

**Remarks by James R. Mortensen  
President, Latin America & Canada Region  
Philip Morris International Inc.**

**Investor Day  
Lausanne, June 23, 2010**

**(SLIDE 1.)**

Good afternoon, ladies and gentlemen. It is my pleasure to share with you today my review of our business in the Region.

**(SLIDE 2.)**

I will start my presentation with a brief overview of our business, followed by a discussion of our performance, and then move on to share our strategies for continued growth and prosperity in the Region. We will then take a closer look at some of our key markets in the Latin America & Canada Region. After some concluding remarks, I will be happy to take your questions.

**(SLIDE 3.)**

We compete in the Region in 39 markets with a total population of 600 million. These markets have a total volume of 289 billion units. With our volume at just over 100 billion units, we have plenty of room to grow, especially in light of the opportunity provided by improving economies and consumer confidence, along with a portfolio rich with brands that enjoy strong consumer appeal.

Moreover, as small Regional brands diminish in importance and anti-contraband actions gain traction, we are confident that we are well equipped to continue to gain market share.

We have a strong presence in the Region, operating 14 cigarette factories and employing more than 12,000 people.

**(SLIDE 4.)**

The Latin America & Canada Region accounted for approximately 12% of total PMI volume in 2009, 11% of its net revenues and 8% of the company's adjusted Operating Companies Income, or "OCI".

**(SLIDE 5.)**

Over the last three years, industry volume has declined at a compound annual rate of 3.7%. Brazil, a market with a high level of illicit trade, has decreased by 6.8%.

**(SLIDE 6.)**

The five largest markets in the Region are Brazil, Argentina, Mexico, Canada, and Colombia. In 2009, they accounted for an estimated 227 billion units, or 79% of industry volume. Rounding out the top 10, which account for around 90% of industry volume, are Chile, Venezuela, Peru, Ecuador and Costa Rica.

**(SLIDE 7.)**

To a considerable extent, the Region is characterized by high levels of concentration. In most markets, one manufacturer, either PMI or BAT, is the clear market leader. Among the top five volume markets, BAT is the market leader in Brazil and Canada, while PMI leads in Argentina, Mexico and Colombia.

BAT has the largest share in the Region at around 50%, primarily due to their leadership in Brazil, the Region's highest volume market. However, PMI is a strong and growing number two, with a 2009 share of approximately 36%.

**(SLIDE 8.)**

This part of the world is a primary source of tobacco. In 2009, 10 countries in the Region together supplied more than 960 million kilograms of tobacco. Brazil is the leader in tobacco production, supplying 755 million kilos, or nearly 80% of the total Region's production in 2009. Excluding China, Brazil alone accounted for 26% of world-wide tobacco production last year. Martin King, Vice President Operations, will be discussing this subject with you in more detail.

**(SLIDE 9.)**

The top five volume markets in the Region did not escape unharmed from the global financial crisis, as most experienced real GDP declines or anemic growth in 2009.

With its economy inextricably linked to that of the USA, Mexico experienced the most significant decline in GDP. However, the Mexican Government is reporting recent improvements in consumer confidence with the May reading reaching its highest level in 10 months.

Inflation for most Latin American economies is consistent with their recent trends. The other economic issue of concern is the relatively high level of unemployment in a number of countries, particularly Colombia.

Population growth rates are essentially at, or near, the world average of 1.1%, with mostly favorable demographic profiles, providing potential for further growth in our industry.

**(SLIDE 10.)**

Let me now turn to the performance of our business in recent years in the Latin America & Canada Region.

**(SLIDE 11.)**

PMI shipments have increased over the last three years at a rate of 7.8%, driven by acquisitions. Excluding acquisitions, volume was down at a compound average rate of 0.6% which is substantially better than the industry overall. Our estimated market share has grown from 30.0% in 2007 to 35.8% in 2009. Again, excluding brands acquired during this period, our share of industry shipments has grown from 30.0% to 32.3%.

Since 2007, our net revenues have increased by 16.1%, on a compound annual growth basis, to reach nearly \$2.7 billion dollars in 2009.

Our adjusted OCI, over the same period, grew from \$532 million to \$801 million, or 22.7% on a compound annual growth basis. This excludes charges relating to the Colombian Cooperation Agreement in 2009, the RB&H legal settlement in Canada in 2008, and asset impairment and exit costs in 2007. Excluding currency and acquisitions, adjusted OCI increased by 17.6% in 2009 versus 2008.

