

**Remarks by Hermann Waldemer
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**Consumer Analyst Group of New York
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(SLIDE 1.)

It is a great pleasure for me to be back at the CAGNY Conference. Let me extend a warm welcome to those joining us on the web cast.

(SLIDE 2.)

During today's presentation, I will be talking about results in 2010 and comparing them to the same period in 2009, unless otherwise stated. References to volumes are for PMI shipments. Industry volume and market shares are the latest data available from a number of internal and external sources. Organic volume refers to volume excluding acquisitions, which, for the purposes of this presentation, also include our business combination with Fortune Tobacco Corporation in the Philippines. Net revenues exclude excise taxes. Operating Companies Income is defined as operating income before general corporate expenses and the amortization of intangibles.

Reconciliations of non-GAAP measures included in this presentation to the most comparable GAAP measures are provided at the end of this presentation, and are available on our website.

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My remarks contain forward-looking statements and, accordingly, I direct your attention to the Forward-Looking and Cautionary Statements section of today's news release and our regular SEC filings.

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The four main topics that I will cover today are:

- Why we believe international tobacco is an attractive investment;
- Why PMI is best positioned in the international tobacco industry;

- Our promising outlook for 2011; and
- The tremendous cash flow and the superior shareholder returns that we are generating.

After my concluding remarks, I will be happy to answer your questions.

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We estimate that the tobacco industry retail sales value was about \$660 billion in 2010, excluding duty-free sales. The international cigarette market, that is excluding China and the USA, represented an estimated 56% share of this value, with some \$370 billion in retail sales, and was split 68% OECD and 32% non-OECD, reflecting both better consumer purchasing power and higher excise taxes in more developed economies. That being said, the non-OECD markets will provide a superior growth platform going forward.

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We estimate that, since 2007, the international cigarette industry retail sales value has grown at a compound average rate of around 4% a year, a robust performance given that this was a period of severe economic strain. The manufacturers' portion has grown at essentially the same rate and continued to account for 22%.

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The international cigarette market is huge at approximately 3.3 trillion cigarettes. PMI is the clear leader with a growing share of 27.6% in 2010. This provides us both with an unmatched scale and significant opportunities for further growth.

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Governments play a central role in our industry through excise taxation. Their aim is to control and limit consumption and to generate increasing government revenues at the same time. This can be achieved while also enabling the industry to increase profitability and compensate for the moderate declines in volume.

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From time to time, some governments introduce disruptively large excise tax increases. 2010 was a difficult year in this respect due to Australia, Greece, Japan, Romania and Turkey.

While we remain cautious for 2011, as further surprises could still occur, the outlook this year is positive, with only Mexico having implemented a disruptively large increase in January.

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Most governments have come to recognize that, over the longer term, sustainable growth in government revenues is fostered by reasonable, regular excise tax increases, predominantly specific excise tax structures, and/or minimum excise tax mechanisms, and multi-year legislation or plans that provide visibility over a longer period.

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The new EU Excise Tax Directive establishes a reasonable framework through 2018, an eight-year period. It includes manageable increases in minimum excise tax yields and incidences and provides governments with greater structural flexibility.

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We have already witnessed some very encouraging developments this year. In January, France, Greece, the Netherlands and Sweden improved their specific-to-total excise tax ratios. In addition, in Germany, the new excise tax law provides for reasonable increases and visibility over a five-year period, and includes provisions to increase taxes slightly faster on Other Tobacco Products, or “OTP”, and at the bottom end of the cigarette market.

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Retail price increases also provide additional government revenues through the ad-valorem components in excise taxes and VAT. From a manufacturer’s perspective, it is often more judicious to anticipate government needs through price increases rather than waiting for an increase in tax incidence, and to more than pass on tax increases in order to try to ensure that high unit margins compensate for lower volume. In the other direction, governments have a strong incentive to safeguard revenues by discouraging lower prices through the use of minimum excise taxes and other mechanisms.

The ability to increase prices in our industry is made easier by the prevalence of relatively low demand elasticity, strong brand loyalty and the absence of any price ceiling.

