STRATEGIC AND COMMERCIAL INTELLIGENCE

Project Star

2009 Results

02 June 2010

ADVISORY

This document was produced by KPMG LLP in 2010. It has been placed here for reference.

AUDIT ▪ TAX ▪ ADVISORY

Basis of preparation

- This presentation of key findings ('our report') is given in accordance with our agreed written terms of engagement dated 18 October 2007 and our letter to OLAF dated 3 August 2005 detailing the scope of our review of the contraband and counterfeit segments of the tobacco market within the 27 EU Member States. We draw your attention to the limitations in scope set out therein.
- Our work has been ongoing since 1 November 2005. Our fieldwork for 2009 results is now complete.
- In preparing our report, we have used a range of sources. Details of our principal information sources are set out in the Appendix and we have satisfied ourselves, so far as possible, that the information presented in our report is consistent with other information which was made available to us in the course of our work in accordance with the terms of our engagement letter. We have not, however, sought to establish the reliability of the sources by reference to other evidence. The scope of our work was different from that for an audit and, consequently, no assurance is expressed.
- Our report makes reference to 'KPMG Analysis'; this indicates only that we have (where specified) undertaken certain analytical activities on the underlying data to arrive at the information presented.
- Our report is provided solely for the benefit of the parties identified in our engagement letter and should not be copied, quoted or referred to in whole or in part without our prior written consent. We will not accept responsibility to any other party to whom our report may be shown or who may acquire a copy of our report.

Glossary of terms

Cigarette industry

Bootlegging	Also called small-scale smuggling, bootlegging is the purchase of tobacco products in one country for illegal consumption or resale in another country without paying the applicable taxes or duties
Cigarette	Any factory-made product that contains tobacco and is intended to be burned or heated under ordinary conditions of use
Contraband (CB)	Genuine product that has been bought in a low-tax country and which exceeds legal border limits or acquired without taxes for export purposes to be illegally re-sold (for financial profit) in a higher priced market. There are generally two types of contraband: bootlegging and wholesale smuggling/organised crime
Counterfeit (CF)	Cigarettes that are illegally manufactured and sold by a party other than the original trademark owner. For the purposes of this analysis, data relating to Counterfeit is not included within the definition of Contraband. Illicit flows of Philip Morris brands are split into their separate Counterfeit and Contraband components. Illicit volumes of other manufacturer brands are reported as combined Counterfeit and Contraband flows
Duty Free	Purchases made outside the EU that have no state, local or provincial taxes, federal import duties or any other type of taxation added to the cost of the item purchased. Subject to purchase volume restrictions
MPPC	Most popular price category
NMA / TMA	National Manufactures Association / Tobacco Manufacturers Association
OTP	Other Tobacco Products (RYO/MYO, cigarillos, portions, rolls and cigars; excluding smokeless tobacco and water-pipe tobacco)
RYO/MYO	Roll-your-own/Make-your-own - loose tobacco for the purpose of hand rolling / loose tobacco for the purpose of tubing
Smoking prevalence	The percentage of smokers in the total adult population
Smoking incidence	The number of cigarettes consumed per day on average by the adult population
Tobacco taxes	The sum of all types of taxes levied on tobacco products. There are two basic methods of tobacco taxation: *Normal or specific taxes* are based on a set amount of tax per unit (e.g. cigarette); these taxes are differentiated according to the type of tobacco. *Ad valorem taxes* are assessed as a percentage mark up on a determined value, usually the retail selling price or a wholesale price and includes any value added tax

PMI data sources

EPS	Empty Pack Survey
GCTS	Global Consumer Tracking Survey
IMS	In Market Sales (the primary source of legal domestic sales volumes)

Project Star

CAGR	Compound Annual Growth Rate
C&C	Counterfeit and Contraband
Consumption	Actual total consumption of cigarettes in a market, including legal IMS and illicit products as well as those purchased overseas to be brought back and smoked in market
Consumption gap	The difference between total consumption and legal domestic consumption
Country of origin	Country from which the packs collected are deemed to have originated. This is determined by either the tax stamp on the pack or in cases where tax stamp is not shown, on the health warning and packaging characteristics
EU	European Union
EU Flows Model	The primary methodology for measuring consumption in a market. The model details the volume of inflows and outflows of product for a given market by country of origin (the model only specifies flows to EU countries)
Inflows/Outflows	Inflows of non-domestic product into a market/outflows of product from a market
LDS	Sales of genuine domestic product through legitimate, domestic channels based on In Market Sales (IMS) data
LDC	Legal Domestic Consumption is defined as legal domestic sales net of outflows
ND	Non-Domestic product – product that was not originally intended for the market in which it is consumed
ND(L)	Non-Domestic (Legal) – product that is brought into the market legally by consumers, such as during a cross-border trip
Not identifiable	In 2009, packs which had no clear indication of origin were classified as ‘Not identifiable’. In prior years, such packs were classified as Duty Free
OLAF	Office Européen de Lutte Anti-Fraude (European Commission Anti-Fraud Office)
PMI	Philip Morris International

Market research

CAPI	Computer-aided personal interviewing
CATI	Computer-aided telephone interviewing

Measurements

Bn	Billion
Mn	Million

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Overview of Project Star

The primary deliverable of Project Star is an assessment of the level of counterfeit and contraband cigarettes across the EU markets

PMI's co-operation with the European Commission

- As per PMI's agreement with the EC, the incidence of Contraband Cigarettes and Counterfeit Cigarettes in any New Member State and in the Initial Participating Member States shall be determined by a methodology agreed to by the Parties
- Phase 1 of the research was conducted in 2006 in the 25 EU Member States
- Phase 2 and subsequent phases include Bulgaria and Romania to reflect the accession of these countries to the EU in January 2007

KPMG's approach to meet this challenge

- Develop a methodology to measure the size of the legal, contraband and counterfeit markets for tobacco products
- Develop a programme plan for management of delivery
- Carry out, with third party research providers as required, measurement of counterfeit and contraband across all EU Member States

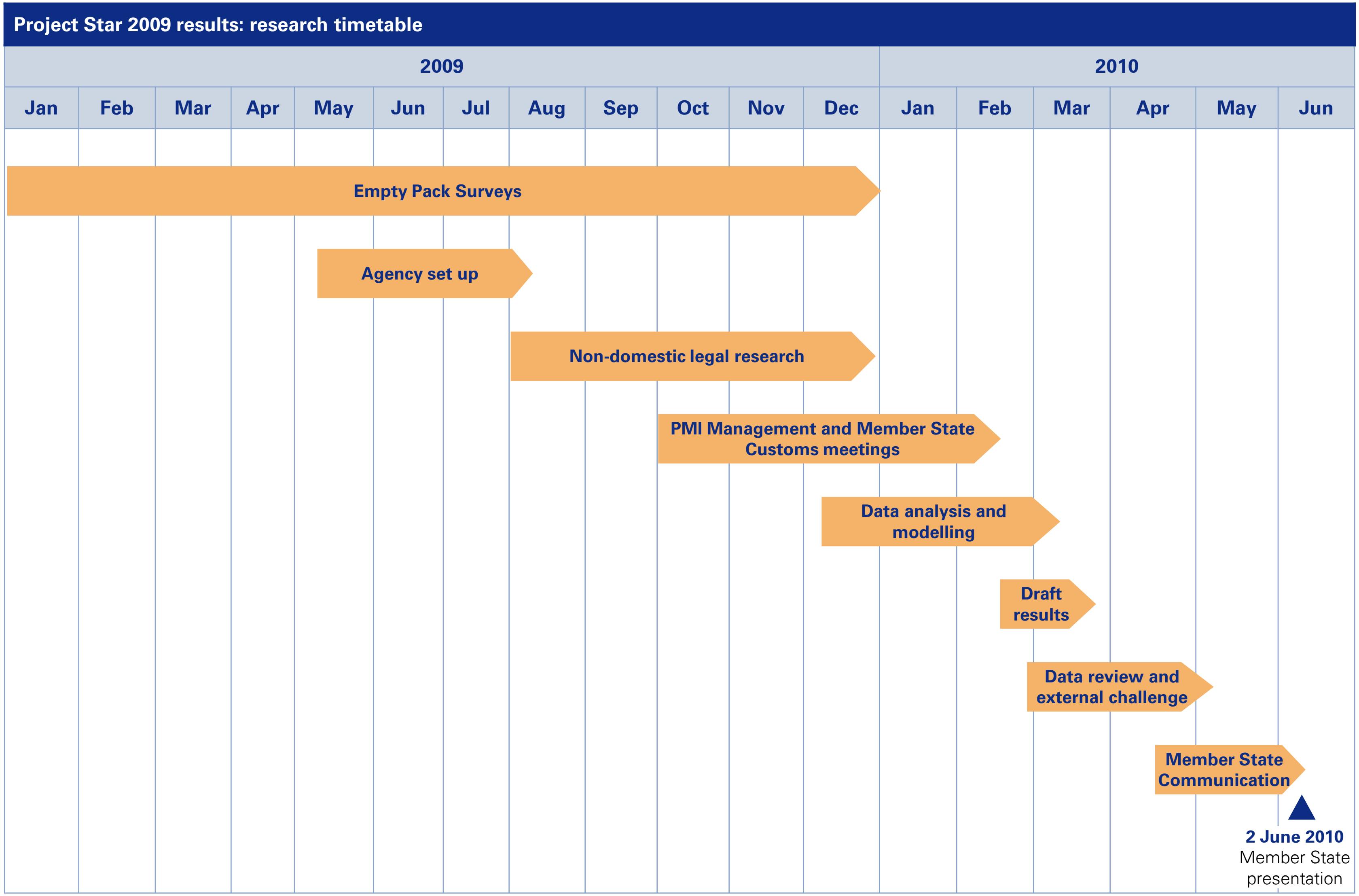
Project timing

Fieldwork was completed in January 2010 when full year legal domestic sales data became available

Data analysis and modelling was undertaken during Quarter 1 2010

Preliminary results were then tested with both PMI Country Management Teams and external experts

Full 2009 results have now been finalised and are contained in this report



Design and development of the methodology

The methodology has been designed and tested through several steps and according to five underlying principles

Methodology design steps

Information assessment
- Review available internal information in pilot markets
- Assess quality of information
- Identify gaps in data availability and coverage

Methodology design
- Develop preliminary approach to C&C measurement
- PMI and OLAF approval to test methodology in three-market pilot process

Pilot and refine
- Test methodology in three pilot markets (Finland, Germany and Poland) during 2006
- Evaluate results and refine methodology

Implement
- Roll out approach to remaining 25 EU markets for 2006
- Addition of Romania and Bulgaria in 2007
- Scope to add further Accession States in future years where appropriate

Methodology design principles

Consistent
- Our approach must be able to be applied in as standardised a manner as possible across markets to ensure all Member States are treated equally and fairly

Corroborated
- We will seek to corroborate key sources and overall methodology results to limit excessive reliance on individual sources

Fact-based
- Our approach and conclusions need to be data-driven and impartial

Pragmatic
- Perfect measurement of the C&C trade is not possible. We need to have a practical and feasible approach that will deliver results that are robust, credible and fit for purpose

Flexible
- We need to be flexible in our approach and thinking in order to identify situations where a rigid methodology would fail to capture the market reliably
- This flexibility includes:
  - modifying and improving our approach through the pilot phase and beyond
  - customising our approach where necessary to cater for specific market differences

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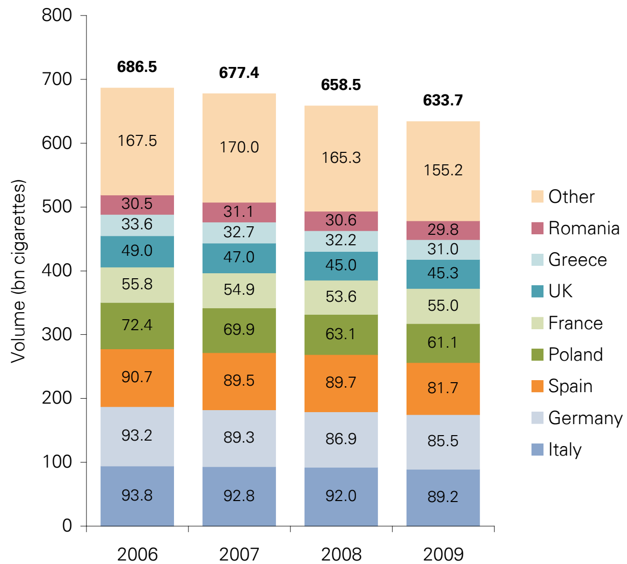
Overview

634 billion cigarettes were sold legally in the EU in 2009	**The eight largest EU markets account for 76% of total cigarette sales** ● Of these, Italy, Spain and Germany each accounted for more than 80 billion cigarettes of legal domestic sales in 2009 **Marlboro and L&M together occupy market leading positions in 13 of the 27 EU markets** ● Other market leaders are country specific, with no other brand occupying the number one spot in more than one market
Increasing prices and smoking restrictions have contributed to a decline in cigarette consumption	**The pricing and legislative environment for cigarettes has tightened across the EU in recent years** ● Over the past two years, prices have increased substantially across the EU-27, especially in the 2004 and 2007 Accession States – increased prices in many of the 2004 and 2007 Accession States have been driven by pressure to comply with EU minimum taxes of €64 per 1000 cigarettes ● An increasing amount of legislation has been introduced, limiting smoking in public places and preventing manufacturers from advertising their products in a growing number of media formats **As a result of these changes and other social trends, the majority of the EU-27 have experienced a decline in cigarette consumption** ● Twenty two of the twenty seven EU countries have encountered declining consumption over the past year, with total EU consumption declining by 2.9% over the period
Cigarette sales have declined at a European level, partly driven by declining consumption	**The annual rate of decline of EU legal domestic sales accelerated in 2009** ● EU cigarette sales declined by 3.8% in 2009, driven by an overall decline in sales in both the EU15 countries and 2004 and 2007 Accession States – this follows a longer term trend of decreasing sales; EU legal domestic sales declined at an annual rate of 3.3% from 2002 to 2009 ● Sweden, France, Austria and UK have experienced growth in legal domestic sales in 2009 compared to the previous year, which has corresponded to a decline in non-domestic incidence
However, differences in sales and consumption trends between countries highlight the existence of price-driven cross-border trade	**The relationship between changes in consumption and changes in sales differs substantially between Member States** ● Although the majority of markets have experienced a decline in consumption, the impact on legal sales differs markedly between Member States – markets such as Latvia, Lithuania and Estonia have experienced more rapid sales declines than can be explained by decreases in consumption alone **These differences suggest a significant and fluctuating cross-border trade in manufactured cigarettes** ● In the markets where sales have declined more rapidly than consumption there has been growing penetration of non-domestic cigarettes

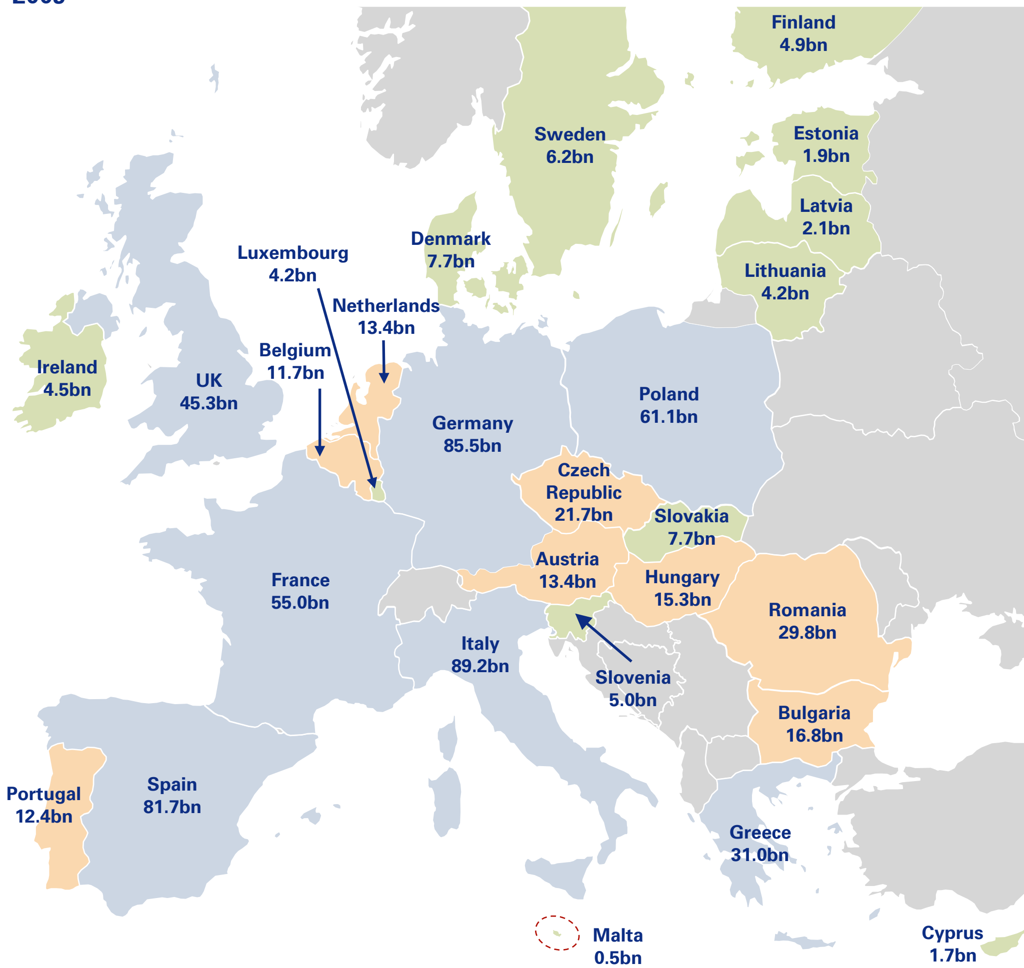
Legal domestic sales by country

The eight largest markets accounted for 76% of total EU legal cigarette sales in 2009

EU legal domestic cigarette sales, 2006-2009[1]



Legal domestic cigarette sales, 2009[1]



Keys: *More than 30bn cigarettes*
10bn – 30bn cigarettes
Less than 10bn cigarettes

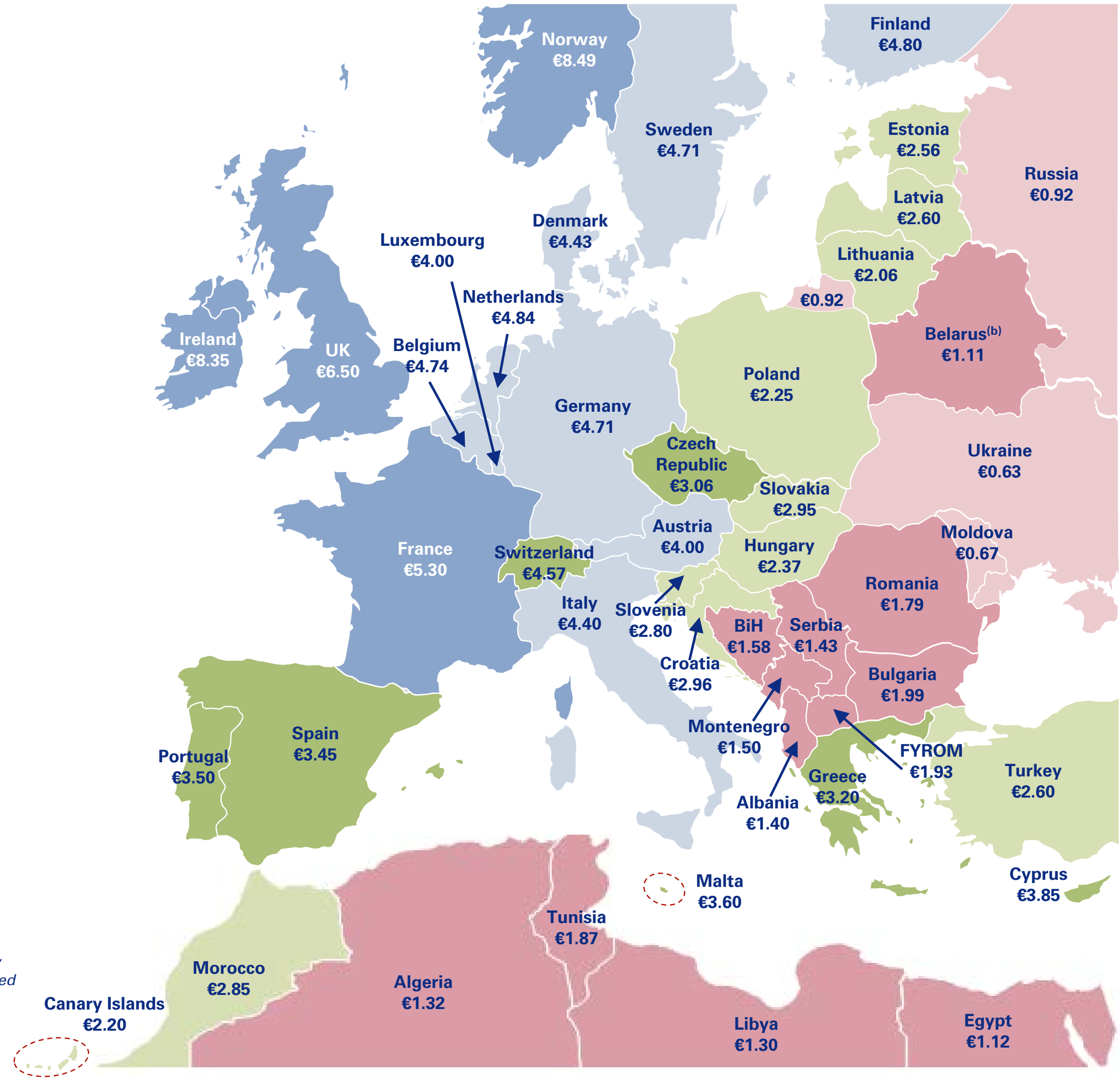
Source: *(1) In Market Sales provided by PMI management*

Marlboro price comparison

Despite ongoing moves to align cigarette prices and taxes, retail prices vary widely across the EU, while Ukrainian and Russian prices remain below EU levels

Across the EU, the price of a pack of Marlboro ranges from €1.79 in Romania to €8.35 in Ireland

Map denotes Marlboro price per 20 cigarettes 1 July 2009[1][a]



Keys:
- *€5 or more*
- *€4 to €4.99*
- *€3 to €3.99*
- *€2 to €2.99*
- *€1 to €1.99*
- *Less than €1*

Notes: (a) Based on pack of Marlboro 20 King Size on 1st July 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2009

(b) Price of Kent, which is an equivalent premium category brand to Marlboro

Source: (1) Marlboro retail selling price supplied by PMI

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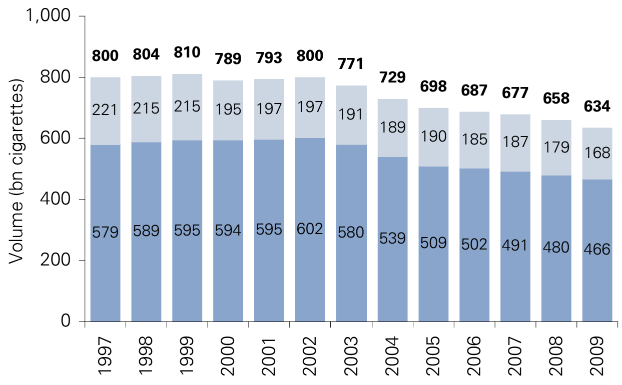
Legal sales trends

The annual rate of decline of EU legal domestic sales accelerated to 3.8% in 2009 in keeping with recessionary spending pressures

Historic legal domestic cigarette sales for EU-27 1997-2009[(1)(a)]



CAGR (%)	1997-2006	2006-2009	2006-2007	2007-2008	2008-2009
2004 and 2007 accession countries	-1.9%	-3.2%	1.0%	-4.3%	-6.1%
EU-15 legal sales	-1.6%	-2.4%	-2.2%	-2.2%	-2.9%
Total	***-1.7%***	***-2.6%***	***-1.3%***	***-2.8%***	***-3.8%***

Notes: (a) No data available for Latvia, Lithuania and Malta prior to 2000, therefore 2000 data has been used for 1997-1999. No data available for Romania prior to 2004 and so 2004 data has been used for 1997-2004. Similarly, no data available for Bulgaria prior to 2005, so 2005 data has been used for 1999-2005

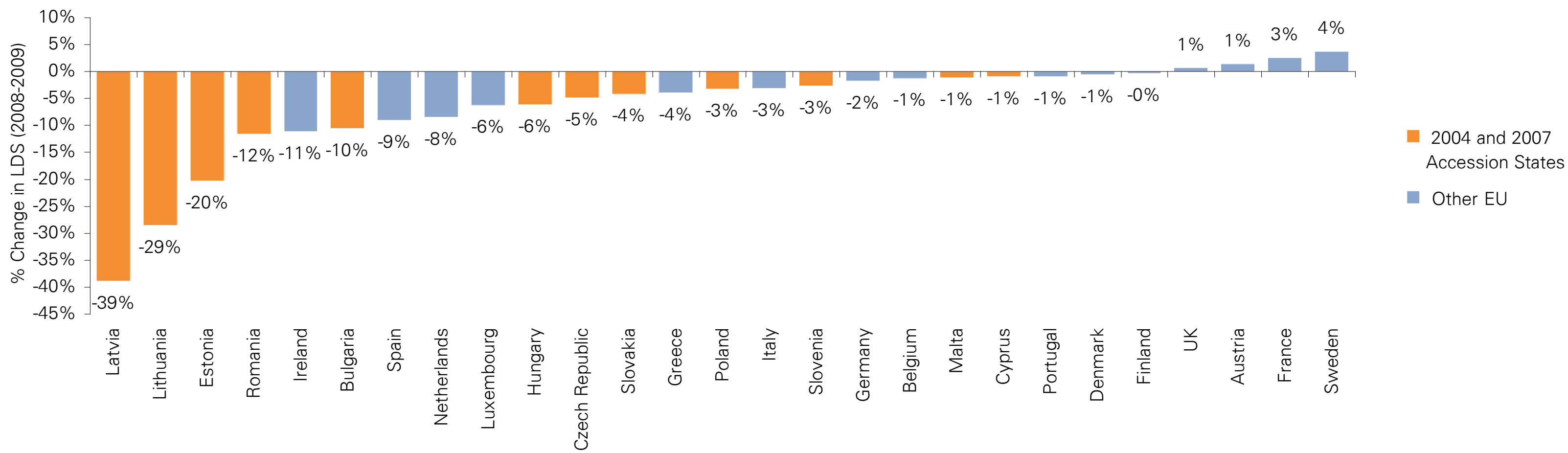
Source: (1) In Market Sales provided by PMI

Legal sales, price and tax trends

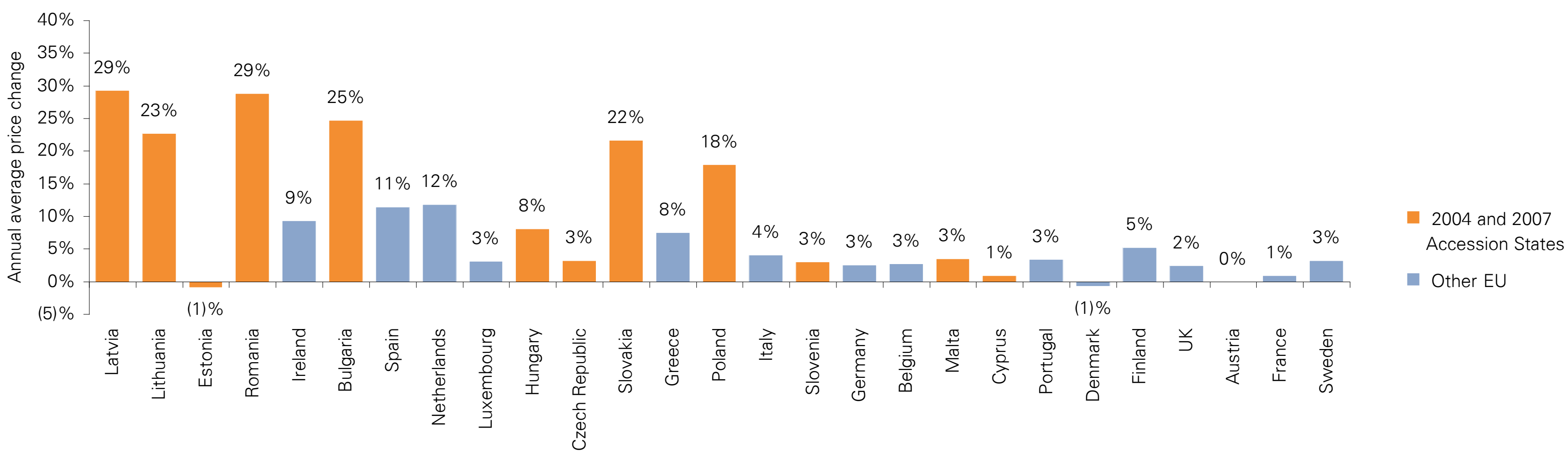
The fall in total EU cigarette sales is driven by a decline in both the EU15 and the 2004 and 2007 Accession States

Prices have increased substantially across the EU from 2008 to 2009, particularly in the 2004 and 2007 Accession States

Percentage change in legal domestic cigarette sales for EU-27 2008–2009[1]



Average annual price change in local currency 2008-2009[(2)(a)]



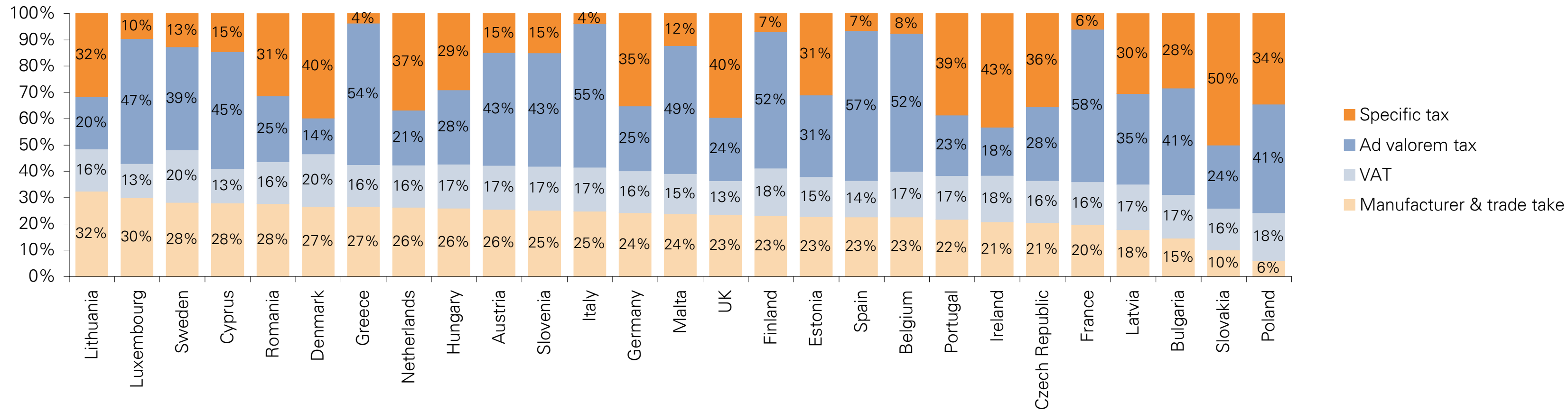
Note: (a) The weighted average price in a market can be impacted by changes to the mix of brands and their relative market shares from one year to the another
Source: (1) In Market Sales provided by PMI
(2) Weighted average price data supplied by PMI management

Tax breakdown

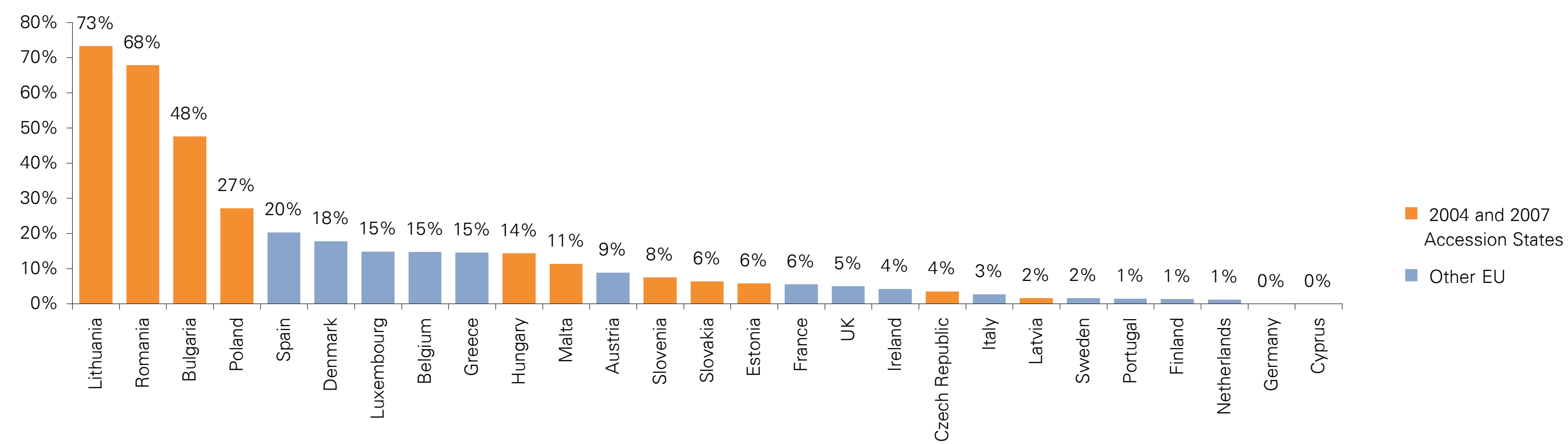
Taxes form a large proportion of the price of cigarettes, though the nature of taxation varies across countries

The 2004 and 2007 Accession States typically experienced the highest growth in tax burden in 2009

Pack price breakdown of the MPPC July 2009[(1)(a)]



Change in tax burden of MPPC 2009[(1)(a)(b)]



Note: (a) MPPC is the Most Popular Price Category

(b) Change in tax burden of MPPC prices in local currencies at 1st January 2009 and 1st January 2010 and therefore may include some distortion from currency fluctuations

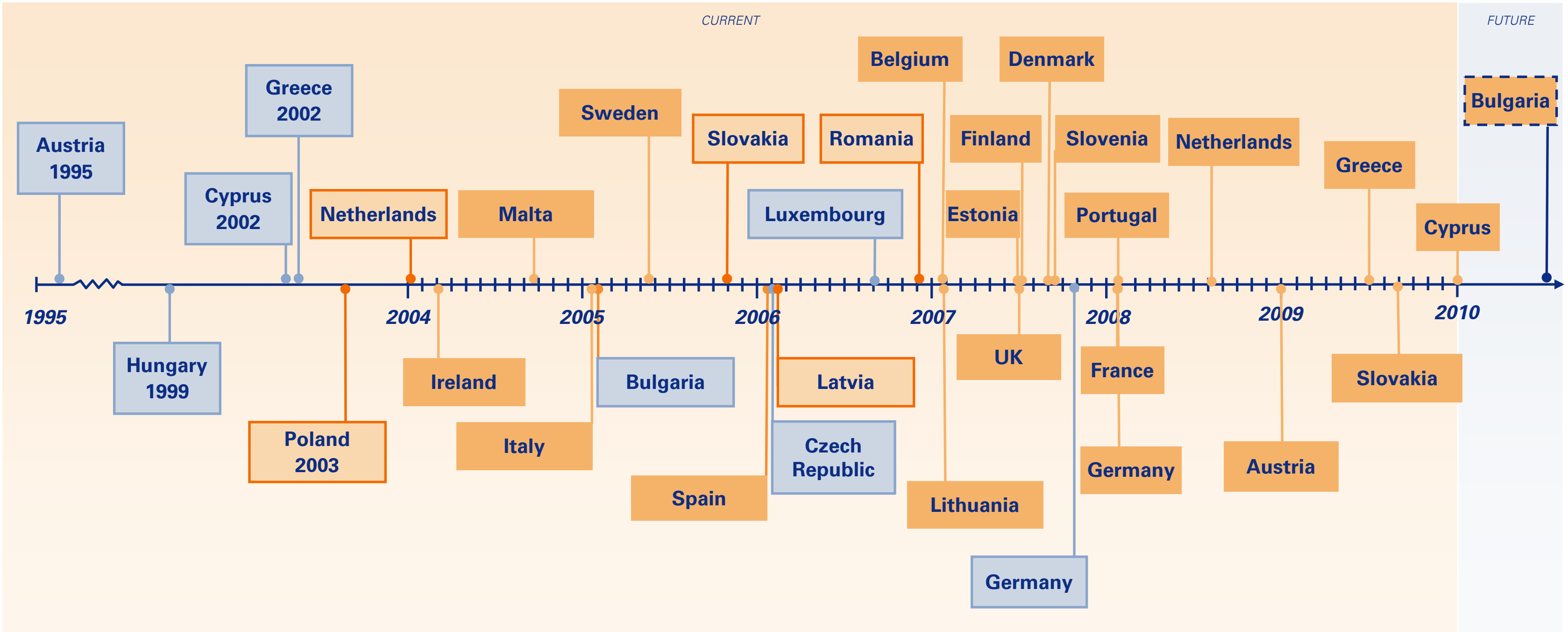
Source: (1) European Commission, 'Excise duty Tables, Part III – Manufactured Tobacco', available online from: http://ec.europa.eu.taxation_customs/index_en.htm

Smoking restrictions

There has been significant legislation in recent years limiting smoking in public places

This change is ongoing in many Member States, with further restrictions already announced in many markets

Smoking legislation time-line[(1)(2)(3)(4)(5)(6)(7)(a)]



Key:
- *Minimal smoking restrictions – no smoking restrictions*
- *Partial smoking restrictions – no smoking in government buildings, public transport, schools*
- *Moderate smoking restrictions – partial smoking restrictions plus no workplace smoking*
- *Extensive smoking restrictions – moderate smoking restrictions plus limited or no smoking in restaurants, cafes and bars*
- *Denotes future smoking restrictions*

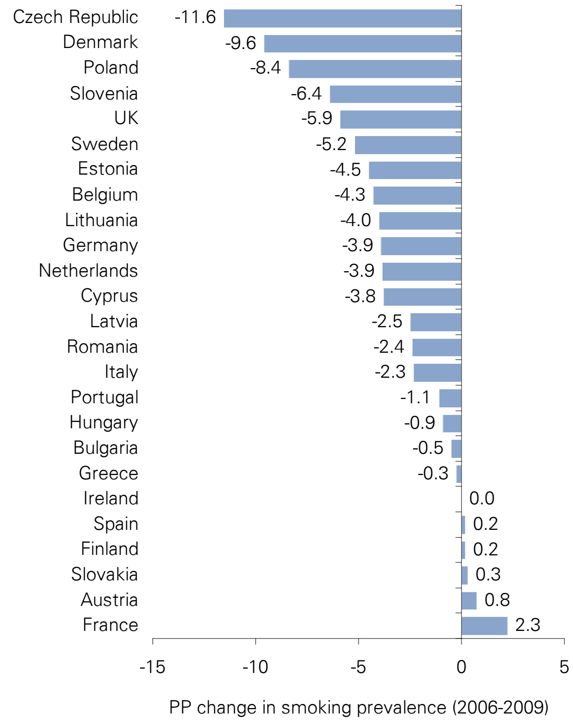
Note: (a) Restrictions shown are most stringent or most recent

Sources:
(1) Press articles; "European Trends towards non-smoking provisions", European Network for Smoking Prevention, December 2007'; and European Public Health Alliance website
(2) 'Slovak MPs approve partial smoking ban in restaurants', Agence France Presse, 17 February 2009
(3) 'Complete restaurant smoking ban tabled in Slovak parliament', The Slovak Spectator, 19 June 2009
(4) 'Bulgaria does U-turn on planned smoking ban', Yahoo!News, 28 April 2009
(5) 'Cyprus greets New Year with one last puff inside', Agence France Presse, 31 December 2009
(6) 'Heavy-smoking Greece tries to kick the habit with ban', Reuters, 01 July 2009
(7) 'Finland aims to stub out smoking habit', BBC Online, 15 January 2010

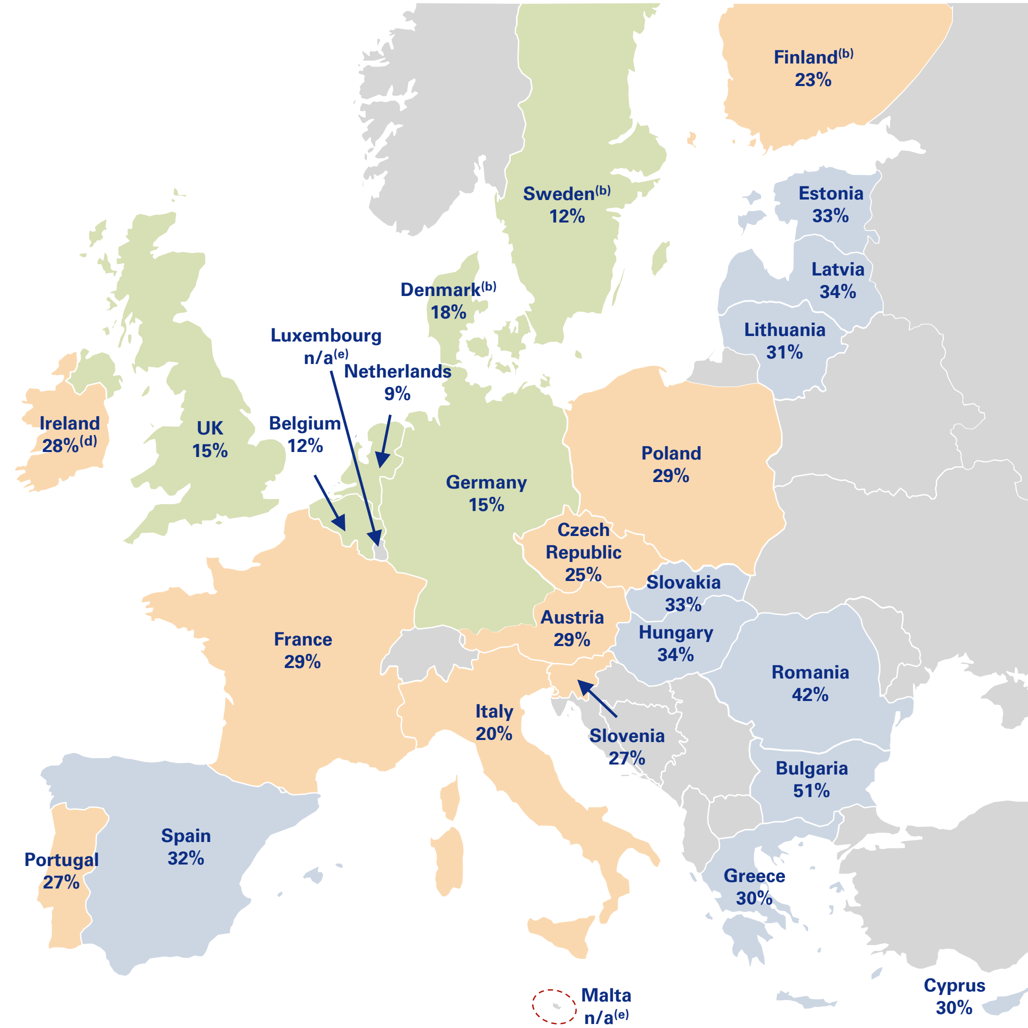
Smoking prevalence

Smoking prevalence has declined across most of the EU Member States since 2006

Change in cigarette smoking prevalence (percentage points) 2006-2009[(1)(a)(b)(c)(d)(e)]



Cigarette smoking prevalence 2009[(1)(a)]



Key:
- *30% or higher*
- *20% - 29%*
- *Less than 20%*

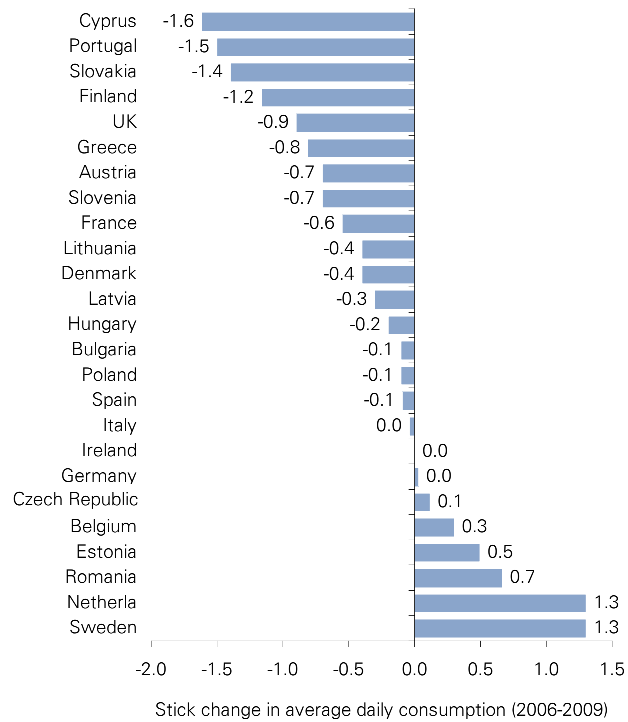
Notes:
- *(a) GCTS data based on smokers of legal age to 64 years of age smoking 3 or more cigarettes a day*
- *(b) Methodology for collection of smoking prevalence data changed in 2008 for Denmark, Finland, Sweden*
- *(c) There is no 2006, 2008 or 2009 data available in Ireland, therefore percentage point change in smoking prevalence calculated from 2005-2007*
- *(d) There is no 2008 or 2009 data available in Ireland, therefore 2007 data is applied*
- *(e) Data for Luxembourg and Malta is not available*

Source: (1) GCTS, PMI management

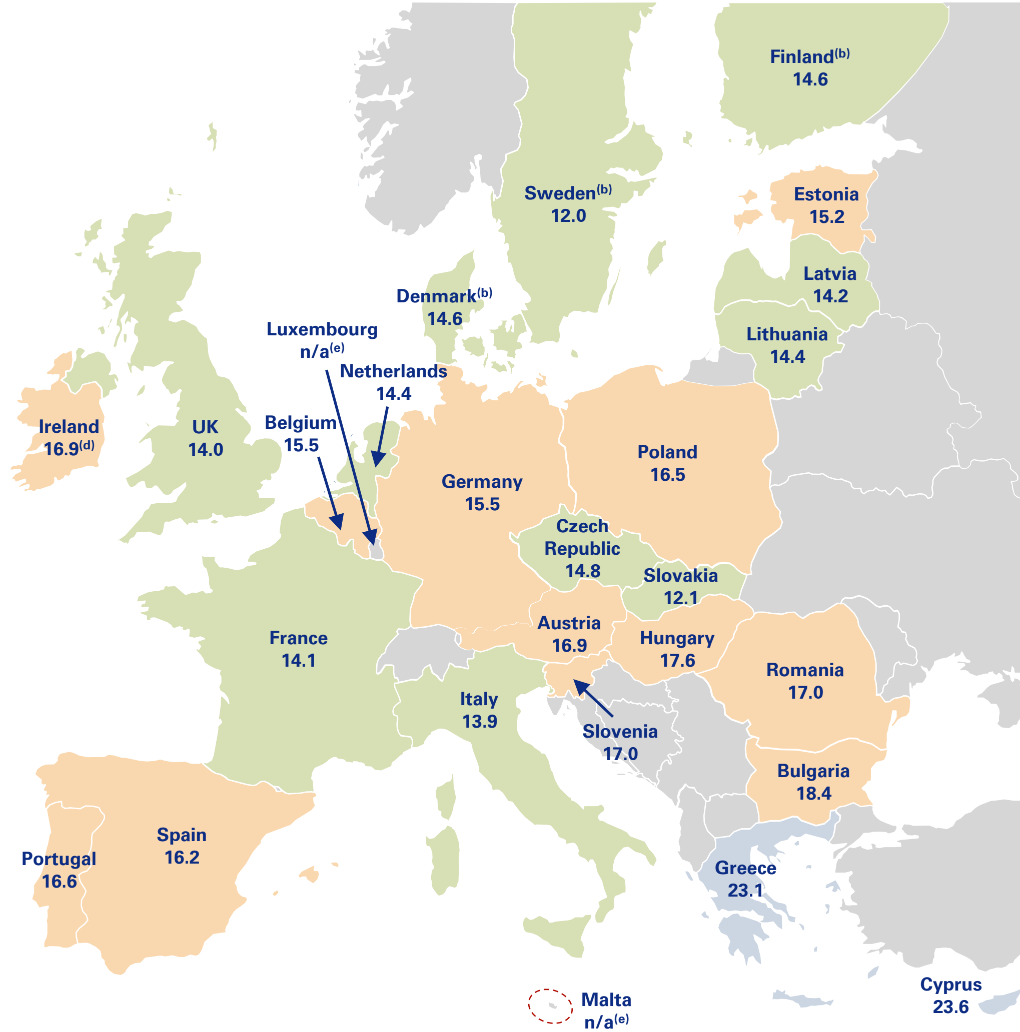
Average daily cigarette consumption

Average daily consumption of cigarettes has also been declining in the majority of Member States since 2006

Cigarette change in average daily cigarette consumption 2006-2009[(1)(a)(b)(c)(d)(e)]



Average daily cigarette consumption 2009[(1)(a)]



Key:
- *More than 20 cigarettes*
- *15 – 20 cigarettes*
- *10 – 15 cigarettes*

Notes:
- *(a) GCTS data based on smokers of legal age to 64 years of age smoking 3 or more cigarettes a day*
- *(b) Methodology for collection of cigarette consumption data changed in 2008 for Denmark, Finland, Sweden*
- *(c) There is no 2006, 2008 or 2009 data available in Ireland, therefore change in average daily consumption calculated from 2005-2007*
- *(d) There is no 2008 or 2009 data available in Ireland, therefore 2007 data is applied*
- *(e) Data for Luxembourg and Malta is not available*

Source: (1) GCTS, PMI management

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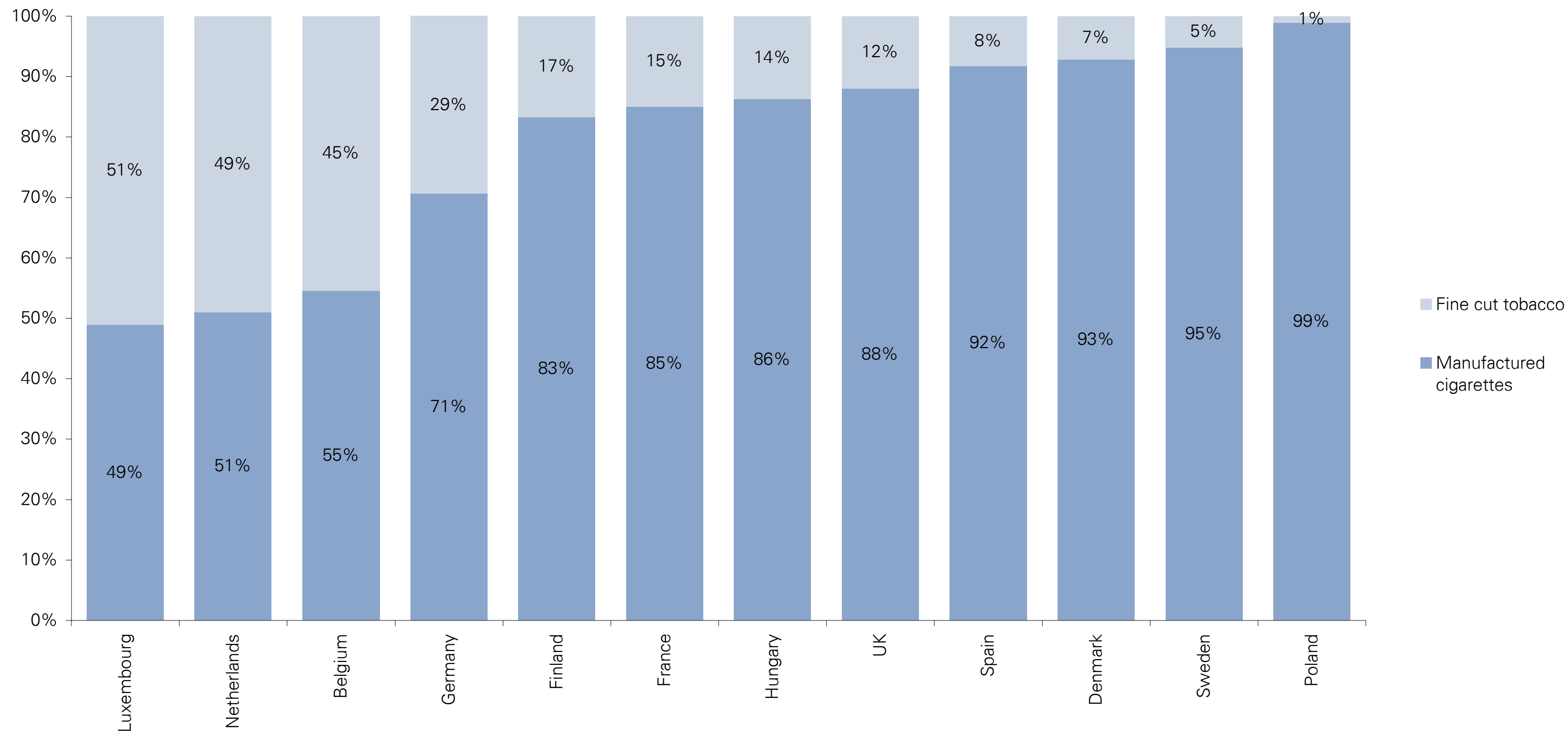
Comparison of Other Tobacco Products with manufactured cigarette sales

Of the 13 largest EU markets for Other Tobacco Products ("OTP"), the Benelux countries have the largest share of OTP sales relative to the overall tobacco market

EU tobacco sales by category 2009[(1)(a)(b)]



Notes: (a) Fine cut tobacco calculated based on 0.75 grams per stick
(b) Fine cut tobacco includes 'roll your own', make your own' and 'portions'
Source: (1) In Market Sales provided by PMI

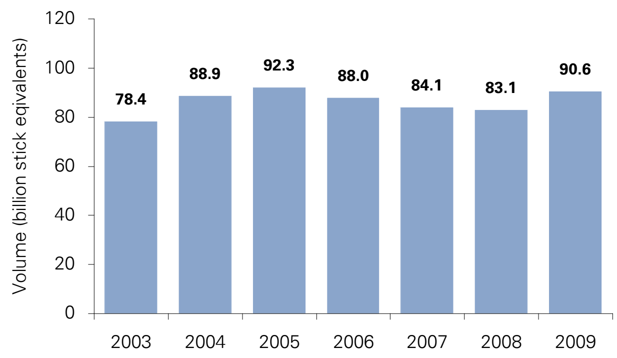
Fine cut tobacco accounts for over 40% of total tobacco sold in Luxembourg, Netherlands and Belgium

- Other countries where fine cut tobacco accounts for a substantial proportion of total tobacco sales include Germany, Finland and France
- Robust 2009 fine cut tobacco legal sales data was not available for Austria, Bulgaria, Cyprus, Czech Republic, Estonia, Greece, Italy, Latvia, Lithuania, Malta, Portugal, Slovakia, Slovenia and Romania. However, legal sales of fine cut tobacco accounted for less than 5% of total tobacco sales in these countries in 2008

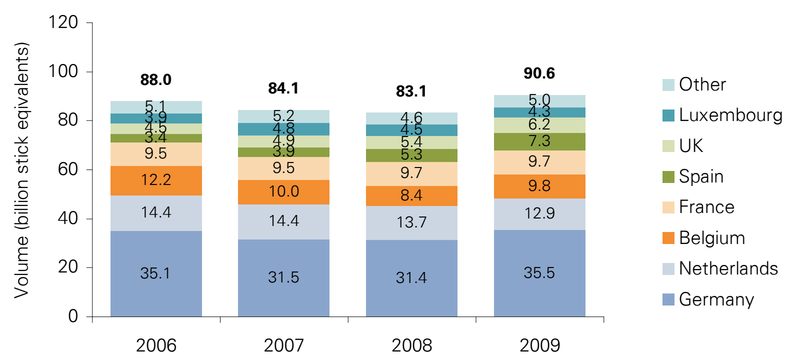
EU Other Tobacco Products market size

For the 13 largest EU Other Tobacco Products markets, fine cut tobacco sales were estimated at over 90.6 billion stick equivalents in 2009, an increase of 9.0% compared to 2008

EU legal domestic sales of OTP smoking tobacco 2003-2009[(1)(a)(b)(c)]



EU leading markets for fine-cut tobacco by volume, 2006-2009[(1)(a)(b)(c)]



The declining trend in sales of fine cut tobacco observed from 2005 to 2008 was reversed in 2009

- Fine cut tobacco sales increased by 9.0% in 2009 compared to 2008, whilst sales of manufactured cigarette sales across the EU-27 Member States declined by 3.8% during the same period of time
  - this reversed the trend observed from 2005 to 2008 where fine cut tobacco declined at an annual rate of 3.4%
- 2009 OTP sales volume data for Austria, Bulgaria, Cyprus, Czech Republic, Estonia, Greece, Italy, Latvia, Lithuania, Malta, Portugal, Slovakia, Slovenia and Romania was not available
  - OTP share of total tobacco sales in these countries accounted for less than 5% in 2008

The five largest markets for fine cut tobacco sales in the EU account for over 75% of overall sales

- Germany and the Benelux countries have the highest sales of fine cut tobacco in Europe relative to total tobacco consumption
  - legal sales in these countries increased by 7.6% in 2009 compared to the previous year, reversing a declining trend observed between 2006 and 2008
- France, UK and Spain also have significant sales of fine cut tobacco and each of these countries experienced an increase in legal sales of fine cut tobacco over the four year period 2006 to 2009

Notes: (a) Fine cut tobacco calculated based on 0.75 grams per stick
(b) Fine cut tobacco includes 'roll your own', make your own' and 'portions'
(c) Robust 2009 OTP sales data was not available for Austria, Bulgaria, Cyprus, Czech Republic, Estonia, Greece, Italy, Latvia, Lithuania, Malta, Portugal, Slovakia, Slovenia and Romania
Source: (1) In Market Sales provided by PMI

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Consumption overview: summary

Cigarette consumption in the EU declined by 2.9% in 2009 to 685 billion cigarettes	**Legal domestic consumption accounted for 87.4% of consumption in 2009** ● Legal domestic consumption declined by 2.8% in 2009 to 599 billion cigarettes. Differences between changes in Legal Domestic Sales and Legal Domestic Consumption reflect outflows to other EU and non-EU countries ● Legal domestic sales of cigarettes in the EU declined by 3.8% to 634 billion cigarettes over the same period
The volume of non-domestic inflows reached 86.2 billion cigarettes in 2009 for the 27 Member States	**Non-domestic cigarettes accounted for 12.6% of EU consumption in 2009 versus 12.7% in 2008** ● Germany which represents the largest market for non-domestic inflows, experienced an increase in volumes in 2009 – non-domestic volumes in Germany increased by 0.4 billion cigarettes to 21.3 billion cigarettes in 2009 ● Poland and Romania experienced the largest growth in non-domestic inflows – non-domestic inflows to Poland increased by 2.2 billion cigarettes to 8.0 billion in 2009 – non-domestic inflows to Romania grew by 1.0 billion cigarettes to 5.0 billion in 2009 ● France and the UK experienced the largest declines in non-domestic inflows – non-domestic inflows to France declined by 3.8 billion cigarettes to 12.5 billion in 2009 – non-domestic inflows to the UK declined by 1.6 billion cigarettes to 8.8 billion in 2009
Non-domestic (legal) volumes accounted for 25.0 billion cigarettes in 2009	**Total non-domestic (legal) accounted for 3.7% of total consumption in 2009** ● This represented a decline from 2008 when ND(L) represented 4.1% of total consumption **Declining non-domestic (legal) volumes in France and Germany were partially offset by increases in Austria and the UK in 2009** ● France and Germany accounted for 11.9 billion cigarettes of EU non-domestic (legal) volumes in 2009, down from 14.1 billion cigarettes the previous year ● Austria and the UK accounted for 3.3 billion cigarettes of EU non-domestic (legal) volumes in 2009, up from 2.9 billion cigarettes the previous year
Total EU C&C volumes amounted to 61.1 billion cigarettes in 2009	**Total C&C volumes accounted for 8.9% of total consumption in 2009 compared to 8.6% in 2008** ● The share of counterfeit and contraband originating from non-EU countries increased to 56.1% in 2009 compared to 46.2% in 2008

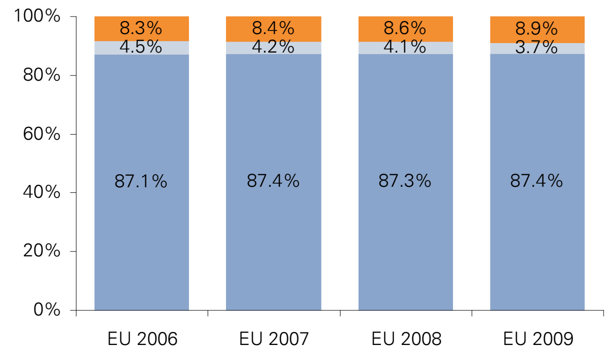
EU consumption by type

Counterfeit and contraband share of cigarette consumption increased to 8.9% in 2009, equivalent to 61 billion cigarettes

ND(L) share of consumption declined to 3.7% in 2009

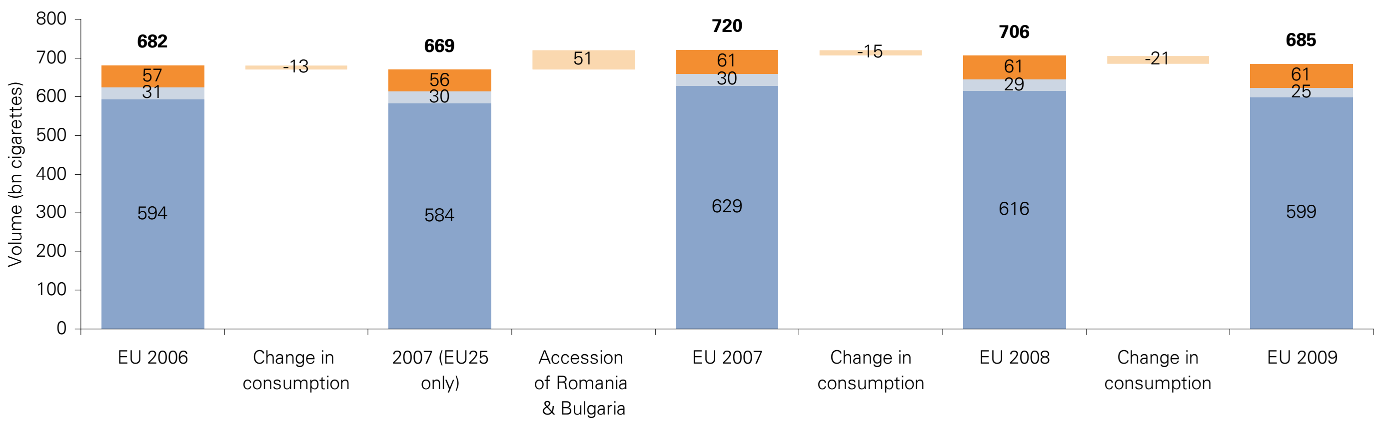
The annual rate of decline in total consumption accelerated in 2009 to 2.9%

EU consumption by type 2006-2009[(1)]



% change	2006-2007	2007-2008	2008-2009
C&C	*6.7%*	*-0.1%*	*1.0%*
Non-domestic (legal)	*-2.1%*	*-4.6%*	*-13.6%*
Legal domestic consumption	*5.9%*	*-2.1%*	*-2.8%*
Total consumption	***5.6%***	***-2.0%***	***-2.9%***

EU consumption by type 2006-2009[(1)]

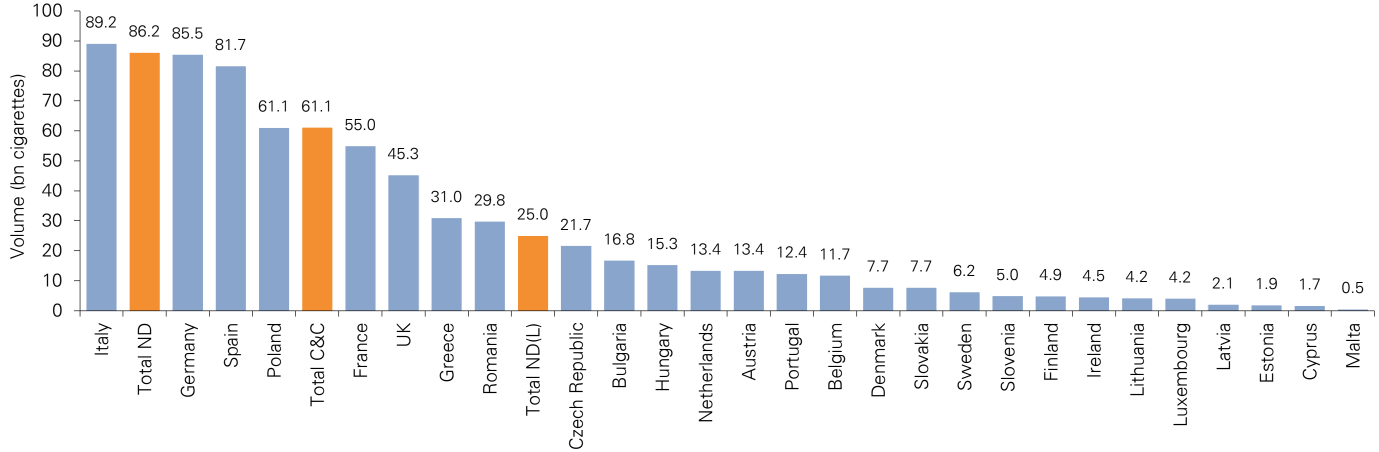


Source: (1) KPMG analysis based on EPS, LDS and ND(L) research

Legal sales trends

Total non-domestic flows to the EU of 86.2 billion cigarettes in 2009 are comparable to legal domestic sales in Germany, which is the second largest single market

Legal domestic sales by country versus total EU non-domestic cigarette volumes 2009[1]



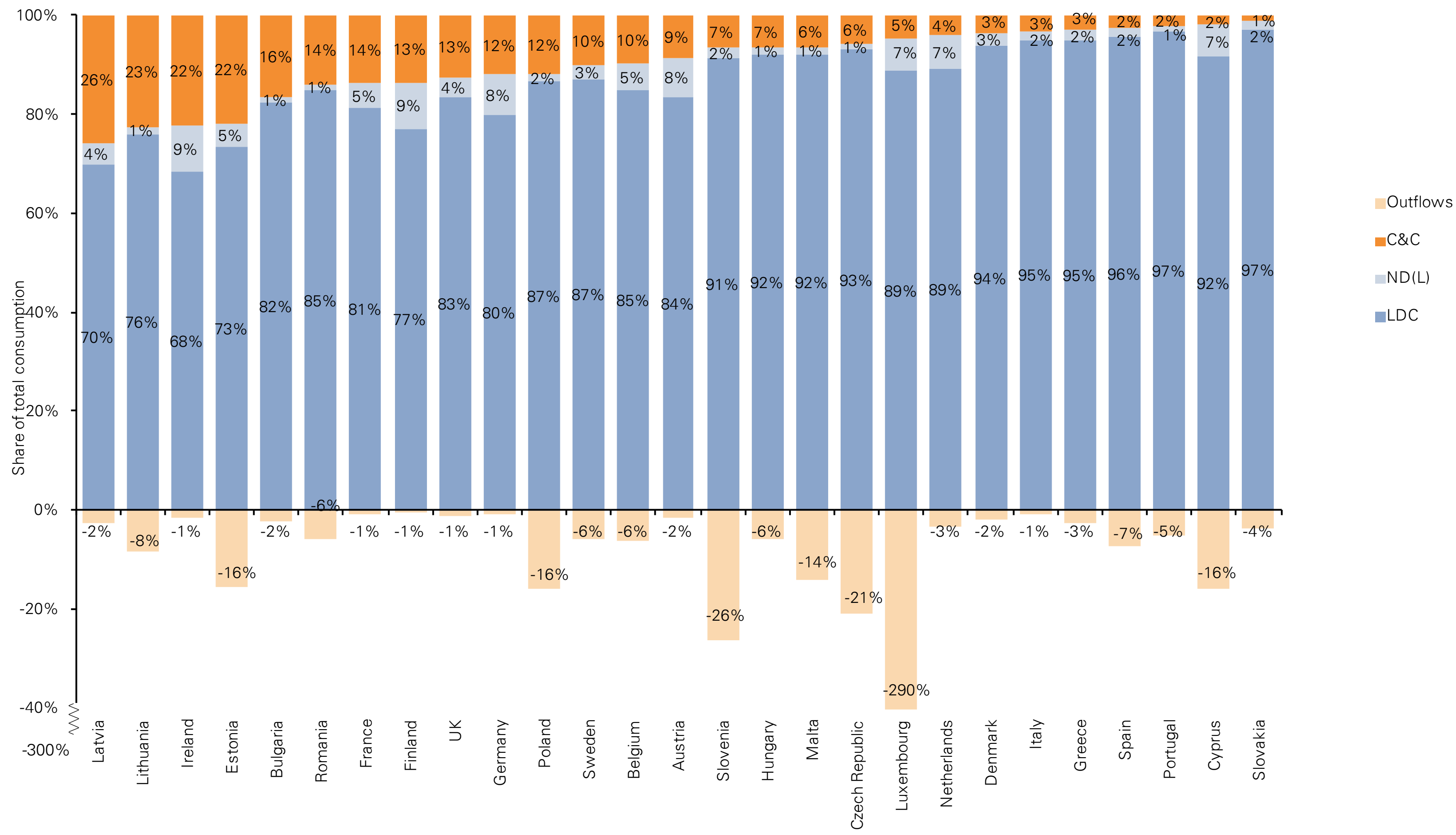
Source: (1) KPMG analysis based on EPS, LDS and ND(L) research

EU consumption by country

The Baltic states and Ireland had the highest C&C share of cigarette consumption in 2009

Total cigarette consumption by type 2009(1)

Volume (bn)	3	5	6	2	20	33	66	6	54	106	60	7	13	16	4	16	0.5	19	1	14	8	93	32	79	12	2	8



