Remarks by Mindaugas Trumpaitis
Managing Director Mexico & Ecuador
Philip Morris International Inc.

Citi and Deutsche Bank 2012 Consumer Staples Field Trip to Mexico

March 8, 2012

(SLIDE 1)

NICK ROLLI

Good morning, ladies and gentlemen, and welcome to Mexico. I am Nick Rolli, Vice President Investor Relations and Financial Communications for Philip Morris International.

(SLIDE 2)

Let me start with a few words about today's program. We will begin with a presentation on the Mexican market by Mindaugas Trumpaitis, who is the Managing Director for one of the most important markets in our Latin America & Canada Region. After the presentation, we will be happy to answer your questions, but I ask you to please limit these to Mexico. We will then split you up into smaller groups for a market visit with a member of our sales team. Lunch with Mindaugas and his team will be served in a restaurant nearby.

I would like to thank Citi and Deutsche Bank for putting together this trip and giving us an opportunity to talk to you. I would also like to thank Mindaugas and his team, and in particular Annel Dergal, for the interesting program that we have for you today.

Before I hand over to Mindaugas, let me first present the other people here who have come from outside Mexico. We are very honored to have here today Jim Mortensen, President, Bill Giff, Director M&A and Planning, and Onur Pehlivan, Director Sales, all three from our Latin America & Canada Region. Also here today is my colleague from the Investor Relations team, Alex Williams. Most of us will be joining the market visit and lunch.

(SLIDE 3)

Just a reminder that our remarks today contain forward-looking statements and I therefore direct your attention to the Forward-Looking and Cautionary Statements slide of today's presentation for a review of various factors that could cause actual results to differ materially from forward-looking statements.

And now, without further delay, over to Mindaugas.

(SLIDE 4)

MINDAUGAS TRUMPAITIS

Thank you Nick. Let me join in welcoming all of you. I will start the presentation by introducing my team. We have a diverse and experienced team of professionals from six different countries. Our team has a wealth of experience with an average of more than 15 years in the company in a wide range of markets and functions. I am very proud to lead this diverse group which allows us to maintain an optimal balance between an invaluable international perspective and a deep understanding of the local environment.

With us here today are Werner Biebl, Finance Director; Alexander Reisch, Sales Director; Matthias Kuerten, Marketing Director; Enrique Llamas, Director Operations; Hernan Irigoyen, Corporate Affairs Director; Maria Del Carmen Ordonez, Senior Counsel; Hernan Garcia, HR Director; Efren Castillo, Manager IS; Annel Dergal, Manager Strategic Planning; and Philippe Bientz, Director Compliance.

(SLIDE 5)

Mexico, with a population of 112 million, is the 14th most populous country in the world. More than 25% of the people are concentrated in the three main metropolitan areas of Mexico City, Monterrey and Guadalajara.

Mexico's economy is the world's 11th largest according to World Bank estimates. The economy has now recovered from the recession and GDP grew by nearly 4% in 2011. Unemployment and consumer confidence are back at pre-recession levels, while inflation slowed to 3.8% last year. Mexico’s GDP per capita of USD 10,400 is in line with those of Argentina and Brazil, the other two main economies in Latin America.

In 2011, the Mexican cigarette industry volume was 34.3 billion units. Smoking incidence is about 8.2% and the daily average adult consumption is about 8 cigarettes.

Our history in Mexico started in 1972 with a license agreement for *Marlboro* with a local company called La Tabacalera Mexicana. By 1990, *Marlboro* had become the leading cigarette brand. In 1997, PMI signed a partnership agreement with Grupo Carso, which has been one of the cornerstones of our success in this country. A year later, we became the overall market leader. Finally, in 2007, PMI increased its ownership in PM Mexico to 80%, with the remaining shares belonging to Grupo Carso.

PM Mexico is the distribution and sales company and the owner of the local trademarks, such as *Delicados*. It also owns the manufacturing entity, Philip Morris Cigatam Productos y Servicios, and a leaf tobacco growing and processing company, Tobaccos Desvenados. From here on in this presentation, PMM refers to PMI’s business in Mexico and not to the legal entity.

PMM has a fully-fledged organization, with manufacturing facilities and a tobacco processing plant. The business is vertically integrated from tobacco growing and processing to the production of cigarettes and their sale and promotion to adult consumers.

