Remarks by Miroslaw Zielinski
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(SLIDE 1.)

Good afternoon everyone. It is my great pleasure to share with you an overview of our business in this very exciting part of the world.

(SLIDE 2.)

I will begin with an overview of the Region and the excellent results we achieved last year and in the first quarter of 2010 in a challenging economic environment. I will then continue with our strategic priorities and objectives, followed by a review of the major markets in the Region. I will finish with some concluding remarks and then I will be happy to take your questions

(SLIDE 3.)

EEMA is the largest Region in terms of volume, accounting for 35% of PMI's total volume in 2009. It is the second largest Region in terms of net revenues and Operating Companies Income, or "OCI", contributing 27% of PMI's net revenues and 26% of PMI's OCI.

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The EEMA Region is PMI's largest in terms of territory size. It comprises 93 markets and a population of roughly 1.3 billion. We estimate that the total cigarette market size in 2009 amounted to 1.2 trillion units. We operate nine production centers in the Region and employ more than 11,000 people.

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The largest cigarette market is Russia with close to 400 billion units in 2009, followed by Turkey and Ukraine. These three markets represent around 50% of total industry volume in the Region. Other important markets are Egypt, Kazakhstan, Romania, Algeria, Saudi Arabia and South Africa.

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Prior to 2009, most of these countries enjoyed strong economic growth. However, the economic crisis triggered a contraction in economic activity, especially in

Eastern Europe, the Balkans and Turkey. GDP declined sharply in 2009 in three of our top four markets, with Egypt being the exception. The outlook for 2010, however, is for a gradual return to modest growth.

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Employment is, however, lagging with high levels of unemployment projected to persist in 2010.

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As a result of this unfavorable economic environment, total industry volume declined by an estimated 2.3% in 2009. The decline was attributable to Eastern Europe, in particular Ukraine, and the Balkans, driven by large excise tax increases following the EU accession in Romania and Bulgaria. In contrast, the total market grew in the Middle East and Africa.

This year, large excise tax increases will negatively impact industry sales in Turkey, Egypt and Romania. Consequently, we expect total Region industry volume to decline in 2010 as well. As economies improve, we forecast total industry sales to return to growth in 2011.

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The economic downturn also resulted in consumer downtrading to lower priced products. One measure of this is the share of premium brands in our total regional volume. Between the second half of 2008 and the second half of 2009, our premium brands' share fell from 39.6% to 37.9% of our total shipment volume.

However, in the first quarter of 2010, the share of premium volume improved to 39.3%, partially helped by a favorable geographic mix. Although we are seeing a stabilization of downtrading, especially in Eastern Europe, the improvement is expected to be gradual, with pressure on the premium segment in Turkey following the large excise tax-driven price increase in January this year.

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In this challenging environment, PMI has steadily increased its market share to 23.2% in 2009. We have a strong presence in all of the major markets, namely Russia, Ukraine, Kazakhstan, the Balkans, Turkey, the Middle East and North Africa.

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Our broad brand portfolio across all segments has enabled us to continuously increase our regional market share. Importantly, we continue to gain share in

Russia. In 2009, we gained share in nine of our 12 main markets, including significant improvements in Ukraine, Turkey, Egypt, Algeria, Bulgaria, Morocco and Tunisia. Our share loss in Kazakhstan and Serbia is attributable mainly to the erosion of our local brands. In Saudi Arabia, our share decreased in 2009, mainly due to unfounded adverse rumors about *Marlboro* regarding product harshness and our under-representation in the fast growing 1mg tar segment. We have plans in place to address this, and our share decline slowed in Q1, 2010.

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Our shipment volume totaled 299 billion units in 2009, down by 1.5 %, reflecting the impact of the economic downturn in Eastern Europe and the Balkans. Since 2005, we have, however, grown volume at a compound annual rate of 1.1%.

Over the same period, our net revenues have grown at a compound annual rate of 10%, excluding currency and acquisitions.

(SLIDE 13.)

Our Operating Companies Income, or “OCI”, reached $2.7 billion in 2009, up by 13.4% from 2008, excluding currency and acquisitions. Over the past five years, we have grown OCI at an impressive compound annual rate of 19.2%, excluding currency and acquisitions.

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In the first quarter of 2010, our cigarette shipment volume in the Region was down by 5.2%, reflecting declines primarily in Ukraine, Turkey and Romania, due to steep excise tax-driven price increases in late 2009 and early 2010.

