Remarks by Hermann Waldemer
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(SLIDE 1.)

Good morning everyone.

(SLIDE 2.)

My presentation will cover our updated guidance and the impact of currencies, our key growth drivers, our tremendous cash flow, our very solid capital structure, our generous returns of cash to shareholders, our ability to generate superior shareholder returns, and why we believe we continue to be a very attractive investment.

(SLIDE 3.)

Yesterday, Louis updated our reported diluted EPS guidance for 2012 to incorporate an additional 10 cents in unfavorable currency, whilst the strength of our underlying business remains fully intact. For 2012 as a whole, we forecast a currency headwind of approximately 25 cents at prevailing exchange rates. As a result, our new reported 2012 diluted EPS guidance range is $5.10 to $5.20, which, compared to $4.85 in 2011, represents an increase of approximately 5% to 7%.

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I hardly need to remind you of the recent volatility of the Euro.

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In addition, the fall in the price of oil and other commodities has impacted currencies, such as the Russian Ruble and the Mexican Peso. These two currencies have declined in value against the US Dollar by around 10% since we provided our initial 2012 EPS guidance in February.

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Our global footprint implies that we are neither dependent on any single geography nor currency in order to deliver strong results. While the Euro is the most important single currency from a revenue point of view, other developed market currencies, of which the Yen is the most important, accounted for 32% of net revenues in 2011, key emerging market currencies, including the Indonesian Rupiah, for 29%, while other emerging market currencies comprised the remaining 13%.

Importantly, the Euro and the Swiss Franc, which is linked to it, account for an even larger proportion of our costs at 40% of our total cost base, thus providing a partial offset.

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Our broad basket of currencies provides, to a certain extent, a natural hedge as currencies do not usually all move in the same direction against the US Dollar. That being said there will always be times when currency is in our favor and times when it is a headwind.

Interestingly, the cumulative currency variance between our 2007 pro-forma adjusted diluted EPS base of $2.80 and our actual 2011 adjusted diluted EPS of $4.88 was just 7 cents unfavorable, a minor impact.

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Our very strong business fundamentals continue to support the achievement of our mid to long-term financial targets. On a currency-neutral basis, our updated reported diluted EPS guidance maintains a forecast growth rate of approximately 10% to 12%, compared to adjusted diluted EPS of $4.88 in 2011, and is fully in line with our expectations from the very beginning of the year. Furthermore, this includes the very difficult comparison in the second quarter due to the exceptional circumstances last year in Japan, which added about 10 cents to our EPS in 2011. Excluding this 10 cent "hurdle", our updated guidance in fact translates into a currency-neutral forecast growth rate of approximately 12% to 14%.

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There are four key drivers of our strong business fundamentals. First, we have a superior geographic footprint with a very strong position in the highly profitable mature markets and overall leadership in emerging markets. We have benefited from the growth in the adult population and the increase in adult consumer purchasing power in these markets in Asia, EEMA and the Latin America & Canada Region, and expect to continue to do so.

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Second, we have a superior brand portfolio, led by the only truly global tobacco brand, *Marlboro*, and a very strong and diverse geographic footprint.

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Third, favorable pricing and reasonable excise tax environments are expected to continue to be key drivers of our profitability growth across our Regions.

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And fourth, we face limited pressures on costs as tobacco leaf prices and non-tobacco material costs have stabilized, and any increases are forecast to be in line with inflation. We expect to largely offset these raw material cost increases through continued productivity gains and forecast no more than 2% in total product-related cost increases this year. Martin discussed these programs in detail with you: this year alone we are targeting pretax productivity savings of $300 million, with more opportunities to come.

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The steady improvement in our operating performance, and hence net earnings, is the foundation for our tremendous cash generation. This has enabled us to nearly double our operating cash flow from $5.6 billion in 2007 to $10.5 billion in 2011.

