Remarks by Matteo Pellegrini
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(SLIDE 1.)

Good afternoon. It's my great pleasure to have the opportunity to share with you today an overview of our Asian business, which is perhaps where PMI is best poised to deliver strong growth in the future.

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I will start by sharing with you an overview of the operating environment in Asia, our key priorities, as well as an overview of the direction of our brand portfolio in the Region. I will also take this opportunity to share with you developments in some of our key markets and, following some concluding remarks, I'll be happy to take your questions.

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Asia is home to approximately 56% of the world's population. Even excluding China, which has approximately 1.3 billion people, Asia still represents 36% of the world's population. Similarly, in terms of cigarette volume, Asia in 2009 accounted for approximately 3.4 trillion units, or 1.2 trillion units excluding the immense Chinese market. You can see here that approximately 85% of the 1.2 trillion units are essentially driven by eight markets across the Region, with Indonesia and Japan contributing over 40% of this volume. Not surprisingly, this large and growing adult population base, coupled with large cigarette markets, represents an immense opportunity for our company.

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The Region is extremely diverse, especially when compared to other areas of the world, such as the European Union, where culture and market dynamics are relatively similar. As you can see from this chart, GDP per capita in Asia ranges over a wide spectrum, from Bangladesh and Pakistan to the very developed markets of Australia, Japan, Singapore and Hong Kong whose GDP is well above Asia's average of $4,000 per annum and approximates that of the countries in the EU and the United States.

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The macro-environment has also been improving steadily across Asia over the past number of months, with most countries experiencing a recovery in both GDP and employment. To illustrate this point, you see here a sample of four of our key markets in the Region, each showing signs of a steady recovery on the back of relatively soft performances in both 2008 and 2009. Given this, we are cautiously optimistic that this positive momentum will continue in Asia this year.

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Looking at our key performance metrics, we enjoyed solid volume growth in 2009. Cigarette shipment volume reached 226 billion units, up by 1.1% versus 2008, and was mainly driven by strong performances in Indonesia, Korea and the Philippines. Since 2005, we've grown our volume in Asia at a compound annual rate of 6.9%.

Net revenues increased last year by 5.5% on a reported basis, and by 6.2%, excluding currency and acquisitions. Since 2005, net revenues have grown at a compound annual growth rate of 7.2%.

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OCI increased by 18.4% to reach $2.4 billion in 2009, primarily fueled by higher pricing around the Region. Excluding the impact of currency and acquisitions, OCI in 2009 was up by 11.3%.

Since 2005, reported OCI has increased at a compound annual growth rate of 7.8%.

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In the first quarter of this year, cigarette volume was up by 11.4%, driven mainly by incremental volume from our new business combination in the Philippines, while net revenues grew by 17.8% and OCI by 9.5%. On an organic basis, volume and net revenues were up by 0.6% and 2.3%, respectively, while OCI excluding currency and acquisitions was down by 2.0%. This decline is attributable to the market contraction in Japan, the timing of shipments, and higher manufacturing costs in the Region, driven mostly by higher leaf and clove costs.

On a full year basis we expect to deliver income growth as the timing of shipments reverses and we secure pricing and productivity gains.

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In terms of market share in 2009, we continued to grow our share position slightly to reach 19.2%, mainly due to strong performances in the Korean and Philippine markets. Similarly, during the first quarter of this year, we continued to grow our share and have, for the first time, achieved over 20% of the total market in Asia, helped by the recent business combination in the Philippines.

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Looking at the individual markets' share performance in the first quarter of this year, the majority of PMI's businesses in Asia experienced share growth with the exception of Pakistan and Indonesia, which were slightly down.

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Before we move on to our key priorities, it's important for you to know where the Asia Region fits into the overall PMI picture in terms of volume, net revenues and OCI contribution. As you can see from the chart, in 2009 the Asia Region accounted for 26% of PMI's total shipment volume and net revenues and 24% of its OCI. With our recent transaction in the Philippines, we expect to grow our contribution in all three of these key metrics going forward.

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Let me now share with you our four strategic priorities in Asia. First and foremost, we will continue to leverage the new brand architecture for *Marlboro*, which allows us to offer adult consumers a wide range of new products and helps to further strengthen the brand's equity. Similarly, our second priority is to continue to invest in, and expand, our other global and local franchises to meet our adult consumers' ever changing preferences.