In the quarter, net revenues were up by 14.9% and OCI by 28.5%, both excluding currency and acquisitions. This was mainly due to higher pricing, including inventory windfalls resulting from the sale of old taxed product at new prices. Without this benefit, net revenues and OCI would have been up by about 8% and 12%, respectively.

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Let me now review the strategic priorities of the Region. Our objective is to achieve profitable growth that is sustainable in the long-term. Our first and foremost strategy is to further develop and leverage our well-established and comprehensive brand portfolio. Proactive tax and regulatory engagement is also a key priority, as is pricing and price gap management. And finally, we continue to actively pursue business development opportunities.

(SLIDE 16.)

PMI is present throughout the Region with a broad and strong portfolio across all price and taste segments. While our innovation and marketing efforts are primarily focused on premium and mid-price international brands, these are also complemented by low-price international brands such as *Lark*, the leading brand in Turkey with an April/May 2010 share of 13.2%, and *Bond Street*, mainly in Eastern Europe, as well as several local heritage brands. The margins on our mid-price, low-price and local heritage brands are on average 47%, 25% and 15% of the margin on our premium brands.

(SLIDE 17.)

Initiatives supporting our portfolio strategy include making continued in-roads into the growing slims and super-low tar segments, which are the two fast growing segments in our Region.

The super-low tar taste segment now accounts for more than 12% of total volume in the Region. We have a 29% share of this segment. We are under-represented in the slims segment, which has grown rapidly, especially in Eastern Europe. We aim to achieve leadership in both segments.

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One way we will achieve this is through the deployment of the new *Marlboro* brand architecture, which not only is reinvigorating the brand, but also provides us with an array of product options to anticipate and respond to rapidly changing consumer preferences. We are currently focused on expanding *Marlboro Filter Plus*, establishing the new Gold Line through the pack design upgrades to *Marlboro Gold Original*, launching new innovative slimmer offers like *Marlboro Gold Touch* and *Marlboro Gold Edge*, and delivering against the growing demand for smooth tasting low tar propositions with *Marlboro Gold Smooth* 1mg.

(SLIDE 19.)

The new architecture has unleashed *Marlboro* to successfully offer attractive propositions in segments where the brand was not present before. In the EEMA Region, the deployment of the new architecture started with the launch of *Marlboro Filter Plus* in over 20 key markets. The product has a unique multi-chambered filter, with one chamber containing tobacco for added flavor and comes in an innovative sliding pack.

(SLIDE 20.)

Marlboro Filter Plus, generally sold at a premium to the *Marlboro* mainline variants*,* continues to demonstrate its appeal to adult smokers across geographies, illustrated here by the share gains in some of our key markets.

(SLIDE 21.)

Marlboro Gold Touch and *Marlboro Fine Touch* offer a new way of smoking with a smaller circumference product, at 6 and 4mg tar levels. The results of the launch in key Eastern European markets are encouraging. The products perform particularly well in the trend-setting capital cities of Moscow, Almaty and Bucharest, shown on the right hand side of the chart, where the brand is close to, or above, 1% market share, an encouraging sign of the potential of these propositions. *Marlboro Gold Touch* and *Fine Touch* generally sell at a premium to the *Marlboro* mainline in the EEMA Region.

(SLIDE 22.)

In the Gulf Cooperation Council, or "GCC", markets, which have rapidly growing 1mg tar segments, we introduced the Gold Line in 2009 with *Marlboro Gold Smooth* 1mg, delivering a distinctly smooth taste in a sophisticated pack design. *Marlboro Gold Smooth* 1mg shows strong momentum with current market shares, ranging from 0.5% in Saudi Arabia to 1.1% in Kuwait.

These new *Marlboro* initiatives have generally had relatively modest cannibalization rates, between 25 to 40%. Thus, they have added to the total *Marlboro* share and they have helped to position *Marlboro* as a much more attractive offer for consumer uptraders in the future.

(SLIDE 23.)

In addition to *Marlboro*, we will continue to develop and strengthen *Parliament* in the above premium segment.

(SLIDE 24.)

We have built *Parliament* into a key brand in our portfolio in the Region, leading the above premium, luxury cigarette category in Eastern Europe, a category which was quite resilient during the economic downturn.

(SLIDE 25.)

In addition to our efforts in the premium and above premium price segments, we are focused on strengthening our position in the mid-price segment by leveraging *Chesterfield*.

(SLIDE 26.)

As you can see on this chart, *Chesterfield* continues to deliver great results in the highly competitive mid-price segment, posting share gains in Russia and maintaining its strong market share in Ukraine, where it competes head to head with *Winston* for leadership in the segment.

