Remarks by James R. Mortensen
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Philip Morris International Inc.

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(SLIDE 1.)

Good afternoon everyone. It is my pleasure to share with you today a review of our business in the Latin America and Canada Region.

(SLIDE 2.)

The Region offers an encouraging mix of factors, starting with a favorable environment for uptrading as a result of increasing disposable income in many of our markets.

For the most part, we are experiencing increasingly reasonable excise tax structures, with Brazil exhibiting the most significant change.

While illicit trade remains a challenge, recent experiences highlight the opportunity in converting this volume to the tax-paid market.

Our portfolio is rich in brands that have strong appeal to adult smokers led by *Marlboro,* a brand unmatched by any other in terms of its geographic reach.

We will expand our margins through pricing and actions to improve our efficiency.

Lastly, we have a talented and motivated organization capable of continuing to deliver strong results.

(SLIDE 3.)

I will begin with a brief overview of the Region followed by a discussion of our performance. I will outline our strategies for continued growth and prosperity and then highlight the challenges and opportunities we face as well as the initiatives we are taking in our top four markets. Following my concluding remarks, I will gladly take your questions.

(SLIDE 4.)

We compete in 44 markets with a total population of over 600 million and tax-paid industry volume of approximately 281 billion cigarettes in 2011. We operate 13 cigarette factories and employ more than 11,000 people. With a volume of 100 billion units and a market share of 35.6%, we have the brands, talent and resources to reach new heights.

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Our key markets continue to experience GDP growth. The middle-class in Latin America is expanding, as is consumer spending. Inflation rates, with the exception of Argentina, are at reasonable levels. Unemployment is low by historic standards and population is growing modestly.

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Since 2007, we estimate that total consumption declined by 2.1% on a compound annual basis while the tax-paid cigarette industry volume declined 2.6%. In 2011, we estimate that illicit trade accounted for 12% of all cigarettes sold in the Region, or approximately 40 billion units.

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There have been significant developments in illicit trade in some of our markets over the last several years. On a positive note, due to more effective government enforcement measures implemented in Canada, substantial progress has been made. As a result, illicit trade volume has been reduced to nearly half the 2007 level and is currently estimated at 8 billion.

However, in other markets, illicit trade has grown.

In Brazil, illicit trade grew and is conservatively estimated at 24 billion units in 2011 and could be as high as 32 billion units when factoring in domestically-produced products on which taxes may not be fully paid.

Mexico's illicit trade volume, almost non-existent in 2007, grew to an estimated 4 billion units as result of the massive excise tax increase in 2011.

And finally, in Colombia, the growth of illicit trade has also been substantial with 2011 volume estimated at 2 billion units.

(SLIDE 8.)

Focusing on the tax-paid industry, the top four markets accounted for 72% of total volume in 2011. Brazil alone represents one third, followed by Argentina, Mexico and Canada.

The declines in Brazil and Mexico of 4.1% and 6.3%, respectively, were largely the result of the expansion of illicit trade that I just mentioned. Conversely, Canada's actions in addressing it resulted in growing industry volume and Argentina also grew.

(SLIDE 9.)

I will now discuss our recent performance. In 2011, the Region accounted for approximately 11% of both total PMI cigarette volume and net revenues - and 7% of PMI's adjusted OCI.

(SLIDE 10.)

Even with significant market leadership in Argentina and Mexico, we grew market share by a further 5.4 and 8.0 percentage points respectively since 2007, and we now hold well over 70% in these markets.

Our share performance in Colombia has been disappointing, declining 2.4 points since 2007 and now stands at 48.7%. However, we have made recent progress, growing share since 2010 and we hold an optimistic view going forward.

In Canada, following the acquisition of Rothmans in 2008, we continued to post gains, reaching 34% of this highly profitable market. We also advanced in Brazil, adding 1.5 share points, primarily driven by *Marlboro*.

Overall, our regional share of 35.6% has grown 6.9 points since 2007, as a result of the inclusion of the volume of the brands acquired in Canada and Mexico and the great performance of our portfolio led by *Marlboro*.

