

**Remarks by Raman Berent
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Philip Morris International Inc.**

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(SLIDE 1.)

Good morning ladies and gentlemen, and welcome to Berlin. My name is Raman Berent. I am the Managing Director of Philip Morris Germany and Austria. It is my pleasure to share with you an overview of PMI's profitable tobacco business in Germany.

(SLIDE 2.)

My 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.

(SLIDE 3.)

Please allow me to introduce my management team. Present today are Matthias Knoop, Operations Director; Ralf Lothert, Corporate Affairs Director; Mark Niehaus, Finance Director; and Arndt Wippert, Sales Director. On the management team, but unfortunately unable to be with us today, are Wagner Erne, Marketing Director; Siegfried Hanke, HR Director; Lutz Hollemann, responsible for Other Tobacco Products or "OTP", which comprises all tobacco products other than cigarettes; Susanne Hübner, our Legal Counsel; and Alexander Ott, Manager Sales and Marketing Austria.

I am privileged to lead such a talented and committed team, which has amassed a wealth of experience in a variety of markets and functions across the PMI world.

(SLIDE 4.)

I will start my presentation with a quick overview of Germany, and then talk about the fundamentals of our business environment and the market dynamics in the German tobacco industry. I will share with you our key objectives and the strategies that we have developed and are implementing that should enable us to remain the undisputed market leader in Germany and to continue to grow our profitability further going forward. After some concluding remarks, I will be happy to take your questions.

(SLIDE 5.)

Germany has a population of around 82 million. Its people are prosperous with an average GDP per capita of just over \$40,000. Germany is the home to world-leading companies in engineering, transport and chemicals. It is also one of the major exporting nations. In spite of these solid fundamentals, Germany has not been immune to the global economic crisis and its GDP declined by 5.0% last year. Nevertheless, the German economy has weathered the economic crisis quite well. Short-time working arrangements and government aid packages to stabilize employment and income levels, have limited the increase in unemployment, which rose only modestly from 7.8% in 2008 to 8.2% in 2009.

(SLIDE 6.)

The size of the German tobacco industry is around 125 billion units. This is split roughly 70:30 between cigarettes and OTP, such as Roll-Your-Own, Make-Your-Own and filter cigarillos. The adult smoking incidence is 23% and the average daily consumption is 15.6 cigarettes.

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PMI has a long history in Germany, as *Marlboro* was launched here back in 1960. The success of *Marlboro* enabled us to become the market leader in West Germany in 1987. We further expanded our presence in the market after the unification of East and West Germany with the acquisition in 1990 of the Dresden Cigarette Manufacturing Company, which brought us notably the traditional Eastern German brand *f6*.

(SLIDE 8.)

We manufacture all our traditional East German cigarette brands in the Dresden factory. However, the key role of the factory is in the production of OTP for the German and other EU markets. Last year, we produced the equivalent of over 13 billion units in Dresden with 400 employees.

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Our main factory in Germany, which you will visit after this presentation, is here in Berlin. With Bergen-op-Zoom in Holland and Izhora in Russia, it is one of the three largest PMI manufacturing facilities. While it supplies the German market with cigarettes, the majority of its volume is for exports to a wide range of markets including Japan and the Middle East. In 2009, our Berlin factory produced more than 63 billion cigarettes, while employing about 1,300 people.

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In Germany, tobacco products are shipped directly from the manufacturer by a nationwide logistics partner to around 800 wholesale customers. These service four main trade channels. There are over 50,000 food retail outlets, which account for 36% of cigarette and a growing 46% of OTP sales. These have the most price-conscious customers and are the principal source of private label products. Two other traditional channels are tobacconists, of which there are nearly 30,000, and vending. With the introduction in 2006 of requirements to modify vending machines to prevent youth access, about 140,000 machines were taken out of service, and vending now accounts for just 12% of cigarette sales. The growing channel for the sale of cigarettes in Germany is gas stations. The 13,400 or so outlets now account for the retail sale of over one in four cigarettes.

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Cigarettes are by far the largest segment in the German tobacco market. The recent decline in cigarette sales has been moderating and volume was down just 1.7% in 2009 to 85.5 billion units. OTP grew strongly last year by 7.1% to 39.7 billion cigarettes equivalent. In addition, Germans consumed an estimated 20.3 billion cigarettes that were purchased outside the country and that we refer to as “border sales”. This includes both legal and illegal sales. This category has declined slightly over the last two years. Overall, the consumption of tobacco products in Germany is estimated to have increased slightly to 145.5 billion units in 2009 compared to 2008.