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Our third priority relates to our regulatory and fiscal environment. As many of you know, there has been increasing activity on both fronts in the Region and we continue to work with a wide range of stakeholders to achieve reasonable regulations. As in the past, we continue to actively support regulations based on the principle of harm reduction. We are opposed to draconian and excessive fiscal and regulatory measures, such as large disruptive excise tax increases, or product display bans and plain packaging, which are not supported by evidence of public health benefit and can have serious adverse consequences for all stakeholders.

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Our fourth priority, “Investing for Growth”, is to ensure that our business in Asia is well positioned for growth, not only for today but also for tomorrow and beyond. As a tangible example of this, we’ve continued to enter into a number of transactions over the past few years, the most recent being the business combination in the Philippines with Fortune Tobacco Corporation and, in India, the restructuring of our relationship with Godfrey Phillips, the second largest cigarette company in that country, which was accomplished in 2009. These actions continue to add to the strength of our businesses and strongly position us for the future. In addition, we continue to closely monitor and assess the other numerous markets in the Region that we have yet to access in a significant manner, in order to be fully prepared for any meaningful opportunity that may arise.

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As I mentioned, the new *Marlboro* architecture, which will be completely implemented in Asia by 2011, provides us with an exceptional platform to continue to launch new, innovative and relevant offerings to discerning adult smokers. Specifically, through the three distinct pillars of the new architecture, Flavor, Gold and Fresh, we have the flexibility and latitude to take *Marlboro* into consumer segments that we would not have been able to tap into before such as, for example, King Size slim cigarettes or super-mentholated cigarettes. In particular, the Fresh pillar has, and will continue to provide us with, some unique opportunities in Asia.

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A case in point is *Marlboro Black Menthol*. Following its successful launch in Japan in 2008, we have introduced *Marlboro Black Menthol* across a number of other markets in Asia and we’ve been successful in replicating much of the same strong performance as in Japan. As you can see, consumer acceptance, in terms of market share, is also particularly strong in a number of other markets around the Region, such as Hong Kong, Macau, Malaysia, Philippines, and Indonesia. The positive results from *Marlboro Black Menthol* have also generated a “halo” effect for *Marlboro* as a whole in the markets where it is currently available. Most recently in April this year, we launched *Marlboro Black Menthol* in Korea and early indications are also positive.

Regionally, *Marlboro Black Menthol* added almost four billion units to our volumes in 2009.

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We also launched *Marlboro Ice Blast,* in both Singapore and Hong Kong, to further expand *Marlboro*'s leadership in the menthol segment. *Marlboro Ice Blast* is a highly mentholated product, which uses a menthol capsule to deliver added mentholation on demand when squeezed. *Marlboro Ice Blast*'s results have been very encouraging, with market shares of 2.9% and 4.3% in Singapore and Hong Kong, respectively.

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In total in Asia, *Marlboro* shipment volume grew by 4.3% in 2009 and recorded shipments of 69.8 billion units. Leading this growth were the key markets of Japan, the Philippines, Indonesia and Korea.

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During the first quarter of 2010, *Marlboro* shipment volume grew by an outstanding 7.4% versus the first quarter of 2009. Most of the markets grew their *Marlboro* volume in the first quarter and contributed to the strong growth. The notable exceptions were Japan and Hong Kong which were lower in volume, due to the overall industry decline in both markets, but higher in share.,

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Let me now turn to some selected markets in Asia. Japan is one of our key markets in the Region and is one that best reflects the implementation of the new *Marlboro* architecture and the importance of a continuous innovation pipeline. It is the fourth largest market in the world with a smoking incidence of about 25% and an average daily consumption of around 20 cigarettes. However, given the ageing demographic in the country, the overall cigarette market has been declining and will continue to decline over time.

In Japan, we have a strong and balanced portfolio and are competing actively in the market with a number of our franchises, *Marlboro*, *Lark*, *Virginia Slims*, *Philip Morris* and *Parliament*, across the three main price segments. As we saw before, the innovative *Marlboro Black Menthol* has achieved excellent results and continues to support the overall robust performance of the *Marlboro* brand in the market.

Finally, and very importantly, we continue to seek full pricing freedom, which would allow us to increase profitability and more than offset the impact of the secular volume decline of the industry.