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Turning to our volume and financial performance, we increased shipments by 11 billion units since 2007 to 100 billion, or 2.9% on a compound annual basis.

Since 2007, net revenues increased by 13.6%, on a compound annual basis, reaching 3.3 billion dollars. Excluding the impact of currency, our growth was 13.9%.

Adjusted OCI exceeded $1 billion in 2011, a compound annual growth rate of 17.4% since 2007. Excluding currency, our growth was 19.8%.

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In the first quarter of 2012, our cigarette volume increased by 2.9% versus the same period a year ago, driven by higher total market and share in Argentina and a favorable comparison with the first quarter of 2011 in Mexico reflecting trade inventory movements following a significant excise tax increase in January 2011.

Our net revenues reached $783 million, an increase of 0.4%. Excluding the impact of currency, net revenues increased by 5.4%, primarily due to higher pricing and favorable volume/mix.

Our adjusted OCI decreased by 2.8% to $245 million. Excluding the impact of currency, adjusted OCI increased by 4.0%. Higher pricing and volume/mix were partially offset by higher costs due to an organizational restructuring in Venezuela and increased investments in distribution in Colombia. We are confident and expect to deliver solid results for the full year.

(SLIDE 13.)

Adjusted OCI margin in 2011 of 30.7% increased nearly 4 percentage points since 2007 and it expanded further in the first quarter of this year reaching 31.3%.

Our adjusted OCI margin is comparatively low due to a number of factors including a lack of scale in several markets and a large factory footprint. And, though improving, affordability is still an issue in this part of the world. Our OCI margin has also been impacted by appropriate investments in infrastructure and business building activities in markets such as Brazil, where there is potential for meaningful growth.

To grow our OCI margin, we will implement efficiency initiatives and, on the revenue side take price increases as opportunities arise and improve our mix.

(SLIDE 14.)

I will now turn to our four Regional strategies.

They are:
- One, continue to strengthen our portfolio;
- Two, expand our margins;
- Three, seek fair and reasonable regulatory and fiscal environments; and
- Four, support efforts to confront illicit trade.

(SLIDE 15.)

Before I speak in detail about our portfolio, it is important to understand the price segmentation dynamics in the Region. We are encouraged that the Region's tax-paid industry mix profile has improved since 2009 and the premium segment now accounts for 30%.

(SLIDE 16.)

Our own mix compares very favorably versus the rest of the industry. Led by *Marlboro*, our premium brands are superbly positioned in that segment, accounting for 46% of our volume in 2011 - more than twice the level of our competitors. As a result, we will benefit from up-trading and the ensuing higher margins.

Our position in the mid and low-price segments is characterized by superior brands which can often sustain their performance against cheaper competitors. They also have an important role to play in challenging economic environments.

(SLIDE 17.)

Now, let's look at our portfolio in more detail. *Marlboro*, with a market share of 13.8% and a share of the premium segment of 46.7% in 2011, is the Region's number one selling brand and we aim to solidify its leadership position. The second element of our strategy is to support local brands with strong equities. Third, we will expand our international brands.

(SLIDE 18.)

Marlboro's strength in the premium segment is geographically broad-based. It is the segment leader in Mexico, the Dominican Republic, all of Central America and the adjacent South American markets - and, in Argentina. In most of the rest of Latin America, while falling short of leadership, *Marlboro* still enjoys more than a 25% share of the segment. We believe with the breadth of its appeal and impactful brand initiatives, *Marlboro* is ideally positioned.

(SLIDE 19.)

Over the last several years we have successfully rolled out the *Marlboro* architecture, establishing three distinct pillars.

(SLIDE 20.)

We modernized our core variants, sometimes subtly, as you can see in this visual featuring the *Marlboro* Red pack. Texture was added to the Red roof giving the adult smoker a satisfying tactile feel. A brighter white board was selected to provide a crisper, cleaner pack appearance and the crest was changed from gold to silver. Though the brand retains its essential look, it does so in a decidedly more contemporary manner.

