Remarks by Matteo Pellegrini
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(SLIDE 1.)

Good afternoon. It is my great pleasure to share with you today an overview of our Asian business, which is perhaps where PMI is best poised to deliver strong growth in the future.

(SLIDE 2.)

Let me start by sharing with you why I believe the Asia Region will continue to prosper.

To begin with, we operate in a favorable macro-economic and demographic environment.

Second, we continue to post very strong financial results supported by dynamic brands within a superior, well-balanced portfolio.

Third, we continue to focus on *Marlboro* and to provide superior consumer-relevant products via our innovation pipeline.

Fourth, there are several opportunities to further strengthen the Region's long-term growth potential in countries like India, Vietnam and Bangladesh; not to mention China, which Andre covered this morning.

Finally, and importantly, I believe we have passionate, experienced and committed teams to execute our strategies with excellence in order to drive further growth and profitability in the Region and for PMI.

(SLIDE 3.)

In Asia, we operate in 24 markets with a population that is close to 4 billion and growing. Excluding China, these markets have a total cigarette volume of approximately of 1.2 trillion units, and our shipment volume last year was 313 billion units.

We own 17 manufacturing facilities and in Indonesia, we contract 38 third-party operators to manufacture our hand-rolled kretek cigarettes. Our organization has 40,000 hard-working and dedicated people contributing to our success, including the 17,500 hand-rollers in Indonesia that we directly employ. Our third-party operators also employ over 60,000 hand-rollers in this market.

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Asia is home to approximately 56% of the world's population. Even excluding China, which has around 1.3 billion people, Asia represents 36% of the world. Not surprisingly, this large population base, growing at a compound annual rate of 1% and with an attractive demographic profile, represents an immense opportunity for our company.

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While GDP per capita covers a wide spectrum, Asia has experienced phenomenal growth since I last presented to you. GDP per capita across the Region has grown approximately 38% since 2009 and we are optimistic this growth trend will remain above the global average in the coming years.

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Our final indicator of economic performance is consumer confidence, and in Asia most countries show consumer confidence levels above the global average. This, along with the momentum of population growth, GDP per capita growth and favorable unemployment levels, indicates that we are operating within a favorable macro-economic environment. We are cautiously optimistic that this positive momentum will continue in Asia barring any geo-political risks.

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Looking at industry size, seven of our markets were ranked in the top 15 globally. Between 2007 and 2011, the industry grew at a compound annual growth rate of 0.4% to 1.2 trillion units, excluding China. The growth was mainly driven by Indonesia, the Philippines and Bangladesh. The decline in Japan was the result of the unprecedented 40% excise tax increase in October 2010.

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PMI is the clear leader in Asia today. Back in 2004, we were the number three player and we have taken great strides to enhance our leadership position, which we first gained in 2007. Our significant share growth was achieved through various transactions and organic growth. Since 2005 starting with Indonesia, followed by Pakistan in 2007 and more recently with the business combination in the Philippines, these transactions collectively provided a leap in our market share of approximately 12 share points while our share grew organically by three points.

(SLIDE 9.)

Looking at our share performance since 2007, we grew in most of our markets. Most notable is our organic growth performance in the large volume markets of Indonesia, Japan and Korea.

In the markets where we have declined, we have seen recent improvements in share performance.

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In Malaysia, our historical market share erosion has not only ceased but we have witnessed a solid turnaround in our fortunes led by *Marlboro*.

Similarly in Taiwan, aided by the introduction of *Marlboro Gold Touch*, we are slowly gaining momentum.

In Pakistan, we have been faced with the challenges of BAT's price re-positioning of *Pall Mall* and the growth of illicit trade. However, we believe that we have the right team and strategies in place to stem the decline and turn around our business in this market.

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Our strong market share performance across the Region has led to strong financial results. Asia is PMI's growth engine and is already now the top Region in all the three key operating metrics, namely volume, net revenues and adjusted OCI.

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Our volume has grown at an annual rate of 10.3% between 2007 and 2011, adding over 100 billion units, fueled by Indonesia, Korea and the business combination in the Philippines.