(SLIDE 12.)

Since 2007, the estimated share of consumption of industry cigarettes has remained fairly constant at 52 to 53%. However, within the cigarette category, there was a shift from higher price to lower price industry brands. The share of private label cigarettes remained stable.

(SLIDE 13.)

The relative importance of the OTP segment in Germany can be explained by the substantial tax advantage that such products enjoy.

The excise tax on cigarettes contains a specific element of €82.70 per thousand and an ad-valorem rate of 24.66%. The level of the Minimum Excise Tax is between €139.30 and €143.70 per thousand. Fine cut products meanwhile are taxed at just €34.06 per kilo, or less than €26 per thousand cigarettes equivalent, and an ad-valorem rate of just 18.57%. Furthermore, the Minimum Excise Tax is under €40 per thousand cigarettes equivalent, less than one third of the rate imposed on cigarettes.

Not surprisingly, this is reflected in substantial retail price differentials between the two product categories.

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Within the cigarette category, the price differentials in Germany are not substantial. The leading premium brand *Marlboro* retails at €4.70 per 19. Lower price *L&M* sells for €4.25 per 19, just €0.45 or 10% below *Marlboro*, and is currently being increased to €4.30 per 19. Private label brands meanwhile retail around €3.70 per 19, a total discount of 21% versus *Marlboro*.

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Our key goal in this complex and evolving market is to generate steady local currency profit growth. We plan to achieve this through three main strategies. We are seeking to ensure that the fiscal and regulatory environment remains reasonable and sustainable. We are further developing our cigarette portfolio to secure future market share growth. Finally, we are reinforcing and expanding our presence in the OTP segment.

Our core strategies are supported by an efficient and effective infrastructure for both manufacturing and distribution, and by a highly motivated, skilled and agile organization that we continuously align to the needs of our business.

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Germany has reasonable public smoking restrictions with slight variations by state. Generally, smoking is prohibited in public buildings, transportation and schools, but permitted in separate rooms in restaurants, in bars and in work places.

Communication with adult consumers is allowed in outdoor and cinema and at the point-of-sale, though banned in print media. One-to-one consumer activities, such as promotions and direct mail, are also allowed.

Our objective is to maintain a reasonable regulatory environment through our engagement with key stakeholders at both the federal and state level. We are particularly focused on our ability to continue to communicate with adult smokers.

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Our Corporate Affairs strategy is in particular focused on excise taxation and related matters. Our objective is that all tobacco products should be taxed in a fair and consistent manner, and that product definitions should be clear, sensible, and consistent with EU requirements.

The new EU Excise Taxation Directive proposes that the gap between the excise tax on cigarettes and fine cut be gradually reduced. We are working with key stakeholders to try and accelerate this process in Germany. In addition, we are

seeking a reinforcement of the Minimum Excise Tax system in order to enhance the predictability of government revenues.

(SLIDE 18.)

Our second key strategy is to further develop our cigarette portfolio in order to secure future market share growth and increase our profitability.

(SLIDE 19.)

During the 2007 to 2009 period, competitive shares in the German cigarette market remained very stable. PMI was the clear market leader with a share of 36.5% in 2009.

(SLIDE 20.)

In June last year, we increased the prices of our cigarettes by €0.20 per pack of 17s across our portfolio. This was followed a month later by a new law, which raised the minimum cigarette pack size from 17 to 19, and which translated into a higher optical price per pack. Whilst these measures enhanced our profitability, we recognized that consumers might take a little while adjusting to the higher out of pocket expense.

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Our competitors separately announced new price lists, but some did not fully implement higher retail prices and the increased pack size in the market until towards the end of the year. Accordingly, our market share came under pressure during this period. In the first quarter of 2010, it further declined to 35.2%, whereas the share of private label increased slightly.

However, our year-on-year share decline moderated significantly in the first quarter compared to the fourth quarter of 2009, and our share has increased sequentially every month this year. I am therefore optimistic that we should be able to restore our market share to previous levels, thanks to the strength of our brands.

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We have two strong legs in the German cigarette market. *Marlboro* is the clear leader in the upper price segment with a segment share of 47% in the first quarter of 2010, well ahead of *Gauloises Blondes*, *Lucky Strike* and *HB*.

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L&M is one of the leading brands in the lower price segment, with a segment share of 22% in the first quarter of 2010. It is supplemented by *f6*, the leading local heritage brand in Eastern Germany, which has a segment share of 7%.

