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(SLIDE 1.)

Good afternoon, ladies and gentlemen.

I will start my presentation with an overview of our business in the European Union Region. I will highlight how we have performed in the past years and how we intend to increase our share of market, in particular with *Marlboro*, and deliver bottom line growth going forward.

Finally, I will present the developments in our five most important EU Region markets.

After my concluding remarks, I will be happy to take your questions.

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Before reviewing our business, let me highlight some key data about PMI's EU Region. The Region comprises the 27 European Union member countries except for Bulgaria, Romania and Slovenia, but with the addition of Iceland, Norway and Switzerland.

Our Region has a relatively prosperous population of 485 million people, with a smoking incidence at 20.8%. The population has grown modestly at a rate of 0.4% between 2007 and 2011.

In 2011, the size of the cigarette industry in the Region was 555 billion units and PMI held a market share of 38.2%, making us by far the leading cigarette company. In 2011, the Other Tobacco Products category, or "OTP", reached 136 billion cigarette equivalent units. Within OTP, the fine-cut category amounted to 116 billion cigarette equivalent units, based on a conversion rate of 1 cigarette for 0.75g of fine cut. Fine cut accounts for 17.3% of the combined cigarettes and fine-cut industry volumes, making it an important tobacco product category in its own right. In the EU Region, PMI has a market share of 12.6% in fine cut and we are focused on expanding our presence in this growing product category. In 2011, adjusted OCI amounted to more than $4.6 billion, making the EU Region the second most profitable within PMI. Last but not least, I am proud to lead a talented, dedicated and committed organization of more than 11,000 employees who demonstrate on a daily basis world-class execution.

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As we all know, the European Union is undergoing its most severe economic crisis since its foundation, with its economy forecast to fall into recession again this year. As a consequence of high public deficits and soaring sovereign debt levels, many governments in the European Union have resolved to implement austerity and fiscal measures, including VAT increases in some cases. For more than two years, tax increases, however, have been reasonable, as we will see later in more detail.

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The immediate consequence of the economic distress is high levels of unemployment. Young adults are the main victims of the crisis, in particular in Southern Europe where unemployment rates have reached unprecedented levels.

Unemployment and reductions of disposable income have generated downtrading, growth of the fine-cut category and increased illicit trade.

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While the total cigarette industry volume in the Region declined at a compound annual rate of 4.0% between 2007 and 2011, the decline in Northern Europe was only 1.6% during that period. By contrast, volumes in Southern Europe declined by 5.4%, with an acceleration after 2009. The decline of 6.7% in Central Europe between 2007 and 2011 is mainly explained by sharp excise tax-driven price increases in 2008 and 2009 due to EU tax harmonization efforts. This decline decelerated to 4.4% between 2009 and 2011.

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The decrease in cigarette industry volumes has been partially offset by the growth of fine-cut industry volumes.

On a combined basis – cigarettes and OTP – decline rates are much more moderate, standing at only 2.8%, partially explained by the reduction in daily consumption and the growth in illicit trade, thus demonstrating combined cigarette and OTP resilience during severe economic conditions.

Further to that, the growth of fine-cut volumes is almost entirely driven by cigarette brands extending their presence into this category. This, combined with consumption patterns of dual usage, allows us to remain optimistic about our growth prospects in the Region.

Once the European economies recover from this unprecedented crisis, I expect the underlying cigarette decline rate to revert to its historical trend of 2% to 3%.

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Although there is downtrading within the cigarette category and to fine cut, each and every cigarette price segment, as well as fine cut, are highly profitable in our Region.

This chart shows that the industry indexed net revenue in the low-price cigarette segment in the EU Region is higher than the average cigarette net revenue in the other Regions. And for fine cut, the level of net revenue in our Region is also very close to the average cigarette level of the other Regions.

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Despite the difficult economic situation and the related shipment volume decrease at a rate of 4.8% between 2007 and 2011, net revenues and adjusted OCI increased by 0.2% and 1.3%, respectively, excluding currency, during that period. This reflects our strategy to increase prices to compensate for volume declines.

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In the first quarter of 2012, we recorded a positive financial performance, with shipment volumes down by 1.5%, but net revenues and adjusted OCI up by 5.3% and 3.7%, respectively, excluding currency.