Source: (1) KPMG analysis based on EPS, LDS and ND(L) research

Contents

Non-domestic (legal) overview

Non-domestic (legal) volumes accounted for 25.0 billion cigarettes in 2009

Total non-domestic (legal) accounted for 3.7% of total consumption in 2009

- This represented a decline from 2008 when ND(L) represented 4.1% of total consumption

Declining non-domestic (legal) volumes in France and Germany were partially offset by increases in Austria and the UK in 2009

- France and Germany accounted for 11.9 billion cigarettes of EU non-domestic (legal) volumes in 2009, down from 14.1 billion cigarettes the previous year
- Austria and the UK accounted for 3.3 billion cigarettes of EU non-domestic (legal) volumes in 2009, up from 2.9 billion cigarettes the previous year

Non-domestic (legal) inflows as a proportion of total consumption are typically higher in western Member States

Germany and France accounted for approximately 48% of EU ND(L) consumption in 2009

- The UK, Spain, Italy and Austria were the only other Member States that accounted for over 5% of the EU total

Finland had the highest non-domestic (legal) share of consumption in 2009 at 9.4%

- Ireland, Germany, Austria, the Netherlands, Luxembourg, Cyprus and Belgium were the only other Member States where ND(L) share of consumption accounted for more than 5% in 2009

Flows from EU source countries account for the large majority of non-domestic (legal) consumption

Non-domestic (legal) flows between the EU-27 Member States accounted for 73.4% of total ND(L) inflows in 2009, compared to 76.4% in 2008

- Spain was the largest single source of non-domestic (legal) inflows, representing 11.4% of ND(L) flows in 2009 compared to 15.0% in 2008

Overall PMI share of legal flows remained broadly stable at 39% in 2009

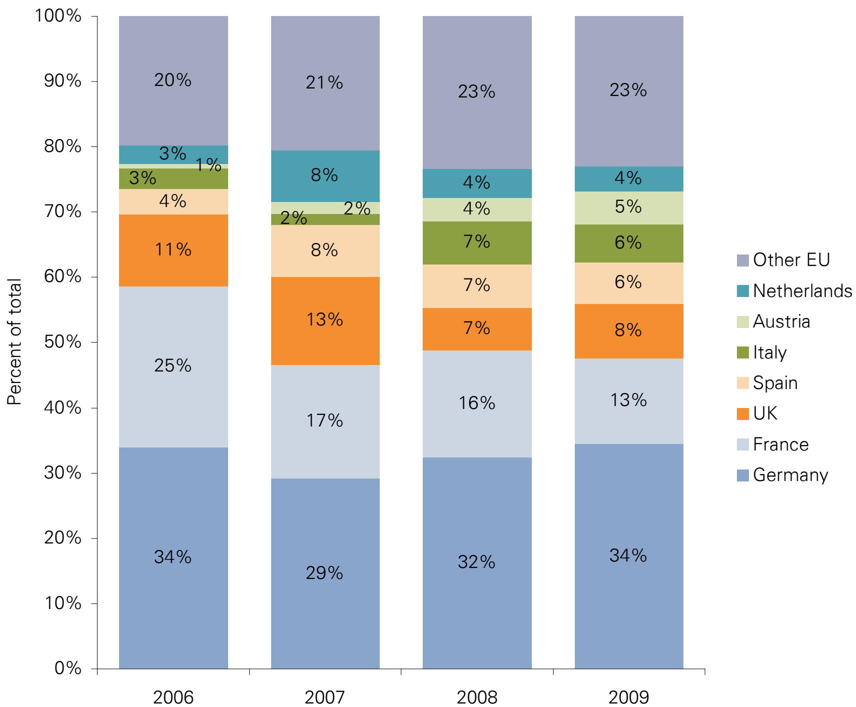
Non-domestic (legal) volumes of PMI brands remained broadly stable in 2009

- Marlboro share of total non-domestic (legal) remained broadly stable at 26% in 2009
- L&M share of total non-domestic (legal) declined to 5% in 2009, down from 8% the previous year
- West share of total non-domestic (legal) increased to 10% in 2009, up from 3% in 2008

Non-domestic (legal) inflows by destination country

Non-domestic (legal) flows to the EU-27 Member States declined to 25 billion in 2009 compared to 29 billion cigarettes in 2008

Non-domestic (legal) inflows by destination 2006-2008[1]



	2006	2007	2008	2009
ND(L) share of consumption:	**4.5%**	**4.2%**	**4.1%**	**3.7%**
ND(L) share of non-domestic:	**35.3%**	**33.4%**	**32.4%**	**29.1%**

Non-domestic (legal) volume by destination[1]

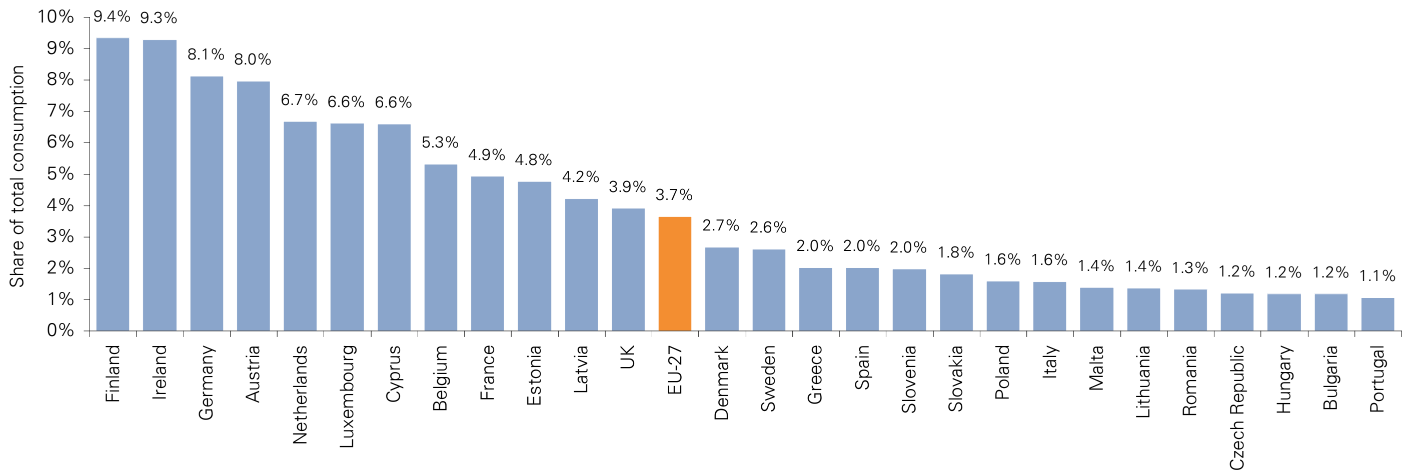
Destination	**2006**	**2007**	**2008**	**2009**
Germany	10.6	8.9	9.4	8.6
France	7.7	5.3	4.7	3.3
UK	3.4	4.1	1.9	2.1
Spain	1.2	2.4	1.9	1.6
Italy	1.0	0.5	1.9	1.5
Austria	0.2	0.6	1.0	1.3
Netherlands	0.9	2.4	1.3	1.0
Poland	0.6	0.6	0.9	0.9
Belgium	0.9	0.8	1.0	0.7
Greece	0.3	0.5	0.6	0.6
Ireland	1.0	0.8	0.5	0.6
Finland	0.7	0.4	0.4	0.6
Romania	n/a	0.7	0.8	0.4
Bulgaria	n/a	0.1	0.2	0.2
Czech Republic	0.1	0.1	0.1	0.2
Denmark	0.4	0.4	0.3	0.2
Hungary	0.1	0.3	0.2	0.2
Sweden	0.7	0.7	0.5	0.2
Slovakia	0.3	0.1	0.2	0.1
Portugal	0.3	0.1	0.2	0.1
Latvia	0.3	0.2	0.2	0.1
Cyprus	0.1	0.1	0.1	0.1
Estonia	0.1	0.1	0.0	0.1
Slovenia	0.1	0.0	0.1	0.1
Luxembourg	0.1	0.1	0.1	0.1
Lithuania	0.1	0.1	0.2	0.1
Malta	0.0	0.0	0.0	0.0
Total	**31.0**	**30.3**	**29.0**	**25.0**

Source: (1) KPMG analysis based on EPS, LDS and ND(L) research

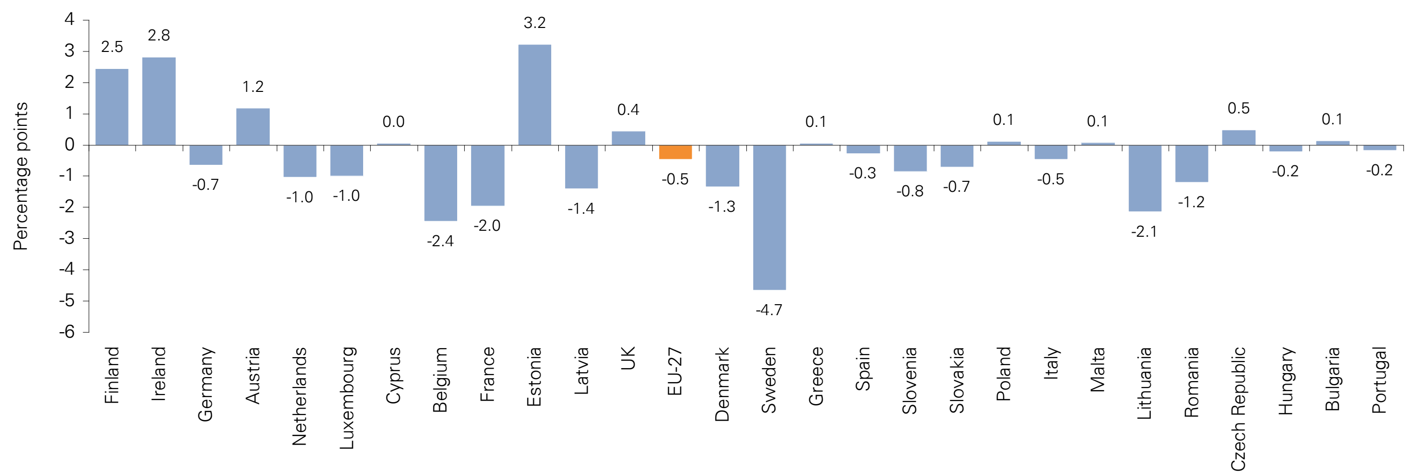
Non-domestic (legal) share of consumption

Finland had the highest non-domestic (legal) share of consumption in 2009 at 9.4%

Non-domestic (legal) share of consumption by country 2009(1)



Percentage point change in non-domestic (legal) share of consumption by country 2008-2009(1)

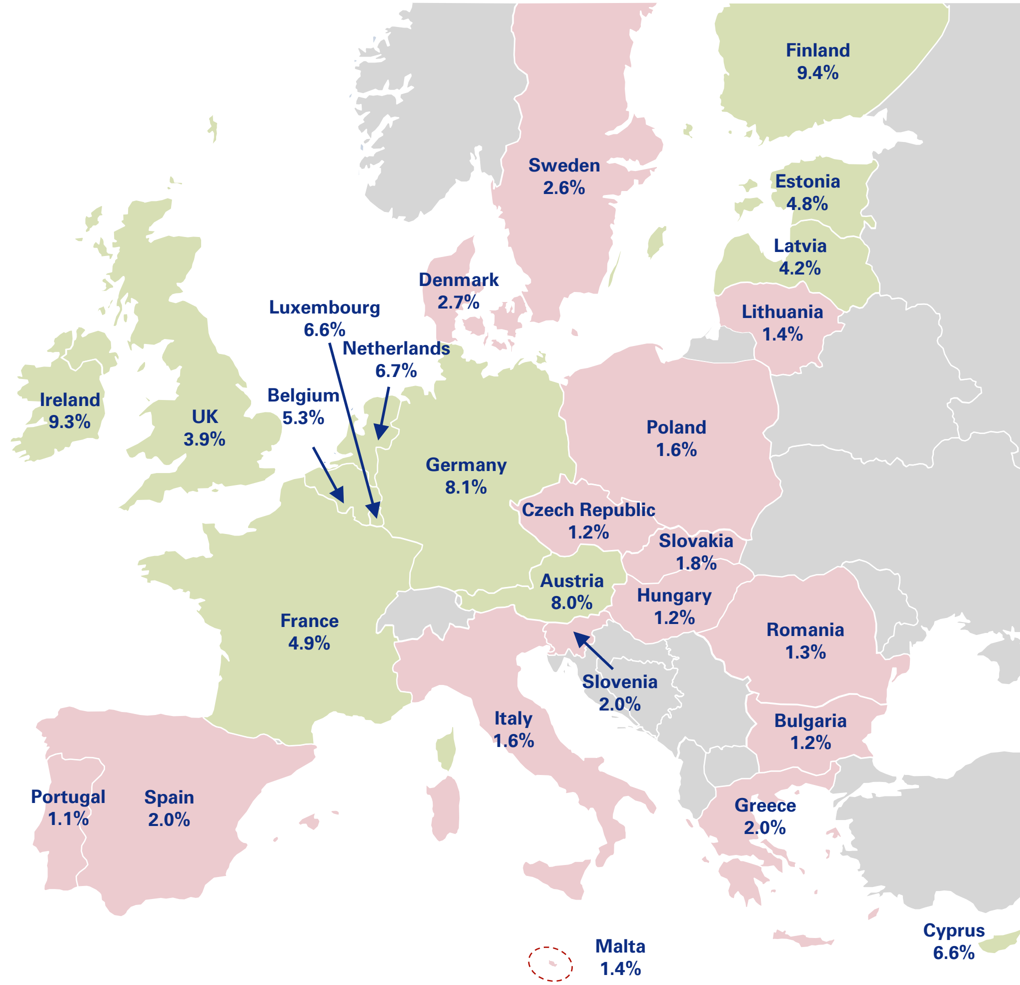


Source: (1) KPMG analysis based on EPS, LDS and ND(L) research

Non-domestic (legal) share of consumption

Non-domestic (legal) flows as a percentage of consumption are typically higher in western Member States

ND(L) share of total consumption by country 2009[(1)]



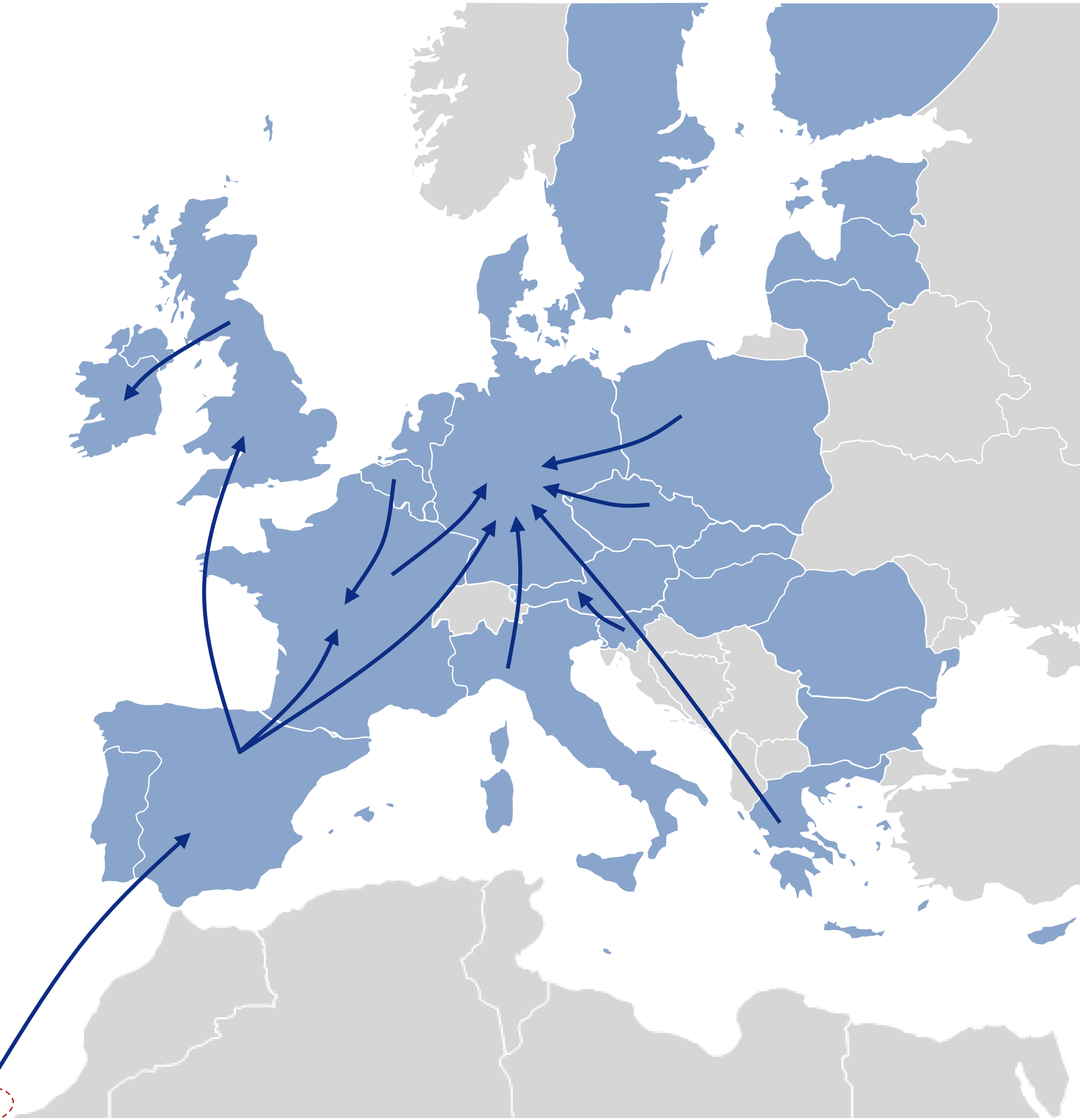
Keys: 3.0% to 10%
Less than 2.9%

Source: (1) KPMG analysis based on EPS, LDS and ND(L) research

Major ND(L) flows

Germany and France are the main destination markets for major non-domestic (legal) flows by volume

Major ND(L) flows over 0.4 billion cigarettes 2009[1]



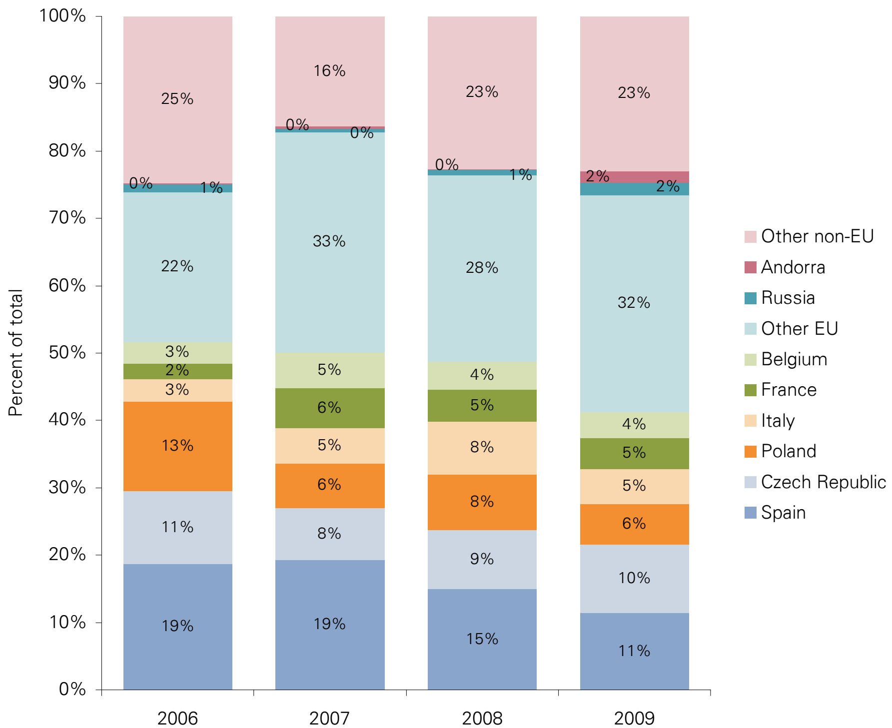
Key: → *ND(L) flows over 0.4 billion cigarettes*

Source: (1) KPMG analysis based on EPS, LDS and ND(L) research

Non-domestic (legal) flows by source

ND(L) flows between the EU-27 Member States accounted for 73% of total ND(L) inflows in 2009, compared to 76% in 2008

Non-domestic (legal) flows by country of origin 2006-2009[(1)(a)]



ND(L) inflows by country of origin[(1)]

Source	2006	2007	2008	2009
Spain	18.7%	19.3%	15.0%	11.4%
Czech Republic	10.9%	7.8%	8.8%	10.1%
Poland	13.3%	6.5%	8.3%	6.1%
Italy	3.3%	5.3%	7.8%	5.2%
France	2.4%	5.9%	4.8%	4.5%
Belgium	3.1%	5.4%	4.1%	4.0%
UK	1.2%	3.8%	2.9%	3.5%
Germany	3.0%	4.5%	2.7%	3.2%
Greece	2.8%	3.4%	2.6%	3.9%
Luxembourg	4.7%	4.6%	2.2%	2.3%
Denmark	0.4%	0.5%	2.1%	1.2%
Portugal	2.1%	2.1%	2.0%	2.9%
Slovenia	0.3%	1.0%	1.8%	2.4%
Netherlands	1.7%	2.1%	1.7%	2.2%
Austria	0.8%	2.1%	1.6%	1.8%
Other EU27	5.4%	8.5%	8.1%	8.8%
Total EU27 Member States	73.9%	82.8%	76.4%	73.4%
Russia	1.2%	0.5%	0.9%	1.9%
Andorra	0.1%	0.4%	0.1%	1.7%
Ukraine	0.2%	0.5%	1.1%	0.9%
Egypt	0.0%	0.3%	0.4%	0.3%
Croatia	0.1%	0.3%	0.2%	0.2%
Other non-EU	24.4%	15.2%	20.9%	21.6%
Total non-EU	26.1%	17.2%	23.6%	26.6%
Total	**100%**	**100%**	**100%**	**100%**

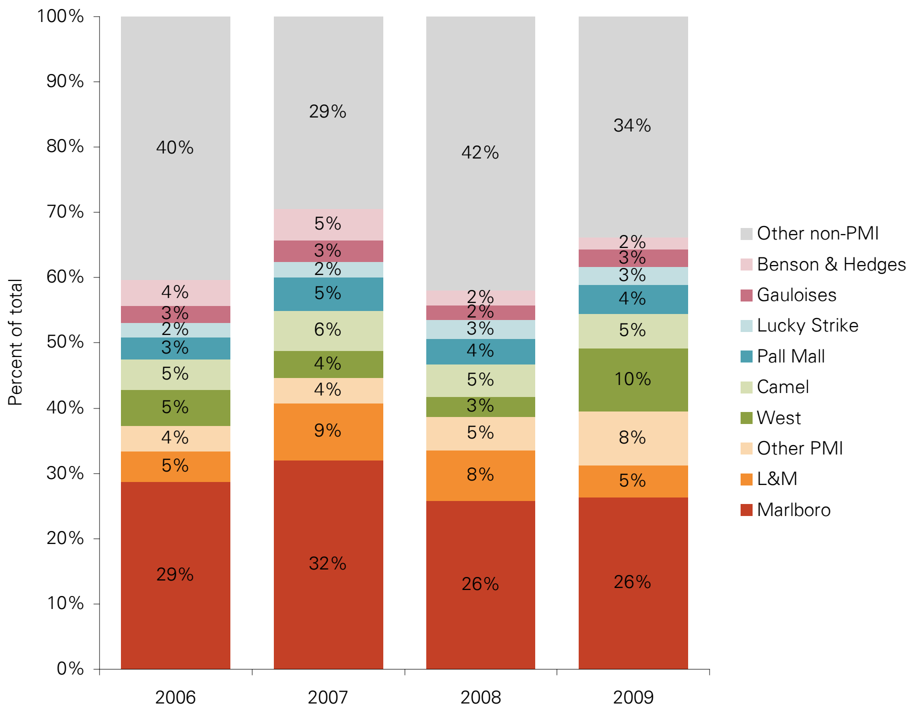
Note: (a) ND(L) by origin shares are based on country of purchase rather than variant purchased. As a result, these shares include purchases of Duty Free variants made when travelling outside the EU

Source: (1) KPMG analysis based on EPS, LDS, and ND(L) research

Non-domestic (legal) flows by brand

Overall PMI share of non-domestic (legal) flows remained broadly stable at 39% in 2009

Non-domestic (legal) flows by brand 2006-2008[(1)]



Non-domestic inflows by brand[(1)]

Source	2006	2007	2008	2009
Marlboro	28.7%	32.0%	25.8%	26.4%
L&M	4.7%	8.7%	7.7%	4.9%
Next	0.3%	0.2%	0.8%	2.3%
Chesterfield	1.2%	1.1%	0.7%	1.8%
Philip Morris	1.0%	1.0%	1.0%	1.2%
Parliament	0.1%	0.2%	0.2%	0.4%
Other PMI	1.4%	1.5%	2.6%	2.4%
PMI total	37.3%	44.7%	38.7%	39.4%
West	5.5%	4.1%	3.0%	9.7%
Camel	4.7%	6.2%	5.0%	5.3%
Pall Mall	3.4%	5.1%	3.9%	4.4%
Lucky Strike	2.3%	2.3%	2.9%	2.8%
Gauloises	2.6%	3.3%	2.1%	2.7%
Benson & Hedges	4.0%	4.8%	2.3%	1.9%
John Player Special	1.6%	2.4%	1.2%	1.5%
Davidoff	0.9%	0.7%	1.2%	1.2%
Prince	0.6%	1.6%	1.1%	1.1%
Silk Cut	1.2%	1.2%	0.7%	1.1%
Ducados	0.0%	0.5%	0.4%	1.1%
Winston	1.1%	1.0%	1.0%	1.0%
Lambert & Butler	0.0%	0.0%	0.8%	0.9%
Dunhill	1.4%	0.7%	1.7%	0.7%
Rothmans	1.1%	0.6%	0.4%	0.6%
Other non-PMI	32.5%	20.8%	33.4%	24.7%
Non-PMI	62.7%	55.3%	61.3%	60.6%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: (1) KPMG analysis based on EPS, LDS and ND(L) research

Contents

C&C overview

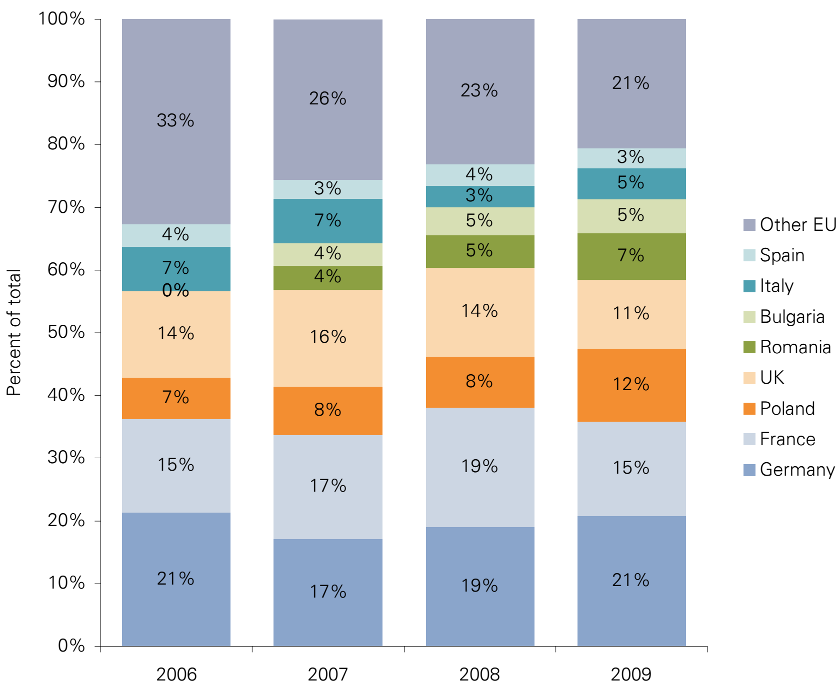
Total EU C&C volumes amounted to 61.1 billion cigarettes in 2009	**Total C&C volumes accounted for 8.9% of total consumption in 2009** ● The share of counterfeit and contraband originating from non-EU countries increased to 56.1% in 2009 compared to 46.2% in 2008
Germany and France are the two largest destination countries for C&C inflows	**Germany and France accounted for over a third of C&C inflows in 2008** ● Declining C&C volumes in France and the UK have been partially offset by increases in Germany, Poland and Romania in 2009 ● Latvia has the highest C&C share of consumption at 25.8% in 2009 and experienced the largest increase in C&C share of total consumption between 2008 and 2009
Non-EU countries accounted for 56.1% of C&C flows to the EU in 2009, up from 46.2% in 2008	**Within the EU, Poland is the largest source country for C&C flows** ● Poland accounts for the largest share of intra-EU C&C flows by source country at 13.0% in 2009 compared to 10.6% in 2008 **The largest non-EU source countries for C&C product remain the Ukraine and Russia** ● Russia and Ukraine remain the major sources of counterfeit and contraband although flows from Moldova and Belarus have also increased in 2009 ● Classic, Jin Ling and American Legend again increased in 2009 to account for 15% of total counterfeit and contraband consumption

C&C volumes by destination country

Germany, France and the UK together account for almost half of total EU C&C consumption

Declining C&C volumes in the UK and France have been offset by increases in Germany, Poland and Romania

C&C volumes by destination 2006-2008[1]



	2006	2007	2008	2009
C&C share of consumption:	**8.3%**	**8.4%**	**8.6%**	**8.9%**
C&C share of non-domestic:	**64.7%**	**66.6%**	**67.6%**	**70.9%**

C&C volume by destination[1]

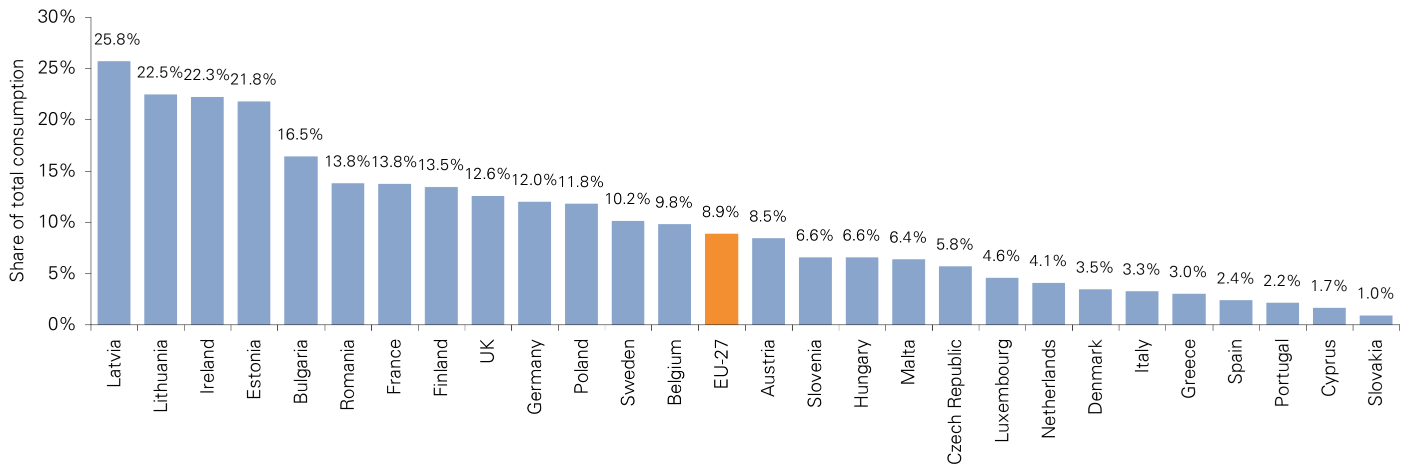
Destination	2006	2007	2008	2009
Germany	12.1	10.4	11.5	12.7
France	8.5	10.0	11.5	9.2
Poland	3.8	4.7	4.9	7.1
UK	7.8	9.4	8.6	6.7
Romania	n/a	2.2	3.1	4.6
Bulgaria	n/a	2.2	2.7	3.3
Italy	4.0	4.3	2.0	3.0
Spain	2.1	1.8	2.1	1.9
Ireland	0.7	1.2	1.6	1.4
Austria	1.7	2.0	1.5	1.3
Belgium	0.9	0.8	0.7	1.3
Lithuania	2.3	1.6	0.9	1.1
Czech Republic	0.1	0.1	1.3	1.1
Hungary	3.3	1.7	1.4	1.0
Greece	1.2	1.9	0.7	1.0
Finland	0.6	1.1	1.1	0.8
Latvia	0.3	0.2	0.2	0.8
Sweden	0.9	0.9	0.9	0.7
Netherlands	4.6	3.0	1.5	0.6
Estonia	0.4	0.2	0.1	0.5
Denmark	0.2	0.2	0.5	0.3
Slovenia	0.3	0.2	0.6	0.3
Portugal	0.6	0.3	0.5	0.3
Slovakia	0.3	0.1	0.4	0.1
Luxembourg	0.0	0.0	0.0	0.1
Malta	0.0	0.0	0.0	0.0
Cyprus	0.0	0.0	0.0	0.0
Total	**56.8**	**60.6**	**60.5**	**61.1**

Source: (1) KPMG analysis based on EPS, LDS, and ND(L) research

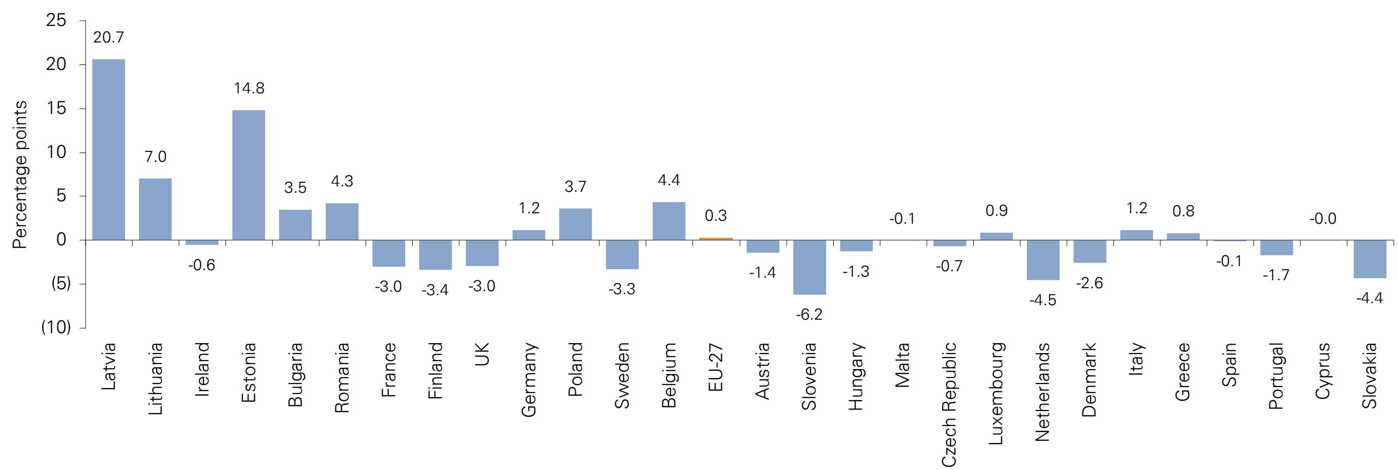
C&C inflows share of total consumption

Latvia has the highest C&C share of consumption at 25.8% in 2009 and experienced the largest increase in C&C share of total consumption between 2008 and 2009

C&C as a share of consumption by country 2009[(1)]



Percentage point change in C&C as a share of consumption by country 2008-2009[(1)]

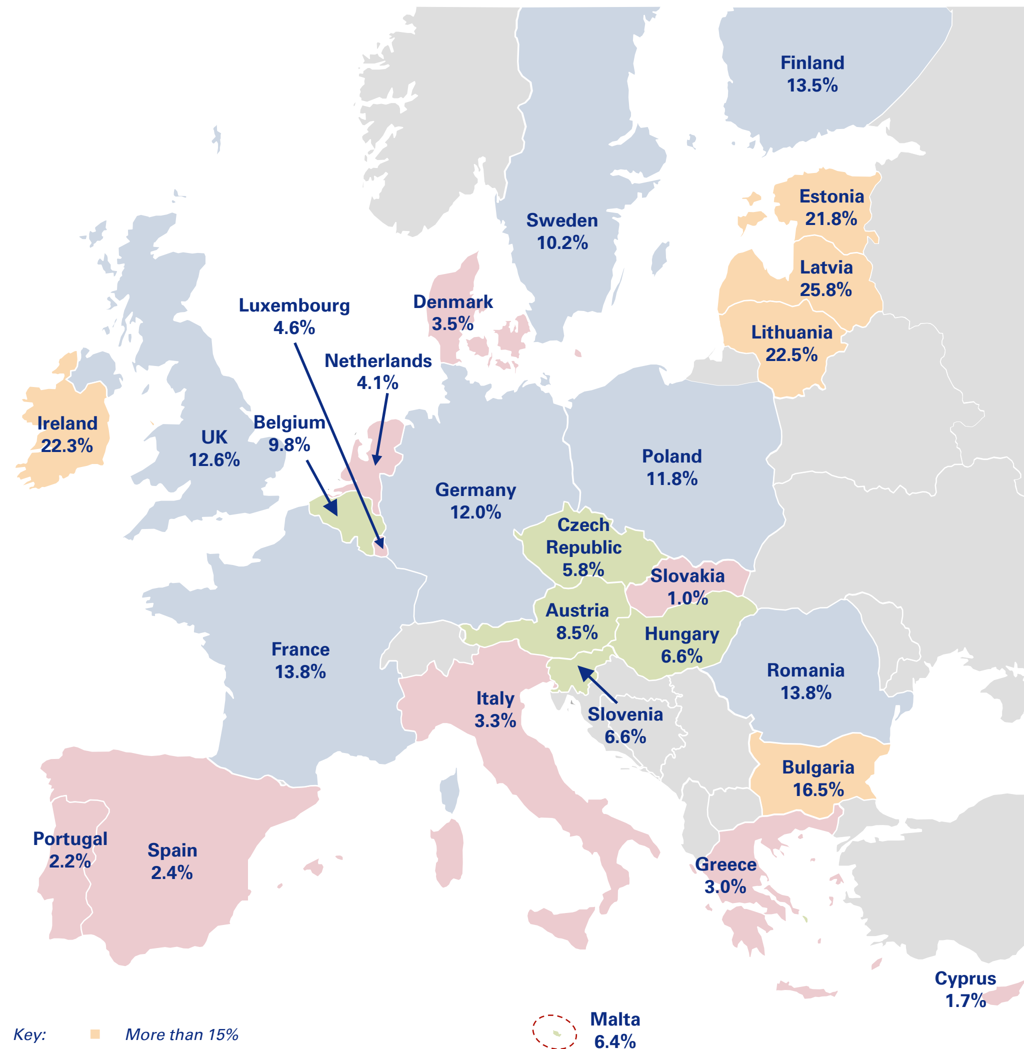


Source: (1) KPMG analysis based on EPS, LDS, and ND(L) research

C&C share of total consumption

C&C as a share of consumption varies considerably across the EU Member States

C&C share of total consumption by Member State 2009[1]

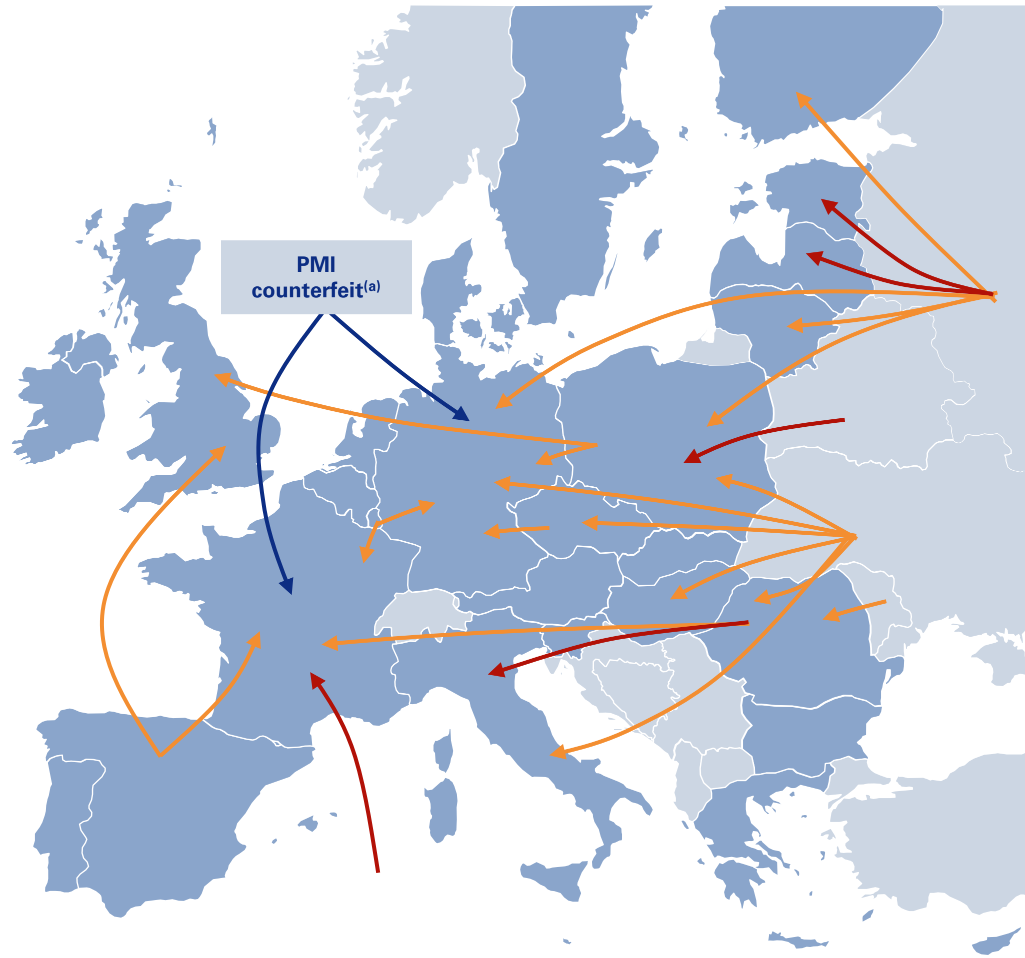


Source: (1) KPMG analysis based on EPS, LDS and ND(L) research

Major C&C inflows

The number of major counterfeit and contraband inflows increased in 2009 although Ukraine, Russia and Poland remain the primary source markets

Major C&C flows greater than 0.4 billion cigarettes 2009(1)(a)



Keys: *C&C flows over 0.4 billion cigarettes in 2008 and 2009*
New C&C flow of over 0.4 billion cigarettes in 2009

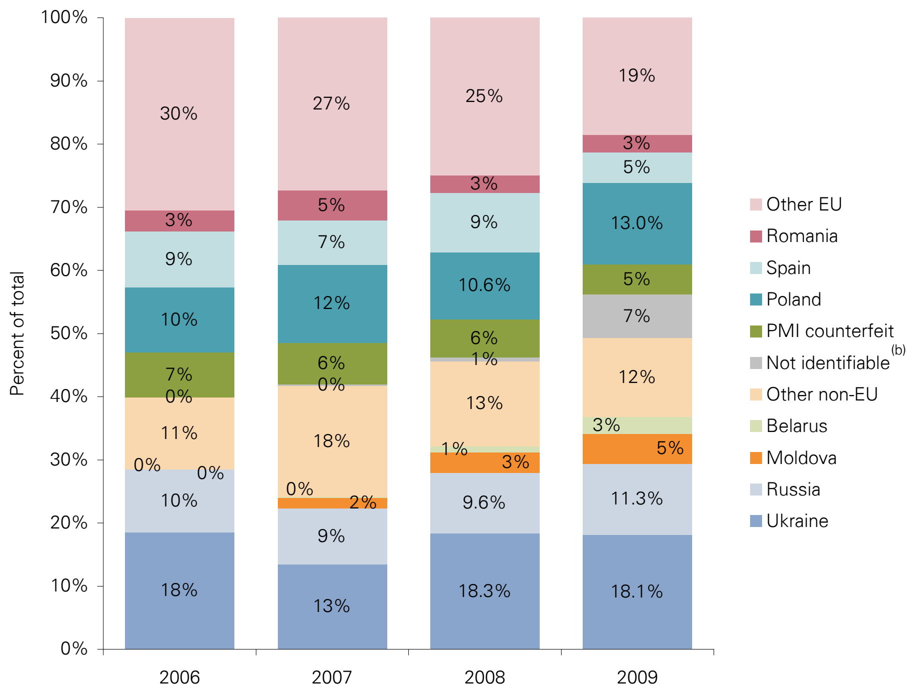
Note: (a) PMI analysis indicates that the majority of PMI counterfeit product originates from China

Source: (1) KPMG analysis based on EPS, LDS and ND(L) research

C&C flows by source

The share of C&C accounted for by intra EU flows declined to 39% in 2009 compared to 48% in 2008

C&C inflows by country of origin 2006-2009[1](a)



C&C inflows by country of origin[1]

Source	**2006**	**2007**	**2008**	**2009**
Poland	10.3%	12.4%	10.6%	13.0%
Spain	8.9%	7.0%	9.4%	4.8%
Romania	3.3%	4.7%	2.8%	2.8%
Czech Republic	2.5%	3.0%	2.5%	2.4%
Luxembourg	0.9%	0.9%	1.7%	1.6%
Slovenia	1.0%	0.9%	1.0%	0.8%
Hungary	0.6%	0.5%	0.6%	0.7%
Lithuania	1.1%	1.1%	1.6%	0.5%
Bulgaria	0.1%	0.8%	0.2%	0.4%
Other EU27	23.8%	19.9%	17.0%	11.9%
Total EU27 Member States	53.0%	51.5%	47.8%	39.1%
PMI counterfeit	7.1%	6.5%	6.0%	4.8%
Ukraine	18.5%	13.4%	18.3%	18.1%
Russia	10.0%	8.9%	9.6%	11.3%
Not identifiable[b]	0.0%	0.3%	0.7%	6.9%
Moldova	0.0%	1.6%	3.2%	4.7%
Belarus	0.0%	0.2%	1.0%	2.7%
Other non-EU	11.4%	17.5%	13.4%	12.5%
Total non-EU	39.9%	42.0%	46.2%	56.1%
Total	**100%**	**100%**	**100%**	**100%**

Notes: (a) C&C by origin shares are based on variant purchased

(b) In 2009, packs which had no clear indication of origin were classified as 'Not identifiable'. In prior years, such packs were classified as Duty Free.

Source: (1) KPMG analysis based on EPS, LDS, and ND(L) research

Contents

Seizure data

Seizure data is weighted towards counterfeit product

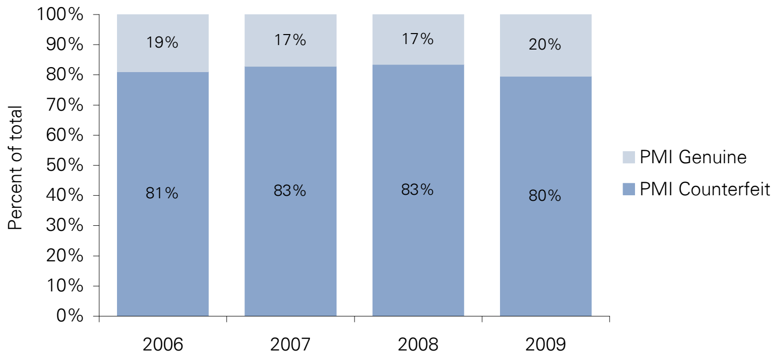
Counterfeit product accounted for 80% of seizure volumes in 2009

- Anecdotal evidence suggests that counterfeit is more likely to be transported in large shipments such as containers
  - average seizure size for counterfeit product was approximately 835,000 cigarettes in 2009, compared to 117,000 cigarettes for genuine product
  - in addition, smaller seizures of less than five cases and instances of individuals attempting to exceed import allowances may not be reported
- The availability of cheaper genuine product in other markets means this can be moved in large numbers of smaller shipments which may be more difficult to detect and intercept

Counterfeit share of seizures

Counterfeit products accounted for 80% of PMI seizure volumes in 2009

Counterfeit share of cigarette seizures (all EU PMI seizures) 2006-2009[(1)(a)(b)]



Counterfeit product accounted for the majority of seized cigarettes in the EU

- Whilst there have been changes in the volume and location of seizures, the composition of seized volumes in terms of counterfeit and genuine products has remained stable in 2009 compared with prior years

Counterfeit seizures tend to be larger than seizures of genuine product

- The average seizure size (number of cigarettes seized divided by number of seizure events) differs between genuine and counterfeit product
  - the average seizure of PMI counterfeit product was approximately 835,000 cigarettes, compared to 117,000 cigarettes of genuine product

Seizure data is weighted towards counterfeit product

- Smaller seizure volumes and instances of individuals attempting to exceed import allowances may not be reported
- Anecdotal evidence suggests that counterfeit is more likely to be transported in large shipments such as containers
- The availability of cheaper genuine product in other markets means that it can be moved in a large number of smaller quantities which may be more difficult to detect and intercept

Note: (a) Seizures data presented is based on EU 27 countries for 2007, 2008 and 2009, and EU 25 countries for 2006

(b) Seizure data in this report is based upon the most recently available sources. Variances with the Project Star 2008 report and seizure data presented for 2006, 2007 and 2008 are attributable to additional seizure data received after publication of the Project Star 2008 report

Source: (1) PMI management based on notifications received from local law enforcement as supplied to KPMG on 19th May 2009

Project Star 2009

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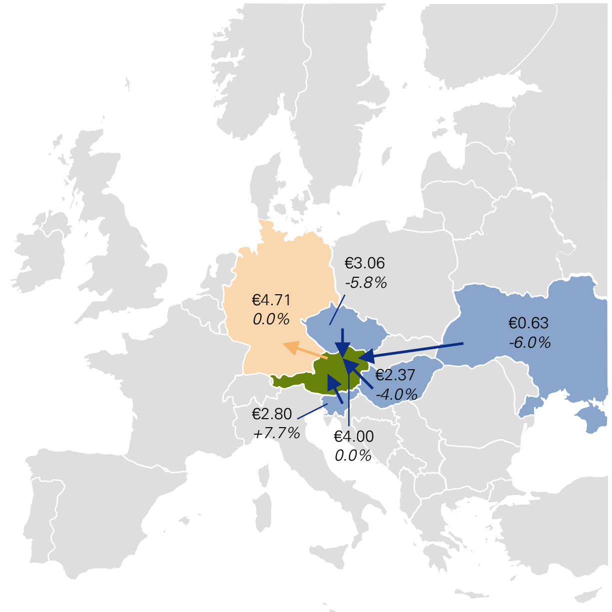
Contents

Contents – country detail

Market Overview

The share of cigarette consumption in Austria accounted for by counterfeit and contraband declined to 8.5% in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(2)(a)(b)(c)]

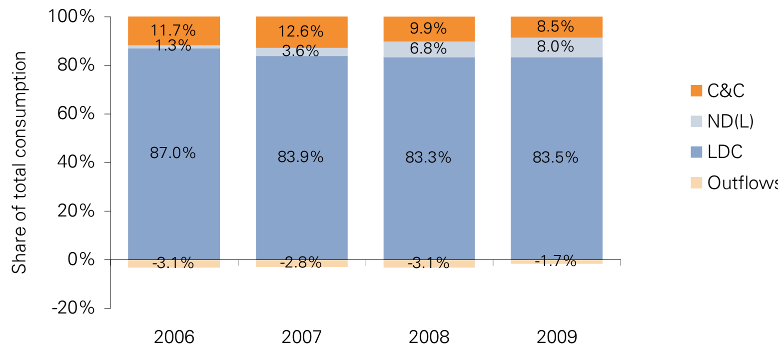


Key:
- *Austria*
- *Major source countries*
- *Major destination country*

Notes:
(a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow whilst arrow size indicates relative cigarette flow volume
(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009
(c) Cigarette prices in the Czech Republic, Hungary and the Ukraine declined in euro terms in 2009 as a result of exchange rate changes of the koruna, forint and hryvnia respectively versus the euro

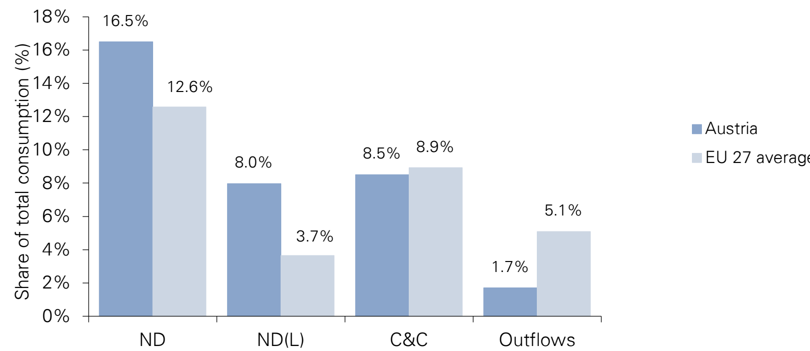
Sources:
(1) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at July 2008 and July 2009
(2) KPMG EU Flows Model and interviews with PMI Local Management
(3) Synovate ND(L) research 2006, 2008, 2009

Share of Austrian consumption by type 2006-2009[(2)(3)]



Volume (bn cigarettes)	14.9	15.8	15.3	15.7

Comparison of EU and Austrian consumption by type 2009[(1)(2)]



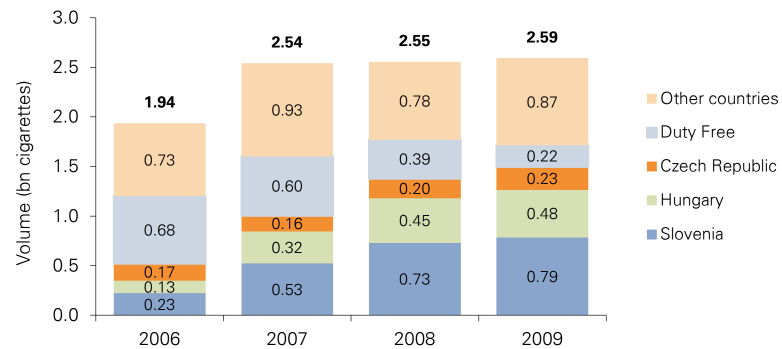
Total non-domestic consumption

Consumption of non-domestic cigarettes has remained broadly stable from 2007 to 2009

Total Austria consumption[(1)(2)]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	13.40	13.66	13.20	13.39
Outflows[(a)]	-0.46	-0.45	-0.48	-0.27
Legal domestic consumption (LDC)	12.94	13.22	12.72	13.12
Non-domestic legal (ND(L))	0.20	0.56	1.04	1.25
Counterfeit and contraband (C&C)	1.74	1.98	1.51	1.34
Total non-domestic	1.94	2.54	2.55	2.59
Total consumption	**14.87**	**15.76**	**15.27**	**15.71**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[(1)(2)]



Note: (a) Germany remains the major outflow destination country with ouflows of 0.2 billion cigarettes in 2008 and 2009

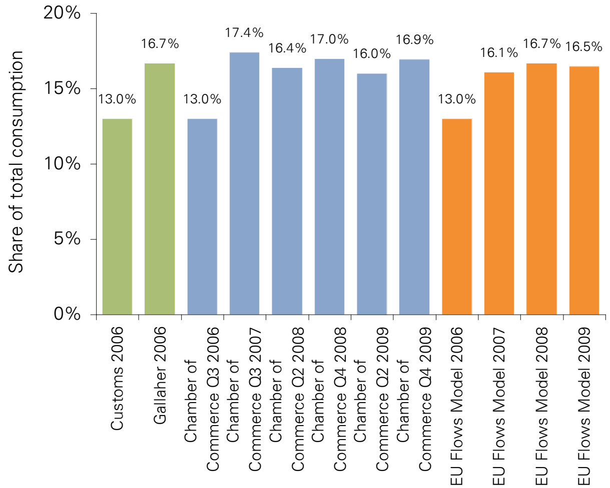
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management

(2) Synovate ND(L) research 2006, 2008, 2009

Comparison of external sources for non-domestic estimates

The EU Flows Model estimate for non-domestic consumption in 2009 uses an average of the second and fourth quarter results of the Austrian Chamber of Commerce Empty Pack Survey

Non-domestic market estimates(1)(2)(3)(4)



Sources: (1) KPMG EU Flows Model
(2) Interview with Austrian Customs
(3) Austrian Chamber of Commerce Empty Pack Survey, Q3 2006, Q3 2007 and Q2 and Q4 2008, Q2 and Q4 2009. Full PMI results were available along with total non-domestic share
(4) Gallaher EPS 2006

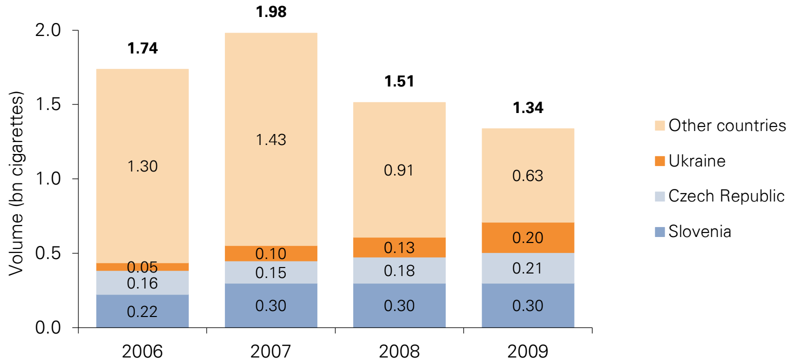
The 2009 EU Flows Model results for Austria are in line with the Austrian Chamber of Commerce Empty Pack Survey

- The EU Flows model estimates non-domestic incidence to be 16.5% in 2009 and this is comparable to the two estimates provided by the Austrian Chamber of Commerce of 16.0% and 16.9%

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 1.34 billion cigarettes in 2009, down from 1.51 billion in 2008

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



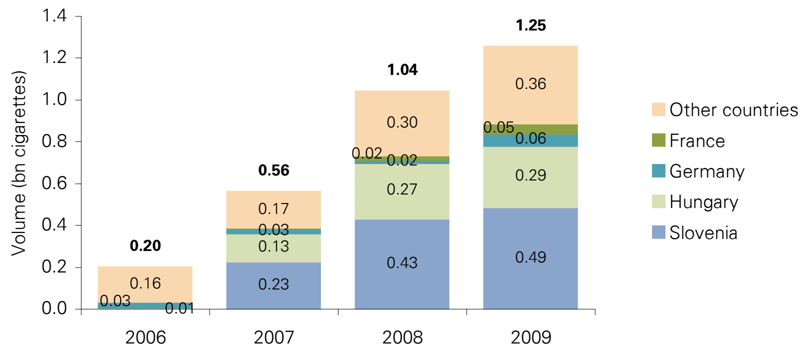
C&C share of consumption:	**12%**	**13%**	**10%**	**9%**
C&C share of non-domestic:	**90%**	**78%**	**59%**	**52%**

Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2006, 2008, 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

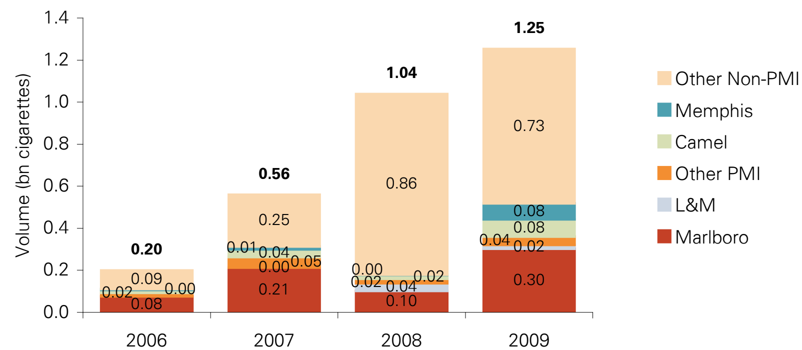
Non-domestic (legal) volumes increased in 2009 to account for 1.25 billion cigarettes

Non-domestic (legal) by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
ND(L) share of consumption:	**1%**	**4%**	**7%**	**8%**
ND(L) share of non-domestic:	**10%**	**22%**	**41%**	**48%**

Non-domestic (legal) by brand 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
PMI share of ND(L):	**47%**	**47%**	**15%**	**29%**

Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2006, 2008, 2009
(3) Interviews with PMI Local Management

ND(L) analysis

	Population 19+		1 Propensity to travel		2 Propensity to purchase		3 Ave. no. of trips		4 Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**6.6m**	x	**61%**	x	**38%**	x	**3.5**	x	**231**	=	**1.25bn**
EU rank 2009	**15**		**9**		**7**		**12**		**4**		**5**

ND(L) analysis 2007-2009

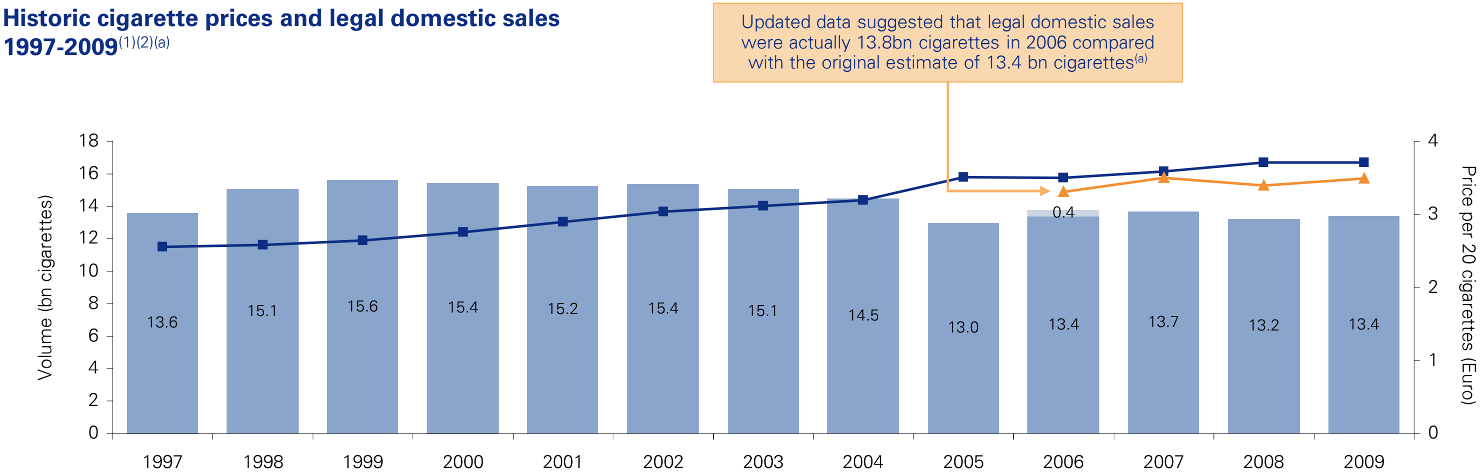
		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 x 2	7.7%	13.4%	23.4%
Average annual cigarettes purchased	3 x 4	1109	1175	807

Historic sales and pricing trends

Legal domestic cigarette sales increased by 1.4% in 2009 compared to 2008

Weighted average pack prices remained stable at €3.71 in 2009

Historic cigarette prices and legal domestic sales 1997-2009[(1)(2)(a)]



CAGR (%)	1997-1999	1999-2006	2006-2009	2008-2009
Legal domestic sales	*7.1%*	*-2.1%*	*0.0%*	*1.4%*
Average pack price	*1.9%*	*4.1%*	*1.9%*	*0.0%*
Consumption	*n/a*	*n/a*	*1.8%*	*2.8%*

Note: (a) This report and the Project Star 2006 results use 13.4 billion cigarettes as estimated legal domestic sales (LDS) in Austria during 2006. However, PMI internal estimates suggest that LDS in 2006 was actually 13.8 billion cigarettes

Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI
(3) Interview with PMI management

Legal domestic sales increased by 1.4% in 2009 whilst average pack prices remained stable at €3.71 from 2008 to 2009

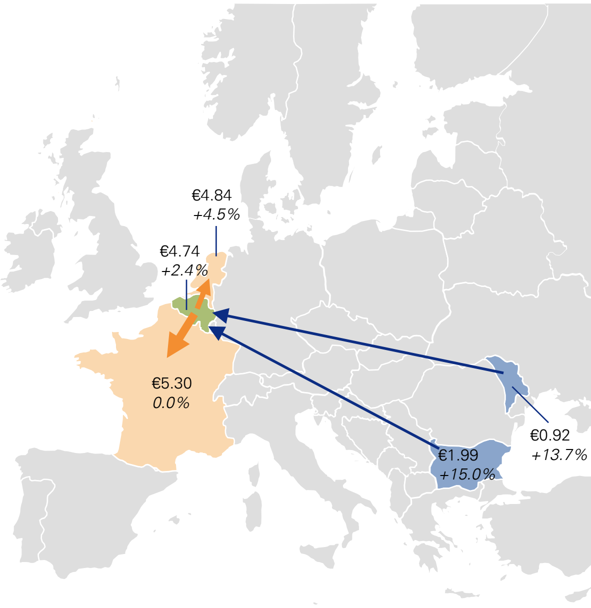
- A smoking ban was introduced in January 2009 in all bars and restaurants larger than 80 square metres[(3)]
  - establishments have until July 2010 to comply with government regulations

Contents – country detail

Market Overview

Counterfeit and contraband cigarette consumption in Belgium increased to 9.8% of total cigarette consumption in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(3)(a)(b)(c)]

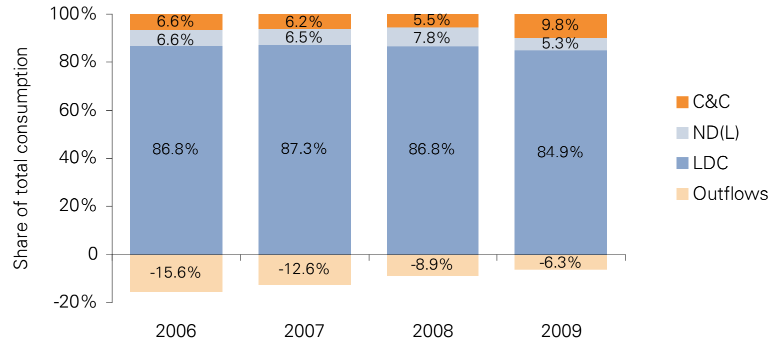


Key:
- Belgium
- Major destination countries
- Major source countries

Note:
(a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarette flow volume
(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009
(c) 2006 legal domestic share of total consumption differs slightly from what was shown in the 2006 Project Star Results presentation due to a technical change in approach to the calculation of consumption share (2006 LDC was shown as 86% in the 2006 results presentation compared to 86.8% in this presentation)

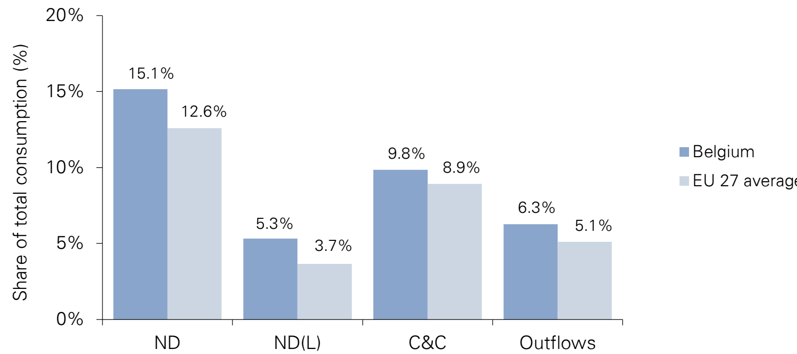
Sources:
(1) KPMG EU Flows Model and interviews with PMI Local Management
(2) Synovate ND(L) research 2006, 2007, 2008 and 2009
(3) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

Share of Belgian consumption by type 2006-2009[(1)(2)(3)]



Volume (bn cigarettes)	13.1	12.5	12.4	12.9

Comparison of EU and Belgian consumption by type 2009[(1)(2)]



Total non-domestic consumption

Consumption of non-domestic cigarettes in Belgium increased to 1.95 billion cigarettes in 2009 driven largely by an increase in consumption of counterfeit and contraband product

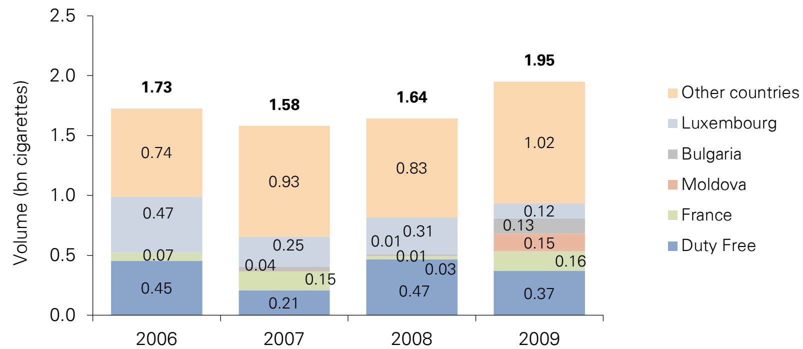
Total Belgian consumption(1)(2)

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	13.39	12.49	11.89	11.74
Outflows	-2.04	-1.58	-1.10	-0.81
Legal domestic consumption (LDC)	11.35	10.92	10.78	10.93
Non-domestic legal (ND(L))	0.86	0.81	0.96	0.68
Counterfeit and contraband (C&C)	0.86	0.77	0.68	1.27
Total non-domestic	1.73	1.58	1.64	1.95
Total consumption	**13.07**	**12.50**	**12.42**	**12.88**

Outflows from Belgium(1)

Destination country (billion cigarettes)	2006	2007	2008	2009
France	0.53	0.73	0.71	0.48
Netherlands	0.54	0.73	0.13	0.15
UK	0.36	0.00	0.14	0.09
Other EU	0.59	0.12	0.13	0.09
Total outflows	**2.04**	**1.58**	**1.10**	**0.81**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009(1)(2)(a)



Note: (a) 2006 Luxembourg share of non-domestic was incorrectly labelled as 22% in the 2006 Project Star Results presentation. The correct 2006 share for Luxembourg is 26% i.e. 0.47 billion cigarettes divided by 1.73 billion cigarettes