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Our strong operating results have been complemented by our successful efforts to reduce working capital requirements. Following extensive benchmarking, we announced a $1 billion, three-year working capital reduction program in November 2009, which we successfully completed well ahead of schedule at the end of 2010. The two main focus areas were leaf and finished goods inventories.

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Between the end of 2008 and the end of 2011, we reduced our average leaf inventory durations from 17.5 months to 13.9 months. This was notably facilitated by our blend harmonization efforts and the optimization of our leaf purchasing on a global basis. The sharp reduction in 2011 also reflects a larger than expected depletion of leaf stocks due to the unexpected additional production of cigarettes for Japan. On an on-going basis, our target average leaf duration is approximately 14 months, though we will hold higher durations of higher-quality tobacco leaf grades.

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Our programs to reduce finished goods inventories have focused on value, that is we have prioritized those markets where the working capital tied up in these inventories has a high unit value due to the inclusion of excise taxes. Between 2008 and 2010, we were able to reduce our finished goods inventories by one third iny value, freeing up $1.6 billion over this two-year period.

In 2011, we continued to work on the optimization of finished goods inventories and reduced average durations in a majority of markets. However, the value of finished goods inventories increased due to forestalling. This occurs when manufacturers build up inventory in excess of normal supply chain requirements ahead of an excise tax increase. This competitive phenomenon becomes an issue whenever the payment of the excise taxes occurs prior to the depletion of the finished goods inventory. We are therefore working with governments to introduce and, where necessary, reinforce anti-forestalling measures.

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Capital expenditures have remained broadly in line with depreciation, enabling us to grow our free cash flow at an even faster rate than operating cash flow. This remains the mid-term target though we do expect increases in capital expenditures as we expand production in markets such as Indonesia, further modernize our equipment base, and start to ramp up manufacturing related to the Next Generation Products that Andre talked about.

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As I mentioned during our earnings call in April, free cash flow declined by $565 million during the first quarter of 2012. This was due mainly to the timing of receivables in the quarter and industry forestalling in the EU Region, phenomena that should fully reverse as the year unfolds. Nevertheless, due to higher clove purchases and the timing of leaf advances in Indonesia, as well as the currency headwind, free cash flow may be slightly down on a full year basis in 2012. This will, however, not impact our ability to reward our shareholders through attractive dividends and substantial share repurchases.

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Since the spin, we have significantly increased the proportion of net revenues that we have been able to transform into free cash flow to reach a level of 31.0% last year. This has been driven by the steady expansion of our adjusted OCI margins, our aforementioned efforts to reduce working capital requirements, and the prudent management of our capital investments.

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Over the same period, our average transformation rate of 29.2% was the highest amongst all our consumer company peers and our competitors in the tobacco industry.

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This tremendous cash flow underpins our strong balance sheet. As you know, we obtained and continue to target a single A long-term credit rating.

This credit rating is central to our capital structure strategy because it provides us with a range of important benefits. First, it has enabled us to issue over $17 billion of bonds on very attractive terms and conditions, while taking a long-term approach. Second, it provides us with access to the tier 1 commercial paper market. This provides an excellent source of funds to cover short-term needs, such as timing peaks in excise tax payments, on extremely attractive terms. In the first quarter of this year, we borrowed an average of $2.7 billion in the CP market at an average rate of just 0.12%. We also have undrawn bank revolving credit facilities of $6 billion.

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In the last 18 months, we have been taking advantage of our strong credit rating and favorable market conditions to cut the cost and extend the duration of our debt financing. We have been able to reduce our average bond coupon rate from 5.5% in 2009 to 4.5% so far this year. At the same time, we have been able to expand the average time to maturity from 7.1 to 9.5 years.

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We have focused on securing long-term financing on very attractive terms. It should be noted that, at the time of issuance, the $750 million 4.375% coupon issued last November equaled the lowest-ever 30-year coupon for a U.S. corporate bond. Furthermore, the €1.35 billion raised last month with 2.125% 7-year and 2.875% 12-year coupons represented the lowest ever for a corporate investment grade issuer in the Euro-bond market.