Over this same period, net revenues increased at an annual growth rate of 17.3% to reach $10.7 billion. Excluding the impact of currency, our growth was 13.3%.

Adjusted OCI increased by 27.6% to almost $5 billion, primarily as a result of our volume growth and favorable pricing. Excluding the impact of currency, adjusted OCI increased at a significant compound annual growth rate of 21.0%.

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And the momentum continued in the first quarter of this year with our shipment volume up by 12.4%, led by gains primarily in Indonesia, Japan, Korea, Pakistan, the Philippines and Vietnam.

Net revenues increased by 19.5%, or 16.4% excluding the impact of currency.

Adjusted OCI was $1.4 billion, a 23.7% increase when excluding the impact of favorable currency. This again was driven by our volume growth and pricing.

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Our adjusted OCI margin has been growing steadily. Since 2007, it has increased by almost 13 percentage points to reach 45.3% last year, driven by pricing and favorable volume/mix. Our adjusted OCI margin reached over 50% in the first quarter of this year.

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Let me now share with you our key strategies to sustain our future growth.

Our first priority is to grow our talent and leaders for the future. So far, our success is demonstrated by the number of current top leaders in PMI who have experience in Asia, many of whom are sitting in this room today, and we remain passionate and committed to developing local talent to take on leadership roles in the future.

Our second priority relates to the evolving fiscal and regulatory environment, where we continue to work with a wide range of stakeholders to achieve reasonable regulations.

Our third priority is to continue to invest in our global and local heritage brands to meet and anticipate adult smokers' preferences, and to help further strengthen the equity of our brands.

Our fourth priority is to invest sufficiently to ensure that our businesses in Asia are well positioned for growth now and in the future. In particular, we are investing in markets where we see significant potential for long-term progress despite our current marginal presence.

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With regard to the fiscal environment, we operate within a diverse range of tax systems. In the majority of our markets we operate under a specific excise tax structure although, in some of them, multiple tiers do exist. We believe that most governments in the Region increasingly understand that excessive excise tax increases can lead to unintended consequences.

In Indonesia, we are progressing towards a harmonized excise tax structure, and in Singapore, the government is continuing its effort to harmonize the tax rates between cigarettes and other tobacco products.

We will continue to work with governments to achieve moderate and predictable excise tax increases in the Region and to improve excise tax structures.

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Illicit trade remains a significant challenge, with estimated illicit incidence levels above 10% in several of our markets. We believe that this phenomenon has finally caught the appropriate attention of governments across the Region. Indeed, we have witnessed enhanced enforcement actions in countries such as Malaysia and Singapore and, accordingly over time, we hope that much of the estimated 67 billion units in illicit trade in these markets will revert to the legitimate industry.

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Our third priority is to drive the growth of our strong brand portfolio, represented by both international and local heritage brands. In 2011, led by *Marlboro* and complemented by strong local brands such as *Fortune*, *Sampoerna A* and *Dji Sam Soe*, we had 6 of the top 15 brands in the Region.

Marlboro was number 1 in Asia for the first time, aided by the special situation in Japan. We are confident that, in the medium term, *Marlboro* will confirm its position as the number one brand in Asia. It is worth noting that all of our six top brands grew with the exception of *Morven Gold* in Pakistan, which we aim to turn around.

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Our efforts behind the *Marlboro* architecture and a number of exciting consumer-relevant line extensions have enabled *Marlboro* to increase shipment volume by 8.8% in 2011 to reach 78 billion units. *Marlboro* registered growth in a number of our key markets, notably in Japan, Indonesia and Korea.

However, in the Philippines, the January 2011 tax-driven price increase has resulted in some consumer downtrading from *Marlboro* to lower-price products, but this was mostly captured by our local heritage brand *Fortune*. In Hong Kong, the continued decline in the cigarette industry negatively impacted *Marlboro*'s volume, but the brand was able to significantly increase its market share leadership.