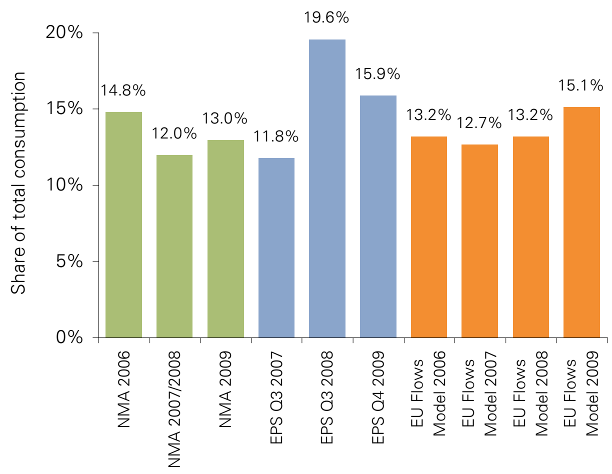
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management

(2) Synovate ND(L) research 2006, 2007, 2008 and 2009

Comparison of external sources for non-domestic estimates

The 2009 EU Flows Model shows an increase in non-domestic incidence level in Belgium

Non-domestic market estimates[(1)(2)(3)(a)(b)]



Notes: (a) *NMA survey results in 2006 and 2007/2008 are for PMI brands only*
(b) *NMA survey results in 2009 are for PMI and other manufacturers*
(c) *2008 legal domestic sales volumes for Belga not available and therefore 2007 volumes have been used for the purpose of this adjustment*

Sources: (1) *KPMG EU Flows Model*
(2) *NMA market survey, Q2 2006, Q4 2007, Q1 2009, Q2/Q3 2009 and Q4 2009*
(3) *PMI EPS Q3 2007, Q3 2008 and Q4 2009*

The EU Flows Model estimate for non-domestic share of total consumption in 2009 is lower than PMI Empty Pack Survey (EPS) results due to an adjustment to inflows from France

- The 2009 EPS results indicated an increase in French inflows driven by an unusually high incidence of French products in Antwerp and Liege
  - inflows from France in these two cities have been adjusted to 2008 levels resulting in a downwards adjustment of 0.12 billion cigarettes
- In 2008, the EU Flows Model estimate for non-domestic share of total consumption was lower than the PMI EPS results due to an adjustment to inflows from Luxembourg and Spain
  - the 2008 EPS results implied inflows of Belga from Luxembourg and Spain exceeded the total legal sales of the Belga brand in both of these countries
  - consequently, Belga inflows were adjusted downwards in line with total legal sales volumes of Belga in Luxembourg and Spain[(c)]

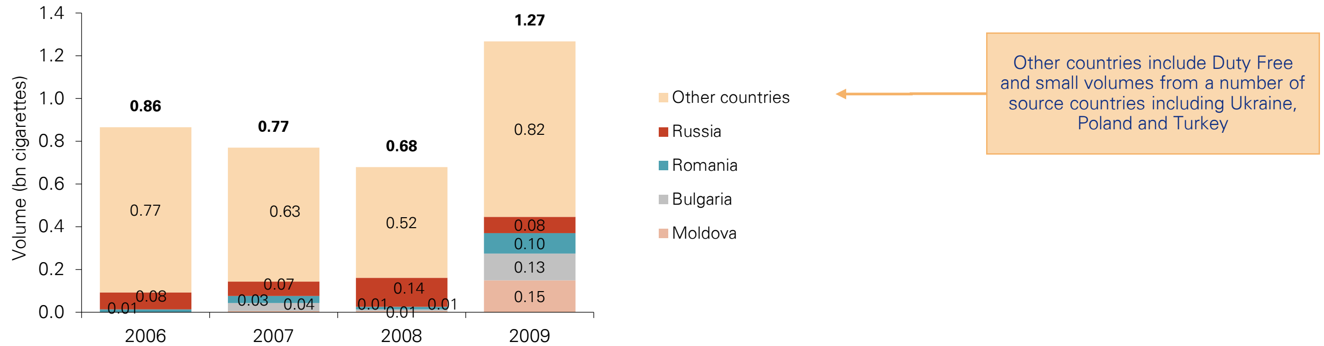
NMA survey results in 2009 also show an increase in non-domestic levels

- The difference in the levels of non-domestic estimates may reflect seasonality. The NMA survey was undertaken in February/March, June/July and September whilst the PMI EPS was conducted in October

Counterfeit and contraband breakdown

Counterfeit and contraband inflows in Belgium increased to 1.27 billion cigarettes in 2009 driven largely by an increase in inflows from Eastern European markets

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)(a)]



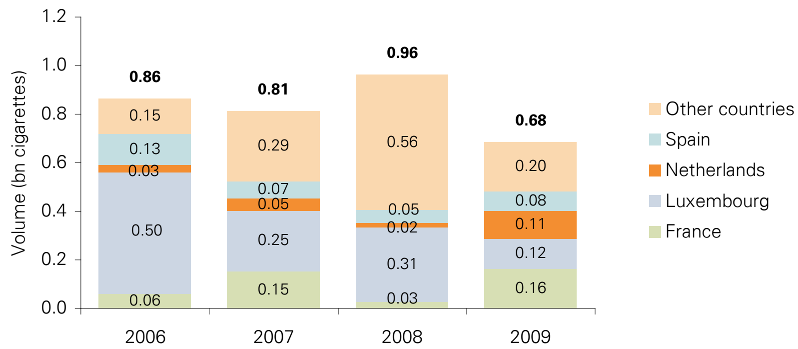
C&C share of consumption:	**7%**	**6%**	**5%**	**10%**
C&C share of non-domestic:	**50%**	**49%**	**41%**	**65%**

Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2006, 2007, 2008 and 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

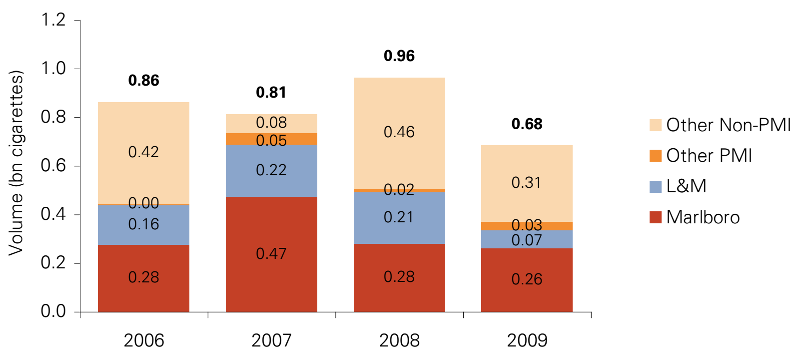
Non-domestic (legal) inflows to Belgium declined to 0.68 billion cigarettes in 2009

Non-domestic (legal) by origin 2006-2009(1)(2)(3)



	2006	2007	2008	2009
ND(L) share of consumption:	**7%**	**6%**	**8%**	**5%**
ND(L) share of non-domestic:	**50%**	**51%**	**59%**	**35%**

Non-domestic (legal) by brand 2006-2009(1)(2)(3)



	2006	2007	2008	2009
PMI share of ND(L):	**51%**	**91%**	**53%**	**53%**

ND(L) analysis

	1		2		3		4		
	Population 19+		Propensity to travel		Propensity to purchase		Ave. no. of trips		Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**8.2m**	**x**	**66%**	**x**	**24%**	**x**	**4.3**	**x**	**120**	**=**	**0.68bn**
EU rank 2009	**12**		**3**		**16**		**9**		**17**		**7**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 **x** 2	11.7%	18.0%	16.0%
Average annual cigarettes purchased	3 **x** 4	883	652	518

The decline in ND(L) inflows in 2009 was driven by a fall in inflows from Luxembourg

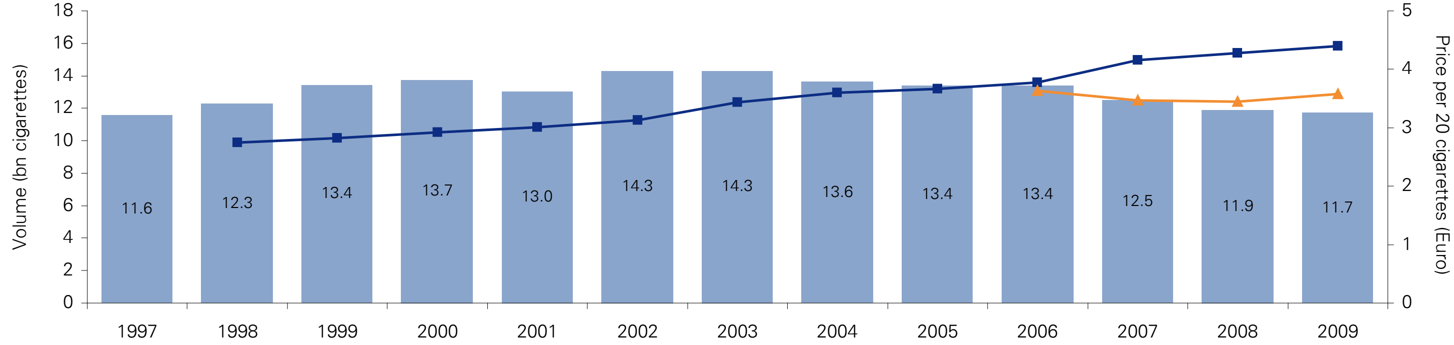
- The decline in legal inflows from Luxembourg was due largely to a decrease in number of trips to Luxembourg
  - an increase in commodity prices such as fuel in Luxembourg is likely to have resulted in fewer shopping trips from Belgium[3]

Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2006, 2007, 2008 and 2009
(3) Interviews with PMI Local Management

Historic sales and pricing trends

Legal domestic cigarette sales declined by 1.3% in 2009 compared to 2008

Historic cigarette prices and legal domestic sales 1997-2009 (1)(2)



CAGR (%)	1997-2000	2000-2003	2003-2006	2006-2009	2008-2009
Legal domestic sales	*5.9%*	*1.3%*	*-2.2%*	*-4.3%*	*-1.3%*
Average pack price	*n/a*	*5.6%*	*3.2%*	*5.2%*	*2.8%*
Consumption	*n/a*	*n/a*	*n/a*	*-0.5%*	*3.7%*

Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI

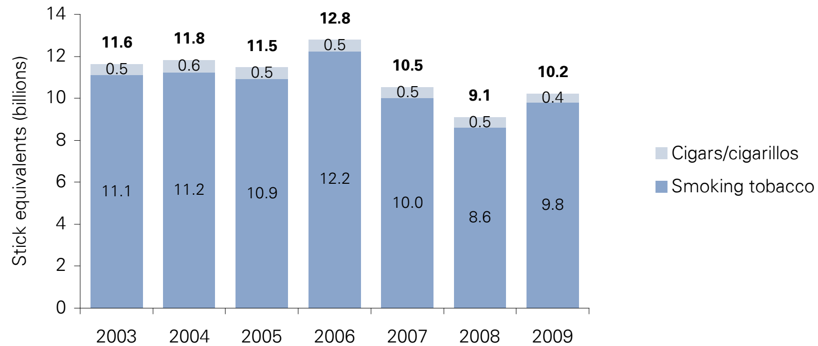
Legal domestic sales in Belgium declined by 1.3% to 11.7 billion cigarettes in 2009

- Manufacturer driven price increases resulted in a 2.8% increase in average pack prices in 2009 compared to 2008

OTP market size and growth

Sales of Other Tobacco Products increased by 1.1 billion to 10.2 billion stick equivalents in 2009

Other Tobacco Products sales in billion stick equivalents 2003-2009(1)(a)(b)(c)



Cigarette sales (bn cigarettes)	**14.3**	**13.6**	**13.4**	**13.4**	**12.5**	**11.9**	**11.7**

CAGR (%)	2003-2005	2005-2009	2008-2009
Cigars/cigarillos	*1.3%*	*-5.0%*	*-9.5%*
Smoking tobacco	*-0.8%*	*-2.8%*	*13.7%*
Total	***-0.7%***	***-2.9%***	***12.5%***
Manufactured cigarettes	*-3.2%*	*-3.2%*	*-1.3%*

Notes: (a) Smoking tobacco volumes have been calculated at one stick per 0.75 grams, while cigars and cigarillos have been calculated on a stick for stick basis
(b) Smokeless tobacco is excluded from this analysis
(c) 2008 OTP data shown in this report is 0.2 billion higher than the number stated in the Project Star report in 2008 . The difference is due to the revision of the tax stamp data received from PMI. The updated figure is used for this report
Source: (1) OTP volumes supplied by PM Benelux

Sales of Other Tobacco Products increased by 12.5% in 2009, reversing the declining trend observed between 2003 and 2008

- Sales of Other Tobacco Products declined by 4.8% annually between 2003 and 2008
  - sales of manufactured cigarettes declined at an annual rate of 3.6% over the same time period

Smoking tobacco sales increased in 2006 driven by increases in inventory levels before tax increases took effect in the first quarter of 2007

- High inventory levels in 2006 were also a contributing factor to the relatively large decline in 2007 sales

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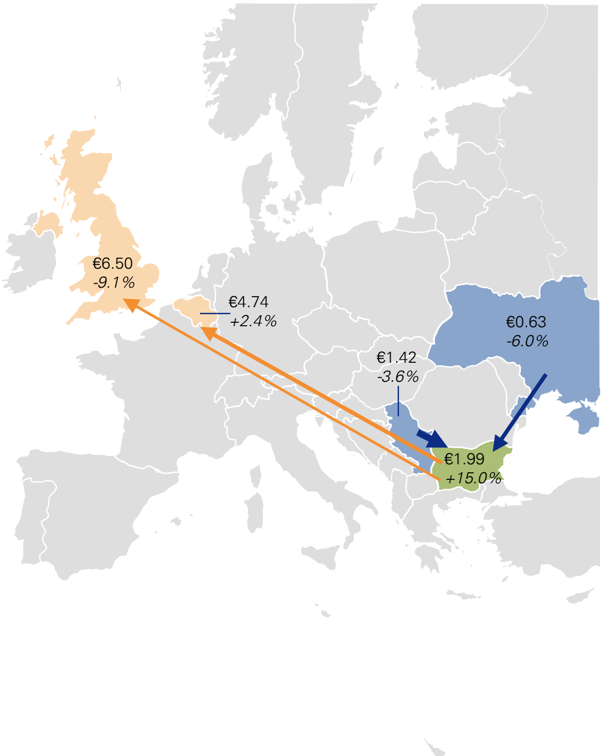
Market Overview

Counterfeit and contraband cigarette consumption in Bulgaria increased to 16.5% of total cigarette consumption in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(3)(a)(b)(c)]

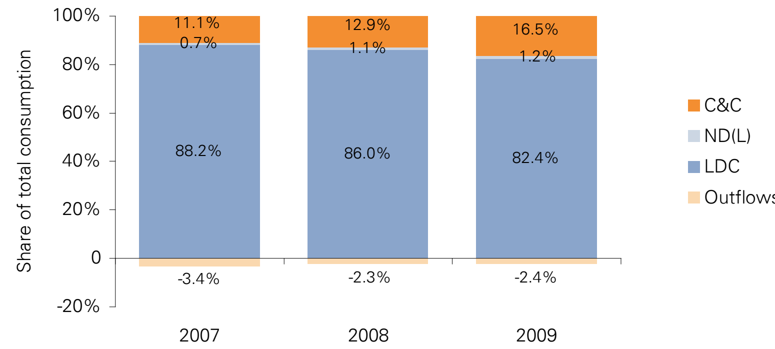


Key:
- Bulgaria
- Top two source countries
- Top two destination countries

Note:
(a) Arrow size indicates relative cigarette flow volume
(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009
(c) Cigarette prices in the UK and Ukraine declined in euro terms in 2009 as a result of exchange rate changes of domestic currencies versus the euro

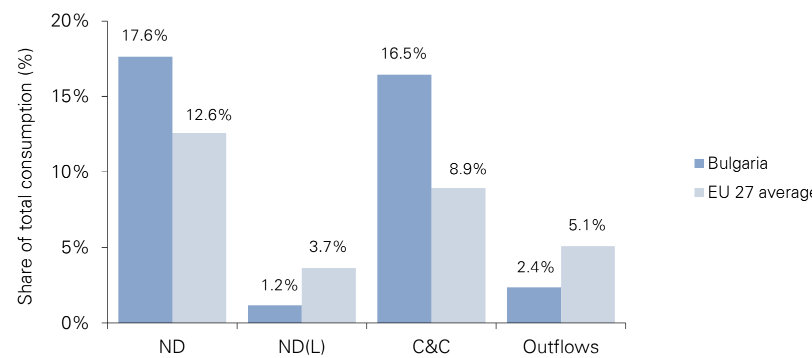
Sources:
(1) KPMG EU Flows Model and interviews with PMI Local Management
(2) Synovate ND(L) research 2007, 2008 and 2009
(3) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

Share of Bulgaria consumption by type 2007-2009[(1)(2)]



Volume (bn cigarettes)	19.7	21.3	19.8

Comparison of EU and Bulgarian consumption by type 2009[(1)(2)]



Total non-domestic consumption

Consumption of non-domestic cigarettes increased by 0.53 billion cigarettes to 3.50 billion cigarettes in 2009

Outflows from Bulgaria remained broadly stable at 0.47 billion cigarettes with Belgium and the UK representing almost 50% of total outflows in 2009

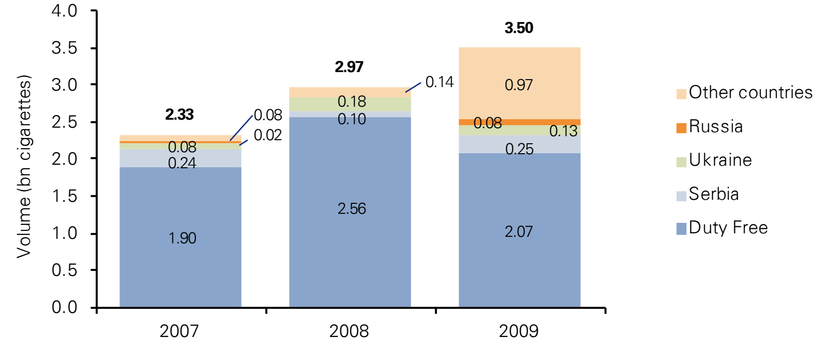
Total Bulgaria consumption[(1)(2)]

Billion cigarettes	2007	2008	2009
Legal domestic sales (LDS)	18.06	18.77	16.80
Outflows	-0.67	-0.49	-0.47
Legal domestic consumption (LDC)	17.38	18.28	16.33
Non-domestic legal ND(L)	0.14	0.22	0.23
Counterfeit and contraband (C&C)	2.19	2.75	3.26
Total non-domestic	2.33	2.97	3.50
Total consumption	**19.71**	**21.25**	**19.83**

Outflows from Bulgaria[(1)]

Destination country (billion cigarettes)	2007	2008	2009
Belgium	0.04	0.01	0.13
UK	0.09	0.13	0.09
Italy	0.03	0.03	0.07
Greece	0.15	0.07	0.04
Other EU	0.37	0.25	0.14
Total outflows	**0.67**	**0.49**	**0.47**

Total non-domestic inflows (ND(L) and C&C) by origin 2007-2009[(1)(2)(a)]



Note: (a) In 2009, packs which had no clear indication of origin were classified as 'Not identifiable'. In prior years, such packs were classified as Duty Free. In 2009, not identifiable variant products account for 0.77 billion cigarettes and have been included in 'Other countries' on the above chart

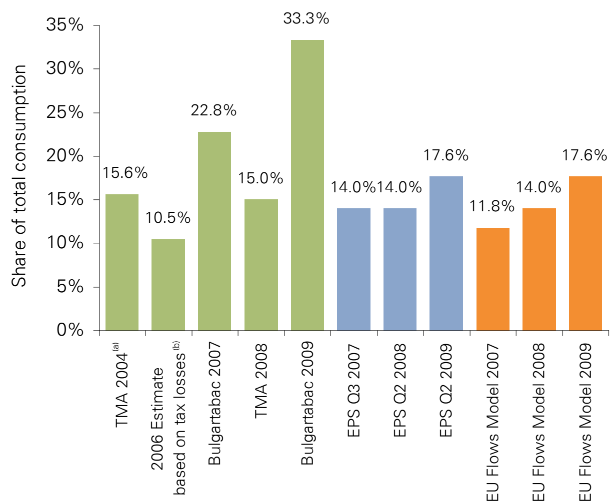
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management

(2) Synovate ND(L) research 2007, 2008 and 2009

Comparison of external sources for non-domestic estimates

The EU Flows Model shows an increasing trend in non-domestic incidence in Bulgaria

Non-domestic market estimates[(1)(2)(3)(4)(5)(6)(7)(8)(a)(b)]



Notes: (a) *TMA estimate is for smuggled cigarettes share of total consumption*
(b) *An additional BGN 50 million in Government revenue is estimated to be lost through incorrect invoicing*

Sources: (1) *KPMG EU Flows Model*
(2) *PMI EPS Q3 2007 and Q2 2008*
(3) *Tobacco Merchant Association, World Cigarette Production and Consumption Report 2005, 3rd January 2006*
(4) *'BGN 150 million lost from illegal cigarette trade', PARI Daily, 6th June 2007*
(5) *'Bulgaria losses BGN 180 M from illegal cigarettes', Trud Daily, 24th September 2007*
(6) *Association of Producers and Traders of Tobacco estimates as quoted in 'Share of Contraband Cigarettes on Bulgarian Market is 15%', Bulgaria News Agency, Nov 2008*
(7) *'One Third of Bulgarian Cigarettes Sold Illegally', Novite, 4th August 2009*
(8) *'Bulgaria's illicit trade booming', Tobacco Reporter, 6th August, 2009*

The 2009 EU Flows Model shows a 3.6 percentage points increase in non-domestic incidence level in Bulgaria to 17.6% in 2009

- The 2009 EU Flows Model estimate for non-domestic share of total consumption uses PMI Empty Pack Surveys (EPS) results conducted during the second quarter of 2009

Bulgartabac study in 2009 defined 'illegal cigarettes' as cigarette packs without a tax sticker, those with a foreign tax sticker or those with a Duty Free label

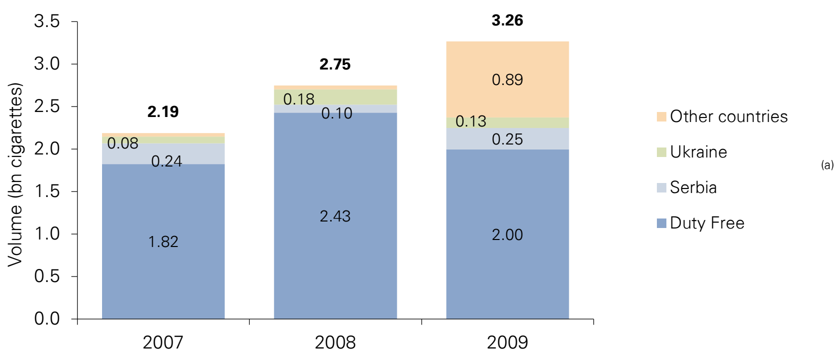
- KPMG have not been able to obtain further information on the 2009 Bulgartabac study
- However, in the Bulgartabac study conducted in 2007, 44% of packs classified as illegal were of Bulgarian origin but did not have a tax sticker and were therefore assumed to be illicit in nature

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 16% of consumption in 2009, compared to 13% in 2008

PMI share of counterfeit and contraband has declined consistently since 2007

Counterfeit and contraband by origin 2007-2009[(1)(2)(3)(a)(b)]



	2007	2008	2009
C&C share of consumption:	**11%**	**13%**	**16%**
C&C share of non-domestic:	**94%**	**92%**	**93%**

PMI Share of counterfeit and contraband declined in 2009

Notes: (a) In 2009, packs which had no clear indication of origin were classified as 'Not identifiable'. In prior years, such packs were classified as Duty Free. In 2009, not identifiable variant products account for 0.77 billion cigarettes and have been included in 'Other countries' on the above chart

(b) The counterfeit and contraband volumes of non-PMI brands have not been verified with local trademark owners

Sources: (1) KPMG EU Flows Model

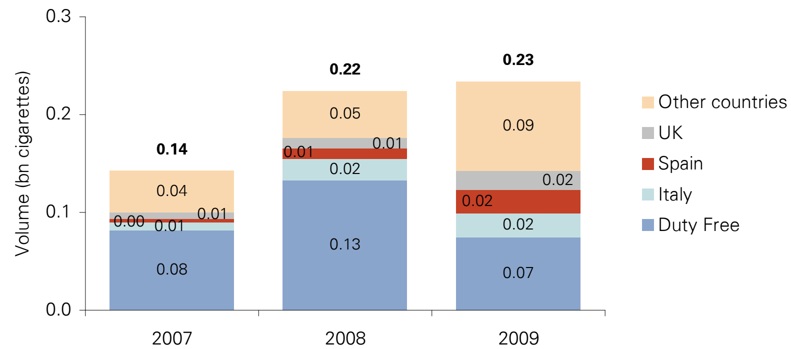
(2) Synovate ND(L) research 2007, 2008 and 2009

(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

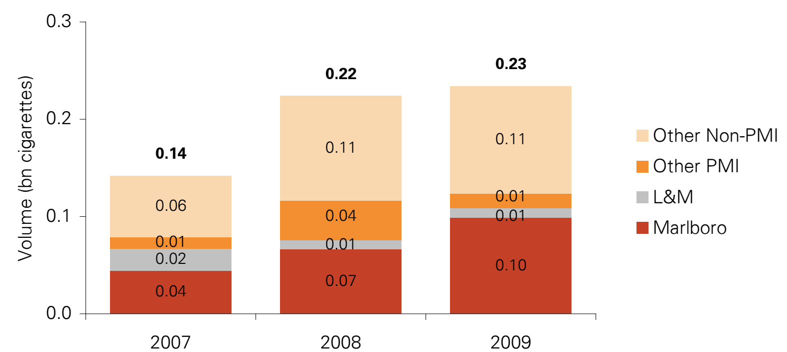
Non-domestic (legal) inflows remained broadly stable in 2009

Non-domestic (legal) by origin 2007-2009[(1)(2)(3)]



	2007	2008	2009
ND(L) share of consumption:	**1%**	**1%**	**1%**
ND(L) share of non-domestic:	**6%**	**8%**	**7%**

Non-domestic (legal) by brand 2007-2009[(1)(2)(3)]



	2007	2008	2009
PMI share of ND(L):	**56%**	**52%**	**53%**

ND(L) analysis

	1 Population 19+		2 Propensity to travel		3 Propensity to purchase		Ave. no. of trips		4 Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**5.9m**	**x**	**30%**	**x**	**36%**	**x**	**1.9**	**x**	**194**	**=**	**0.23bn**
EU rank 2009	**16**		**21**		**8**		**20**		**9**		**14**

ND(L) analysis 2007-2009

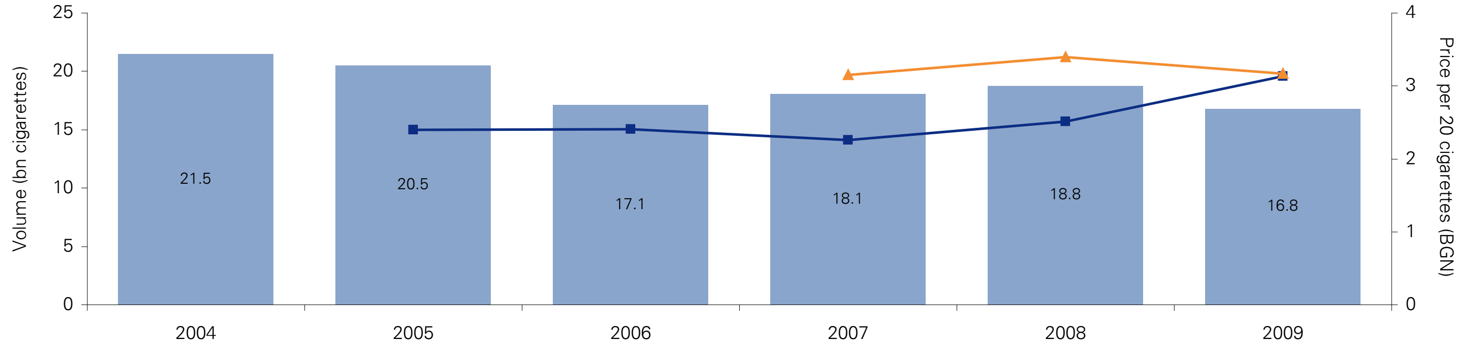
		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 **x** 2	4.4%	10.1%	10.8%
Average annual cigarettes purchased	3 **x** 4	545	375	367

Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2007, 2008 and 2009
(3) Interviews with PMI Local Management

Historic sales and pricing trends

Legal domestic cigarette sales declined by 10.5% in 2009 compared to 2008

Historic cigarette prices and legal domestic sales 2004-2009[1][2][a][b]



CAGR (%)	2004-2007	2007-2009	2008-2009
Legal domestic sales	*-5.7%*	*-3.5%*	*-10.5%*
Average pack price	*-3.0%*[c]	*17.7%*	*24.7%*
Consumption	*n/a*	*0.3%*	*-6.7%*

Notes: (a) Government data for sales of cigarette tax stamps suggested sales of 21.9 billion cigarettes in 2008. However, the government tax stamp sales estimate was distorted by high levels of inventory built up prior to price increases in 2008 and early 2009. Therefore, to reflect actual retail sales in the calendar year 2008, for the purposes of Project Star the In Market Sales estimate based on AC Nielsen Retail Audit data was used as the estimate for LDS

(b) In 2009, LDS is supplied by PMI

(c) CAGR is from 2005 to 2007 as average pack price data for 2004 was not available

(d) Real Gross Domestic Product at average 2001 prices

Sources: (1) In Market Sales supplied by PMI

(2) Weighted average pack price supplied by PMI

(3) 'Bulgaria Enters 2009 with Cigarette Prices Hike', Novinite, 28th November 2008

(4) National Statistical Institute of Bulgaria, Gross Domestic Product, accessed March 2010

(5) National Statistical Institute of Bulgaria, 2009 Labour Force Survey, accessed March 2010

According to In Market Sales data legal domestic sales declined by 10.5% in 2009 compared to 2008

- Tax driven price increases were implemented in March 2009 which led to price increase of between 1.05 and 1.20 levs per package[3]

Economic conditions worsened in 2009 as GDP declined and unemployment increased in comparison to 2008

- Gross Domestic Product declined to 42.4 billion levs in 2009, representing a decline of 5.0% compared to 2008[4][d]
- Unemployment rate in Bulgaria increased by 1.2 percentage points in comparison with 2008 to 6.8% in 2009[5]

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Market Overview

Consumption of counterfeit and contraband cigarettes in Cyprus remained stable at 1.7% in 2009

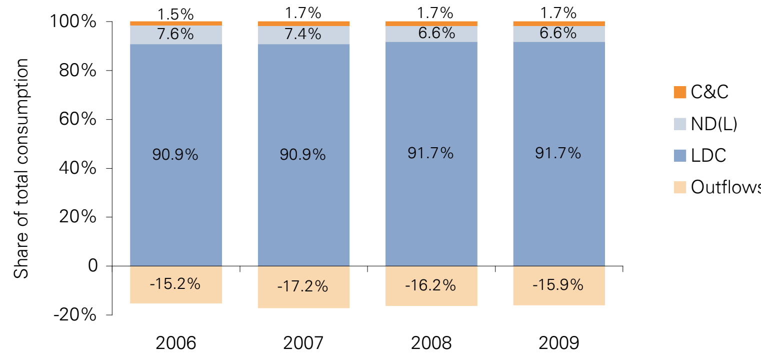
Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(3)(a)(b)(c)]

Key: ■ *Cyprus*
■ *Major destination country*

Note: *(a) Map shows flows over 2% of consumption. Countries which are both source and destination countries are coded according to larger flow*
(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009
(c) Cigarette prices in the UK declined in euro terms in 2009 as a result of exchange rate changes of the pound versus the euro

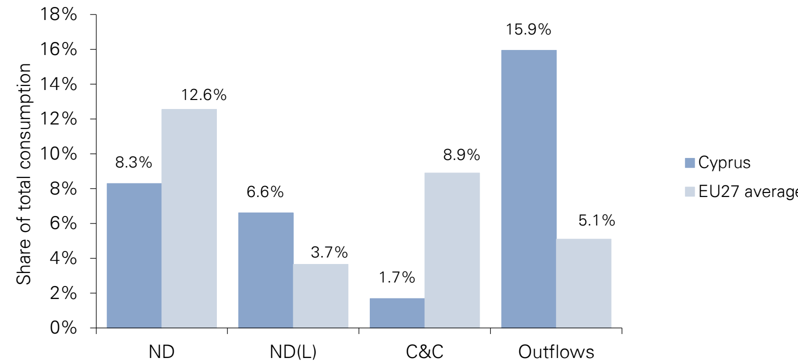
Sources: *(1) KPMG EU Flows Model and interviews with PMI Local Management*
(2) AC Nielsen ND(L) research 2006
(3) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

Share of Cypriot consumption by type 2006-2009[(1)(2)]



	2006	2007	2008	2009
Volume (bn cigarettes)	**1.51**	**1.55**	**1.60**	**1.58**

Comparison of EU and Cypriot consumption by type 2009[(1)(2)]



Total non-domestic consumption

Consumption of non-domestic cigarettes remained stable at 0.13 billion cigarettes in 2009

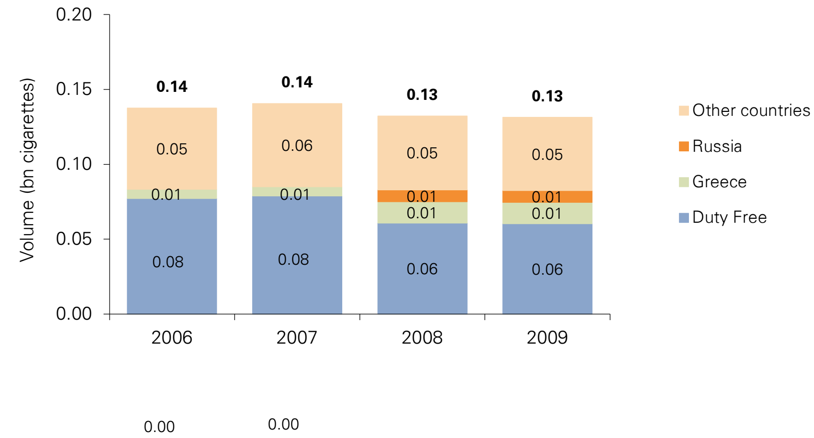
Total Cyprus consumption(1)(2)(a)

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	1.605	1.670	1.720	1.705
Outflows	-0.230	-0.266	-0.258	-0.252
Legal domestic consumption (LDC)	1.375	1.404	1.462	1.453
Non-domestic legal (ND(L))	0.115	0.115	0.105	0.105
Counterfeit and contraband (C&C)	0.023	0.026	0.028	0.027
Total non-domestic	0.138	0.141	0.132	0.131
Total consumption	**1.513**	**1.545**	**1.595**	**1.584**

Outflows from Cyprus(1)

Destination country (billion cigarettes)	2006	2007	2008	2009
UK	0.213	0.250	0.241	0.214
Bulgaria	0.000	0.000	0.000	0.020
Other EU	0.017	0.016	0.017	0.018
Total outflows	**0.230**	**0.266**	**0.258**	**0.252**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009(1)(2)



Note: (a) Empty Pack Survey research was not updated in 2009 but corroborating research has not indicated any significant changes to 2008 results. Consequently, non-domestic incidence remained at 8.3% in 2009. The volume of non-domestic inflows and total consumption have declined in 2009 due to a lower level of Legal Domestic Consumption (LDC) in the market. Project Star methodology calculates non-domestic inflows and total consumption by factoring up LDC based on non-domestic incidence, which remained at the same level as prior years, therefore indicating a lower level of inflows and total consumption in 2009

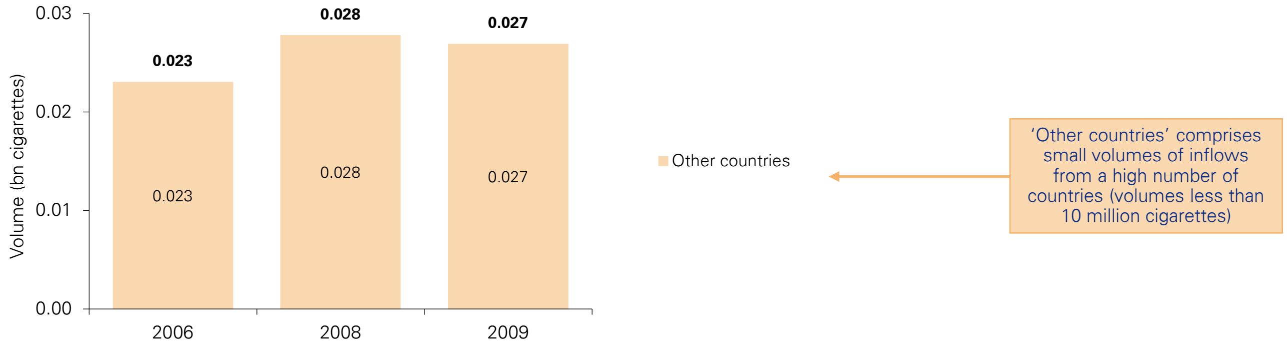
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management

(2) AC Nielsen ND(L) research 2006

Counterfeit and contraband breakdown

At approximately 30 million cigarettes, counterfeit and contraband inflows remained at a similar level to 2008

Counterfeit and contraband by origin 2006, 2008-2009[(1)(2)(3)(a)]



	2006	2008	2009
C&C share of consumption:	**2%**	**2%**	**2%**
C&C share of non-domestic:	**17%**	**21%**	**20%**

Note: (a) ND(L) research was not updated in 2007, 2008 and 2009 but corroborating research has not indicated any significant changes to 2006 results

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

Non-domestic (legal) volumes remained stable at approximately 100 million cigarettes in 2009

Non-domestic (legal) by origin 2006, 2009-2009[1][2][3][a]

	2006	2008	2009
ND(L) share of consumption:	**8%**	**7%**	**7%**
ND(L) share of non-domestic:	**83%**	**79%**	**80%**

Non-domestic (legal) by brand 2006, 2008-2009[1][2][3][a]

PMI share of ND(L):	**53%**	**53%**	**53%**

ND(L) analysis

	(1)	(2)	(3)	(4)						
	Population 19+		Propensity to travel		Propensity to purchase		Ave. no. of trips		Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**0.6m**	**x**	**64%**	**x**	**41%**	**x**	**1.8**	**x**	**382**	**=**	**0.10bn**
EU rank 2009	**25**		**7**		**6**		**22**		**1**		**22**

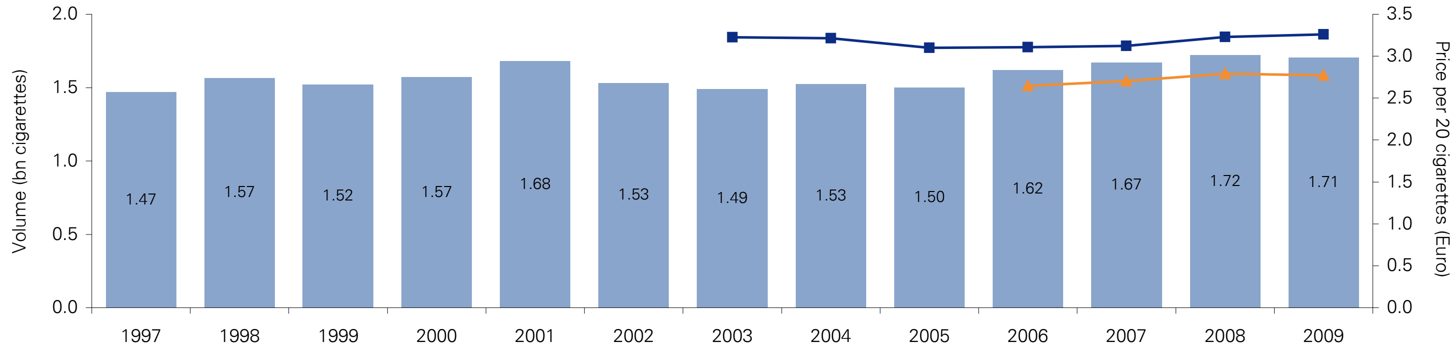
Note: (a) ND(L) research was not updated in 2007, 2008 and 2009 but corroborating research has not indicated any significant changes to 2006 results. ND(L) inflows to Cyprus in 2008 are estimated to have declined in proportion to changes in total non-domestic inflows, based on Empty Pack Survey results in 2008

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006
(3) Interviews with PMI Local Management

Historic sales and pricing trends

Legal domestic cigarette sales declined by 0.9% in 2009

Historic cigarette prices and legal domestic sales 1997-2009(1)(2)(a)



CAGR (%)	1997-2001	2001-2005	2005-2009	2008-2009
Legal domestic sales	*3.5%*	*-2.9%*	*3.3%*	*-0.9%*
Average pack price	*n/a*	*n/a*	*1.3%*	*0.9%*
Consumption	*n/a*	*n/a*	*1.5%*(b)	*-0.7%*

Note: (a) The decrease in sales between 2001 and 2002 was due to a methodology change rather than a decrease in sales. The new methodology now covers approximately 100% of the market and measures actual shipment data for PMI brands and provides an estimate on competitor volumes

(b) CAGR trend for consumption calculated from 2006 to 2009

Sources: (1) In Market Sales supplied by PMI

(2) Weighted average pack price supplied by PMI

(3) Cyprus Statistical Service, Tourism Statistics, accessed March 2010

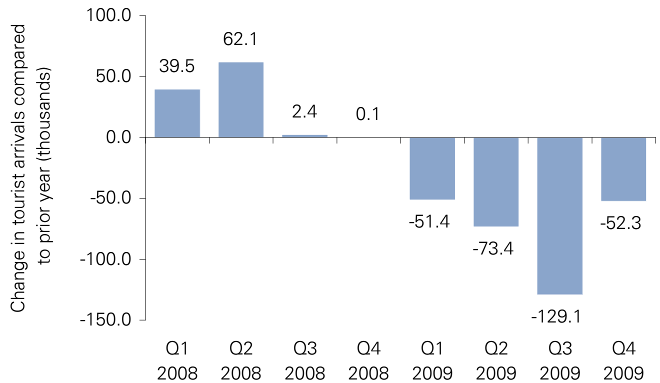
Legal domestic sales of cigarettes declined by 0.9% in 2009

- Inbound tourists to Cyprus declined by 8.4% in 2009(3)
  - tourists are understood to account for a significant proportion of Cypriot legal domestic sales

Market developments 2009

Tourist arrivals declined in 2009, supporting a trend of declining outflows in 2009

Change in tourist arrivals compared to corresponding period in prior year, (thousands) 2008-2009[1]



Source: (1) Cyprus Statistical Service, Tourism Statistics, accessed March 2010

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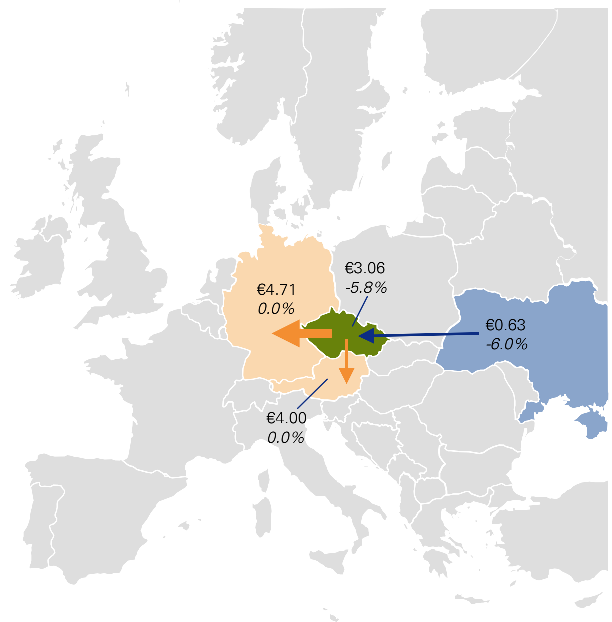
Market Overview

The share of cigarette consumption in the Czech Republic accounted for by counterfeit and contraband declined to 5.8% in 2009

The Marlboro price in the Czech Republic declined in euro terms in 2009 as a result of exchange rate changes between the koruna versus the euro

Marlboro 2009 price comparison in Euros and percentage change from 2008 (1)(3)(a)(b)(c)

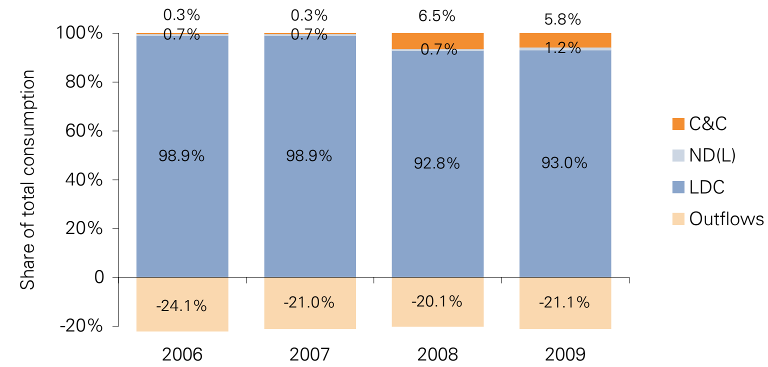


Key:
- *Czech Republic*
- *Major source countries*
- *Major destination country*

Note:
- *(a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarette flow volume*
- *(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009*
- *(c) Cigarette prices in the Czech Republic and Ukraine declined in euro terms in 2009 as a result of exchange rate changes of the koruna and hryvnia versus the euro*

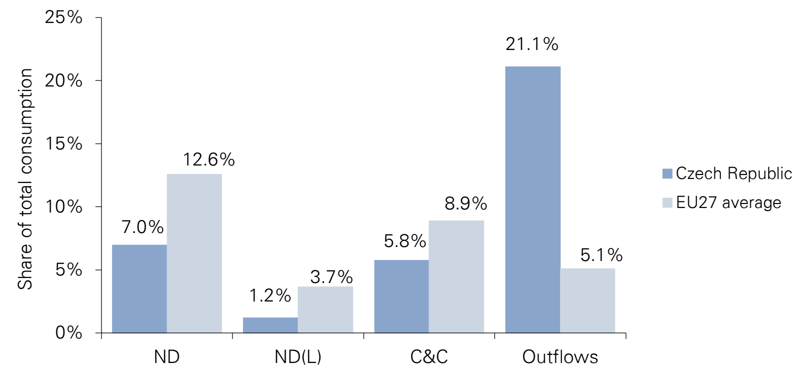
Sources:
- *(1) KPMG EU Flows Model and interviews with PMI Local Management*
- *(2) AC Nielsen ND(L) research 2006, 2008 and 2009*
- *(3) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009*

Share of Czech Republic consumption by type 2006-2009 (1)(2)



Volume (bn cigarettes)	19.8	20.0	20.2	19.0

Comparison of EU and Czech consumption by type 2009 (1)(2)



Total non-domestic consumption

1.32 billion cigarettes of non-domestic origin were consumed in the Czech Republic in 2009

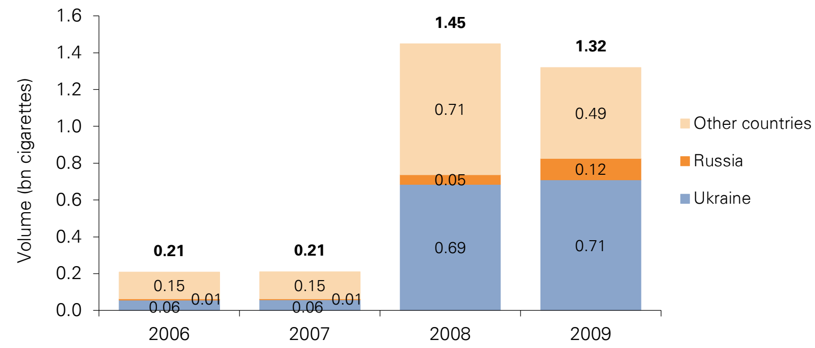
Total Czech Republic consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	24.31	23.97	22.77	21.65
Outflows	-4.76	-4.19	-4.06	-4.00
Legal domestic consumption (LDC)	19.54	19.78	18.71	17.65
Non-domestic legal (ND(L))	0.15	0.15	0.15	0.23
Counterfeit and contraband (C&C)	0.06	0.06	1.30	1.09
Total non-domestic	0.21	0.21	1.45	1.32
Total consumption	**19.75**	**19.99**	**20.16**	**18.97**

Outflows from Czech Republic[1]

Destination country (billion cigarettes)	2006	2007	2008	2009
Germany	3.77	3.28	3.53	3.53
Austria	0.17	0.16	0.20	0.23
UK	0.21	0.29	0.11	0.07
Other EU	0.61	0.47	0.22	0.17
Total outflows	**4.76**	**4.19**	**4.06**	**4.00**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]

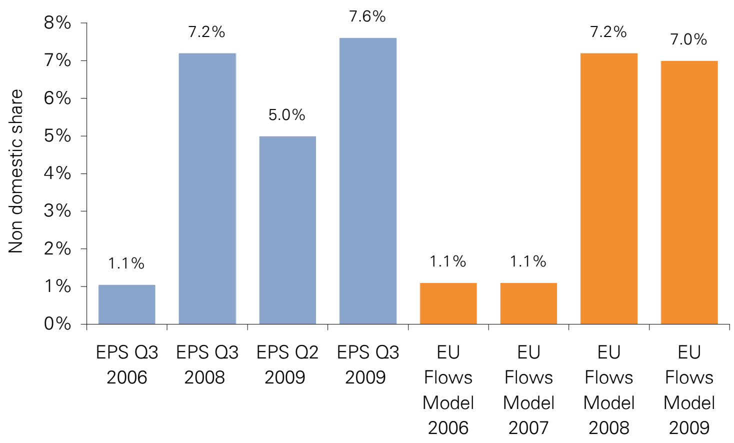


Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2006, 2008 and 2009

External sources for non-domestic estimates

The EU Flows Model estimate for non-domestic consumption in 2009 is calculated by weighting results from Empty Pack Surveys conducted in Quarter 2 and Quarter 3

Non-domestic market estimates[(1)(2)(3)]



Sources: (1) KPMG EU Flows Model
(2) PMI Empty Pack Surveys, Q3 2006, Q3 2008
(3) Empty Pack Surveys for the Czech Republic Tobacco Manufacturers Association (NMA) conducted by Ultex, Q2 2009 and Q4 2009

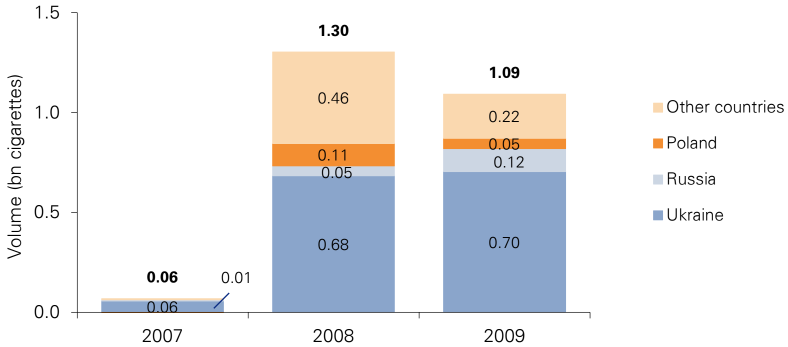
Non-domestic incidence of 7.0% per the EU Flows Model 2009 is calculated by applying a weighting to the two Empty Pack Surveys conducted in 2009

- The first EPS took place in Quarter 2 (April) 2009 and the second in Quarter 3 (September) 2009
- Analysis of EPS timing and the 2009 market environment indicated that the Quarter 2 (April) EPS should be weighted to represent the first three months of 2009, with the Quarter 3 (September) EPS representing the remaining nine months
  - unemployment increased in the first three quarters of 2009, before declining slightly in Quarter 4
  - GDP was lower throughout 2009 compared to equivalent periods in the prior year

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 1.09 billion cigarettes in 2009, down from 1.30 billion in 2008

Counterfeit and contraband by origin 2007-2009[(1)(2)(3)]



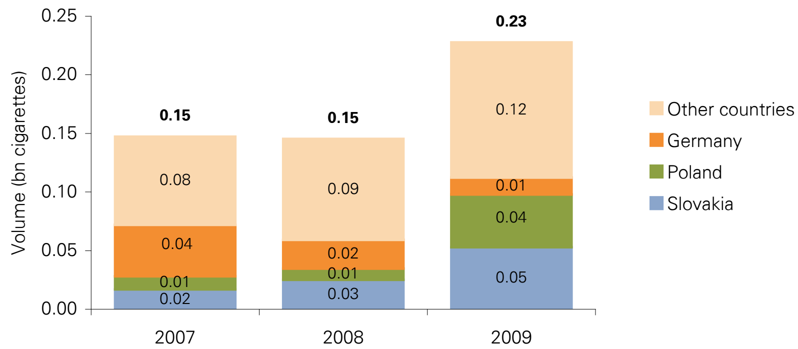
	2007	2008	2009
C&C share of consumption:	**0%**	**6%**	**6%**
C&C share of non-domestic:	**30%**	**90%**	**83%**

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2008 and 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

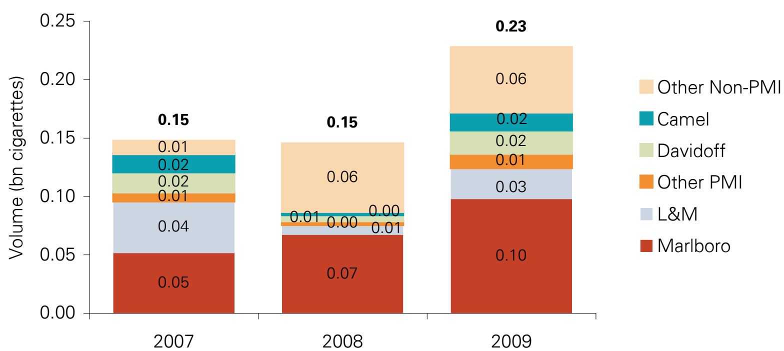
Non-domestic (legal) volumes increased to 0.23 billion cigarettes in 2009

Non-domestic (legal) by origin 2007-2009[(1)(2)(3)]



	2007	2008	2009
ND(L) share of consumption:	**1%**	**1%**	**1%**
ND(L) share of non-domestic:	**70%**	**10%**	**17%**

Non-domestic (legal) by brand 2007-2009[(1)(2)(3)]



	2007	2008	2009
PMI share of ND(L):	**70%**	**54%**	**60%**

ND(L) analysis

	1 Population 19+		2 Propensity to travel		3 Propensity to purchase		Ave. no. of trips		4 Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**8.3m**	x	**56%**	x	**11%**	x	**3.8**	x	**115**	=	**0.23bn**
EU rank 2009	**11**		**11**		**26**		**10**		**19**		**15**

ND(L) analysis 2007-2009

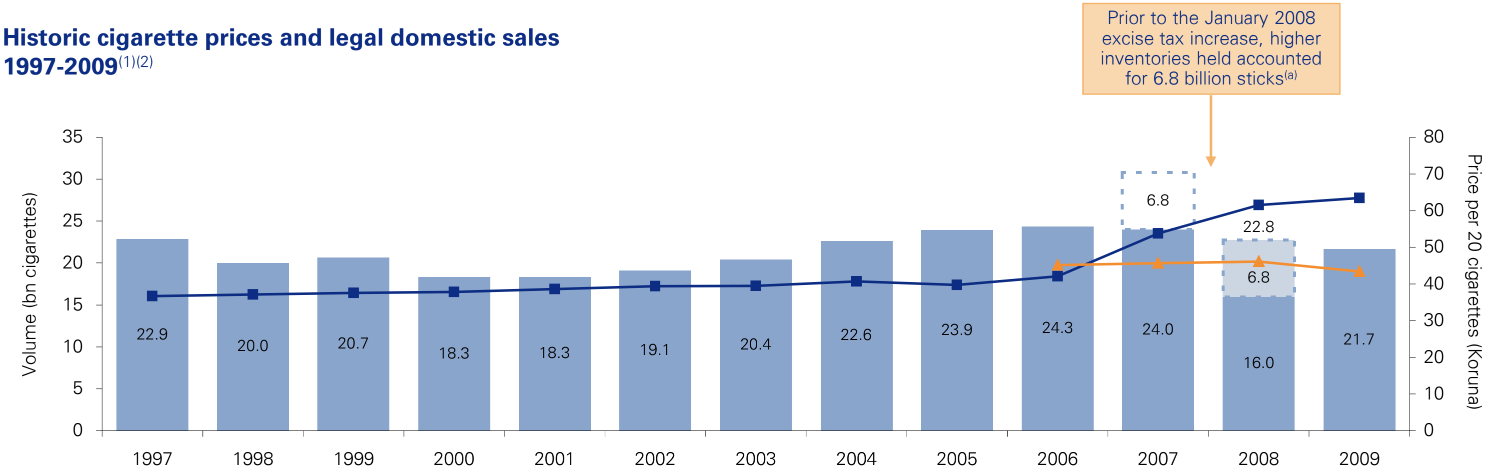
		2007	2008	2009
Propensity to travel and purchase cigarettes	1 x 2	4.6%	5.0%	6.2%
Average annual cigarettes purchased	3 x 4	387	349	438

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2008 and 2009
(3) Interviews with PMI Local Management

Historic sales and pricing trends

Legal domestic cigarette sales declined by 4.9% in 2009

Historic cigarette prices and legal domestic sales 1997-2009[1][2]



CAGR (%)	1997-2000	2000-2006	2006-2009	2008-2009
Legal domestic sales	*-7.2%*	*4.8%*	*-3.8%*	*-4.9%*
Average pack price	*1.0%*	*1.8%*	*14.7%*	*3.2%*
Consumption	*n/a*	*n/a*	*-1.3%*	*-5.9%*

Note: (a) Sales of manufactured cigarettes in 2007 were adjusted down by 6.8 billion sticks to reflect higher inventories, with a corresponding upwards adjustment made to sales in 2008
Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI
(3) 'Czechs clarify smoking legislation', Radio Prague, July 2009

Legal domestic sales declined by 4.9% in 2009 whilst the average pack price increased by 3.2%

- In 2008 the Czech Republic reached compliance with EU minimum taxes of €64 per 1000 cigarettes
  - no further excise tax increases were introduced in 2009

In July 2009 indoor smoking legislation was updated

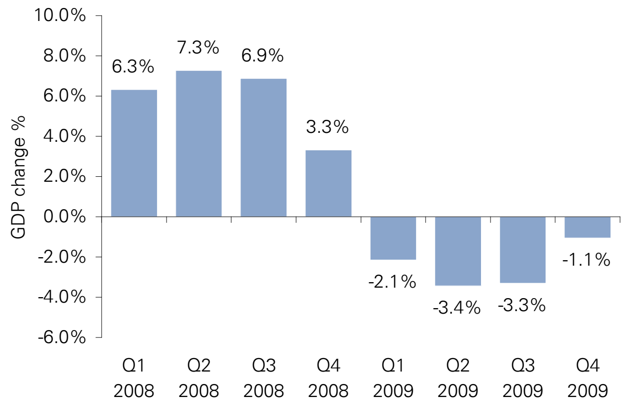
- The change required pubs and restaurants to designate themselves as smoking or non-smoking and to display a notice outside indicating this[3]

Market developments 2009

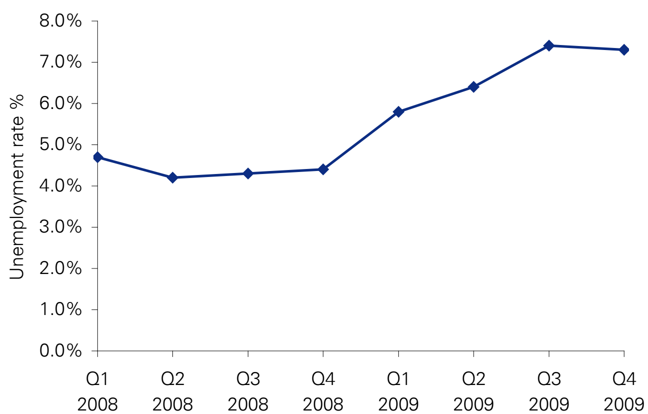
GDP was lower throughout 2009 compared to equivalent periods in the prior year

Unemployment increased in the first three quarters of 2009, before declining slightly in Quarter 4

GDP percentage change compared to equivalent quarter in prior year 2008-2009(1)



Unemployment rate by quarter 2008-2009(2)



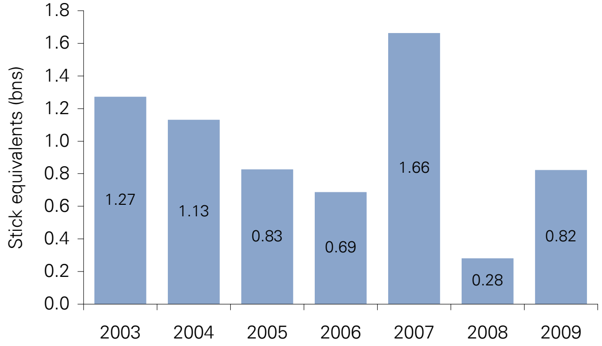
Source: (1) *Czech Statistical Office, Gross Domestic Product at previous year average prices, accessed April 2010*
(2) *Czech Statistical Office, General unemployment rate, accessed April 2010*

OTP market size and growth

Sales of smoking tobacco increased in 2009 following the significant decline in 2008

Part of the decline in smoking tobacco sales in 2008 was driven by higher inventories held prior to an excise tax increase in January 2008

Smoking tobacco sales in billion stick equivalents 2003-2009[(1)(a)(b)(c)]



Cigarette sales (bn cigarettes)	**20.4**	**22.6**	**23.9**	**24.3**	**30.7[(d)]**	**16.0[(d)]**	**21.7**

CAGR (%)	2003-2006	2006-2009	2008-2009
Smoking tobacco	*-18.5%*	*6.1%*	*190.6%*
Manufactured cigarettes	*6.0%*	*-3.8%*	*-4.9%*

Notes: (a) Smoking tobacco volumes have been calculated at one stick per 0.75 grams
(b) Cigars/cigarillos have been excluded from this analysis
(c) The 2008 smoking tobacco volume presented in the Star 2008 report was based on preliminary forecast data, which has now been updated to reflect final full year sales
(d) Manufactured cigarettes sales from In Market Sales supplied by PMI based on shipment data. Sales of manufactured cigarettes in 2007 were adjusted down by 6.8 billion sticks to reflect higher inventories, with a corresponding upwards adjustment made to sales in 2008
Source: (1) OTP volumes supplied by local PMI

The sales trend between 2007 and 2009 has been distorted by inventory holdings

- In 2009 smoking tobacco sales increased by 190.6%, whilst in 2008 sales declined by 83.0%
  - no adjustment has been made to OTP sales as detailed inventory information is unavailable
- A distortion in the sales of manufactured cigarettes was also observed in 2007 and 2008, for which an adjustment was made in the Project Star results

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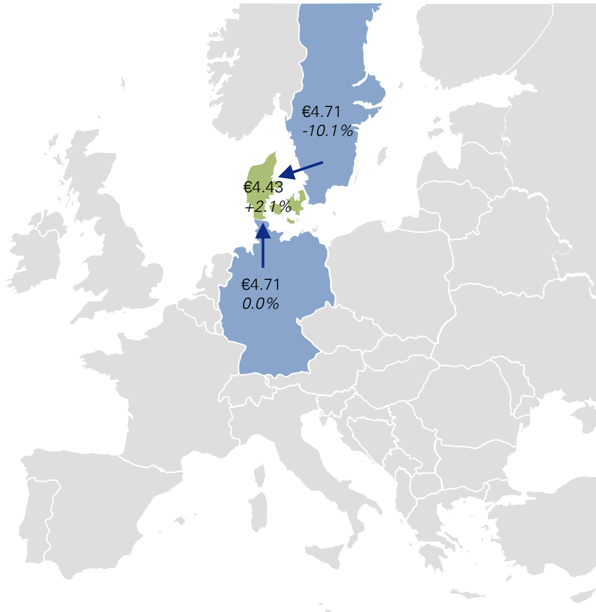
Market Overview

The share of cigarette consumption in Denmark accounted for by counterfeit and contraband declined to 3.5% in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(2)(a)(b)(c)]



Key: ■ Denmark ■ Top two source countries

Notes: (a) Map shows top two source countries. Countries which are both source and destination countries are coded according to the larger flow, whilst arrow size indicates relative cigarette flow volume

(b) ND(L) and EPS research for 2007 and 2009 uses 2006 and 2008 information respectively. Corroborating research did not indicate any significant changes to 2006 results

(c) Cigarette prices in Sweden declined in euro terms in 2009 as a result of exchange rate changes of the kroner versus the euro

Sources: (1) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

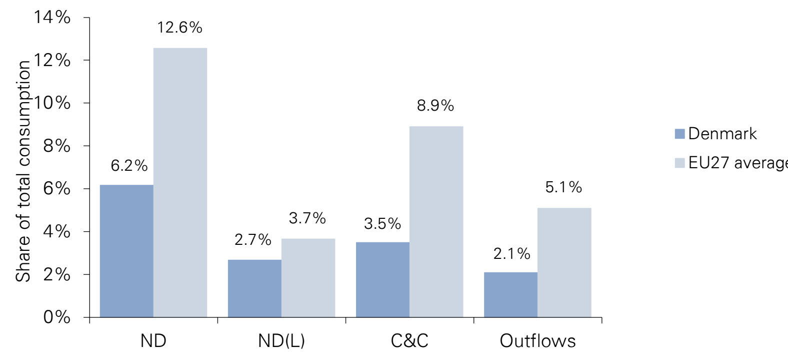
(2) KPMG EU Flows Model and interviews with PMI Local Management

(3) Synovate ND(L) research 2006, 2008

Share of Denmark consumption by type 2006-2009[(2)(3)]

	2006	2007	2008	2009
Volume (bn cigarettes)	**8.3**	**8.3**	**8.4**	**8.1**

Comparison of EU and Danish consumption by type 2009[(2)(3)]



Total non-domestic consumption

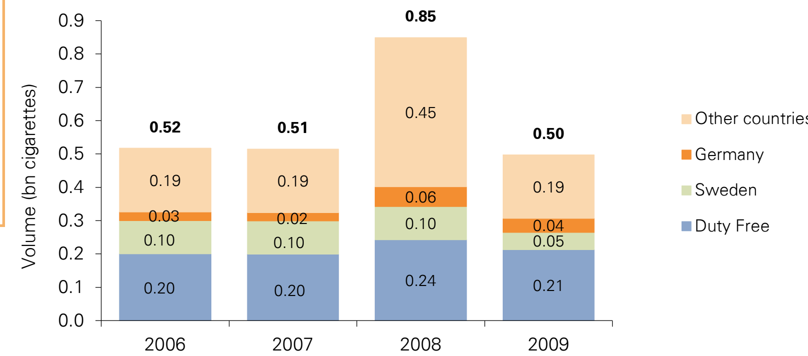
Consumption of non-domestic cigarettes declined to 0.50 billion cigarettes in 2009 compared to 0.85 billion in the previous year

Prince and Marlboro are the two main non-domestic brands

Total Denmark consumption[(1)(2)]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	8.08	7.93	7.79	7.75
Outflows[(a)]	-0.28	-0.17	-0.23	-0.17
Legal domestic consumption (LDC)	7.80	7.76	7.56	7.58
Non-domestic legal (ND(L))	0.36	0.36	0.34	0.22
Counterfeit and contraband (C&C)	0.15	0.15	0.51	0.28
Total non-domestic	0.52	0.51	0.85	0.50
Total consumption	**8.32**	**8.28**	**8.41**	**8.08**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[(1)(2)]

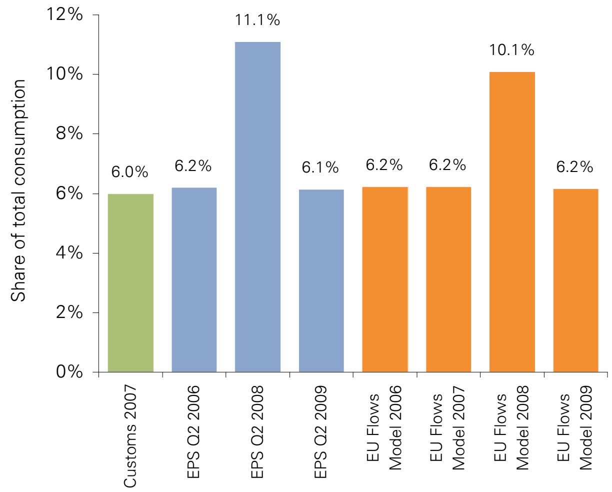


Note: (a) The UK and Germany were the major outflow destinations in 2008 and 2009
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) Synovate ND(L) research 2006, 2008

Comparison of external sources for non-domestic estimates

The EU Flows Model results based on the PMI Empty Pack Survey indicate a decrease in non-domestic consumption in 2009

Non-domestic market estimates(1)(2)(3)(a)



Note: (a) EPS research was not updated in 2007 but corroborating research did not indicate any significant changes for the 2006 level

Sources: (1) 'Status over Graensehandel', Ministry of Finance, June 2007
(2) KPMG EU Flows Model
(3) PMI EPS Q3 2006, Q3 2008 and Q2 2009

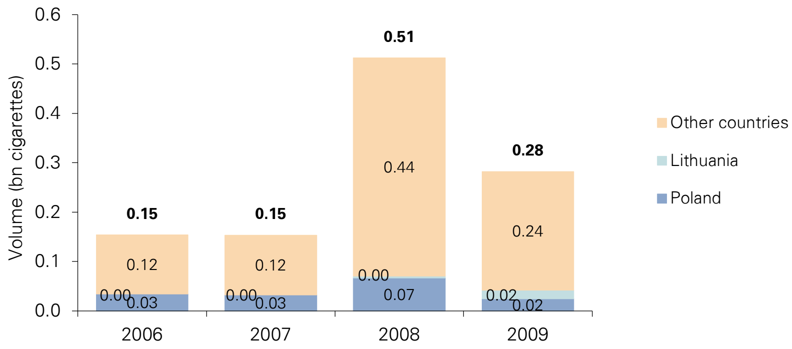
The EU Flows Model results based on the PMI Empty Pack Survey estimate that non-domestic consumption accounts in 2009 was comparable to the 2006 and 2007 levels

- The EU Flows Model results for 2009 differ slightly from the EPS results due to the reclassification of Danish counterfeit packs
  - these packs are included within counterfeit volumes and are considered non-domestic for the purposes of Project Star
  - this methodology is consistent with prior years