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The sustainability of profitability through pricing in a declining cigarette volume market can be illustrated by many examples, such as the UK. We estimate the marginal contribution from cigarettes in the UK market have increased by 17% since 2005, a period during which cigarette industry volume declined in total by 11%, and the weighted average price increased by 24%.

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On the regulatory side, the last ten years have seen the introduction of public smoking restrictions, constraints on traditional marketing, the introduction of graphic health warning labels, and a ban on descriptors. PMI and other industry participants have successfully adapted to these increased regulations, which are now prevalent not only in the EU, but also in a majority of our markets worldwide. At worst, these have caused minor reductions in consumption, for example as adult consumers adapted their smoking habits to accommodate public smoking restrictions.

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Three of the latest regulatory threats have no scientific basis and are not expected to reduce either overall tobacco consumption or youth smoking. Display bans tend to solidify existing market share positions, make it more difficult to introduce new products, and facilitate the growth of illicit trade to the detriment of governments, the industry and adult consumers. A total ban on ingredients would discriminate against certain types of cigarettes and adult consumer taste preferences, and it would have a very strong negative impact on Burley and Oriental tobacco growers. As the evidence clearly shows that neither consumption levels nor harm caused are influenced by the type of cigarettes that are being smoked, we intend to combat any such arbitrary proposals.

(SLIDE 17.)

And then there is plain packaging. This is different from the other proposed regulatory measures in that it represents an attempt to directly attack our trademarks, which, as for all consumer products companies, represent a very valuable asset and the result of significant investments over a long period of time. It appears that the Australian Government still intends to introduce such a measure in 2012, even though its own intellectual property office has stated that it believes that plain packaging "may not be consistent with Australia's intellectual property treaty obligations," and "would make it easier for counterfeit products to be produced and would make it difficult to readily identify these counterfeit goods."

We will vigorously oppose any such proposed measures using all the tools at our disposal, including, if necessary, legal challenges. We recognize of course that certain jurisdictions may make such challenges more difficult than others. We remain cautiously optimistic that, at the conclusion of its wide ranging review of the Tobacco Products Directive, the European Commission will recognize the absence of a scientific basis for plain packaging and, therefore, will not endorse such a measure.

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These misguided regulatory proposals and disruptive excise tax measures are encouraging the growth of illicit trade. On a global basis, illicit trade may account for as much as 10% of cigarette consumption. Illicit trade reduces the effectiveness of excise

tax revenue generation, and hurts the legitimate industry, governments, public health and adult consumers. As the increase in the tax-paid industry volume in Canada last year of 9.5% shows, it can be an enormous opportunity for us if properly combated in cooperation with the authorities – as we do successfully in the EU.

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Ultimately, we believe that these regulatory challenges are manageable and that excise taxation and pricing will continue to be the key drivers of industry volume. In addition, volume will be influenced by economic factors, in particular the level of unemployment and the strength of consumer purchasing power, and social factors, such as favorable demographic trends in many non-OECD markets, and the gradual decline in tobacco consumption in most OECD markets, driven in part by an ageing population.

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The potential impact of unemployment can be illustrated by what happened in Spain between 2007 and 2010. In 2008, cigarette industry volume increased to 91 billion units. However, as unemployment rates accelerated and remained persistently high through the end of 2010, cigarette industry volume declined over the subsequent two-year period by 18 billion units, or around 20%, partially offset by an increase of over 2 billion units in other tobacco products, mainly Roll-Your-Own.

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In contrast, in Belgium, where unemployment rates, though they increased, remained below 10%, the cigarette industry only experienced a modest decline in volume over the same two-year period.

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In terms of demographic trends, population growth rates and adult age profiles are the most important characteristics for our industry. Countries with favorable demographic trends include many important markets in the EEMA, Asia and Latin America & Canada Regions. Not surprisingly, industry volume grew between 2005 and 2010 in eight of these 11 markets, and two of the three that declined in size, namely Brazil and Turkey, were impacted in 2009 and 2010, respectively, by disruptively large excise tax increases.

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Favorable demographics are often associated with increasing consumer purchasing power, which encourages up-trading to more expensive and prestigious brands. Ten of these 11 markets witnessed an increase in the share of the premium price segment during this period.

