Remarks by Hermann Waldemer
Chief Financial Officer
Philip Morris International Inc.

Investor Day
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(SLIDE 1.)

Good morning ladies and gentlemen. Let me join Louis in welcoming you to Lausanne. I trust that you will find the next two days informative, interesting and enjoyable.

(SLIDE 2.)

Louis just provided you with our revised 2010 EPS guidance. Compared to April, we have a $0.08 favorability in our business outlook, in particular with regards to Japan, and $0.07 for the reversal of provisions, largely due to the successful completion of 2000-2003 tax audits. At prevailing spot rates, this is offset by an unfavorable currency movement of $0.20 since April.

(SLIDE 3.)

Our revised 2010 reported diluted EPS guidance is in a range of $3.70 to $3.80. This is based on prevailing exchange rates. Globally, currency is now broadly neutral compared to last year. This guidance represents a reported diluted EPS growth rate of 14% to 17% compared to the $3.24 achieved in 2009, which is higher than the 10% to 13% rate projected in April.

(SLIDE 4.)

At the time of our first quarter earnings call, we chose to maintain the 2010 EPS guidance that we had established in February in spite of what were then slightly more favorable currency movements. This resulted in a lower currency neutral growth range, which reflected our more cautious approach on Japan. So let me provide you with an update since April on exchange rates, Japan, and the strength of our underlying business.

(SLIDE 5.)

The currency outlook has of course radically changed since April as a result of the debt crisis in Greece and the spread of concerns to other countries in the Euro zone. Between April 22 and June 18, the Euro depreciated against the US Dollar by 7%.

(SLIDE 6.)

With the US Dollar being perceived as a safe haven, it also appreciated against our key emerging market currencies, though to a lesser extent than against the Euro.

(SLIDE 7.)

The Euro accounted for 32% of our net revenues in 2009, while the five key emerging market currencies, namely the Russian Ruble, Ukrainian Hryvnia, Turkish Lira, Indonesian Rupiah and Mexican Peso, accounted for 25%. The recent depreciation of their value against the US Dollar is being partly offset by lower local currency costs for those cost elements that are Euro and Swiss Franc-based. I would therefore like to remind our investors of the importance of looking at a broad basket of currencies.

(SLIDE 8.)

This is highlighted by a comparison between current exchange rates and the average exchange rates of 2009. While the Euro is down 10%, the Russian Ruble and Turkish Lira are stable and several other emerging market currencies, led by the Indonesian Rupiah and the Mexican Peso, have appreciated against the US Dollar. As a result, at prevailing spot rates, currency would be broadly neutral on a global basis in 2010.

(SLIDE 9.)

Let me now turn to Japan, where as you know, the Government will implement an unprecedented 70 Yen per pack excise tax increase in October. Ahead of this, PMI asked for and obtained permission from the Ministry of Finance to increase retail prices across its portfolio by 20 Yen in June. However, once it became clear that our competitors were not going to follow our move, we decided not to implement the planned price increase and became much more cautious about our outlook for October.

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At the end of April, JT announced in a press release that it had requested approval from the Ministry of Finance to increase its retail prices in October by between 100 and 140 Yen per pack, depending on the brand and the variant.

PMI has still to finalize its pricing plans. Although any forecast regarding the impact on volume in 2010 and 2011 of the excise tax increase remains highly speculative, we are now more optimistic about the likely impact of the tax increase on profitability in Japan than we were in April.

Let me close this chapter with a few words on the potential impact on trade and consumer purchasing patterns. In Japan, the trade has to immediately impose the higher excise tax rate on the consumer and, therefore, there is no potential tax windfall to drive trade purchasing patterns. However, the retailer can still capture the additional industry margin on his inventory and the consumer may stock up ahead of the retail price increase. Consequently, while we would expect the industry to maintain reasonable sale levels in the weeks preceding the price increase, some changes in trade purchasing patterns are expected and this will distort the timing of our shipments.

