

**Remarks by Roman Militsyn  
Managing Director Korea  
Philip Morris International Inc.**

**Citi Investor Presentation  
Seoul, 10 March 2010**

**(SLIDE 1.)**

Good morning ladies and gentlemen, and welcome to Seoul. My name is Roman Militsyn. I am the Managing Director of Philip Morris Korea. It is my pleasure to share with you an overview of PMI's success in the Korean market.

**(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. With us here today are David Abbott, Finance Director; Rodney van Dooren, Sales Director; Dominique Mabru, Marketing Director; and Byung Chul Kim, Corporate Affairs Director. On the management team, but unfortunately unable to be with us today, are Arsenio Sabado, Joao Brigido and Serge Morosow, responsible for Human Resources, Operations and Legal respectively. As you can see, the team is culturally very diverse bringing a wealth of different experience.

**(SLIDE 4.)**

Today I will start with a quick overview of Korea, talk about the fundamentals of the local cigarette industry and explain our key objective and the strategies we are pursuing and why these have enabled us to become the fastest growing tobacco products company in Korea. After some concluding remarks, I will be happy to take your questions.

**(SLIDE 5.)**

Korea has a population of just under 50 million people. Of this, 20 million are living in the Seoul metropolitan area, and a further 13 million live in 6 other large cities. The GDP per capita is \$17,000, a level similar to the Czech Republic and Taiwan. Korea has enjoyed fantastic growth over the last 20 years, with GDP tripling over that period. The Korean economy is export-led, and is home to world-class manufacturers in the areas of electronics, cars and shipbuilding. Being export-led meant that Korea was not immune to the global economic crisis. The economy nevertheless grew slightly in 2009, making it the third best performing country in the OECD.

The Korean cigarette market is the 8th largest in the world excluding the U.S.A and China, with a smoking incidence of 25%.

**(SLIDE 6.)**

Industry volume has grown in recent years, reaching 95 billion units in 2008, driven mostly by the absence of excise tax and price increases. The resilience of the Korean economy enabled the industry size to hold steady in 2009.

**(SLIDE 7.)**

Looking at price segments, around three quarters of the market is at a single premium price point of 2,500 Won per pack. This is just a little over \$2. For reference, a Big Mac costs 3,400 Won, meaning that cigarettes remain relatively affordable. The premium segment has been growing steadily and the above premium segment is also growing, albeit more slowly. The price range in this segment is 2,800 Won and above. The growth of these segments has come at the expense of the below premium segment, where retail prices range from 1,900 to 2,300 Won.

**(SLIDE 8.)**

The Korean market is highly competitive with four major players. The Korea Tomorrow and Global Corporation (or "KT&G"), the former government monopoly, was privatized in 2002. Our international competitors are BAT and Japan Tobacco (or "JT").

The chart shows the cigarette brand families that have achieved a market share greater than 1%. As you can see, we are well represented in the premium segment with *Marlboro*, *Parliament* and *Lark*. In addition, we are the only international company to be present in the more profitable above premium segment where *Virginia Slims* has obtained a 50% segment share.

**(SLIDE 9.)**

Our strong and balanced brand portfolio has helped us to achieve tremendous growth. In each of the last 3 years, we have achieved in-market sales growth of 20% or more, nearly doubling our volume from 7.5 billion cigarettes in 2006 to 13.6 billion in 2009.

**(SLIDE 10.)**

This tremendous volume growth has also translated into excellent market share gains, with a 5.8 percentage points increase since 2006, to reach 14.4% in 2009, making us the fastest growing tobacco products company in the market. We have gained share at the expense of KT&G, the market leader.

**(SLIDE 11.)**

Our objective has remained the same for the last few years: we intend to become the number one international tobacco products company in Korea. Given the

tremendous growth we have accomplished, we are optimistic that we can achieve this objective in the near future.

The three strategic pillars driving our recent success have been, and continue to be:

- Seeking to secure a predictable fiscal and regulatory environment;
- Enhancing our brand portfolio in line with evolving consumer preferences; and
- Optimizing our presence at the point of sale in order to reinforce the equity of our brands.

These three pillars are supported by an efficient and effective infrastructure for both manufacturing and distribution; and an agile and self-sustaining organization that skilfully implements the strategies from which our success is derived.

**(SLIDE 12.)**

Let us move onto the first of our strategies: to seek to secure a predictable fiscal and regulatory environment.

**(SLIDE 13.)**

Excise tobacco taxation is specific in Korea. The last tax increase was 409 Won per pack in December 2004. This resulted in a 500 Won price increase, after taking into consideration the VAT of 10% and retail margins. Consequently, the price of premium brands increased by 25% to 2,500 Won, bringing excise tax incidence up from 56% to 62%.

This resulted in a large decline in industry volume in 2005, magnified by trade loading at the end of the previous year. In order to address the disruptive nature of unpredictable, large tax increases, we have been actively engaging stakeholders to try to convince them to adopt a moderate and predictable tax increase scheme, for example by linking taxes to inflation. We believe that such a scheme, where tax and prices would go up every year, would be tolerable for consumers, create long-term predictability for manufacturers, and ensure a steady revenue stream for the government. Additionally, it would provide a potential opportunity to increase manufacturer margins through pricing.