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In the first quarter of 2012, *Marlboro* sustained its momentum with a 10.0% shipment volume increase. In fact, *Marlboro*, when excluding the distortions from the Japanese market, has recorded 20 consecutive quarter-on-prior-year-quarter volume increases.

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We have successfully rolled out the new *Marlboro* architecture in the Region. Thanks to innovative and relevant offerings, *Marlboro*'s volume has increased by 15 billion units compared to 2007. In particular, *Marlboro* Fresh volume increased by 35% over this period. Our *Marlboro* Fresh line extensions, *Marlboro Black Menthol* and *Marlboro Ice Blast*, have contributed significantly to the growth of *Marlboro* with a relatively low cannibalization rate of approximately 40% within the Fresh family.

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Marlboro Black Menthol, which was introduced in the Japanese market in 2008, has been one of our most successful regional launches. We have now expanded the brand in a number of markets across the Region. Building on the successful roll-out of *Black Menthol*, we also introduced *Marlboro Ice Blast* in many markets.

Ice Blast is a capsulated product which provides high-cooling mentholation when the capsule in the filter is crushed. The market share of these two variants across the Region is strong. For instance, in the first quarter of 2012, they held a commanding share of 12.9% in Hong Kong.

Even in Korea, where there is a relatively small menthol segment, the strength of *Marlboro Black Menthol* and *Ice Blast* has captured 1.3% share of the total market. And with a share of 0.4%, our *Marlboro Black Menthol* volume in Indonesia is more than the combined *Black Menthol* and *Ice Blast* volume of Hong Kong, Macau, Singapore and Malaysia.

As our share progression illustrates, we have successfully seized the growth opportunity in menthol. These brands appeal to adult smokers as innovative offers that combine the bold and strong expression of the *Marlboro* brand with the unique cooling sensation.

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Overall, the demographic profile of *Marlboro* is excellent.

As you can see, in several of our markets the Legal Age (minimum 18) to 24 smoker share of *Marlboro* is substantially higher than its total market share, which we believe augurs well for *Marlboro*'s future.

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And now, let me turn to our key markets. Japan is one of the most developed markets in the Region. The cigarette industry volume has historically been in decline. However, recent trends indicate that the rate of decline has moderated significantly.

Our 2011 market share was a record 30.7%. We exited last year with a fourth quarter share of 28.2%, which was a full three share points higher than the pre-earthquake share of 25%. This number now forms our new base for growth in this important market, and our May 2012 year-to-date share stands at 28.0%.

Our business momentum remains strong in Japan and we will continue to capitalize on our ability to introduce consumer-relevant innovative products to adult smokers to gain market share.

While pricing has historically been difficult to achieve, we remain hopeful that the combination of potential VAT and moderate excise tax increases, as well as the further privatization of JT, could lead to more pricing opportunities going forward.

In March 2012, the Cabinet approved a Bill to double the VAT rate in two steps, with the first increase from the current rate of 5% to 8% slated for April 2014 and the second increase to 10% in October 2015. The Bill has been introduced in parliament and is ready to be discussed in the lower house.

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As I mentioned, the cigarette industry volume in Japan was historically declining at an annual rate of 4% to 5%. Subsequent to the unprecedented 40% excise tax increase in October 2010, the industry volume contracted by approximately 12%.

Today, we are seeing a better situation, with the underlying decline projected to be around 2% this year, reflecting a more stable smoking incidence in recent periods.

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Our ambition is to continue to grow our share in Japan, which has been steadily increasing in recent years, as a result of our focus on adult consumer engagement, new product development and marketing.

Following the tragic events of March 2011 and the subsequent disruption of Japan Tobacco's supply, our organization responded with exemplary speed. These efforts resulted in the acceleration of our share growth in 2011 with full year market share of 30.7% and an exit share in the fourth quarter of 28.2%, forming, as I said earlier, our new base for growth.

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Marlboro continues to lead our growth and has been steadily gaining share since 2007. *Lark* had been declining but stabilized in 2010. Following the events of last year, *Lark* achieved an exit share of 8.6%, which was a full two share points higher than 2010. Quarter-to-date May we have essentially the same share as our exit share last year.

