

**Remarks by André Calantzopoulos
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Philip Morris International Inc.**

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Good morning ladies and gentlemen. It is a pleasure to be here with you in London again this year at the invitation of JP Morgan. I would like to welcome all of you in the audience today, as well as those joining us via the audio webcast. A copy of my remarks and selected slides will be posted today to the Philip Morris International Investor Relations website at www.pmintl.com.

Before I begin, let me inform you that my observations today may contain projections of future results. I direct your attention to the Forward-Looking and Cautionary Statements section at the end of today's news release for a review of the various factors that could cause actual results to differ from projections. I should also add that I will not be commenting on our second quarter earnings, which we will release on July 23rd.

After some introductory remarks, I will review our recent results, explain our growth strategies, with a particular focus on our brand portfolio, and provide you with an update on the development of our business in key markets. At the end of the presentation, Hermann Waldemer, our Chief Financial Officer, and I will be happy to answer your questions.

What are our aspirations and ambitions for the future as an independent company?

Quite simply, we aspire to deliver top-tier performance, not only within the tobacco industry, but within the broader, global consumer packaged goods industry. We believe that we can deliver strong, predictable and consistent growth benefiting, in part, from the attractive characteristics of our industry, which include solid pricing power, a cost base that is not unduly prone to speculative volatility in commodity costs, attractive margins and an inherent ability to generate strong cash flows. This will enable us to return significant amounts of cash through dividends and share repurchases to reward shareholders.

Based on reported 2007 net earnings, Philip Morris International is the fourth most profitable global consumer packaged goods company in the world, just behind Unilever, but ahead of such companies as Coca-Cola and Pepsico.

Focusing just on the tobacco industry, PMI is significantly larger in volume terms than not only BAT but also the now expanded Japan Tobacco and Imperial.

PMI's lead is even more apparent in terms of profitability with net earnings in 2007 close to the level of the combined net earnings of BAT and Japan Tobacco, including Gallaher.

We have enjoyed solid growth momentum. Over the 2003 to 2007 period, cigarette shipment volumes grew at a compound annual rate of 3.7%, net revenues excluding excise taxes expanded at a compound annual rate of 9.3% and operating income increased at a compound annual rate of 9.5%.

Our first quarter results this year were robust, reflecting improvements in our business fundamentals, as well as favorable currency and some timing benefits. Cigarette volume increased by 2%, net revenues excluding excise taxes grew by 14%, operating income was up 32% and EPS grew by 31% on a pro-forma adjusted basis.

During the quarter, OCI increased by \$683 million including \$255 million of favorable currency. Excluding currency, acquisitions and last year's pre-spin transfer of our American duty-free business to PM USA, OCI was up a robust 17.5%.

The volume of *Marlboro* increased in three out of our four regions. Eight of our next ten largest international brands achieved volume expansion, with double digit growth for *Chesterfield*, *Merit*, *Next*, *Parliament* and *Virginia Slims*.

PMI's volume was up in three of our four regions, while every region reported higher revenues and profitability, net of the favorable impact of currency and the benefits derived from our acquisitions.

OCI gains were driven by higher pricing and lower costs, partly offset by unfavorable volume and mix, attributable to inventory adjustments in the Czech Republic and volume erosion in France and Germany.

These quarterly results, combined with the positive industry environment that we continue to project, give us confidence in our longer-term constant currency growth targets, which we made public in March during our spin-off road show.

Our actions going forward will be guided by a comprehensive set of strategies which will enhance our growth and shareholder value. These were explained in detail during our March presentation.

Today I would like to focus on how we will grow by reinforcing our position in profitable consumer segments through enhanced consumer understanding and innovation.

In the premium segment we will seek to reinforce our leading position, while we will further build our growing share of the mid-price and profitable low-price segments, where we remain under-represented.

In addition to these price segment priorities, we are focusing on two specific taste and product opportunities. These are the menthol category, where we are the international market leader, and slimmer diameter cigarettes.

Let me start with the premium segment and *Marlboro*. How did the brand perform in the first quarter?