**(SLIDE 12.)**

Our strong momentum continued in the first quarter of 2010, as evidenced by a 4.4% increase in volume versus the same period a year ago. During the same period, net revenues grew by 22.0% while our OCI increased by 40.0%, driven, in large measure, by pricing. Excluding currency, our net revenues and OCI were up by 13.0% and 25.2%, respectively.

**(SLIDE 13.)**

Adjusted OCI margins advanced from 27.8% in 2008 to 30.0% in 2009. Further improvements were seen in the first quarter of this year as adjusted OCI margins reached 31.3%.

**(SLIDE 14.)**

In four of our five top volume markets, namely Argentina, Mexico, Canada and Brazil, we grew our market share in the first quarter of this year, with solid

performances from *Marlboro*, other international brands and local heritage brands, such as *Delicados*. In Colombia, our first quarter performance weakened, largely as a consequence of a particularly aggressive pricing environment, and I will elaborate on the plans to address the issues in this market later in the presentation.

**(SLIDE 15.)**

I will now introduce and discuss our Regional strategies which we think help establish a strong platform for growth.

**(SLIDE 16.)**

We will continue to strengthen our portfolio, enhance our profitability through pricing opportunities, work with governments to promote reasonable regulation and taxation, and will pursue financially attractive business development opportunities.

**(SLIDE 17.)**

Obviously, the most important brand in our portfolio is *Marlboro*. In an extraordinarily difficult economic environment, *Marlboro* has held up particularly well, growing its market share in our four key markets: Mexico, Argentina, Brazil and Colombia. As you know, we do not own the *Marlboro* trademark in Canada.

Allow me to highlight the brand's tremendous performance in Mexico, where it continues to grow even though, at 48.2%, *Marlboro's* market share there is the highest in PMI.

**(SLIDE 18.)**

Like the other PMI Regions around the world, we aim to implement the new *Marlboro* architecture in order to reinforce the brand's positioning and equity. We are at an early stage in the process in Latin America.

**(SLIDE 19.)**

The full flavor segment is extremely important in this part of the world, so let me focus first on the *Marlboro* Red or Flavor line.

We introduced the upgraded *Marlboro* Red pack in Argentina and Brazil in January of this year. The new pack is a more modern portrayal of this iconic brand, yet it retains the essential elements that built its core equity. We are actively expanding the geographic footprint of the new pack, starting with Mexico in July, and expect to complete this important transition within the next nine months.

**(SLIDE 20.)**

*Marlboro Filter Plus*, with its highly innovative filter, was launched in Brazil using a phased approach, beginning in São Paulo and Parana in December of 2008. We completed the roll-out to other areas in Brazil in December 2009.

In São Paulo, where it was first launched, the variant has achieved a 0.8% share in stores carrying the product, and we expect to ultimately achieve similar levels in the geographies in which it was more recently expanded. We will selectively consider this variant where appropriate elsewhere in the Region.

**(SLIDE 21.)**

Moving to *Marlboro Gold*, we converted to the new pack design in Mexico in April of this year. A more dramatic change than the Red pack upgrade, consumer response has been extremely positive, with virtually no rejection of the new pack among its current smokers, and there is evidence of its appeal to competitive smokers as well.

**(SLIDE 22.)**

In research conducted in Mexico City two weeks after the conversion, the new pack registered statistically significant improvements among consumers in terms of quality, innovativeness, modernity, stylishness, originality and for “being worth its price” and for “people like you”.

In a small test market in Brazil, where we previously launched the new *Marlboro Gold Original* pack to gauge its appeal, the variant registered even stronger improvements on similar measures.

**(SLIDE 23.)**

In addition, we have selectively expanded the Gold family with innovative offers like *Gold Touch*, a unique 7.1 mm diameter product, in Mexico, Costa Rica and Nicaragua and *Gold Advance*, a full flavor, yet smooth offering, in the Dominican Republic and other Caribbean markets, and we are encouraged by initial results. Similar launches will be considered in other markets in the Region as appropriate.

**(SLIDE 24.)**

We have also launched numerous initiatives over the last 18 months behind the *Marlboro Fresh* series, applying innovative technologies to generate consumer interest in the menthol segment. Later, I will discuss the status of these initiatives in some of our key markets.

**(SLIDE 25.)**

While *Marlboro* remains our top priority in the Region, we have also very successfully developed a number of local heritage brands, which we continue to support.

**(SLIDE 26.)**

*Delicados*, for example, is the second-largest brand in Mexico, where consumers have a strong affection for its genuine national heritage.