(SLIDE 21.)

We have introduced new line extensions such as *Marlboro Filter Plus* with innovative characteristics like a tobacco plug in the filter enhancing flavor in a low tar cigarette and a unique sliding-lid pack.

(SLIDE 22.)

Marlboro entered new territories like slimmer circumference with *Marlboro Gold Touch* and, as only this brand could do, made such products acceptable for a man to smoke.

(SLIDE 23.)

New menthol offers were added to the portfolio promising a range of refreshing sensations and featuring a light-hearted brand personality.

(SLIDE 24.)

Our efforts have paid dividends as the brand has posted substantial share growth in the four largest Latin American markets. In Mexico, the brand grew 4.6 percentage points over the last four years and now accounts for over 52% of the cigarettes sold there. Similarly, *Marlboro* posted a gain of 2.5 points in Argentina, 1.1 in Brazil and achieved a substantial increase in Colombia of 2.1 points, where it now leads the premium price segment.

(SLIDE 25.)

The brand will be further energized with our new "*Be Marlboro*" communication platform.

As this recent execution of the campaign from Mexico illustrates, masculinity and a rugged individuality are conveyed in a decidedly modern way including the bold copy line "What's stopping you?"

We are confident that initiatives like these set *Marlboro* apart from its competitors.

(SLIDE 26.)

We have stellar local brands with long histories and established equities. The second component of our portfolio strategy is to vigorously support these brands. It is not our intention to internationalize the entire portfolio. Rather, our approach involves a thoughtful balance between international and local brands which has proven to be the right formula for success.

(SLIDE 27.)

We market a select group of brands based on the premise of a sustainable brand equity anchored in national heritage.

There is no better example than *Delicados* in Mexico. Nearly a hundred years old, it has a storied history. It is not an exaggeration to say that *Delicados* is the archetype of a Mexican brand.

At nearly 11% market share, it is the second largest brand and the leader in the low-price segment where it now exceeds 50%. Perceived as the most authentic Mexican brand, *Delicados* can be characterized as a strong value for money proposition.

(SLIDE 28.)

Other local brands worthy of steadfast support are *Nacional* in the Dominican Republic, which commands a market share of over 60%, and *Diplomat*, the market leader in El Salvador at nearly 37%.

(SLIDE 29.)

Our international brands provide excellent opportunities to enhance our portfolio and we have chosen to deploy two approaches. First, we will launch international brands where our research suggests the potential for success. Second, we will "morph" local brands that provide volume and share but lack sufficient brand equity to retain a solid performance when confronted with lower-price offerings.

(SLIDE 30.)

An example of the first approach can be found in Colombia where *L&M* was launched in Bogota last November. It has already achieved a 1.3% market share in this dynamic and trend-setting city, sourcing business predominantly from competitive brands.

(SLIDE 31.)

As an example of the second approach, we recently morphed the brand *Lider* into *L&M* in several Central American markets, providing it with a solid volume and share base from which to grow. We believe that *L&M*'s international heritage and time-tested marketing programs from around the world will enable it to build brand equity and a sustainable image in a way that *Lider* could not.

(SLIDE 32.)

Shifting gears, our strategy to expand our margins features two elements**.**

(SLIDE 33.)

First, we will grow our margins through pricing while mindful of volume and share implications.

In 2011, pricing generated over $330 million. We expect a favorable pricing environment over the foreseeable future given the strong equities of our brands and increasing consumer purchasing power in much of the Region.

(SLIDE 34.)

Second, we will focus on our cost base and we have already taken decisive actions in this area. We closed our cast leaf plant in Venezuela, our cigarette factory in Uruguay and recently announced that we will close one of our cigarette plants in Mexico. These actions will generate annual savings of $20 million.

We are eliminating low-volume SKUs and reducing overhead costs by establishing shared service and other centers of expertise in manufacturing, supply chain and back office functions.

(SLIDE 35.)

Our strategy from a regulatory and fiscal perspective is similar to that of the rest of the company, which is to seek and achieve reasonable and rational approaches.