Overall the brand's volume was down 1% driven by an 8% decline in the EU Region that is attributable to total market erosion and a slight decrease in *Marlboro*'s market share. This is mainly due to Germany and a difficult price point in France. While the environment for *Marlboro* in Western Europe remains challenging because of continued consumer price sensitivity, we believe that the strategies that we have developed for the brand will enable us to achieve a stable market share for the franchise in this region this year. This is exemplified by the share stability that we have witnessed in recent months on a sequential basis in both France and Germany.

Outside the EU, *Marlboro* achieved solid growth, with volume and share expansion in a wide range of key markets, including Egypt, Indonesia, Korea, Mexico and Russia, to name a few.

The demographic profile of a brand is an excellent measure of a brand's inherent aggregate strength. Comparing 2007 *Marlboro*'s smoker share in the Legal Age minimum 18 to 24 age group, which I will refer to as "Young Adult Smokers, with the brand's overall smoker share, we note that in all but one of 12 key countries across our four geographic regions the share difference is positive, which augurs well for *Marlboro*'s future.

We strongly believe that we can return *Marlboro* to a growth path thanks to the strategies that we are currently implementing.

These can be summarized as follows:

- the establishment of a new brand architecture with more distinctive identities for *Marlboro* Gold and *Marlboro* Fresh. We will clearly differentiate them from *Marlboro* Red and increase their appeal to consumer groups that *Marlboro* has not traditionally addressed, while retaining *Marlboro*'s unique characteristics and heritage;
- the expansion of our innovation pipeline, which so far has focused primarily on the *Marlboro* Red line-up; and
- the roll-out of successful new products across our superior infrastructure in a way that leverages our scale and worldwide leadership while tailoring launches carefully to local consumer preferences.

In the new *Marlboro* architecture, *Marlboro Red's* positioning will continue to be anchored upon its unique rich flavor that represents the timeless masculine values of freedom, independence, mastery of one's destiny and being in charge, focused and driven.

Marlboro Gold's positioning will be refined to become the brand that explores new dimensions in smoking and is progressive, open-minded, casually elegant, inventive and confident.

Marlboro Fresh will be the brand that provides refreshing sensations, with an easy-going and extroverted personality.

This new architecture will be established through appropriate packaging upgrades, line extensions, effective consumer communications and continued quality improvements.

We are confident that these refinements will reinforce *Marlboro's* consumer appeal and enhance its growth prospects.

PMI is intensifying its innovation behind *Marlboro*. Key recent initiatives include *Marlboro Wides*, *Filter Plus* and *Intense*, as well as new taste directions in menthol and a kretek clove product for Indonesia.

Consumer research results from many key markets confirm that these launches and their related marketing activities have added significant vitality and modernity to the brand. This is critical as *Marlboro* has continued to outscore competitive brands on virtually all other image attributes. Thus innovation is successfully reinforcing *Marlboro's* overall brand equity.

Marlboro Filter Plus is a real break-through product development. It has a unique four chamber filter including a tobacco plug for flavor. It is offered in an innovative slide pack. It builds on the *Marlboro* heritage while providing a more flavorful alternative to "super" and "ultra" light consumers. It is generally sold at a premium to the *Marlboro* family.

Marlboro Filter Plus was first launched in Korea in late 2006, where it has helped the brand family to reach a record market share of 4.5% in the first quarter of 2008.

During 2007, *Marlboro Filter Plus* was introduced in selected cities in a number of markets in Eastern Europe. It has already achieved around one share point in Moscow, Odessa and Almaty. Our latest research indicates that between 40% and 60% of *Marlboro Filter Plus* smokers are Young Adult Smokers and that the brand is successfully attracting consumers from key competitive brands with limited cannibalization.

Marlboro Filter Plus was introduced in Bucharest, Romania, at the end of November last year and launched nationally as of February this year. It has grown steadily each month to reach an estimated market share of 2.1% in Bucharest and 1.2% nationally in Romania in May, helping to drive the brand family to record levels.

Marlboro Filter Plus is being gradually rolled-out to additional markets in the EU, EEMA and Asia Regions. For example, it was launched in Kuwait in March and just a month later already achieved an estimated market share of 2.4%, while in May it was launched as *Marlboro Flavor Plus* in Greece, its first market in our EU Region.