For the second quarter of 2012, we forecast that shipment volumes will decline between 8.5% and 9.0% year-on-year, largely due to a contraction of total industry volumes in the Southern European countries.

However for the whole year, we expect the decline to be comparable to last year's rate of 5.1%.

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In 2011, the EU Region delivered 23% of PMI's cigarette shipment volume, 30% of PMI's net revenues and 34% of PMI's adjusted OCI.

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The EU Region's adjusted OCI margin improved by one point between 2007 and 2011, supported by strong pricing, productivity improvements and rigorous cost management. This positive trend continued in the first quarter of 2012.

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PMI's share of the cigarette market was 38.2% in 2011. The slight erosion witnessed since 2007 can be mainly attributed to share losses of *Marlboro*, due to downtrading, and the declining appeal of local heritage brands in Central Europe, not fully compensated for by the growth of *L&M* and *Chesterfield*. I will later outline some key initiatives that we have taken and are developing to foster our international brand portfolios that – I strongly believe – will put us back on the growth path.

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PMI is and remains the very clear leader in the EU Region, with a share of market exceeding by far that of our closest competitors. This constitutes a significant asset with respect to our ability to leverage our business initiatives.

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This market leadership is a reflection of our strong brand portfolio.

Marlboro is by far the best-selling cigarette brand in the EU Region and we have five cigarette brands among the top-15 brand families. With the exception of *Marlboro*, the only premium-price brand in the top ranking, all our other international brands amongst the top-15 brands grew share of market in 2011 compared to 2010.

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Moreover, in the growing fine-cut category, PMI has steadily increased its market share since 2007, achieving 12.6% in 2011. This remarkable growth momentum has been further confirmed during the first quarter of 2012, when our share of market reached 13.7%.

Between 2010 and 2011, we captured close to 40% of the fine-cut volume growth, which is further evidence of PMI's success in this category.

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I will now turn to our key strategies that will deliver sustainable share of market and OCI growth.

The first key strategy is to leverage our strong brands to increase market share.

Our objective for *Marlboro*, being the number one brand in the EU Region, is to grow its market share and reinforce its leadership position.

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This, we have done by relentlessly deploying the core of the *Marlboro* architecture, and by launching relevant consumer-centric innovations and the new "*Be Marlboro*" campaign.

(SLIDE 18.)

One such innovation is *Marlboro Beyond*, a regular cigarette that gives adult smokers the opportunity to experience a menthol taste sensation by crushing the capsule inside the filter. This product has been launched in seven markets in the last twelve months.

In three of those markets, France, Switzerland and Sweden, in the first quarter of 2012, less than 9 months after introduction, market shares of 0.5%, 0.6% and 1.5%, respectively, had been attained.

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Innovation continues on the Flavor and Gold pillars with the launch of new formats to meet the preferences of today's adult smokers.

Firstly, we launched a slightly slimmer cigarette that is marketed as *Marlboro Core Flavor* in 8 markets and *Marlboro Gold Touch* in 15 markets. These new variants recorded a combined volume growth of 21% in 2011.

Secondly, *Marlboro Pocket Pack*, available in both Flavor and Gold, is *Marlboro*'s classic recipe, but in a shorter cigarette, and is offered to adult consumers at a savings versus regular King Size cigarettes. *Marlboro Pocket Pack* has been launched in 12 EU Region markets with volume growth of 17% in 2011.

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In December 2011, we rolled out the new "*Be Marlboro*" campaign in Germany.

Following its success, it has been further rolled out in Switzerland and Slovakia.

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All these initiatives are bearing fruit. Between 2009 and year-to-date May 2012, *Marlboro* has been steadily gaining share in the premium segment as adult smokers value the brand for its progressiveness and innovation. Therefore, I remain optimistic about the growth potential of our flagship brand.

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The reason for my optimism lies in the fact that *Marlboro* remains over-indexed among Young Adult Smokers in the great majority of the markets. In France and Spain, while *Marlboro* is under-indexed, the entire PMI brand portfolio is over-indexed, thanks mainly to *Philip Morris* and *Chesterfield*, respectively.