(SLIDE 11.)

The other change since April has been the announcement of higher excise taxes in Australia, tax reform accompanied by higher than expected tax increases in Egypt, and a further VAT increase in Greece that we have had to absorb due to competitive pressures. These unfavorable events have been integrated into our revised 2010 EPS guidance.

On a global basis, excise taxation remains manageable despite increased pressures related to government debt concerns. Pricing continued to be strong in the first quarter of 2010. We have implemented additional retail price increases in the second quarter, notably in Algeria, Argentina, Australia, Belgium, Greece, Indonesia, Mexico, Pakistan, Spain and Switzerland, and have just announced that we will raise prices in Russia by two to three Rubles a pack depending on the brand.

(SLIDE 12.)

The global economy is improving. While the outlook for the southern countries in the EU has deteriorated since April, the recovery in Asia and in parts of Latin America appears to be more robust than expected. Unfortunately, however, unemployment remains stubbornly high across many markets and we therefore do not expect any overall improvement in industry volume trends in 2010.

(SLIDE 13.)

Overall, our market share developments through June are positive. Our share has improved sequentially in France and Germany, following the price increases in 2009. We continue to grow our share in many key markets, including Russia, Japan, Korea, Argentina and Mexico. Our share is trending slightly downwards in Indonesia, but our volume growth there remains very robust. The only sizeable share losses have been in Greece and Turkey, where we have suffered from consumer downtrading following sizeable tax-driven price increases.

Based on our results through the end of May and our expectations for the remaining months, we believe we are on track to achieve an organic volume performance for the full year in line with 2009, namely a decline of approximately 1.5%.

(SLIDE 14.)

These results are founded on our superior brand portfolio, which comprises seven of the leading international brands, with brands that span both the price and taste spectrums. These are powerful brands with strong emotional links to adult consumers.

(SLIDE 15.)

As you will hear further throughout the day, the new *Marlboro* architecture and the accompanying innovative line extensions are generating significant consumer interest and promising initial results.

(SLIDE 16.)

While international brands have been growing in importance in the last ten years, particularly in Central and Eastern Europe, a number of important markets, particularly emerging ones, are still led by local heritage brands. We manage a wide range of successful local heritage brands. These include market leaders *Fortune* in the Philippines and *A Mild* in Indonesia, as well as strategically important brands such as *Dji Sam Soe*, also in Indonesia, *Diana* in Italy, and *Delicados* in Mexico.

(SLIDE 17.)

One of the misconceptions that we have been trying to overcome since the spin is that our business is predominantly centered in developed markets. As you can see on this chart, non-OECD markets accounted for the majority of our volume in the first quarter of 2010 and over 40% of our net revenues, and generated more than one third of our profitability. The share of non-OECD OCI has increased by an average of about 1.5 points a year since 2005, reflecting our ability to continue to grow our profitability in OECD markets at a steady and robust pace.

(SLIDE 18.)

We are the largest cigarette company in the ten largest emerging markets excluding China. We are the leading company in four of these markets, namely Indonesia, Ukraine, Turkey and the Philippines. We are number two in another four, Russia, Brazil, Egypt and Pakistan, and still have tremendous growth opportunities, both in these eight markets, and in India and Vietnam, where our presence today is very limited.

(SLIDE 19.)

In the period since 2006, we have continued to successfully build our business organically in all the key emerging markets where we already had a strong presence, notably in Egypt where we gained nearly six share points during this period.

(SLIDE 20.)

Organic cigarette growth has been supplemented by four strategic acquisitions, namely Sampoerna in Indonesia, Lakson in Pakistan, Coltabaco in Colombia and Rothmans Inc. in Canada.

(SLIDE 21.)

These acquisitions collectively are performing ahead of expectations. The four markets accounted for 14% of PMI's total cigarette volume in 2009, and contributed 11% of its adjusted OCI.

(SLIDE 22.)