Marlboro Intense is a rich, flavorful, shorter cigarette. It was launched nationally first in Turkey and has recently been introduced in Belgium and the Netherlands, where it has achieved an estimated market share of 0.4%.

In Italy, a lighter tasting version has been launched as *Marlboro Compact* in a silver pack. *Marlboro Compact* reached a market share of 0.9% within nine weeks of its national roll-out.

To support our leading position in menthol and to expand our franchise, we have developed a range of *Marlboro* line extensions that provide new refreshing sensations. These are *Marlboro Crisp*, *Fresh* and *Ice Mint*. These variants have performed well in the markets where they have been launched in Asia, and we are introducing them in additional geographies, most notably in Latin America.

Successful examples of the new menthol line extensions' share performance in the first quarter of 2008 include *Crisp Mint* with a 1.3% Nielsen share in Hong Kong, *Fresh Mint* with 1.2% also in Hong Kong and *Ice Mint* with 1.4% in Singapore.

Where permitted by local laws, we use our sales force to man promotions, with a particular focus on motor sports, where our long-standing collaboration with *Ferrari* and *Ducati* provides us with unique opportunities to differentiate *Marlboro's* equity.

Let me now turn to our other premium brands. We are extremely pleased with the performance of *Parliament*. This is a prestigious, elegant product, with a unique recessed filter, which is generally sold in the above premium price segment, thus generating superior margins.

In the first quarter of 2008, *Parliament's* volume increased by 19% as the new packaging formats and communications platform, which we recently introduced, added further vitality to the brand.

Parliament's growth has been particularly strong in Korea, Russia, Turkey and Ukraine, as exemplified by its share progression in all four of these key markets during the first quarter.

This momentum has continued into the second quarter and we are reinforcing the prestigious image of the brand with the selected roll-out of *Parliament Platinum*.

Virginia Slims is our premium proposition in the slims and super slims segment.

The volume of *Virginia Slims* grew by 14% during the first quarter of this year, behind the success of *Virginia Slims Noire* in Japan and the unique *Virginia Slims Uno* pack format.

The brand's key growth markets are Japan, Korea, Romania and Russia, where, *Virginia Slims* achieved market share gains in the first quarter of 2008 and this momentum has continued into the second quarter.

We are also expanding the successful *Virginia Slims* franchise to a number of new markets notably in the EU. For example, in Greece, the brand has achieved a market share of 0.3% just six months after its introduction.

L&M is our leading mid-price brand and it enjoys wide geographic coverage. As explained in March, the brand came under pressure in the EEMA Region as of 2005 due principally to its full-flavor heritage in the face of a rapid shift in consumer preference for lighter and smoother tasting products. Consequently, we re-positioned *L&M* as the progressive international mid-price brand delivering smooth taste. The re-launch in 2007 focused on Romania, Russia and the Ukraine. Initial feedback from consumer research is promising but, as we stated during our March road show, we expect a full turnaround to take approximately two years to materialize.

Comparing *L&M's* estimated market share in the first quarter 2008 to the same period last year, the brand remains under pressure in several key EEMA markets. This is not unexpected as smokers that are attracted by the smoother and lighter tasting new products are still outnumbered by traditional smokers that are leaving the brand.

However, the brand is performing well in Egypt and Thailand, as well as in several EU markets.

In the EU Region, where *L&M* is the second largest brand after *Marlboro*, *L&M's* volume increased during the first quarter, thanks to very strong growth in Germany, as well as an improved performance in France and the Netherlands.

To further encourage this growth, the brand is being geographically expanded and extended into a slims format in several markets.

We are continuing our worldwide roll-out of *Chesterfield*. The brand has strong momentum in its key markets of Italy, Russia, Spain and the Ukraine. In the first quarter, *Chesterfield's* volume increased by 18% and its market share increased in all four key markets.

The *Philip Morris* brand enjoyed volume growth of 5% with solid results in Argentina and Japan. The *Philip Morris* brand has been adapted to local consumer preferences. For example, it is a predominantly full flavor proposition in Argentina and France, but mainly a light flavored brand in Japan and Switzerland. In the latter, new innovative low-odor variants have recently been introduced to reinforce the brand's performance and image.

Muratti, our fourth important international mid-price brand, also achieved a 5% growth in the first quarter behind its success in Russia and Turkey. Planned line extensions are expected to further strengthen the performance of the *Muratti* family going forward.