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In fact, the Japanese market has been declining at an annual rate of about three to four percent over the last 10 years. This has been primarily driven by the unfavorable demographics of an ageing population, as well as by declines in both smoking incidence and daily consumption levels, reflecting societal trends, increased smoking restrictions and slightly higher real prices. The decline accelerated somewhat following excise tax-driven price increases in 2006 and the introduction of the TASPO age verification system in 2008. We estimate that the underlying market decline today is between four and five percent a year, which is the rate of decline that we've been seeing in the market prior to the recent tax increase announcement.

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The 40% excise tax increase that will take place in October 2010 is exceptionally high and unprecedented in Japan. The proposed tax increase will result in significant price increases in a market where consumers are known to be particularly price sensitive and, therefore, a further contraction in industry volume is expected. I would point out that, based on JT's price submission to the Ministry of Finance, we expect a significant increase in industry unit margins, in the range of 35 to 40%. While the prices will remain still affordable relative to Japanese consumer purchasing power, due to the unprecedented increase, any forecasts of the exact impact on industry volumes in 2010 and 2011 would be speculative. Estimates from different sources point to a decrease of 20% or more, which is probably as good an assumption as any.

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On a positive note, the Ministry of Finance recently approved PM Japan's request for a ¥20 per pack price increase for the majority of our offerings in June. And while PM Japan decided not to implement the increase, due to the competitive situation at the time, we believe we've made an important step forward to meet one of our key objectives in this market, which is to unlock our pricing potential, thus enabling the protection of our profitability and margins despite excise tax increases and the overall market decline.

Let's now have a look at the share performance of the business itself.

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PM Japan steadily increased its market share until 2005. Its share then declined slightly as the business focused on its sales and distribution infrastructure to absorb the highly profitable *Marlboro* take-back. Once this was flawlessly completed, we again focused our attention on the consumer, new product offerings and marketing, and have successfully reversed the trend, recording a slight market share gain in 2009 to reach 24.0%, and most recently 24.2% in the first quarter of 2010. In particular, leading this improvement in market share has been the good performance of the *Marlboro* family.

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The entire *Marlboro* family has been performing well. *Marlboro* is currently the fastest-growing brand in the country in terms of share performance, and has helped drive our overall share growth. We can now expand the reach of *Marlboro* and are well positioned to address the taste preferences of adult consumers in Japan.

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As this chart shows, Japan continues to be a very competitive marketplace. Each year, there are numerous new brand launches in the market. Over the past five years, a total of 177 SKU's were introduced in the market, and these achieved a cumulative market share of 17.9% in December 2009. This demonstrates the dynamism of the Japanese market and the necessity to develop a strong innovation pipeline to continually meet the rapidly changing preferences of adult consumers.

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In terms of innovative product introductions, PM Japan continues to successfully launch new consumer-relevant innovations, backed by extensive consumer research. The new offerings from the *Marlboro* family included *Marlboro Black Menthol One* and *Marlboro Black Gold*. Our other new products include *Lark Classic Milds*, *Lark Mint Splash, Lark Black Label,* and *Lark Hybrid,* which has just been introduced in a test market in mid-June. These recent new offerings contributed an incremental 1.7 percentage points market share to our 2010 year-to-date April performance.

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Let me now move down under to the Australian market.

In recent years, Australia has become a more and more challenging market for the tobacco industry.

In April this year, the Australian Prime Minister announced a 25% excise tax increase on all tobacco products which became effective on April 30, 2010. Mr. Rudd also announced plans to introduce legislation in the Australian Parliament in 2011 that, if enacted, would mandate plain packaging for tobacco products by July 1, 2012.

We oppose plain packaging, which is not supported by evidence of a public health benefit and which will increase illicit trade, harm competition and violate Australian and international trade law. As André touched upon in his presentation earlier today, we are working with stakeholders in Australia to ensure that the public and decision makers understand the facts about plain packaging, and that it is bad public policy for Australia.

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On a positive note, our underlying business in Australia is performing well with a market share that continues to trend upwards in an extremely competitive environment.

As you can see, since 2006, we have been steadily gaining market share and are close to reaching 40% in the first quarter of this year. While our first quarter share performance might be slightly overstated due to differences in shipment patterns, this good performance is attributable to our strong portfolio, and to a strong team on the ground driving the business.

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Australia's portfolio consists mainly of local heritage brands, such as *Longbeach*, *Peter Jackson* and, to a lesser extent, by *choice*, *Marlboro* and *Alpine*. Given the relatively high retail prices in Australia, the deep discount segment has been growing steadily over the past few years. This has enabled *choice* to post significant share gains, year over year, since its introduction in 2006. I would highlight that the deep discount segment in Australia has margins per thousand cigarettes comparable to those of premium brands elsewhere in the world.