We recently expanded this important franchise to include *Delicados Dorados*, which offers Mexican smokers a brighter taste direction, while retaining the unique equity of the brand.

This new entry allows us to expand the reach of the brand and, indeed, we are doing just that as *Delicados* reached a share of 11.9% in the first quarter of this year.

**(SLIDE 27.)**

In other markets, such as Guatemala and the Dominican Republic, we are implementing sometimes subtle, sometimes more dramatic, pack upgrades for our local heritage brands, always mindful of maintaining each one's uniqueness.

**(SLIDE 28.)**

While local heritage brands remain of significant importance in Latin America, we are also exploiting opportunities throughout the Region to further develop our international brand portfolio.

**(SLIDE 29.)**

In the premium and above segment, we have been expanding the *Benson & Hedges* franchise in Mexico and Canada by launching slimmer variants, and we continue to support *Parliament* in Argentina.

**(SLIDE 30.)**

The *Philip Morris* brand is the market leader in Argentina, positioned at the high end of the mid-price segment. In fact, Argentina is the highest share market in the world for this important trademark, and it continues to grow both in volume and share.

We also have *Lark*, the mid-price market leader in Ecuador, and have selectively migrated some local brands to our international brands, a recent example of which was the transitioning of *Broadway* into *Muratti* in Mexico.

**(SLIDE 31.)**

*Next* continues to play a pivotal role in ensuring our competitiveness in the low-price segment in Canada and Argentina.

**(SLIDE 32.)**

Finally, we recently launched a kretek product under the *L&M* banner in Brazil to add news to this important franchise in this market and we believe that *L&M Kretek* with the call out, "Powered by Sampoerna", is doing just that.

**(SLIDE 33.)**

We will continue to enjoy the opportunity to grow our profitability through pricing. Indeed, despite stiff economic headwinds, the strength of our portfolio has enabled pricing in our top five markets.

First quarter 2010 Regional net revenues, excluding excise taxes, reached \$693 million dollars, up by \$125 million or 22% versus the same period last year. Price increases provided \$49 million dollars, or over one third of this increase. We are optimistic that, with economic recovery and the Region's growing importance to global trade, there will be further pricing opportunities.

**(SLIDE 34.)**

Our third Regional strategy is to promote reasonable regulatory and tax regimes. Since André covered the regulatory environment, my comments will focus on taxation.

As governments face debt pressures, excise taxes are often viewed as an easy source of incremental revenue. We will continue to raise awareness of the adverse consequences of unreasonable tax increases on government revenues, such as the potential growth in illicit trade. With the exception of Brazil in 2009, most governments in the Region have pursued a reasonable approach during the past several years.

Separately, we are encouraged that most markets in the Region are pursuing this objective by proposing or implementing specific components to their cigarette excise tax structures as opposed to solely ad valorem based levies.

We believe such structures are more equitable in providing a more rational pricing environment and prevent governments from effectively subsidizing lower price products.

**(SLIDE 35.)**

As this map indicates, we see the increased prevalence of improved tax structures across our Region. Importantly, both Mexico and Argentina have introduced mixed or minimum excise tax systems over the last few years.

**(SLIDE 36.)**

Our final key strategy is to continue to evaluate and pursue business development opportunities that are financially attractive and provide a strategic fit with our business.

We have been very active in this area over the past five years, most notably acquiring Coltabaco in Colombia in 2005 and Rothmans Inc. in Canada in 2008.

**(SLIDE 37.)**

While we are disappointed with the recent initial decision of the Superintendent of Industry and Commerce not to approve our application for the acquisition of Protabaco in Colombia as proposed, we will seek reconsideration of the initial decision.

As our Motion for Reconsideration is in process, I will not comment any further on the status of the acquisition.

**(SLIDE 38.)**

Let me now turn to an overview of our key markets, starting with Mexico.

**(SLIDE 39.)**

Mexico's estimated industry volume in 2009 was 42.4 billion units, a decline of 3.5% versus the previous year, due to higher tax-driven prices and difficult economic conditions. PMI volume decreased by a much more modest 1.3%, as we continued to grow share. Mexico has an extraordinarily well-developed premium and above segment, accounting for nearly 65% of the cigarettes sold in that market, of which over 80% are PMI brands.

In 2009, our overall market share was 69.3%, up by 5.0 percentage points since 2007, and we have three powerful brands in *Marlboro*, *Delicados* and *Benson & Hedges*. As I mentioned earlier, one of our key efforts over the course of the last 18 months has been to grow *Marlboro* by simultaneously growing small or under-

developed segments such as menthol. Mexico is a case in point where the menthol segment was very small.