(SLIDE 23.)

To further support our growth strategy, we also leverage our portfolio of strong international brands in the below-premium cigarette segments and fine-cut category.

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Our top three international brands, namely *L&M*, *Chesterfield* and *Philip Morris*, achieved a combined share of market of 11.6% in 2011, greater than the combined EU Region market share of the top three cigarette brands of each of our main competitors.

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Between 2007 and 2011, *L&M*, *Chesterfield* and *Philip Morris*' combined share of the mid and low-price segments grew by 2.2 points to 14.7% and further expanded to 15.2% year-to-date May 2012. This clearly demonstrates the tremendous success of our international brands in these segments, and I will now discuss the performance of *L&M* and *Chesterfield* in more detail.

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L&M remains clearly the largest brand in the mid and low-price segment in our Region.

The brand has been successfully developed and expanded, achieving a share of market of 6.6% year-to-date May 2012. In 2011, shipment volume grew by 2.7% versus the prior year.

It should also be noted that *L&M*'s Young Adult Smoker share is over-indexed compared to its overall smoker share in 18 out of the 23 key EU Region markets, which augurs well for the brand's growth potential going forward.

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We have also introduced consumer-relevant innovations for *L&M*.

In 2011, we successfully launched *L&M Forward*, a regular cigarette featuring a menthol capsule in the filter, in Poland and Finland, which achieved a remarkable 1.2% and 1.0% share of market, respectively, year-to-date May 2012.

Last year, we also launched across the Baltics *L&M U-Spin*, a cigarette with an innovative filter that allows adult smokers to adjust the taste intensity of the cigarette. This new proposition achieved a 0.6% share of market year-to-date May 2012.

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Chesterfield is the second leg of our mid and low-price segment growth strategy in many EU Region markets. This past year, we have revamped the pack, which is now available in 29 markets in our Region.

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Chesterfield's market share has grown continuously since 2007, achieving 3.1% in 2011 and 3.3% year-to-date May 2012.

In 2011, *Chesterfield* grew market share in almost all the markets in our Region, and shipment volumes increased by 8.5%. Remarkable results were achieved in Portugal, where the brand enjoyed a 23.6% market share in the first quarter of 2012 and became the market leader.

We believe there is still significant untapped potential as *Chesterfield*'s Young Adult Smoker share is over-indexed compared to its overall adult smoker share in 14 out of 18 key EU Region markets.

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As mentioned, another pillar of our growth strategy is the fine-cut category. To strengthen our footprint in this category we have introduced fine-cut propositions in every market where consumer demand for such products exists.

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I strongly believe that we can achieve our growth objective as traditional fine-cut brands are losing share to the benefit of cigarette brands entering the category. With our portfolio of leading international cigarette brands, I am convinced that we are best equipped to take a significant share of this category.

(SLIDE 32.)

Since 2007, our market share in the fine-cut category has recorded remarkable growth, driven by *Marlboro*, *Chesterfield* and *L&M*. Based on this performance, and our share of the fine-cut growth of nearly 40% in 2011 that I already mentioned, I have no doubt that our cigarette brand fine-cut propositions still have a large untapped potential.

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Our second key strategy is to advocate for moderate tax increases and to seek excise tax structure improvements.

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We are advocating reasonable excise tax increases as history shows that excessive excise tax increases encourage the growth of illicit trade and border sales, and prevent governments from achieving revenue targets.

In 2011, excise tax increases were reasonable. Between 2009 and April 2012, the average total tax incidence on *Marlboro* cigarettes in the EU Region remained largely unchanged. In 2012 so far, there have been no disruptive excise tax changes implemented or announced.

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We also advocate for the improvement of excise tax structures. Tax structures with a higher specific tax component and a more effective minimum excise tax enhance the predictability of government and manufacturer revenues and the reduction of price gaps.

On a weighted average price basis, the specific-to-total tax ratio on cigarettes increased by 3.2 points to 32.4% between January 2011 and April of this year.

Additionally, out of 24 countries in the EU Region that have implemented a Minimum Excise Tax, 20 countries increased the amount in absolute terms between January 2011 and April 2012.