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Let's now have a brief look at the important Indonesian market where PMI's affiliate, Sampoerna, continues to be the market leader. We have a very formidable portfolio in Indonesia, thanks to strong brands such as *A Mild*, the largest in the market, *Dji Sam Soe*, *Sampoerna Hijau* and *Marlboro,* and we remain very confident in our ability to continue to grow volume and share in the future.

Overall, industry volumes in this market are the largest in Asia, excluding China, and continue to grow.

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Since 2005, the estimated industry has been expanding at a pace of between three and five percent per year, driven essentially by the growing adult population and a resilient economy, which is fuelling an increase in purchasing power. With an estimated industry volume of 260 billion units in 2009, Indonesia is obviously a very important market for us in Asia.

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I would like to show you the market share performance of the key competitors in the market since 2005, the year when PMI acquired Sampoerna. As you can see, Sampoerna is the clear leader in terms of share in Indonesia. We have steadily grown our share between 2005 and 2008. Following 2008, and despite the overall good performance of our portfolio, our share has softened somewhat, mainly due to the ongoing growth of the low-price segment and the impact of increased price gaps in both 2009 and the beginning of 2010.

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Looking at the evolution of the key price segments in the market in more detail, over 55% of the market is concentrated in the high and premium price segments. However, as I mentioned before, the low-price segment has been growing in recent years, due mainly to other major companies aggressively targeting this segment which benefits from a reduced excise tax. To counter this, and more actively participate in the low-price segment, we have undertaken a number of actions recently, which I will share with you shortly.

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At this point, let me touch briefly upon the excise tax structure in Indonesia and what we would like to see in terms of the future development of the system. The excise tax system in Indonesia is more complex than in many other countries. Specifically, the tax system is currently comprised of 19 different tax categories, each of which is a function of the type of product, its price and, in addition, the cigarette production volume of each manufacturer.

From our perspective, we remain committed to supporting the Government's "Tobacco Industry Roadmap", which sets out the key Government priorities for the tobacco industry from 2006 until 2020, and focuses on, in order of priority, employment, state revenue and health. This roadmap foresees a single-tier fully specific system, with the only exception of two privileged rates for hand-rolled cigarettes to maintain the large employment base of the tobacco industry.

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Our overall portfolio includes *Marlboro* and local brands such as *Dji Sam Soe* that are a part of the history and culture of Indonesia. The *Dji Sam Soe* brand was launched in 1913. It continues to be the leading premium kretek cigarette in Indonesia, and while share has softened recently in quarter one, *Dji Sam Soe* is still growing volume and share of segment. Our market share of 28.8% in the first quarter of 2010 continues to be supported by the strong momentum of *A Mild*, which has been established as the country's leading light-tasting cigarette brand. *Marlboro* has also steadily contributed to the overall market share performance with record volumes in 2009.

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To further support the growth of our core offerings, as well as participate in evolving segments of the market, we continue to introduce new products across the price spectrum. Shown here, we've recently launched in two test markets *A Flava Bold* and *A Flava Click Mint*, the latter of which includes a capsule to modify the taste profile of the product. We have also introduced, in the premium segment, *Dji Sam Soe Gold* and *Marlboro Black Menthol*, while launching *Komet* and *Sampoerna PAS* in the low-price segment. *L&M* was also introduced recently in a number of areas in the country in a kretek, slims format. We believe that these types of new offerings will continue to garner the interest of adult consumers and continue to strengthen the base franchises in our portfolio. More importantly, the low-price offerings will guarantee us a seat at the table when the excise taxes on the lower price segment are discussed with the Ministry of Finance.

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Let me now turn to another of our key markets in Asia, namely Korea. This is the eighth largest cigarette market in the world, outside of China and the United States, and one where consumers have shown an increasing preference for premium and above premium international brands. This very dynamic and vibrant adult consumer base provides an excellent opportunity for us to continue to grow our share.

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Our strong and balanced brand portfolio, led by *Marlboro*, the number one brand among Legal Age (min. 19) to 24 consumers and *Parliament*, the fastest-growing brand in the market, has helped us to achieve tremendous growth over the past few years.

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In each of the last three years, we've achieved an in-market sales growth of 20% or more, nearly doubling our volume from 7.5 billion cigarettes in 2006 to 13.6 billion in 2009, an achievement we are all very proud of and again a testament to the strength of the teams that are in the markets driving the business.