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 0.28 billion cigarettes in 2009, down from 0.51 billion in 2008

Counterfeit and contraband by origin 2006-2009[1][2][3][a][b]



	2006	2007	2008	2009
C&C share of consumption:	**2%**	**2%**	**6%**	**3%**
C&C share of non-domestic:	**30%**	**30%**	**60%**	**57%**

The decline in counterfeit and contraband inflows in 2009 has been driven by lower volumes across a large number of source markets

Notes: (a) *ND(L) and EPS research for 2007 uses 2006 information. Corroborating research did not indicate any significant changes to 2006 results*

(b) *ND(L) research has not been updated in 2009. As a result, 2009 estimates are based on 2008 research*

Sources: (1) *KPMG EU Flows Model*

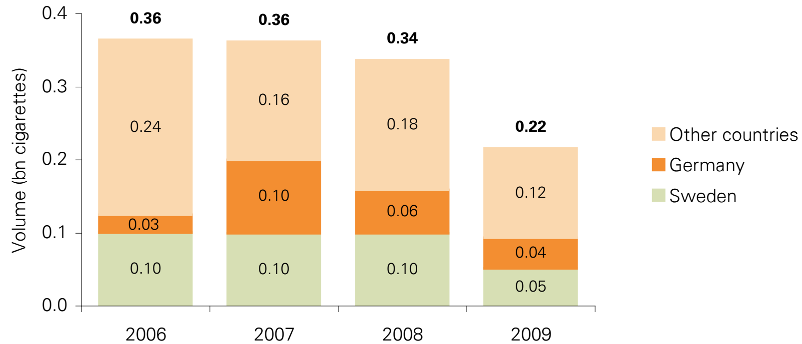
(2) *Synovate ND(L) research 2006, 2008*

(3) *Interview with PMI local management*

Non-domestic (legal) breakdown

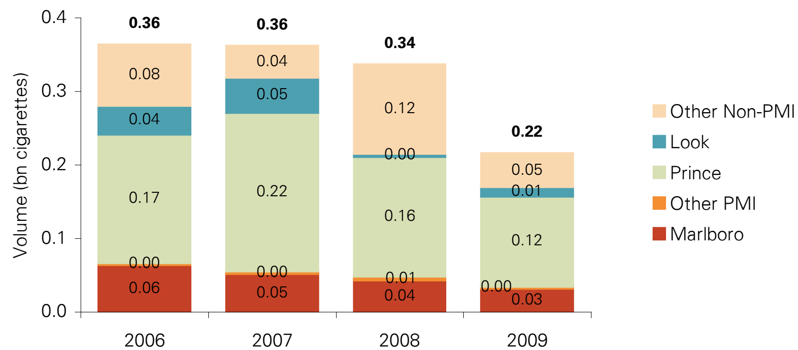
Non-domestic (legal) volumes decreased to 0.22 billion cigarettes in 2009

Non-domestic (legal) by origin 2006-2009[(1)(2)(3)(a)(b)]



	2006	2007	2008	2009
ND(L) share of consumption:	**4%**	**4%**	**4%**	**3%**
ND(L) share of non-domestic:	**70%**	**70%**	**40%**	**43%**

Non-domestic (legal) by brand 2006-2009[(1)(2)(3)(a)(b)]



	2006	2007	2008	2009
PMI share of ND(L):	**18%**	**15%**	**15%**	**16%**

ND(L) analysis

	① Population 19+		② Propensity to travel		Propensity to purchase		③ Ave. no. of trips		④ Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**4.2m**	x	**67%**	x	**31%**	x	**1.6**	x	**155**	=	**0.22bn**
EU rank 2009	**18**		**2**		**10**		**23**		**12**		**16**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 x 2	13.4%	21.0%	21.0%
Average annual cigarettes purchased	3 x 4	567	244	244

Notes: (a) *ND(L) and EPS research for 2007 uses 2006 information. Corroborating research did not indicate any significant changes to 2006 results*
(b) *ND(L) research has not been updated in 2009. As a result, 2009 estimates are based on 2008 research*

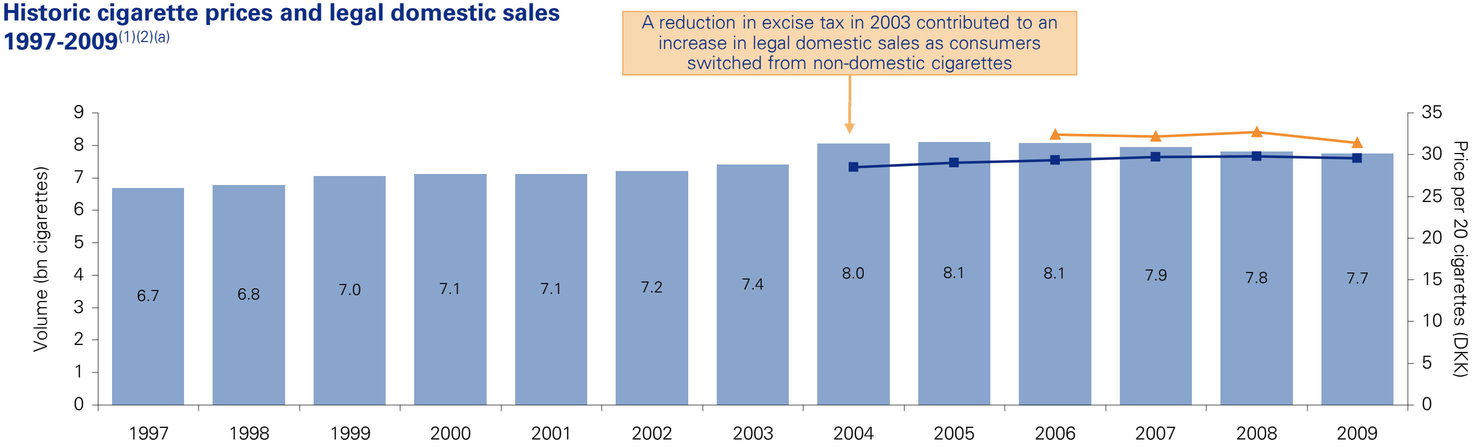
Sources: (1) *KPMG EU Flows Model*
(2) *Synovate ND(L) research 2006, 2008*
(3) *Interviews with PMI local management*

Historic sales and pricing trends

Legal domestic cigarette sales decreased by 0.6% in 2009 compared to 2008

Weighted average pack prices decreased by 0.7% to DKK 29.60 in 2009

Historic cigarette prices and legal domestic sales 1997-2009(1)(2)(a)



CAGR (%)	1997-2001	2001-2006	2006-2009	2008-2009
Legal domestic sales	*1.6%*	*2.6%*	*-1.4%*	*-0.6%*
Average pack price	*n/a*	*1.4%[a]*	*0.3%*	*-0.7%*
Consumption	*n/a*	*n/a*	*-1.0%*	*-4.0%*

Note: (a) Average pack price CAGR percentage is calculated from 2004 to 2006
Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI
(3) 'Smoking laws not strict enough', Copenhagen Post, 21 December 2009

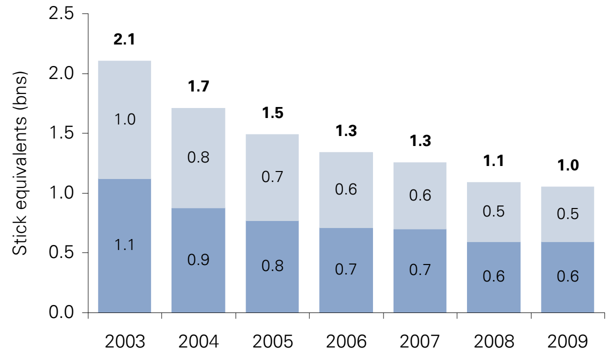
Legal domestic sales declined in 2009 by 0.6% to 7.7 billion cigarettes

- A smoking ban was introduced in August 2007 in all bars and restaurants larger than 40 square metres and support for tougher anti-smoking legislation increased in 2009
  - according to a Gallup poll, 53% of Danes favoured an extension of the smoking ban to include all public places[3]

OTP market size and growth

Sales of smoking tobacco were 1.0 billion stick equivalents in 2009

Smoking tobacco sales in billion stick equivalents 2003-2009(1)(a)(b)



Cigarette sales (bn cigarettes)	7.4	8.0	8.1	8.1	7.9	7.8	7.7

CAGR (%)	2003-2005	2005-2009	2008-2009
Pipe tobacco	*-14.0%*	*-10.9%*	*-8.1%*
Fine cut tobacco	*-17.4%*	*-6.2%*	*0.1%*
Total Smoking tobacco	***-15.8%***	***-8.4%***	***-3.7%***
Manufactured cigarettes	***4.5%***	***-1.1%***	***-0.6%***

Notes: (a) Smoking tobacco volumes have been calculated at 1 stick per 0.75 grams
(b) Cigars/cigarillos and smokeless tobacco has been excluded from this analysis
Source: (1) Until 2007, OTP volumes are supplied by PMI. 2008 and 2009 volumes are estimates provided by PMI

Legal domestic sales of smoking tobacco decreased by 3.7% in 2009 compared to 2008

- Smoking tobacco sales have declined at a faster rate than sales of manufactured cigarettes
  - sales of manufactured cigarette declined by 0.6% in 2009 compared to 2008

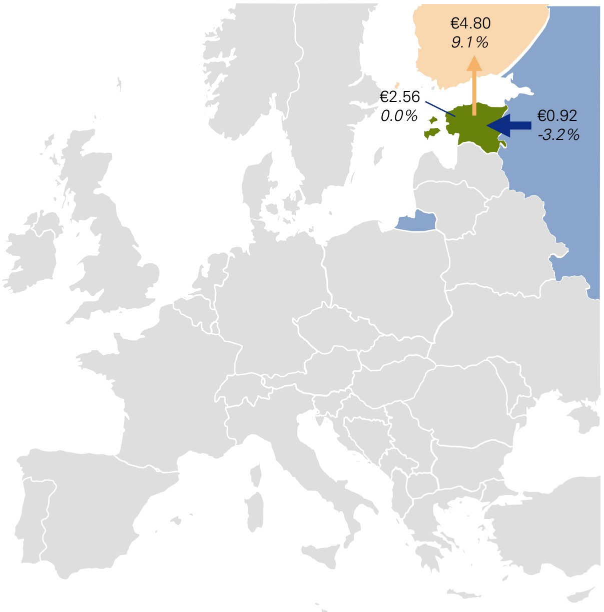
Contents – country detail

Market Overview

The share of cigarette consumption in Estonia accounted for by counterfeit and contraband increased to 21.8% in 2009

In prior years non-domestic incidence had been on a declining trend, however in 2009 it increased to a level comparable with 2006

Marlboro 2009 price comparison in Euros and percentage change from 2008(1)(3)(a)(b)(c)

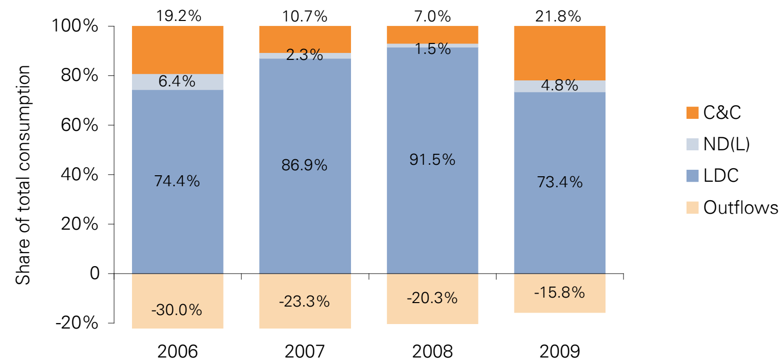


Key: Estonia; Major source country; Major destination country

Notes: (a) Map shows flows over 2% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarette flow volume
(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009
(c) Cigarette prices in Russia declined in euro terms in 2009 as a result of exchange rate changes of the rouble versus the euro

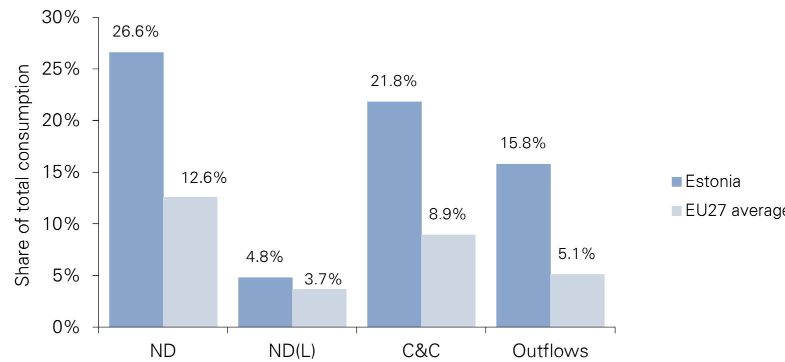
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2006, 2007 and 2009
(3) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

Share of Estonia consumption by type 2006-2009(1)(2)



Volume (bn cigarettes)	2.2	2.2	2.1	2.1

Comparison of EU and Estonian consumption by type 2009(1)(2)



Total non-domestic consumption

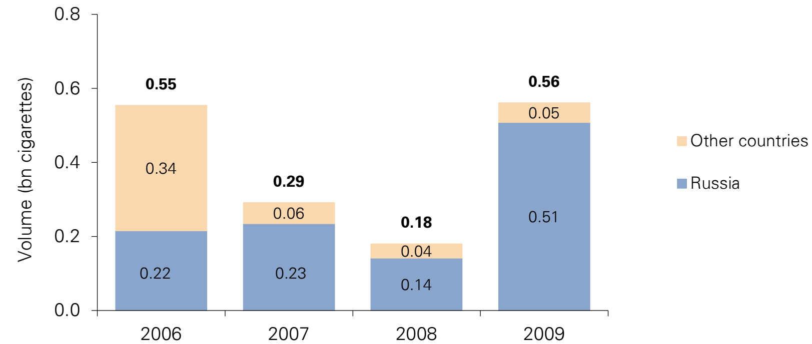
Consumption of non-domestic cigarettes increased to 0.56 billion cigarettes in 2009 compared to 0.18 billion in the previous year

Non-domestic inflows from Russia increased by 261% in 2009

Total Estonia consumption[(1)(2)]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	2.26	2.46	2.37	1.89
Outflows[(a)]	-0.65	-0.52	-0.43	-0.33
Legal domestic consumption (LDC)	1.61	1.94	1.94	1.55
Non-domestic legal (ND(L))	0.14	0.05	0.03	0.10
Counterfeit and contraband (C&C)	0.42	0.24	0.15	0.46
Total non-domestic	0.55	0.29	0.18	0.56
Total consumption	**2.16**	**2.23**	**2.12**	**2.11**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[(1)(2)]



Note: (a) Finland remained the main outflow country in 2009 with outflows of 0.27 billion cigarettes compared to 0.25 billion in 2008. The remaining decline in outflows has been driven by lower flows to a number of markets

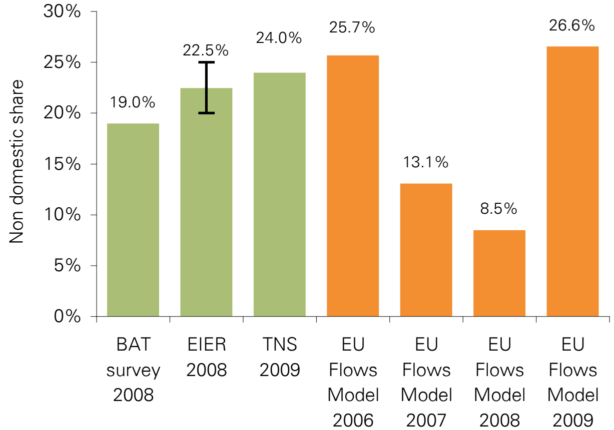
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management

(2) AC Nielsen ND(L) research 2006, 2007, 2009

Comparison of external sources for non-domestic estimates

External estimates of non-domestic cigarettes provide additional corroboration for the EU Flows Model results

Non-domestic market estimates[1][2][3][4]



Sources: (1) KPMG EU Flows Model based on PMI Empty Pack Surveys Q3 2006, Q3 2007, Q4 2008, Q2 2009
(2) Estonian Institute of Economic Research, 2008
(3) 'Health Warning Survey', TNS, 2009
(4) 'Difference in prices of cigarettes in Estonia and Russia grows to almost six times', The Baltic Course, July 2008

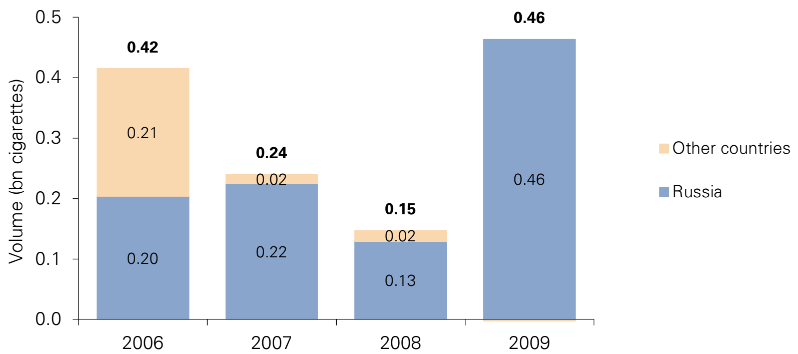
EU Flows Model results indicate a significant increase in non-domestic inflows to Estonia in 2009 compared to 2008

- The TNS estimate for non-domestic cigarettes in 2009is in line with EU Flows Model results
  - TNS research was conducted in April to June 2009 using consumer interviews
- The EIER estimate is based on a postal questionnaire and interviews with experts from research institutions carried out in Quarter 4 2008

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 0.46 billion cigarettes of domestic consumption in 2009, predominantly driven by inflows from Russia

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
C&C share of consumption:	**19%**	**11%**	**7%**	**22%**
C&C share of non-domestic:	**75%**	**82%**	**82%**	**82%**

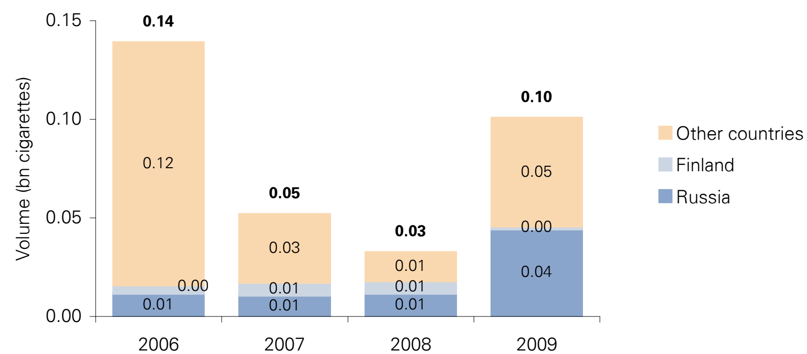
Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2007 and 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

Non-domestic (legal) volumes accounted for 0.10 billion cigarettes in 2009

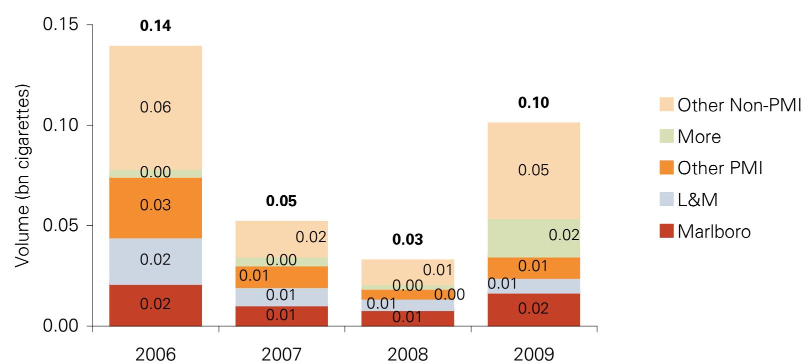
Import regulations for cigarettes from non-EU countries were changed in December 2008 and July 2009

Non-domestic (legal) by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
ND(L) share of consumption:	**6%**	**2%**	**2%**	**5%**
ND(L) share of non-domestic:	**25%**	**18%**	**18%**	**18%**

Non-domestic (legal) by brand 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
PMI share of ND(L):	**54%**	**59%**	**58%**	**35%**

ND(L) analysis

	(1) Population 19+		(2) Propensity to travel		Propensity to purchase		(3) Ave. no. of trips		(4) Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**1.0m**	**x**	**50%**	**x**	**27%**	**x**	**8.6**	**x**	**84**	**=**	**0.10bn**
EU rank 2009	**24**		**14**		**12**		**1**		**24**		**23**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 x 2	9.0%	9.0%	13.4%
Average annual cigarettes purchased	3 x 4	556	349	726

Higher ND(L) inflows in 2009 were driven by a greater number of smokers travelling and purchasing cigarettes, and an increase in the number of trips per year

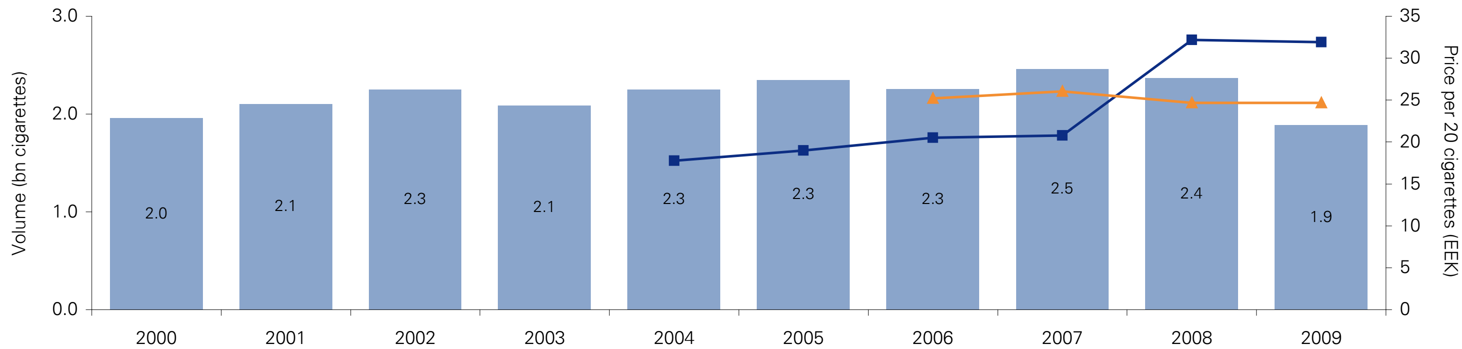
- From December 2008 the legal limit of 200 cigarettes per day from non-EU countries was changed to permit 200 cigarette on multiple trips per day
  - in July 2009 the limit was reduced to 40 cigarettes permissible for multiple trips per day[(4)]

Sources: *(1) KPMG EU Flows Model*
(2) AC Nielsen ND(L) research 2006, 2007 and 2009
(3) Interviews with PMI Local Management
(4) Information received from Estonian Tax and Customs Board, October 2009

Historic sales and pricing trends

Legal domestic cigarette sales declined by 20.3% in 2009 compared to 2008

Historic cigarette prices and legal domestic sales 2000-2009(1)(2)



CAGR (%)	2000-2007	2007-2009	2008-2009
Legal domestic sales	*3.3%*	*-12.5%*	*-20.3%*
Average pack price	*n/a*	*24.0%*	*-0.9%*
Consumption	*n/a*	*-2.7%*	*-0.1%*

Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI

Legal domestic sales declined by 20.3% in 2009 whilst average pack prices decreased by 0.9%

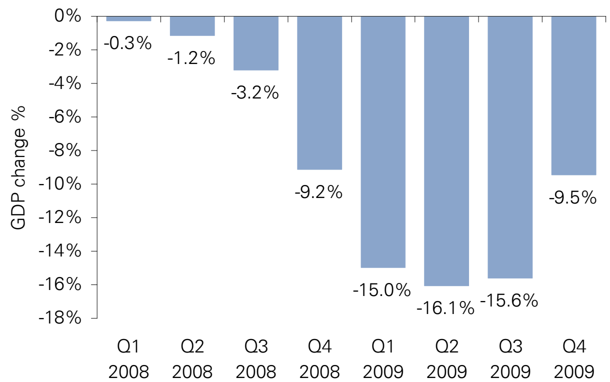
- In 2008 Estonia reached compliance with EU minimum taxes of €64 per1000 cigarettes
  - no further excise tax increases were introduced in 2009

Market developments 2009

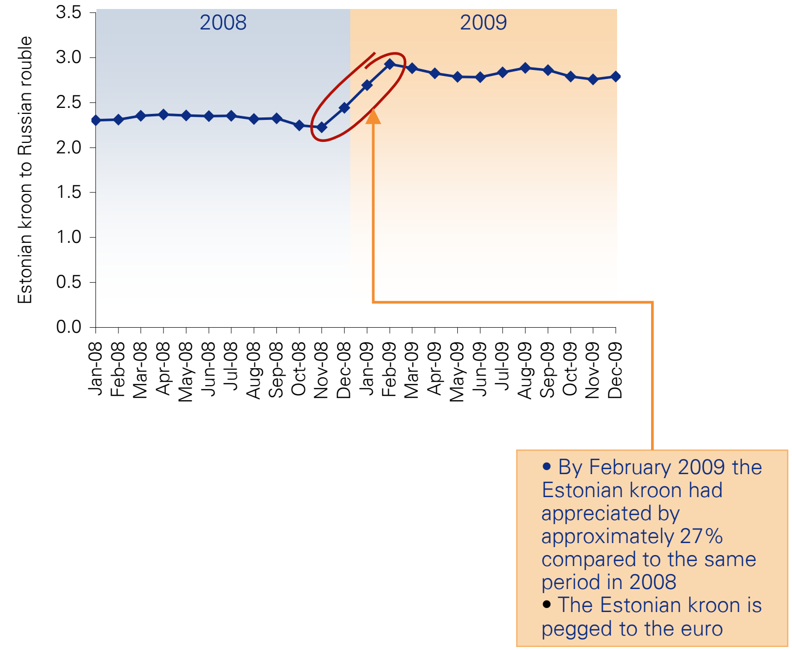
Economic conditions worsened in Estonia in 2009 as unemployment increased and GDP declined

The Estonian kroon strengthened against the Russian rouble in 2009 therefore the relative price of cigarettes from Russia declined

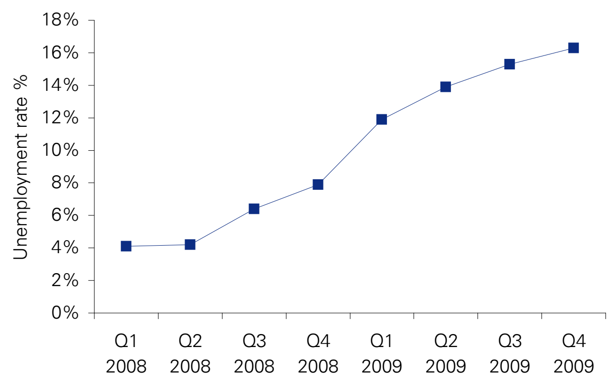
GDP percentage change compared to equivalent quarter in prior year 2008-2009[(1)]



Exchange rate of Estonian Kroon to Russian Rouble 2008-2009[(3)]



Unemployment by quarter 2008-2009[(2)]



Source:
(1) Estonian National Statistics, Gross Domestic Product at chain linked prices, accessed March 2010
(2) Estonian National Statistics, Labour status of population aged 15 and over, accessed March 2010
(3) Datastream, Russian rouble to Estonian kroon exchange rate, accessed March 2010

Contents – country detail

Market Overview

Consumption of counterfeit and contraband cigarettes declined to 13.5% of total consumption in 2009

More than 75% of non-domestic cigarettes in Finland in 2009 were sourced from Russia and Estonia

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(2)(a)(b)]

Key: Finland Major source countries

Notes: (a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to the larger flow, whilst arrow size indicates cigarette flow volume

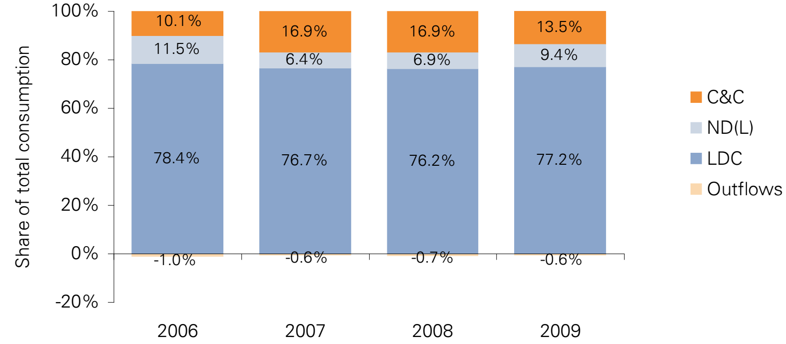
(b) Cigarette prices in Russia declined in euro terms in 2009 as a result of exchange rate changes of the rouble versus the euro

Sources: (1) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

(2) KPMG EU Flows Model and interviews with PMI Local Management

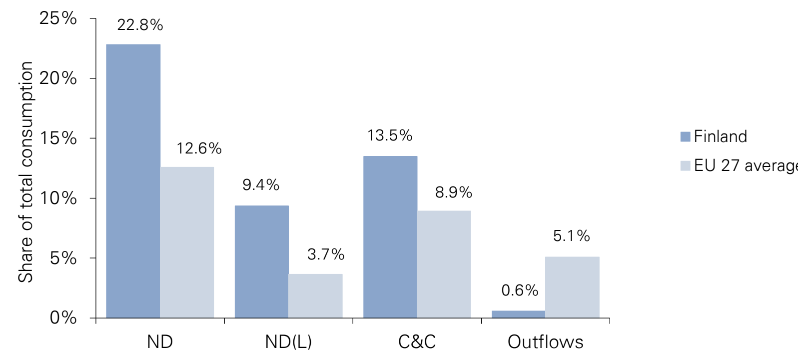
(3) GFK ND(L) research, 2006. Synovate ND(L) research 2007, 2008 and 2009

Share of Finland consumption by type 2006-2009[(2)(3)]



	2006	2007	2008	2009
Volume (bn cigarettes)	**6.4**	**6.4**	**6.4**	**6.3**

Comparison of EU and Finnish consumption by type 2009[(2)(3)]



Total non-domestic consumption

Consumption of non-domestic cigarettes was 1.43 billion cigarettes in 2009 compared to 1.51 billion in 2008

Total Finland consumption[1][2]				
Billion cigarettes	**2006**	**2007**	**2008**	**2009**
Legal domestic sales (LDS)	5.05	4.95	4.90	4.88
Outflows[a]	-0.07	-0.04	-0.05	-0.04
Legal domestic consumption (LDC)	4.99	4.91	4.85	4.85
Non-domestic legal (ND(L))	0.73	0.41	0.44	0.59
Counterfeit and contraband (C&C)	0.64	1.08	1.07	0.85
Total non-domestic	1.38	1.49	1.51	1.43
Total consumption	**6.36**	**6.41**	**6.37**	**6.28**

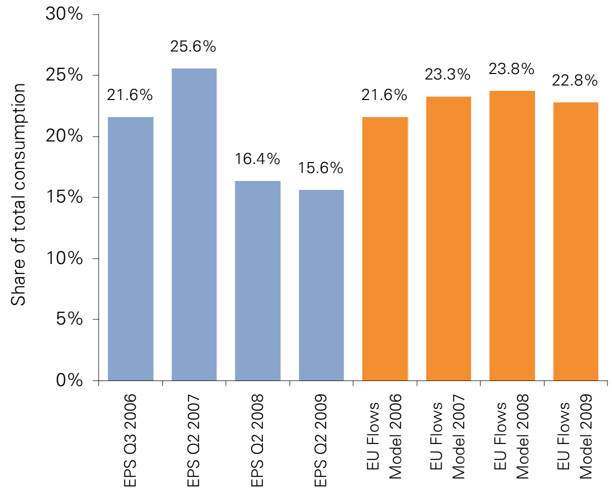
Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]

Note: (a) Outflows from Finland remained low, making up 0.6% of total consumption in 2009
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) GFK ND(L) research, 2006. Synovate ND(L) research 2007, 2008 and 2009

Comparison of external sources for non-domestic estimates

EU Flows Model results for non-domestic incidence in 2009 is higher than the estimate provided by the Empty Pack Survey

Non-domestic market estimates[1][2]



Sources: (1) KPMG EU Flows Model
(2) PMI EPS research, Q3 2006; Q2 2007, Q2 2008 and Q2 2009
(3) Border crossings, Finnish Border Guard, 2009

KPMG's estimate for non-domestic share of total consumption is higher than the Empty Pack Survey results to account for an adjustment to Russian inflows

- PMI EPS results for 2009 and 2008 show a much lower level of inflows from Russia compared to the Project Star results in 2007
  - these inflows are not supported by external sources such as relative price changes and cross-border travel trends
- Based on corroborating border crossing data, inflows from Russia have been increased to more accurately reflect inflows in 2009 and 2008
  - the number of border crossings made by Finns into Russian decreased by 9.4% in 2009 compared to 2008[3]

Counterfeit and contraband breakdown

Counterfeit and contraband inflows declined from 1.07 billion cigarettes in 2008 to 0.85 billion cigarettes in 2009

Counterfeit and contraband by origin 2006-2009(1)(2)(3)

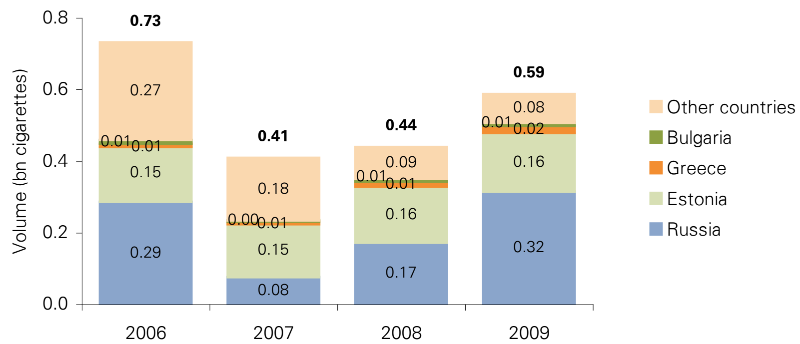
	2006	2007	2008	2009
C&C share of consumption:	**10%**	**17%**	**17%**	**13%**
C&C share of non-domestic:	**47%**	**73%**	**71%**	**59%**

Sources: (1) KPMG EU Flows Model
(2) GFK ND(L) research, 2006. Synovate ND(L) research 2007, 2008 and 2009
(3) Interviews with PMI local management

Non-domestic (legal) breakdown

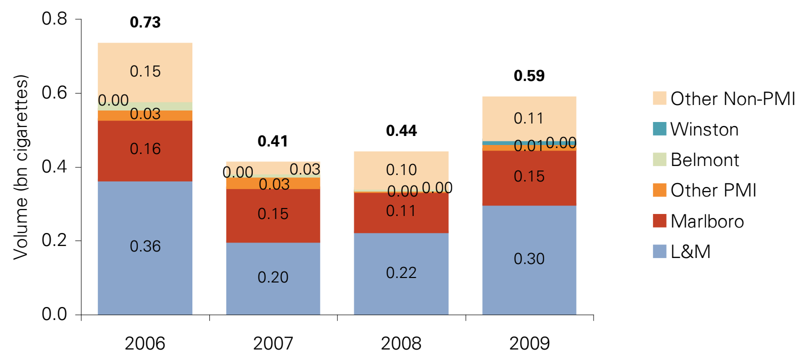
Non-domestic (legal) volumes increased in 2009 to 0.59 billion cigarettes driven by higher inflows from Russia

Non-domestic (legal) by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
ND(L) share of consumption:	**12%**	**6%**	**7%**	**9%**
ND(L) share of non-domestic:	**53%**	**27%**	**29%**	**41%**

Non-domestic (legal) by brand 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
PMI share of ND(L):	**76%**	**91%**	**77%**	**79%**

Sources: (1) KPMG EU Flows Model
(2) GFK ND(L) research, 2006. Synovate ND(L) research 2007, 2008 and 2009
(3) Interviews with PMI local management

ND(L) analysis

	1		2		3		4		
	Population 19+		Propensity to travel		Propensity to purchase		Ave. no. of trips		Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**4.1m**	**x**	**58%**	**x**	**41%**	**x**	**3.0**	**x**	**196**	**=**	**0.59bn**
EU rank 2009	**19**		**10**		**5**		**15**		**8**		**10**

ND(L) analysis 2007-2009

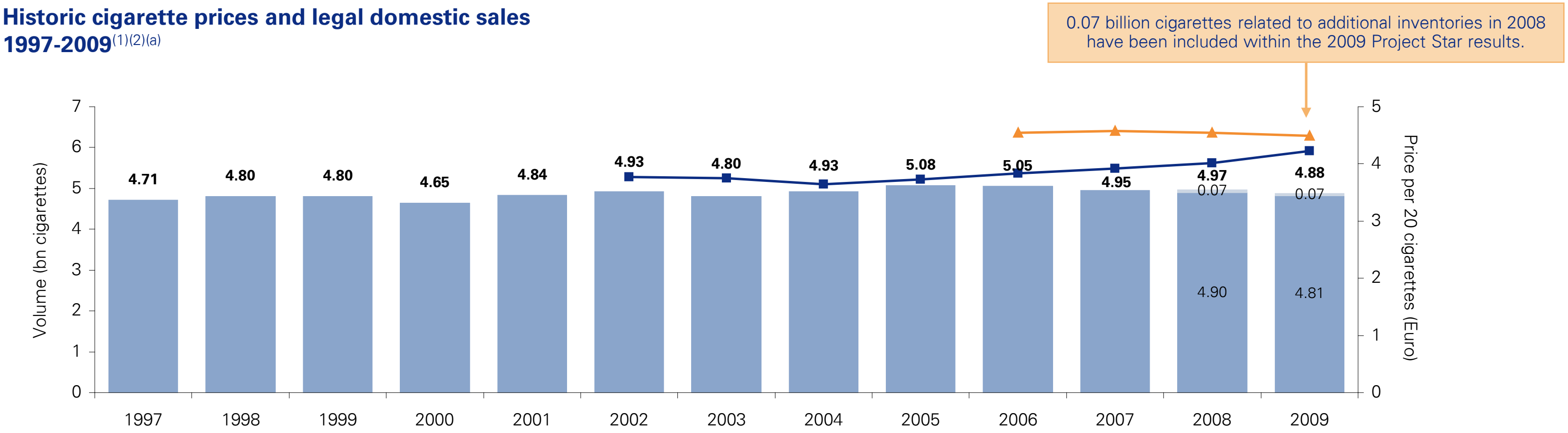
		2007	2008	2009
Propensity to travel and purchase cigarettes	1 x 2	14.0%	22.5%	24.0%
Average annual cigarettes purchased	3 x 4	715	475	594

Historic sales and pricing trends

Legal domestic cigarette sales decreased by 0.3% in 2009 compared to 2008

Weighted average prices increased by 5.2% to €4.23 in 2009

Historic cigarette prices and legal domestic sales 1997-2009[(1)(2)(a)]



CAGR (%)	1997-2002	2002-2006	2006-2009	2008-2009
Legal domestic sales	*0.9%*	*0.6%*	*-1.1%*	*-0.3%[(a)]*
Average pack price	*n/a*	*0.4%*	*3.3%*	*5.2%*
Consumption	*n/a*	*n/a*	*-0.4%*	*-1.3%*

Note: (a) IMS indicates legal domestic sales of 4.97 billion cigarettes in 2008. However, Project Star 2008 results uses legal domestic sales of 4.90 billion cigarettes which reflects an adjustment of 0.07 billion cigarettes to account for additional inventories held in 2008. The EU Flows Model in 2009 uses legal domestic sales of 4.88 billion cigarettes, including the loading adjustment of 0.07 billion cigarettes from 2008

Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI
(3) Interview with local PMI management

Legal domestic sales declined by 0.3% in 2009 compared to 2008 whilst average pack prices increased by 5.2% over the same period

- An excise tax increase of 10% was implemented in January 2009[(3)]
- Legislation was passed banning all packs with less than 20 cigarettes from October 2009[(3)]
  - from 1 April 2009 legislation requiring that all retailers purchase a licence to sell tobacco products came into effect

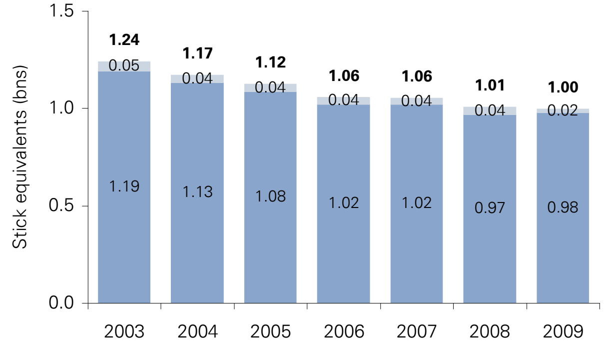
The EU Flows Model results for 2009 reflect an adjustment for additional inventories held in 2008

- Legal domestic sales in 2008 were adjusted downwards by 0.07 billion cigarettes in the EU Flows Model to control for the impact of inventories held prior to the excise price increase in January 2009
  - a corresponding upwards adjustment has been made to the EU Flows Model in 2009

OTP market size and growth

Sales of smoking tobacco were 1.00 billion stick equivalents in 2009

Smoking tobacco sales in billion stick equivalents 2003-2009[1][a][b]



Cigarette sales (bn cigarettes)[c]	4.8	4.9	5.1	5.1	5.0	4.9	4.9

CAGR (%)	2003-2006	2006-2009	2008-2009
Pipe tobacco	*-9.3%*	*-20.2%*	*-53.6%*
Fine cut tobacco	*-5.0%*	*-1.5%*	*1.0%*
Total Smoking tobacco	***-5.2%***	***-2.0%***	***-1.2%***
Manufactured cigarettes	***1.7%***	***-1.1%***	***-0.3%***

Notes: (a) Smoking tobacco volumes have been calculated at 1 stick per 0.75 grams
(b) Cigars/cigarillos and smokeless tobacco has been excluded from this analysis
(c) IMS indicates legal domestic sales of 4.97 billion cigarettes in 2008. However, Project Star 2008 results uses legal domestic sales of 4.90 billion cigarettes which reflects a loading adjustment of 0.7 billion cigarettes

Source: (1) Until 2007, OTP volumes supplied by PMI 2008 and 2009 volumes are estimates provided by PMI

Legal sales of smoking tobacco have declined since 2003 while sales of manufactured cigarettes have remained relatively stable over the same period

- From 2003 to 2009, sales of smoking tobacco declined from 1.24 billion stick equivalents to 1.00 billion stick equivalents
- Sales of manufactured cigarettes increased marginally to 4.88 billion sticks in 2009 from 4.80 billion sticks in 2003

Other Tobacco Products categories account for a relatively large share of overall tobacco consumption in Finland

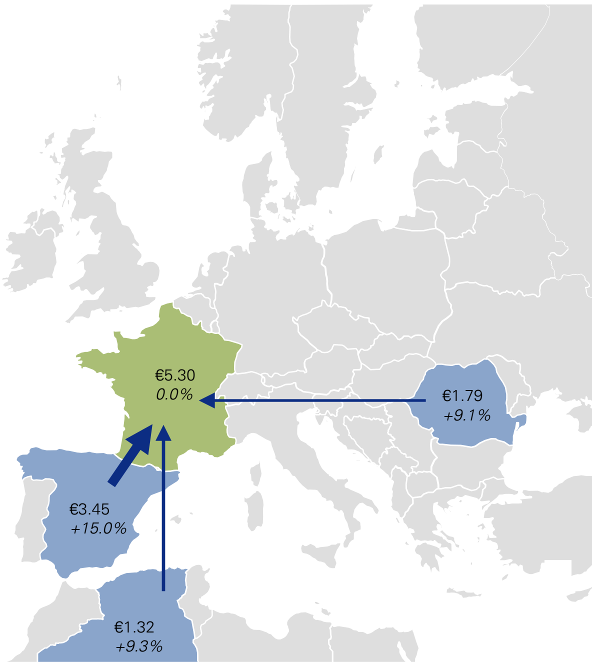
- Sales of smoking tobacco were 1.00 billion stick equivalents compared to legal domestic cigarette sales of 4.88 billion in 2009

Contents – country detail

Market Overview

Counterfeit and contraband cigarette consumption in France declined by 2.9 percentage points to 13.8% of total cigarette consumption in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(3)(a)(b)]

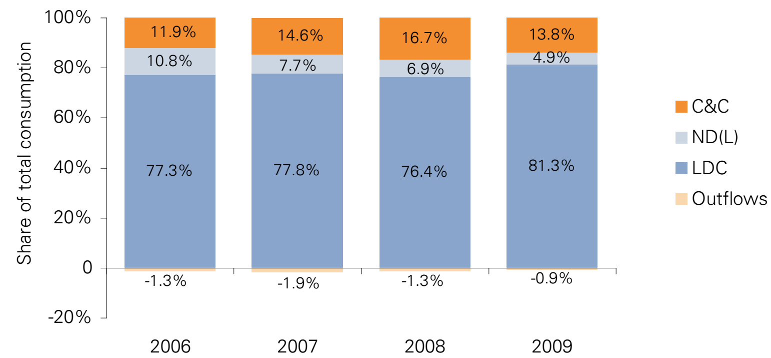


Key: ■ *France*
■ *Top three source countries*

Note: *(a) Arrow size indicates relative cigarette flow volume*
(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009

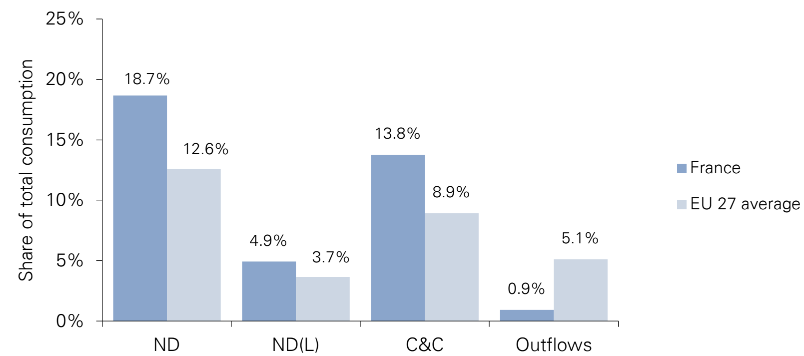
Sources: *(1) KPMG EU Flows Model and interviews with PMI Local Management*
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009
(3) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

Share of French consumption by type 2006-2009[(1)(2)]



Volume (bn cigarettes)	71.0	69.0	69.0	66.9

Comparison of EU and French consumption by type 2009[(1)(2)]



Total non-domestic consumption

Consumption of non-domestic cigarettes in France declined to 12.49 billion cigarettes in 2009, compared to 16.29 billion in the previous year

The decline in non-domestic consumption appears to have been compensated by an increase in legal domestic sales

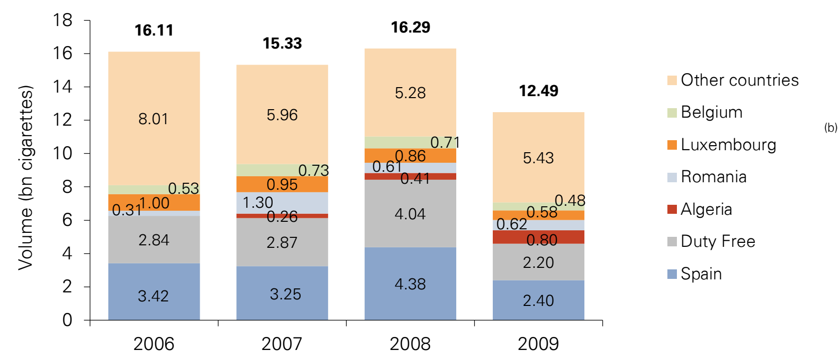
Total French consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	55.77	54.95	53.59	54.99
Outflows	-0.91	-1.32	-0.92	-0.61
Legal domestic consumption (LDC)	54.86	53.63	52.67	54.38
Non-domestic legal (ND(L))	7.66	5.29	4.74	3.29
Counterfeit and contraband (C&C)	8.45	10.04	11.55	9.20
Total non-domestic	16.11	15.33	16.29	12.49
Total consumption	**70.97**	**68.95**	**68.96**	**66.86**

Outflows from France[1][a]

Destination country (billion cigarettes)	2006	2007	2008	2009
Belgium	0.07	0.15	0.03	0.16
UK	0.16	0.38	0.28	0.14
Spain	0.22	0.31	0.33	0.08
Netherlands	0.37	0.35	0.12	0.08
Other EU	0.09	0.12	0.16	0.15
Total outflows	**0.91**	**1.32**	**0.92**	**0.61**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2][b]



Notes: (a) High level analysis of the Swiss empty pack survey results indicate that there may be outflows from France to Switzerland. However, Switzerland is not covered within the scope of Project Star and therefore it is not possible for KPMG to reliably estimate the volume of these outflows. Furthermore, as cigarette prices in France are more expensive than in Switzerland any outflows are likely to be incidental and/or driven by inbound tourism

(b) In 2009, packs which had no clear indication of origin were classified as 'Not identifiable'. In prior years, such packs were classified as Duty Free. In 2009, not identifiable variant products account for 1.93 billion cigarettes and have been included in 'Other countries' on the above chart

Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management

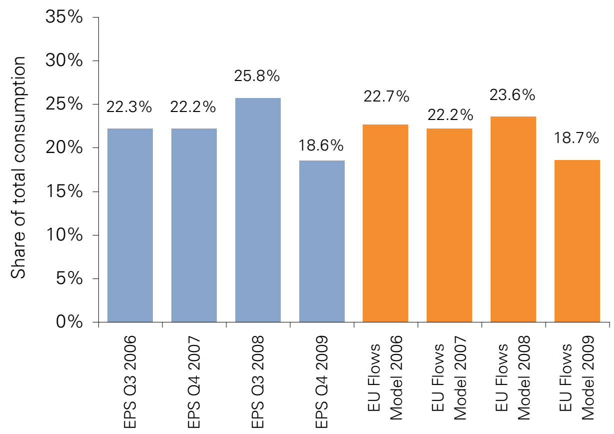
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009

Comparison of external sources for non-domestic estimates

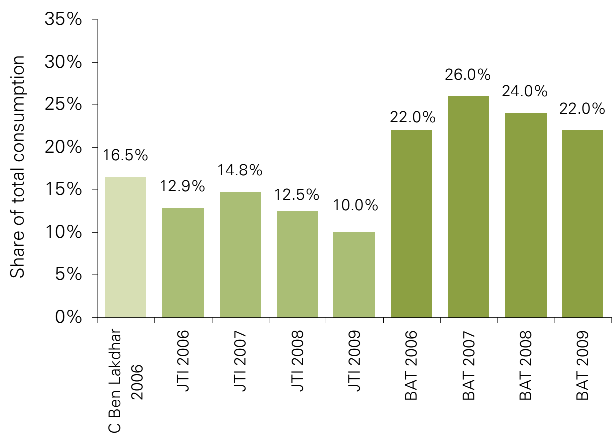
The EU Flows Model estimate for non-domestic consumption in 2009 uses the fourth quarter results of PMI Empty Pack Survey

The decline in non-domestic consumption in 2009 indicated by the EU Flows Model is directionally consistent with the decline shown by the BAT and JTI estimates

Non-domestic market estimates[1][2]



Other non-domestic market estimates[3][4][5][6][7][8][a][b][c]



The EU Flows Model indicates non-domestic consumption in 2009 to be 18.7%, 4.9 percentage points lower than in 2008

- The declining trend in non-domestic inflows indicated by the EU Flows Model is consistent with the trend shown by other non-domestic estimates
- The difference in the level of non-domestic incidence is believed to be driven by differences in methodology
  - BAT estimates are based on a pack swap methodology
  - JTI estimates are based on a monthly consumer interview programme. The JTI estimates have been consistently lower than the EU Flows Model and BAT estimates suggesting that consumers may underreport consumption in their interviews

In 2008, the EU Flows Model suggested a lower non-domestic incidence than the Empty Pack Surveys

- PMI EPS results for 2008 indicated an increase in Spanish inflows predominantly driven by high Spanish non-domestic incidence in cities in the South West region of France
  - inflows from Spain were adjusted downwards to reduce the variability by city of Spanish non-domestic incidence in the South West region

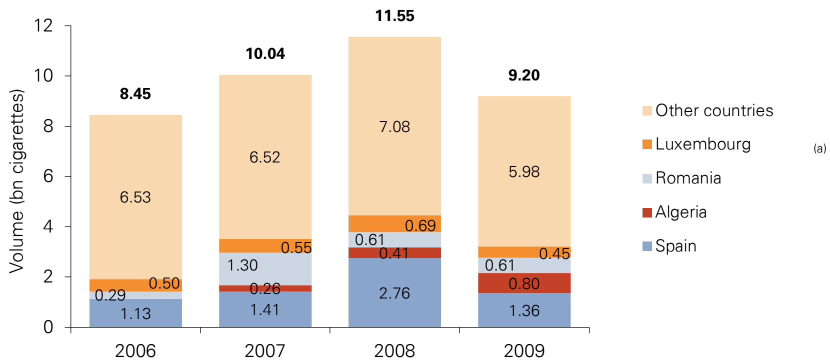
Notes: (a) *C Ben Lakdhar's estimate is based on two methodologies (1) analysing legal domestic sales of manufactured cigarettes across departments in order to measure cross border sales and tobacco smuggling and (2) an empty pack survey approach collecting packs from waste collection centres*
(b) *JTI 2006, 2007 and 2008 are the average of monthly non-domestic incidence from January-July and September-December*
(c) *JTI 2009 is the average of monthly non-domestic incidence from January-July and September-October*

Sources: (1) *KPMG EU Flows Model*
(2) *PMI EPS Q3 2006, Q4 2007, Q3 2008 and Q4 2009*
(3) *C Ben Lakdah, 'Quantitative and qualitative estimates of cross-border tobacco shopping and tobacco smuggling in France', Tobacco Control, 2008*
(4) *'Le Chiffre', Aujourd'hui, 20 November 2007*
(5) *'Achats transfrontaliers: Tendance de fond ou fin de cycle', Revue des Tabacs no 570, December 2009*
(6) *'Un paquet de blondes sur cinq selon BAT/EPSY', Revue de Tabacs, March 2007*
(7) *'Origine des paquets de cigarettes et de tabac a rouler fumes en France Etude EPSY', Revue de Tabacs, September 2008*
(8) *'BAT France révèle son étude annuelle', Revue des Tabacs no 570, December 2009*

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 9.20 billion cigarettes of domestic consumption in 2009, down from 11.55 billion in 2008

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
C&C share of consumption:	**12%**	**15%**	**17%**	**14%**
C&C share of non-domestic:	**52%**	**66%**	**71%**	**74%**

Counterfeit and contraband inflows accounted for 9.20 billion cigarettes of consumption in 2009, down from 11.55 billion cigarettes in 2008

- Spain remained the largest source of counterfeit and contraband cigarettes in France in 2009
- Other countries include Duty Free and in 2009, volumes of product classified as 'Not identifiable'

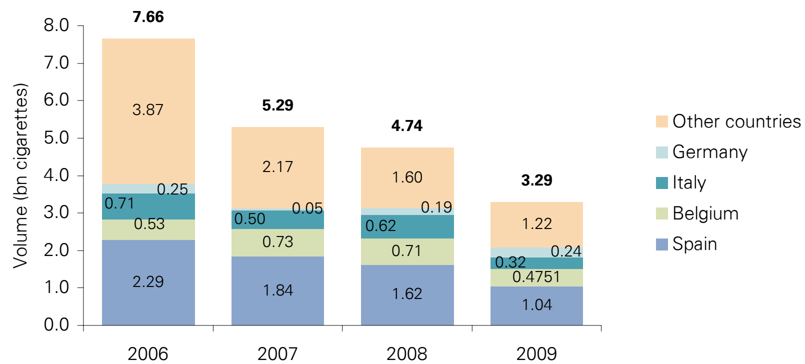
Note: (a) In 2009, packs which had no clear indication of origin were classified as 'Not identifiable'. In prior years, such packs were classified as Duty Free. In 2009, not identifiable variant products account for 1.93 billion cigarettes and have been included in 'Other countries' on the above chart

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

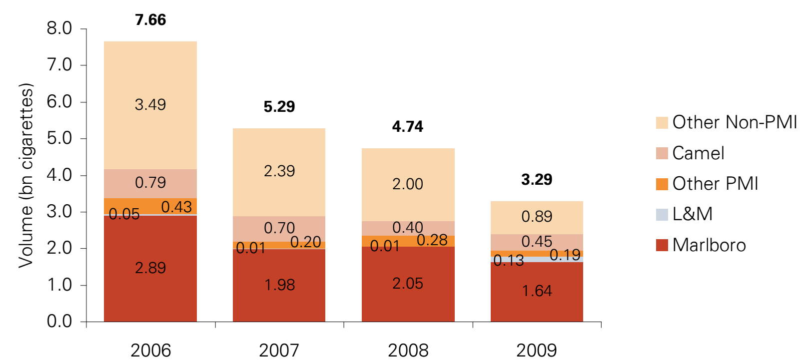
Non-domestic (legal) inflows to France declined to 3.29 billion cigarettes in 2009

Non-domestic (legal) by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
ND(L) share of consumption:	**11%**	**8%**	**7%**	**5%**
ND(L) share of non-domestic:	**48%**	**34%**	**29%**	**26%**

Non-domestic (legal) by brand 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
PMI share of ND(L):	**44%**	**42%**	**49%**	**60%**

ND(L) analysis

	1		2		3		4		
	Population 19+		Propensity to travel		Propensity to purchase		Ave. no. of trips		Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**49.3m**	**x**	**48%**	**x**	**26%**	**x**	**3.5**	**x**	**143**	**=**	**3.04bn[(a)]**
EU rank 2009	**2**		**16**		**13**		**11**		**14**		**2**

ND(L) analysis 2007-2009

		2007	2008	2009
Propensity to travel and purchase cigarettes	1 x 2	8.9%	12.8%	12.2%
Average annual cigarettes purchased	3 x 4	1093	646	504

Lower propensity to travel and purchase cigarettes as well as a fall in the average volume of purchase resulted in a decline in non-domestic (legal) inflows in 2009 compared to 2008

- In particular, there was a decline in the number cigarettes brought back from shopping trips reported in 2009 to neighbouring countries such as Spain, Belgium and Luxembourg

Non-domestic (legal) volumes declined for almost all brands

- The decline in non-domestic (legal) volumes for PMI brands was driven by Marlboro
- For non-PMI brands, the decline in non-domestic (legal) volumes in 2009 was driven by a number of brands including Elixyr and Pall Mall

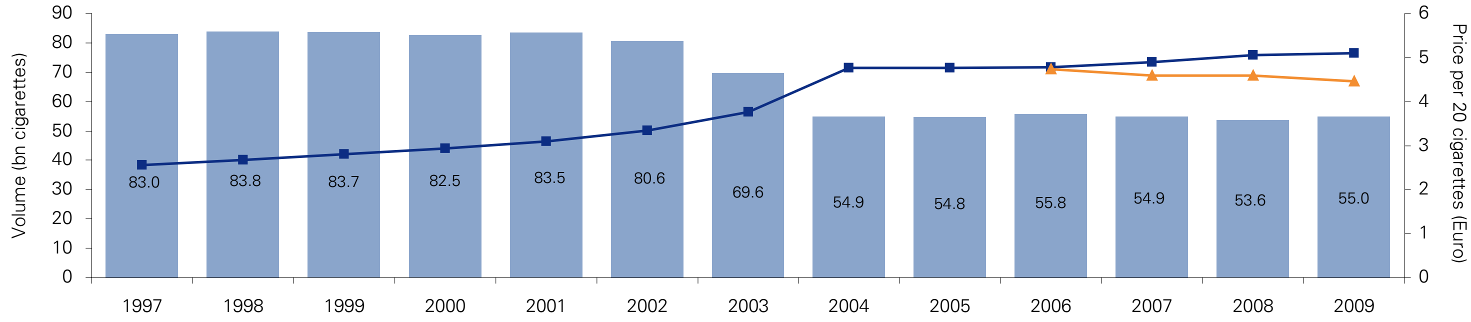
Note: (a) ND(L) analysis from AC Nielsen excludes adjustments for inbound tourism flows. Total ND(L) including these inbound tourism inflows is 3.29 billion cigarettes

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009
(3) Interviews with PMI Local Management

Historic sales and pricing trends

Legal domestic cigarette sales increased by 2.6% in 2009 despite a 1.0% increase in average pack price

Historic cigarette prices and legal domestic sales 1997-2008(1)(2)(a)



CAGR (%)	1997-2001	2001-2005	2005-2009	2008-2009
Legal domestic sales	*0.1%*	*-10.0%*	*0.1%*	*2.6%*
Average pack price	*4.8%*	*11.4%*	*1.7%*	*1.0%*
Consumption	*n/a*	*n/a*	*-2.0%(a)*	*-3.0%*

Note: (a) Consumption CAGR is from 2006 to 2009
Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI based on Altadis Distribution

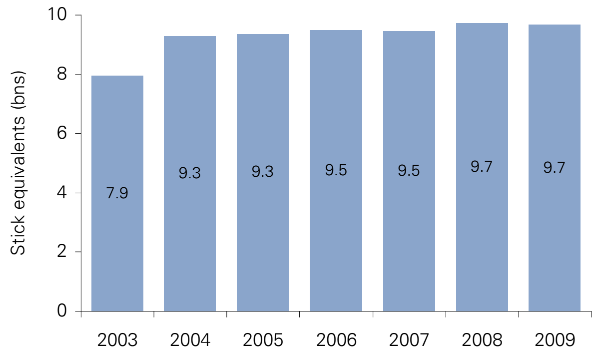
Legal domestic sales increased by 2.6% in 2009 to 55.0 billion cigarettes

- A price increase, which was implemented in November 2009, did not have a significant impact on legal domestic sales in 2009

OTP market size and growth

Sales of fine cut tobacco remained stable at 9.7 billion stick equivalents in 2009

Fine cut tobacco sales in billion stick equivalents 2003-2009[1][a][b][c]



Cigarette sales (bn cigarettes)	**69.6**	**54.9**	**54.8**	**55.8**	**54.9**	**53.6**	**55.0**

CAGR (%)	2003-2006	2006-2009	2008-2009
Fine cut tobacco	*6.1%*	*0.7%*	*-0.3%*
Manufactured cigarettes	*-7.1%*	*-0.5%*	*2.6%*

Notes: (a) Fine cut tobacco volumes have been calculated at one stick per 0.75 grams
(b) Total OTP sales will include pipe, cigars, cigarillos and smokeless tobacco, which are not included in this analysis
(c) Whereas in the 2008 Star Report OTP represented pipe and fine cut tobacco, in the current report the number only includes fine cut tobacco
Source: (1) Until 2007, OTP volumes supplied by PMI. 2008 and 2009 volumes are provided by PMI France

Sales of the fine cut tobacco remained stable at 9.7 billion stick equivalents in 2009

- Legal sales of manufactured cigarettes increased by 2.6% over the same period
- Fine cut tobacco sales increased by 3.4% annually between 2003 and 2009 while manufactured cigarette sales declined at an annual rate of 3.9% over the same period

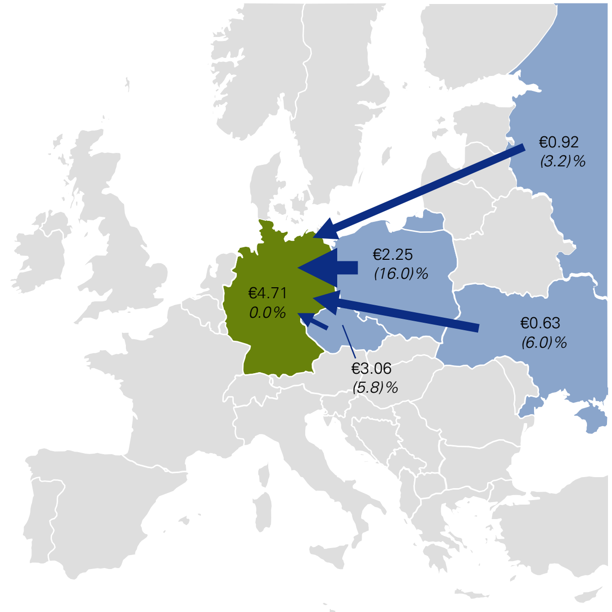
Contents – country detail

Market Overview

Counterfeit and contraband cigarette consumption in Germany increased to 12.0% of total consumption in 2009

The price gap in euro terms between Germany and its major source countries increased in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(2)(a)(b)(c)]



Key: ■ *Germany*
■ *Major source countries*

Notes: (a) *Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow whilst arrow size indicates relative cigarette flow volume*

(b) *Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009*

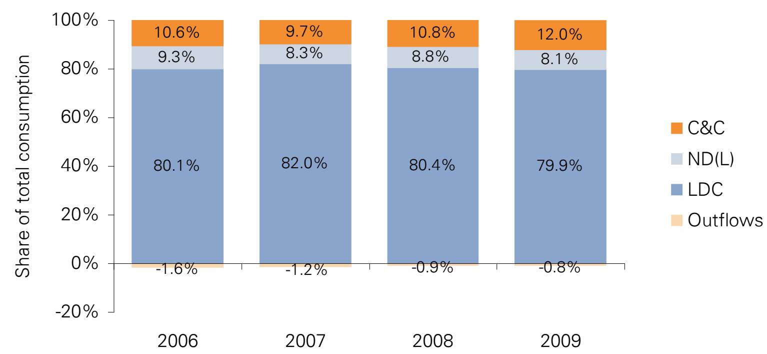
(c) *Cigarette prices in Poland, the Ukraine and Russia declined in euro terms in 2009 as a result of exchange rate changes of the zloty, hryvnia and rouble respectively versus the euro*

Sources: (1) *Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009*

(2) *KPMG EU Flows Model and interviews with PMI Local Management*

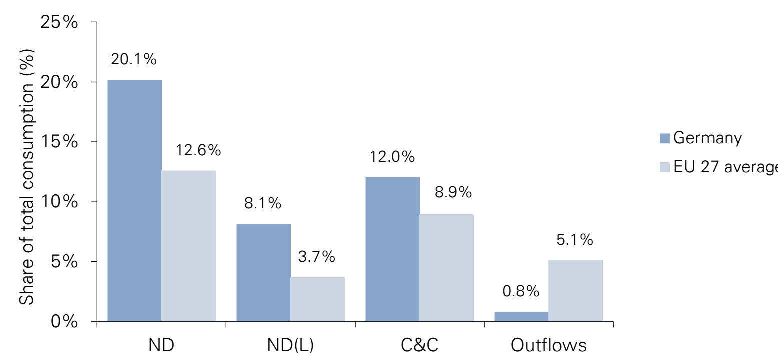
(3) *GfK ND(L) research 2006. Synovate ND(L) research 2007, 2008, 2009*

Share of Germany consumption by type 2006-2009[(2)(3)]



Volume (bn cigarettes)	114.0	107.3	106.9	106.0

Comparison of EU and German consumption by type 2009[(2)(3)]



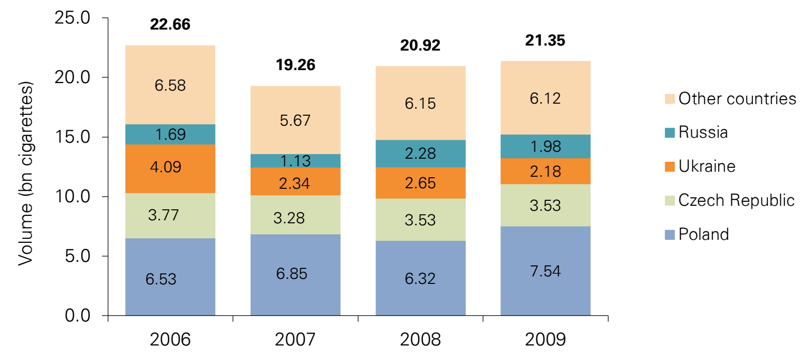
Total non-domestic consumption

Consumption of non-domestic cigarettes increased to 21.35 billion cigarettes in 2009 compared to 20.92 billion the previous year

Total Germany consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	93.17	89.34	86.95	85.49
Outflows[a]	-1.86	-1.31	-0.97	-0.84
Legal domestic consumption (LDC)	91.31	88.03	85.97	84.65
Non-domestic legal (ND(L))	10.55	8.87	9.39	8.62
Counterfeit and contraband (C&C)	12.11	10.39	11.53	12.73
Total non-domestic	22.66	19.26	20.92	21.35
Total consumption	**113.97**	**107.30**	**106.89**	**106.00**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]



Note: (a) France and the UK were the largest outflow destination countries in 2009. Outflows to the Netherlands declined by 0.1 billion cigarettes, the largest decrease in 2009 compared to 2008

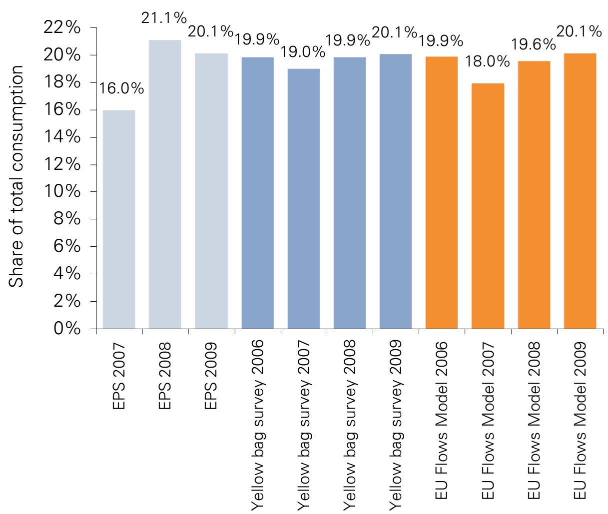
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management

(2) GfK ND(L) research 2006. Synovate ND(L) research 2007, 2008, 2009

Comparison of external sources for non-domestic estimates

Both the Yellow Bag and Empty Pack surveys estimate non-domestic consumption at 20.1% of total consumption in 2009

Non-domestic market volume estimates(1)(2)(3)



Sources: (1) KPMG EU Flows Model

(2) "Yellow Bag" survey, an empty pack survey undertaken by leading German cigarette manufacturers in 2009. This survey was carried out by VDC in 2006 to 2007 and TFT in 2008. Full PMI results were available along with total non-domestic market size

(3) PMI Empty Pack surveys were conducted in Q4 2007, Q1, Q2, Q3 and Q4 in 2008 and Q1 and Q3 in 2009