We have received positive feedback from a number of tax experts, lawmakers, government officials and think-tanks on the suitability of such a scheme in Korea. The timing of the next tax increase nevertheless remains unclear and will depend on developments in the economic and the political environment. However, we are cautiously optimistic that a bill of this nature could be presented in the National Assembly this year.

**(SLIDE 14.)**

Korea's regulatory environment is somewhat more restricted than many other Asian markets. Direct contact with consumers through promotions, internet sales and mail is prohibited. Generally, however, regulations on smoking and product display remain appropriate. We anticipate that graphic health warnings will become

mandatory in the coming years, but we do not expect the size to adversely affect our ability to adequately display our trademarks. Overall, we expect regulations will continue to remain reasonable and we are engaging with the relevant stakeholders to state our positions in this area clearly.

**(SLIDE 15.)**

Our second strategy is to enhance our brand portfolio based upon our insights about Korean adult smokers.

**(SLIDE 16.)**

Koreans go through distinct life stages that closely reflect the expectations upon them from society. In their 20's, people are driven by individualism and freedom. Later, they become motivated by success, and as they get older, they become more focussed on family and recognition.

**(SLIDE 17.)**

As we have seen, adult consumers are trading up to premium and above premium products. International brands are becoming increasingly popular, with an appreciation of the differentiated offerings available. For smokers in their 20's, switching is commonplace, providing agile industry players with opportunities to grow market share.

Younger adult smokers have a tendency to prefer flavourful and king size cigarettes, whereas older smokers prefer lighter tasting cigarettes, and are more likely to smoke slims and superslims. Overall, the market is very mild with a sales weighted average tar of 3.6 mg. The 1mg tar and below segment represents about a third of the market.

**(SLIDE 18.)**

*Marlboro*, our flagship brand, has performed very strongly over the last three years. Its market share has almost doubled since the first quarter of 2006 to reach 6.3% by the fourth quarter of 2009. This has been achieved through continual product initiatives, aimed specifically at confident, dynamic and freedom oriented adult smokers in their 20's. Such initiatives have included flavor communication on pack to reinforce the product proposition, a packaging upgrade, and the *Marlboro Flavor Plus* innovation.

**(SLIDE 19.)**

*Marlboro Flavor Plus* features an innovative tobacco-based filter system and a unique sliding pack, and offers enhanced flavor in a 1mg tar cigarette. Korea was the first market where PMI introduced this pioneering offer at the end of 2006. Since then, *Marlboro Flavor Plus* or *Marlboro Filter Plus* have been successfully launched in nearly 40 other markets. In Korea, the product has had a significant positive halo effect, helping to improve adult smokers' perception of the entire brand family, and this was instrumental in accelerating *Marlboro's* market share growth in the last 3 years.

**(SLIDE 20.)**

Our product initiatives are supported by communications tailored to our audience. The iconic *Marlboro* cowboy is made relevant through edgy, dynamic and modern visuals, which are in tune with the values of existing and potential in-switching *Marlboro* adult smokers.

**(SLIDE 21.)**

Three years ago *Marlboro* was the third leading brand in the Legal Age (19 in Korea) to 24 year old segment, with around a 15% smoker share of this age segment. Our innovative and relevant product initiatives and communications have helped to propel the brand to the top spot in this segment, with over a quarter of the smokers in this age group now consuming *Marlboro* as their main brand, which bodes very well for the continued growth of the brand.

**(SLIDE 22.)**

Let's move to the second key brand family in our portfolio, *Parliament*. At the beginning of 2006, its market share was less than 1%. Our focused approach on building awareness about its unique recessed filter and prestigious luxury image, and most recently, the introduction of a 3mg tar offering, *Parliament Mild*, have accelerated *Parliament's* growth, now reaching close to 5% market share. This makes *Parliament* the fastest growing brand in the market over the period.

**(SLIDE 23.)**

*Parliament* communication, under the umbrella of the "Moon Campaign" has proven especially effective. The illumination of the recessed filter reveals a mysterious but powerful moon. The communication, emphasizing prestige and sophistication, positively resonates and increases brand popularity among confident and successful adult smokers in their 20's and 30's, as we have just seen in its market share performance.

**(SLIDE 24.)**

As I have mentioned, *Virginia Slims* is the leading brand in the above premium segment, with a 50% segment share. It comes in both slims and superslims offerings, which are particularly popular among mature adult smokers. Despite the recent economic fragility, *Virginia Slims'* market share has held up robustly, achieving a 3.2% market share in the fourth quarter of 2009. This was supported by relevant line extensions in the 1mg tar segment, a packaging upgrade to stay in tune with evolving consumer expectations and an on-pack quality campaign.

**(SLIDE 25.)**

*Virginia Slims* communication focuses on reinforcing its above premium positioning and high quality product proposition, which is relevant to mature smokers looking for stability, appreciation and recognition.