PMI is reinforcing its presence in profitable low-price segments through international and local heritage brands.

During the first quarter, the volume of two of our three main international low-price brands, *Bond Street* and *Next*, continued to grow, while the volume of *Red & White* declined. This reflected our decision in Poland to improve profitability through higher pricing rather than to hold on to low margin volume.

We are also pleased with the performance of our local brands, such as *Diana* in Italy and *Delicados* in Mexico, as well as with our entire local portfolio in Indonesia. We continue to seek opportunities to leverage the local heritage of these brands.

Other Tobacco Products, or "OTP", which are often tax-driven substitutes for low-price cigarettes, have received greater focus from PMI over the last three years. Across the EU, innovations, brand and geographic expansion have driven our estimated category share up from 2 share points in 2004 to over 8 share points in 2007, a promising start that highlights our ability to perform strongly beyond our core cigarette expertise.

The acquisition from Imperial of the leading fine cut brand in France, *Interval*, as well as some other minor brands, is scheduled to close on June 30th. It is expected to add an additional two points to our OTP share position in the EU Region, which continued to expand in the first quarter of this year, driven by growth in Germany and Poland.

We continue to actively seek out other strategically and financially attractive acquisitions, alliances and other business development opportunities in cigarettes and other tobacco categories. PMI has an excellent track record in acquiring and integrating companies. Our businesses in Central and Eastern Europe, Latin America and Asia are excellent illustrations.

These business development activities are taking place within an overall industry context that is favorable. While we see an increasingly restrictive regulatory environment, we believe that this is manageable. We have a strong track record of competing very successfully in highly regulated markets, where we have significantly increased our market share and profitability.

In fact, we believe that, given our corporate affairs expertise, unparalleled R&D capabilities, state of the art manufacturing facilities and ability to anticipate regulatory trends and integrate them into our long-term business plans, we are in a strong position to compete successfully.

We see regulation as a means to create a level playing field, requiring all manufacturers and all products to comply with the same high standards and we believe regulation can help address the problem of both illicit trade and youth smoking.

This does not mean that we will accept each and every regulatory proposal. We will vigorously defend our right to commercialize products that adult consumers enjoy and our ability to communicate directly with these consumers. And we will oppose product regulation, where sound scientific evidence indicates it is very unlikely to foster harm reduction.

In this context let me state categorically that we are strongly opposed to the concept of generic packaging that has been put forward for discussion by the Department of Health in the UK. Generic packaging would be an extreme and disproportionate measure that would be an expropriation of manufacturers' intellectual property rights and we believe that there is no substantiated evidence to support the view that such a policy would reduce youth smoking.

Regarding the fiscal outlook, we expect an improved, fairer and more predictable excise tax environment going forward. In this context, we do expect excise taxes to continue to increase but believe that Governments will increasingly opt for a more gradual, less disruptive approach than was the case in many markets over the last ten years.

There is a clear trend in most countries towards excise tax structures that do not discriminate, or discriminate less, against premium products and are more consistent with public health views that tax policies should not encourage the availability of low-priced products. 22 of our top 25 OCI markets have in place effective Minimum Excise Taxes, a Minimum Retail Price mechanism or very

high specific tax structures, which are much more conducive to fiscal predictability.

Having covered our business from a global vantage point, let me now give you an update of developments in specific geographies, focusing on our key markets.

The regional breakdown of our business by volume and by OCI in the first quarter of 2008 is substantially in line with the 2007 split, with the increasing importance of volume and OCI generated in the EEMA and Asia regions, which now account for 34% and 26% of volume and 28% and 21% of OCI respectively.

Let me now turn to Italy. While the market rebounded in 2006 as consumers adjusted to restrictions on public smoking, 2007 saw a return to underlying trends with a decrease in industry volume of 1.1% to 93 billion units. Developments were similar in the first quarter of this year, with a slight acceleration of the decline following price increases in January.

In this very important market, we continued to gradually expand our market share, which was up 0.5 share points in the first quarter to a level of 54.7%, driven by the strong performance of *Chesterfield*, *Diana* and *Merit*.