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The market share of *Marlboro* declined from 25.3% in 2007 to 23.0% last year, and 21.3% in the first quarter of 2010. This is attributable predominantly to the decline in the upper price segment.

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The new architecture provides us with a unique opportunity to significantly expand the reach of *Marlboro* by addressing different consumer needs in terms of product and taste, as well as image diversification.

The *Marlboro* Red or Flavor line represents the original *Marlboro* brand values like authenticity, freedom and adventure, but it is no longer constrained to full flavor variants. It consists of *Marlboro Red*; *Marlboro Flavor Mix*, formerly known as *Marlboro Mx4 Flavor*; *Marlboro Flavor Note*, which replaced *Marlboro Silver* in December last year; and *Marlboro Blend 29*, an additive free variant. The Red line accounted for 64% of total *Marlboro* sales in Germany during the first quarter of this year.

The *Marlboro Gold* line was established last July as a distinctly separate pillar through the *Marlboro Gold* pack revamp. It is a smoother tasting, more modern proposition. The Gold line accounted for 33% of *Marlboro* sales.

Finally, there is the *Marlboro* Fresh line, consisting in Germany of two traditional menthol propositions, in a full flavour and in a lighter tasting version. While Fresh accounted for just 3% of brand sales in the first quarter, *Marlboro* is the best selling menthol brand in Germany with a 28% segment share.

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In February this year, we introduced the new *Marlboro Red* and *Marlboro Flavor Mix* packs in the German market. We have sought to highlight the new *Marlboro Red* pack, as the brand family anchor, while establishing the whole *Marlboro* Flavor Family offer in the mind of our consumers. The terms “Redesigned, same taste” and “*Marlboro* united in flavor” have been used to further reinforce the visual language, while confirming consumers in their brand choice.

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We have been supporting the *Marlboro* Flavor line since March with a promotional campaign that interprets the brand's core values of freedom, adventure and authenticity in a modern way.

(SLIDE 28.)

Turning now to *Marlboro* Gold, the qualitative consumer feedback and the sales performance have been positive since the pack revamp, confirming that we are on the right track. We have since expanded the line up with *Marlboro Gold Advance*, a full flavor offer in a black pack.

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It is of course more difficult to implement these improvements when there is an economic downturn and consumers are more price-conscious, as success does not immediately translate into higher volumes and shares. However, we are convinced that this is the right approach and we are seeing some initial positive signs, most notably an increase in 2009 in *Marlboro's* share among Young Adult Smokers, defined as legal age (minimum 18) to 24 year olds. This is the result of our comprehensive work on *Marlboro* throughout the last two years, with the new brand architecture, innovative product introductions, and new marketing programs.

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We have successfully built a strong second position in the growing lower price segment with *L&M*. In 2006, we started to expand our support for the brand, which at that point in time had only a minor presence outside its regional stronghold in the South of Germany. Since then, *L&M* has consistently outperformed its two main competitors, *JPS* and *Pall Mall*, and is now vying with *JPS* to become the segment leader.

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We are seeking to extend the growth momentum of *L&M* with a brand architecture consisting of mainstream variants, such as *L&M Red*, and "image sharpeners", such as *L&M Night*, which offer differentiated alternatives to *L&M* smokers.

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Our mainline *L&M* campaign, specifically developed for the German market, focuses on modernity, dynamism and an urban life-style.

(SLIDE 33.)

L&M Night is positioned as an individualistic image brand for outgoing adults, who look for something that is different from the ordinary, especially after hours.

L&M About addresses a different target group. As an expression of a modern and progressive cigarette brand, *L&M About* offers aspiring artists a platform for displaying their work.

Ultimately, the goal of our differentiation strategy is to allow consumers to stay within a growing franchise but remain differentiated individuals.

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L&M has been gaining market share as a result of these activities, and has been expanding its position among Young Adult Smokers at an even more rapid pace. Between 2007 and 2009, *L&M's* share among YAS has increased from 8% to 17%. The growing positive difference between *L&M's* YAS share and its market share augurs very well for the continued future growth of the brand in Germany.

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PMI has three of the top ten brands in Germany, with the largest premium brand *Marlboro* and the fastest growing low-price brand *L&M*. Together with *f6*, these brands account for one third of this very large market. We are confident that the strength of our key brands, revised brand architectures, and consumer-relevant new product introductions, combined with marketing programs that are centred on adult consumer engagement, will enable us to again grow our overall cigarette market share going forward. This view is reinforced by the fact that, in 2009, our Young Adult Smoker share was four share points above our overall smoker share.