Our latest new business arrangement in emerging markets is the combination of our business in the Philippines with that of Fortune Tobacco Corporation. This provides us with an over 90% market share in an 85 billion cigarette market, which is attractive due to its favorable demographic profile, increasing consumer purchasing power and an already well-developed premium-price category.

(SLIDE 23.)

And, finally, there is China.

Our international joint-venture with the China National Tobacco Corporation is critical in helping to build our partnership and in fostering a strong relationship of trust.

We have introduced three different brands, *Harmony*, *Dubliss* and *RGD* in a total of eight markets. As this is a 50:50 joint venture, these volumes are not reported in PMI's volume.

RGD, which is sold in the low-price segment, has achieved the best results, with 3.4% and 2.0% shares in the first quarter of 2010 in Slovakia and the Czech Republic, respectively. Our Chinese partners are pleased with this progress.

(SLIDE 24.)

As you know, we have a license agreement to produce *Marlboro* and *Marlboro Gold* in two Chinese factories. We sell the blended tobacco and receive a royalty. While the volume of production increased last year to 1.3 billion units, this is still a drop in the ocean and we do not expect China to have a material impact on our global business in the short to mid-term. However, of course, the potential longer-term is very significant, as the Chinese market is estimated at 2.2 trillion cigarettes and accounts for approximately 40% of the international cigarette market.

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As you have seen, we have strong opportunities for further growth in emerging markets. However, as I like to say, shareholders are more interested in earnings per share than cigarettes per share – though, by the way, these grew by 10% over the last couple of years - and so we are very strongly focused on revenue growth. Here, our overall leadership in the top ten largest developed markets, demonstrated by our number one position in five and our number two position in four, is a source of strength.

(SLIDE 26.)

We make pricing decisions on a market by market basis, taking into consideration excise taxation levels and structures, consumer affordability and, importantly, the competitive environment. The strength and breadth of our brand portfolio is therefore a critical element of our pricing strategy. For example, our success in establishing strong brands both in premium and in the low-price segment has allowed us to increase prices more regularly in several key Western European markets. In addition, we have seen a reduced prevalence of price skirmishes over the last couple of years, although price competition remains robust.

(SLIDE 27.)

During the first quarter of this year, we achieved a favorable pricing variance of $449 million and continued to maintain a judicious balance between pricing and volume/mix.

(SLIDE 28.)

Pricing has played a central role in our ability to meet, or surpass, all our financial currency neutral growth targets in 2008, 2009, and again during the first quarter this year. We are very proud of this achievement, as it was accomplished despite the most severe global economic downturn since the 1930s.

(SLIDE 29.)

You are by now fully familiar with our three-year $1.55 billion cumulative gross productivity and cost reduction program. We are on track again this year to deliver the final tranche of some $500 million.

(SLIDE 30.)

The core of any future savings will continue to be in the area of manufacturing and related activities. The current program includes the benefit from the repatriation to Europe of PMI volume previously manufactured in the USA by PM USA, which, of course, is not repeatable. We have generated savings in manufacturing overheads by clustering key support functions, such as engineering and environmental health and safety. We continue to seek out opportunities to rationalize blends and product specifications, an area that provides savings in both costs and capital expenditures. Finally, we are working intensively on the further optimization of our supply chain and logistics.

(SLIDE 31.)

Our operating performance, measured as adjusted OCI per thousand cigarettes, increased at a compound annual rate of 6.2% between 2003 and 2007, and we have continued to expand it at a similar rate over the last couple of years.

(SLIDE 32.)

We lead the industry in terms of adjusted operating margins. These reached 42% in 2009, compared to 40% in 2007.

(SLIDE 33.)

The attractive margins that we generate drive our tremendous cash flow. At the time of the spin, we shared with you our forecast $21.7 billion cumulative operating cash flow for the period 2008 through 2010. At the end of 2009, we were already $1.9 billion ahead of our target, in spite of unfavorable currency in 2009, and this positive momentum continued into the first quarter of 2010.