The EU excise tax rules allow the specific component of excise taxes to be up to 76.5% of the total tax. I believe that given the current economic situation, it is in the interest of governments to further restructure excise taxes.

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Our third key strategy remains to deliver OCI growth through balanced pricing and price gap reductions.

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During 2011 and through May 2012, we have implemented or announced price increases in key markets of the Region, notably France, Germany, Italy, Poland, Spain and Switzerland.

In 2011, we achieved a pricing variance of $298 million in our Region. Without even including the impact of April and May 2012 price increases, our pricing variance in the first quarter of 2012 was double the amount recorded in the first quarter of last year. This further demonstrates the success of our pricing strategy.

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Achieving and maintaining optimal price gaps is a key element of our pricing strategy. We have been successful in reducing the relative price gap between *Marlboro* and the key brands in the low-price cigarette segment in many markets of our Region, most notably in Spain and Poland.

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Our fourth key strategy is to vigorously and relentlessly fight illicit trade.

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The growth of illicit trade accelerated after 2009 in light of the erosion of adult smoker purchasing power, in particular in Southern European countries. The total volume of illicit cigarettes in the European Union is estimated at 65.3 billion units for 2011, or 10.4% of the total tax-paid domestic cigarette volume of the EU. For perspective, this volume is more than 20% larger than the size of the French tax-paid cigarette market.

As André mentioned this morning, assuming we were to capture our fair share of a reduction of 50% of illicit trade, this would represent a significant upside to our Region's volume and to our net revenues of around $500 million annually.

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We have undertaken a series of measures to fight this issue. In 2004, PMI entered into a landmark 12-year cooperation agreement with the European Commission to fight illicit trade. We work closely with the European Anti-Fraud Office and national law enforcement agencies to support their efforts to counter illicit trade.

We raise awareness of the negative impact of illicit trade with the general public, adult smokers, and the trade throughout the EU Member States. We also engage with governments about the negative impact of illicit trade on government revenues.

The example in Hungary on this slide illustrates that coordinated cooperation between the industry and governments can reduce the size of illicit trade, bringing benefits to both.

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Our final key strategy is to advocate for an evidence-based regulatory framework to protect our ability to differentiate and display our products,

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which, in the EU Region, is largely regulated by the EU Tobacco Products Directive. This Directive was introduced in 2001, and, in 2010, the European Commission started the revision process for a new Directive. This process is expected to last until 2014-2015.

Our reading of the results of the 2010 public consultation, as well as the outreaching engagements by the economic sector with all relevant stakeholders and political decision makers, make me believe that common sense for a proportionate, evidence and science-based regulatory framework will prevail and will prevent abusive regulation, such as plain packaging, from being enacted.

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I will now cover our five most important markets in the Region, namely Spain, Italy, France, Poland and Germany. Together, these five markets accounted for around 60% of our 2011 cigarette volume in the Region.

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Of the five key markets in our Region, Spain has been the most severely hit by the economic crisis, with high unemployment levels negatively impacting private consumption.

Industry cigarette volumes have declined and adult smokers have turned increasingly to low-price cigarettes, fine cut and illicit trade. The reduction of price gaps since September 2011 has partially mitigated the impact of downtrading.

Marlboro has increased its share of the premium cigarette segment, while *L&M* and *Chesterfield* have shown a positive performance in the low-price cigarette segment.

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Cigarette industry volume declined by 16.6% in 2011, driven by the combined effect of price increases in 2010 and 2011, the implementation of a total indoor smoking ban in January 2011, and the continuing adverse economic environment. Over the same period, the fine-cut industry volume grew by 13.0%. However, illicit trade has also increased reaching an estimated incidence of 7.2% in 2011, up by 4.7 points over prior year.

In the first quarter of 2012, cigarette industry volume grew slightly year-on-year, reflecting a favorable comparison with the first quarter of 2011. By contrast, fine-cut industry volume grew by an impressive 20.9%. However, given the economic environment I just described and the favorable comparison in the first quarter of this year, we expect the total cigarette market to decline by about 10% this year.

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Compared to the situation at the end of December 2009, cigarette price gaps between *Marlboro* and the most popular price class on one hand, and the low-price segment on the other hand have been reduced.