Since the premium segment, which *Marlboro* leads, moved above 4 Euros per pack, it has come under pressure. In order to reinforce the attractiveness and brand equity of *Marlboro*, we launched a shorter compact version of the brand in March, which currently retails at 3 Euros 90 per pack. As I mentioned earlier, initial results for *Marlboro Compact* are very positive.

Last year, cigarette industry volume declined by 4.0% in Germany. Adjusted for the impact of competitive trade inventory build-ups, the decline accelerated in the first quarter of this year to an estimated level of 6% as public smoking restrictions were implemented in 14 out of 16 states and prices were increased in the super low price segment. We estimate the impact of these smoking restrictions to be around 3 to 4%, though we expect this one-time effect to moderate over time.

On an adjusted basis, PMI's cigarette share recovered substantially by 0.9 points in the first quarter to reach 36.7%, thanks to the continued very strong performance of *L&M*. The brand's prospects have been further enhanced through the introduction of a Blue line-extension in May.

We are doing very well in the OTP segment, which accounts for just over 30% of the German tobacco market. Our OTP volume was up 33% during the first quarter. In the most important OTP category, fine cut, PMI is enjoying steady growth momentum behind innovative products, such as the *Tobacco Block*, and the strength of the *Next* and *L&M* brands. Our share of the fine cut category was up a further 2.6 points in the first quarter to reach a record level of over 13%.

Our share gains in both the cigarette and OTP categories in Germany provide us with a solid indication that we are close to turning the corner in this important but historically difficult market.

In France, industry volume was down 1.5% in 2007 due mainly to the impact of price increases in August. These higher prices and an extension of public smoking restrictions in January 2008 drove the French market down by 5.0% in the first quarter.

Premium brands, led by *Marlboro*, are under pressure after moving above the round price point of 5 Euros per pack. As a result, PMI's share is down 2.4 points compared to the first quarter last year. However, at 40.9%, PMI's share has stabilized compared to Q4, as the growth of non-premium brands, *Basic*, *Chesterfield* and *L&M* has partly offset the decline of *Marlboro*.

We are reinforcing our activities behind *Marlboro* and have launched *Virginia Slims* in order to bolster our premium position. We are confident that our share will start to recover later this year.

In Spain, following a 1.2% decline in industry volume in 2007, we witnessed a 5% increase in industry shipments in the first quarter of this year. However, this increase was distorted by trade inventory movements.

Higher pricing is driving a strong recovery in our profitability, while our share is improving behind the good performance of *Marlboro* in premium and *Chesterfield* in the mid-price segment.

Russia is the largest market in the EEMA Region with an estimated industry volume of 387 billion units in 2007.

PMI shipments were up 7.8% during the first quarter of this year, reflecting an improved in-market performance as well as a favorable comparison with a depressed first quarter 2007 following tax-driven price increases and resulting changes in trade inventories.

Consumer up-trading in tobacco products continues to be strong in Russia. This benefits us as we are the leader in the premium and above premium price category with an estimated segment share of 38% in the first quarter. The resulting improved mix, along with higher retail prices and unit margins, is driving a strong increase in our profitability in this important market.

According to Business Analytica's retail audit, our share in Russia was up slightly at 26.7% in the first quarter as *Marlboro*, *Parliament*, *Chesterfield* and *Muratti* all performed well. This strong momentum is being supported through line extensions, such as *Marlboro Filter Plus* and *Muratti Gold* and *Silver* slims.

In the Ukraine, estimated industry volume rose 4.5% in 2007 to 119 billion units and continued to expand in the first quarter. PMI is the clear market leader and achieved a further gain of 1.5 share points in the quarter to reach a Nielsen share of 34.7%. Ukrainian consumers are trading up from local and low-price brands, benefiting *Chesterfield*, *Marlboro* and *Parliament*.

In Turkey, industry volume was slightly down in 2007 to 108 billion units, though there was a slight upturn in the first quarter.

PMI shipment volume was stable in Q1, while higher prices and an improved mix drove a significant increase in profitability.

Parliament is performing particularly well with a gain of one share point to a level of 6.6% in the first quarter. *Marlboro* is benefiting from the *Marlboro Intense* line extension and we have launched *Virginia Slims*, as well as slimmer line extensions of *Lark* and *L&M*, and these are exhibiting early signs of success.