KPMG estimates for non-domestic consumption are consistent with the trends highlighted by the Yellow Bag Survey results

- We have analysed both the Yellow Bag Survey and PMI's Empty Pack Survey (EPS). In 2009, we have used the Yellow Bag Survey as the source of our non-domestic consumption estimates for the following reasons:
  - the Project Star results were predominantly based on the Yellow Bag Survey from 2006 to 2008. Use of the Yellow Bag Survey in 2009 enables greater comparability with the previous year's data
  - the Yellow Bag Survey has a larger sample size than the EPS

KPMG's estimate for non-domestic consumption differed slightly with the Yellow Bag results in 2007 and 2008

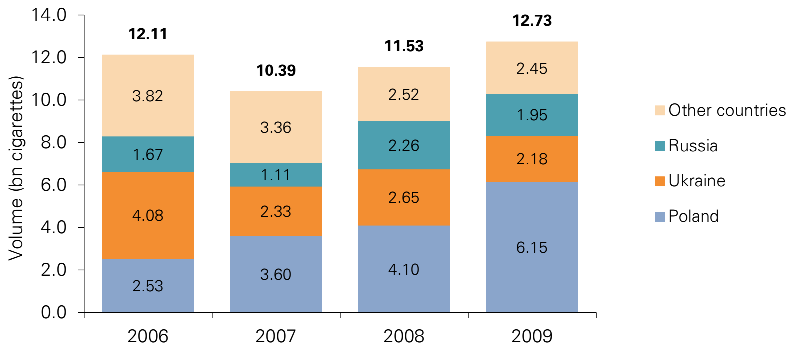
- In 2008, Polish inflows were reduced by 0.51 billion cigarettes to reflect analysis of Polish and German border data
  - this adjustment was corroborated by the estimates for consumption trend in Poland and Germany
- In 2007, results from the Herten recycling centre were excluded from consideration as they were not felt to be representative of domestic consumption patterns
  - Herten had a very high share of Ukrainian product which distorted the overall German results
  - excluding the Herten recycling centre made Ukrainian outflows more consistent with trends in Ukrainian legal domestic sales

Counterfeit and contraband breakdown

Counterfeit and contraband inflows reached 12.73 billion cigarettes in 2009, up from 11.53 billion in 2008

The increase in inflows has been driven by Polish flows in 2009

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)(a)(b)(c)]



	2006	2007	2008	2009
C&C share of consumption:	**11%**	**10%**	**11%**	**12%**
C&C share of non-domestic:	**53%**	**54%**	**55%**	**60%**

Notes: (a) *In 2009, we have analysed both the Yellow Bag Survey results and PMI's own Empty Pack Survey (EPS) study. Total non-domestic inflows and their breakdown by origin and brand have been based on the Yellow Bag Survey. The PMI counterfeit incidence has also been deduced by using the Yellow Bag Survey results in 2009, as in 2008. In 2007 however, the EPS study reported a higher level of PMI counterfeit incidence in Germany and was therefore used to estimate PMI counterfeit volumes in 2007*

(b) *Counterfeit and contraband volumes for individual non-PMI brands is not available for 2006*

(c) *The counterfeit and contraband volumes of non-PMI brands have not been verified with local trademark owners*

Sources: (1) *KPMG EU Flows Model*

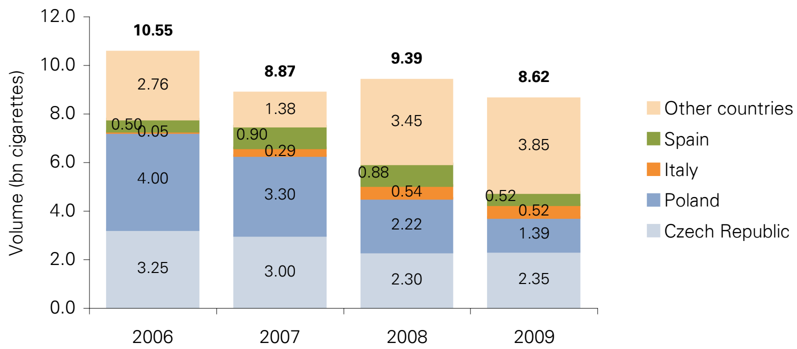
(2) *GfK ND(L) research 2006. Synovate ND(L) research 2007, 2008, 2009*

(3) *Interviews with PMI Local Management*

Non-domestic (legal) breakdown

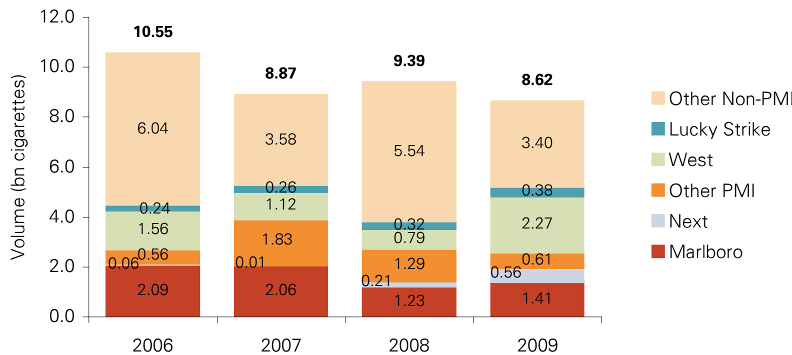
Non-domestic (legal) volumes decreased in 2009 to account for 8.62 billion cigarettes

Non-domestic (legal) by origin 2006-2009(1)(2)(3)



	2006	2007	2008	2009
ND(L) share of consumption:	**9%**	**8%**	**9%**	**8%**
ND(L) share of non-domestic:	**47%**	**46%**	**45%**	**40%**

Non-domestic (legal) by brand 2006-2009(1)(2)(3)



	2006	2007	2008	2009
PMI share of ND(L):	**26%**	**44%**	**29%**	**30%**

Sources: (1) KPMG EU Flows Model
(2) GfK ND(L) research 2006. Synovate ND(L) research 2007, 2008, 2009
(3) Interviews with PMI Local Management

ND(L) analysis

	1 Population 19+		2 Propensity to travel		3 Propensity to purchase		4 Ave. no. of trips		Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**67.5m**	x	**54%**	x	**42%**	x	**1.9**	x	**304**	=	**8.62bn**
EU rank 2009	**1**		**12**		**4**		**21**		**2**		**1**

ND(L) analysis 2007-2009

		2007	2008	2009
Propensity to travel and purchase cigarettes	1 x 2	11.8%	18.1%	22.5%
Average annual cigarettes purchased	3 x 4	1121	771	568

A decrease in the number of trips made by smokers to the Czech Republic and Poland has resulted in lower non-domestic (legal) inflows in 2009 compared to 2008

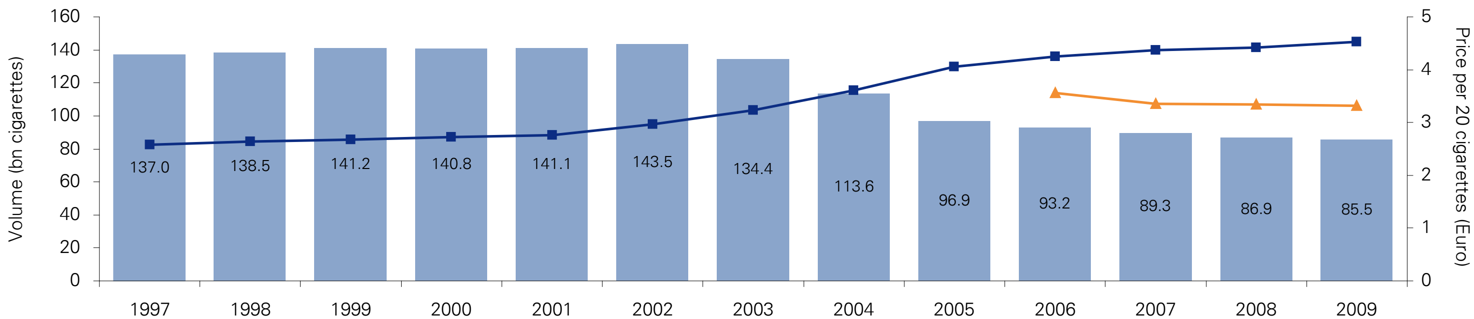
- In 2009, the import restriction of 200 cigarettes for people entering Germany from Poland was abolished

Historic sales and pricing trends

Legal domestic cigarette sales declined by 1.7% in 2009 compared to 2008

The weighted average pack price increased by 2.6% in 2009 to €4.53

Historic cigarette prices and legal domestic sales 1997-2009[(1)(2)(a)]



CAGR (%)	1997-2002	2002-2005	2005-2009	2008-2009
Legal domestic sales	*0.9%*	*-12.3%*	*-3.1%*	*-1.7%*
Average pack price	*2.9%*	*11.0%*	*2.8%*	*2.6%*
Consumption	*n/a*	*n/a*	*-2.4%[(c)]*	*-0.8%*

Notes: (a) This price is based on a recalculated packet of 20 cigarettes to provide ease of comparability with other European markets
(b) Smoking tobacco volumes have been calculated at 1 stick per 0.75 grams
(c) Consumption CAGR is from 2006 to 2009
Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI

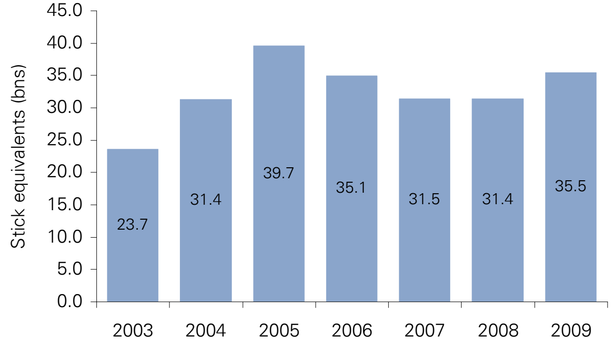
Legal domestic sales declined by 1.7% in 2009

- The minimum legal number of cigarettes per pack increased from 17 to 19 on 1 July 2009
- The weighted average pack price increased by 2.6% in 2009. However, the price of a packet of Marlboro cigarettes (recalculated on a 20 cigarette per packet basis) remained stable at €4.71 from 2008 to 2009[(2)(a)]
- Legal domestic sales of fine cut tobacco increased by 4.1 billion stick equivalents to represent 35.5 billion stick equivalents in 2009[(b)]

OTP market size and growth

Sales of fine cut tobacco were 35.5 billion stick equivalents in 2009

Fine cut tobacco sales in billion stick equivalents 2003-2009[1][a][b]



	2003	2004	2005	2006	2007	2008	2009
Cigarette sales (bn cigarettes)	134.4	113.6	96.9	93.2	89.3	86.9	85.5

CAGR (%)	**2003-2005**	**2003-2009**	**2008-2009**
Fine cut tobacco	*29.3%*	*7.0%*	*13.0%*
Manufactured cigarettes	*-15.1%*	*-7.3%*	*-1.7%*

Notes: (a) Smoking tobacco volumes have been calculated at 1 stick per 0.75 grams

(b) Cigars/cigarillos, pipe tobacco and smokeless tobacco has been excluded from this analysis

Source: (1) Until 2007, OTP volumes are supplied by PMI. 2008 and 2009 volumes are estimates provided by PMI Germany

Fine cut sales have increased from 2003 levels while manufactured cigarette sales have trended downwards in each consecutive year from 2003

- Sales of fine cut tobacco grew at an annual rate of 7.0% between 2003 and 2009, while manufactured cigarette sales declined by 7.3% over the same time period

Other Tobacco Products account for a significant share of tobacco consumption in Germany

- Sales of fine cut tobacco were 35.5 billion stick equivalents compared to legal domestic cigarette sales of 85.5 billion in 2009

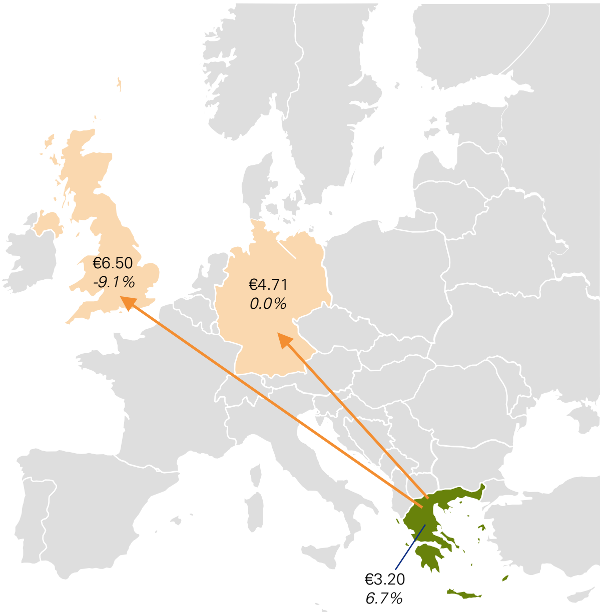
Contents – country detail

Market Overview

The share of cigarette consumption in Greece accounted for by counterfeit and contraband increased to 3.0% in 2009

The percentage of counterfeit and contraband cigarettes consumed in Greece is lower than the EU average in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(3)(a)(b)(c)]

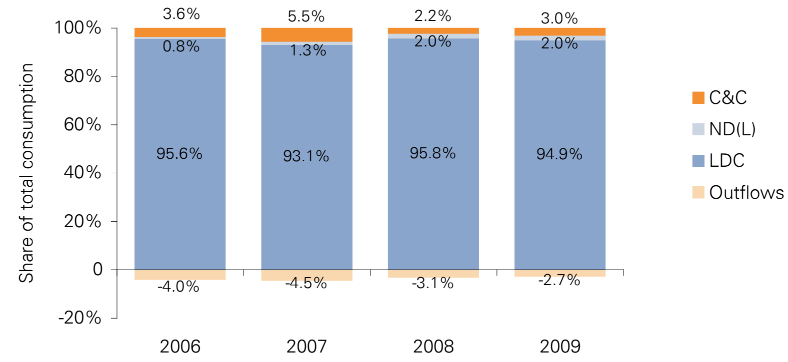


Key: ■ *Greece*
■ *Major destination countries*

Note: (a) *Map shows flows over 0.5% of consumption, whilst arrow size indicates relative cigarette flow volume*
(b) *Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009*
(c) *Cigarette prices in the UK declined in euro terms in 2009 as a result of exchange rate changes of the pound versus the euro*

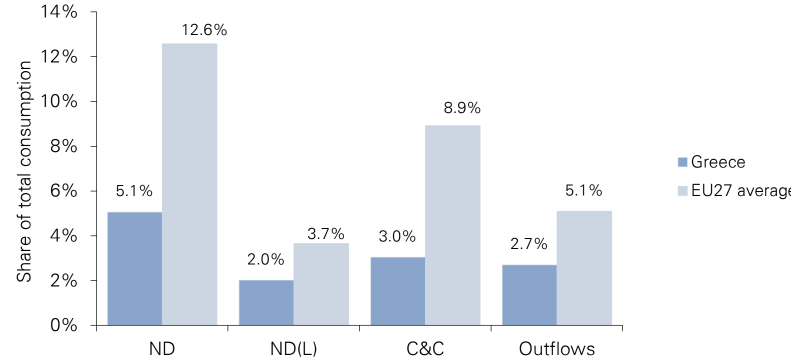
Sources: (1) *KPMG EU Flows Model and interviews with PMI Local Management*
(2) *Synovate ND(L) research 2006, 2008*
(3) *Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009*

Share of Greece consumption by type 2006-2009[(1)(2)]



Volume (bn cigarettes)	33.7	33.6	32.6	31.7

Comparison of EU and Greek consumption by type 2009[(1)(2)]



Total non-domestic consumption

Consumption of non-domestic cigarettes increased to 1.61 billion cigarettes in 2009 compared to 1.36 billion in the previous year

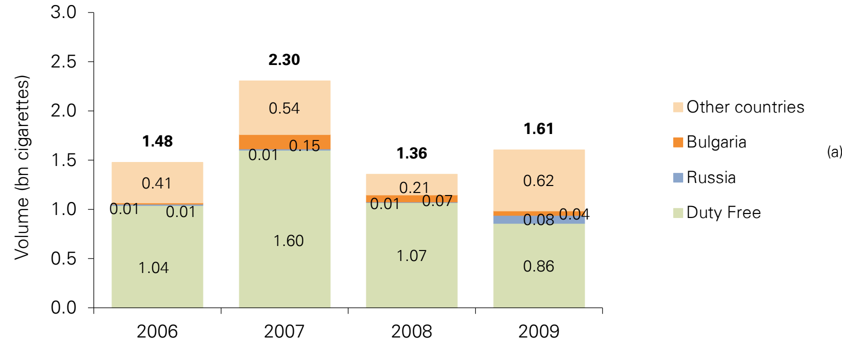
Total Greece consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	33.57	32.74	32.23	30.97
Outflows	-1.34	-1.49	-1.02	-0.85
Legal domestic consumption (LDC)	32.22	31.25	31.21	30.11
Non-domestic legal (ND(L))	0.26	0.45	0.64	0.64
Counterfeit and contraband (C&C)	1.22	1.85	0.72	0.97
Total non-domestic	1.48	2.30	1.36	1.61
Total consumption	**33.70**	**33.55**	**32.57**	**31.72**

Outflows from Greece[1]

Destination country (billion cigarettes)	2006	2007	2008	2009
UK	0.68	0.76	0.32	0.28
Germany	0.27	0.28	0.24	0.26
France	0.11	0.13	0.14	0.09
Italy	0.02	0.07	0.04	0.08
Other EU	0.26	0.25	0.28	0.14
Total outflows	**1.34**	**1.49**	**1.02**	**0.85**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2][a]



Note: (a) In 2009, packs which had no clear indication of origin were classified as 'Not identifiable'. In prior years, such packs were classified as Duty Free. In 2009, not identifiable variant products account for 0.29 billion cigarettes and have been included in 'Other countries' on the above chart

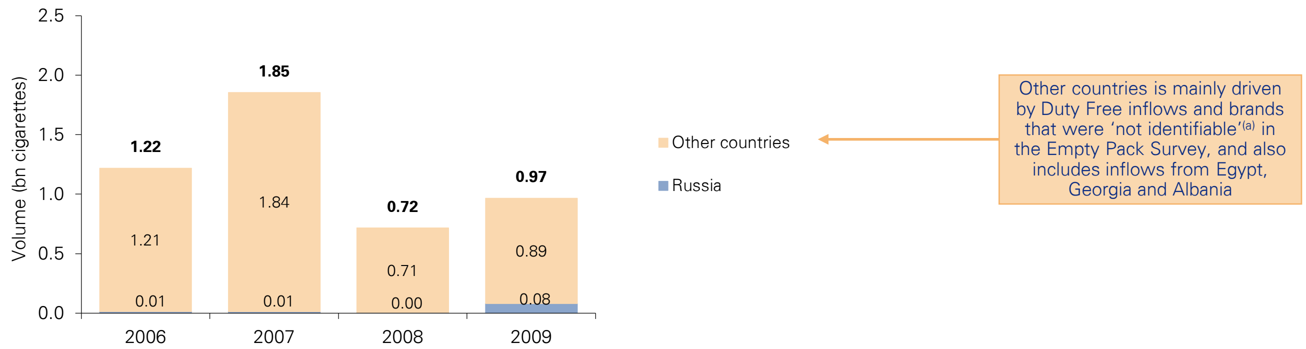
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management

(2) Synovate ND(L) research 2006, 2008

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 0.97 billion cigarettes in 2009 compared to 0.72 billion in 2008

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
C&C share of consumption:	**4%**	**6%**	**2%**	**3%**
C&C share of non-domestic:	**83%**	**80%**	**53%**	**60%**

Note: (a) In 2009, packs which had no clear indication of origin were classified as 'Not identifiable'. In prior years, such packs were classified as Duty Free. In 2009, not identifiable variant products account for 0.29 billion cigarettes and have been included in 'Other countries' on the above chart

Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2006, 2008
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

Non-domestic (legal) volumes remained stable in 2009

Non-domestic (legal) by origin 2006-2009[(1)(2)(3)(a)]

	2006	2007	2008	2009
ND(L) share of consumption:	**1%**	**1%**	**2%**	**2%**
ND(L) share of non-domestic:	**17%**	**20%**	**47%**	**40%**

'Other countries' is mainly driven by Duty Free inflows

Non-domestic (legal) by brand 2006-2009[(1)(2)(3)(a)]

	2006	2007	2008	2009
PMI share of ND(L):	**61%**	**61%**	**34%**	**30%**

Non-PMI includes small volumes of a number of brands such as Camel, Prince, Peter Stuyvesant, Winston and Silk Cut

ND(L) analysis

	1 Population 19+		2 Propensity to travel		3 Propensity to purchase		4 Ave. no. of trips		Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**8.8m**	**x**	**38%**	**x**	**67%**	**x**	**1.3**	**x**	**227**	**=**	**0.64bn**
EU rank 2009	**9**		**18**		**1**		**27**		**5**		**8**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 **x** 2	8.8%	25.2%	25.2%
Average annual cigarettes purchased	3 **x** 4	585	290	290

Note: (a) Non-domestic (legal) research was not updated in 2009 but corroborating research has not indicated any significant changes to 2008 results

Sources: (1) KPMG EU Flows Model

(2) Synovate ND(L) research 2006, 2008

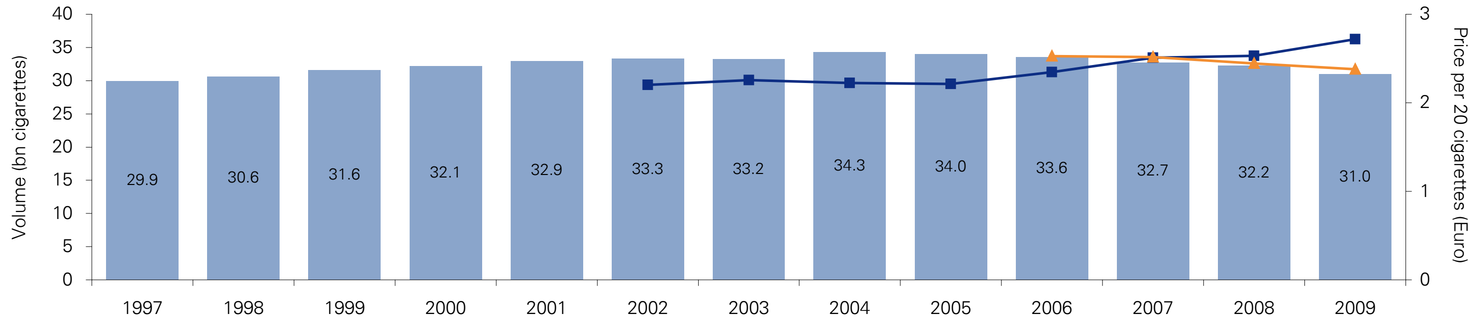
(3) Interviews with PMI Local Management

Historic sales and pricing trends

Legal domestic cigarette sales declined by 3.9% in 2009

Average pack price increased by 7.5% in 2009 driven by an excise tax increase

Historic cigarette prices and legal domestic sales 1997-2009[1][2]



CAGR (%)	1997-2004	2004-2009	2008-2009
Legal domestic sales	*2.0%*	*-2.0%*	*-3.9%*
Average pack price	*n/a*	*4.1%*	*7.5%*
Consumption	*n/a*	*n/a*	*-2.6%*

Sources: (1) In Market Sales supplied by PMI shipment volume and estimated total industry size
(2) Weighted average pack price supplied by PMI
(3) 'Greece increases taxes on tobacco and alcohol', Associated Press, February 2009
(4) 'Europe's heaviest smokers try new ban on smoking', Bloomberg News, July 2009

Legal domestic sales of cigarettes declined by 3.9% in 2009

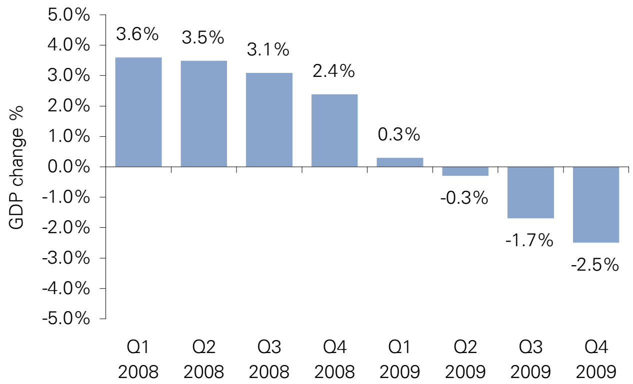
- In February 2009 the Greek government announced an increase in rate of excise tax by five percentage points, from 75% to 80%[3]
- A smoking ban in indoor public places including workplaces, airports, taxis and buses was introduced in July 2009
  - bars, cafes and restaurants less than 70 square metres are now required to designate themselves as smoking or non-smoking, whilst larger venues are required to separate and smoking and non-smoking areas[4]

Market developments 2009

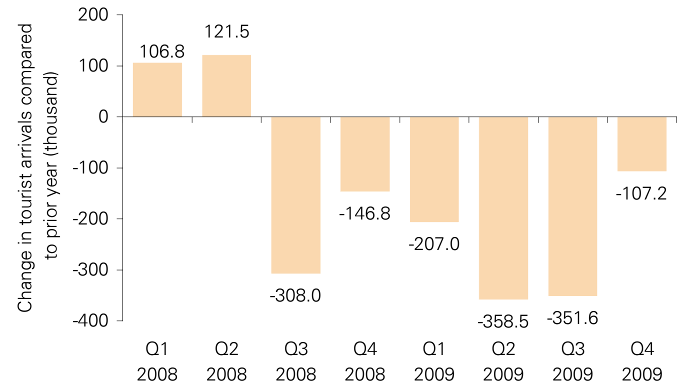
Economic conditions worsened in Greece as GDP declined from Quarter 2 2009, whilst unemployment increased

Tourist arrivals also declined in 2009 supporting the declining trend in outflows in 2009

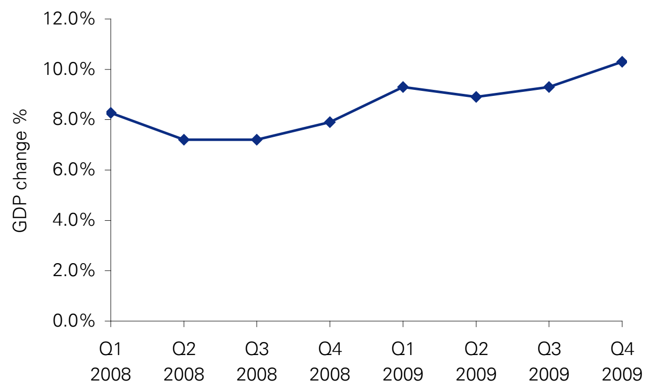
GDP percentage change compared to equivalent quarter in prior year 2008-2009(1)



Change in tourist arrivals compared to corresponding period in prior year, (thousands) 2008-2009(3)



Unemployment rate by quarter 2008-2009(2)



Source:
(1) *National Statistics Service of Greece, GDP at constant prices (year 2000, seasonally adjusted figures), accessed March 2010*
(2) *National Statistics Service of Greece, population of 15 years and over by employment status, accessed March 2010*
(3) *National Statistics Service of Greece, Arrivals of non-residents from abroad by country of residence, accessed May 2010*

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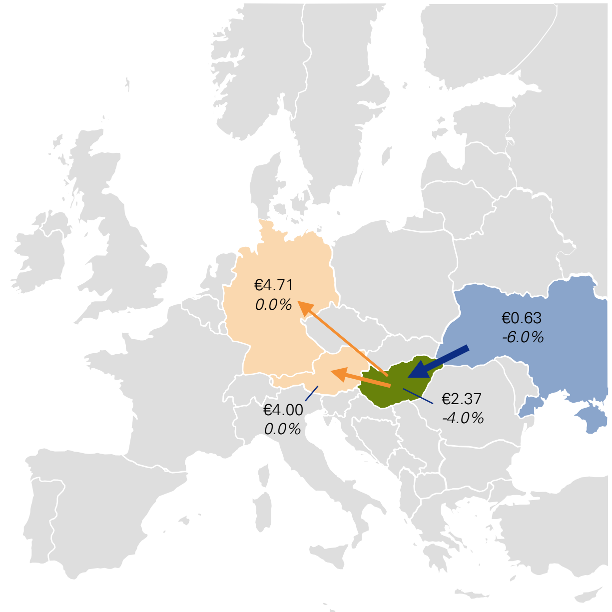
The share of cigarette consumption in Hungary accounted for by counterfeit and contraband declined to 6.6% in 2009

The cigarette price in Hungary has declined in euro terms in 2009 as a result of exchange rate changes in the forint versus the euro

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(3)(a)(b)(c)]

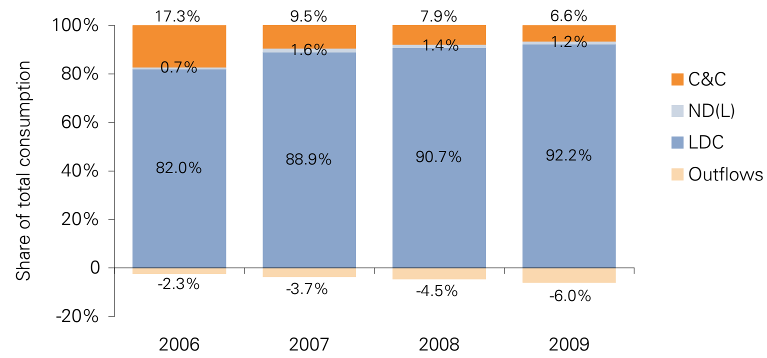


Key:
- *Hungary*
- *Major source country*
- *Major destination countries*

Note:
(a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarettes flow volume
(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009
(c) Cigarette prices in Ukraine declined in euro terms in 2009 as a result of exchange rate changes of the hryvnia versus the euro

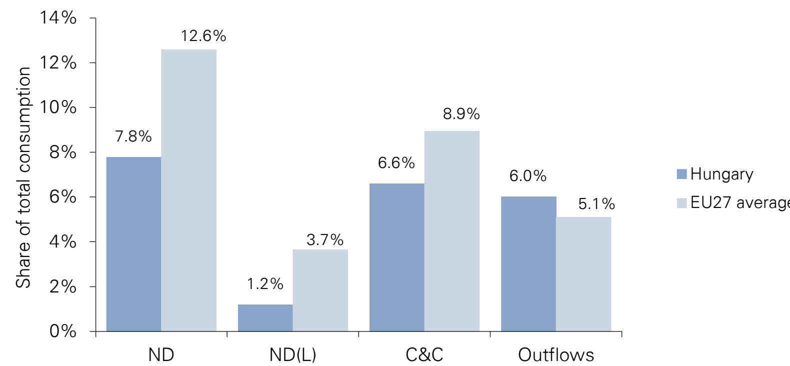
Sources:
(1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009
(3) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

Share of Hungary consumption by type 2006-2009[(1)(2)]



Volume (bn cigarettes)	18.8	17.8	17.1	15.6

Comparison of EU and Hungarian consumption by type 2009[(1)(2)]



Total non-domestic consumption

Non-domestic incidence has declined steadily since 2006 driven predominantly by lower inflows from Ukraine

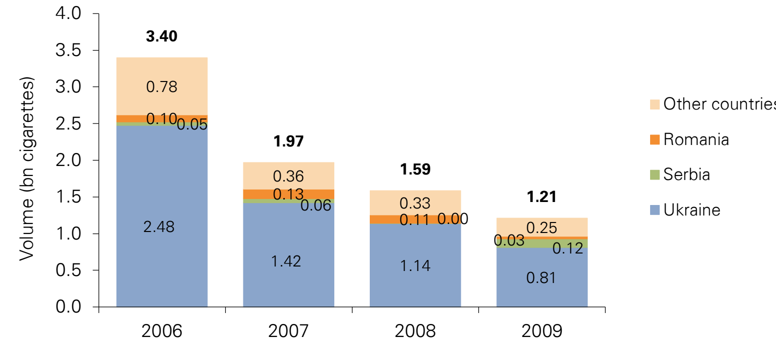
Total Hungary consumption[(1)(2)]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	15.87	16.46	16.30	15.30
Outflows	-0.44	-0.66	-0.78	-0.93
Legal domestic consumption (LDC)	15.43	15.80	15.53	14.36
Non-domestic legal (ND(L))	0.14	0.28	0.24	0.18
Counterfeit and contraband (C&C)	3.26	1.69	1.35	1.03
Total non-domestic	3.40	1.97	1.59	1.21
Total consumption	**18.83**	**17.77**	**17.11**	**15.57**

Outflows from Hungary[(1)]

Destination country (billion cigarettes)	2006	2007	2008	2009
Austria	0.13	0.32	0.45	0.48
Germany	0.12	0.12	0.13	0.16
UK	0.03	0.10	0.04	0.10
Other EU	0.16	0.12	0.16	0.19
Total outflows	**0.44**	**0.66**	**0.78**	**0.93**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[(1)(2)]

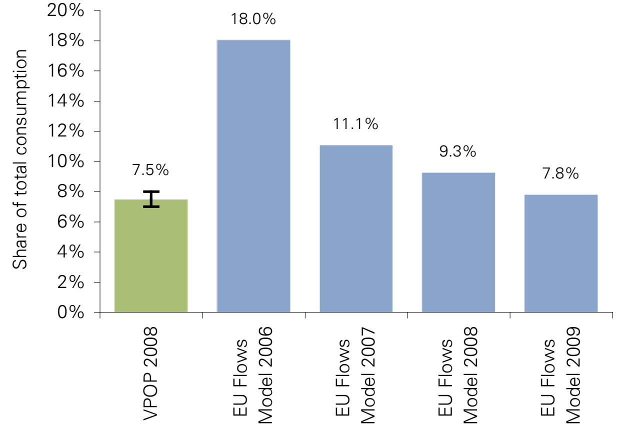


Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009

Non-domestic estimates

KPMG have calculated non-domestic incidence by weighting Empty Pack Survey results based on population by city in 2009

Non-domestic market estimates(1)(2)



Sources: (1) KPMG EU Flows Model based on Empty Pack Survey results 2006-2009 carried out by GfK for MDSZ
(2) Meeting with Hungarian Customs and Finance Guard (VPOP), April 2009

The Empty Pack Survey collected packs from 23 additional sampling points in 2009 compared to prior years

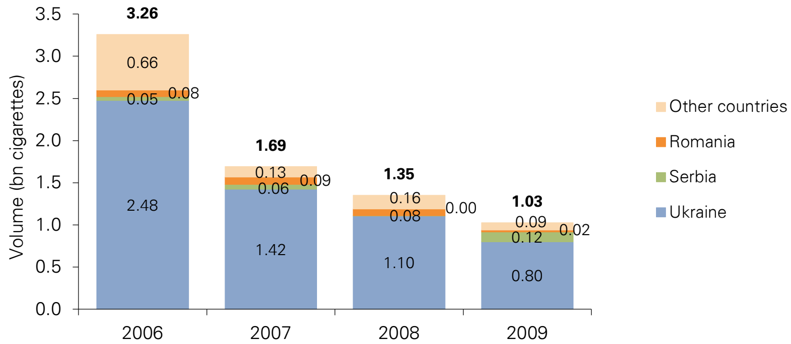
- The non-domestic incidence indicated by the EU Flows Model of 7.8% in 2009 incorporates the results of the additional cities by weighting individual packs collected by city to the population of the city
  - on a like for like basis using the same sampling points as prior years, non-domestic incidence would be 6.7% in 2009
  - the weighted approach used for Hungary is consistent with the Project Star methodology used across all 27 Member States

Counterfeit and contraband breakdown

Counterfeit & contraband inflows accounted for 1.03 billion cigarettes of domestic consumption in 2009, down from 1.35 billion in 2008

This decline was driven by lower inflows from Ukraine

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



C&C share of consumption:	**17%**	**10%**	**8%**	**7%**
C&C share of non-domestic:	**96%**	**86%**	**85%**	**85%**

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

Non-domestic (legal) volumes declined to 0.18 billion cigarettes in 2009

Non-domestic (legal) by origin 2006-2009[(1)(2)(3)]

	2006	2007	2008	2009
ND(L) share of consumption:	**1%**	**2%**	**1%**	**1%**
ND(L) share of non-domestic:	**4%**	**14%**	**15%**	**15%**

Non-domestic (legal) by brand 2006-2009[(1)(2)(3)]

	2006	2007	2008	2009
PMI share of ND(L):	**47%**	**46%**	**46%**	**50%**

ND(L) analysis

	Population 19+ (1)		Propensity to travel (2)		Propensity to purchase (3)		Ave. no. of trips (4)		Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**7.9m**	x	**28%**	x	**15%**	x	**4.5**	x	**113**	=	**0.16bn[(a)]**
EU rank 2009	**13**		**24**		**24**		**8**		**21**		**18**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 x 2	4.9%	4.9%	4.1%
Average annual cigarettes purchased	3 x 4	395	451	502

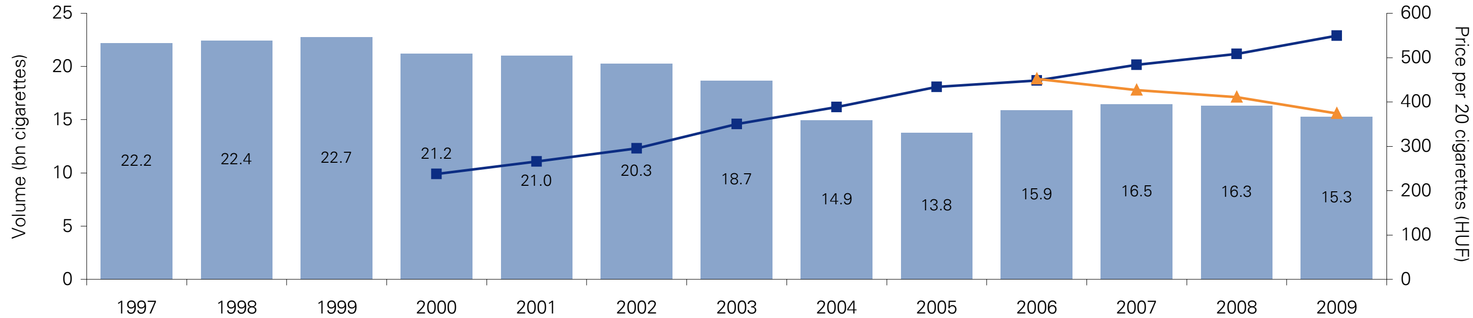
Note: (a) ND(L) analysis from AC Nielsen excludes adjustments to inflows associated with inbound tourism. Total ND(L) including adjustments for inbound tourism is 0.18 billion cigarettes

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009
(3) Interviews with PMI Local Management

Historic sales and pricing trends

Legal domestic cigarette sales declined by 6.2% in 2009

Historic cigarette prices and legal domestic sales 1997-2009(1)(2)



CAGR (%)	1997-2005	2005-2008	2008-2009
Legal domestic sales	*-5.8%*	*5.7%*	*-6.2%*
Average pack price	*n/a*	*5.4%*	*8.1%*
Consumption	*n/a*	*n/a%*	*-9.0%*

Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI
(3) 'Interview with PMI local management team
(4) 'Stricter tobacco advertising regulations in force', RealDeal.hu, March 2009

The average pack price increased by 8.1% in 2009, driven by excise tax increases

- Excise tax on cigarettes was increased in January and July 2009
  - the January 2009 excise tax change accounted for a 438 HUF increase per 1,000 cigarettes of Marlboro, whilst the July excise tax change accounted for an 810 HUF increase[3]
- In addition to the excise tax changes, VAT also increased from 20% to 25% on July 1st 2009[3]

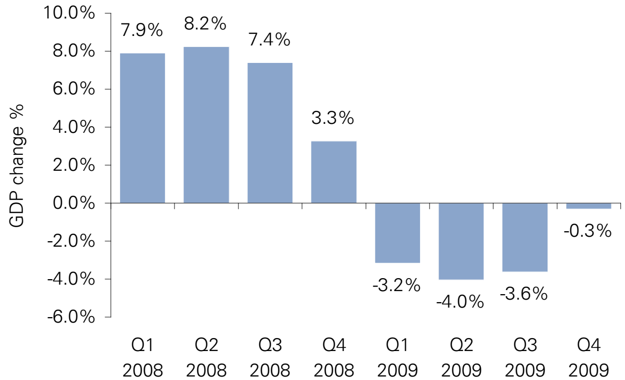
Tobacco advertising legislation was introduced in March 2009

- The legislation prohibited tobacco advertising other than at point of sale and required health warnings to be displayed alongside brand promotions[4]

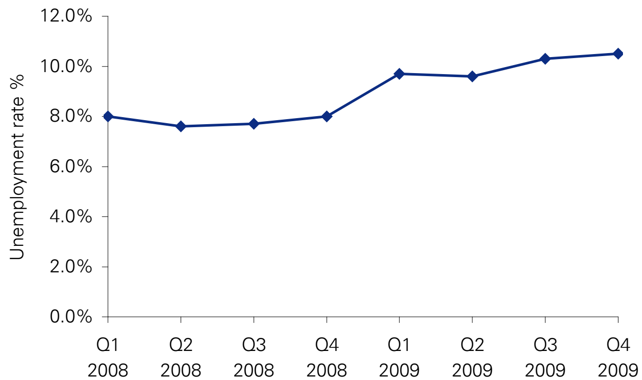
Market developments 2009

Economic conditions worsened in Hungary as GDP growth declined and unemployment increased in 2009

Change in Gross Domestic Product compared to corresponding period in prior year, 2008-2009(1)



Unemployment rate by quarter 2008-2009(1)

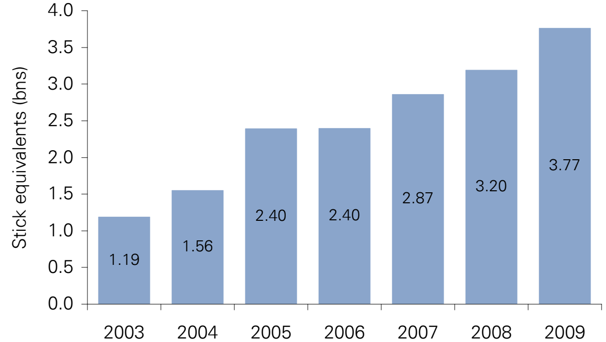


Source: (1) *Hungarian Central Statistics Office, accessed April 2010*
(2) *Datastream, Exchange rates, accessed March 2010*

OTP market size and growth

Sales of smoking tobacco were 3.77 billion stick equivalents in 2009

Smoking tobacco sales in billion stick equivalents 2003-2009[(1)(a)(b)]



Cigarette sales (bn cigarettes)	**18.7**	**14.9**	**13.8**	**15.9**	**16.5**	**16.3**	**15.3**

CAGR (%)	2003-2005	2005-2008	2008-2009
Smoking tobacco	*41.8%*	*10.0%*	*17.9%*
Manufactured cigarettes	*-14.1%*	*5.7%*	*-6.2%*

Notes: (a) Smoking tobacco volumes have been calculated at one stick per 0.75 grams
(b) Total OTP sales will include cigars, cigarillos and smokeless tobacco, which are not included in this analysis
Source: (1) OTP volumes supplied by local PMI

Smoking tobacco sales increased by 17.9% in 2009

- Higher sales of smoking tobacco in this period corresponded with a decline in manufactured cigarette sales
- The increase in smoking tobacco sales may have been driven by tobacco consumers trading down to lower cost smoking tobacco, following excise tax increases on manufactured cigarettes

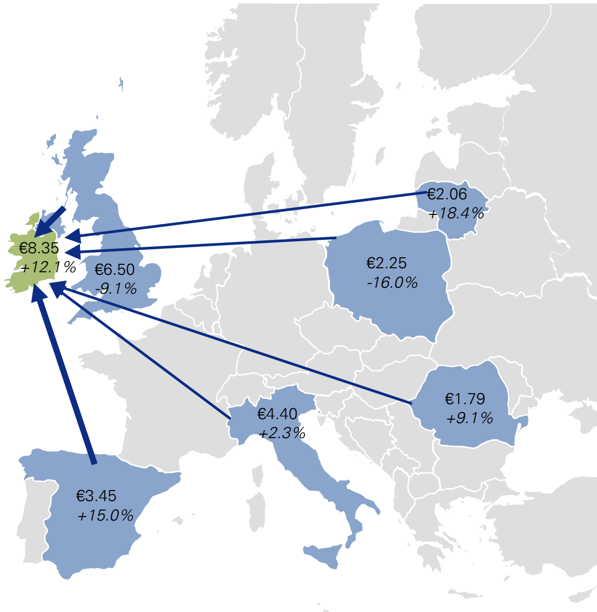
Contents – country detail

Market Overview

The share of consumption in Ireland accounted for by non-domestic cigarettes increased from 29.3% in 2008 to 31.6% in 2009

Ireland is the most expensive cigarette market in the European Union with the price of Marlboro increasing by 12.1% in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(2)(a)(b)]



Key: ■ Ireland ■ Major source countries

Notes: (a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to the larger flow, whilst arrow size indicates relative cigarette flow volume

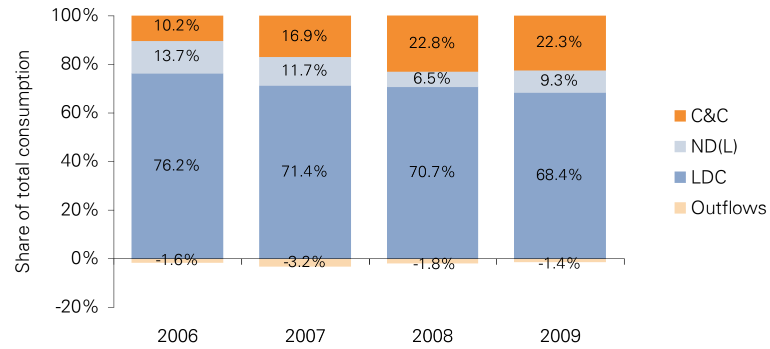
(b) Cigarette prices in Poland and the UK declined in euro terms in 2009 as a result of exchange rate changes of the zloty and the pound respectively versus the euro

Sources: (1) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

(2) KPMG EU Flows Model and interviews with PMI Local Management

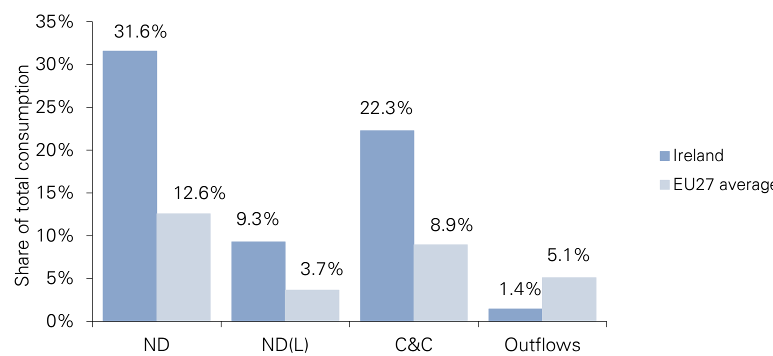
(3) Synovate ND(L) research 2006, 2007, 2008 and 2009

Share of Ireland consumption by type 2006-2009[(2)(3)]



Volume (bn cigarettes)	**7.2**	**7.2**	**7.0**	**6.5**

Comparison of EU and Irish consumption by type 2009[(2)(3)]



Total non-domestic consumption

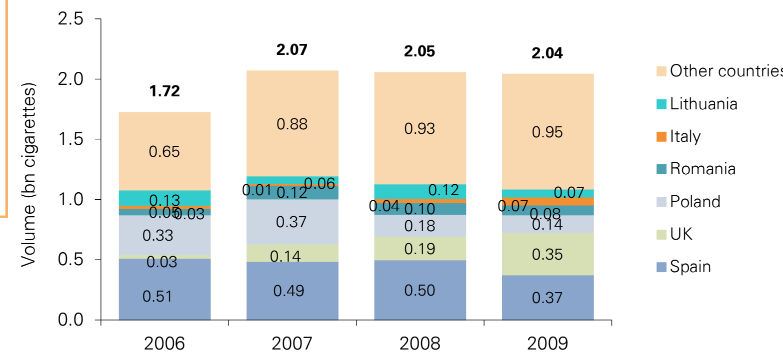
Consumption volumes of non-domestic cigarettes remained broadly stable while legal domestic sales have fallen in 2009 compared to 2008

Declining consumption may be partly explained by the population impact of returning economic migrants

Total Ireland consumption[(1)(2)]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	5.63	5.39	5.08	4.52
Outflows[(a)]	-0.12	-0.23	-0.13	-0.09
Legal domestic consumption (LDC)	5.52	5.16	4.96	4.43
Non-domestic legal (ND(L))	0.99	0.85	0.45	0.60
Counterfeit and contraband (C&C)	0.74	1.22	1.60	1.44
Total non-domestic	1.72	2.07	2.05	2.04
Total consumption	**7.24**	**7.23**	**7.01**	**6.47**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[(1)(2)]



Note: (a) The UK remains the largest destination market with outflows of 0.06 billion cigarettes in 2009 compared to 0.09 billion in 2008

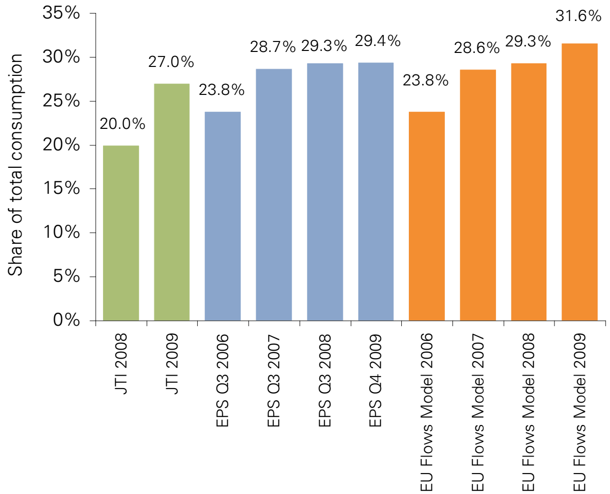
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management

(2) Synovate ND(L) research 2006, 2007, 2008 and 2009

Comparison of external sources for non-domestic estimates

The EU Flows Model indicates that non-domestic incidence increased in 2009

Non-domestic market estimate[1][2][3]



Note: (a) *Irish regional sales market data only represent 50% of the total volume and is provided on a weekly basis*

Sources: (1) *KPMG EU Flows Model based on PMI EPS results. These surveys were conducted between 20 September and 30 September 2006, 9 September and 16 September 2007, 9 September and 3 October 2008 and 29 September and 23 October 2009*
(2) *JTI Ireland*
(3) *'The illicit tobacco trade: Annual Review', JTI Ireland, 2009*
(4) *Regional sales provided by local PMI management*
(5) *'The cigarette smuggling centre of Europe', Irish Times, 20 February 2010*
(6) *OLAF seizure data, 2009*
(7) *Interview with Irish Customs, November 2009*

Both the EU Flows Model and the PMI Empty Pack survey suggest that non-domestic incidence increased in 2009

- However, the EU Flows Model indicates a bigger increase than the PMI Empty Pack survey in 2009
- This is due to an upwards adjustment of 0.2 billion cigarettes to inflows from the UK to reflect regional sales and travel trends between the UK and Ireland in 2009
  - border sales in Northern Ireland increased by 18.8% in 2009 compared to 2008[4][a]

Irish customs seized 218 million cigarettes in 2009 compared to 135 million cigarettes in 2008[5]

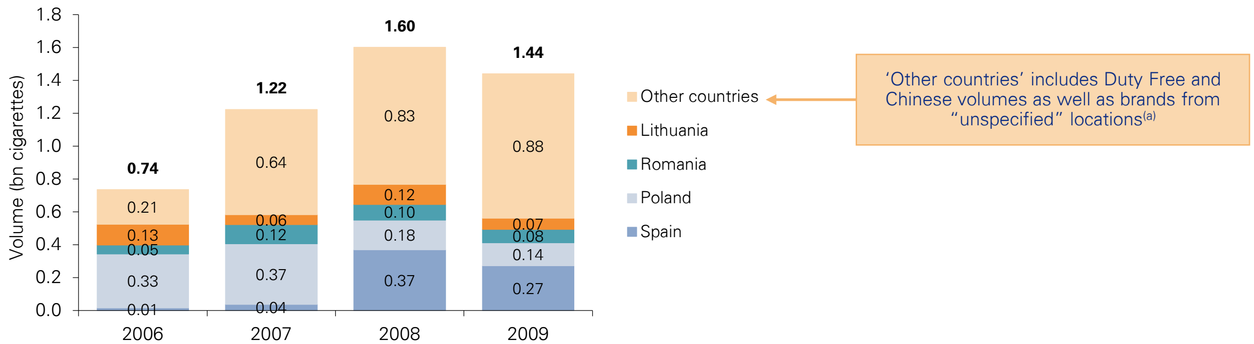
- Of the 2009 seizures, almost 60% of the cigarettes were counterfeit[5]
  - the Empty Pack Survey only identifies PMI counterfeit brands and does not identify non-PMI brand counterfeit packs. This is because counterfeit variants can only be identified by the manufacturer/trademark owner
- Total seizures in 2009 included one seizure of 120 million cigarettes from the Philippines in October 2009, the largest single in European Union history[5]

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 1.44 billion cigarettes of domestic consumption in 2009, down from 1.60 billion in 2008

Inflows from the 2004 and 2007 accession states of Poland, Romania and Lithuania declined slightly in 2009

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
C&C share of consumption:	**10%**	**17%**	**23%**	**22%**
C&C share of non-domestic:	**43%**	**59%**	**78%**	**71%**

Note: (a) In 2009, packs which had no clear indication of origin were classified as 'Not identifiable'. In prior years, such packs were classified as Duty Free. In 2009, not identifiable variant products account for 0.12 billion cigarettes and have been included in 'Other countries' on the above chart

Sources: (1) KPMG EU Flows Model

(2) Synovate ND(L) research 2006, 2007, 2008 and 2009

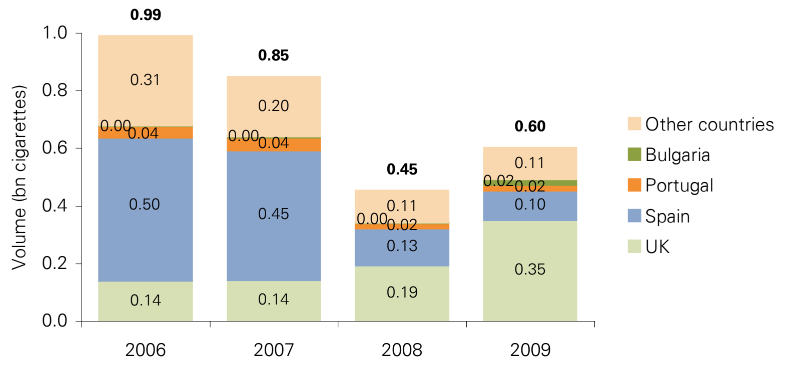
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

Non-domestic (legal) volumes increased in 2009 to 0.60 billion cigarettes

UK inflows have increased in 2009 driven by cross-border shopping trips

Non-domestic (legal) by origin 2006-2009[(1)(2)(3)(4)]



	2006	2007	2008	2009
ND(L) share of consumption:	**14%**	**12%**	**6%**	**9%**
ND(L) share of non-domestic:	**57%**	**41%**	**22%**	**29%**

Non-domestic (legal) by brand 2006-2009[(1)(2)(3)(4)]

	2006	2007	2008	2009
PMI share of ND(L):	**13%**	**17%**	**26%**	**11%**

ND(L) analysis

	(1) Population 19+		(2) Propensity to travel		Propensity to purchase		(3) Ave. no. of trips		(4) Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**3.1m**	**x**	**63%**	**x**	**33%**	**x**	**5.2**	**x**	**179**	**=**	**0.60bn**
EU rank 2009	**20**		**8**		**9**		**5**		**11**		**9**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 x 2	16.3%	21.4%	20.8%
Average annual cigarettes purchased	3 x 4	1739	692	930

Project Star non-domestic (legal) inflows from the UK are corroborated by alternative consumer research surveys

- One in five households in the border regions with Northern Ireland reported an increased level of shopping trips in 2009 compared to 2008[(5)]
  - households from the border region who shopped in Northern Ireland made an average of 14 trips in 2009[(5)(a)]
- In total, one out of every six households made at least one shopping trip to Northern Ireland in 2009[(5)(a)]

Note; (a) Comparable trips per year information is not available as 2009 represents the first year that cross-border shopping questions were included in the Quarterly National Household Survey

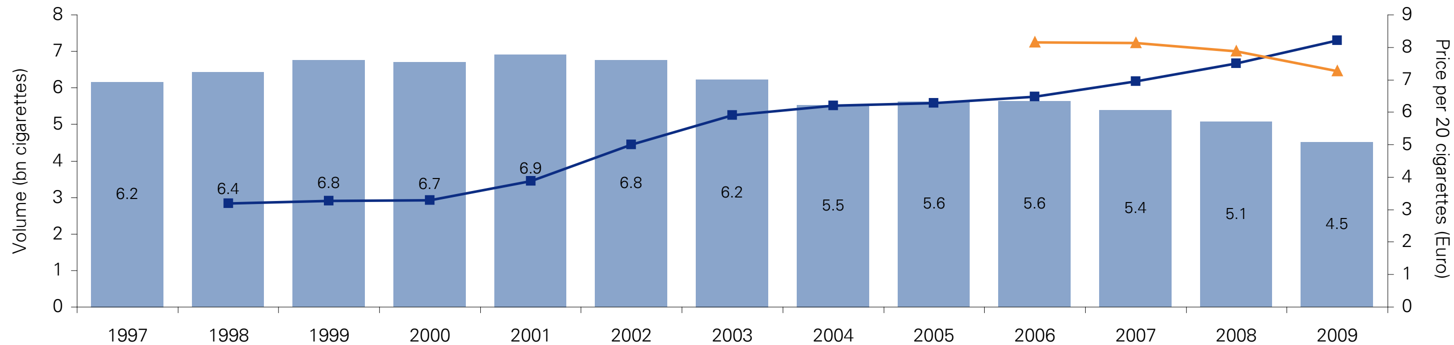
Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2006, 2007, 2008 and 2009
(3) Interviews with PMI Local Management
(4) Regional sales data provided by PMI Local Management
(5) 'Cross-border shopping: Quarterly National Household Survey', Irish Statistics Office, December 2009

Historic sales and pricing trends

Legal domestic cigarette sales decreased by 11.1% in 2009 compared to 2008

The weighted average pack price increased by 9.4% to €8.21 in 2009

Historic cigarette prices and legal domestic sales 1997-2009[(1)(2)(a)]



CAGR (%)	1997-2001	2001-2006	2006-2009	2008-2009
Legal domestic sales	*2.9%*	*-4.0%*	*-7.1%*	*-11.1%*
Average pack price	*6.8%[(b)]*	*10.8%*	*8.2%*	*9.4%*
Consumption	*n/a*	*n/a*	*-3.7%*	*-7.8%*

Notes: (a) For reasons of consistency across Member States, Project Star uses In Market Sales data in order to measure legal domestic sales as it reflects actual retail sales to consumers during a calendar year. Alternative sources of data may be measured at a different points in the supply chain (such as ex-warehouse or factory) and therefore be subject to inventory fluctuations which would otherwise distort year on year trends and comparability between countries

(b) The average pack price CAGR is from 1998 to 2001

Sources: (1) In Market Sales supplied by PMI

(2) Weighted average pack price supplied by PMI

In the period 2006 to 2009, legal domestic sales decreased at an annual rate of 7.1% whilst average prices rose at an average of 8.2% each year

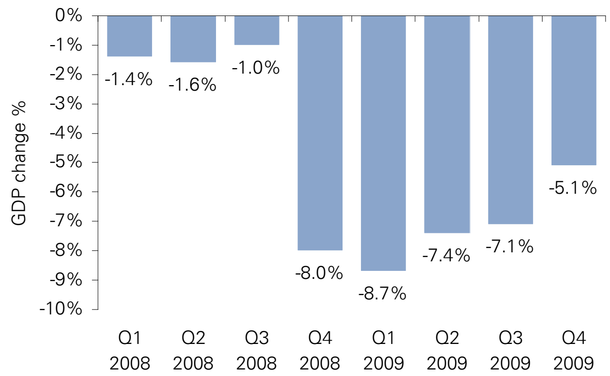
- Ireland has a Minimum Retail Price policy which limits the minimum price of cigarettes to 97% of the weighted average price in the market
  - this has effectively prevented the development of the low and super-low price segments which have gained market share in many other markets, including the UK
- An excise driven price increase of 25 euro cents was implemented in April 2009
- A ban on the display of tobacco products at the point of sale was implemented on 1 July 2009
  - Ireland is the first of the EU Member States to introduce a display ban

Market developments 2009

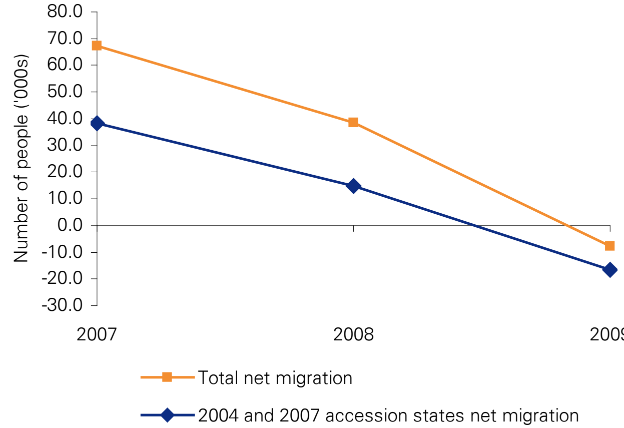
Economic conditions in Ireland have steadily worsened in Ireland during 2008 and 2009 with negative GDP growth and rising unemployment

Ireland experienced net outward migration in 2009

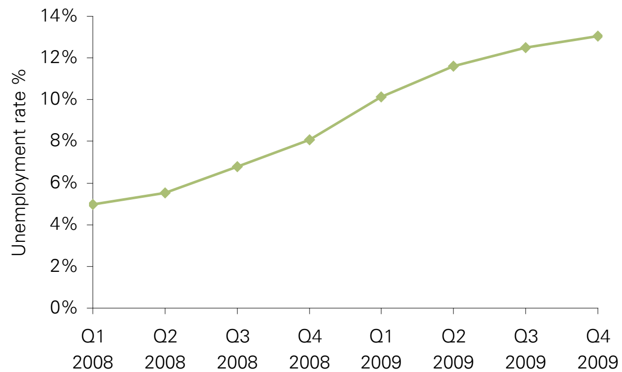
Change in Gross Domestic Product compared to corresponding period in prior year, 2008-2009[1]



Net migration 2007-2009[2][a]



Unemployment rate by quarter 2008-2009[1]



Net migration estimates are based on surveys carried out by the Irish Statistics Office

- These estimates are derived from the Quarterly National Household Survey[2]

KPMG have obtained corroborating estimates for returning Polish migrants

- It is estimated that approximately 150,000 Poles have returned home as a result of the economic situation in Ireland[3]
  - smoking prevalence in both Ireland and Poland is approximately 29% of the adult population[4][5][b]
  - smoking incidence is approximately 17 cigarettes per day in both Ireland and Poland[5][b]
- A further study conducted by CPL stated that up to 1,300 Poles per week intended to leave Ireland in 2009[6]

Notes: (a) *Net migration statistics based on the Census of Population. The 2009 yearly data refers to the period between May 2008 and April 2009. This is the latest available data.*
(b) *GCTS refers to the Global Consumer Tracking Survey to estimate smoking prevalence and average smoking volume by country*

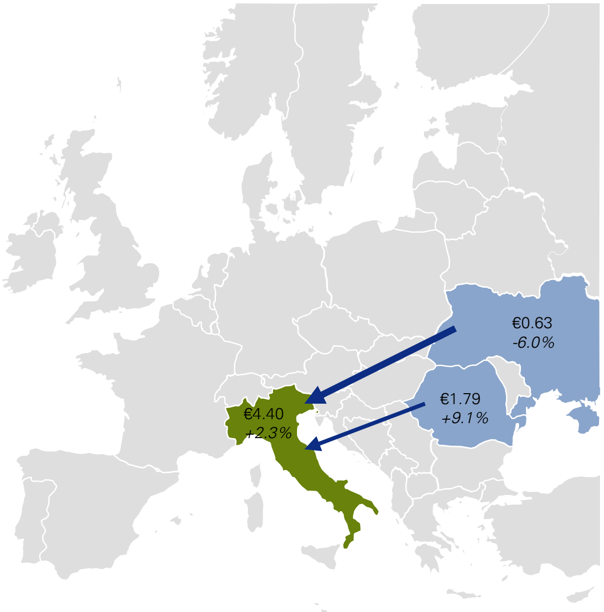
Sources: (1) *Irish Statistics Office, accessed April 2010*
(2) *'Population and Migration Estimates', Irish Statistics Office, September 2009*
(3) *Interview with PMI local management*
(4) *'The illicit tobacco trade: Annual Review', JTI Ireland, 2009*
(5) *GCTS supplied by PMI*
(6) *'Up to 1,300 Poles leaving Ireland every week', Irish Finance News, December 2008*

Contents – country detail

Market Overview

The share of cigarette consumption in Italy accounted for by counterfeit and contraband increased to 3.3% in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008(1)(2)(a)(b)(c)

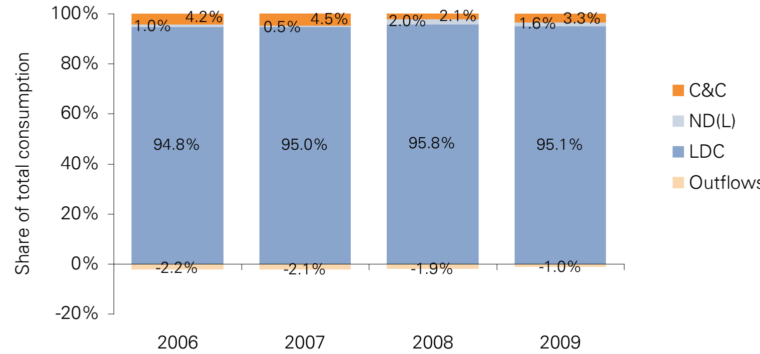


Key: ■ *Italy*
■ *Top two source countries*

Notes: (a) *Countries which are both source and destination countries are coded according to larger flow whilst arrow size indicates relative cigarette flow volume*
(b) *Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009*
(c) *Cigarette prices in the Ukraine declined in euro terms in 2009 as a result of exchange rate changes of the hryvnia versus the euro*

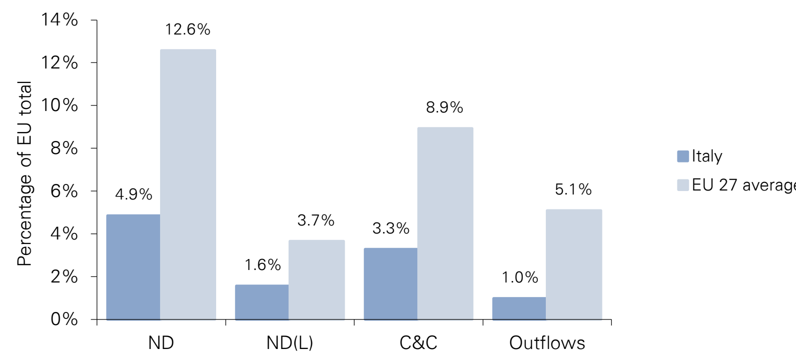
Sources: (1) *Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009*
(2) *KPMG EU Flows Model and interviews with PMI Local Management*
(3) *Synovate ND(L) research 2006, 2007; AC Nielsen ND(L) research 2008, 2009*

Share of Italy consumption by type 2006-2009(2)(3)



	2006	2007	2008	2009
Volume (bn cigarettes)	**96.7**	**95.6**	**94.1**	**92.7**

Comparison of EU and Italian consumption by type 2009(2)(3)



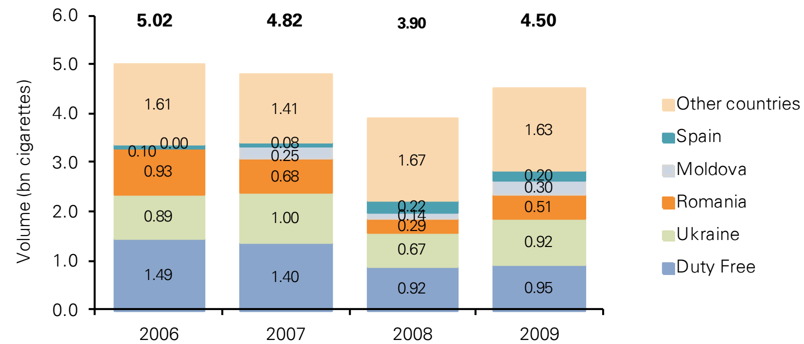
Total non-domestic consumption

Consumption of non-domestic cigarettes increased to 4.50 billion cigarettes in 2009 driven by inflows from Ukraine and Romania

Total Italy consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	93.81	92.81	92.00	89.16
Outflows[a]	-2.13	-2.01	-1.83	-0.92
Legal domestic consumption (LDC)	91.68	90.80	90.17	88.24
Non-domestic legal (ND(L))	0.98	0.51	1.91	1.46
Counterfeit and contraband (C&C)	4.04	4.31	2.00	3.04
Total non-domestic	5.02	4.82	3.90	4.50
Total consumption	**96.70**	**95.62**	**94.08**	**92.74**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]



Note: (a) France was the single largest destination country in 2008 and 2009 with outflows of 0.6 billion and 0.3 billion respectively. This is the largest single decline of all outflow destinations

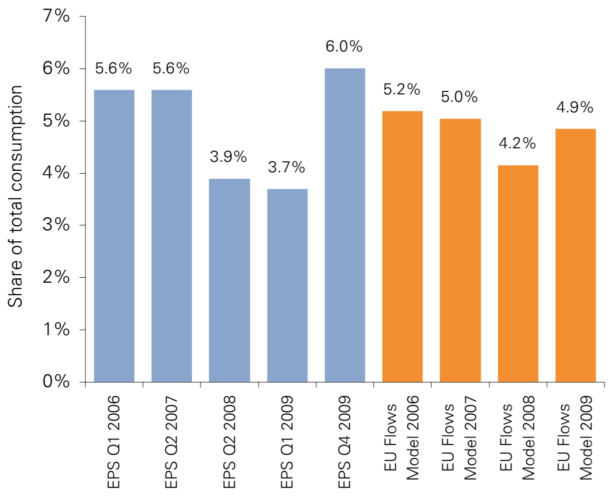
Sources: (1) KPMG EU Flows Model

(2) Synovate ND(L) research 2006, 2007; AC Nielsen ND(L) research, 2008, 2009

Comparison of external sources for non-domestic estimates

The 2009 EU Flows Model results for Italy suggests an increase in non-domestic incidence in 2009 based on an average of the Q1 and Q4 Empty Pack Surveys

Non-domestic market estimates[1][2]



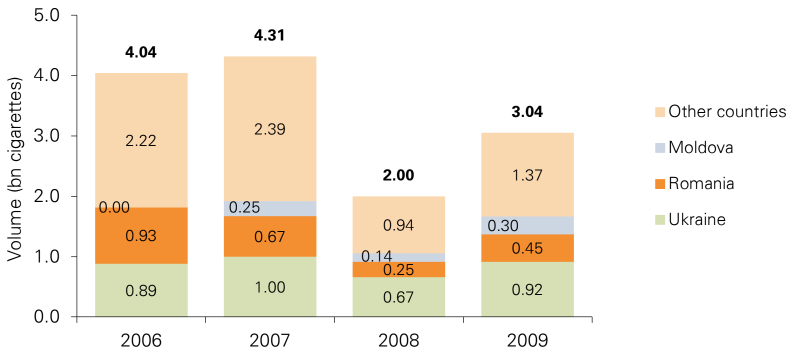
Sources: *(1) KPMG EU Flows Model*
(2) PMI EPS Q2 2006, Q2 2007, Q2 2008, Q1 2009 and Q4 2009

The EU Flows Model estimate for non-domestic consumption uses the average of the two Empty Pack Surveys conducted in 2009

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 3.04 billion cigarettes in 2009, compared to 2.00 billion in 2008

Counterfeit and contraband by origin 2006-2009(1)(2)(3)



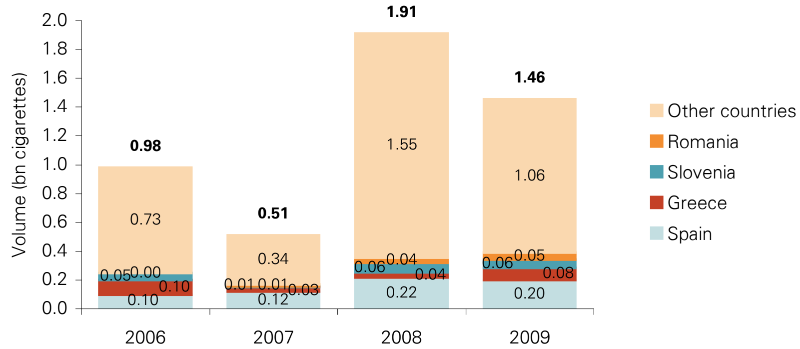
C&C share of consumption:	**4%**	**5%**	**2%**	**3%**
C&C share of non-domestic:	**80%**	**89%**	**51%**	**68%**

Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2006, 2007; AC Nielsen ND(L) research, 2008 , 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

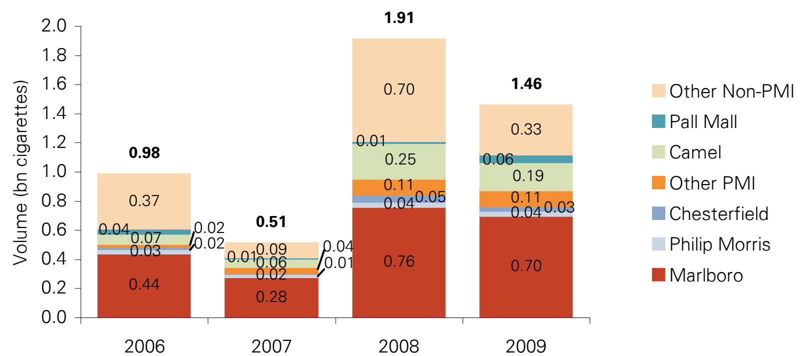
Non-domestic (legal) volumes decreased to 1.46 billion cigarettes in 2009

Non-domestic (legal) by origin 2006-2009[(1)(2)(3)(a)]



	2006	2007	2008	2009
ND(L) share of consumption:	**1%**	**1%**	**2%**	**2%**
ND(L) share of non-domestic:	**20%**	**11%**	**49%**	**32%**

Non-domestic (legal) by brand 2006-2009[(1)(2)(3)(a)]



	2006	2007	2008	2009
PMI share of ND(L):	**52%**	**69%**	**50%**	**60%**

ND(L) analysis

	Population 19+ (1)		Propensity to travel (2)		Propensity to purchase (3)		Ave. no. of trips (4)		Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**48.0m**	x	**28%**	x	**42%**	x	**2.0**	x	**128**	=	**1.46bn**
EU rank 2009	**3**		**23**		**3**		**18**		**16**		**4**

ND(L) analysis 2007-2009

		2007	2008	2009
Propensity to travel and purchase cigarettes	1 x 2	3.5%	14.3%	11.8%
Average annual cigarettes purchased	3 x 4	303	279	257

A large proportion of non-domestic (legal) inflows comprises small volumes from a number of source markets

- Other countries includes Duty Free, Swiss and Egyptian inflows

Note: (a) In 2008 there has was a change in the agency used for the ND(L) research. Additionally, the 2008 and 2009 results are based on a much larger sample size than previous years and are therefore deemed more statistically significant.