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As we all know, Japanese consumers have a strong preference for innovative products and new offerings, and cigarettes are no exception. Since 2007, a total of 155 new products have been launched, accounting today for 16.4% of the market.

Understanding this trend and adult smokers' preferences, we launched 28 new products over the same period, representing only 18% of the number of new launches, but 35% of the share accounted for by these launches. This is well above our 2011 exit share of 28%, showing our ability to outperform the competition when it comes to meaningful innovation.

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In the mainstream segment, where *Lark* competes with *Mild Seven* and *Kent*, we launched *Lark Hybrid One 100*s in February. This innovative hybrid product offers two flavors to adult smokers who can either enjoy the smooth and mild authentic regular flavor or a refreshing menthol taste by crushing the capsule inside the filter.

This launch complements *Lark Hybrid* King Size 6 milligram and addresses the growing 1 milligram segment. In the first quarter of this year, these two variants reached a combined market share of almost 1%.

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Last month, we launched two further *Marlboro* variants, *Marlboro Black Menthol Edge* 8 milligram and *Marlboro Black Menthol Edge* 1 milligram. These are the first ever PMI products in the King Size superslim segment in Japan. The premium menthol segment commands a market share of 17.5%, with *Marlboro* driving most of its growth.

In addition, the 1 milligram and the superslim segments have been growing rapidly in recent years and this launch capitalizes on all these trends. Initial indications are positive for both variants.

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Let me now turn to the large and exciting Indonesian market. We are the clear leader in Indonesia and achieved a record share of 33.4% in the first quarter of this year in what has become the world's third largest cigarette market behind China and Russia.

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Indonesia's economy has exhibited strong growth in recent years. GDP grew by 6.4% in 2011 and continued its growth in the first quarter of this year. Inflation has been stable, while unemployment and poverty levels have steadily declined.

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As it is the case elsewhere, a critical component affecting the dynamics of the Indonesian market is the excise tax structure. In 2009, the government moved from a multi-tier ad valorem structure to a multi-tier fully specific structure. Last year the number of tiers was reduced from 19 to 15.

The government has promulgated, for implementation in November this year, measures that will eliminate the ability for manufacturers to establish sister companies to take advantage of lower tax tiers. However, some uncertainty remains as to the effective implementation and enforcement of these measures.

We remain hopeful, as the government pursues its roadmap, that we will see a further compression of the tax tiers.

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Since 2007, the market compound annual growth rate was 5.5%, essentially driven by the growing adult smoking population and increased economic prosperity.

In this context since 2007, our volume grew at an annual rate of 8.3%, outpacing the industry.

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Since our acquisition of Sampoerna in 2005, we have become the market leader in Indonesia. We have since solidified and extended our leadership position. We reached a market share of 33.4% at the end of Q1 this year and thus widened the gap with our nearest competitor to over 12 share points.

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Our portfolio includes *Marlboro* and local heritage brands that are a rich part of the history and culture of Indonesia.

Sampoerna A is the leading brand in the market with growing momentum. While *Dji Sam Soe* exhibits some share erosion, the segment share of the brand in the declining hand rolled segment has increased by 1.9 share points to reach 26.3%.

Marlboro continues to exhibit a steady market share performance and has achieved clear leadership in the white cigarette segment after a 3.8 share points gain to reach a segment share of 68.8% in the first quarter of this year.

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To support our core brands, we continue to develop and strengthen our leadership in product innovation, communication and engagement to gain the interest of adult smokers. One good example is our *A Mild* campaign – Go Ahead - which focuses on the pioneering, daring and progressive spirit of Indonesia.

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Another good example of the strength of our brands is *Dji Sam Soe*, which is viewed as the "King of Kretek". Magnum Filter is our offering in the machine-made segment and *Dji Sam Soe* kretek, whose advertising you see at the bottom, is our offering in the hand-rolled segment.

(SLIDE 39.)

Let me now move to the Philippines, where I believe we have excellent potential given a multitude of factors driving our business today.