In Japan, industry volume declined by 4.8% in 2007 to 261 billion units, driven by higher prices and a gradual erosion in smoking incidence. Industry volume showed a similar trend in the first quarter with a decline of 3.6%.

The key industry event this year in Japan will be the introduction of new age-control mechanisms for vending machines. This is likely to put further pressure on industry shipments as consumers adapt to the new system and change some of their purchasing habits, essentially from vending to convenience stores. As PMI is somewhat over-indexed in the convenience channel, this switch is unlikely to have a similar adverse impact to the one we witnessed in Germany.

I would also like to comment here on recent press reports about excise taxes in Japan. The idea of tripling excise taxes was floated by a legislator, which could drive average cigarette prices up from 300 Yen to some 1,000 Yen per pack. We firmly believe that this is an unrealistic proposal that will not be adopted by the Government. However, we hope that it will create a constructive debate on tax policy and industry pricing, which may ultimately prove to be a positive long-term development.

During the first quarter, our shipments to Japan declined by 4.0%, despite a slight build-up of trade inventories. Our share was down year on year by 0.8 points in the first quarter to 23.9% due mainly to *Lark*, but remained stable compared to the fourth quarter of last year, indicating that the increased focus on innovation is starting to have a positive impact.

Japanese consumers are perhaps, more than any others, attracted by novelties. Innovation therefore plays a more important role than in other major markets. Last year, we introduced new menthol line extensions and other innovative

products to support the *Marlboro* brand. *Marlboro Ice Mint*, for example, has achieved a market share of 0.3%.

Throughout 2008, we will continue such activities, as well as increasing marketing support behind the brand. We are particularly excited by the launch this summer of *Marlboro Black Menthol*. This product has a unique refreshing mint flavor and provides a bold cooling sensation. Japan is the first market in the world where this new innovative menthol product is being introduced.

Turning around *Lark* in Japan is a key objective for us. We have introduced two new line extensions, *Lark Menthol X* and *Lark Classic Milds*, which are showing promising initial results. We believe that these activities and our strong marketing support should bring share stability to the brand family. This is supported by the sequential data that I showed you earlier.

Estimated industry volume in Indonesia rose by 3.9% in 2007 to 238 billion units and grew by a further 8.1% in the first quarter of 2008. Increasing inflationary pressures are however expected to result in more moderate industry growth during the remainder of the year.

During the last six months, price gaps have narrowed and this is expected to continue under the planned excise tax reform, which foresees a gradual move towards specific taxes.

PMI shipments in Indonesia were 5.6% higher in the first quarter.

The performance of our key local brands, *A Mild*, *Dji Sam Soe* and *A Hijau* is being helped by the more favorable price gaps, as well as the launch of the innovative *A Volution*, the first super slim kretek cigarette.

Marlboro is performing strongly since the launch of a kretek variant in the middle of last year. The brand family's share reached 4.6% in the first quarter, representing an improvement of 0.6 points compared to 2007.

Since our acquisition of Sampoerna, our combined success with kretek and white cigarettes has propelled PMI to clear market leadership with a Nielsen share of 28%.

In Korea, industry volume continued to recover in 2007 with an increase of 4.6% to 92 billion units and the market expanded at a similar pace in the first quarter.

PMI shipment volume was up a very strong 17.9% in the first quarter, mainly reflecting our excellent market share performance. After increasing from 8.6% in 2006 to 9.9% in 2007, PMI's market share grew further in the first quarter to reach 11.0%.

Our strong performance in Korea is being driven by *Parliament* and *Marlboro*, the latter being helped by *Marlboro Filter Plus*.

Parliament's momentum is being supported with the adoption of a new marketing campaign and the introduction of line extensions that reinforce the brand's aspirational qualities.

Turning now to China, our strategic partnership with the China National Tobacco Company is making steady progress. In cooperation with the Chinese, we have started to commercialize a number of Chinese brands in European markets, namely *RGD* in the Czech Republic, Slovakia and Poland, and *Dubliss* in Romania. Initial results are promising. And, as previously announced, we have finalized plans for the launch of licensed *Marlboro* in the Chinese market this summer.