**(SLIDE 40.)**

In 2009, we added innovative features to our *Marlboro* Fresh line to generate interest in that taste segment. As this slide illustrates, we have launched three of these variants in Mexico: *Fresh*, which features a filter thread and a moderate menthol delivery; *Black Freeze*, which again features a filter thread but offers a substantially greater cooling sensation; and *Ice Xpress*, containing a capsule in the filter that consumers may crush at any point during their smoking experience to increase the level of menthol flavor.

**(SLIDE 41.)**

The total menthol segment in Mexico has grown from 4.5% in January 2007 to 6.6% at the end of 2009.

**(SLIDE 42.)**

As this chart indicates, our brands, and particularly the *Marlboro* Fresh line extensions, have accounted for the lion's share of this growth as our portion of the menthol segment has expanded from 70.2% to 83.5% over the same period. Clearly, our strategy has worked.

**(SLIDE 43.)**

Turning to some of our other initiatives in Mexico, we recently signed a license agreement with Imperial Tobacco which will provide us the opportunity to complement our portfolio with *West* in the mid-price segment and *Davidoff* in the premium and above price segment.

We are actively building our consumer engagement platforms to complement our brand initiatives and to interact with adult smokers.

Finally, we will continue to work with the Mexican government, and other stakeholders, to maintain the existing mixed excise tax structure, which we think is both fair and equitable.

**(SLIDE 44.)**

In Argentina, industry volume in 2009 was estimated at 42.4 billion units, down by 2.4% versus 2008. Importantly, PMI shipment volume increased by 1.0% over the same period and our share continued to grow, reaching a record 73.6% in 2009.

This growth has been driven by our key brands: *Marlboro* in the premium segment and *Philip Morris* in the mid-price segment.

**(SLIDE 45.)**

Turning to our key priorities, Argentina is an overwhelmingly full flavor market, so we began our implementation of the new architecture, energizing *Marlboro* by upgrading to the new *Red* pack.

**(SLIDE 46.)**

As you can see here, we developed creative executions that call attention to our new pack design which inform adult smokers that they can expect the same great *Marlboro* flavor in a new pack. The redesign was supported with promotion and extensive one-to-one consumer contacts and the response has been very positive.

**(SLIDE 47.)**

We will continue to support the *Philip Morris* brand to further strengthen its leadership position in the mid-price segment.

**(SLIDE 48.)**

The *Philip Morris* brand has a remarkable 50% share of Legal Age (minimum 18) to 24 year old smokers and it historically has played a complementary role with *Marlboro*. In essence, in difficult economic conditions, it serves as an alternative for *Marlboro* smokers seeking a more affordable choice. Equally important, when the economy improves, the *Philip Morris* brand provides *Marlboro* with a pool of uptraders.

**(SLIDE 49.)**

A discussion of Argentina would not be complete without touching on the excise tax structure and recent reforms that now provide a level playing field and have enabled the Government to increase the revenues that it generates from the tobacco category.

In February 2009, Argentina implemented a Minimum Excise Tax. Consequently, by the end of that year, retail prices at the bottom of the market increased by 62%, and the gap between *Marlboro* and these cheap brands was cut in half from 114% to 54%.

**(SLIDE 50.)**

We are delighted with our performance in Canada.

In 2009, for the first time in 12 years, tax-paid industry volume grew by 3.4%, as a result of an improvement in the government's efforts to combat contraband. On a full year pro-forma comparison, the combined volume of PMI and RB&H grew by 4.4%.

PMI continued to grow its market share, which at the end of 2009 was estimated at 33.8%.

Our three largest brands in Canada are *Canadian Classics*, *Number Seven* and *Accord*. These three brands are positioned in the mid and low-price segments.

**(SLIDE 51.)**

Therefore, one of our key priorities is to develop a stronger presence in the premium segment by providing ongoing support to, and maintaining distinctly different positioning for, *Belmont* and *Benson & Hedges*.

**(SLIDE 52.)**

*Belmont* is a smooth tasting charcoal-filtered cigarette with a down to earth brand image. With a market share of 1.6%, its share of Legal Age (minimum 18) to 29 year old smokers is over 6%, or nearly four times as great as its market share. Its performance is heavily skewed to Ontario and recently has exhibited growth in both British Columbia and Alberta.

*Benson & Hedges* is the gold standard in the tobacco category in Canada and we have recently expanded the franchise to include Superslims offerings.

We believe we have the right programs in place to achieve steady growth with this lineup in the very profitable premium segment in Canada.