(SLIDE 27.)

Leveraging the brand's strength and capitalizing on the growing slims segment, in Ukraine, the *Chesterfield* brand family has been line-extended with a contemporary, super slims offering in two taste variants. Furthermore, building on *Chesterfield*'s appeal across Eastern Europe, the brand has been launched in Kazakhstan to strengthen our position in the mid-price segment.

(SLIDE 28.)

Similarly, *L&M* plays an important role in the mid-price segment in many markets across the region.

(SLIDE 29.)

In the GCC, *L&M* is the second largest brand in the market after *Marlboro*. It has shown strong growth in North Africa, notably in Algeria and Egypt. In spite of the weaker performance witnessed in Turkey and Eastern Europe, the brand continues to enjoy high awareness and benefits from a long successful history in all key markets.

In the highly competitive mid-price segment, the brand plays a key role in our portfolio and we will continue to invest in the brand. With a sharpened positioning and a pipeline of new initiatives, we will ensure that the brand remains competitive and appealing to its audience.

(SLIDE 30.)

Finally, *Bond Street* is our leading value proposition.

(SLIDE 31.)

Across Eastern Europe, *Bond Street* continues to gain share from direct competitors, adding segment share as you can see on the right hand side of the chart. It also benefits from downtrading from large PMI and competitor mid-price brands. In Russia, *Bond Street* is the fastest-growing brand in the market, with a market share of 5.4% in the first quarter of 2010, whereas in Ukraine and Kazakhstan the brand posted record market shares of 7.5% and 13.1%, respectively, in the same period.

(SLIDE 32.)

Let us now look at our other strategic priorities. Excise taxation, as you know, is a key aspect of our business. Excise tax levels remain relatively low in many markets in the Region, especially when compared to Western Europe. In EEMA, the total tax incidence, that is excise plus VAT, ranges from just under 80% in Romania to 33.6% in Kazakhstan. Most governments follow a policy of regular, reasonable increases. However, mainly due to the economic crisis and the need to increase government revenues, we have seen over the last year sizeable tax increases in Turkey, Romania, Ukraine and, as of next month, in Egypt.

(SLIDE 33.)

This chart shows the retail price increases over the last 18 months in some of our main markets, indicating how much has gone to us and the trade and how much was due to tax.

It is important to note that, not only have we been able to pass on all tax increases, but we have taken price increases in addition, thus improving our margins.

We have just announced two price increases, in Romania and Russia. Both are included in this chart. In Russia, the prices of our premium brands will increase by 3 Rubles per pack and our other brands by 2 Rubles.

(SLIDE 34.)

In summary, excise tax levels remain relatively low in the Region. We have seen some large tax increases lately, mainly due to the economic downturn. We have, however, been able to more than pass on these increases. Although there will be more tax increases going forward, we view them as manageable. And, importantly, we have been able to narrow price gaps through tax structure changes, as you will see on the next chart.

(SLIDE 35.)

As illustrated here for our three main markets, we have been able to significantly reduce the price gaps between *Marlboro* and the low-price segment in these three key markets, thus protecting our premium brands' smoker base.

(SLIDE 36.)

At the same time, our ability to raise prices remains intact and, while volume is important, our prime focus is on growing revenues. In 2008, we achieved a favorable pricing variance of $500 million in addition to a favorable volume/mix variance. Despite the unfavorable economic situation, we managed to achieve an even better pricing variance in 2009 of $820 million, which was more than four times our unfavorable volume/mix variance.

(SLIDE 37.)

I will now review our major markets, starting with Russia, where we have two factories, near St Petersburg and in Krasnodar, and headquarters in Moscow. The Russian market grew by an estimated 3.5% in the prosperous 2008 environment, but declined an estimated 2.7% in economically difficult 2009. Russia is the second largest cigarette market in the world after China.

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The Russian economy is slowly recovering, though unemployment remains high and consumer purchasing power remains weak. We expect the total market to be stable this year following last year's decline. Downtrading is stabilizing, as illustrated by the slow-down in the decline of our premium brands. The market is also characterized by the continued trend towards lighter taste, slims and new features. Russia has a multi-year tax legislation in place, which I will cover shortly. Importantly, we have a broad brand portfolio, which has enabled us to grow share in times of downtrading and positions us well for a resumption of uptrading.

(SLIDE 39.)

This chart illustrates our continued market share growth in Russia.

(SLIDE 40.)