This price gap reduction has partially mitigated downtrading from the premium to the low-price segment and has supported *Marlboro*'s market share.

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Marlboro's performance remains resilient despite the adverse economic environment. *Marlboro*'s share decline observed in 2011 reflects the crossing of the € 4.00 price threshold ahead of competition in December 2010. Nevertheless, *Marlboro* has significantly increased its share of the premium segment, achieving 89.6% in the first quarter of 2012.

L&M, positioned in the low-price cigarette segment, has seen its market share grow since 2008, gaining 2.1 points to reach 6.5% in 2011.

Since the middle of 2011, *Chesterfield*'s share of market improved following the repositioning of the brand to the low-price segment. In the first quarter of 2012, *Chesterfield*'s market share reached 8.9%, a 0.8 point gain year-on-year.

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In Italy, the economy deteriorated in recent months, resulting in a higher price elasticity of demand for cigarettes.

Despite these conditions, *Marlboro*'s market share has demonstrated a strong resilience. PMI has reinforced its presence in the growing low-price segment with the launch of *Philip Morris Selection*. Finally, PMI has recently become the market leader in the fine-cut category.

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The total cigarette industry volume decreased by 1.5 billion units in 2011, partially compensated for by an increase of the fine-cut industry volume of 1.1 billion units.

The trend observed in the cigarette market reflects the unfavorable impact of excise tax-driven price increases in 2010, price increases in July 2011, and a VAT-driven price increase in September 2011.

The same drivers also explain the decline of the cigarette industry volume and the growth of the fine-cut category in the first quarter of 2012.

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Marlboro has demonstrated a strong resilience in this adverse economic environment, losing only 0.3 share points between 2007 and 2011 while, year-to-date May 2012, *Marlboro* lost 0.1 point year-on-year. The launch of innovative propositions was the main driver behind this improved performance.

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In January 2012, we launched *Philip Morris Selection* in the low-price cigarette segment at price parity with *Winston* and *Pall Mall*. During the first five months, the brand achieved 0.4% share of market and 0.8% share of the low-price segment.

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In the fine-cut category, PMI achieved a 30.0% market share year-to-date May 2012, putting us in the position of market leader. This remarkable achievement was made possible thanks to the introduction of *Chesterfield* and *Diana* fine-cut propositions in May 2011 and March 2012, respectively. In May 2012, *Chesterfield* and *Diana* reached market shares of 26.4% and 5.6%, respectively.

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In France, cigarette industry volumes have been stable in recent years, while the fine-cut category has shown consistent growth.

PMI's cigarette market share grew in 2011 and PMI achieved a remarkable market share growth in the fine-cut category after the launch of *Marlboro*.

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Between 2009 and 2011, the cigarette and fine-cut markets combined have remained essentially flat, at 64.7 billion units. Fine-cut industry volumes grew by 5.0% in 2011, partially offsetting the 1.3% decline in cigarette industry volumes.

In the first quarter of 2012, the acceleration of the decline observed in the cigarette market, as a result of price increases in the fourth quarter of 2011, was partially compensated by the further growth of the fine-cut category.

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While PMI's share of market slightly eroded in 2010 versus 2009, we managed to reverse the trend in 2011, gaining 0.1 points to 40.5%. This growth was mainly driven by our premium brand *Philip Morris* and our low-price brand *Chesterfield*.

We successfully launched *Marlboro Beyond* in July 2011, which helped to reduce *Marlboro*'s share decline to 0.2 points versus 2010. Year-to-date May 2012, the share decline of *Marlboro* reflects its crossing of the €6.00 per pack price threshold ahead of competitive brands.

Our second brand in the premium segment – *Philip Morris* – maintained its outstanding growth momentum, achieving an 8.2% share in 2011. The strong resilience of the brand was further confirmed in 2012 based on year-to-date May data.

Our share of the premium segment has remained stable at 70.6% despite the impact of the €0.90 per pack price increase between 2007 and May 2012.

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Since the beginning of 2011, PMI's market share in the fine-cut category has grown continuously, achieving 25.6% year-to-date May 2012. The main drivers behind this remarkable growth have been the successful launch of *Marlboro* in January 2011, a reduction of the decline rate of our traditional brand *Interval*, and finally the impact of our dedicated sales force fully focused on enhancing our performance in this category.