**(SLIDE 53.)**

At the opposite end of the price spectrum, there has been a significant amount of activity aimed at capturing smokers moving away from illicit purchases and looking for low-price alternatives. Our primary focus will be to continue to use *Next* to compete against competitive low-price brands. Our objective is to protect our share in the low-price segment, while seeking to increase unit profitability.

**(SLIDE 54.)**

Perhaps our most important priority in Canada is to continue to support the central and provincial governments' efforts to fight against illicit trade, which still accounted for an estimated 30% of cigarette consumption in Canada last year. The Federal government announced that it is investing \$20 million over the next

three years to implement a multi-faceted strategy to combat contraband tobacco, with a focus on enforcement and in running public awareness campaigns.

On a provincial level, there has been an emphasis placed on penalizing sellers of illegal products outside the native Canadian (Indian) reservations. For example, in Quebec, a recent law was passed that allows for the suspension of the drivers license of any persons found with illegal cigarettes in their car.

Tax data suggests that the situation has continued to improve in 2010, as tax-paid volumes as of April have increased by 27% and 13% in Quebec and Ontario, respectively, versus the same period last year.

**(SLIDE 55.)**

Moving to Colombia, we estimate 2009 industry shipments at 17.6 billion units, a decline of about three percent year-over-year.

PMI shipment volume in 2009 declined by 18.6% versus 2008. We estimate that at least one third of this decline was attributable to adjustments in trade inventories.

Market share data is provided by Nielsen which audits shops in urban and major suburban areas which, according to Nielsen, account for approximately 75% of cigarette sales in the country.

Our Nielsen share declined from 51% to 50% from 2007 to 2009. This share is likely overstated, as we believe we are losing volume and share in rural areas not covered in the Nielsen sample.

By either measure, volume or share, we are not satisfied with our performance in Colombia and we are taking actions to improve it.

**(SLIDE 56.)**

We recently adjusted our price on *Caribe*, our low-price brand, to be competitive with other offers in that segment which accounts for nearly 12% of the market and is growing.

Our leading mid-price brands were at a price disadvantage to competitive mid-price offers for much of the year, but we are beginning to see that gap close. We have also undertaken pack upgrades for both *Boston* and *Green*.

**(SLIDE 57.)**

We have successfully launched a new *Marlboro* Menthol offer, *Ice Xpress*, which features a menthol capsule in the filter. The variant has achieved in excess of half a share point.

**(SLIDE 58.)**

Finally, we have made a number of management changes placing some of our most experienced and seasoned executives in key positions.

We remain enthusiastic about our prospects and opportunities in Colombia.

**(SLIDE 59.)**

Before concluding, I want to make a few comments about Brazil. We are encouraged by our performance in recent years in this very important, yet challenging market for PMI. While the industry experienced a 2009 volume decline of 9.5%, caused by higher pricing as a result of a significant May tax increase, our shipment volume declined by only 1.8%.

Our share in this market has grown from 12.3% in 2007 to 14.0% in 2009. Even more impressive, at the end of 2009, our share in the city of São Paulo exceeded 30%. We have a portfolio of international brands, such as *Marlboro* and *L&M*, along with local brands like *Shelton*, and we continue to undertake efforts to add vibrancy to our portfolio across the board, and I'd like to share some examples with you today.

**(SLIDE 60.)**

We have launched the new *Marlboro* Red pack.

**(SLIDE 61.)**

We have expanded the *L&M* portfolio to include a slim circumference offer called *L&M Vibe*.

**(SLIDE 62.)**

And a menthol offering called *L&M Black Label*.

**(SLIDE 63.)**

Finally, we are upgrading our local brands like *Shelton* to provide a fresher and more modern portrayal of these historic Brazilian brands.

**(SLIDE 64.)**

As I outlined in my opening remarks, we had a very solid performance in 2009. In fact, it proved to be one of our most successful years ever in the Region by any measure. We are further encouraged that our momentum has continued in 2010 as we have achieved volume, market share and OCI gains in the first quarter.

Led by *Marlboro*, we have a strong portfolio in the Latin America & Canada Region with plenty of room to grow as our market share at the end of 2009 was nearly 36%. We have the brands and programs to excite and interest adult smokers. Our innovation is proving to be effective at stimulating underdeveloped segments. The strength and resiliency of our brands and portfolio provide opportunity to increase prices and economic recovery will further assist this prospect. In short, we remain very optimistic about our future.

**(SLIDE 65.)**

Thanks for your interest in our business. I will now be happy to answer any questions you may have.