While we do not foresee a material impact on our volume and profitability in the near future, we believe this long-term strategic cooperation will prove to be mutually beneficial and form the foundation for strong long-term growth.

After a 6.3% decline in 2007, industry volume in Mexico was stable during the first quarter of 2008.

PMI has a tremendous track record in Mexico with an 18 share point gain by *Marlboro* in the 10 year period from 1998 to 2007. This momentum continued into the first quarter when our share reached a record quarterly level of 67.0%, 4.7 points ahead of the same period last year.

Marlboro's continued growth momentum is being supported with a number of line extensions, while in May a menthol line extension was added to the *Delicates* family. At just over 5%, the menthol segment where our *Benson & Hedges* is the leading brand, is expanding rapidly.

In Argentina, a decrease in the availability of illicit product helped drive an increase in estimated industry volume of 3.2% to a level of 41 billion units in 2007 and the market was up a further 6.7% during the first quarter.

PMI's shipments increased 10.2% during the first quarter and we achieved a record market share of 70.8%, up 2.3 points over the first quarter last year.

The key drivers of our growth are *Marlboro* and the *Philip Morris* brand, both of which achieved a gain of over one share point in Q1.

This ends my review of key markets. So what does the bigger picture tell us?

We had a very promising start to the year, thanks to strong fundamentals and some favorable timing issues. Higher prices and productivity gains are driving

profit growth in the mature EU markets. Higher volumes, combined with pricing and an improved mix, are driving record profits in several key markets across the EEMA, Asia and Latin America regions.

Japan remains a concern, but we believe that the actions we have taken and will continue to undertake during the rest of the year will address the underlying issues and enable us to return to sustainable share growth next year.

While we have a strong focus on the top line, we are also very focused on making our organization more efficient. We have already achieved superior efficiency in manufacturing, remembering that once Altadis is integrated into the Imperial data, PMI should be best in class.

We still think we can do better, and this is reflected in the productivity and cost saving plans that we outlined in March. Over the next three years, we expect to improve manufacturing efficiency by \$850 million and to reduce G&A and other overhead costs by \$700 million. As previously disclosed, these gross productivity savings are expected to be partially offset by higher tobacco leaf and other raw material costs, as well as other inflationary pressures, which are expected to occur given global economic developments.

Our business is forecast to generate a cumulative cash flow over the 2008 through 2010 period of close to \$22 billion.

This tremendous cash flow will underpin our dividend and share repurchase program. We have in addition raised \$6.0 billion in the capital markets in May, in a bond offer that was oversubscribed by more than two times at what we believe are attractive rates.

The Board of Directors has established a target dividend pay-out ratio of 65% and last week decided that our first quarterly dividend as a public company should be \$0.46 a share. This is equivalent to a yield of approximately 3.5% at current prices.

In May, we started our previously announced two year \$13 billion share repurchase program.

We intend to return a total of \$21 billion to shareholders over the next two years, which reflects close to 20% of our current market capitalization or the equivalent of approximately \$10 per share.

In 2007, PMI increased its market share outside the USA to 15.6%, and 25.2% once China is excluded. This provides us with global leadership but also with a clear opportunity for further growth.

After the merger of Altadis into Imperial, we remain by far the largest company in the highly profitable EU Region. In spite of the acquisition of Gallaher by Japan Tobacco, we remain in a leading position in the EEMA Region. In Asia, our purchase of Lakson Tobacco in Pakistan has enabled us to become the regional leader. Finally in Latin America, we are a strong number two.

This provides us an optimal geographic balance between mature and emerging markets, with a majority of our volume coming from non-OECD markets and about two thirds of our OCI generated in OECD markets, where significant opportunities for further margin enhancement still exist.

We are not only the leader in markets, but also the clear leader in brands. PMI owns seven of the leading 15 international cigarette brands, led of course by *Marlboro*, which is the only truly global brand in the tobacco category.

Scale, balance, brands, our focus on productivity, our world class R&D capabilities, the tremendous cash flow that our business generates, our financial policy geared towards superior returns to shareholders and our depth of management talent are the reasons why we believe that PMI is a compelling investment.

My thanks to you for your attentiveness during my presentation and for your interest in our company. We will now be happy to take your questions.