(SLIDE 6)

Our business in Mexico is already very profitable. Our objective is to grow further in a manner that is sustainable in the long-term.

To accomplish this, we are pursuing four main strategies. First, we seek to promote a reasonable regulatory and excise tax environment. Second, we are further developing our cigarette portfolio to secure future market share and profitability growth. Third, we are reinforcing our brands through an effective trade channel strategy. Finally, these core strategies are supported by a highly motivated, skilled, and agile organization that we are continuously re-aligning to the needs of our business.

(SLIDE 7)

Mexico is a highly regulated cigarette market but with reasonable public smoking restrictions that vary slightly state by state. Generally, smoking is prohibited in public buildings, transportation and schools, but permitted in open spaces such as terraces and patios in restaurants, bars and work places.

In terms of packaging, a graphic health warning is required on 30% of the front and a text health warning on 100% of the back and on the side panel.

Advertising in Mexico is only allowed in magazines intended for adult audiences, in print materials inside Legal Age Meeting Places, or “LAMPs”, and through materials sent by regular mail to verified adult smokers. Promotions and other forms of communication to the trade are also allowed.

Our objective is to maintain a reasonable regulatory environment through our engagement with key stakeholders in Congress. We are particularly focused on our ability to continue to communicate with adult smokers.

(SLIDE 8)

Another key focus of our efforts is on excise taxation.

Mexico has a mixed excise tax structure for cigarettes. The ad valorem rate is calculated at 160% of the price to the trade. The specific component is 350 Pesos per thousand cigarettes. The excise tax incidence on *Marlboro* is quite high at just under 70%.

(SLIDE 9)

In 2009, following an extensive debate, Mexico's Congress approved a proposal made by the Ministry of Finance for a significant four-year, phased excise tax increase. This was expected to have a slightly unfavorable overall impact on our business, but provided stability and predictability.

However, less than twelve months later, the same Congress unexpectedly approved a new massive excise tax increase, completely disregarding the extensive debate and the rationale of the previous multi-year framework. The key change was a nearly eight-fold increase in the specific component. The tax law was allegedly changed by the government in order to obtain additional excise tax revenues of around 12 billion Pesos in 2011. However, as you will see on the next slide, the target was not achieved.

(SLIDE 10)

With this increase, the government budgeted excise tax revenues of $42.1 billion Pesos, a growth of 84% versus their 2010 target. In fact, actual revenues fell short by around $11.8 billion Pesos, or 28%. Moreover, the actual increase in tobacco excise tax revenues of 13% in 2011 was below that of 2010.

(SLIDE 11)

The Mexican tax-paid cigarette market had been declining at an annual rate of about 2%, as taxes and prices gradually increased. However, the 2011 tax change led to a very significant rise in the price of cigarettes from 30 to 38 Pesos a pack for premium *Marlboro* and 20 to 28 Pesos for low-price *Delicados*. The huge excise-tax driven price increases resulted in a 21% decline in industry volume in 2011. This was driven not only by price elasticity, but also by large speculative trade purchases at the end of 2010, and by a surge in illicit trade. Adjusted for the trade inventory movements, the decline is estimated to have been 17%. In addition, illicit trade grew from an estimated 3.7% to an estimated 7.4% of total consumption, based on an Empty Pack Survey, carried out in mid-2011.

The only positive outcome was a further strengthening of the premium segment, which grew from 61.4% to 65.8% of the market. Premium adult smokers appear to have been less impacted by the price increase and there was a switch from low-price industry brands to cheaper contraband products.

(SLIDE 12)

To fight illicit trade, we are working on three levels. First, we closely cooperate and share information with law enforcement authorities. As a result, seizures more than tripled in 2011. Second, with the support of our trade partners, we seek to expose this problem to the wider population and to the government. Third, we promote fiscal measures that reduce the incentive to purchase illicit products.

(SLIDE 13)

Tobacco is sometimes seen as an easy source of incremental government tax revenues. However, we saw yet again that excessive increases do not lead to the outcome that governments predict and instead result in the growth of illicit trade. Our efforts to increase the awareness of these adverse consequences led the Mexican government to decide not to increase excise taxes in 2012.

We are actively engaging stakeholders to try and convince the Mexican government to adopt a multi-year program of moderate and predictable tax increases, for example by linking excise taxes to inflation. We believe that such an approach, where tax and prices would go up modestly every year, would be acceptable to adult consumers, create long-term predictability for manufacturers, and ensure a steady revenue stream for the government.