This has been achieved thanks to our broad portfolio, with 10 brand families covering all consumer segments. The resilience of our above premium brand *Parliament*, the continued success of *Chesterfield* in the mid-price segment, and the strength of *Bond Street* in the low-price segment have enabled us to continue to grow share in Russia despite the recession. However, *Marlboro* remains our greatest opportunity for growth in Russia.

(SLIDE 41.)

The economic downturn had an impact on the market dynamics in Russia, resulting in consumer downtrading to lower priced products. This chart shows the year-on-year percentage changes in our premium brand in-market sales volumes. As you can see, the growth of our premium portfolio slowed down in 2008 as consumer uprading declined. In 2009, the market turned into downtrading, which peaked in the fourth quarter, when our premium brands were down by 13.3%. The decline rate stabilized early this year, and we see a clear improvement in recent months, with the April-May premium in-market sales volume down by only 2.6%. The trend should continue to improve in line with the recovery of the economy, especially once employment levels start to increase again and consumer confidence improves.

(SLIDE 42.)

Let us look at our brand portfolio in more detail. *Parliament*, featuring the original recessed filter, is the ultimate luxury cigarette brand in Russia. Thanks to its strong brand equity, *Parliament* has been able to gain both market and segment share in a downtrading environment. *Parliament* is particularly successful among Legal Age (minimum 18) to 24 years old, or "YAS", smokers, with a 6.2% smoker share nationally, and 14.4% in Moscow. It is worth noting that *Parliament* is outselling *Marlboro* in Russia, and has a 50% higher unit margin.

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We have embarked on an ambitious plan to reinvigorate *Marlboro*, including the roll-out of the new architecture. *Filter Plus* was launched mid 2007 followed by the Gold line innovations *Gold Edge* in December 2008 and *Gold Touch* and *Fine Touch in 2009.* Although *Marlboro's* performance is lagging expectations, we are confident that these and planned initiatives will help us restore the brand's growth momentum. Our optimism is underscored by the performance of our new initiatives in Moscow, where *Filter Plus*, *Gold Touch* and *Gold Edge* reached 0.9, 0.6 and 0.3 market shares, respectively, contributing a third of the total *Marlboro* family's share. *Marlboro*'s smoker share among YAS outperforms its overall market share, particularly in Moscow.

(SLIDE 44.)

Moving now to *Chesterfield*, the brand, helped by its authentic and quality image, distinctive packaging, and careful pricing at the high end of the declining mid-price segment, achieved a 0.3 share point gain versus the prior year, reaching 3.3% in the first quarter of 2010. *Chesterfield*'s smoker share among YAS of 5.4% also outperforms its market share.

(SLIDE 45.)

Positioned at the top of the growing value segment, *Bond Street* is an international brand in a modern pack available at an affordable price. It is also the fastest-growing brand in Russia, gaining 1.5 share points versus prior year to reach a 5.4% share of market in the first quarter of 2010. In addition to capturing downtraders, it has also gained share within the value segment. *Bond Street* has built a large consumer base, available for future uptrading to our mid and premium price brands.

(SLIDE 46.)

In Russia, the excise tax rates are already defined in existing legislation for the next three years. The government is currently considering prolonging this multi-year legislation. Although the specific rates are expected to be adjusted upwards, we consider the potential tax increases manageable, especially for higher priced brands.

(SLIDE 47.)

In Ukraine, we have a factory in Kharkiv and our headquarters are located in Kiev. The market in Ukraine remains volatile. Following several years of steady industry growth through 2008, total industry sales were down 11% in 2009. This was due to the economic crisis and affordability issues arising from excise tax increases and subsequent large retail price rises, as well as an escalation in illicit trade.

(SLIDE 48.)

There are signs of economic recovery in Ukraine. The overall brand mix has remained stable, despite the affordability issues, as all price segments have shown similar declines. Due to the excise tax hikes in 2009, and a further increase in July this year, we expect the market nevertheless to further contract in 2010.

(SLIDE 49.)

The Government implemented three excise tax increases in 2009 and early 2010. We have taken price increases that have more than passed on the tax increases, thus improving our margins. In July this year, the specific tax will be increased to 90 Hryvnia per thousand and the ad valorem rate to 25%. To pass-on the July tax increase, retail prices will have to go up by 14% for *Marlboro* and 19% for *Optima*.

(SLIDE 50.)

Despite the current difficult conditions, PMI has further reinforced its market leadership, reaching a 36.2% market share in the first quarter of this year.

(SLIDE 51.)