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Though the period 2007 to 2010 was a challenging one, it was a good one financially for our industry. The combined adjusted operating income in US Dollars of the top four international tobacco companies, that is PMI, BAT, Japan Tobacco and Imperial, grew over the period at an average rate of 4.8% a year, while PMI grew at a rate of 7.9%.

This again highlights the ability of our industry to perform consistently well in good and in bad times, and to be an attractive investment at all times.

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Within this financially attractive industry, we are the leader by volume in the largest non-OECD markets, which have the greatest potential for future growth, as well as in the more traditional and more profitable OECD markets.

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We are the market leader in three of the top ten non-OECD markets, namely Indonesia, the Philippines and Ukraine, and second in Russia, Brazil, Egypt and Pakistan.

(SLIDE 27.)

Our business combination with Fortune Tobacco in the Philippines at the end of February 2010 was a very exciting development. This 101 billion unit market has a favorable demographic profile and increasing consumer purchasing power. We are generating synergies through this combination in a market with good long-term income growth potential.

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In 2005, we acquired Sampoerna in Indonesia. This has been a wonderful acquisition, which has generated superior returns. The market has grown at a compound average rate of 4.5% since then, and we have achieved market leadership with a 29.1% share in 2010. Premium *Sampoerna A* is now the best-selling brand in Indonesia with a market share of 11.7% in 2010, while *Marlboro* has reinforced its leadership position in the so-called “white” segment.

We remain, however, very disciplined in our approach to acquisition opportunities and this was confirmed by our decision not to pursue the acquisition of Protobacco in Colombia once overly onerous conditions were imposed.

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Our global market leadership is anchored on the strength of both our infrastructure and our superior brand portfolio, which includes leading brands in all profitable price categories, and both international and local heritage brands.

(SLIDE 30.)

In 2010, we again had seven of the top 15 international brands, led of course by the only truly global cigarette brand, *Marlboro*.

(SLIDE 31.)

We have overwhelming leadership in the premium segment. *Marlboro's* volume of 297 billion units in 2010 surpassed the combined volume of all the premium brands sold by BAT, Japan Tobacco and Imperial, even after including the 83 billion of *Mild Seven* and *Kent* that were sold in Japan in the mid-price segment.

(SLIDE 32.)

Since the spin, we have developed and rolled out the new *Marlboro* architecture and launched a number of exciting consumer-relevant line extensions.

(SLIDE 33.)

Despite an economic environment that has not favored more expensive brands, we are beginning to see some concrete improvements in *Marlboro's* performance across a wide range of geographies. Between the first half of 2009 and the second half of 2010, *Marlboro's* regional market share grew in the Asia, EEMA and Latin America & Canada Regions by 0.5, 0.2 and 0.8 points, respectively. In addition, *Marlboro's* market share was higher during the second half of last year compared to the first half in the EU Region. Furthermore, *Marlboro's* volume decline of 1.5% in 2010 was better than our overall 2.5% organic volume decline, further underlining the re-invigoration of *Marlboro* that has taken place since the introduction of the new architecture.

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The EU Region was the prime focus for the adult consumer testing and subsequent roll-out of the upgraded *Marlboro Red* and the new *Marlboro Gold Original* packaging. These new versions are now available across nearly all EU markets. Consumer research results have been very positive, indicating that the new packaging has improved the perception of the brand in terms of attributes such as modernity, and is thus playing an important role in reinforcing *Marlboro's* brand equity.

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In Italy, the market share of *Marlboro* increased last year from 22.6% to 22.8%, despite the economic pressure on consumers. This was achieved thanks to the continued growth of *Marlboro Gold Touch* and the introduction of *Marlboro Core Flavor*, a full flavor variant, which is also in a slimmer format.

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In the EEMA Region, *Marlboro* has been performing particularly well in North Africa, where it grew a further 1.6 points to 8.5% in 2010 behind the success of the new packaging. While the full availability of our products in some of these markets has been temporarily impacted by the current political upheavals, we strongly believe that *Marlboro* still has significant potential for further growth in these markets.

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Japanese adult consumers are probably the most demanding in terms of new products. Our *Marlboro Fresh* line extensions, *Marlboro Black Menthol* and *Marlboro Ice Blast*, have been two of the most successful new product introductions in the recent history of the industry in Japan. Their success has helped return *Marlboro* to its strong growth trend, playing a key role in the 0.5 point gain to an 11.0% share in 2010.