(SLIDE 14)

One of the arguments we use is our significant investment in Mexico and our strong commitment to the country and its economy. We are expanding our tobacco leaf growing program. In 2011, the number of farms and hectares growing tobacco for us increased by over 50%. This year, besides Nayarit and Veracruz, we started purchasing tobacco from Chiapas, a state in the south of Mexico. Tobacco volume purchased in 2011 doubled compared to the previous crop. PMM is an important provider of employment not only in the cities where we produce cigarettes but also in less affluent rural areas.

(SLIDE 15)

Our second key strategy is to further develop our cigarette portfolio to ensure continued market share and profitability growth.

(SLIDE 16)

Since we established market leadership in 1998, we have gone from strength to strength, with continuous increases in our market share, which reached 72.3% in 2011.

(SLIDE 17)

Last year, *Marlboro* achieved a market share of 52.3%. The second largest brand was our *Delicados* with a share of 10.9%. Along with *Benson Hedges*, our top three brands accounted for almost 70% of the market in 2011.

(SLIDE 18)

Since 1990, the best-selling cigarette brand in Mexico has been *Marlboro*.

(SLIDE 19)

Over the last ten years, its market share has increased by nearly 10 share points. This has been achieved through innovative adult smoker-relevant product initiatives and creative marketing and sales campaigns, and more recently the roll-out of the new *Marlboro* architecture.

(SLIDE 20)

We have placed a strong emphasis on the growing menthol segment, which has expanded from 5.0% of the market in 2008 to 7.8% last year. Over the same period, *Marlboro*'s segment share has grown from 17.3% to 30.1%. This has been driven by the innovative high-cooling *Marlboro Fresh* and by the introduction of the first menthol capsule proposition, *Marlboro Ice Xpress*.

(SLIDE 21)

Marlboro Red remains at the core of our success. The pack was upgraded in the second half of 2010 to reinforce the brand's quality image.

(SLIDE 22)

In 2011, the Red, Gold, and Fresh lines all contributed to the continued growth of *Marlboro*.

(SLIDE 23)

And we are not stopping there. The new *Marlboro* campaign, 'What's stopping you?', was launched in the second half of 2011, adding a new substance to our focused 1-to-1 communication with adult smokers.

(SLIDE 24)

The product initiatives and enhanced adult smoker engagement have enabled us to further build our *Marlboro* Legal Age (minimum 18) to 24 year old smoker share. We have added four points since 2008 in the three focus cities that are home to nearly 50% of the young adult population in Mexico.

(SLIDE 25)

Our second important premium brand in Mexico is *Benson & Hedges*, or "*B&H*". It is our tool to reach those looking for more sophistication, elegance and prestige.

(SLIDE 26)

B&H complements *Marlboro*. It is the leader in the 100mm and menthol segments. After a share erosion in 2010, in 2011 *B&H* achieved a record market share of 6.1% in 2011. It also advanced significantly among the target segment of 25-34 year old smokers.

The launch of *Benson & Hedges Polar Blue* and the introduction of packs of 14 cigarettes in a 100 mm format were key drivers behind these excellent results. We will continue to expand *B&H*'s portfolio with innovative and differentiated offerings.

(SLIDE 27)

The second best-selling cigarette brand by volume in Mexico is *Delicados*. First sold in 1918, it is a brand with a rich history that spans almost 100 years.

(SLIDE 28)

The low-price segment is the second largest in Mexico and *Delicados* is the leading brand in it. *Delicados*' segment share grew from 43.5% in 2008 to 50.3% in 2011.

(SLIDE 29)

In 2011, *Delicados* was able to increase its segment share and to continue to grow among Legal Age (minimum 18) to 24 year old smokers. *Delicados* is perceived as the most authentic Mexican brand and as a smart choice due to its strong value for money proposition. We have three main strategies to further develop *Delicados*: to build the brand's image among adult smokers with contemporary Mexican values, to ensure that the product and portfolio respond to the market needs, and to constantly activate general trade retailers to boost their loyalty and support for the brand.

(SLIDE 30)

Of course, the best portfolio and marketing programs cannot succeed without an effective product distribution and commercial strategy. I will turn now to our third key strategy, namely sales and distribution.