While *f6* is more than holding its own in the traditional East German heritage segment, it has a limited wider appeal.

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Therefore, we have decided to develop a second international brand to complement *L&M* in Germany and are in the process of re-launching *Chesterfield*, a brand that has proven its potential in several West and East European markets. You should see examples of the new *Chesterfield* packs at retail during your market visit this afternoon.

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Our main goal is to reverse the growth of the OTP segment through less favourable relative excise taxation. However, this will take time and, in the meantime, we intend to become a more important player in the segment.

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As I mentioned earlier, OTP accounted for 27.3% of the estimated total consumption of tobacco products in Germany last year. Within the OTP category, fine cut, which includes both Roll-Your-Own and Make-Your-Own products, accounted for nearly 90% of the segment. The other main sub-segment is filter cigarillos, where we have a 20% share. However, today I will focus only on fine cut.

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The lower price industry group is the largest fine cut price segment and accounts for about half the market. Private label fine cut products have grown from about a quarter of the market in 2007 to over 30% today, mostly at the expense of the upper price products.

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In 2005, our presence in the fine cut market was limited to some traditional *Marlboro* variants and the recently introduced *Next* fine cut product range. The Make-Your-Own category in fine cut was still quite small, as price-conscious smokers were able to turn to the easy to use “tobacco portions”, a cigarette-like product that benefitted from a very favorable tax loophole, until the European Court of Justice closed it in 2006.

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Subsequent to that decision, we expanded our fine cut portfolio to our two other key cigarette brands, *f6* in 2006 and *L&M* in 2007, with variants that included both 30 gram pouches and 70 and 140 gram tins.

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These brand and product introductions were the key driver of the expansion of our market share from 3.7% in 2005 to 13.8% in the first quarter of this year, a gain of over 10 share points. About 60% of our current fine cut volume is being generated by new products and we believe that we have a promising pipeline of new products to enable us to grow our share further.

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These are our latest product introductions in the German fine cut segment.

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Our product and brand success has enabled us to capture 19% of the industry fine cut volume, that is excluding private label. The largest company is Imperial with an estimated 27%, followed by BAT with 20%. We have been closing the gap on these two companies over the past few years and we will strive to further grow our share going forward behind our successful consumer-relevant innovations and line extensions.

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The three key strategic priorities that I have outlined for you today require an agile and winning organization to implement them successfully, as well as a strong infrastructure.

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Our organization has been re-aligned to ensure that we focus our people and our resources on the key strategic business priorities. We have established a centralized consumer engagement organization, supported by a restructured field sales force. We have moved from a regional focus in sales to a strong focus on key accounts and channel management. We have set up a dedicated OTP group in recognition of the specific characteristics of the category. Finally, in order to free up resources to devote to these priorities, we have streamlined our back-office support, notably taking advantage of the shared service center that PMI has established in Poland.

Our people remain a cornerstone of our current and future success. We are proud to have extremely skilled, motivated and dedicated employees. We have a strong pipeline of upcoming young professionals, which we continuously nurture and develop through on and off the job training and both local and international project assignments. So all of us are ready for the challenges ahead.

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So let me sum up with some brief concluding remarks.

The total tobacco market in Germany is the sixth largest in the world outside the USA. The estimated consumption of tobacco products in Germany has stabilized and actually increased in 2009, though smokers remain very price conscious. PMI is the clear market leader in the more profitable cigarette category. With *Marlboro* clearly leading the upper price segment and *L&M* in the lower price segment, we have the two best brands in the market. The new architecture and consumer-relevant innovations should enable *Marlboro* to grow share in the upper price

segment. *L&M* is the fastest growing cigarette brand in the German market and its particularly strong showing among Young Adult Smokers indicates that it has additional growth potential. PMI has made significant inroads into the fine cut market, where it had traditionally been very much under-represented. Over time, we expect to be able to convince the government to reduce the excise tax advantage of OTP and reinforce the Minimum Excise Tax regulations. Our strategies are being implemented by a highly skilled and motivated organization, which is providing both the German affiliate and the wider PMI world with key management talent for the future.

Finally, and most important, let me remind you that Germany is one of the most profitable markets for tobacco products in the world and that, in local currency, we again increased our profitability in this important market last year, helping to contribute to PMI's strong overall financial results.

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Thank you for your interest. I will be happy to take your questions.