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Marlboro continues to perform strongly in Latin America, gaining further share in both Argentina and Mexico, thanks to the roll-out of the new Red and Gold packaging, and the introduction of innovative *Marlboro Fresh* variants.

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In addition, we have a stable of powerful, non-premium international brands. The cumulative volume of our top four non-premium brands, namely *L&M*, *Bond Street*, the *Philip Morris* brand and *Chesterfield*, reached 208 billion units in 2010, slightly below the volume of the top four non-premium JT international brands, but significantly above those of BAT and Imperial.

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L&M is our second largest brand after *Marlboro*. It is sold in Western Europe mostly in the low-price segment and in the mid-price segment in many other markets. Global volume declined by 2.4% in 2010 to 88.6 billion units, as its performance continues to show a strong contrast between its success in the EU Region and its continued decline in Eastern Europe. *L&M* is the second best-selling cigarette brand in the EU Region after *Marlboro* and has enjoyed steady growth over the past three years to reach a

Regional share of 6.1%. It should be highlighted that the margins on *L&M* in the EU Region are equivalent to the margins on premium brands in non-OECD markets.

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We have good share momentum going into 2011, driven by a strong performance in our top 30 most profitable markets.

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We see many growth opportunities ahead, notably in the expanding menthol and slimmer diameter segments. We have successfully launched a number of new line extensions into these categories in the last two years and we gained 1.3 share points last year in the menthol segment and 0.8 share points in the slims segment.

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There are also a few important markets where our presence today is negligible. Collectively, Bangladesh, India and Vietnam account for about 7.8% of the global cigarette market, excluding China and the USA. We have structures in place in all three markets to grow our business, and in particular *Marlboro*, organically. We intend to build a meaningful presence in these markets patiently over time.

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While we remain committed to further developing and expanding our business in these growing segments and markets, our main focus is on consistently delivering on our mid to long-term currency neutral adjusted diluted EPS annual growth target of 10% to 12%. We have surpassed this target each year since the spin, and we expect to achieve it again in 2011.

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The 2011 guidance that we shared with you on February 10th, calls for us to achieve reported diluted EPS this year in a range of \$4.35 to \$4.45. This corresponds to a growth rate of approximately 12.5% to 15%, at prevailing exchange rates, or approximately 10% to 12.5% on a currency neutral basis, compared to our adjusted diluted EPS of \$3.87 in 2010.

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The key driver of our increased profitability will continue to be pricing. In 2010, we achieved a pricing variance of nearly \$1.7 billion, including \$580 million in the fourth quarter, thus providing us with a strong start to 2011. Both including and excluding Japan, we expect to exceed the 2010 pricing variance this year, and have already

implemented or announced more than 60% of the pricing embedded in our EPS guidance.

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Industry volume, excluding China and the USA, is expected to decline by some 2.5% in 2011, broadly in line with 2010 trends. The key uncertainty in this forecast is of course Japan. After 2011, we are currently expecting the decline in industry volume to moderate to around 1.0% to 1.5% as economic conditions improve.

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We are currently forecasting an annualized 20% decline in industry volume in Japan. We may be able to do better than the market as our January 2011 six-month moving average market share was up by 0.4 points to 24.6%, driven by the continued excellent performance of *Marlboro*, up by 0.8 points to 11.3%. We prefer to be prudent this early in the year.

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The outlook in Russia is improving along with its economy. We estimate that cigarette industry volume stabilized in the fourth quarter of 2010, and the higher priced segments have started to gain at the expense of the super-low price segment. We have implemented price increases across our portfolio this year that more than passed on the January excise tax increase. This will be positive for our profitability, though the higher prices may delay renewed consumer up-trading trends in Russia.

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The German market is, as you know, very price sensitive. As of May last year, competition introduced discounts on so-called “big” (23 to 25 cigarettes) and “maxi” (26 to 30 cigarettes) packs. We followed later with *L&M*, but did not close the price gap for *Marlboro* until October, when we launched *Marlboro* 29s at a 3.8% per cigarette discount. *Marlboro*’s overall market share in Germany rose between the third and the fourth quarter. This initial result, along with the continued increase in the share of *L&M*, is promising.