(SLIDE 31)

We have structured our sales architecture as a toolbox aimed at improving our competitiveness in the most important trade channels and satisfying the buying habits of adult smokers. The toolbox includes four pillars: distribution capabilities, investments in growing channels, adult smoker engagement initiatives, and enhanced decision making at the territory level.

(SLIDE 32)

Let me start by describing our distribution infrastructure.

Long distances coupled with increased insecurity in many areas of the country and relatively low average sales per outlet mean that distribution is a key success factor. We have three methods of distribution in Mexico. Direct delivery to the central warehouses of Key Accounts represents about 41% of our volume. Direct delivery by exclusive third party sales forces, also known as “EZD”, accounts for another 31% of our volume. Finally, we use wholesalers predominantly for the low volume outlets and more remote locations, and this method accounts for 28% of our volume.

The key advantage of this distribution structure is flexibility and the ability to adapt our distribution infrastructure very rapidly. In addition, EZD, thanks to their local knowledge, not only ensure product availability in zones that are not easily accessible to foreign companies but also play an important role in promoting our brands to the trade. Today, we have more than 1,100 direct EZD routes serving general trade outlets across the country.

(SLIDE 33)

The importance of the different sales channels has shifted substantially over the last couple of years towards Key Accounts, from 35% of volume in 2009 to 41% today. This has been triggered by the rapid expansion of c-stores.

(SLIDE 34)

PM Mexico has successfully adapted to this changing retail environment and has improved its competitiveness. Our share in convenience stores of around 77% is 4.6 points higher than our total market share.

Our brands are available in every c-store chain across the country, and each of our new product launches has been enthusiastically welcomed by them.

(SLIDE 35)

Each year, we have been enhancing our visibility and product display at point of sale. This has allowed us to support our key brand initiatives nationwide. In 2011 we started to deploy innovative product display materials to further enhance our market leadership presence in the fastest-growing consumer channels.

We believe that these strategies, coupled with a continued focus on specific adult smoker requirements, will enable us to further strengthen our overall performance in the growing convenience store channel going forward.

(SLIDE 36)

Another pillar of our sales architecture is our engagement initiative with adult smokers. The objective is to provide them with product information. We do this through our sales force as well as through specially trained clerks in select cities.

(SLIDE 37)

To measure the results, we developed a score card that tracks market performance by state. On the slide, green means growth. In 2011, we grew our share in 28 of the 32 Mexican states, demonstrating that our strategies were successful. And on the remaining 4 states we already have more than 75% market share.

(SLIDE 38)

I will conclude the overview of our key strategies with the initiatives we have taken to enhance organizational readiness.

(SLIDE 39)

We have a large organization of over 2,200 employees, representing more than 15 nationalities. 90% are employed in the key business areas of manufacturing and marketing and sales, and the rest in administrative functions.

We continue to increase our organizational capacity and capability through the injection of new talent and the training and development of our people. We provided more than 17,000 hours of training and development last year.

Our organization in Mexico has become an important talent source for PMI regionally and globally. Today, some 33 former PMM employees work around the PMI world. This has increased our credibility as a career-oriented employer and our attractiveness as an employer is reflected in a retention rate that is above average compared to our peers.

Our internal employee opinion survey in 2011 confirmed that we have engaged employees and a very capable and motivated organization ready to take advantage of opportunities and overcome challenges in the years ahead.

(SLIDE 40)

Before turning to your questions, let me make some concluding remarks. Mexico is a large and profitable cigarette market. Our strategies have proven successful. Our superior brands and sales and distribution infrastructure have enabled us to further reinforce our market leadership. We have gained 4.6 share points in the last three years to reach a market share of 72.3% in 2011. *Marlboro* is by far the best-selling cigarette brand with a 52.3% market share and strong leadership among Legal Age (minimum 18) to 24 year old smokers. Our brand portfolio is complemented with *Delicados,* the leading low-price brand, as well as by premium *Benson & Hedges.* We have an excellent sales and distribution infrastructure, good relations with the trade and a strong position at the point of sale, as you will see later this morning. There has been no excise tax increase in 2012, which should help the market to stabilize. We have an experienced and talented organization. All this confirms that we are very well positioned to achieve our goal of continuing our profitable growth in 2012 and beyond.

(SLIDE 41)

I will now be happy to answer your questions.