(SLIDE 36.)

As this map illustrates, we have seen improvements in excise tax structures. In the past, many countries featured a fully ad valorem tax system, highlighted here in red. However, in recent years, there has been an encouraging shift to structures that incorporate either a specific tax component or a minimum tax, indicated here in yellow.

Brazil defied simple categorization in 2009 as it was a convoluted system based on product characteristics such as length and packaging. However, we are optimistic about recent reforms undertaken there which I will cover in more detail shortly.

(SLIDE 37.)

A significant headwind that we need to confront is illicit trade in the Region. While illicit trade presents a risk to the business, its conversion to tax-paid volume is an opportunity for us, as well as for government treasuries, and we are determined to reclaim our fair share of the available volume.

(SLIDE 38.)

Our commitment to address this issue is firm and, as a famous saying goes, "we are putting our money where our mouth is." We have substantially expanded resources devoted to combating this illegal enterprise. We will act to prevent excessive tax increases and counter-productive regulations that foster illicit trade growth. We will continue to provide authorities with information on illicit trade logistics as well as technical training to help identify falsified shipping documents. We will continue to foster cross-border cooperation and share best practices that have proven to be effective. Importantly, we will continue to engage the many other stakeholders, such as distributors and retailers that share an interest in eradicating this problem.

(SLIDE 39.)

Let's now take a look at our performance and initiatives in our key markets.

It is fair to say that few companies can credibly boast about their performance anywhere as we can in Mexico. We enjoy a strong position, with a market share exceeding 72%, driven by the exceptional performance of our well-established portfolio.

We became the market leader in 1998 and have grown over 20 share points since then and now lead all key segments.

(SLIDE 40.)

In Mexico, the government imposed a dramatic excise tax increase effective January 2011, driving the weighted average pack price up by 32%. Tax-paid industry volume declined 21% while illicit trade, previously not an issue, surged accounting for approximately half of the industry decline. In 2011, government revenues fell short of expectations. In 2012, there was no increase in excise taxes, the first time in several years, encouraging us to believe the government may now understand the consequences of sudden and dramatic increases.

Our analysis of 2012 year-to-date May industry volume suggests the market has returned to its historical decline rate of 2% to 3% per year.

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Notwithstanding industry volume declines, *Marlboro* posted strong share results, advancing four points over the past two years. Of course, *Marlboro* Red continues to be the primary driver as the market is full flavored, though the brand continues to make inroads in other flavor segments. With offerings like high cooling *Marlboro*

Fresh and the introduction of a menthol capsule proposition, the Fresh pillar has grown 0.8 percentage points and *Marlboro* now accounts for 30% of the menthol segment.

(SLIDE 42.)

Benson & Hedges sets the standard for 100 mm cigarettes in Mexico. Often referred to as *B&H*, the brand symbolizes sophistication, elegance and prestige. We have recently expanded the franchise to include a 14's pack, a menthol variant called *Polar Blue* and a super-slim format called *UNO*, and the brand has responded strongly.

(SLIDE 43.)

Even with a share exceeding 52%, *Marlboro* needs to remain modern and relevant as more growth is possible. In order to achieve it, we will keep the brand vibrant, adapting the "*Be Marlboro*" communication platform in advertising and consumer engagement activities.

Across our portfolio, we will address the expanding diverse taste preferences of adult smokers in much the same way that we have with menthol and other product innovations.

And finally, we will do everything in our power to recover volume lost to illicit trade. We are encouraged by recent developments including a more determined effort by authorities resulting in product seizures through May of this year which are well ahead of the levels recorded in all of last year.

In short, we will not be complacent about our exceptionally strong position in Mexico and believe there is much more we can achieve.

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In Canada, a market with a volume of over 32 billion units, we are the second-largest player and have grown our market share since 2007.

We believe our prospects for further share growth are promising as we enjoy the highest share among Legal Age (minimum 18) to 29 year old smokers at 41%.