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In 2009, we were able to convert net earnings into cash flow at a rate of 1.20 times, an improved performance over the 1.11 rate achieved in 2008. This was attributable to a reduction in working capital following the tightening of forestalling regulations in Central Europe, partly offset by higher pension plan contributions.

(SLIDE 35.)

In the first quarter of 2010, free cash flow, that is operating cash flow minus capital expenditures, increased from $1.3 billion to $1.8 billion, an increase of 42.3%, or 33.2% excluding currency.

(SLIDE 36.)

Over the period since January 2008, our free cash flow has averaged 27.7% of our net revenues. We have outperformed all our peer group of consumer product companies, some by a considerable margin.

(SLIDE 37.)

We are the clear leader in this important financial metric amongst all the major international tobacco companies.

(SLIDE 38.)

During 2009, we carried out a benchmarking study to determine whether there were additional opportunities to generate incremental cash through a reduction in working capital. The study identified tobacco leaf and finished good inventories as two areas for improvement. In addition, it recognized the importance of effective forestalling regulations in preventing large build-ups in finished good inventories related to tax and price increases. We also understood the need to upgrade our information technology in order to effectively realize the potential savings that had been identified by, for example, enhancing the links and information sharing between sales, forecasting and manufacturing.

(SLIDE 39.)

Our tremendous cash flow underpins our strong balance sheet and has been supplemented by over $14 billion of well-laddered bonds with a weighted average cost of 5.5%. Thanks to our P-1, A-1, F1 short-term credit ratings, we have had continuous access to the tier 1 commercial paper market, where we currently have $400 million outstanding at an interest rate of just 0.3%.

(SLIDE 40.)

We are committed to maintaining our current credit ratings. Our net debt to EBITDA ratio has gradually increased from 0.6 at the end of March 2008 to 1.3 at the end of March this year. As you know, ratings agencies use adjusted gross debt ratios, which are slightly higher. Our intention is to maintain our leverage at levels compatible with our credit ratings going forward.

(SLIDE 41.)

Our net debt to EBITDA ratio at the end of March is below the average of our peer group and is significantly better than that of both BAT and Imperial Tobacco.

(SLIDE 42.)

As an independent company, we increased our dividends by 17.4% in 2008, and by a further 7.4% in 2009 to an annualized rate of $2.32 a share. We have established a target dividend payout ratio of 65% that we surpassed in 2009, expressing our confidence in the strength of our underlying business in the midst of adverse currency movements at the time.

(SLIDE 43.)

Our dividend yield on June 18 was 5.1%, which is at the top end of our peer group.

(SLIDE 44.)

Contrary to several other companies, which pulled back during the financial crisis on their share buybacks, we completed our $13 billion two-year share repurchase program on schedule in April this year. We have now embarked on a new $12 billion three-year program that will run through April 2013. We expect the total run rate for 2010 to be around $4 billion.

Since our spin in March 2008, we have returned about $20 billion to our shareholders in dividends and share repurchases. This represents approximately 23% of our current market capitalization.

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Before taking your questions, let me make some concluding remarks, focusing on what PMI offers to investors interested in a consumer products company.

First, we have superior brands with strong equities that appeal to a broad range of adult consumers across the whole price spectrum. Second, we have excellent growth prospects as the leader in emerging markets. Third, our brand leadership, broad portfolio and the nature of our product provide us with strong pricing power. Fourth and most important, we have consistently delivered against our promises on all key financial measures. Despite recent unfavorable currency swings, we have provided you with strong revised EPS guidance numbers for 2010, with currency neutral growth rates of 14-17% on a reported diluted and 10-13% on an adjusted diluted basis. Fifth, our business is a tremendous cash generator and we have shown our shareholders that we judiciously utilize this cash by focusing on increasing shareholder returns through dividends and share repurchases.

We therefore strongly believe that PMI's strengths and growth opportunities are not correctly reflected in our current share price.

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