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This volume growth has also translated into excellent share gains, with a 5.8 point increase since 2006, to reach 14.4% in 2009, and further growth to 17.4% during the first quarter of 2010, making us the fastest-growing tobacco company in the Korean market. I will highlight, however, that the first quarter share is probably overstated by some 0.3 points, due to competitors' assumed loading and de-loading activities between the end of 2009 and beginning of 2010.

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Marlboro is performing strongly. Its market share has almost tripled since 2001 to reach 5.9% in 2009, and grew further to 7.0% in the first quarter of this year. These share gains have been achieved through continued product initiatives and "edgy" modern visuals. The LA-24 share in Korea also shows a very positive trend, with *Marlboro* moving from 22.4% in 2007 to 26.6% in 2009, making it the number one brand amongst the LA-24 segment.

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The second key brand family in our portfolio in Korea is *Parliament*. Our focused approach on building awareness about its unique recessed filter and luxury image has fueled *Parliament*'s growth, and the brand achieved a market share of almost 6% in the first quarter of 2010. *Parliament*'s share in the LA-24 segment more than doubled over the past few years, reaching 12.4% of the segment in 2009, up from 5.0% in 2007.

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In order to continue to support the excellent growth of our portfolio in Korea, and to meet local regulatory requirements, we are currently constructing a new factory in the south of the country. The new factory is expected to be fully operational in 2012 and will include both tobacco processing and cigarette making and packing in the facility. The new factory will further enable our business in Korea to capitalize on future growth.

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I would also like to share with you a brief update on our joint venture in India. With a population of 1.2 billion people, it is the second most populated country in the world after China. While bidis are the most prevalent form of tobacco consumption, cigarette volume is estimated at over 100 billion units a year, making India clearly a major market for us.

Our recent joint venture with Godfrey Phillips India ("GPI") is progressing well. While we are in control of the marketing of our brands, they are produced under contract manufacturing and, most importantly, distributed through the well-established distribution network of GPI. This strategic partnership provides us with a solid platform to grow our business in India. We will continue to leverage the individual strengths of each of the partners, in terms of manufacturing, sales, distribution and marketing capabilities, in order to continue to bring products that most appropriately match with Indian adult consumer preferences.

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An example of this is the recent launch of *Marlboro Gold Advance* in three major cities in India. The product has been developed with the local taste preferences of adult consumers in mind and initial results are promising.

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Lastly, let me move to one of my favorite countries, the Philippines, where I believe we have multiple positive factors driving our business today. The country's adult population has been growing steadily at a compound annual growth rate of 2.8%, while the total population has now reached 90 million people. In terms of industry size, the Philippines is also a key market in the Region, with an estimated annual volume of 85 billion units in 2009 and further industry volume growth expected in 2010.

As touched upon earlier, we've recently combined our businesses in the Philippines with Fortune Tobacco Corporation, the largest tobacco company in the Philippines. We completed the transaction on February 25 this year, creating PMFTC Inc., a new entity in which both shareholders have an equal economic interest and PMI has management control. We expect this new structure to generate synergies in areas such as manufacturing, procurement and distribution and to be accretive to earnings in 2011.

Today, PMFTC Inc. is the leader in this large market with a market share of over 90%.

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Our complementary brand portfolios now enable PMFTC to compete effectively in every meaningful segment of the market. PMI was the clear leader in the already well-developed premium segment, with *Marlboro* and *Philip Morris*, while Fortune Tobacco led the mid and low-price segments, primarily with *Hope*, *Fortune* and *Champion*. We believe, therefore, that the combination of the two businesses will be a strategic and financial success.

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In conclusion, we remain positive on the economic outlook for Asia. We believe we have strong and dynamic brands with a superior, well-balanced portfolio. We will continue to focus on *Marlboro*, the world's number one global cigarette brand, and provide superior consumer-relevant products via our innovation pipeline. We continue to pursue reasonable evidence-based regulation, and actively oppose excessive regulatory and fiscal proposals that seek to prevent our ability to compete fairly in the marketplace. Finally, I believe we have the right, experienced, passionate and committed people our organization needs to execute our strategies with excellence in order to drive further growth and profitability in our Region and for PMI.

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Thank you very much for allowing me to share with you a snap shot of PMI's dynamic businesses in Asia. I'll be happy to take your questions.