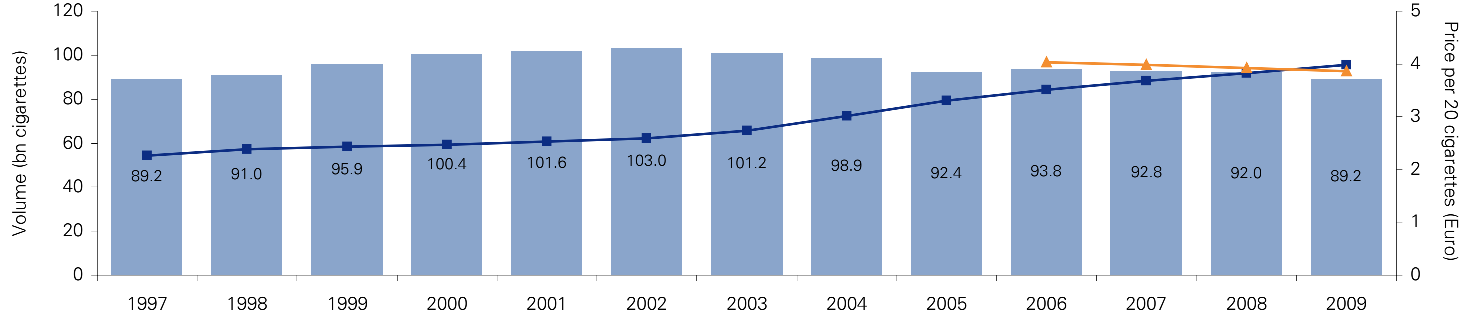
Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2006, 2007; AC Nielsen ND(L) research, 2008, 2009
(3) Interview with PMI Local Management

Historic sales and pricing trends

Legal domestic cigarette sales decreased by 3.1% in 2009 compared to 2008

The weighted average pack price in Italy increased by 4.1% in 2009 to €3.99

Historic cigarette prices and legal domestic sales 1997-2009[(1)(2)]



CAGR (%)	1997-2002	2002-2005	2005-2009	2008-2009
Legal domestic sales	*2.9%*	*-3.6%*	*-0.9%*	*-3.1%*
Average pack price	*2.7%*	*8.5%*	*4.8%*	*4.1%*
Consumption	*n/a*	*n/a*	*-1.4%[(a)]*	*-1.4%*

Note: (a) Consumption CAGR is from 2006 to 2009
Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI

Legal domestic sales decreased by 3.1% in 2009 whilst weighted average pack prices increased

- Price rises were implemented in March and December
  - the weighted average pack price in Italy in 2009 was €3.99[(2)]

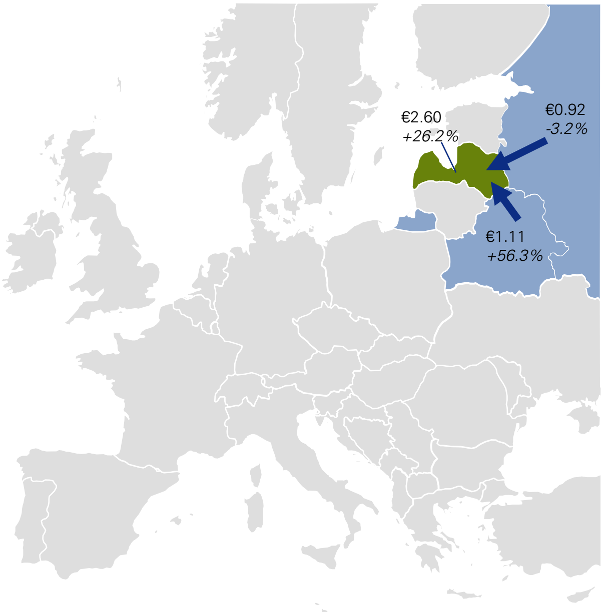
Contents – country detail

Market Overview

The share of cigarette consumption in Latvia accounted for by counterfeit and contraband increased to 25.8% in 2009

Outflows from Latvia continued to decline in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(3)(a)(b)(c)]



Key: ■ *Latvia*
■ *Major source countries*

Note: (a) *Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarettes flow volume*

(b) *Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009*

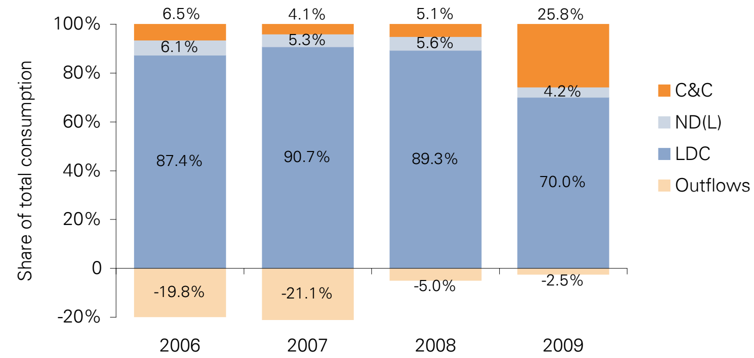
(c) *Cigarette prices in Russia declined in euro terms in 2009 as a result of exchange rate changes of the rouble versus the euro*

Sources: (1) *KPMG EU Flows Model and interviews with PMI Local Management*

(2) *AC Nielsen ND(L) research, 2006, 2008 and 2009*

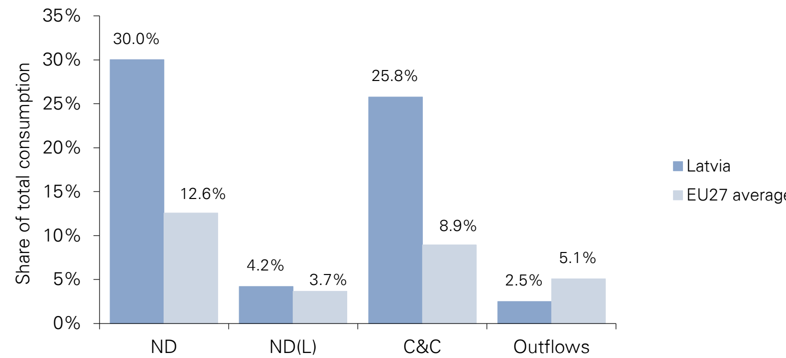
(3) *Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009*

Share of Latvia consumption by type 2006-2009[(1)(2)]



Volume (bn cigarettes)	**4.2**	**4.2**	**3.7**	**2.9**

Comparison of EU and Latvian consumption by type 2009[(1)(2)]



Total non-domestic consumption

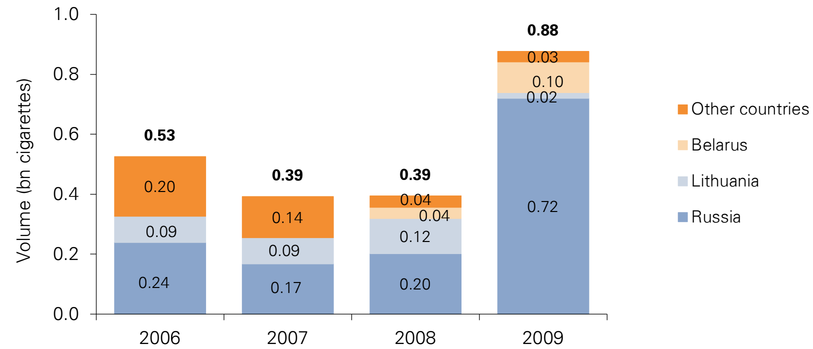
Consumption of non-domestic cigarettes increased to 0.88 billion cigarettes in 2009 compared to 0.39 billion in the previous year

Non-domestic inflows from Russia increased by 257% in 2009, whilst inflows from Belarus increased by 174%

Total Latvia consumption[(1)(2)]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	4.45	4.71	3.46	2.12
Outflows	-0.82	-0.89	-0.18	-0.07
Legal domestic consumption (LDC)	3.63	3.82	3.28	2.04
Non-domestic legal ND(L)	0.25	0.22	0.21	0.12
Counterfeit and contraband (C&C)	0.27	0.17	0.19	0.75
Total non-domestic	0.53	0.39	0.39	0.88
Total consumption	**4.15**	**4.22**	**3.67**	**2.92**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[(1)(2)]

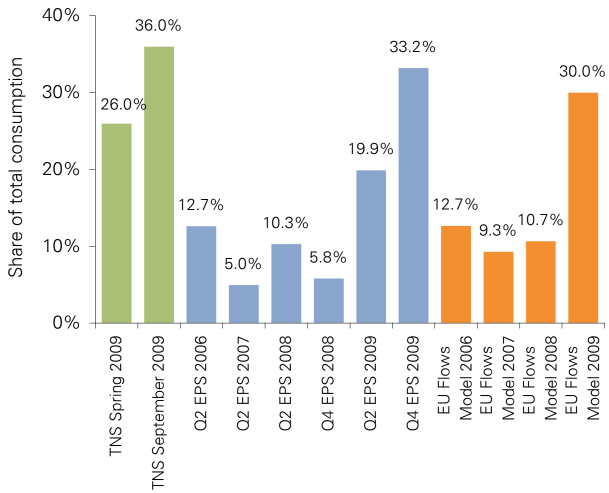


Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2006, 2008 and 2009

Comparison of external sources for non-domestic estimates

The EU Flows Model estimate for non-domestic consumption in 2009 is calculated by weighting results from Empty Pack Surveys conducted in Quarter 2 and Quarter 4

Non-domestic market estimates(1)(2)(3)



Sources: (1) KPMG EU Flows Model
(2) PMI Empty Pack Surveys Q2 2006, Q2 2007, Q2 2008, Q4 2008, Q2 2009, Q4 2009
(3) 'Smuggling still thriving in the Baltic States', Tobacco Journal, January 2010

The 2009 non-domestic incidence in Latvia of 30.0% is calculated by applying a weighting to the two Empty Pack Surveys conducted in 2009

- The first EPS took place in Quarter 2 2009, and the second in Quarter 4 2009
- To reflect the timing of price changes in Latvia during 2009 and its subsequent impact upon purchasing patterns of domestic consumers a weighting was applied to the Empty Pack Surveys
  - the Quarter 2 EPS was weighted to represent the first four months of 2009
  - the Quarter 4 EPS was weighted to represent the remaining eight months of 2009

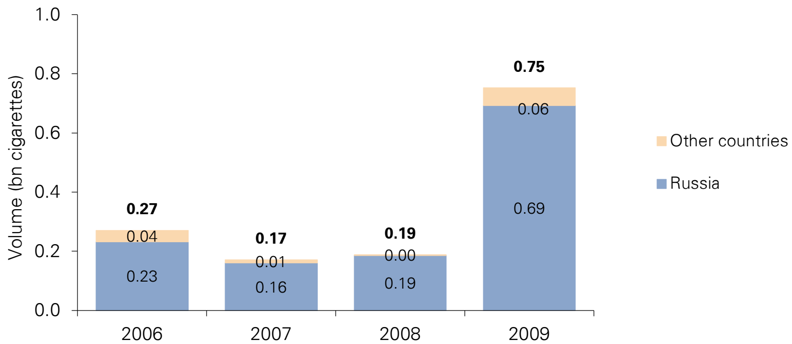
TNS research indicated non-domestic incidence increased by 10 percentage points between Spring and September 2009

- This is directionally consistent with Empty Pack Survey results which indicated a 13 percentage point increase between Quarter 2 and Quarter 4

Counterfeit and contraband breakdown

Counterfeit and contraband inflows increased to 0.75 billion cigarettes in 2009, driven by higher inflows from Russia

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



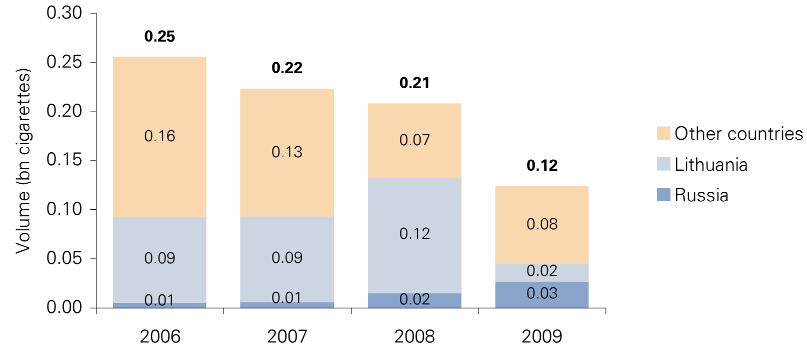
C&C share of consumption:	**7%**	**4%**	**5%**	**26%**
C&C share of non-domestic:	**52%**	**44%**	**48%**	**86%**

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2008 and 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

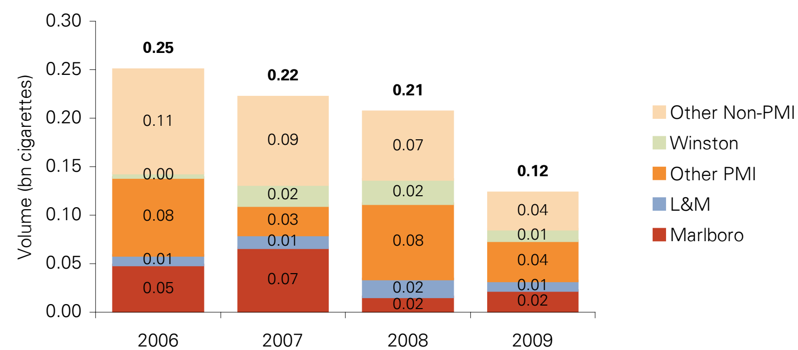
Non-domestic (legal) volumes declined to 0.12 billion cigarettes in 2009, driven by lower inflows from Lithuania

Non-domestic (legal) by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
ND(L) share of consumption:	**6%**	**5%**	**6%**	**4%**
ND(L) share of non-domestic:	**48%**	**56%**	**52%**	**14%**

Non-domestic (legal) by brand 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
PMI share of ND(L):	**56%**	**49%**	**54%**	**60%**

ND(L) analysis

	(1) Population 19+		(2) Propensity to travel		Propensity to purchase		(3) Ave. no. of trips		(4) Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**1.8m**	x	**39%**	x	**25%**	x	**6.5**	x	**110**	=	**0.12bn**
EU rank 2009	**22**		**17**		**15**		**3**		**22**		**21**

ND(L) analysis 2007-2009

	2007	**2008**	**2009**
Propensity to travel and purchase cigarettes (1) x (2)	15.5%	15.3%	9.5%
Average annual cigarettes purchased (3) x (4)	789	390	716

Inflows of non-domestic (legal) cigarettes declined in 2009 driven by a lower propensity to travel

- Market research reported a decline in the proportion of the Latvian population who travelled in the year to 39% in 2009[(2)]
  - independent travel statistics from Eurostat corroborate this trend, indicating a decline in the number of holidays abroad taken by Latvians by 15% in 2009[(4)(a)]

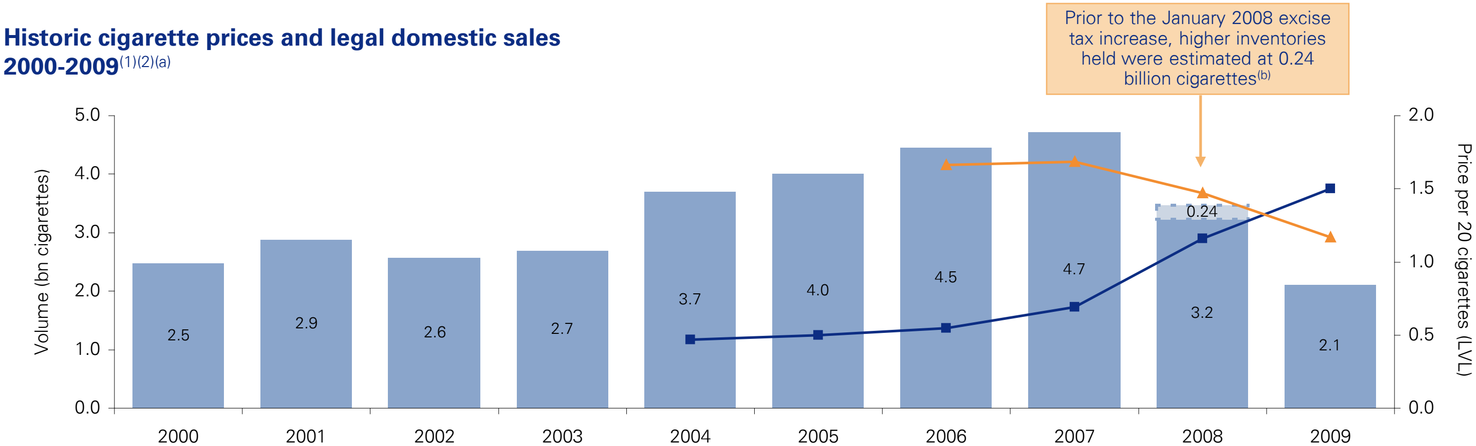
Note: (a) Holiday information is based on a comparison of the first three quarters of 2009 compared to the same period in the prior year

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2008 and 2009
(3) Interviews with PMI Local Management
(4) Eurostat, Total outbound holidays 2009, accessed April 2010

Historic sales and pricing trends

Average pack price increased by 29.3% from 2008, whilst legal domestic cigarette sales declined by 38.9% from 2008

Historic cigarette prices and legal domestic sales 2000-2009[(1)(2)(a)]



CAGR (%)	2000-2003	2003-2007	2007-2009	2008-2009
Legal domestic sales	*2.8%*	*15.1%*	*-33.0%*	*-38.9%*
Average pack price	*n/a*	*n/a*	*47.4%*	*29.3%*
Consumption	*n/a*	*n/a*	*-16.8%*	*-20.5%*

Note: (a) This report and Project Star 2007 and 2008 results use 4.7 billion cigarettes as estimated legal domestic sales (LDS) in Latvia in 2007. However, PMI internal estimates indicate that LDS in 2007 was 4.5 billion cigarettes. Use of the 4.5 billion cigarette estimate for LDS in 2007 implies a total consumption of 4.0 billion cigarettes, which is in line with the implied consumption decline between 2006 and 2008

(b) Legal domestic sales were adjusted upwards by 0.24 billion cigarettes in the 2008 EU Flows Model to control for the impact of inventory loading

Sources: (1) In Market Sales supplied by PMI

(2) Weighted average pack price supplied by PMI

(3) 'Stricter limits on tobacco products crossing border into Latvia approved', The Baltic Course, September 2009

In January 2009 excise taxes were increased, whilst stricter border regulations were introduced from September

- From September 2009 the border limit between Latvia and non-EU countries was reduced to 40 cigarettes, allowed on a maximum of one journey across the border per day[(3)]
  - prior to this change the legal limit was 200 cigarettes, with no restriction on the number of trips made per day

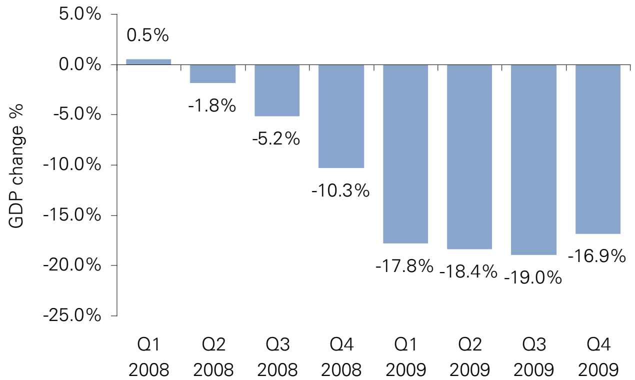
Market developments 2009

Price increases were passed through to the market in the months following the January 2009 excise tax increase

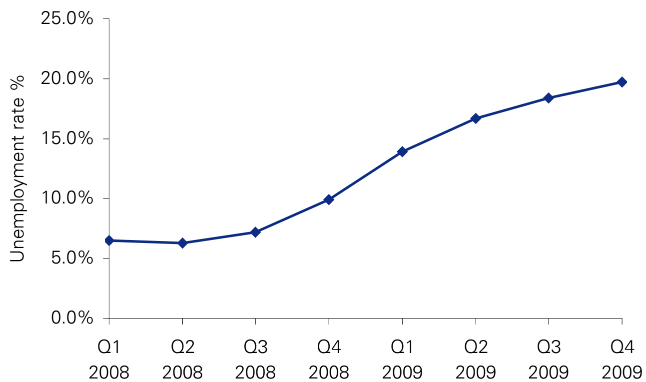
Economic conditions worsened in Latvia in 2009 as GDP declined and unemployment increased

The Latvian lat strengthened against the Russian rouble in 2009 therefore the relative price of cigarettes from Russia declined

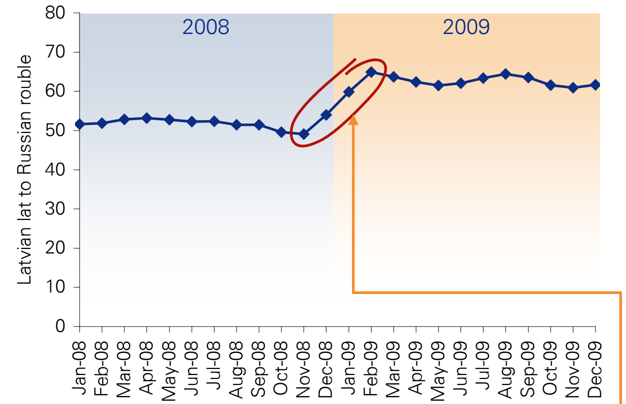
GDP percentage change compared to equivalent quarter in prior year 2008-2009[1]



Unemployment by quarter 2008-2009[2]



Exchange rate of Latvian Lat to Russian Rouble 2008-2009[3]



- By February 2009 the Latvian lat had appreciated by approximately 25% compared to the same period in 2008
- The Latvian lat is pegged to the euro

Source:
(1) Latvian National Statistics, Gross Domestic Product (chain linked reference year 2000), accessed March 2010
(2) Latvian National Statistics, Unemployment rate, accessed March 2010
(3) Datastream, Russian rouble to Latvian lat exchange rate, accessed March 2010

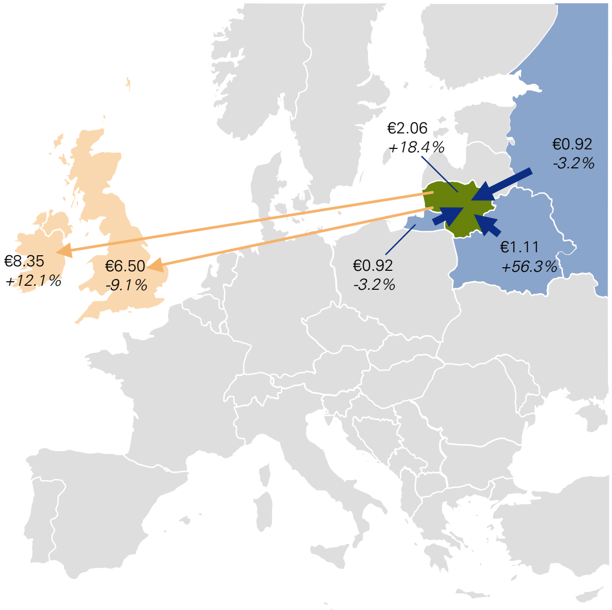
Contents – country detail

Market Overview

The share of cigarette consumption in Lithuania accounted for by counterfeit and contraband increased to 22.5% in 2009

Outflows from Lithuania to other EU markets declined in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(3)(a)(b)(c)]



Key: ■ *Lithuania*
■ *Major source countries*
■ *Major destination countries*

Note: *(a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarettes flow volume*

(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009

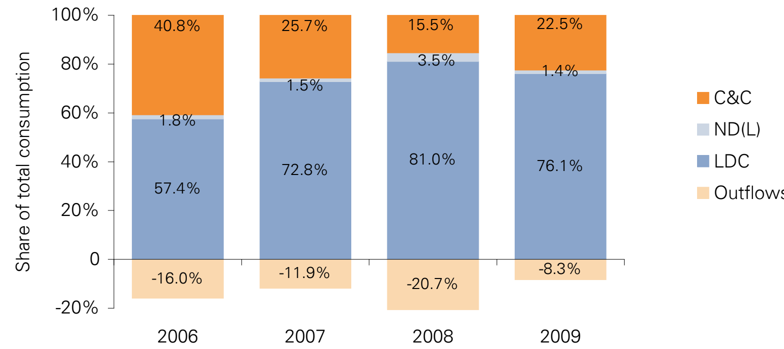
(c) Cigarette prices in Russia and the UK declined in euro terms in 2009 as a result of exchange rate changes of the rouble and pound versus the euro

Sources: *(1) KPMG EU Flows Model and interviews with PMI Local Management*

(2) Synovate ND(L) research 2006, 2007, AC Nielsen ND(L) research 2009

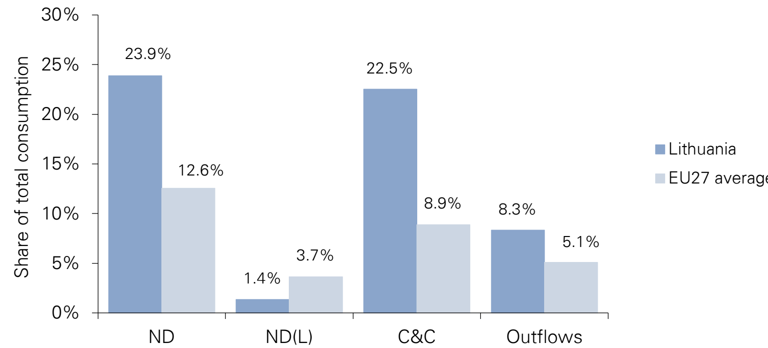
(3) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

Share of Lithuania consumption by type 2006-2009[(1)(2)]



Volume (bn cigarettes)	**5.6**	**6.2**	**5.7**	**4.9**

Comparison of EU and Lithuanian consumption by type 2009[(1)(2)]



Total non-domestic consumption

Consumption of non-domestic cigarettes increased to 1.18 billion cigarettes in 2009 compared to 1.09 billion the previous year

Non-domestic inflows from Russia increased by 32% in 2009, whilst inflows from Belarus increased by 93%

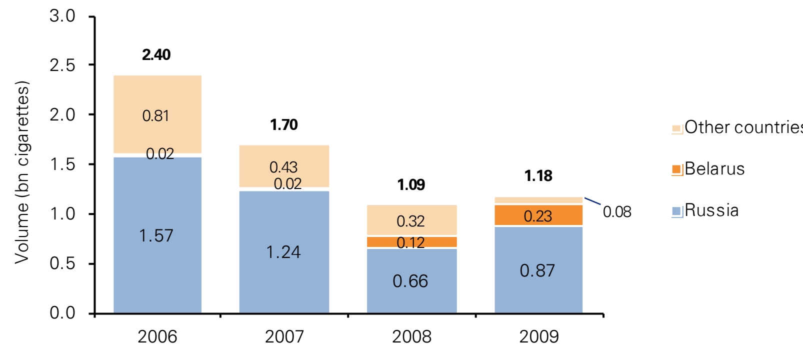
Total Lithuania consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	4.14	5.27	5.84	4.17
Outflows	-0.90	-0.74	-1.19	-0.41
Legal domestic consumption (LDC)	3.24	4.53	4.65	3.76
Non-domestic legal (ND(L))	0.10	0.09	0.20	0.07
Counterfeit and contraband (C&C)	2.30	1.60	0.89	1.11
Total non-domestic	2.40	1.70	1.09	1.18
Total consumption	**5.65**	**6.23**	**5.74**	**4.94**

Outflows from Lithuania

Destination country (billion cigarettes)	2006	2007	2008	2009
UK	0.20	0.15	0.32	0.19
Ireland	0.13	0.06	0.12	0.07
Poland	0.34	0.31	0.38	0.02
Latvia	0.09	0.09	0.12	0.02
Other EU	0.15	0.12	0.25	0.12
Total outflows	**0.90**	**0.74**	**1.19**	**0.41**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]

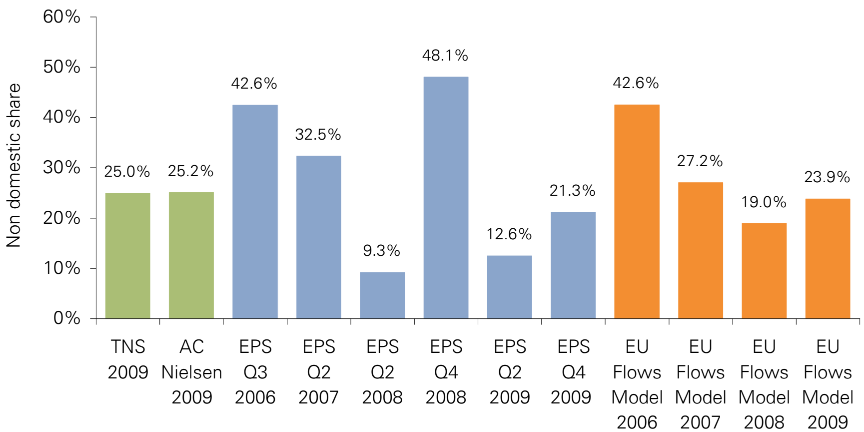


Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) Synovate ND(L) research 2006, 2007, AC Nielsen ND(L) research 2009

Comparison of external sources for non-domestic estimates

The EU Flows Model estimate for non-domestic consumption in 2009 uses a non-domestic incidence rate of 23.9%

Non-domestic market estimates[(1)(2)(3)(4)]



Sources: (1) KPMG EU Flows Model
(2) PMI Empty Pack Surveys Q3 2006, Q2 2007, Q2 2008, Q4 2008, Q2 2009, Q4 2009
(3) 'Health Warning Survey - Lithuania', TNS Latvia, 2009
(4) 'Cigarette volume sales trends in Lithuania', AC Nielsen, 2009

Non-domestic incidence in 2009 is based on quarterly consumption analysis

- Due to volatility in the quarterly domestic sales trend, the timing of Empty Pack Surveys has been compared with legal domestic sales on a quarterly basis to provide an estimate of quarterly consumption
- The quarterly consumption estimate has then been used to estimate annual total consumption and non-domestic consumption levels

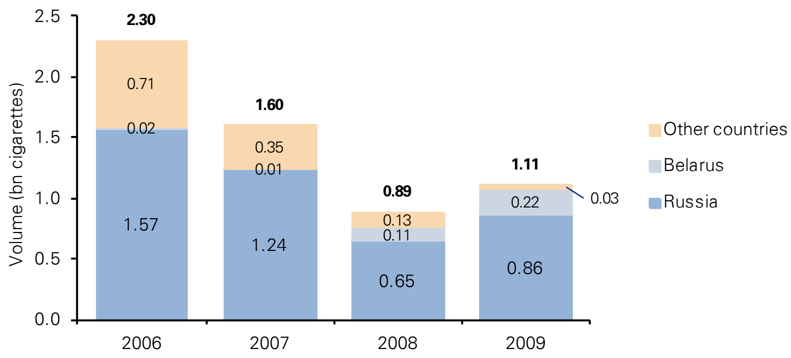
Other estimates of non-domestic incidence provide additional corroboration for EU Flows Model results

- The TNS estimate is based on interviews where respondents agreed to show the current pack of cigarettes being smoked
- AC Nielsen estimate the 'grey market', assumed to be equivalent to non-domestic incidence in Project Star, is based on the change in smoking prevalence and daily cigarette consumption in 2009

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 1.11 billion cigarettes of domestic consumption in 2009, an increase of 25%

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



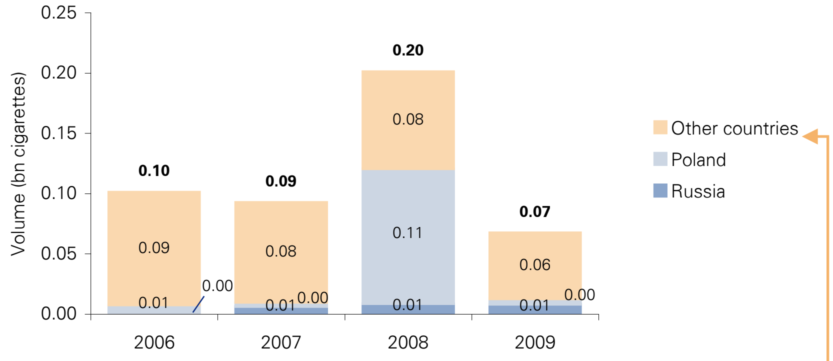
	2006	2007	2008	2009
C&C share of consumption:	**41%**	**26%**	**15%**	**23%**
C&C share of non-domestic:	**96%**	**95%**	**82%**	**94%**

Sources: (1) *KPMG EU Flows Model*
(2) *Synovate ND(L) research 2006, 2007, AC Nielsen ND(L) research 2009*
(3) *Interviews with PMI Local Management*

Non-domestic (legal) breakdown

Non-domestic (legal) volumes declined to 0.07 billion cigarettes in 2009

Non-domestic (legal) by origin 2006-2009[1][2][3][a]



	2006	2007	2008	2009
ND(L) share of consumption:	**2%**	**1%**	**4%**	**1%**
ND(L) share of non-domestic:	**4%**	**5%**	**18%**	**6%**

Non-domestic (legal) by brand 2006-2009[1][2][3][a]

	2006	2007	2008	2009
PMI share of ND(L):	**81%**	**57%**	**67%**	**59%**

ND(L) analysis

	(1) Population 19+		(2) Propensity to travel		Propensity to purchase		(3) Ave. no. of trips		(4) Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**2.8m**	**x**	**37%**	**x**	**18%**	**x**	**5.0**	**x**	**73**	**=**	**0.07bn**
EU rank 2009	**21**		**20**		**23**		**6**		**26**		**26**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 x 2	14.7%	14.7%	6.6%
Average annual cigarettes purchased	3 x 4	223	223	360

Other countries includes small inflows from a number of source markets including Ireland, Sweden and Latvia

A decline in the number of travellers from Lithuania resulted in a lower non-domestic (legal) inflow in 2009

- The number of outbound trips by tourists declined by 26.7% in 2009 compared to 2008[4]

Note: (a) *In 2008 a significant volume of Polish packs were found in the Lithuanian Empty Pack Survey. Consistent with treatment in prior years, this flow was categorised as non-domestic (legal) given the price differential between the countries. Cigarettes from higher priced markets are assumed to be legal purchases made by Lithuanian inhabitants on trips abroad, for example, visits to friends and family*

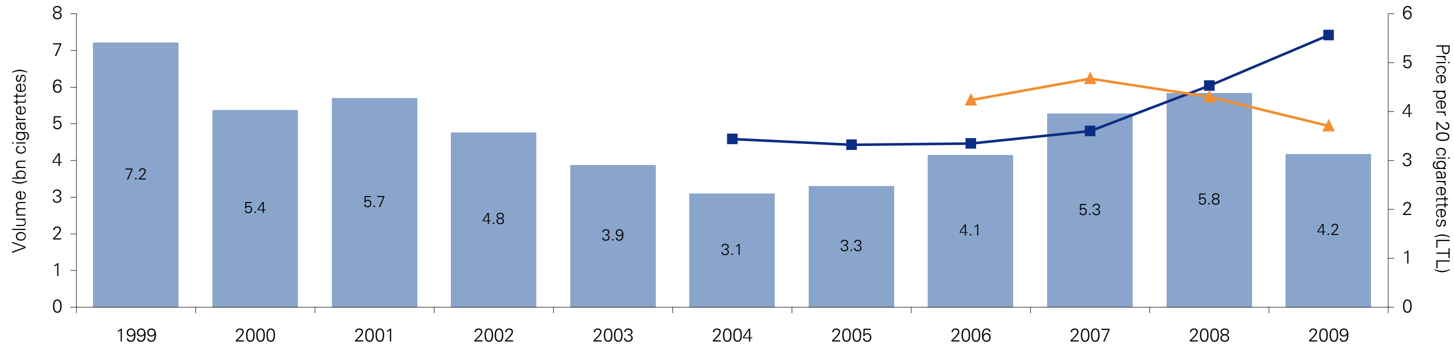
Sources: (1) *KPMG EU Flows Model*
(2) *Synovate ND(L) research 2006, 2007, AC Nielsen ND(L) research 2009*
(3) *Interviews with PMI Local Management*
(4) *Lithuanian National Statistics, Outbound tourism by quarter, accessed April 2010*

Historic sales and pricing trends

Legal domestic cigarette sales declined by 28.5% in 2009

Average pack price increased by 22.7% from 2008 driven by a higher rate of excise tax

Historic cigarette prices and legal domestic sales 1999-2009(1)(2)



CAGR (%)	1999-2004	2004-2006	2006-2008	2008-2009
Legal domestic sales	*-15.5%*	*15.6%*	*18.7%*	*-28.5%*
Average pack price	*n/a*	*-1.4%*	*16.4%*	*22.7%*
Consumption	*n/a*	*n/a*	*0.8%*	*-13.9%*

Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI
(3) 'April annual inflation in Lithuania made up 6.3%', The Baltic Course, May 2009
(4) 'Cigarettes will cost more from September 1st in Lithuania', The Baltic Course, August 2009
(5) The European Commission, Excise Duty Tax Tables (January 2009, July 2009, January 2010), accessed February 2010

Higher excise taxes and a worsening economic environment may have impacted legal domestic sales in 2009

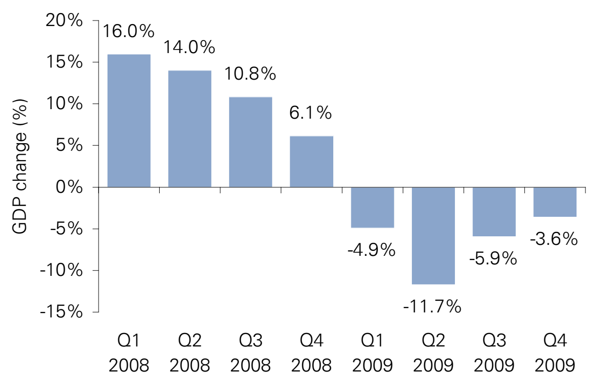
- Excise tax increases were implemented in March and September 2009(3)(4)
  - the combined effect was a change in specific excise tax from 79 litas to 132 litas per 1,000 cigarettes(5)
- Unemployment increased and GDP declined in comparison to 2008

Market developments 2009

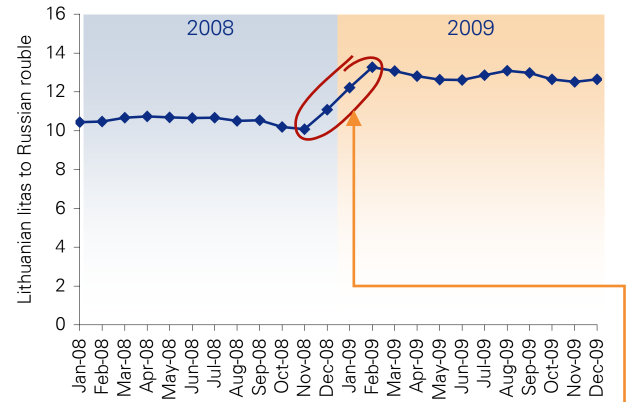
Economic conditions worsened in Lithuania in 2009 as unemployment increased and GDP declined

The Lithuanian litas strengthened against the Russian rouble in 2009 therefore the relative price of cigarettes from Russia declined

GDP percentage change compared to equivalent quarter in prior year 2008-2009(1)

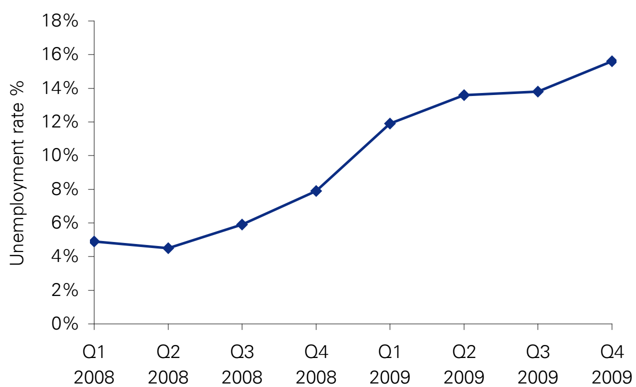


Exchange rate of Lithuanian Litas to Russian Rouble 2008-2009(3)

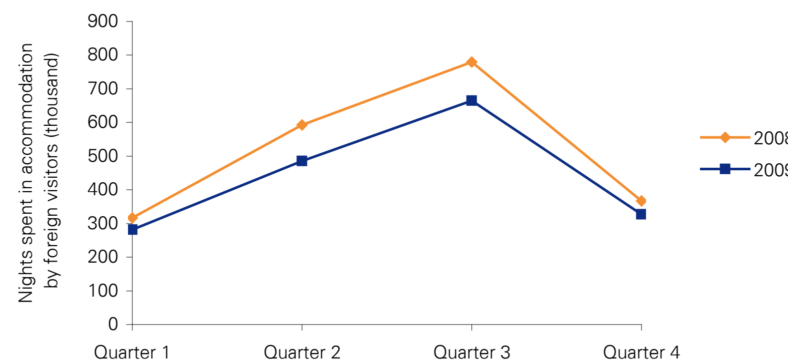


- By February 2009 the Lithuanian litas had appreciated by approximately 27% compared to the same period in 2008
- The Lithuanian litas is pegged to the euro

Unemployment rate by quarter 2008-2009(2)



Inbound tourism by quarter 2008-2009(4)



Source: *(1) Lithuanian National Statistics, GDP at chain linked prices accessed February 2010*
(2) Lithuanian National Statistics, Unemployment rate from LFS, accessed February 2010
(3) Datastream, Russian rouble to Lithuanian litas exchange rate, accessed March 2010
(4) Lithuanian National Statistics, Foreigners spent nights by quarter, accessed March 2010

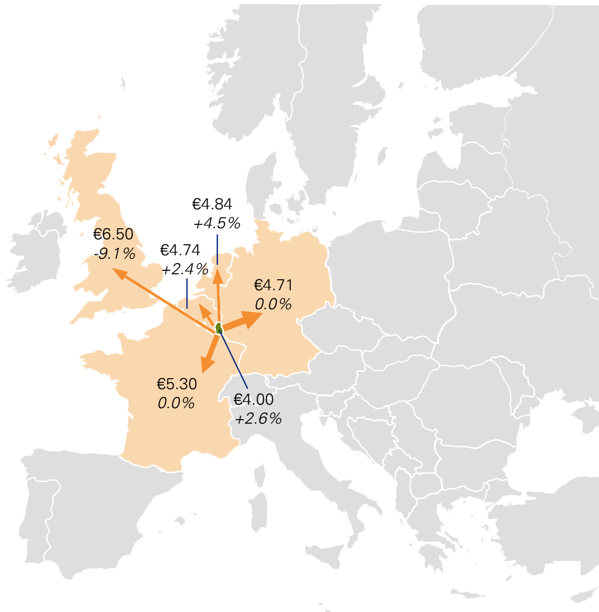
Contents – country detail

Market Overview

Luxembourg has low inflows and high outflows reflecting its lower prices relative to the surrounding countries

Outflows from Luxembourg declined in 2009 but remained significant at approximately three times the domestic consumption

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(3)(a)(b)]

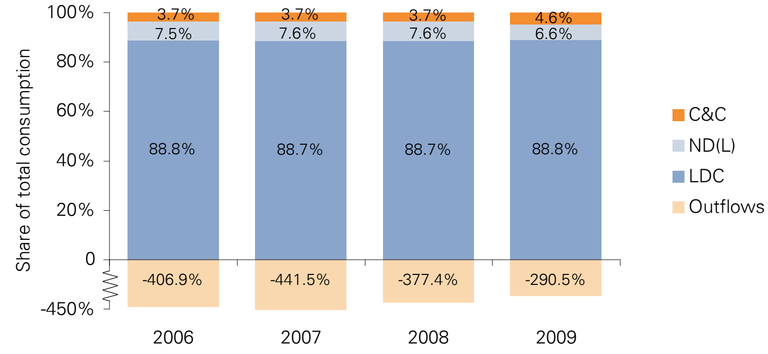


Key: ■ *Luxembourg*
■ *Major destination countries*

Note: (a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow
(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009
(c) Cigarette prices in the UK declined in euro terms in 2009 as a result of exchange rate changes of the pound versus the euro

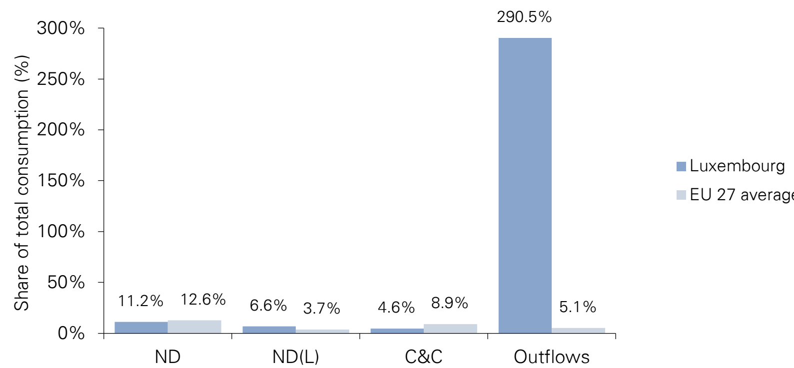
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) Synovate ND(L) research 2006
(3) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

Share of Luxembourg consumption by type 2006-2009[(1)(2)]



Volume (bn cigarettes)	1.0	1.0	1.0	1.1

Comparison of EU and Luxembourg consumption by type 2009[(1)(2)]



Total non-domestic consumption

Consumption of non-domestic cigarettes accounted for 0.12 billion cigarettes in 2009

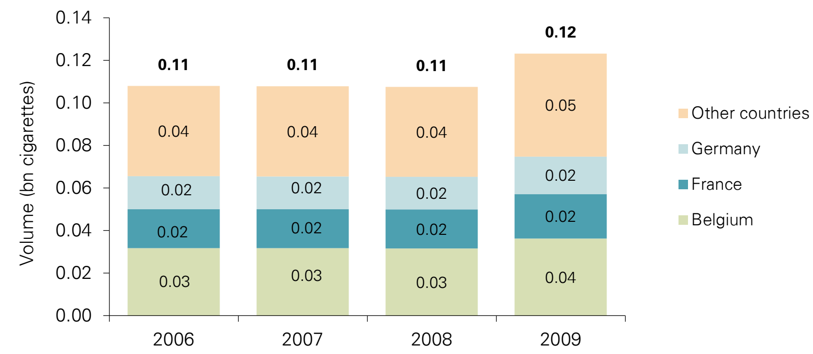
Total Luxembourg consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	4.77	5.05	4.43	4.15
Outflows	-3.92	-4.20	-3.59	-3.18
Legal domestic consumption (LDC)	0.85	0.84	0.84	0.97
Non-domestic legal (ND(L))	0.07	0.07	0.07	0.07
Counterfeit and contraband (C&C)	0.04	0.04	0.04	0.05
Total non-domestic	0.11	0.11	0.11	0.12
Total consumption	**0.96**	**0.95**	**0.95**	**1.10**

Outflows from Luxembourg[1]

Destination country (billion cigarettes)	2006	2007	2008	2009
Germany	0.35	0.38	0.44	0.80
France	1.00	0.95	0.86	0.58
Belgium	0.47	0.25	0.31	0.12
Other	2.10	2.63	1.97	1.68
Total outflows	**3.92**	**4.20**	**3.59**	**3.18**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]

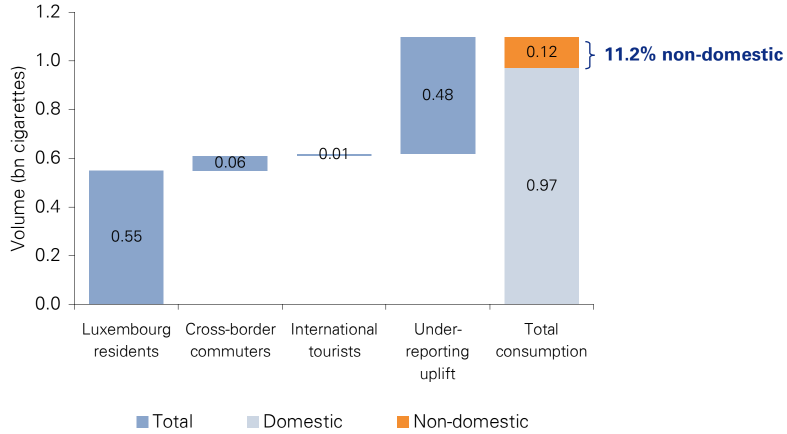


Sources: (1) *KPMG EU Flows Model and interviews with PMI Local Management*
(2) *Synovate ND(L) research 2006*

Estimation of consumption

KPMG estimate of total consumption in Luxembourg is based on the same methodology as in prior years

Consumption estimates 2009[(1)(2)(3)(4)]



Consumption calculation 2009	Luxembourg	Belgium
Population 15+ (million)[(1)]	0.4	8.7
Smoking incidence[(2)]		
● Regular smokers	24.2%	23.7%
● Occasional smokers	4.6%	2.5%
Avg. daily consumption[(3)]	15.2	16.1
Implied consumption (bn cigarettes)[(2)(a)]	0.6	7.3
KPMG consumption (bn cigarettes)[(4)]	n/a	12.9
Implied understatement	44%	44%
Consumption estimate (bn cigarettes)	1.10	n/a

The scale of outflows from Luxembourg and the small size of the domestic market make an exact measurement of domestic consumption very challenging

- The estimation of outflows from Luxembourg requires the measurement of flows from Luxembourg into all other countries
  - these inflows are particularly difficult to measure as they are likely to be concentrated geographically within markets and are relatively small compared to the domestic markets of the destination countries
- As a result, this approach is likely to underestimate the volume of flows out of Luxembourg and hence overstate consumption

We have used consumer survey data to adjust our estimate of consumption in 2009

- We have used consumer survey data to estimate domestic consumption by residents, commuters and visitors to Luxembourg
  - we estimated the extent of under-reporting in the survey data at 44% by performing the same calculation for Belgium, and comparing the result to our own consumption estimates
- Applying an uplift for under-reporting implies total consumption of 1.10 billion cigarettes

We have applied the results of the empty pack survey in Luxembourg to our revised consumption estimate

- The empty pack survey results for Luxembourg imply a non-domestic market share of 11.2%, equivalent to 123 million cigarettes
- There are no external estimates of the size of the non-domestic market in Luxembourg
  - however, this figure is substantially below that for Belgium, which is consistent with its lower price point relative to neighbouring countries and it being a low priority target for smugglers, who are likely to favour larger, higher priced markets

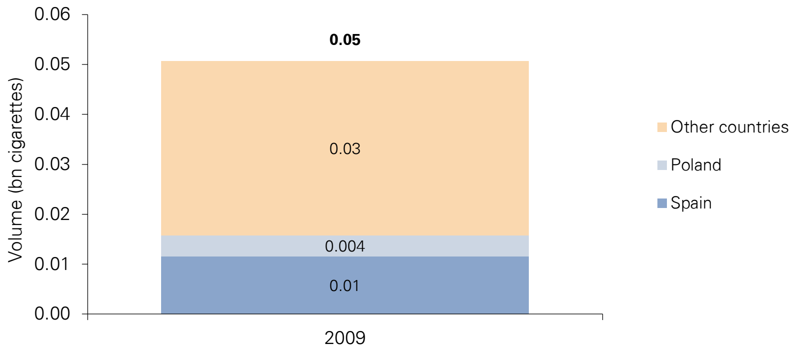
Notes: (a) Implied consumption for Luxembourg includes 0.07 billion cigarettes attributed to international commuters and tourists

Sources: (1) CIA Factbook, Population Estimate, July 2009
(2) European Commission - Eurobarometer, Survey on Tobacco: Analytical Report, March 2009
(3) GCTS (Global Consumer Tracking Survey) provided by PMI
(4) KPMG EU Flows Model

Counterfeit and contraband breakdown

Counterfeit and contraband inflows account for a low level of consumption in Luxembourg

Counterfeit and contraband by origin 2009[(1)(2)(3)]



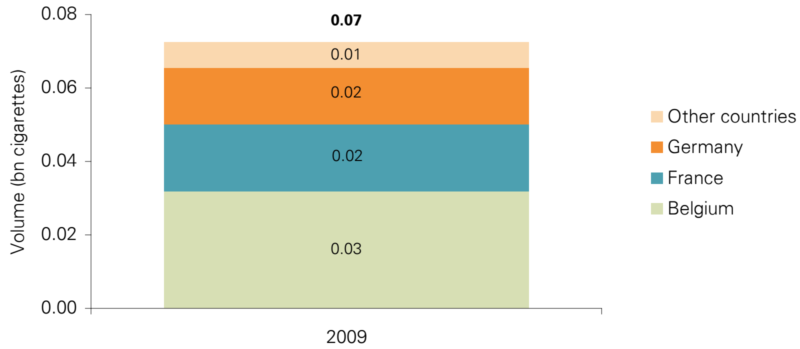
C&C share of consumption:	**5%**
C&C share of non-domestic:	**41%**

Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2006
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

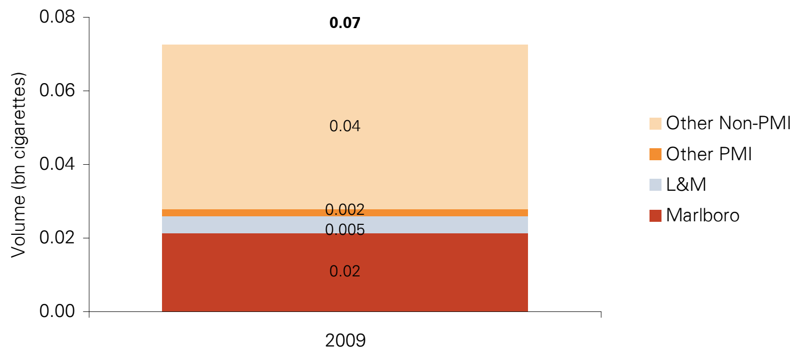
Non-domestic (legal) inflows account for 59% of non-domestic consumption

Non-domestic (legal) by origin 2009[(1)(2)(3)]



ND(L) share of consumption:	**7%**
ND(L) share of non-domestic:	**59%**

Non-domestic (legal) by brand 2009[(1)(2)(3)]



PMI share of ND(L):	**38%**

ND(L) analysis

	Population 19+		(1) Propensity to travel		(2) Propensity to purchase		(3) Ave. no. of trips		(4) Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**0.36m**	x	**88%**	x	**54%**	x	**2.0**	x	**208**	=	**0.07bn**
EU rank 2009	**26**		**1**		**2**		**17**		**6**		**25**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 x 2	47.2%	47.2%	47.2%
Average annual cigarettes purchased	3 x 4	423	423	423

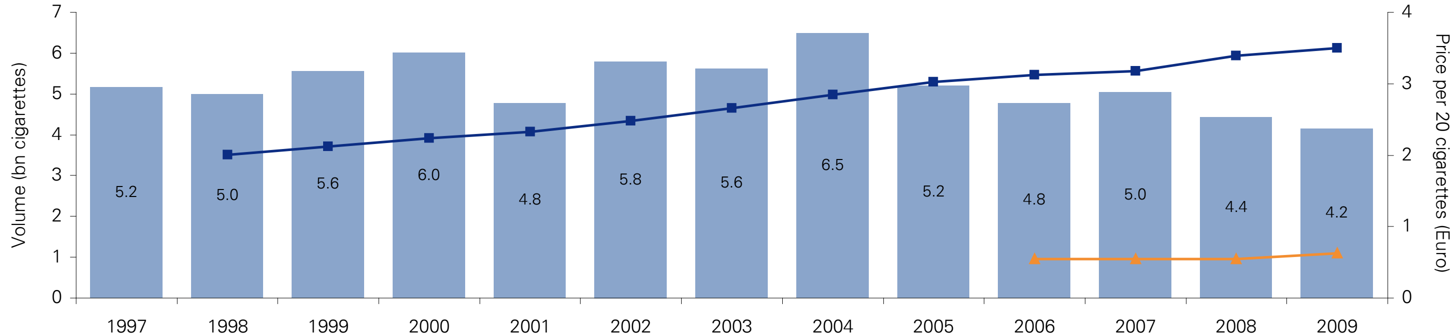
Note: (a) ND(L) and EPS research was not updated in 2007, 2008 and 2009 but corroborating research has not indicated any significant changes to 2009 results

Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2006
(3) Interviews with PMI Local Management

Historic sales and pricing trends

Changes to external demand drivers, such as price differential versus neighbouring countries, have a significant impact on legal domestic sales in Luxembourg

Historic cigarette prices and legal domestic sales 1997-2008(1)(2)



CAGR (%)	1997-2000	2000-2006	2006-2009	2008-2009
Legal domestic sales	*5.2%*	*-3.8%*	*-4.5%*	*-6.3%*
Average pack price	*n/a*	*5.7%*	*3.8%*	*3.1%*
Consumption	*n/a*	*n/a*	*4.4%*	*15.2%*

Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI

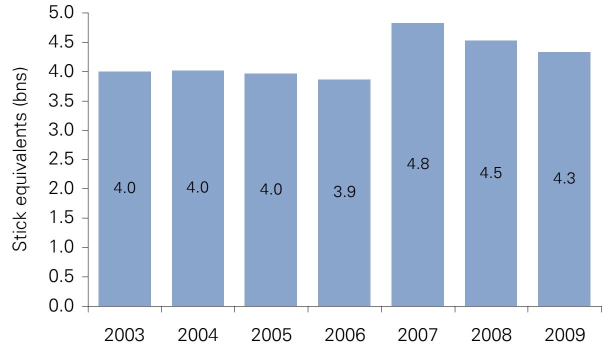
Legal domestic cigarette sales declined by 6.3% in 2009 compared to 2008

- Compared to the previous year, average pack prices increased by 3.1% in 2009

OTP market size and growth

Legal domestic sales of fine cut tobacco accounted for 4.3 billion stick equivalents in 2009

Fine cut tobacco sales in billion stick equivalents 2003-2009[1][a][b]



Cigarette sales (bn cigarettes)	**5.6**	**6.5**	**5.2**	**4.8**	**5.0**	**4.4**	**4.2**

CAGR (%)	2003-2006	2006-2009	2008-2009
Fine cut tobacco	*-1.0%*	*3.8%*	*-4.3%*
Manufactured cigarettes	*-5.3%*	*-4.5%*	*-6.3%*

Notes: (a) Fine cut tobacco volumes have been calculated at one stick per 0.75 grams,
(b) Total OTP sales will include cigars, cigarillos and smokeless tobacco, which are not included in this analysis

Sources: (1) Fine cut tobacco volumes supplied by PM Benelux
(2) In Market Sales data supplied by PMI

Fine cut tobacco sales declined by 4.3% 2009 compared to 2008 but remain above the 2003-2006 levels

- Legal domestic sales of fine cut tobacco accounted for 4.3 billion stick equivalents in 2009, down from 4.5 billion stick equivalents in 2009

Other tobacco product categories account for more than 50% share of overall tobacco sales in Luxembourg

- Total cigarette sales are estimated at 4.2 billion cigarettes[2] versus 4.3 billion cigarettes for fine cut tobacco in 2009
  - anecdotal evidence suggests that the majority of cigarettes and other tobacco products sold in Luxembourg are not consumed domestically
- 2009 sales estimates of pipe tobacco and other smokeless tobacco in Luxembourg are not currently available

Contents – country detail

Market Overview

Consumption of counterfeit and contraband cigarettes in Malta remained stable at 6.4% in 2009

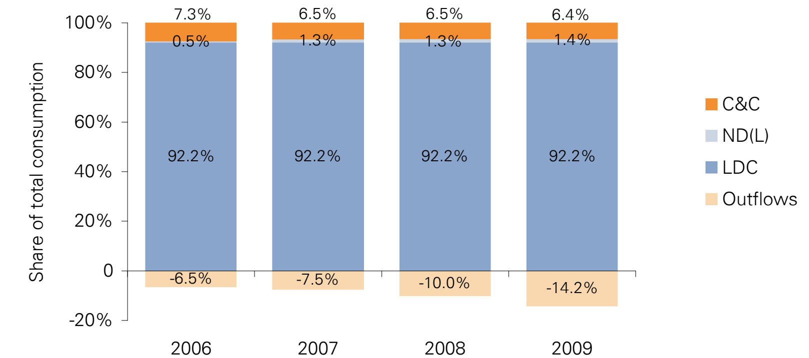
Marlboro 2009 price comparison in Euros and percentage change from 2008[1][3][a][b][c]

Key: ■ *Malta*
■ *Major destination countries*

Note: (a) *Map shows flows over 3% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarette flow volume*
(b) *Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009*
(c) *Cigarette prices in the UK declined in euro terms in 2009 as a result of exchange rate changes of British pounds versus the euro*
(d) *Empty Pack Survey research was not updated in 2007, 2008 or 2009 but corroborating research has not indicated any significant changes to 2006 results*

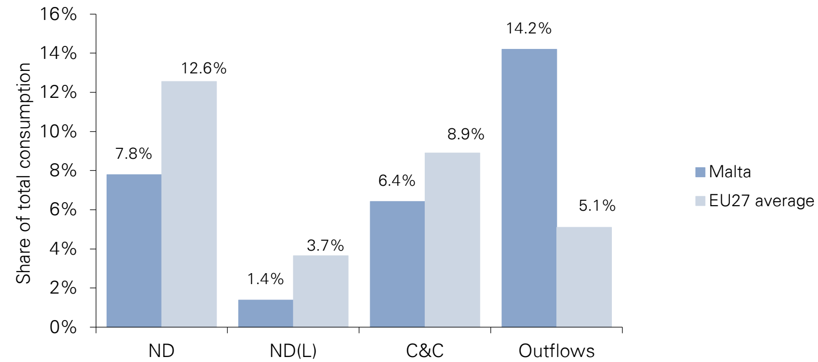
Sources: (1) *KPMG EU Flows Model and interviews with PMI Local Management*
(2) *Synovate ND(L) research 2006*
(3) *Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009*

Share of Malta consumption by type 2006-2009[1][2][d]



	2006	2007	2008	2009
Volume (bn cigarettes)	**0.54**	**0.54**	**0.52**	**0.50**

Proportions of total EU levels 2009[1][2][d]



Total non-domestic consumption

39 million cigarettes of non-domestic origin were consumed in Malta in 2009

Total Malta consumption[1][2][a]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	0.535	0.535	0.535	0.529
Outflows	-0.035	-0.040	-0.053	-0.071
Legal domestic consumption (LDC)	0.500	0.495	0.482	0.458
Non-domestic legal (ND(L))	0.003	0.007	0.007	0.007
Counterfeit and contraband (C&C)	0.040	0.035	0.034	0.032
Total non-domestic	0.042	0.042	0.041	0.039
Total consumption	**0.542**	**0.536**	**0.523**	**0.497**

Outflows from Malta[1]

Destination country (billion cigarettes)	2006	2007	2008	2009
UK	0.027	0.027	0.044	0.039
France	0.000	0.000	0.007	0.020
Other	0.008	0.013	0.001	0.011
Total outflows	**0.035**	**0.040**	**0.053**	**0.071**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]

Note: (a) Empty Pack Survey research was not updated in 2007, 2008 or 2009 but corroborating research has not indicated any significant changes to 2006 results. Consequently, non-domestic incidence remained at 7.8% in 2009. The volume of non-domestic inflows and total consumption have declined in 2009 due to a lower level of Legal Domestic Consumption (LDC) in the market. Project Star methodology calculates non-domestic inflows and total consumption by factoring up LDC based on non-domestic incidence, which remained at the same level as prior years, therefore indicating a lower level of inflows and total consumption in 2009

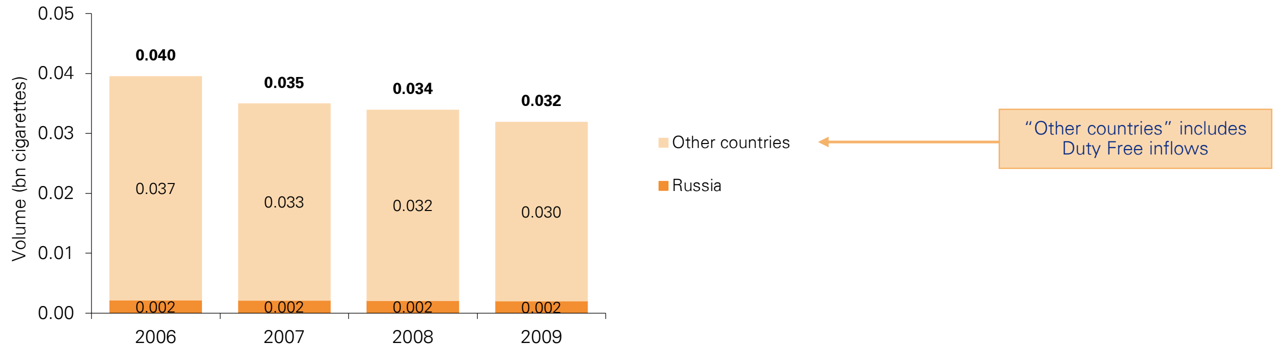
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management

(2) Synovate ND(L) research 2006

Counterfeit and contraband breakdown

Counterfeit and contraband flows to Malta were 32 million cigarettes in 2009

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)(a)]



C&C share of consumption:	**7%**	**7%**	**6%**	**6%**
C&C share of non-domestic:	**93%**	**84%**	**83%**	**82%**