While the market is fragmented geographically and brand performances vary widely, *Next* is the closest approximation to a national brand. Another key brand is *Belmont*, which enjoys strong appeal to adult smokers especially in the province of Ontario.

Since the acquisition of Rothmans in 2008, our profitability has significantly exceeded our expectations.

(SLIDE 45.)

Since 2007, the company has consistently grown volume, increasing by 1.4 billion units and at the end of 2011 reached 10.9 billion.

(SLIDE 46.)

Belmont is a premium price cigarette with sales concentrated in the province of Ontario. When considering the relationship between three key measures, one can only conclude it is a remarkable brand with a 4.4% share of market, a 9.6% share of the premium segment and a 14.3% share of the Legal Age (minimum 18) to 29 year-old smoker group.

We will expand the brand to select geographies and have experienced recent success in British Columbia. However, this expansion will be carried out carefully in order to maintain its distinctive brand image, a key element that has led to its success in Ontario.

(SLIDE 47.)

The performance of *Next* has been astonishing, growing from 1.0% market share in 2009 to 6.9% in 2011, the greatest increase of any brand over that period. It is the leader in the low-price segment and, importantly, typically sells at a modest premium to competitive low-price brands, suggesting it enjoys significant brand equity.

It was our goal to create a proposition that adult smokers would ask for by name thereby establishing a bond with the brand and resulting in a purchase decision not solely based on price. As a result, the brand's margin has expanded.

(SLIDE 48.)

Earlier I spoke about the opportunity that exists in converting illicit trade volume into the legitimate tax-paid business. This has been demonstrated in Canada. Though still sizeable, there has been a meaningful reduction in illicit trade, most notably in Quebec where the estimated incidence level declined from 40.1% in 2008 to 14.9% in 2011. Over the same period, the incidence level in Ontario declined from 48.6% to 27.2% and we are encouraged by recent initiatives there.

As a result, the tax-paid market in Canada has recaptured significant volume, growing from 28.6 billion units in 2008 to over 32 billion units in 2011.

For perspective, a reduction in illicit trade in both Ontario and Quebec to an incidence level of 10% would boost tax-paid industry volume by approximately 3 billion units, all else being equal.

(SLIDE 49.)

With tax-paid industry volume of 92.7 billion units, Brazil is the largest market in Latin America. Our three key brands are *Marlboro*, *L&M* and *Shelton*.

(SLIDE 50.)

It is no secret that Brazil has proven to be a challenge for us. However, recent developments in the overall economy and in the excise tax structure point to an optimistic view going forward.

Historically, Brazil's excise tax involved a complicated, six-tiered, market-distorting structure that was unfair and which has been dismantled under a new reform.

This reform, enacted in 2011, initially reduced the six tiers to two: one for box and one for soft, resulting in a more level playing field. In 2015, the tiers will converge into one specific tax for all cigarettes.

Additionally, a minimum retail selling price was mandated and the structure and rate have been published through 2015. The effect of this reform should be narrower price gaps and portfolio decisions based on what is best for the brand rather than driven by a discriminatory tax.

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Economic expansion in Brazil has led to a substantial increase in the number of people moving into the middle and upper socio-economic classes. With higher disposable income, people's attitudes change over time, which should favor aspirational brands as purchase decisions will be made for reasons beyond price.

(SLIDE 52.)

With meaningful changes in the excise tax structure and upward socio-economic movement, two key conditions conducive to improving our performance are emerging.

(SLIDE 53.)

Our resources are concentrated in the south-eastern corner of the country, which we refer to as the "focus area" comprising 44% of the country's population and two-thirds of industry tax-paid volume.

In 2011, *Marlboro*'s national market share was 7.1%, while its share in the focus area was substantially higher at 10.7%. Importantly, *Marlboro*'s share among Legal Age (minimum 18) to 24 year old smokers in the focus area was more than 20% and it now leads in that important demographic, which is indicative of future growth.

(SLIDE 54.)

The brand's performance has been driven by both the core variants and innovative line extensions, adding share and news to the franchise.

(SLIDE 55.)