We have a strong and broad-based portfolio. Despite the crisis, since early 2008 *Marlboro* held a steady share. Its performance is being helped by gains with the slimmer *Marlboro Gold Edge*, while *Parliament*'s growth has come primarily from *Parliament Reserve*. *Chesterfield* and *Bond Street* are both on a steady upward trend, with market shares of 7.8% and 7.5%, respectively, while *L&M* is down slightly at 4.1%.

(SLIDE 52.)

In Turkey, PMI is present with a factory in Torbali, near Izmir, and headquarters in Istanbul. The total market has been stable in recent years, but the January 2010 excise tax increase will lead to a significant market contraction this year.

(SLIDE 53.)

The Government implemented a surprisingly large excise tax hike in January this year, raising the ad-valorem tax rate from 58% to 63%, and also raising the minimum excise tax. As a result, retail prices had to be increased by almost 30%.

(SLIDE 54.)

These tax-driven price increases triggered a sudden downtrading trend, putting pressure on PMI's premium portfolio. Furthermore, illicit trade has increased. In the south-eastern part of Turkey, illicit trade is estimated to account for almost 30% of the market. As a result, we expect total industry sales in Turkey to contract by more than 10% in 2010.

(SLIDE 55.)

We are the clear market leader in Turkey and reached a 42.9% market share in 2009. In the first quarter of this year, our share declined as the premium segment, where we have a segment share of over 90%, was particularly impacted by the tax-driven price increases.

(SLIDE 56.)

Although our premium brands are currently under pressure, we are well positioned in the mid-price segment with *Muratti* and in the low-price segment with *Lark* to capture downtraders. *Lark* is the fastest-growing brand in the market and has gained segment share in the highly competitive low-price segment. Its growth is fuelled by the successful launch in 2008 of *Lark* Blue, featuring a recessed charcoal filter.

(SLIDE 57.)

We plan to reinforce *Marlboro* with a number of innovative line extensions. We will also strengthen our mid and low-price portfolio to address the downtrading environment. We will continue to work towards achieving tax reform, aimed at protecting government tax revenues, while reducing the currently high levels of contraband in the market.

(SLIDE 58.)

Let me now talk to you about some recent business development initiatives. In July 2006, we entered Bulgaria just ahead of the country's entry to the EU. We have rapidly gained volume, reaching a 14.3% market share in the first quarter of this year, led by *Marlboro* and *Muratti*. We are now the largest major international player in this market, underscoring our ability to successfully enter a market when the opportunity presents itself.

(SLIDE 59.)

In September 2009, we acquired Swedish Match South Africa as a strategic investment. With this acquisition, PMI reached a market share of more than 28% of South Africa's sizeable and profitable tobacco market, including a manufacturing base, a distribution network and local management, as well as improved market knowledge. The business integration is proceeding well and according to plan. This acquisition provides us with the potential to grow our cigarette business in this large market.

(SLIDE 60.)

Let me now turn to North Africa, which has been a great source of growth for us. North Africa has been less impacted than other areas by the economic crisis. In recent years, the total cigarette market has grown by around 3% to 4% annually, driven mainly by favorable demographics and improved consumer purchasing power.

(SLIDE 61.)

We entered the Algerian market with imports in 2005. The local manufacturing of *Marlboro* and *L&M*, began in April 2009 with a third-party manufacturer, STAEM. Our share is growing rapidly in this market, reaching more than 25% in the first quarter of this year.

In September 2009, the local manufacturing of *Marlboro* began in Morocco. This enabled us to strengthen *Marlboro's* distribution and presence, as well as to launch *L&M* in this market.

In Egypt, Eastern has manufactured our products for 25 years. The other North African markets are supplied by imports.

(SLIDE 62.)

We have achieved impressive share growth in this exciting area, reaching 18.4% in the first quarter of this year. This is attributable to the strong performance of our brands, mainly in Algeria, Egypt and Tunisia. This area represents a tremendous opportunity for growth for the future.

(SLIDE 63.)

Let me now summarize the EEMA Region. We foresee a gradual, albeit slow, economic recovery in most of our key markets. Downtrading, which has been an issue mainly in Eastern Europe, has stabilized and there are signs of an improving trend. We have a broad and vibrant brand portfolio across all consumer segments, which has enabled us to grow share both in uptrading, as well as in downtrading, environments. A few countries have recently implemented large excise tax increases in order to raise government revenue following the economic crisis. We will face further tax increases, but we view them as manageable. Our ability to raise prices remain intact and we are confident that this, coupled with further market share gains, will enable us to continue to deliver robust OCI growth in the future.

(SLIDE 64.)

Thanks for your interest in our business in the exciting EEMA Region. I will now be happy to take your questions.