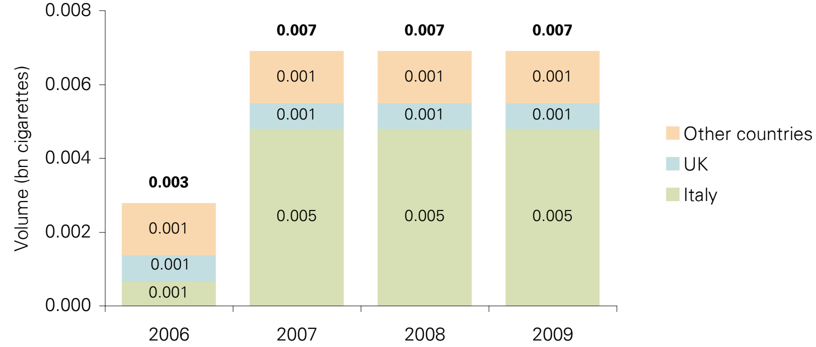
Note: (a) ND(L) and Empty Pack Survey research was not updated in 2007, 2008 and 2009 but corroborating research has not indicated any significant changes to 2006 results

Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2006
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

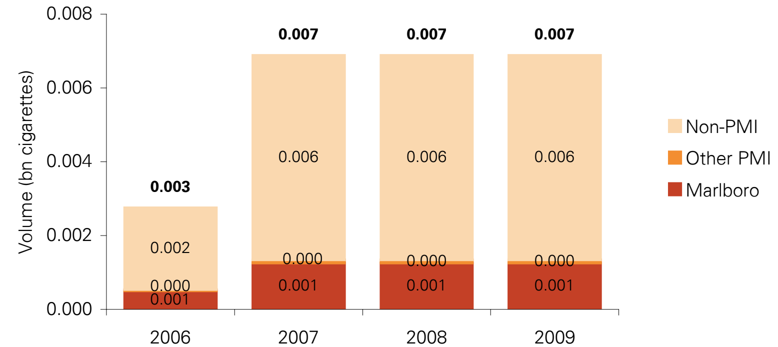
Non-domestic (legal) inflows remained stable in 2009

Non-domestic (legal) by origin 2006-2009[1][2][3][a]



	2006	2007	2008	2009
ND(L) share of consumption:	**1%**	**1%**	**1%**	**1%**
ND(L) share of non-domestic:	**7%**	**16%**	**17%**	**18%**

Non-domestic (legal) by brand 2006-2009[1][2][3][a]



Non-PMI brands include Rothmans and Rothmans Royals

	2006	2007	2008	2009
PMI share of ND(L):	**20%**	**20%**	**20%**	**20%**

ND(L) analysis

	(1) Population 19+		(2) Propensity to travel		Propensity to purchase		(3) Ave. no. of trips		(4) Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**0.31m**	**x**	**30%**	**x**	**8%**	**x**	**4.6**	**x**	**196**	**=**	**0.007bn**
EU rank 2009	**27**		**22**		**27**		**7**		**7**		**27**

Non-domestic (legal) research was not updated in 2007, 2008 and 2009 but corroborating research has not indicated any significant changes to 2006 results

- The total volume of outbound passengers from Malta remained stable in 2009[4][b]
- Travellers to Italy and the UK represented 56% of outbound passengers from Malta in 2009, compared to 54% in 2008[4]

Note: (a) ND(L) inflows to Malta are higher in 2007 to 2009 compared to 2006 due to a change in treatment for inflows from Italy. From 2007, all inflows from Italy are assumed to be legal to reflect that cigarette prices in Italy are higher than in Malta

(b) According to the National Statistics Office of Malta the total volume of outbound passengers from Malta was approximately 302,000 in 2009, an increase of 0.1% compared to 2008

Sources: (1) KPMG EU Flows Model

(2) Synovate ND(L) research 2006

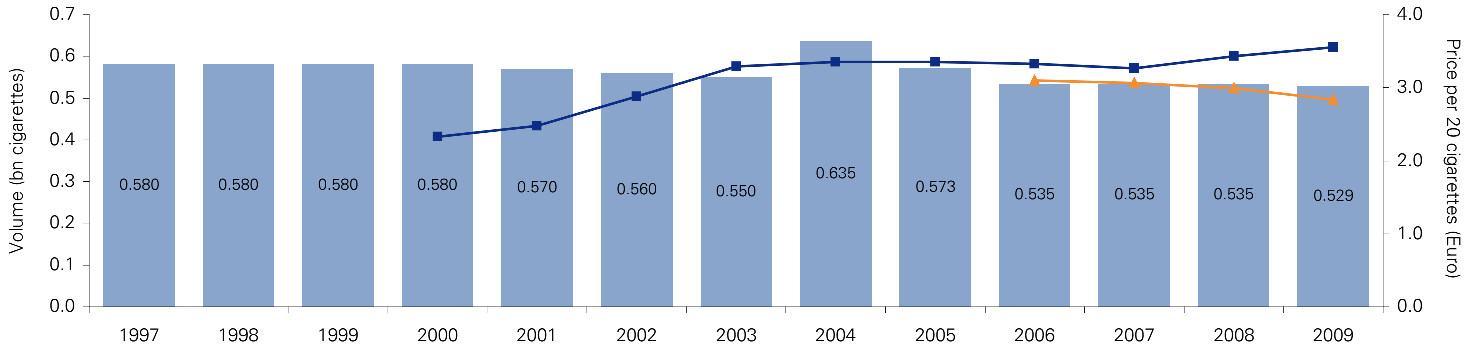
(3) Interviews with PMI Local Management

(4) National Statistics Office of Malta, Outbound Tourism: December 2009, accessed May 2010

Historic sales and pricing trends

Legal domestic cigarette sales declined by 1.1% in 2009 compared to 2008

Historic cigarette prices and legal domestic sales 1997-2009(1)(2)



CAGR (%)	1997-2003	2003-2006	2006-2009	2008-2009
Legal domestic sales	*-0.9%*	*-0.9%*	*-0.4%*	*-1.1%*
Average pack price	*n/a*	*0.4%*	*2.2%*	*3.5%*
Consumption	*n/a*	*n/a*	*-2.8%*	*-5.0%*

Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI
(3) Eurostat, Arrivals of non-residents, accessed May 2010

Legal domestic sales declined by 1.1% in 2009, whilst average pack price increased by 3.5%

- Smoking regulation that requires bars, restaurants and cafes to allocate designated smoking areas on their premises has been in place since 2005

Inbound tourists to Malta declined by 11.5% in 2009(3)

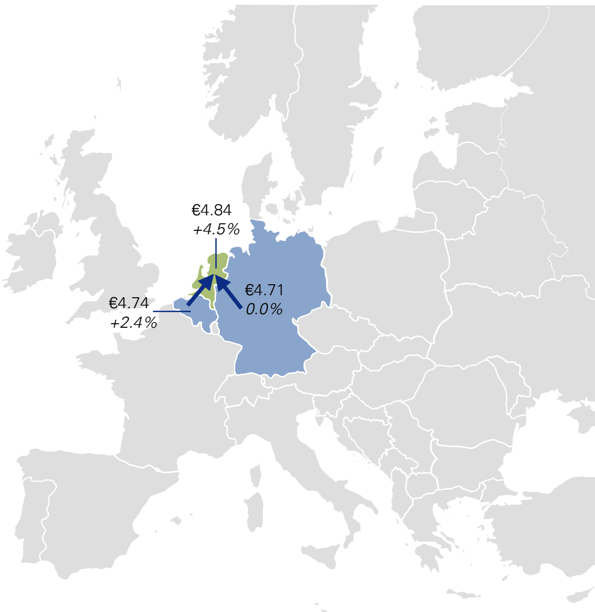
- Tourists are understood to account for a significant proportion of Maltese legal domestic sales

Contents – country detail

Market Overview

Non-domestic cigarette consumption in the Netherlands declined to 10.8% of the total cigarette consumption in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[1][3][a][b]



Key: ■ *Netherlands*
■ *Major source countries*

Note: (a) *Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarette flow volume*

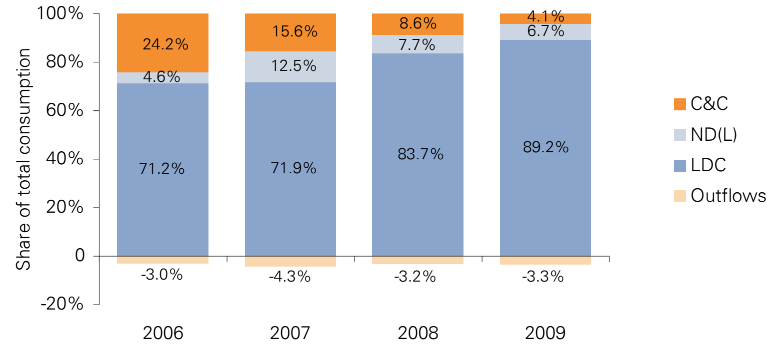
(b) *Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009*

Sources: (1) *KPMG EU Flows Model and interviews with PMI Local Management*

(2) *Synovate ND(L) research 2006, 2007, 2008 and 2009*

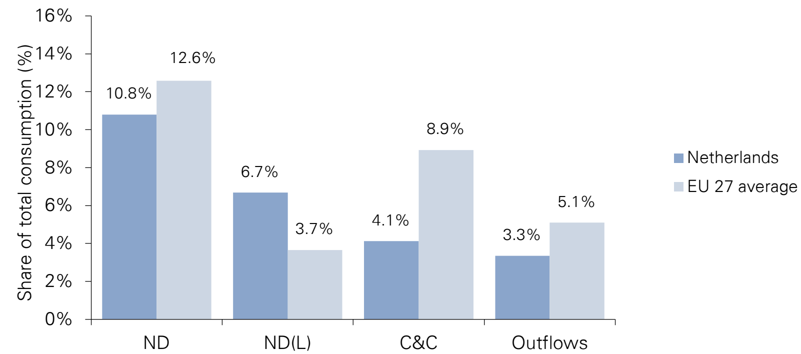
(3) *Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009*

Share of Dutch consumption by type 2006-2009[1][2]



Volume (bn cigarettes)	19.0	19.1	16.8	14.5

Comparison of EU and Dutch consumption by type 2009[1][2]



Total non-domestic consumption

Consumption of non-domestic cigarettes declined to 1.56 billion cigarettes in 2009 compared to 2.75 billion the previous year

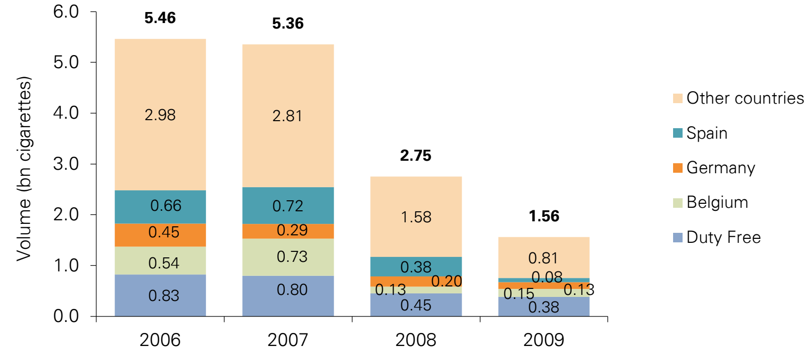
Total Dutch consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	14.11	14.51	14.62	13.39
Outflows	-0.57	-0.82	-0.53	-0.48
Legal domestic consumption (LDC)	13.54	13.69	14.09	12.91
Non-domestic legal (ND(L))	0.87	2.38	1.30	0.97
Counterfeit and contraband (C&C)	4.59	2.97	1.45	0.60
Total non-domestic	5.46	5.36	2.75	1.56
Total consumption	**19.01**	**19.05**	**16.84**	**14.47**

Outflows from the Netherlands[1]

Destination country (billion cigarettes)	2006	2007	2008	2009
France	0.14	0.26	0.08	0.14
Germany	0.18	0.16	0.20	0.13
Belgium	0.09	0.05	0.02	0.11
UK	0.08	0.17	0.12	0.06
Other EU	0.08	0.17	0.12	0.04
Total outflows	**0.57**	**0.82**	**0.53**	**0.48**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]

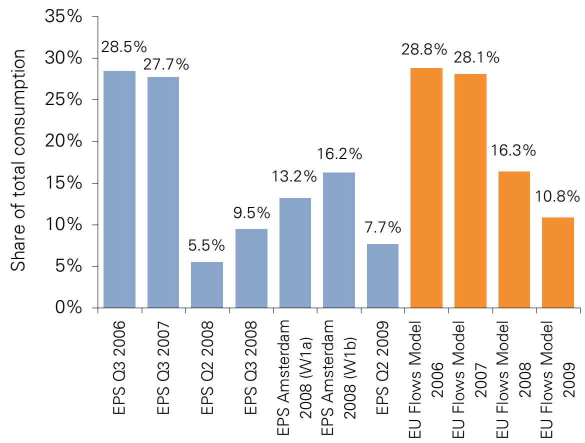


Sources: (1) *KPMG EU Flows Model and interviews with PMI Local Management*
(2) *Synovate ND(L) research 2006, 2007, 2008 and 2009*

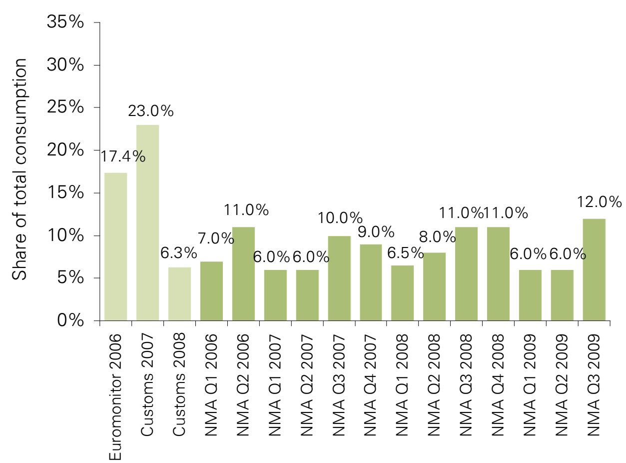
Comparison of external sources for non-domestic estimates

The EU Flows Model indicates a decline in non-domestic consumption in 2009

Non-domestic market estimates[1][2]



Other non-domestic market estimates[3][4][5][6]



Both the EU Flows Model and the PMI Empty Pack Survey conducted in 2009 show a decline in non-domestic inflows compared to the previous year

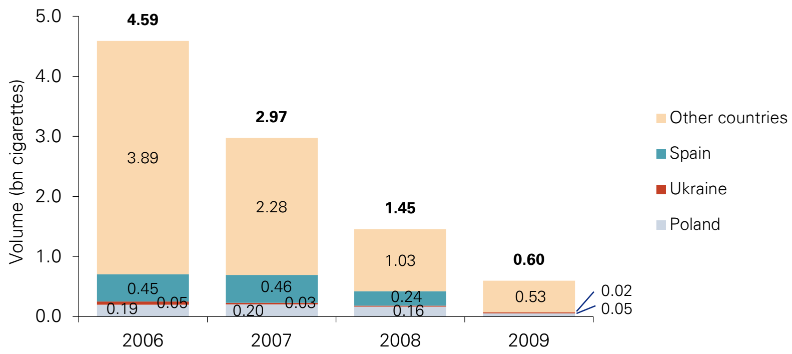
- The EU Flows Model estimate incorporates the results of both the PMI Q2 EPS and the quarterly non-domestic trends indicated by the NMA surveys
- KPMG have analysed the quarterly legal domestic sales trends and the quarterly non-domestic incidence results to understand the quarterly variance in total consumption
  - on this basis an upwards adjustment has been made to the PMI Q2 EPS results to more accurately reflect the full year picture for 2009

Sources: *(1) KPMG EU Flows Model*
(2) PMI EPS Q2 2006, Q3 2007, Q2 2008, Q3 2008, Amsterdam Survey 2008, Q2 2009
(3) Euromonitor, 2006
(4) Interview with Netherlands Customs in April 2008
(5) 'Illegale handel van shag en sigaretten: Nederland als criminele groeimarkt', Integis B.V. for Vereniging Nederlandse Kerftabakindustrie (VNK), October 2008
(6) 'Determine Market Share of International Tobacco Packages Cigarettes and RYO', TrendBox on behalf of Vereniging Nederlandse Kerftabakindustrie (VNK) and Stichting Sigarettenindustrie, February 2010

Counterfeit and contraband breakdown

Counterfeit and contraband inflows declined to 0.60 billion cigarettes in 2009, compared to 1.45 billion in 2008

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



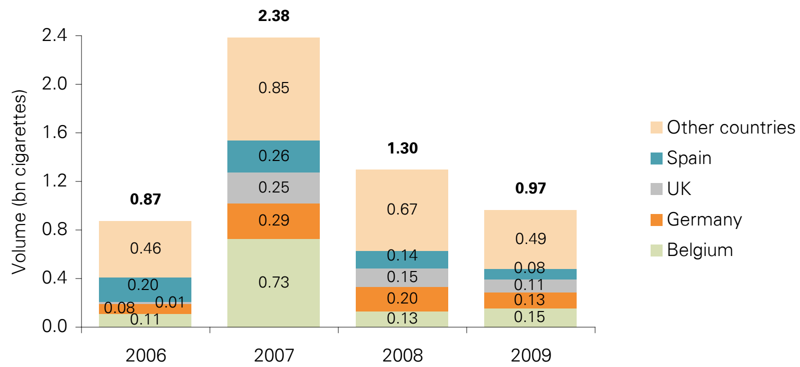
	2006	2007	2008	2009
C&C share of consumption:	**24%**	**16%**	**9%**	**4%**
C&C share of non-domestic:	**84%**	**56%**	**53%**	**38%**

Sources: (1) KPMG EU Flows Model
(2) Synovate ND(L) research 2006, 2007, 2008 and 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

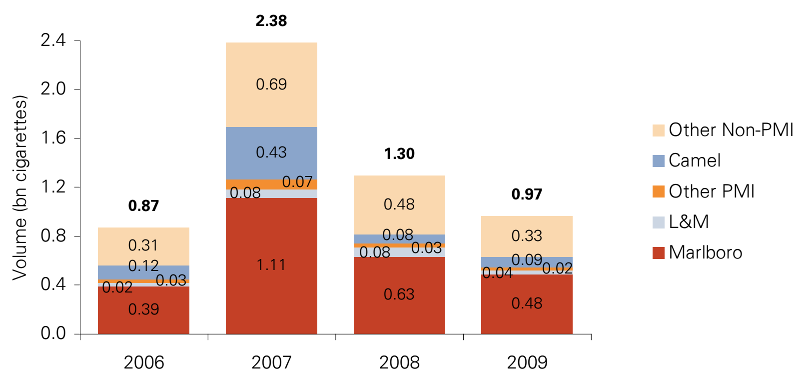
Non-domestic (legal) share of consumption declined to 7% in 2009

Non-domestic (legal) by origin 2006-2009[1)(2)(3)(a]



	2006	2007	2008	2009
ND(L) share of consumption:	**5%**	**13%**	**8%**	**7%**
ND(L) share of non-domestic:	**16%**	**44%**	**47%**	**62%**

Non-domestic (legal) by brand 2006-2009[1)(2)(3]



	2006	2007	2008	2009
PMI share of ND(L):	**52%**	**53%**	**57%**	**56%**

ND(L) analysis

	1 Population 19+		2 Propensity to travel		Propensity to purchase		3 Ave. no. of trips		4 Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**13.0m**	x	**65%**	x	**30%**	x	**1.6**	x	**146**	=	**0.58bn[(b)]**
EU rank 2009	**8**		**5**		**11**		**24**		**13**		**11**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 x 2	25.1%	19.1%	19.7%
Average annual cigarettes purchased	3 x 4	517	327	226

Note: (a) *ND(L) inflows in 2007, 2008 and 2009 are higher than those in 2006 partly as a result of changes in treatment of inbound tourism flows. In 2006, had the same methodology been applied, ND(L) including overseas inbound visitor flows would have been approximately 1.33 billion cigarettes*

(b) *ND(L) analysis from Synovate excludes adjustments for inbound tourism flows. Total ND(L) including these inbound tourism inflows is 0.97 billion cigarettes*

Sources: (1) *KPMG EU Flows Model*

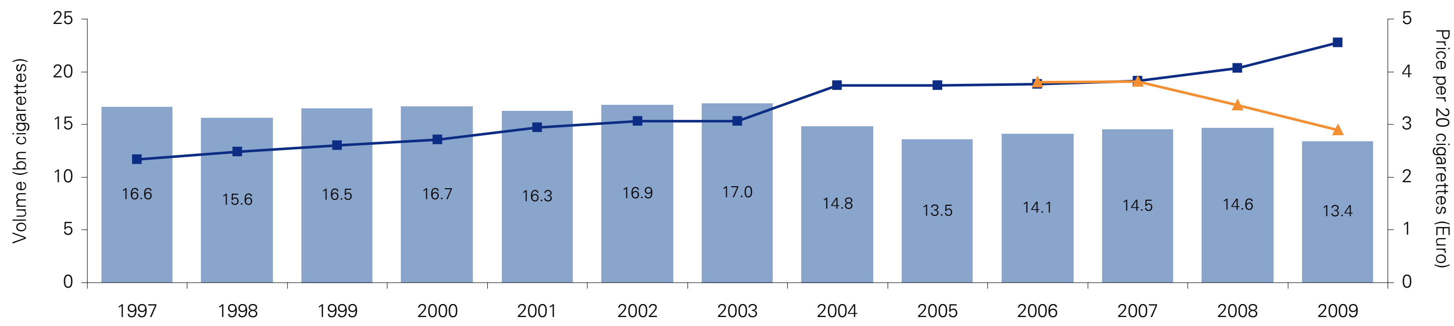
(2) *Synovate ND(L) research 2006, 2007, 2008 and 2009*

(3) *Interviews with PMI Local Management*

Historic sales and pricing trends

The increasing trend in legal domestic sales seen between 2005 and 2008 was reversed in 2009 with a 8.4% decline in volumes compared to the previous year

Historic cigarette prices and legal domestic sales 1997-2009[(1)(2)(a)]



CAGR (%)	1997-2001	2001-2005	2005-2009	2008-2009
Legal domestic sales	*-0.5%*	*-4.5%*	*-0.3%*	*-8.4%*
Average pack price	*5.9%*	*6.3%*	*5.0%*	*11.8%*
Consumption	*n/a*	*n/a*	*-8.7%*	*-14.1%*

Note: (a) Consumption CAGR is from 2006 to 2009
Sources: (1) Tax stamp data supplied by PMI is used for historic data; In Market Sales data based on tax stamp and AC Nielsen is used for 2007, 2008 and 2009
(2) Weighted average pack price supplied by PMI
(3) Eurostat, Gross Domestic Product, accessed March 2010
(4) CBS StatLine, National accounts: Macroeconomic data, accessed March 2010
(5) Eurostat, Unemployment rates, accessed March 2010

Legal domestic sales declined by 8.4% in 2009 whilst average pack prices increased by 11.8%

- Legal domestic sales grew at an annual rate of 2.6% between 2005-2008

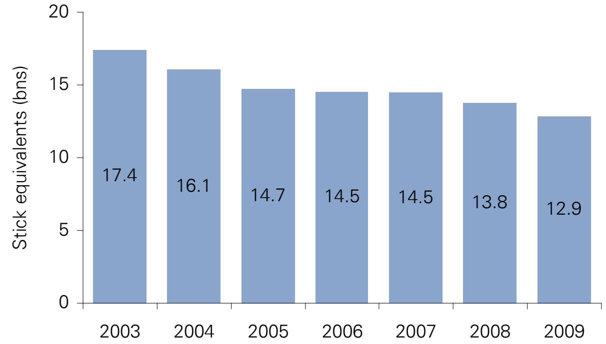
Economic conditions worsened in the Netherlands in 2009

- Gross Domestic Product declined by 4.0% to 572.0 billion euro in 2009[(3)(4)]
- The unemployment rate in the Netherlands increased by 0.6 percentage points in comparison with 2008 to 3.4% in 2009[(5)]

OTP market size and growth

Sales of smoking tobacco declined by 6.8% to 12.9 billion sticks equivalents in 2009

Smoking tobacco sales in billion stick equivalents 2003-2009[(1)(a)(b)]



	2003	2004	2005	2006	2007	2008	2009
Cigarette sales (bn cigarettes)	**17.0**	**14.8**	**13.5**	**14.1**	**14.5**	**14.6**	**13.4**

CAGR (%)	2003-2006	2006-2009	2008-2009
Smoking tobacco	*-5.9%*	*-4.0%*	*-6.8%*
Manufactured cigarettes	*-6.1%*	*-1.7%*	*-8.4%*

Notes: (a) Smoking tobacco volumes have been calculated at one stick per 0.75 grams
(b) Total OTP sales will include cigars, cigarillos and smokeless tobacco, which are not included in this analysis
Source: (1) Smoking tobacco volumes supplied by PM Benelux

Sales of smoking tobacco fell by 6.8% to 12.9 billion sticks equivalents in 2009

- Legal sales of manufactured cigarettes declined by 8.4% over the same period

Smoking tobacco accounts for the majority of Other Tobacco Products volumes in the Netherlands

- Smoking tobacco accounted for 98% of the total Other Tobacco Products volumes (excluding smokeless tobacco) in 2007
  - 2008 and 2009 sales estimates of cigar and cigarillos in the Netherlands are currently not available

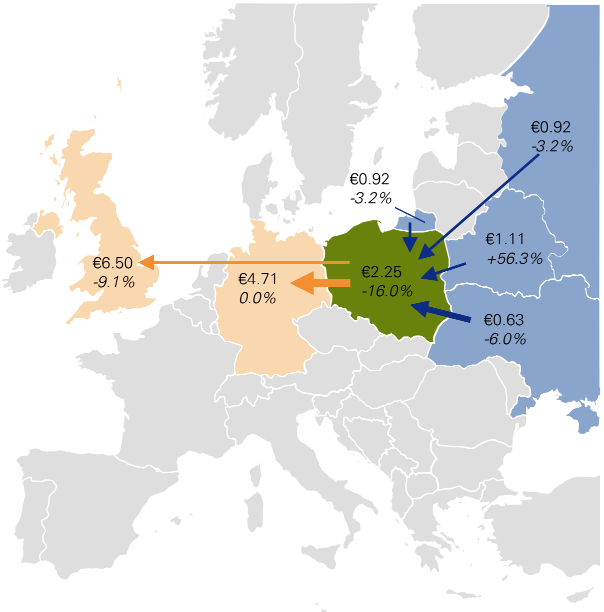
Contents – country detail

Market Overview

The share of cigarette consumption in Poland accounted for by counterfeit and contraband increased to 11.8% in 2009

The cigarette price in Poland has declined in euro terms in 2009 as a result of exchange rate changes in the zloty versus the euro

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(3)(a)(b)(c)]

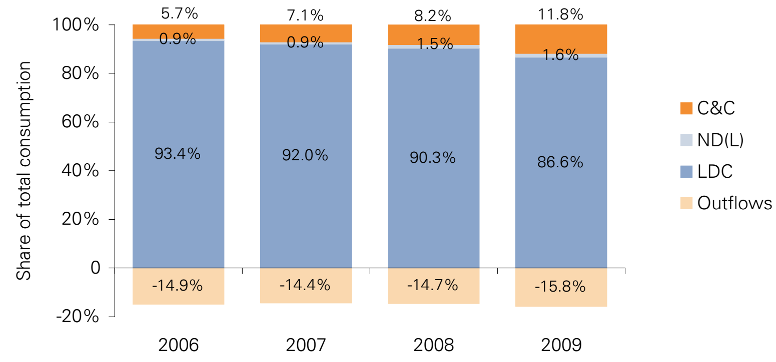


Key:
- *Poland*
- *Major source countries*
- *Major destination countries*

Note:
(a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarette flow volume
(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009
(c) Cigarette prices in Poland, Russia, Ukraine and the UK declined in euro terms in 2009 as a result of exchange rate changes of the zloty, rouble, hryvnia and pound versus the euro

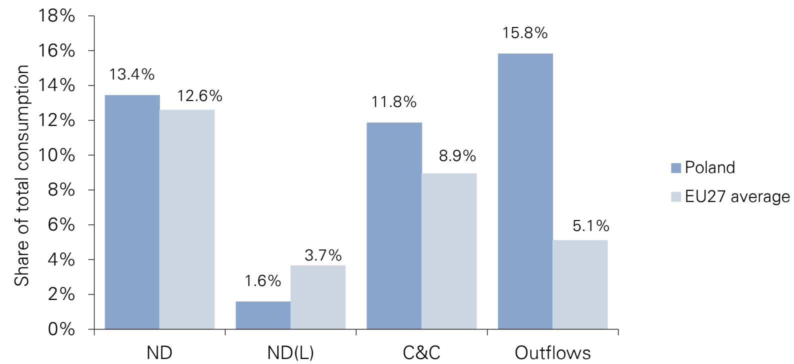
Sources:
(1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009
(3) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

Share of Poland consumption by type 2006-2009[(1)(2)]



Volume (bn cigarettes)	**66.9**	**65.7**	**60.1**	**59.7**

Comparison of EU and Polish consumption by type 2009[(1)(2)]



Total non-domestic consumption

Consumption of non-domestic cigarettes increased to 8.02 billion cigarettes in 2009 compared to 5.80 billion in the previous year, driven largely by an increase in inflows from Ukraine and Belarus

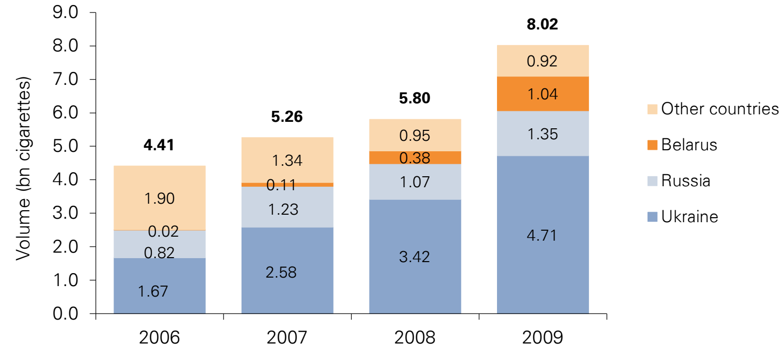
Total Poland consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	72.44	69.91	63.14	61.12
Outflows	-9.94	-9.47	-8.81	-9.43
Legal domestic consumption (LDC)	62.50	60.44	54.32	51.68
Non-domestic legal (ND(L))	0.61	0.57	0.89	0.94
Counterfeit and contraband (C&C)	3.80	4.69	4.92	7.07
Total non-domestic	4.41	5.26	5.80	8.02
Total consumption	**66.92**	**65.70**	**60.13**	**59.70**

Outflows from Poland[1]

Destination country (billion cigarettes)	2006	2007	2008	2009
Germany	6.53	6.85	6.32	7.54
UK	1.40	1.02	0.93	1.01
France	0.41	0.32	0.41	0.28
Sweden	0.27	0.23	0.19	0.04
Other EU	1.33	1.05	0.97	0.57
Total outflows	**9.94**	**9.47**	**8.81**	**9.43**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]

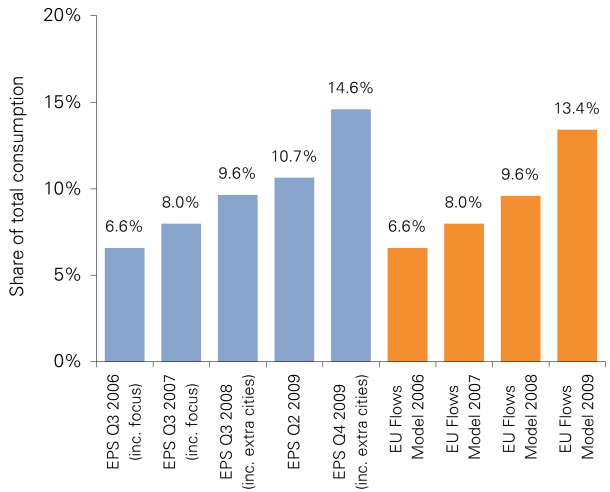


Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009

Comparison of external sources for non-domestic estimates

The EU Flows Model estimate for non-domestic consumption in 2009 is calculated by weighting results from Empty Pack Surveys conducted in Quarter 2 and Quarter 4

Non-domestic market estimates[1][2]



Sources: (1) KPMG EU Flows Model
(2) PMI Empty Pack Surveys Q3 2006, Q3 2007, Q3 2008, Q2 2009 and Q4 2009

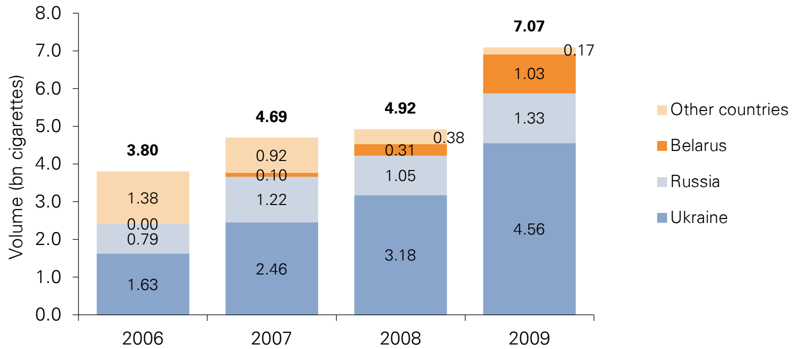
The 2009 EU Flows Model non-domestic incidence in Poland of 13.4% is calculated by applying a weighting to the two Empty Pack Surveys conducted in 2009

- The first EPS took place in Quarter 2 2009, and the second in Quarter 4 2009
- To reflect the timing of price changes in Poland during 2009 and its subsequent impact upon purchasing patterns of domestic consumers, a weighting was applied to the Empty Pack Surveys
  - the Quarter 2 EPS was weighted to represent the first five months of 2009
  - the Quarter 4 EPS was weighted to represent the remaining seven months of 2009

Counterfeit and contraband breakdown

Counterfeit and contraband inflows increased to 7.07 billion cigarettes in 2009, driven largely by higher inflows from Ukraine

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



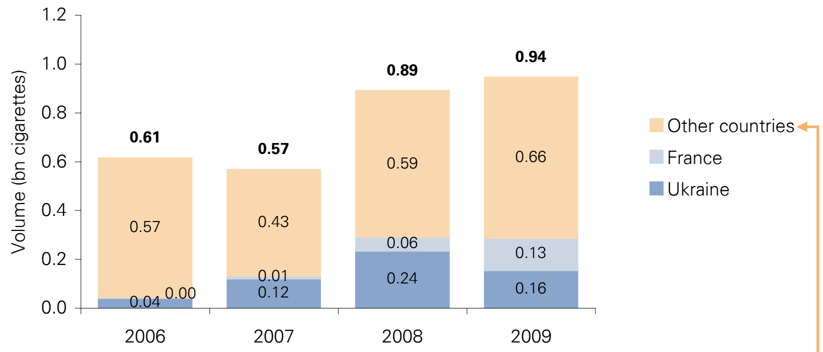
	2006	2007	2008	2009
C&C share of consumption:	**6%**	**7%**	**8%**	**12%**
C&C share of non-domestic:	**86%**	**89%**	**85%**	**88%**

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

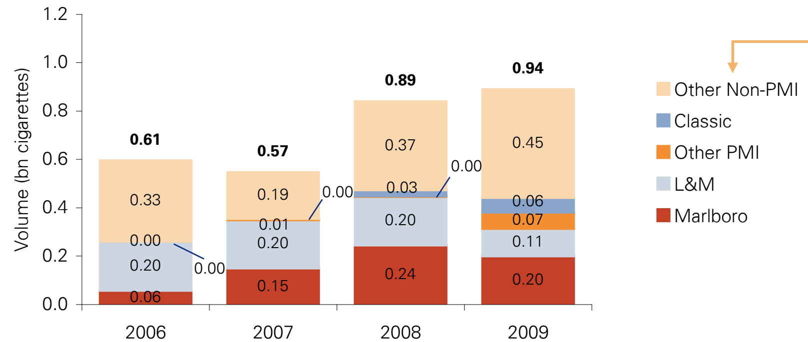
Non-domestic (legal) inflows increased to 0.94 billion cigarettes in 2009

Non-domestic (legal) by origin 2006-2009(1)(2)(3)



	2006	2007	2008	2009
ND(L) share of consumption:	**1%**	**1%**	**1%**	**2%**
ND(L) share of non-domestic:	**14%**	**11%**	**15%**	**12%**

Non-domestic (legal) by brand 2006-2009(1)(2)(3)



	2006	2007	2008	2009
PMI share of ND(L):	**43%**	**63%**	**50%**	**40%**

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009
(3) Interviews with PMI Local Management

ND(L) analysis

	1		2		3		4		
	Population 19+		Propensity to travel		Propensity to purchase		Ave. no. of trips		Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**30.7m**	**x**	**38%**	**x**	**19%**	**x**	**5.6**	**x**	**77**	**=**	**0.94bn**
EU rank 2009	**6**		**19**		**20**		**4**		**25**		**6**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 x 2	3.6%	6.2%	7.2%
Average annual cigarettes purchased	3 x 4	523	468	430

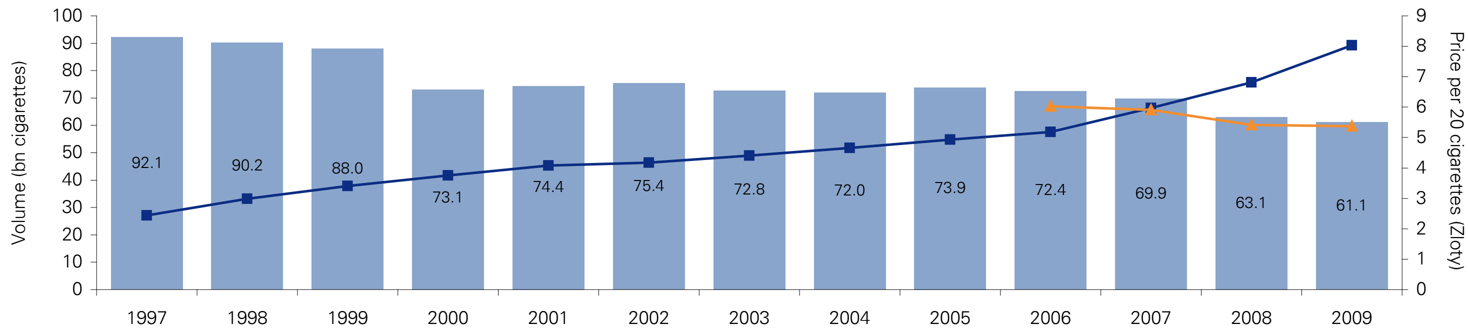
Other countries includes small volumes from a number of countries including the UK, Greece, Cyprus and Duty Free inflows

Other non-PMI brands include Camel, West and LD

Historic sales and pricing trends

Legal domestic cigarette sales declined by 3.2% in 2009 compared to 2008

Historic cigarette prices and legal domestic sales 1997-2009(1)(2)



CAGR (%)	1997-2000	2000-2005	2005-2009	2008-2009
Legal domestic sales	*-7.4%*	*0.2%*	*-4.6%*	*-3.2%*
Average pack price	*15.5%*	*5.6%*	*13.0%*	*17.9%*
Consumption	*n/a*	*n/a*	*n/a*	*-0.7%*

Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI
(3) 'Excise on cigarettes, wines and spirits and cars goes up', Polish News Bulletin, January 2009
(4) 'Polish cigarette traders bemoan tougher rules for EU's frontier', Bloomberg news, December 2008

Legal domestic sales declined by 3.2% in 2009 whilst the average pack price increased by 17.9%

- An excise tax increase was implemented in January 2009, leading to compliance with EU minimum taxes of €64 per 1000 cigarettes[3]
  - a deadline of June 2009 was set for the sale of cigarette packs with tax stickers issued prior to the 2009 excise tax increase
- The import allowance from non-European countries was reduced to 40 cigarettes with effect from December 1st 2008[4]

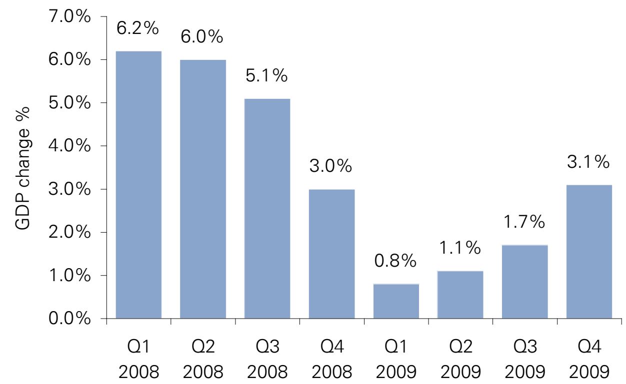
Market developments 2009

Economic conditions worsened in Poland as GDP growth slowed and unemployment increased in 2009

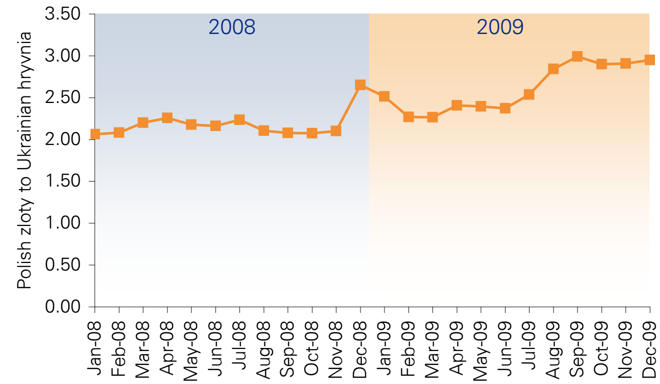
Exchange rate fluctuations of the zloty in 2009 led to cigarettes becoming relatively cheaper from key inflow market Ukraine

The price of domestic Polish cigarettes declined for purchasers from euro countries such as Germany

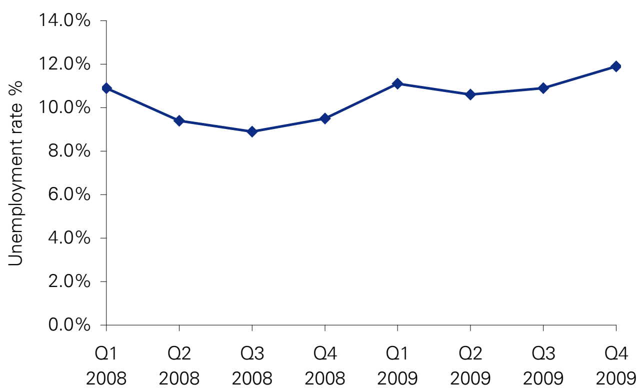
GDP percentage change compared to equivalent quarter in prior year 2008-2009[1]



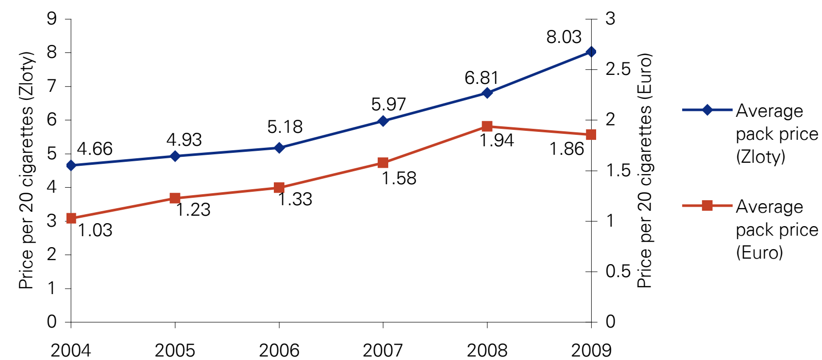
Exchange rate of Polish Zloty to Ukrainian Hryvnia 2008-2009[3]



Unemployment rate by quarter 2008-2009[2]



Average Polish pack price in Zloty and Euro 2004-2009[3][4]



Source: *(1) Central Statistics Office of Poland, GDP at constant average prices of the previous year, accessed March 2010*
(2) Central Statistic Office of Poland, Registered unemployment, accessed March 2010
(3) Datastream, Exchange rates, accessed March 2010
(4) Weighted average pack price supplied by PMI

OTP market size and growth

The market for smoking tobacco products declined by 11.2% in 2009

Smoking tobacco sales in billion stick equivalents 2005-2009[1][a]

Cigarette sales (bn cigarettes)	73.7	72.4	69.9	63.1	61.1

CAGR (%)	2005-2008	2008-2009
Smoking tobacco	*37.5%*	*-11.2%*
Manufactured cigarettes	*-5.1%*	*-3.2%*

Notes: (a) Smoking tobacco volumes have been calculated at one stick per 0.75 grams
Source: (1) OTP volumes supplied by PMI
(2) Interview with PMI Poland management team

Smoking tobacco sales declined by 11.2% in 2009, however between 2005 and 2008 sales had increased at an average annual rate of 37.5%

- Pipe tobacco accounts for the majority of total smoking tobacco sales in Poland
  - a decline in pipe tobacco sales in 2009 may be attributable to the excise tax alignment with other roll-your-own products in the first quarter of 2009[2]
- Between 2005 and 2008 the increasing sales of smoking tobacco may have been driven by consumers trading down to lower cost OTP products
  - in this period several excise tax increases for manufactured cigarettes were introduced
  - increasing sales of OTP products may also be attributable to cross border purchases by consumers entering Poland

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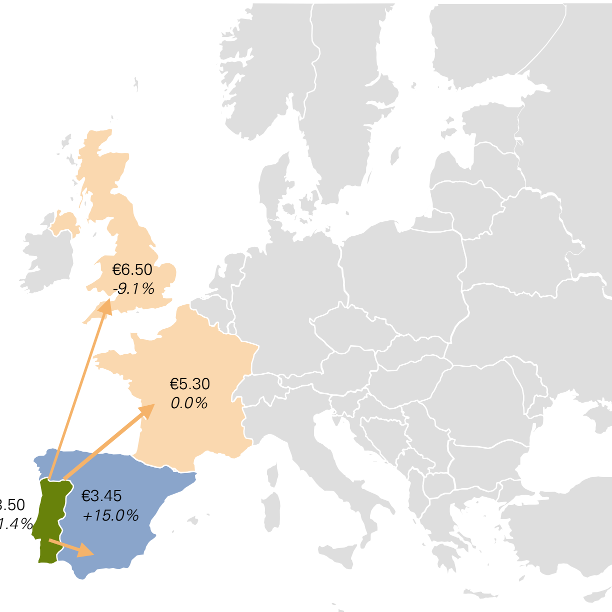
Market Overview

The share of cigarette consumption in Portugal accounted for by counterfeit and contraband declined to 2.2% in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(2)(a)(b)]



Key: Portugal Major source country Major destination countries

Notes: (a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to the larger flow whilst arrow size indicates relative cigarette flow volume

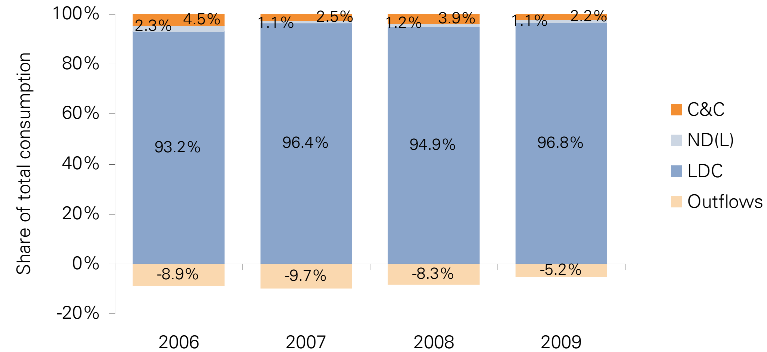
(b) Cigarette prices in the UK declined in euro terms in 2009 as a result of exchange rate changes of the pound versus the euro

Sources: (1) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

(2) KPMG EU Flows Model and interviews with PMI Local Management

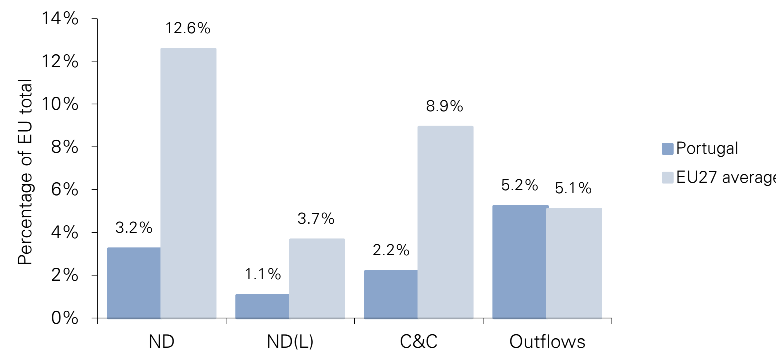
(3) AC Nielsen ND(L) research 2006; Synovate ND(L) research 2008, 2009

Share of Portugal consumption by type 2006-2009[(2)(3)]



	2006	2007	2008	2009
Volume (bn cigarettes)	**14.0**	**13.2**	**12.1**	**12.1**

Comparison of EU and Portuguese consumption by type 2009[(2)(3)]



Total non-domestic consumption

Consumption of non-domestic cigarettes declined to 0.39 billion cigarettes in 2009 compared to 0.62 billion in the previous year driven by lower inflows from Spain

Total cigarette consumption in Portugal has remained flat between 2008 and 2009

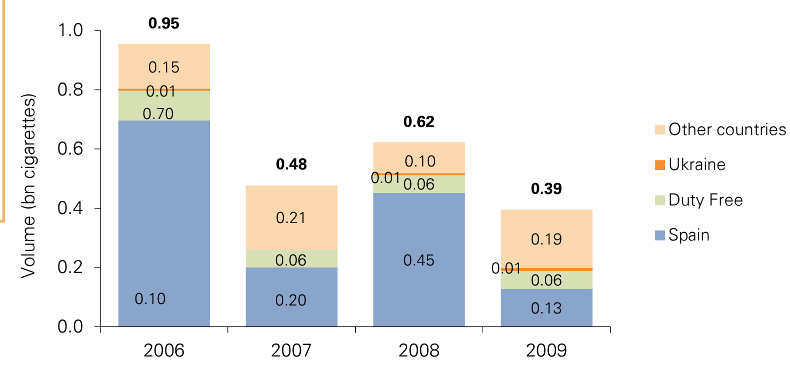
Total Portugal consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	14.33	14.03	12.48	12.37
Outflows	-1.24	-1.28	-1.00	-0.63
Legal domestic consumption (LDC)	13.08	12.75	11.48	11.73
Non-domestic legal (ND(L))	0.32	0.14	0.15	0.13
Counterfeit and contraband (C&C)	0.63	0.33	0.47	0.26
Total non-domestic	0.95	0.48	0.62	0.39
Total consumption	**14.04**	**13.23**	**12.10**	**12.13**

Outflows from Portugal[1]

Destination country (bn cigarettes)	2006	2007	2008	2009
France	0.56	0.48	0.47	0.27
Spain	0.18	0.12	0.06	0.14
UK	0.31	0.51	0.34	0.12
Other EU	0.20	0.17	0.13	0.09
Total outflows	**1.24**	**1.28**	**1.00**	**0.63**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]

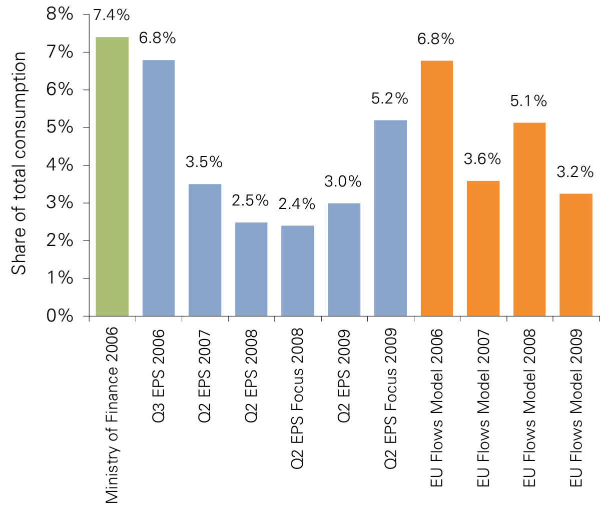


Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2006; Synovate ND(L) research 2008 and 2009

Comparison of external sources for non-domestic estimates

The 2009 EU Flows Model indicates a decline in non-domestic consumption in Portugal

Non-domestic market estimates[1][2][3]



Sources: (1) KPMG EU Flows Model
(2) Interview with Ministry of Finance – Antifraud services, Information division Portugal
(3) PMI EPS Q3 2006, Q2 2007, Q2 2008 and Q2 2009

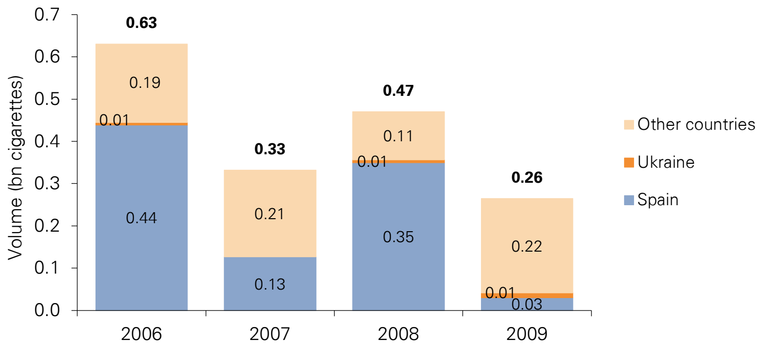
The EU Flows Model incorporates the results of the Q2 Empty Pack Survey and the smaller Focus Empty Pack survey in Q2 2009

- The EU Flows Model estimate is based on a weighted average of the Q2 EPS and Q2 Focus survey
  - the Focus survey was carried out in an additional six cities at the same time as the main Empty Pack survey
  - a total of 898 packs were collected in the 2009 Focus survey compared to 4,997 in the main Empty Pack survey
  - these results are weighted according to total sample size and the population of the sample region and number of packs collected to derive the Project Star estimate for total non-domestic consumption
  - this methodology is consistent with the calculation carried out in 2008
- In 2008, the EU Flows Model estimate for non-domestic consumption was higher than the average of the Empty Pack Survey results in 2008 as an uplift was made to Spanish inflows to reflect border sales trends

Counterfeit and contraband breakdown

Counterfeit and contraband inflows decreased from 0.47 billion cigarettes in 2008 to 0.26 billion in 2009

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
C&C share of consumption:	**4%**	**3%**	**4%**	**2%**
C&C share of non-domestic:	**66%**	**70%**	**76%**	**67%**

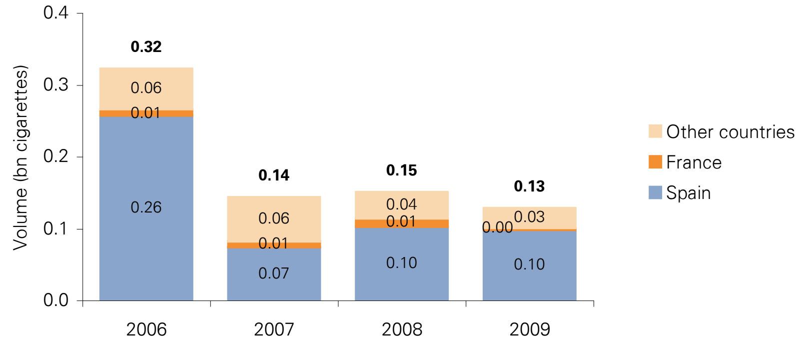
Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006; Synovate ND(L) 2008 and 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

Non-domestic (legal) inflows have remained broadly stable since 2007

Inflows from Spain accounted for more than 75% of non-domestic (legal) consumption in 2009

Non-domestic (legal) by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
ND(L) share of consumption:	**2%**	**1%**	**1%**	**1%**
ND(L) share of non-domestic:	**34%**	**30%**	**24%**	**33%**

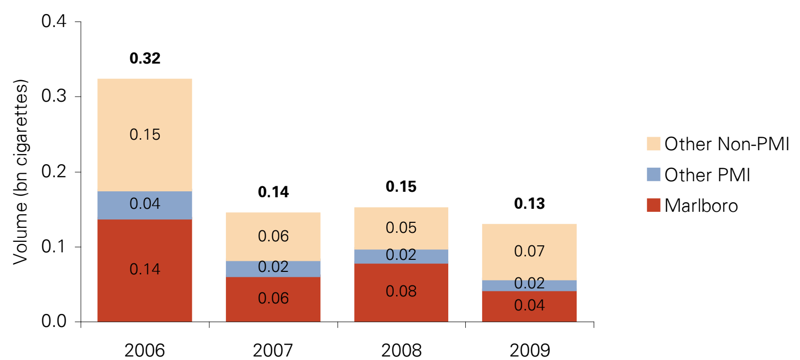
ND(L) analysis

	1	2	3	4		
	Population 19+	Propensity to travel	Propensity to purchase	Ave. no. of trips	Ave. purchases (cigarettes)	**Total ND(L) (cigarettes)**
Values 2009	**8.5m** x	**21%** x	**18%** x	**3.5** x	**113** =	**0.13bn**
EU rank 2009	**10**	**27**	**21**	**13**	**20**	**19**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 x 2	7.3%	5.1%	3.9%
Average annual cigarettes purchased	3 x 4	235	350	394

Non-domestic (legal) by brand 2006-2009[(1)(2)(3)]



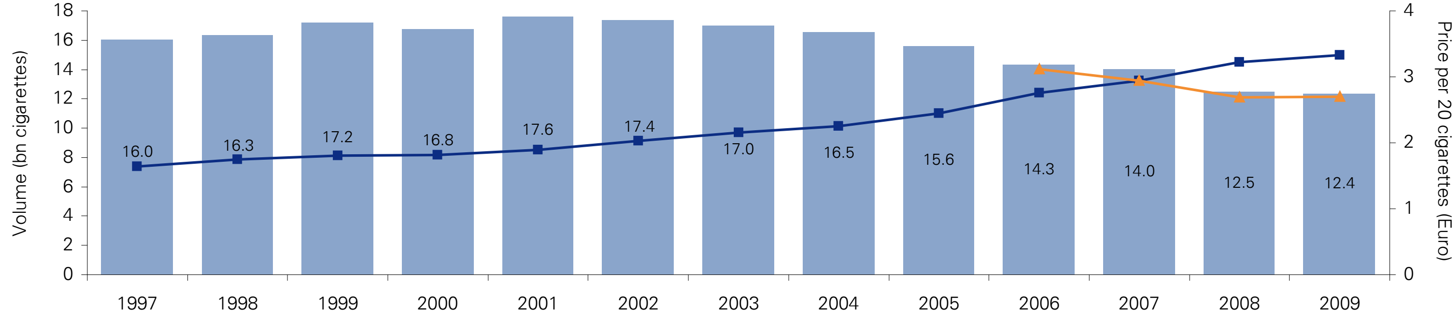
	2006	2007	2008	2009
PMI share of ND(L):	**55%**	**58%**	**65%**	**45%**

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006; Synovate ND(L) research 2008 and 2009
(3) Interviews with PMI Local Management

Historic sales and pricing trends

Legal domestic cigarette sales decreased by 0.9% in 2009 compared to 2008

Historic cigarette prices and legal domestic sales 1997-2009(1)(2)



CAGR (%)	1997-2001	2001-2007	2007-2009	2008-2009
Legal domestic sales	*2.4%*	*-3.7%*	*-6.1%*	*-0.9%*
Average pack price	*3.6%*	*7.6%*	*6.4%*	*3.4%*
Consumption	*n/a*	*n/a*	*-4.2%*	*0.3%*

Note: (a) GCTS refers to the Global Consumer
(2) Weighted average pack price supplied by PMI
(3) GCTS information supplied by PMI

Legal domestic sales have decreased by 0.9% whilst average pack prices have increased by 3.4% from 2008 to 2009

- Anti-smoking legislation was implemented on 1st January 2008 to restrict smoking in public places
  - smoking prevalence in Portugal has remained stable at 29% in 2009 compared to 2008(3)

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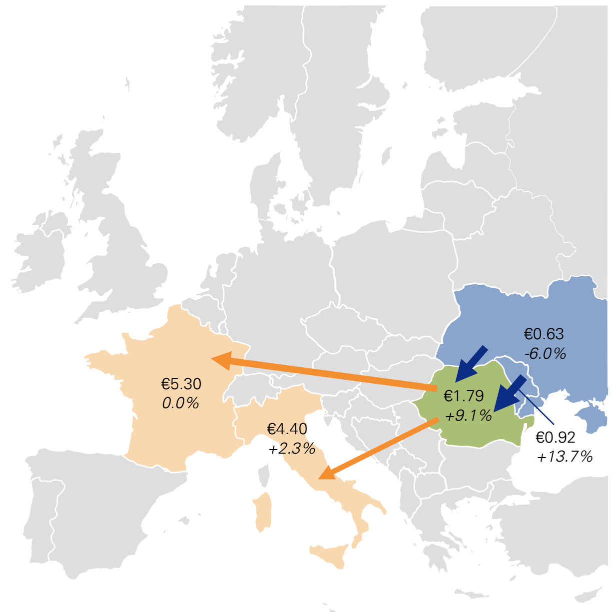
Market Overview

Counterfeit and contraband cigarette consumption in Romania increased by 4.2 percentage points to 13.8% of total cigarette consumption in 2009

Moldova and Ukraine were the main source countries of non-domestic cigarettes consumed in Romania, whilst France and Italy were the main destination countries for Romanian outflows

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(3)(a)(b)(c)]

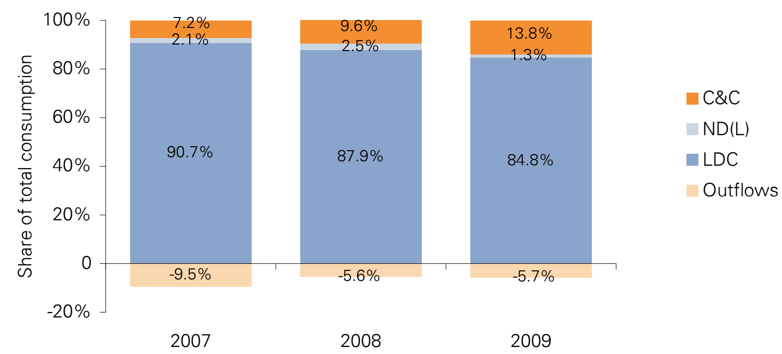


Key:
- *Romania*
- *Major source countries*
- *Major destination countries*

Notes:
(a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarette flow volume
(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009
(c) Cigarette prices in Ukraine declined in euro terms in 2009 as a result of exchange rate changes of Ukrainian hryvnia versus the euro
(d) This report, the Project Star 2007 and 2008 results use 31.1 and 30.6 billion cigarettes as estimated legal domestic sales (LDS) in Romania during 2007 and 2008, respectively. However, PMI internal estimates suggest that LDS was actually 33.2 billion cigarettes in 2007 and 33.7 billion cigarettes in 2008. Use of the higher estimates for LDS gives implied total consumption of 33.4 and 36.3 billion cigarettes in 2007 and 2008, respectively

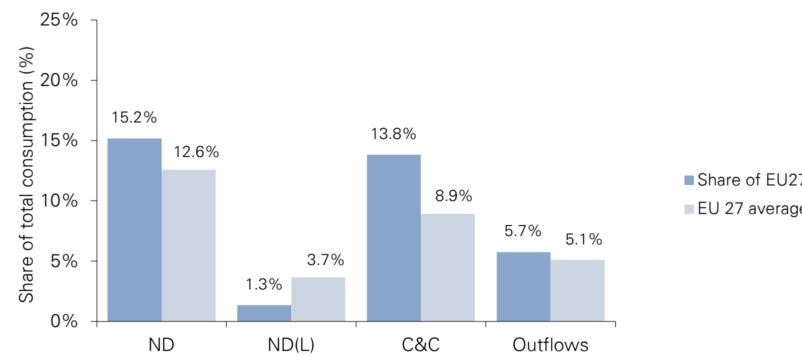
Sources:
(1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2007, 2008, Synovate ND(L) research 2009
(3) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

Share of Romania consumption by type 2007-2009[(1)(2)(d)]



	2007	2008	2009
Volume (bn cigarettes)	**31.1**	**32.7**	**32.9**

Comparison of EU and Romanian consumption by type 2009[(1)(2)]



Total non-domestic consumption

Consumption of non-domestic cigarettes increased to 4.99 billion cigarettes in 2009 driven by increase in inflows of Moldovan and Duty Free cigarettes variant

Outflows from Romania remained broadly stable in 2009 with France and Italy representing almost 60% of total outflows

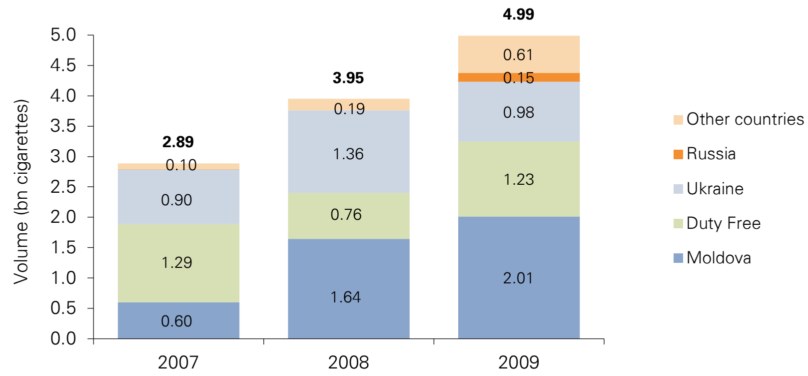
Total Romania consumption[1][2]

Billion cigarettes	2007	2008	2009
Legal domestic sales (LDS)	31.15	30.57	29.81
Outflows	-2.94	-1.83	-1.89
Legal domestic consumption (LDC)	28.21	28.75	27.92
Non-domestic legal (ND(L))	0.66	0.82	0.44
Counterfeit and contraband (C&C)	2.22	3.13	4.55
Total non-domestic	2.89	3.95	4.99
Total consumption	**31.10**	**32.70**	**32.91**

Outflows from Romania[1]

Destination country (billion cigarettes)	2007	2008	2009
France	1.30	0.61	0.62
Italy	0.68	0.29	0.51
UK	0.14	0.25	0.30
Belgium	0.03	0.01	0.10
Other EU	0.79	0.66	0.37
Total outflows	**2.94**	**1.83**	**1.89**

Total non-domestic inflows (ND(L) and C&C) by origin 2007-2009[1][2]



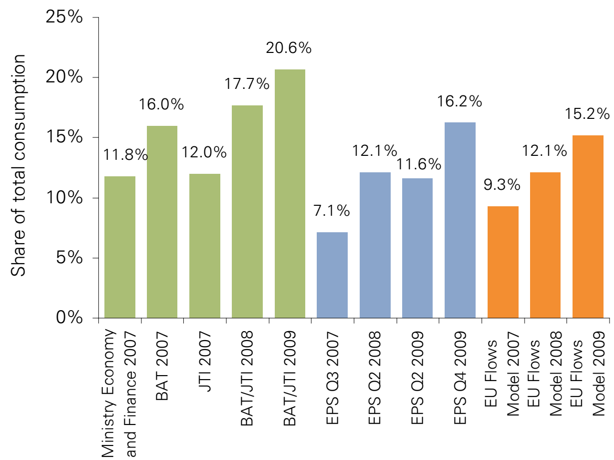
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2007, 2008, Synovate ND(L) research 2009

Comparison of external sources for non-domestic estimates

The increasing non-domestic incidence trend shown by the EU Flows Model is directionally consistent with the trend shown by the BAT/JTI estimates

PMI Empty Pack Surveys were conducted in Q2 and Q4 2009

Non-domestic market estimates[(1)(2)(3)(4)(5)(6)(7)(8)(a)]



Note: (a) Non-domestic incidence shown by BAT/JTI 2009 is the average of quarterly surveys

Sources: (1) KPMG EU Flows Model

(2) 'Economic Highlights', Rompres, 30th January 2007

(3) 'Economic Highlights', Rompres, 7th February 2007

(4) 'Economic Highlights', Rompres, 27th June 2008

(5) 'Romania cracks down on tobacco smugglers' , Nine O'Clock, 28th June 2008

(6) Novel Research, Project DNP for BAT and JTI, May 2009 as provided by PMI Romania

(7) Novel Research, Project DNP for BAT and JTI, March 2010 as provided by PMI Romania

, (8) PMI EPS Q3 2006, Q4 2006, Q3 2007, Q2 2008 and Q2 2009

The 2009 EU Flows Model non-domestic estimate is based on a weighted average of the two Empty Pack Surveys conducted in 2009

- The Q2 EPS was conducted in May/June 2009 whilst the Q4 EPS was conducted in November/December 2009
- To reflect the timing of the price changes in Romania during 2009 and its subsequent impact on purchasing patterns of domestic consumers, the Q2 and Q4 EPS have been weighted to represent the first four months and the remaining eight months of the year respectively
  - out of the 35% price increase in 2009, only about a third was passed on before the Q2 EPS was conducted in May/June whilst the remaining took place after the Q2 EPS was completed

Empty Pack Survey sampling plans are based on urban centres and therefore may not fully capture regional disparities in non-domestic incidence

- EPS results have been reweighted to more accurately reflect relative regional populations
  - for example, prior to adjustment, Bucharest represented 30% of the total sample whilst only accounting for 11% of the total Romanian population

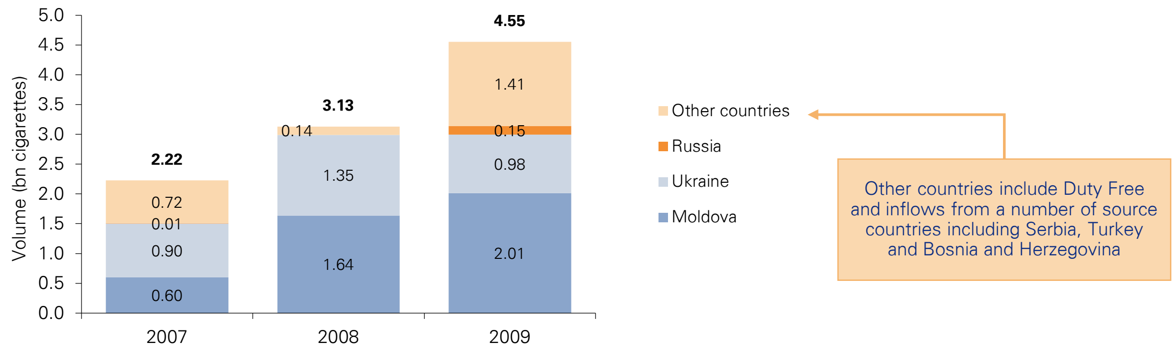
The 2009 EU Flows Model results are directionally consistent with other estimates for non-domestic consumption