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Poland enjoys very solid fundamentals. The economy has been affected to a lesser extent by the economic crisis in Europe, and real GDP is forecast to increase by approximately 2% in 2012 and 3% the year after. This has translated into adult smoker uptrading and, consequently *Marlboro*, *L&M* and *Chesterfield* have increased their market shares in recent years.

Finally, PMI has capitalized on the growth of two emerging segments –slims and menthol – where it has outperformed the industry.

(SLIDE 59.)

According to Nielsen data, the premium segment reached 14.4% in the first quarter of 2012, up from 12.4% in 2007, at the expense of the mid and low-price segments.

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Marlboro, *L&M* and *Chesterfield* have gained a combined 4.2 share points between 2007 and 2011. The recent share losses of *L&M* and *Marlboro* are explained by the lower prices of competitor products and intense price promotions during the first quarter of 2012. The latest data available for April and May indicate that *L&M* and *Marlboro* have clearly reversed that trend.

(SLIDE 61.)

The slims segment has grown continuously since 2007 and accounted for 21.0% of the market in 2011. PMI achieved a segment share of 31.1% in 2011, mainly with *L&M Link*, *Marlboro Gold Edge* and *Chesterfield.* In the menthol segment, PMI also outperformed the industry growth, with *L&M* and *Marlboro*.

Building on these positive trends, PMI further launched two new variants of *Marlboro* last month – a superslims 100's variant and a superslims 100's menthol variant.

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Germany continues to display solid macro-economic fundamentals, including a low level of unemployment. Both the cigarette and fine-cut markets have shown modest, but noticeable growth in 2011.

Marlboro is the number one brand and its smoker share among Young Adult Smokers is increasing, while *L&M* is the fastest-growing cigarette brand in Germany.

PMI has also clearly reinforced its position in the fine-cut category, capitalizing on its international brand portfolio.

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In 2011, the cigarette market grew by 0.7% versus 2010, while fine-cut industry volume grew by 1.2%. In the first quarter of 2012, the growth of the cigarette industry further accelerated to 3.1%, helped by a decline in illicit trade.

(SLIDE 64.)

In 2011, PMI's cigarette market share ended a period of decline and returned to growth, driven by *L&M* and the stabilization of *Marlboro*.

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As you can see from this chart, we are witnessing an upturn in the Young Adult Smoker share, which is a highly promising indicator for the future growth of *Marlboro* in Germany.

The new "*Be Marlboro*" campaign, which generated a lot of word-of-mouth, has clearly helped to boost the impressive increase of the *Marlboro* smoker share among Young Adult Smokers over the recent months.

(SLIDE 66.)

L&M has been the fastest-growing brand in Germany since 2009, having gained 4 points between 2008 and year-to-date May 2012 when it reached an 11.0% share of market. At the same time, *L&M*'s Young Adult Smoker share reached 19.7% in the six months ending February 2012, competing head-to-head with *Marlboro* for the number one position. This makes me confident that the brand has significant long-term growth potential.

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In the fine-cut category, PMI's performance continued to show a positive trend, driven by its strong international brand portfolio. The combined share of market of *Marlboro, L&M* and *Chesterfield* grew by 1.6 points to 12.9% between 2009 and 2011, and has further accelerated to 14.2% year-to-date May 2012.

This ends my review of our key markets.

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I will now sum up and provide a few concluding remarks.

The EU Region has been marked in recent years by a severe economic crisis, which I expect will continue to impact the tobacco industry in 2012 and 2013.

I believe, however, that we have put in place the right strategies to compete successfully in this challenging environment.

I see:

- *Marlboro* demographics developing positively;
- *L&M*, *Chesterfield* and *Philip Morris* performing strongly in the mid and low-price segments;
- Our international cigarette brands competing successfully in the fine-cut category.

And I also witness

- Our ability to effectively meet adult smoker preferences with innovative products;
- And an improving excise tax environment and structures.

In my opinion, together this constitutes a solid foundation to ensure a continuous and sustainable growth of our OCI and share in both the cigarette and fine-cut markets.

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