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The demand and supply of tobacco leaf is now broadly balanced and leaf prices are stabilizing, with increases in 2011 expected to be in line with inflation. Nevertheless, we will still be impacted this year at the P&L level by the higher prices of previous crops, but to an amount that should be no higher than in 2010. These leaf cost increases are expected to be more than offset by our overall productivity initiatives and cost savings, targeted at \$250 million pretax in 2011.

There will also be some direct material cost increases related to innovative new line extensions and the introduction in the EU in the fourth quarter of this year of reduced cigarette ignition propensity paper.

We are thus forecasting modest input cost increases, very different in nature and much more moderate in size to those that are impacting many other consumer goods categories.

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We are best in class in terms of adjusted operating income margins, defined as adjusted operating income divided by net revenues. We are continuously trying to improve, and increased our operating margins last year by 0.9 points, excluding currency and acquisitions.

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Cash flow is ultimately the most important measure of success and the key to our ability to reward our shareholders. You may recall that, at the time of our spin-off in March 2008, we set a three-year cumulative operating cash flow target of \$21.7 billion. By the end of last December, we had exceeded that target by \$3.5 billion, or 16%, to reach a cumulative operating cash flow of \$25.2 billion. In 2011, we predict another strong year.

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Looking at free cash flow, that is operating cash flow minus capital expenditures, you can see that we transform a significantly higher percentage of net revenues into free cash flow than our consumer product and tobacco peers.

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Since 2008, we have generated \$21.2 billion of net earnings and \$1.7 billion in working capital improvements, while capital expenditures of \$2.5 billion were broadly in line with depreciation.

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Net debt issuance and other sources of cash totaled \$9.2 billion, which gave us \$31.9 billion available for disbursement. \$16.0 billion, or about half this amount, was spent on share repurchases; \$13.8 billion, or 43%, was spent on dividends; and the remaining \$2.2 billion, or 7%, was spent on acquisitions.

This data also shows that, despite our continued focus on maintaining strong credit ratings and our financial flexibility, we have returned to our shareholders more than

100% of the operating cash flow of \$25.2 billion that we generated between 2008 and 2010.

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Since the spin, we have increased our dividends by a cumulative 39% to an annualized rate of \$2.56. This represented an attractive yield of 4.2% at the end of last week.

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Since the spin, and through the end of December 2010, we have repurchased some 334 million shares, or 15.8% of the shares outstanding at the time of the spin, at an average price of \$47.83. We expect to spend a further \$5 billion this year, with \$4 billion remaining thereafter in the current program.

(SLIDE 59.)

During this period, amongst our FMCG company peers, only Nestlé has spent more on share repurchases, and our spending was nearly four times that of our tobacco peers in aggregate. We also top the ranking in terms of the percentage of shares outstanding repurchased during this period.

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Despite these significant disbursements, our net debt to EBITDA ratio remains very solid and actually went down slightly in 2010 to a level of 1.2 times. This is better than many of our company peers, which confirms the soundness of our balance sheet and capital structure.

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The foundation of our ability to continue both to reward our shareholders generously and to maintain our solid capital structure is our excellent business fundamentals. These are built on our superior brand portfolio, led by a re-invigorated *Marlboro*, our market share leadership in the largest OECD and non-OECD markets, strong pricing power due to our brand leadership and broad portfolio, continuous productivity initiatives and cost control measures, and the excellence of our people at all levels of the organization. These in turn generate a tremendous and growing cash flow that we have used in a disciplined and creative manner on business development opportunities that are financially and strategically attractive and enhance the longer-term value of our company, and on a balanced program of dividends and share repurchases.

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These strengths and our continued focus on rewarding our shareholders have enabled us to significantly outperform our company peers and our tobacco peers both since the

spin and during 2010. We remain confident that we should be able to continue to provide attractive returns for our shareholders.

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Our strong performance has resulted in an increase in our price/earnings ratio. However, we continue to trade at a discount to many leading FMCG companies, even though we deliver superior financial results consistently and in a predictable manner.

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Thank you for your interest in our company. I will now be happy to answer your questions.