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Our bond portfolio is very well-laddered with approximately $2.5 billion currently being the maximum maturity in any single year.

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Our net debt to EBITDA of 1.2 times translates into a total debt ratio of 1.4 times. This is comfortably within the range acceptable to the credit agencies to maintain our current long-term single A credit rating.

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During the period 2008 through 2011, we supplemented the $32.4 billion in free cash flow with an additional $9.9 billion in net debt issuance and other sources. From the total $42.3 billion of available cash, $18.6 billion, or 44%, was returned to shareholders in dividends. We spent $21.4 billion, or 51% of available cash, on share repurchases. The remainder, or just $2.3 billion or 5%, was invested in acquisitions, the largest transaction being the purchase of the 60% we did not own in RB&H in Canada.

We have sought to achieve a reasonable balance between dividends and share repurchases. We believe that share repurchases have been and should continue to be a use of cash that generates a very attractive return on investment.

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The vast majority of the feedback we have received from our shareholders indicates that they agree with our current balanced approach. This has been confirmed by our third-party surveys of investors. Over the last three years, an average 92% of respondents have emphasized their desire for a sustained high dividend payout and 74% have told us that they want us to continue with our share repurchase programs.

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Our target dividend pay-out ratio continues to be 65% and our current annualized dividend rate stands at $3.08 per share. This represents a 67.4% cumulative increase since the spin.

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The rate of increase has been well above the average of our peer group and has only been surpassed by McDonald's, Japan Tobacco off an almost negligible base, and Lorillard.

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Our current dividend yield of 3.5% is especially attractive in the light of diminishing rates on corporate and government bonds.

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Since the spin through June 15th 2012, we spent a total of $24.2 billion on share repurchases. We purchased 447.1 million shares, representing 21.2% of the shares outstanding at the time of the spin. The average price per share was $54.01, which compares very favorably with our current share price of $88.50.

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Our Board of Directors reiterated as recently as last week its confidence in the future growth prospects of the company by authorizing a new three-year $18 billion share repurchase program, which will come into effect in August when the current $12 billion authorization is completed. Our target spending for 2012 remains at $6 billion.

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On a cumulative basis since the spin, we have returned over $40 billion to our shareholders through dividends and share repurchases.

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Shareholders who bought our shares at the time of the spin and reinvested their dividends in our stock generated a total return of over 100% through June 15th this year. This is almost double the return of our tobacco peer group, around four times that of our company peer group, and it dwarfs the return on the S&P 500 index.

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The strong performance of our stock price over the last 12 months has led some investors to voice concerns about our valuation as expressed by the Price/Earnings multiple. We are currently trading at approximately 16.7 times consensus analyst EPS projections for 2012. This is in line with other premium, multinational consumer companies such as Nestlé and McDonald's, but still represents a modest discount to Coca-Cola.

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However, when we look at our current price and market capitalization as a function of our free cash flow for 2011, we are still trading somewhat below the peer average of 17.5 times with PMI at 16.5 times free cash flow.

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What counts the most is a company's future growth prospects. Hence, we look at our Price Earnings Growth ratio which measures our P/E as a function of our expected long term EPS growth. Based on our mid to long-term currency-neutral EPS growth target of 10 to 12%, our PEG is between 1.4 and 1.7 times, well below our peer average of 2.1 times. This confirms that PMI remains good value in light of its expected strong growth potential.

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We believe that we remain an attractive investment thanks to our strong business fundamentals, tremendous cash flow, our disciplined yet creative approach to business development, and our focus on shareholder returns through a balanced program of dividends and share repurchases. Our business momentum is built on a superior brand portfolio, market share leadership in both developed and growing emerging markets, a favorable pricing and excise tax environment, significant productivity savings and cost controls, and the excellence of our people at all levels of our organization.

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I will now be very happy to take your questions.