on working with governments and retailers to stop kids from buying tobacco products. Youth smoking remains a worldwide problem. No one wants kids to smoke, including all of us at Philip Morris International.

This is why we advocate minimum age laws and impress on governments the need to strictly enforce them. We also communicate with retailers about the law, their responsibilities and how best to prevent sales to children.

Our knowledge of the products and the business has proven to be a valuable asset in working with governments to shape truly effective and meaningful regulation. We will continue to offer governments our support and advice and to seek common ground.

We believe that our strategy of constructive engagement is one of the key strengths of our company, along with our superior brands, our strong financial capabilities and our talented people.

Our financial capabilities stem from our ability to continually generate strong cash flows. In 2008, our free cash flow, which is defined as operating cash flow less capital expenditures, reached \$6.8 billion, an increase of \$2.4 billion, or 52.7%, compared to 2007. In the first quarter of this year, we generated a free cash flow of \$1.3 billion, in line with last year, despite an adverse currency hit of some \$300 million.

Our balance sheet remains very strong with a net debt to EBITDA ratio of 0.94 to 1 at the end of last year. We have a very favorable debt profile, having successfully issued the equivalent of \$10.1 billion in bonds in 2008 and further bonds this year for an amount equivalent to \$3.0 billion, at attractive interest rates with well-laddered maturities. We have unused bank credit lines of over \$6 billion and continuous access to the commercial paper market.

Our strong liquidity and excellent credit worthiness is reflected in our solid credit ratings, positioning us very well in today's uncertain financial environment. Our net debt to EBITDA ratio at the end of the first quarter was 1.08 to 1 on a 12 month rolling basis.

We continue to implement our strategy to generously return cash to our shareholders. We increased the quarterly dividend by 17.4% in August of 2008 to an annualized rate of \$2.16 per share. At the current share price, this represents an attractive yield of 5.7%. Furthermore, we have stated our willingness to go beyond our target dividend pay-out ratio of 65% in 2009.

We remain committed to the \$13 billion, two-year share repurchase program that we initiated in May of last year. We spent \$5.4 billion on share repurchases in 2008 and a further \$1.3

billion during the first quarter of this year.

In spite of the difficult global economic environment, I remain very confident in PMI's ability to continue to generate superior returns for our shareholders over the long term. Our track record is excellent. Over the last ten years, we have increased our volume at a compound annual growth rate of 2.0% and our OCI at a compound annual growth rate of 7.6%.

As I said, we have an outstanding brand portfolio, led by *Marlboro* and *Parliament*, which is the leader in the above premium price category, and a wide range of mid and low-price brands, led by *L&M*, *Chesterfield* and *Bond Street*.

We are the global leader in the tobacco industry with a superior infrastructure and, we believe, the best geographic balance.

We have demonstrated our ability to use pricing in order to improve profitability, even in recessionary times. In fact, our pricing variance in the first quarter of this year was our highest ever.

We are fully on track with our ambitious productivity and cost saving programs, which will generate \$1.5 billion in gross savings over the 2008 to 2010 period.

We have a very strong cash flow, which along with our prudent financial approach, provides us with healthy liquidity, superior credit worthiness and a very robust balance sheet.

Finally, and perhaps most important, this company is blessed with a tremendously capable Board of Directors and highly talented and committed employees.

Our strong business momentum and financial capabilities underpin our dividend and share repurchase program and should generate superior long-term returns for our shareholders.

Indeed, we expect to return more than \$9 billion in cash to our shareholders in 2009. This is more than 12% of our current market capitalization.

In my opinion, very few investment opportunities today are as compelling as PMI.

EMPLOYEE TRIBUTE

Around the globe, more than 75,000 people, representing over 100 nationalities, work for Philip Morris International.

In 2005, we were delighted to welcome into our family the employees of PT HM Sampoerna. Today, this PMI affiliate in Indonesia employs approximately 30,000 people directly, and contracts with third-party operators who collectively employ more than 60,000 people. Most of these work in the manufacture of hand-rolled "kreteks" or clove cigarettes, and the

majority are women. In many cases, they are the primary bread winners in their families.

In a moment, I will show you a video of one of Sampoerna's anniversary celebrations, during which employees who have worked 25 years for the company are honored. You will meet three women who work in our hand-rolled manufacturing center in Surabaya, East Java. In a typical year, anywhere between 500 and 800 employees receive this award, which in itself speaks volumes about the bond between our employees and the company.

In all the countries in which we operate, we take our responsibility to contribute to the local community very seriously. In Indonesia, in addition to providing for the welfare of our staff, we fund programmes which support poverty alleviation, education, environmental protection, disaster relief and employee volunteerism.

These efforts were recognized last year when Sampoerna received three awards at the Indonesian Corporate Social Responsibility Awards, coordinated by the Ministry of Social Welfare in cooperation with the Corporate Forum for Community Development in the areas of disaster relief, economic community support and environmentalism.

Let's now watch the video which celebrates 75 years of combined service among these three employees, and recognize, along with the many thousands of our other employees around the world, their exceptional contributions.

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