The Philippines is the fifth largest market in Asia. Following our business combination with Fortune Tobacco in 2010, we achieved a commanding share of 94% of the tax-paid market last year.

The integration with Fortune Tobacco is proceeding as planned and by the end of 2011 generated cumulative manufacturing and procurement synergies of $75 million. The integration will be fully completed next year following the combination of our distribution and sales networks.

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Favorable socio-economic factors continue to contribute to the success of our business. Gross domestic product is expected to grow further in 2012 while overseas worker remittances continue to grow year-on-year. The Philippines population has been growing at 1.7% per annum and is projected to top the 100 million mark by 2015.

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Since 2007, the industry has been expanding at an annual rate of 3.3% and is expected to continue to grow well into the future given strong socio-economic factors.

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One of the key challenges in the Philippines, however, is excise tax. Earlier this month, a Bill proposing a dramatic tax increase with a two-tier excise tax system was approved at the third and final reading by the House of Representatives.

The next step in the legislative process is Senate approval. The debate in the Senate will start at the beginning of August and the Government is seeking to pass the excise tax Bill by end of this year.

We believe the Senate will take the opportunity to amend the proposed rates and the number of tiers, as well as amend other provisions such as the current prohibition of reclassification of brands into different tiers and limitations in packaging sizes. This in view of the disastrous effects that the resulting steep price increases would have on the livelihood of tobacco farmers as well as on the potential significant increase of illicit trade. As has been the case elsewhere we are hopeful that reason will ultimately prevail.

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Moving on to Korea, which is the sixth largest market in Asia.

We achieved a record share last year fueled by our strong portfolio and competitor price increases in early Q2 2011. While we increased our prices in February this year, KT&G, the largest player in the market, has to date maintained its prices.

We have since implemented tactical price adjustments enabling us to compete in the growing premium ultra-lights, superslim sub-segment, where KT&G has clear market leadership with *Esse*.

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In Korea we grew our market share from 9.9% in 2007 to 16.9% in 2010, a significant gain and a testament to the strength of our brands and our team in the market. The momentum carried forward to 2011, when we achieved a 19.8% share and became the number one international tobacco company. Our share of 19.2% in May this year is essentially in line with the level prior to the price movements in 2011, but with significantly higher margins.

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To continue to support the excellent growth of our portfolio in Korea and to meet the country's regulatory requirements, we commenced the construction of our new factory in the southern part of Korea in 2010. The cigarette production lines have been operational since November last year while the tobacco processing line will be completed next month.

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We still have huge opportunities in three untapped markets in Asia, namely India, Vietnam and Bangladesh. The combined industry volume of these three markets was 274 billion in 2011 and, as you can see from this chart, we have a small piece of that pie with only a 0.6% share.

Clearly this represents a tremendous opportunity and we have built organizations which are now in place that should enable us to achieve steady organic growth in both India and Vietnam, and we continue to capitalize on our *Marlboro* license agreement in Bangladesh.

In all three markets, our teams are focusing all our efforts on *Marlboro* and we have provided them with a four-fold increase in financial resources. Our volume growth illustrates that these focused efforts are delivering results and *Marlboro* is gaining traction despite stiff competition.

As highlighted in the yellow bar, we can see that five months into this year, we are well on track to comfortably surpass the full year shipment volume recorded last year.

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In India, our share in our three focus cities has grown from 1.3% in early 2010 to 3.1% in May this year.

In Vietnam, in the six cities where we focus our activities, our share has grown from 0.9% in early 2010 to 6.2% in May this year.

(SLIDE 48.)

I feel privileged to operate in such an exciting and dynamic Region that has huge potential for continued long term growth.

We are the market leader.

The economic, demographic and fiscal environment is positive. Our brand portfolio is unmatched.

And I know that our organization is well positioned across all our markets to execute our strategies with passion and excellence.

Ultimately, these factors will enable us to sustain our volume and profit growth in the years to come, and I am confident that Asia will continue to be a growth engine for this great company.

(SLIDE 49.)

Thank you very much for allowing me to share with you an overview of PMI's dynamic businesses in Asia. I'll be happy to take your questions.