**(SLIDE 26.)**

With the fourth brand in our portfolio, *Lark*, the first 1mg tar product to be introduced in Korea back in 2002, and currently holding a 1.1% market share, we believe that we have a strong, balanced portfolio. We are represented across all adult age categories, from *Marlboro*, with a median adult smoker age of 28, to *Virginia Slims*, having a median adult smoker age of 41.

The positive growth in market share for our major brands, as we have seen, demonstrates that our portfolio is very relevant in addressing the specific preferences of the various adult smoker groups in Korea, based on their values and aspirations, as well as evolving tastes. Supported by innovative and tailored product initiatives and communication, we are positioned very well for future growth.

**(SLIDE 27.)**

The third of the strategies underpinning our success is to optimize point of sales presence to reinforce the equity of our brands.

**(SLIDE 28.)**

We refer to retail store chains as key accounts, which in Korea are dominated by franchised convenience store chains. They are becoming increasingly popular as a place to purchase cigarettes, particularly among the young adult smokers, driving our focus on this channel. For example, last year, we signed a contract with one of the major chains, *7-Eleven*, that allowed us to elevate our platform to ensure improved portfolio display, enhanced support for new product initiatives and consumer communication.

**(SLIDE 29.)**

Although we enjoyed strong growth in key accounts before, since this contract our market share has been increasing more rapidly in *7-Eleven*, with a positive impact on PMI sales in other key account chains. In December 2009, we became the number one international tobacco products company in key accounts.

**(SLIDE 30.)**

As for independent retail outlets, we prioritise those outlets that have high adult customer traffic, strong visibility potential, and are strategically located. We are upgrading the point-of-sales platform in terms of quality, impact and functionality, in those outlets that most clearly meet our requirements.

**(SLIDE 31.)**

The three strategies I have discussed, are supported by a platform of an efficient and effective infrastructure for both manufacturing and distribution, and are facilitated by an agile and self-sustaining organization.

**(SLIDE 32.)**

In 2002, we opened our manufacturing facility in Yangsan, near Busan, where we produce all the cigarettes we sell in Korea. Busan is Korea's second largest city, and

the fifth largest port in the world. The Korean consumer demands the highest quality and we have delivered to those high standards. The Korean Customer Satisfaction Index survey is conducted annually by independent, reputable consultants among customers who use the product or service. PMI achieved the top ranking in the tobacco sector in 3 of the last 4 years.

We have achieved the highest quality score across all PMI factories for three consecutive years. We are also leading the way in PMI in environmental standards with our low rate of energy consumption. Additionally, we are in the top quartile within PMI for machine productivity and maintenance management. We continue to expand our manufacturing capabilities to accommodate increasing demand for our products in this market.

**(SLIDE 33.)**

We ship our products to four exclusive distributors. Through their network of depots in assigned territories across the country, they provide direct delivery to 81,000 independent outlets, accounting for 64% of our sales volume. 36% of our volume is sold through key accounts, the importance of which is expected to continue growing in the years to come. In total, out of some 130,000 licensed outlets in Korea, our products are available in 94,000, accounting for an estimated 93% of total industry volume.

The reliable, effective and efficient service provided by our distributors, with whom we have built powerful business partnerships over many years, simplifies our internal processes and helps limit our overheads. It also frees up our own field resources to focus on brand building activities.

**(SLIDE 34.)**

During the 20 year history of PMI in Korea, we have grown from 4 people to nearly 500 experienced and committed employees. We have international expertise in the very senior positions. Their – and my – responsibility is to develop the local talent using customized training programs, cross-functional moves and international assignments. Plans are in place to replace most of the current management team with Korean nationals. Nevertheless, the international success of our top Korean talent means they often are cherry-picked for other positions elsewhere within the company. We are proud to be a feeding ground for PMI. For the last 3 years, we have been given the coveted “Best Company to Work For” award by Hankyoreh Economy21 and the Korea Economic magazines.

**(SLIDE 35.)**

In conclusion, Korea is the eighth largest cigarette market in the world outside of China and the USA, with an increasing consumer preference for premium and above premium international propositions, and a dynamic adult consumer base that provides opportunities for agile players to grow share. Importantly, based on our continuous engagement with relevant stakeholders, we expect to secure a reasonable fiscal and regulatory environment going forward.

We are the fastest growing tobacco products company in the market with exceptional volume and share growth. Based on our comprehensive understanding of Korean adult smokers, we have developed a strong and balanced brand portfolio through innovative, relevant product initiatives and communication to satisfy varied consumer preferences and needs.

We are continuously enhancing our presence in point of sale in terms of impact and quality, focusing on strategically important channels.

These factors – our brand portfolio, point of sales presence, effective and efficient manufacturing and distribution, agile and self-sustaining organization – signify that PMI has the scale, flexibility and talent for continued profitable growth in Korea.

**(SLIDE 36.)**

Thank you again for coming all this way so that we could share with you our enthusiasm about the successful development of PMI in Korea and the excellent outlook for the future. I will now be happy to take your questions.