We have devoted considerable efforts to support *L&M* which has a 2.2% share of market nationally and nearly double that in the focus area. We will continue to refresh the proposition with innovations. An example includes the "soft protect pack", which combines the benefits of the two traditional cigarette pack styles. The franchise also offers filter capsules which typically have been available only in higher-priced brands, providing adult smokers the opportunity to experience world-class benefits at popular prices.

(SLIDE 56.)

Notwithstanding this progress, a new challenge is emerging in Brazil. Earlier this year, the National Health Surveillance Agency, known as Anvisa, issued resolution RDC 14 which bans the use of most ingredients used in cigarettes. Since Brazil is primarily an American-blend market, this resolution, arbitrarily and irrationally conceived, effectively bans cigarettes representing 99% of the tax-paid volume and eliminates menthol and kretek variants.

Manufacturers must supply only compliant products by September 2013, while retailers have until March 2014 to comply.

This measure paves the way for illicit trade to grow even further as lawful products are disadvantaged not only from a price standpoint, but also from a taste perspective – shifting adult smokers to the illegal market to find products to which they are accustomed.

(SLIDE 57.)

We do not believe Anvisa has the authority to ban ingredients. Additionally, we believe the underlying basis for the measure is unsupported. We are considering various alternatives to challenge RDC 14, including litigation.

There are several representatives in Congress that believe Anvisa exceeded its authority with RDC 14 as well. A legislative initiative to revoke this resolution is currently being discussed in the House of Representatives.

In addition, numerous other stakeholders are likewise raising legitimate concerns about the impact of this ban such as leaf dealers and other tobacco companies.

In the end, we would expect reason to prevail.

(SLIDE 58.)

In addition to challenging the ingredients ban, our most significant priority in Brazil is to ensure *Marlboro*'s relevance to the emerging middle class.

We will also continue to position *L&M* as the brand with world-class premium features at an affordable price.

We plan to manage our price gaps carefully as the new excise tax structure is phased in.

And finally, we will continue to forge effective relationships with key accounts and expand our distribution and visibility in retail outlets across the focus area.

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Turning to Argentina, industry volume in this market is nearly 44 billion units and growing. Argentina has been an uptrading market for the last several years and our share continues to grow. Our brands now account for nearly 3 out of 4 cigarettes sold in the country.

We have a well-balanced portfolio with *Philip Morris* and *Marlboro*, the leading brand in the premium segment. We have also staked out a position in the low-price segment with *Next.*

(SLIDE 60.)

Marlboro's performance has been particularly encouraging as it has grown both market share and its share of Legal Age (minimum 18) to 24 year old smokers, which has now reached 27.6%.

(SLIDE 61.)

The *Philip Morris* brand is the market leader in Argentina. Not only serving as a safety net for *Marlboro* during turbulent economic times, the brand has equity in its own right, driven by a smart and approachable attitude. It is also the leading brand among Legal Age (minimum 18) – 24 year old smokers.

(SLIDE 62.)

Our most recent addition to the *Philip Morris* brand family is *Caps*. This innovative product has a capsule in the filter that, when crushed, provides a refreshing menthol taste. In keeping with the brand's light-hearted and fun-loving spirit, edgy copy is used, as evidenced in this execution, which playfully calls out "balls are meant to be broken."

(SLIDE 63.)

In the Latin America & Canada Region, we have every reason to believe that our best days are ahead.

Our brand portfolios have never been stronger. *Marlboro* is in great shape and we are confident we have struck the proper balance between our international trademarks and our valuable local brands. Moreover, we have made substantial progress working with governments to construct more equitable tax structures.

These factors coupled with growing economies across much of the Region and rising disposable income provide favorable conditions for premium brands and pricing across all tiers - all of which should enable us to increase our profitability.

While illicit trade is a challenge, even a modest conversion to tax-paid products represents an opportunity for volume and income growth over time - one which we are determined to unlock.

In short, we have favorable circumstances, strong brands and the people to deliver superior results for our shareholders.

(SLIDE 64.)

Thanks for your interest in our business. I welcome any questions you may have.