- The differences in estimates are believed to be driven by differences in methodology
  - the BAT/JTI estimates are based on consumer research and analysis of packs collected from consumers[(7)]

Counterfeit and contraband breakdown

Counterfeit and contraband inflows increased to 4.55 billion cigarettes in 2009

Counterfeit and contraband by origin 2007-2009[(1)(2)(3)]



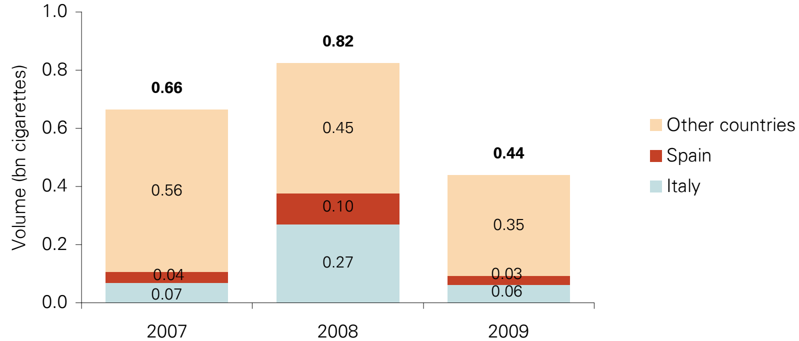
C&C share of consumption:	**7%**	**10%**	**14%**
C&C share of non-domestic:	**77%**	**79%**	**91%**

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2007, 2008, Synovate ND(L) research 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

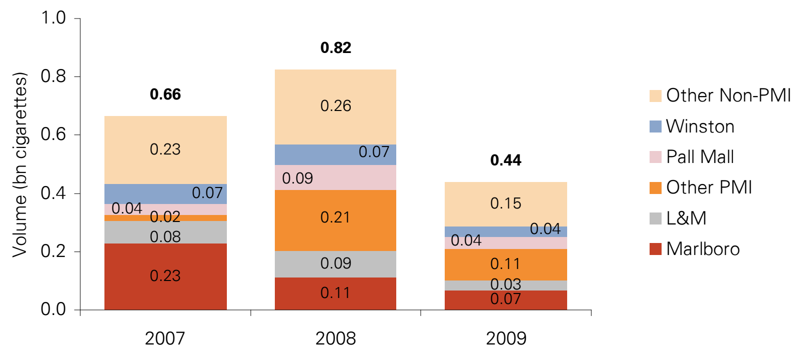
Non-domestic (legal) volumes declined in 2009 to account for 0.44 billion cigarettes

Non-domestic (legal) by origin 2007-2009(1)(2)(3)



	2007	2008	2009
ND(L) share of consumption:	**2%**	**3%**	**1%**
ND(L) share of non-domestic:	**23%**	**21%**	**9%**

Non-domestic (legal) by brand 2007-2009(1)(2)(3)



	2007	2008	2009
PMI share of ND(L):	**49%**	**50%**	**48%**

ND(L) analysis

	(1) Population 19+		(2) Propensity to travel		(3) Propensity to purchase		Ave. no. of trips		(4) Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**17.7m**	**x**	**23%**	**x**	**23%**	**x**	**2.5**	**x**	**188**	**=**	**0.44bn**
EU rank 2009	**7**		**25**		**17**		**16**		**10**		**12**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 x 2	9.0%	10.1%	5.2%
Average annual cigarettes purchased	3 x 4	418	461	474

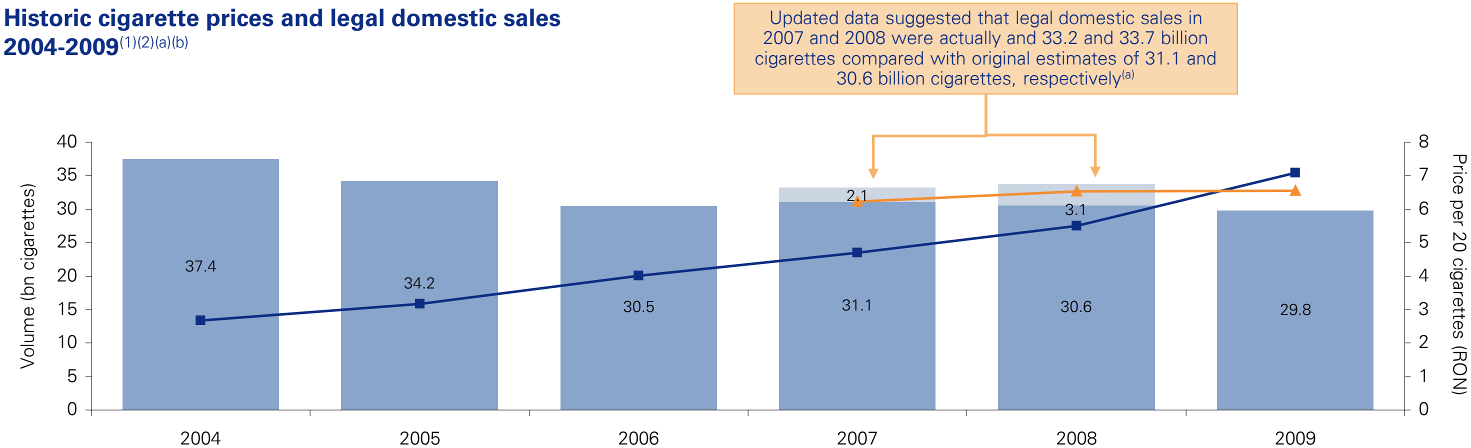
Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2007, 2008, Synovate ND(L) research 2009
(3) Interviews with PMI Local Management

Historic sales and pricing trends

Legal domestic sales declined by 11.5% in 2009 compared to 2008

Average pack price increased by 28.8% in 2009 driven by excise tax increases

Historic cigarette prices and legal domestic sales 2004-2009[(1)(2)(a)(b)]



CAGR (%)	2004-2007	2007-2009	2008-2009
Legal domestic sales	*-3.9%*[(c)]	*-5.2%*[(c)]	*-11.5%*[(c)]
Average pack price	*20.7%*	*22.8%*	*28.8%*
Consumption	*n/a*	*2.9%*	*0.7%*

Notes: (a) *This report, the Project Star 2007 and 2008 results use 31.1 billion cigarettes as estimated legal domestic sales (LDS) in Romania during 2007. However, PMI internal estimates suggest that LDS in 2007 was actually 33.2 billion cigarettes*

(b) *This report and the Project Star 2008 results use 30.6 billion cigarettes as estimated legal domestic sales (LDS) in Romania during 2008. However, PMI internal estimates suggest that LDS in 2008 was actually 33.7 billion cigarettes*

(c) *The CAGR percentage change is based on the revised management estimates. If the legal domestic sales (LDS) estimates from the 2008 report were applied, the percentage change would have been -5.9% between 2004 and 2007, -2.2% between 2007 and 2009 and -2.5% between 2008 and 2009*

Sources: (1) *In Market Sales supplied by PMI*

(2) *Weighted average pack price supplied by PMI*

(3) *Institutul National de Statistica (Romanian National Institute of Statistics), Produsul Intern Brut Trimestrial, accessed March 2010*

(4) *Eurostat, Unemployment rates, accessed March 2010*

Legal domestic sales declined by 11.5% in 2009, whilst average pack price increased by 28.8% in the same year

- Average pack prices increased by 28.8% in 2009 with price increases in April, July, September, November and December
  - these price increases were driven by excise tax increases during 2009

Economic conditions worsened in Romania in 2009

- Gross Domestic Product declined by 6.9% to 121.9 billion lei in 2009[(3)]
- The unemployment rate in Romania increased by 1.1 percentage points in comparison with 2008 to 6.9% in 2009[(4)]

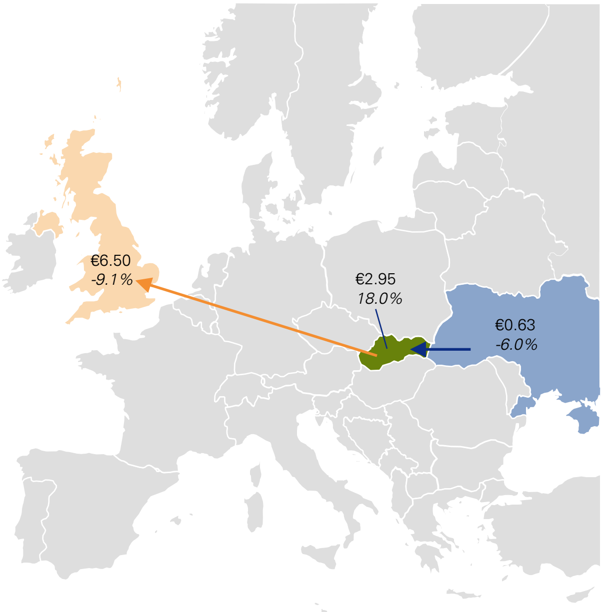
Contents – country detail

Market Overview

The share of cigarette consumption accounted for by counterfeit and contraband declined to 1.0% in 2009

Non-domestic inflows have fluctuated during the past four years, with 2009 inflows at a level comparable to 2007

Marlboro 2009 price comparison in Euros and percentage change from 2008(1)(3)(a)(b)(c)



Key: ■ *Slovakia* ■ *Major source country* ■ *Major destination country*

Note: (a) *Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarette flow volume*

(b) *Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009*

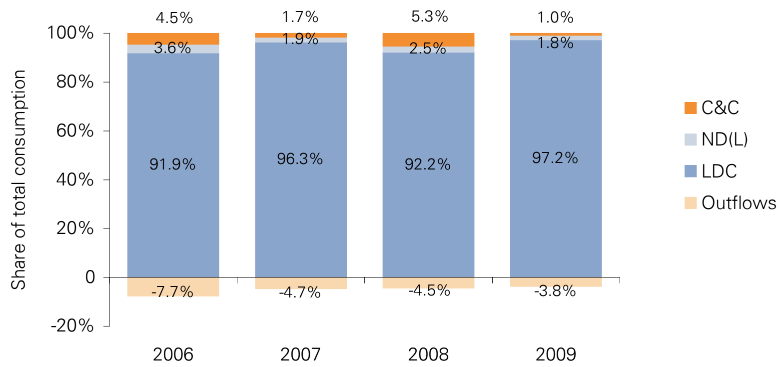
(c) *Cigarette prices in Ukraine and the UK declined in euro terms in 2009 as a result of exchange rate changes of the hryvnia and pound versus the euro*

Sources: (1) *KPMG EU Flows Model and interviews with PMI Local Management*

(2) *AC Nielsen ND(L) research 2006, 2007*

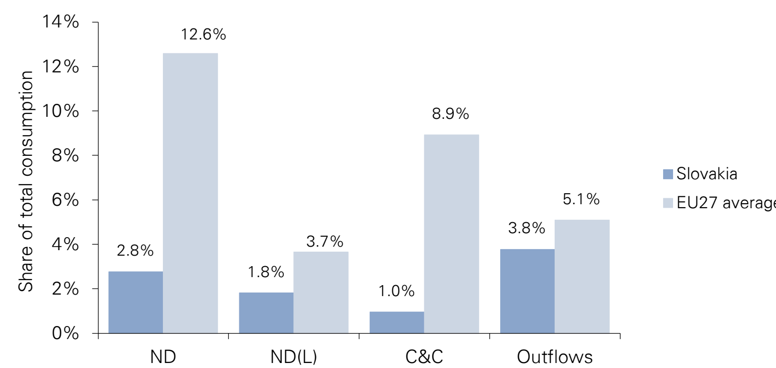
(3) *Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009*

Share of Slovakia consumption by type 2006-2009(1)(2)



Volume (bn cigarettes)	7.0	7.7	8.3	7.6

Comparison of EU and Slovakian consumption by type 2009(1)(2)



Total non-domestic consumption

Consumption of non-domestic cigarettes declined to 0.21 billion cigarettes in 2009 compared to 0.65 billion in the previous year, predominantly driven by lower inflows from Ukraine

Inflows from Hungary increased to 0.06 billion cigarettes in 2009

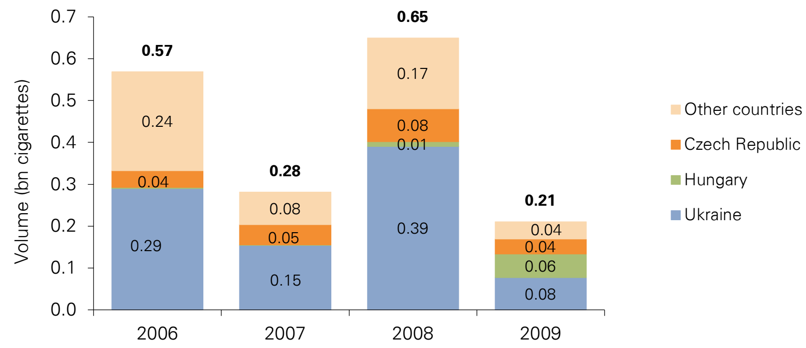
Total Slovakia consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	7.01	7.74	8.03	7.69
Outflows	-0.54	-0.36	-0.37	-0.29
Legal domestic consumption (LDC)	6.47	7.38	7.66	7.40
Non-domestic legal (ND(L))	0.25	0.15	0.21	0.14
Counterfeit and contraband (C&C)	0.32	0.13	0.44	0.07
Total non-domestic	0.57	0.28	0.65	0.21
Total consumption	**7.04**	**7.66**	**8.31**	**7.62**

Outflows from Slovakia[1]

Destination country (billion cigarettes)	2006	2007	2008	2009
UK	0.04	0.04	0.07	0.08
Czech Republic	0.02	0.02	0.07	0.05
Austria	0.08	0.06	0.06	0.04
Germany	0.07	0.06	0.04	0.04
Other EU	0.34	0.17	0.14	0.07
Total outflows	**0.54**	**0.36**	**0.37**	**0.29**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]

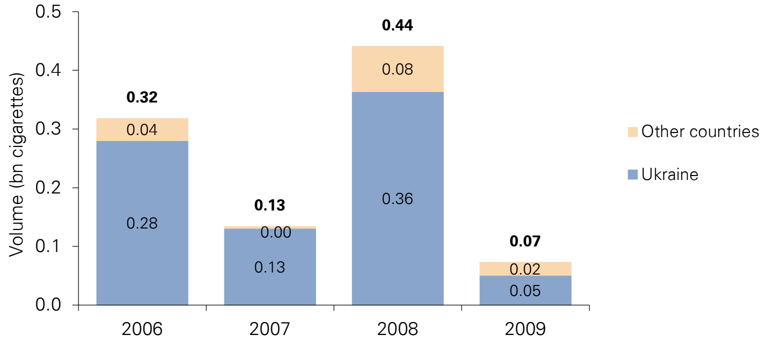


Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2006, 2007

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 0.07 billion cigarettes in 2009, a decline of 84%

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
C&C share of consumption:	**5%**	**2%**	**5%**	**1%**
C&C share of non-domestic:	**56%**	**48%**	**68%**	**34%**

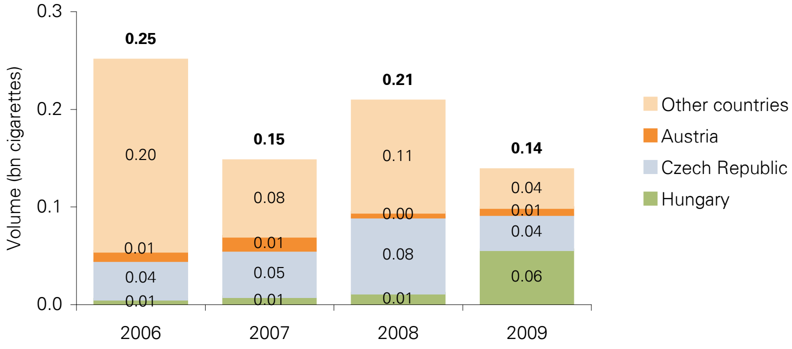
Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2007
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

Non-domestic (legal) volumes declined in 2009 to 0.14 billion cigarettes

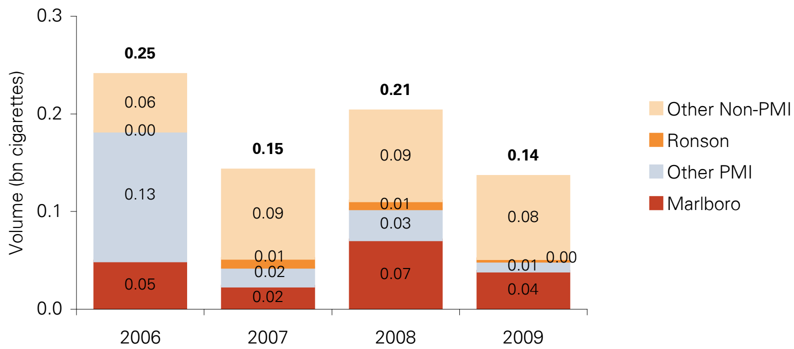
ND(L) inflows from Hungary increased to 0.06 billion cigarettes in 2009

Non-domestic (legal) by origin 2006-2009(1)(2)(3)



	2006	2007	2008	2009
ND(L) share of consumption:	**4%**	**2%**	**3%**	**2%**
ND(L) share of non-domestic:	**44%**	**52%**	**32%**	**66%**

Non-domestic (legal) by brand 2006-2009(1)(2)(3)



	2006	2007	2008	2009
PMI share of ND(L):	**72%**	**29%**	**49%**	**36%**

ND(L) analysis

	1		2		3		4		
	Population 19+		Propensity to travel		Propensity to purchase		Ave. no. of trips		Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**4.2m**	**x**	**53%**	**x**	**12%**	**x**	**7.6**	**x**	**69**	**=**	**0.14bn**
EU rank 2009	**17**		**13**		**25**		**2**		**27**		**20**

ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 **x** 2	6.2%	6.2%	6.2%
Average annual cigarettes purchased	3 **x** 4	561	795	526

Non domestic (legal) research has not been updated in 2008 and 2009, therefore ND(L) results are based on 2007 research

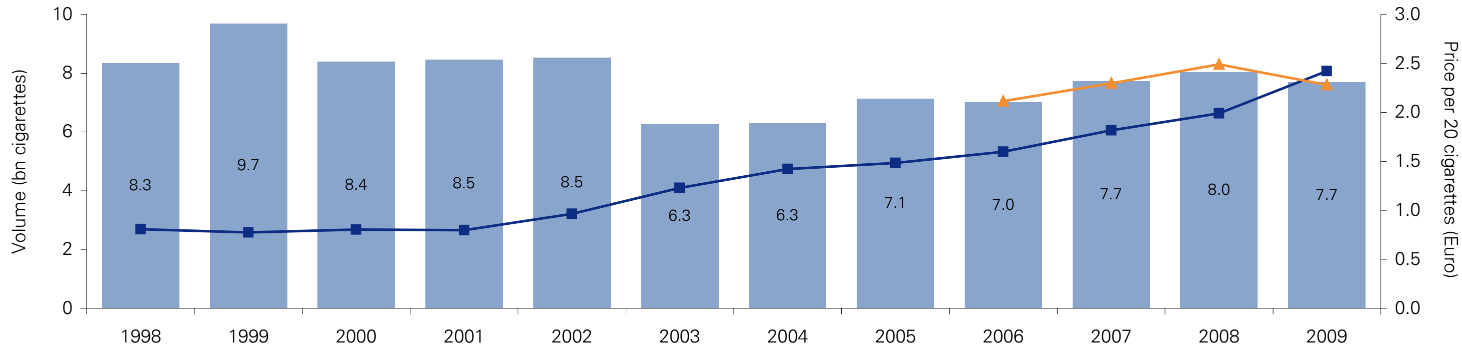
- In 2009 ND(L) inflows to Slovakia, with the exception of inflows from Ukraine and Russia which have not been changed from 2007 research, are estimated to have changed in proportion to changes in total non-domestic inflows
  - the decline in total ND(L) inflows is supported by independent travel statistics which indicated a decline of 16% decline in outbound trips made by Slovak citizens in 2009(4)

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2007
(3) Interviews with PMI Local Management
(4) 'Organised Tourism of the Slovak Republic', Statistical Office of the Slovak Republic, March 2010

Historic sales and pricing trends

Legal domestic cigarette sales declined by 4.2% in 2009 compared to 2008

Historic cigarette prices and legal domestic sales 1998-2009[1)(2)(3)(a]



CAGR (%)	1998-2002	2002-2003	2003-2008	2008-2009
Legal domestic sales	*0.6%*	*-26.6%*	*5.1%*	*-4.2%*
Average pack price	*4.6%*	*27.3%*	*10.1%*	*21.7%*
Consumption	*n/a*	*n/a*	*n/a*	*-8.3%*

Note: (a) Average pack price for prior years restated to euros using exchanges rates from Datastream
Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI
(3) 'Slovak koruna to euro exchange rate', Datastream, 2010
(4) Interview with PMI local management, 2009
(5) 'Restaurant ban tabled in Slovak Parliament', Slovak Spectator, June 2009

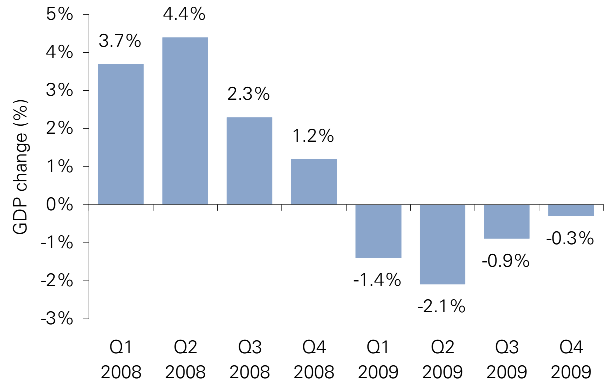
A reduction in stock levels and an excise tax increase may have led to lower legal domestic sales in 2009

- Local PMI management reported a reduction in stock levels throughout the cigarette supply chain in 2009[4]
  - In Market Sales is based on volumes sold by cigarette manufacturers
  - part of the sales decline in 2009 may therefore be attributable to lower stock held by other supply chain participants
- An excise tax increase of approximately 30 euro cents per pack was introduced from February 2009
  - a deadline of September 2009 was set for the final sale of pre-February 2009 excise tax stickers[4]
- A partial smoking ban was introduced in September 2009 that required restaurants, cafes and bars to separate smokers and non-smokers through construction of a wall[5]

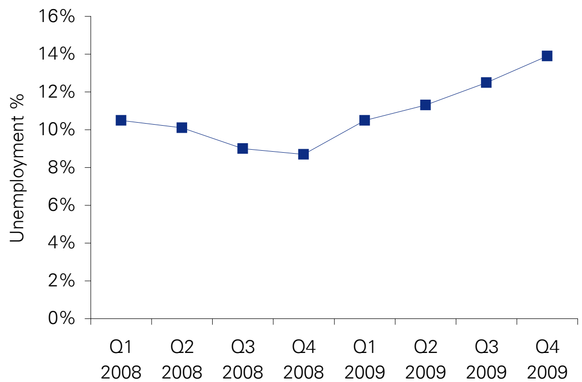
Market developments 2009

Economic conditions worsened in Slovakia in 2009 as unemployment increased, whilst GDP was lower in the first three quarters of 2009 than the same period in 2008

GDP percentage change compared to equivalent quarter in prior year 2008-2009(1)



Unemployment by quarter 2008-2009(2)



Source: (1) *Eurostat, GDP and its main components, accessed May 2010*
(2) *Statistical Office of the Slovak Republic, Unemployment rate by age, accessed March 2010*

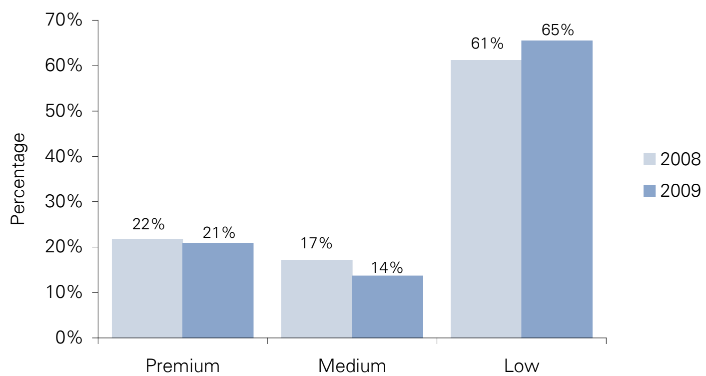
Legal Domestic Sales by brand and price category

Market share of PMI brands has remained broadly stable in the last three years

The 'Low' category increased market share in 2009 whilst 'Premium' and 'Medium' categories declined

The change in price category is partially driven by brands re-positioning to different price categories

Market share by price category 2008-2009[1][a]



Category price:	**>2.95**	**2.63-2.94**	**<2.62**

Notes: (a) Category prices are presented in euro based on 2009 data. Pricing is updated for comparability purposes between years

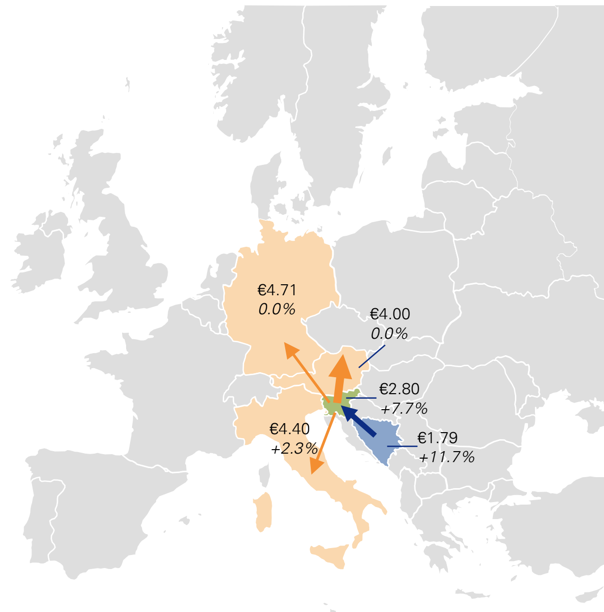
Sources: (1) AC Nielsen estimates

Contents – country detail

Market Overview

Counterfeit and contraband cigarette consumption in Slovenia declined to 6.6% of total cigarette consumption in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(3)(a)(b)]

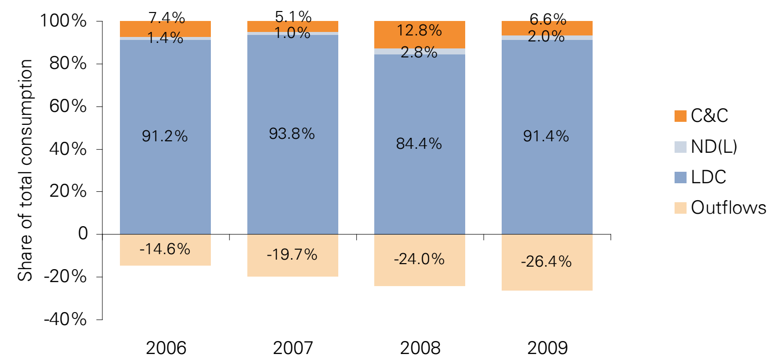


Key: *Slovenia*
Major destination countries
Major source country

Note: (a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarette flow volume
(b) Based on pack of 20 Marlboro King Size as at July 1st 2008 and 2009. For non-euro currencies, euro prices are based on PMI standard exchange rates as at June 2008 and June 2009

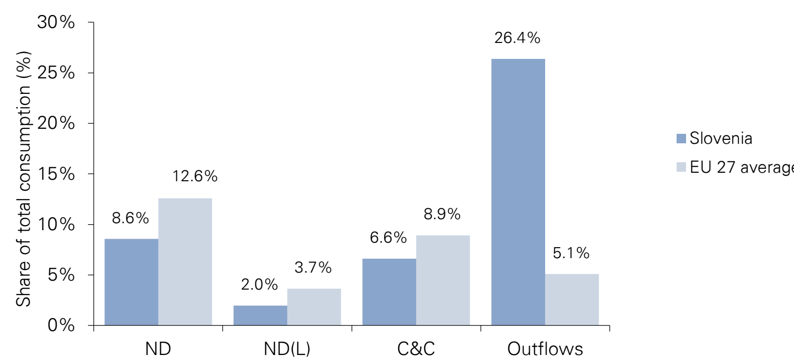
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2006, 2008 and 2009
(3) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

Share of Slovenian consumption by type 2006-2009[(1)(2)]



Volume (bn cigarettes)	4.3	4.2	4.7	4.2

Comparison of EU and Slovenian consumption by type 2009[(1)(2)]



Total non-domestic consumption

Consumption of non-domestic cigarettes declined to 0.36 billion cigarettes in 2009 compared to 0.74 billion in 2008 driven largely by a decline in inflows from Bosnia and Herzegovina

Outflows from Slovenia remained broadly stable in 2009 with Austria, Germany and Italy accounting for 96% of total outflows

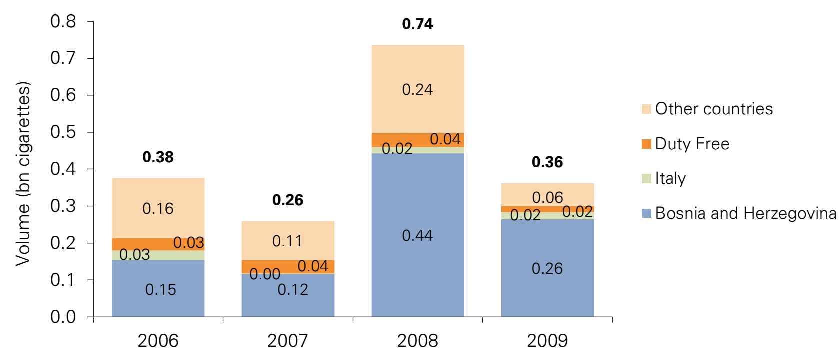
Total Slovenian consumption(1)(2)

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	4.52	4.78	5.11	4.98
Outflows	-0.62	-0.83	-1.13	-1.11
Legal domestic consumption (LDC)	3.90	3.95	3.98	3.86
Non-domestic legal (ND(L))	0.06	0.04	0.13	0.08
Counterfeit and contraband (C&C)	0.32	0.22	0.60	0.28
Total non-domestic	0.38	0.26	0.74	0.36
Total consumption	**4.27**	**4.21**	**4.72**	**4.23**

Outflows from Slovenia(1)

Destination country (billion cigarettes)	2006	2007	2008	2009
Austria	0.23	0.53	0.73	0.79
Germany	0.06	0.07	0.10	0.14
Italy	0.25	0.14	0.19	0.13
Other EU	0.08	0.08	0.11	0.05
Total outflows	**0.62**	**0.83**	**1.13**	**1.11**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009(1)(2)

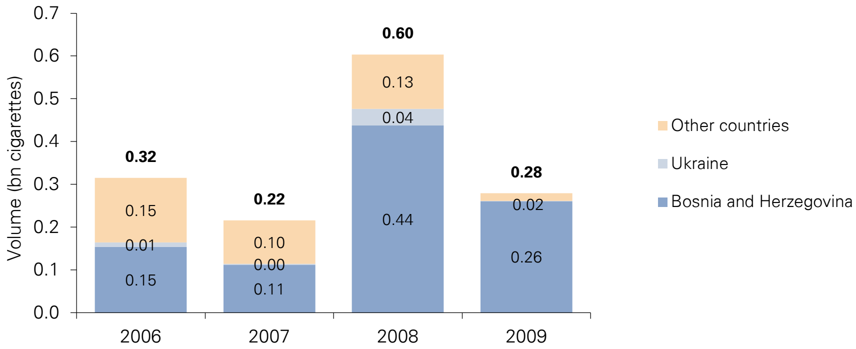


Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2006, 2008 and 2009

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 0.28 billion cigarettes in 2009 compared to 0.60 billion in 2008

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]



	2006	2007	2008	2009
C&C share of consumption:	**7%**	**5%**	**13%**	**7%**
C&C share of non-domestic:	**84%**	**83%**	**82%**	**77%**

Counterfeit and contraband inflows to Slovenia decreased to 0.28 billion cigarettes in 2009 driven largely by a decline in inflows from Bosnia and Herzegovina

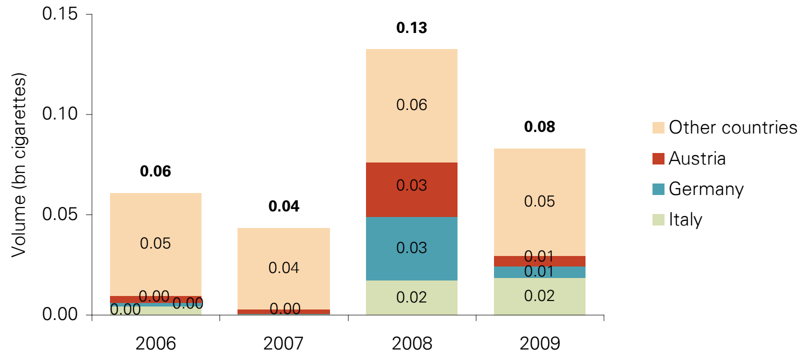
- Migrant workers from Bosnia and Herzegovina account for about half of the total migrant workers in Slovenia[(4)]
  - the number of migrant workers from Bosnia and Herzegovina declined by 12.5% in 2009 compared to 2008[(4)]
  - this decline supports the fall in counterfeit and contraband inflows from Bosnia and Herzegovina

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2008 and 2009
(3) Interviews with PMI Local Management
(4) Migrant worker data supplied by PMI based on Statistical register of active working population (Statistični register delovno aktivnega prebivalstva - SRDAP)

Non-domestic (legal) breakdown

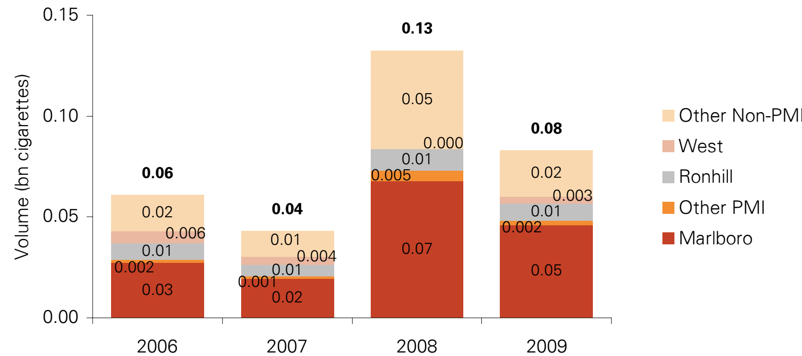
Non-domestic (legal) inflows accounted for 2% of consumption in 2009

Non-domestic (legal) by origin 2006-2009[1][2][3]



	2006	2007	2008	2009
ND(L) share of consumption:	**1%**	**1%**	**3%**	**2%**
ND(L) share of non-domestic:	**16%**	**17%**	**18%**	**23%**

Non-domestic (legal) by brand 2006-2009[1][2][3]



	2006	2007	2008	2009
PMI share of ND(L):	**48%**	**48%**	**55%**	**58%**

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2008 and 2009
(3) Interviews with PMI Local Management

ND(L) analysis

	1 Population 19+		2 Propensity to travel		3 Propensity to purchase		4 Ave. no. of trips		Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**1.6m**	**x**	**65%**	**x**	**21%**	**x**	**3.3**	**x**	**117**	**=**	**0.08bn**
EU rank 2009	**23**		**4**		**19**		**14**		**18**		**24**

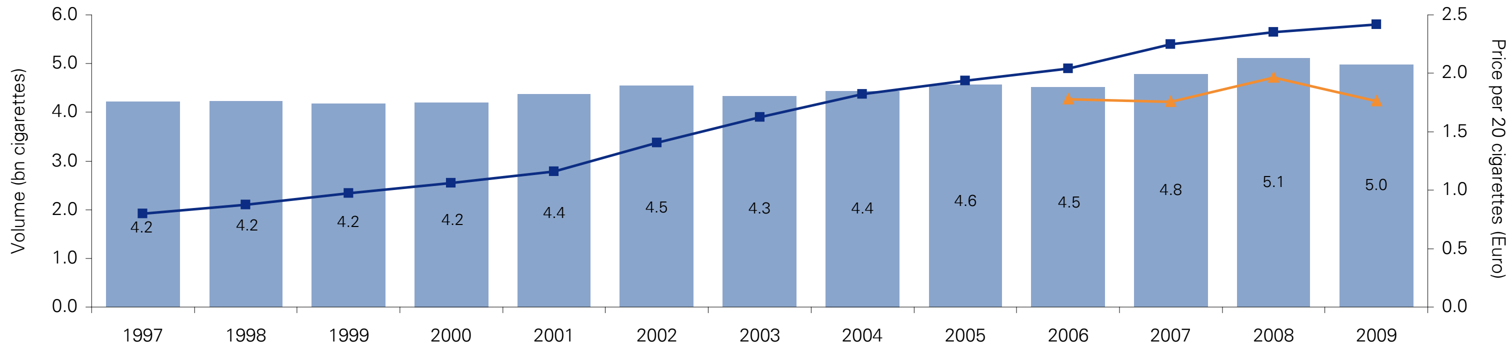
ND(L) analysis 2007-2009

		2007	**2008**	**2009**
Propensity to travel and purchase cigarettes	1 **x** 2	15.3%	16.1%	13.4%
Average annual cigarettes purchased	3 **x** 4	173	287	382

Historic sales and pricing trends

Legal domestic sales declined by 2.6% to 5.0 billion cigarettes in 2009

Historic cigarette prices and legal domestic sales 1997-2009[1][2]



CAGR (%)	1997-2003	2003-2006	2006-2009	2008-2009
Legal domestic sales	*0.5%*	*1.4%*	*3.3%*	*-2.6%*
Average pack price	*12.6%*	*7.9%*	*5.9%*	*3.0%*
Consumption	*n/a*	*n/a*	*-0.4%*	*-10.4%*

Note: (a) Real Gross Domestic Product, seasonally and working days adjusted data at constant prices, reference year 2000
Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI
(3) Statistical office of the republic of Slovenia, Consumer price indices, May 2009
(4) Statistical Office of the Republic of Slovenia, Gross Domestic Product, accessed March 2010
(5) Statistical office of the republic of Slovenia, Unemployment Rate, accessed March 2010

Legal domestic sales declined by 2.6% from 2008 to 2009, whilst average weighted pack prices increased by 3.0% over the same period

- Price increases in 2009 were driven by an excise tax increase in May 2009[3]

Economic conditions worsened in 2009 as GDP declined and unemployment increased compared to 2008

- Gross Domestic Product fell to 23.8 billion euro in 2009, representing a decline of 8.1% compared to 2008[4][a]
- Unemployment rate in Slovenia increased from 6.7% in 2008 to 9.2% in 2009[5]

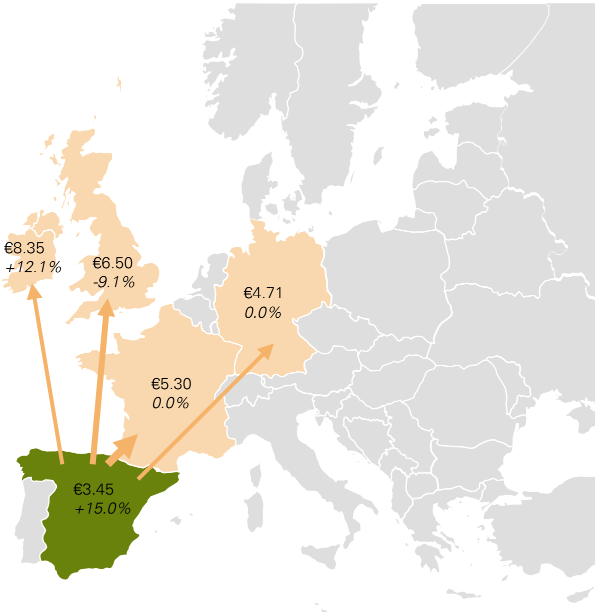
Contents – country detail

Market Overview

Counterfeit and contraband cigarette consumption in Spain remained broadly stable at 2.4% of total consumption in 2009

Spain remains a major outflow market with cigarettes equivalent to 7.3% of Spanish consumption flowing out to other European countries in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008(1)(2)(a)(b)



Key: ■ Spain ■ Major destination countries

Notes: (a) Map shows flows over 0.5% of consumption. Countries which are both source and destination countries are coded according to the larger flow whilst arrow size indicates relative cigarette flow volume

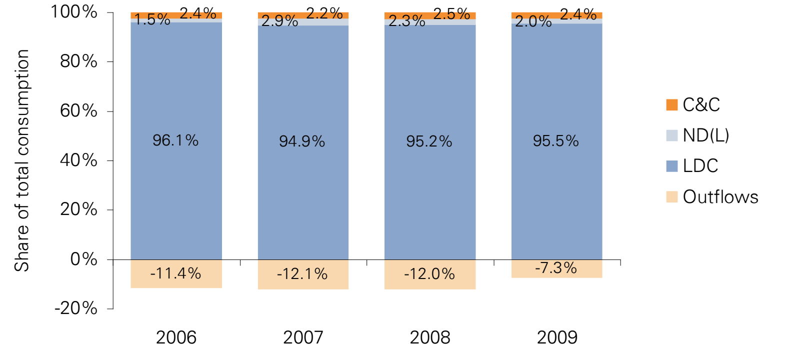
(b) Cigarette prices in the UK declined in euro terms in 2009 as a result of exchange rate changes of the pound versus the euro

Sources: (1) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

(2) KPMG EU Flows Model and interviews with PMI Local Management

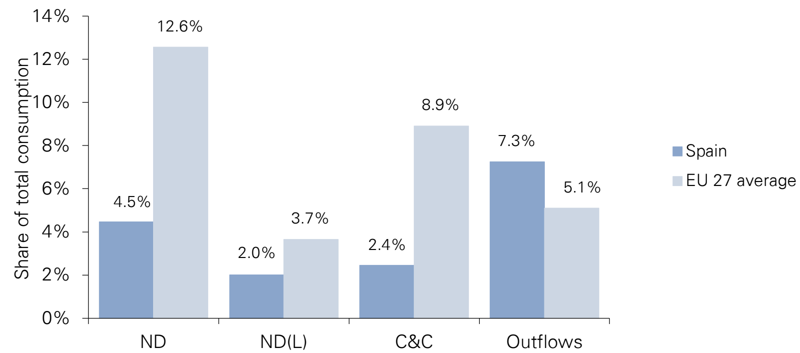
(2) Synovate ND(L) research 2006, 2007 and 2008

Share of Spain consumption by type 2006-2009(2)(3)



Volume (bn cigarettes):	84.4	83.7	83.7	79.5

Comparison of EU and Spanish consumption by type 2009(2)(3)



Total non-domestic consumption

Total cigarette consumption declined to 79.45 billion cigarettes in 2009 compared to 83.73 billion in the previous year driven by falling legal domestic sales

Outflows from Spain have fallen from 10.04 billion cigarettes in 2008 to 5.76 billion in 2009, driven largely by lower flows to France and the UK

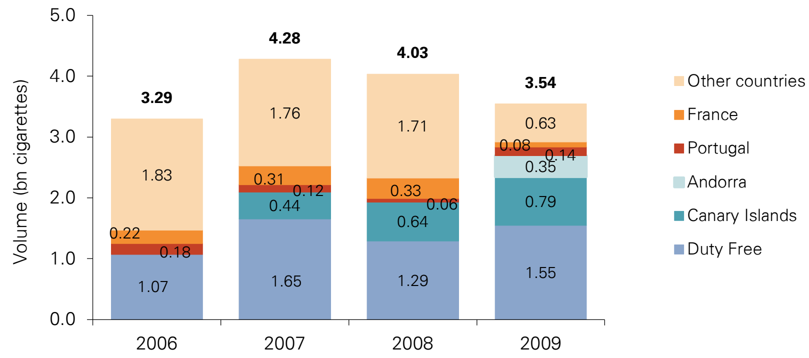
Total Spain consumption[(1)(2)]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	90.69	89.51	89.74	81.67
Outflows	-9.61	-10.10	-10.04	-5.76
Legal domestic consumption (LDC)	81.08	79.41	79.70	75.91
Non-domestic legal (ND(L))	1.23	2.43	1.91	1.60
Counterfeit and contraband (C&C)	2.06	1.85	2.13	1.94
Total non-domestic	3.29	4.28	4.03	3.54
Total consumption	**84.37**	**83.69**	**83.73**	**79.45**

Outflows from Spain[(1)]

Destination country (bn cigarettes)	2006	2007	2008	2009
France	3.42	3.25	4.38	2.40
UK	4.07	4.22	3.17	1.91
Germany	1.10	0.92	0.73	0.52
Ireland	0.37	0.49	0.50	0.37
Other EU	0.65	1.23	1.26	0.57
Total outflows	**9.61**	**10.10**	**10.04**	**5.76**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[(1)(2)]

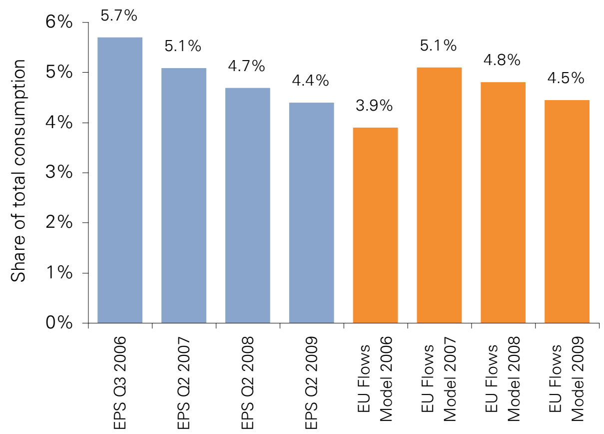


Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) Synovate ND(L) research 2006, 2007 and 2008

Comparison of external sources for non-domestic estimates

The EU Flows Model results based on the PMI Empty Pack Survey suggest that non-domestic incidence has continued to decline in 2009

Non-domestic market estimates[1][2]



Sources: *(1) KPMG EU Flows Model*
(2) PMI EPS Q3 2006, Q2 2007, Q2 2008 and Q2 2009

The 2009 EU Flows Model results based on the PMI Empty Pack Survey estimate that non-domestic incidence in Spain declined to represent 4.5% of consumption in 2009

- The decline in non-domestic incidence is consistent with PMI EPS results which also show a decline from 2007 to 2008
- The EU Flows Model results for 2009 differ slightly from the EPS results due to the reclassification of Spanish variant counterfeit packs
  - these packs are included within counterfeit volumes and are considered non-domestic for the purposes of Project Star
  - this methodology is consistent with prior years

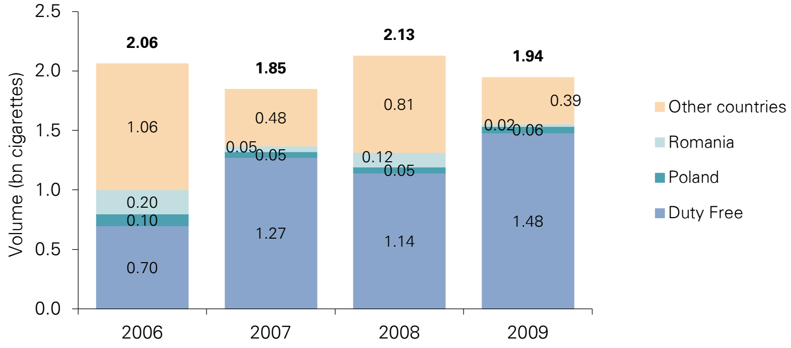
The apparent increase in non-domestic share when comparing EU Flows Model results for 2006 and 2007 reflects changes in the treatment of the Canary Islands and Andorra variant packs found in Spain

- In the 2006 Project Star results, Canary Islands and Andorra variant cigarettes were classified as Spanish legal domestic. In 2007 and 2008, Canary Islands and Andorra variant cigarettes have instead been classified as non-domestic (legal)

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 1.94 billion cigarettes in 2009, down from 2.13 billion in 2008

Counterfeit and contraband by origin 2006-2009[(1)(2)(a)]



C&C share of consumption:	**2%**	**2%**	**3%**	**2%**
C&C share of non-domestic:	**63%**	**43%**	**53%**	**55%**

Notes: (a) ND(L) research was not updated in 2009. As a result, 2009 estimates are based on 2008 research

Sources: (1) KPMG EU Flows Model

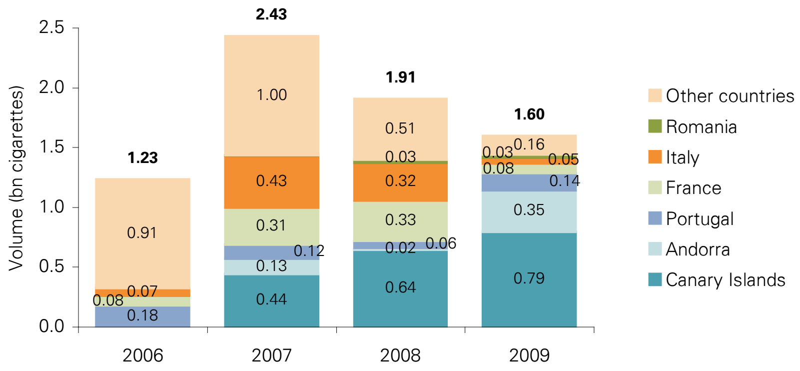
(2) Synovate ND(L) research 2006, 2007 and 2008

Non-domestic (legal) breakdown

Non-domestic (legal) volumes decreased to 1.60 billion cigarettes in 2009

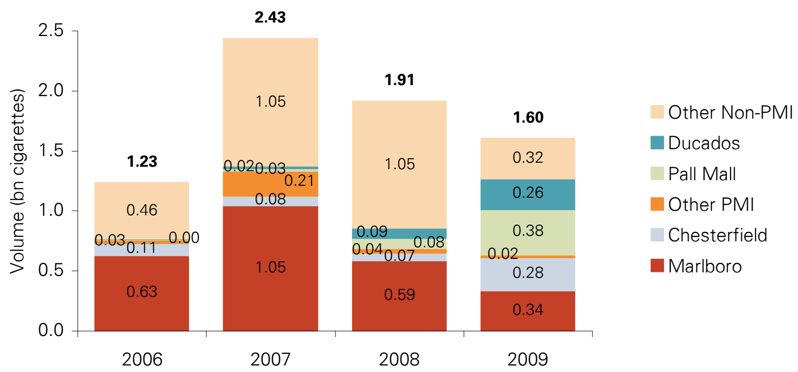
Over 70% of non-domestic (legal) inflows were from the Canary Islands and Andorra in 2009

Non-domestic (legal) by origin 2006-2009[1][2][3][a][b]



ND(L) share of consumption:	1%	3%	2%	2%
ND(L) share of non-domestic:	37%	57%	47%	45%

Non-domestic (legal) by brand 2006-2009[1][2][3][b]



PMI share of ND(L):	62%	55%	36%	40%

ND(L) analysis

	(1) Population 19+		(2) Propensity to travel		Propensity to purchase		(3) Ave. no. of trips		(4) Ave. purchases (cigarettes)		Total ND(L) (cigarettes)
Values 2009	33.1m	x	22%	x	18%	x	1.4	x	132	=	0.24bn[c]
EU rank 2009	5		26		22		26		15		13

ND(L) analysis 2007-2009

		2007	2008	2009
Propensity to travel and purchase cigarettes	1 x 2	6.3%	4.0%	4.0%
Average annual cigarettes purchased	3 x 4	305	181	181

Notes: (a) In 2006 Project Star results, Canary Islands and Andorra variant cigarettes were classified as Spanish legal domestic. In 2007, 2008 and 2009, Canary Islands and Andorra variant cigarettes have been classified as non-domestic (legal)

(b) ND(L) research was not updated in 2009. As a result, 2009 estimates are based on 2008 research

(c) ND(L) analysis from Synovate excludes adjustments to inflows from Canary Islands, Andorran and inbound tourism flows. Total ND(L) including these adjustments is 1.60 billion cigarettes

Sources: (1) KPMG EU Flows Model

(2) Synovate ND(L) research 2006, 2007 and 2008

(3) Interview with PMI Local Management

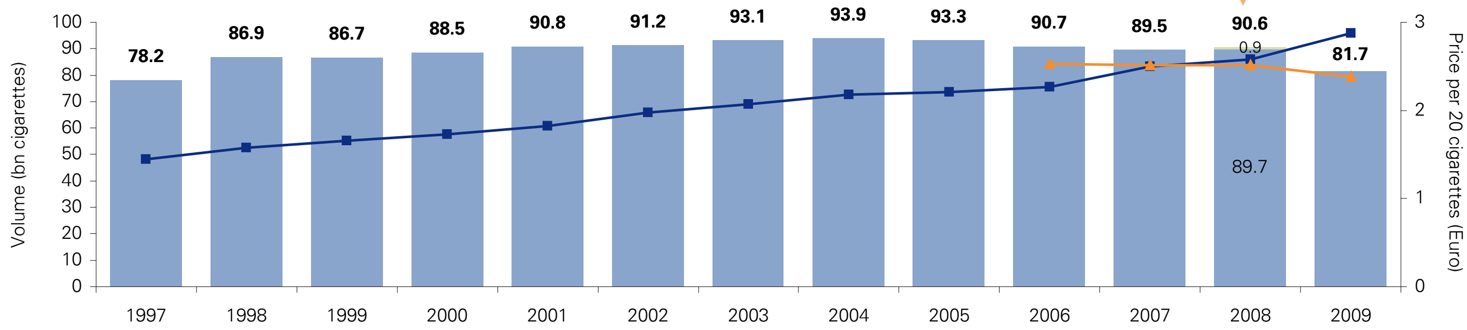
Historic sales and pricing trends

Legal domestic cigarette sales decreased by 9.0% in 2009 compared to 2008

The weighted average price increased by 11.5% to €2.88 in 2009

Historic cigarette prices and legal domestic sales 1997-2009[1][2][a]

0.9 billion cigarettes related to additional inventories in 2008 have been excluded from the 2008 Project Star results.



CAGR (%)	1997-2000	2000-2004	2004-2009	2008-2009
Legal domestic sales	*4.2%*	*1.5%*	*-2.8%*	*-9.0%[a]*
Average pack price	*6.2%*	*5.9%*	*5.7%*	*11.5%*
Consumption	*n/a*	*n/a*	*-2.0%[b]*	*-5.1%*

Notes: (a) IMS indicated legal domestic sales of 90.6 billion cigarettes in 2008. However, Project Star 2008 results used legal domestic sales of 89.7 billion cigarettes to reflect an adjustment of 0.9 billion cigarettes to account for additional inventories held in 2008. The 2008 adjustment was subsequently updated by local PMI management to 0.5 billion cigarettes. In 2009, local management estimated that a further 0.5 billion cigarettes of additional inventories which effectively offset the effect of the additional inventories carried forward from 2008. Therefore, the Project Star results in 2009 use the legal domestic sales figure of 81.7 billion cigarettes

(b) Consumption CAGR based on 2006 to 2009

Sources: (1) In Market Sales supplied by PMI

(2) Weighted average pack price supplied by PMI

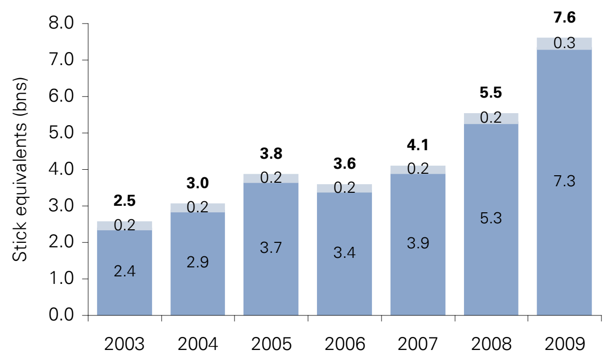
Legal domestic sales according to IMS declined by 9.0% in 2009 whilst average prices increased by 11.5% compared to 2008

- Price increases driven by excise tax rises were implemented in January and July 2009

OTP market size and growth

Sales of smoking tobacco increased by 38% to 7.6 billion stick equivalents in 2009

OTP sales in billion stick equivalents 2003-2009(1)(a)(b)(c)(d)



Cigarette sales (bn cigarettes)	93.1	93.9	93.3	90.6	89.5	89.7(d)	81.7(d)

CAGR (%)	2003-2005	2005-2007	2007-2009	2008-2009
Pipe tobacco	*-2.4%*	*0.2%*	*26.4%*	*20.8%*
Fine cut tobacco	*24.4%*	*3.2%*	*36.7%*	*38.3%*
Total Smoking tobacco	***22.8%***	***3.1%***	***36.3%***	***37.7%***
Manufactured cigarettes	***0.1%***	***-2.0%***	***-4.5%***	***-9.0%***

Notes: (a) Smoking tobacco volumes have been calculated at 1 stick per 0.75 grams
(b) Cigars and cigarillos has been excluded from this analysis
(c) In 2008 fine cut tobacco is represented by 'roll your own' tobacco only whereas in 2003-2007 fine cut tobacco is represented by 'roll your own' and 'make your own' tobacco. Roll your own tobacco does however account for 98% of total fine cut in 2007
(d) IMS indicated legal domestic sales of 90.6 billion cigarettes in 2008. However, Project Star 2008 results used legal domestic sales of 89.7 billion cigarettes to reflect an adjustment of 0.9 billion cigarettes to account for additional inventories held in 2008. In 2009, the Project Star results use the final IMS legal domestic sales figure of 81.7 billion. The effect of additional inventories at the end of 2008 has been offset by additional inventories held at the end of 2009

Sources: (1) Until 2007, OTP volumes are supplied by PMI. 2008 volumes are estimates provided by PMI Spain. 2009 volumes are supplied by Tobacco Commisioner and Logista data.
(2) Interview with local PMI management

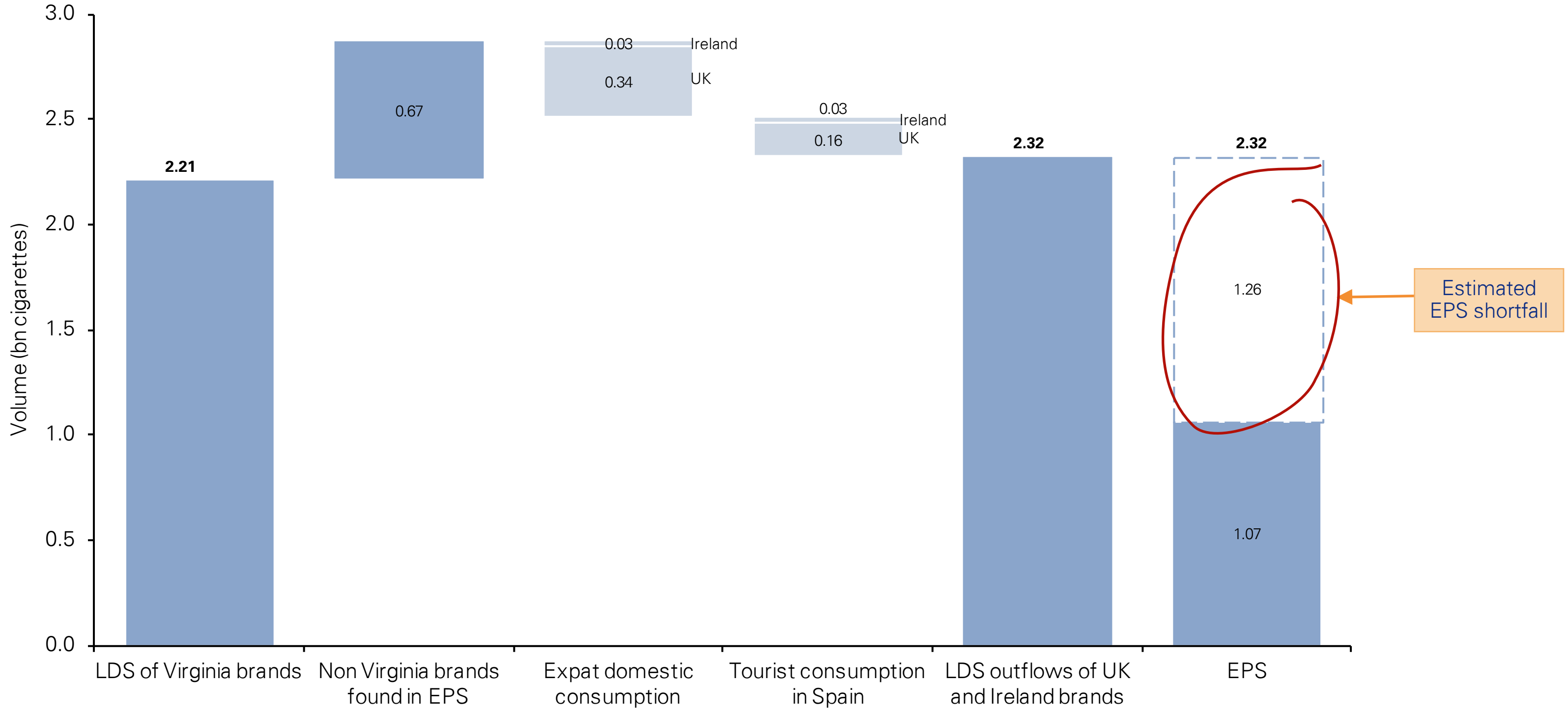
Sales of smoking tobacco increased by 38% from 2008 to 2009 whilst sales of manufactured cigarettes have declined over the same period

- Sales of fine cut tobacco increased to 7.3 billion stick in 2009 compared to 5.3 billion stick equivalents in 2008
- In June 2009, a minimum level of excise tax was imposed on roll-your-own products
  - prices of the cheapest products increased by approximately 75%(2)

Country outflow refinements (1/2): Spain to UK and Republic of Ireland

Adjustments have been made to flows out of Spain to the UK and Republic of Ireland

Cigarette flows from Spain to UK and Republic of Ireland (1)(2)(3)(4)(a)



In 2009, adjustments have been made to outflows from Spain to UK and Ireland in line with prior years

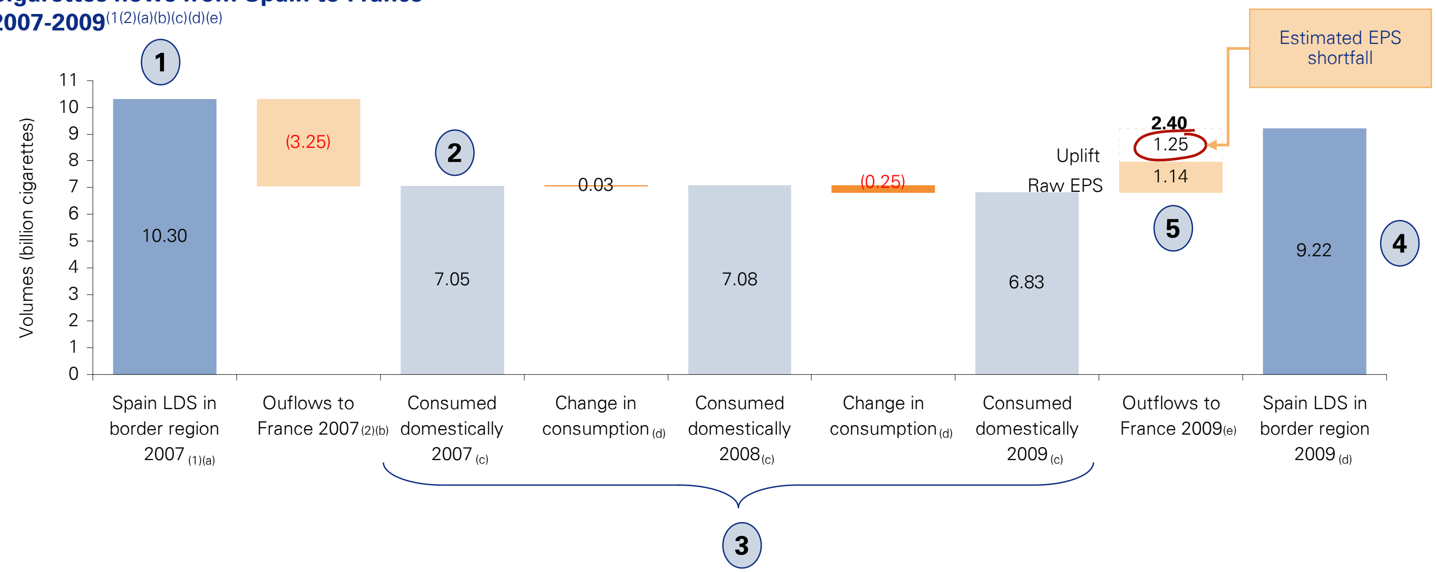
- Multiple alternative sources suggest that outflows from Spain to the UK and Republic of Ireland are understated by Empty Pack Survey results
- The EPS shortfall was estimated at 1.3 billion cigarettes in 2009, compared to an estimate of 2.3 and 2.6 billion cigarettes in 2008 and 2007 respectively
- Outflows to the UK and Ireland were therefore adjusted upwards by 1.1 billion cigarettes and 0.2 billion cigarettes respectively to reflect sales of UK and Ireland brands in Spain of 2.2 billion cigarettes and non-domestic incidence of other brands found in the UK and Irish EPS of 0.7 billion cigarettes, net of:
  - estimated consumption by permanent UK and Irish expatriate residents in Spain
  - tourist consumption whilst in Spain

Note: (a) *Expatriate numbers for the UK (354,718) based on estimates from Eurostat*
Sources: (1) *Spain In Market Sales, PMI management Spain*
(2) *UK and Ireland EPS, 2009*
(3) *GCTS Ireland and UK, 2008*
(4) *Eurostat, 2009*

Country inflow refinements (2/2): Spain to France

Further analysis by KPMG identified a shortfall in the outflow from Spain to France reported in the EPS in 2009

Cigarettes flows from Spain to France 2007-2009(1(2)(a)(b)(c)(d)(e)



KPMG have adjusted Spanish inflow to France in 2009 based primarily on analysis of sales trends in the border regions of Spain and France

1. In 2007, legal domestic sales in the Spanish regions bordering France were 10.30 billion cigarettes
2. Outflows to France during the same period were estimated to be 3.25 billion cigarettes. The remainder i.e. 7.05 billion cigarettes is assumed to have remained and consumed domestically in the region
3. Based on a price elasticity model, KPMG estimate that domestic consumption in this region to have declined to 6.83 billion in 2009(d)
   - KPMG price elasticity model assumes a constant price elasticity of -0.4(3)
4. Given that legal sales in 2009 in Spanish regions bordering France were 9.22 billion cigarettes, the outflow to France is estimated to be the difference between sales and domestic consumption i.e. 2.39 billion in 2009
5. Inflows from Spain have therefore been adjusted upwards by 1.25 billion cigarettes to correct the shortfall indicated by the EPS

Notes:
(a) Legal domestic sales in the border region to France, which includes legal domestic sales in Girona, Lleida, Huesca, Navarra and Guipúzcoa
(b) Project Star estimated outflows to France based on EU Flows Model
(c) Assuming negligible outflows to other destinations
(d) Consumption change based on price elasticity and the change in weighted average price
(e) Calculated as the difference between total sales and sales that are consumed domestically

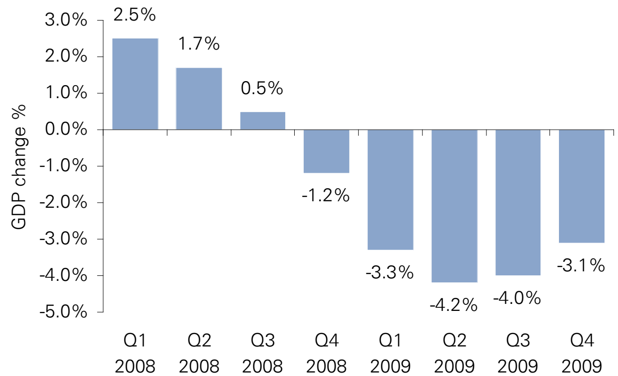
Sources:
(1) Comisionado para el Mercado de Tabacos
(2) KPMG EU Flows Model
(3) Selvanathan and Selvanathan, 'The Demand for Alcohol, Tobacco and Marijuana', Ashgate, 2005

Market developments 2009

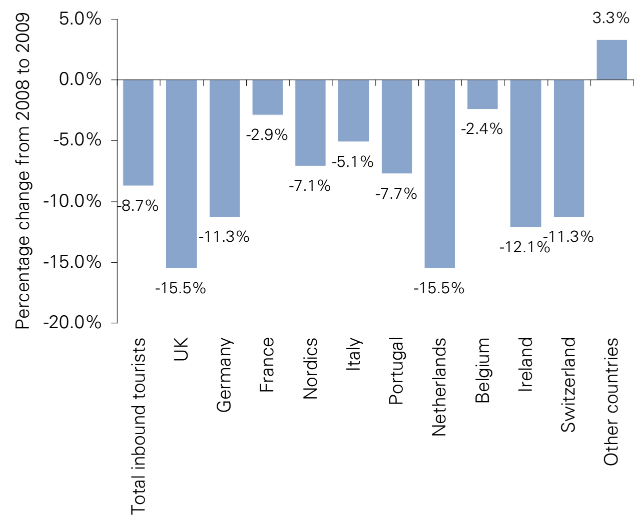
Economic conditions worsened in Spain during 2009 as GDP declined and unemployment rate increased in 2009 compared to 2008

Inbound tourist visits from key outflow markets across the European Union to Spain have fallen in 2009 compared to 2008

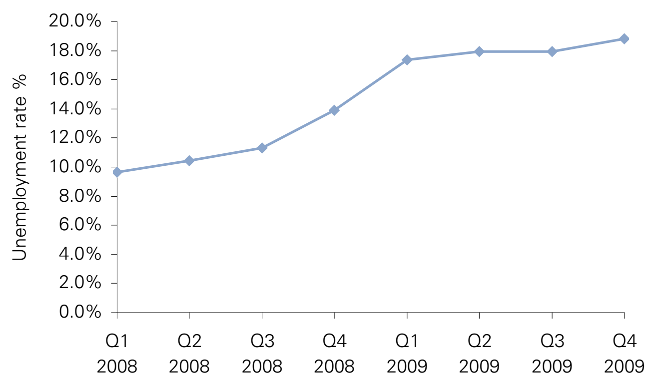
Change in Gross Domestic Product compared to equivalent quarter in prior year, 2008-2009(1)



Inbound tourism: percentage change in visitors compared to prior year 2008-2009(2)



Unemployment rate by quarter 2008-2009(1)



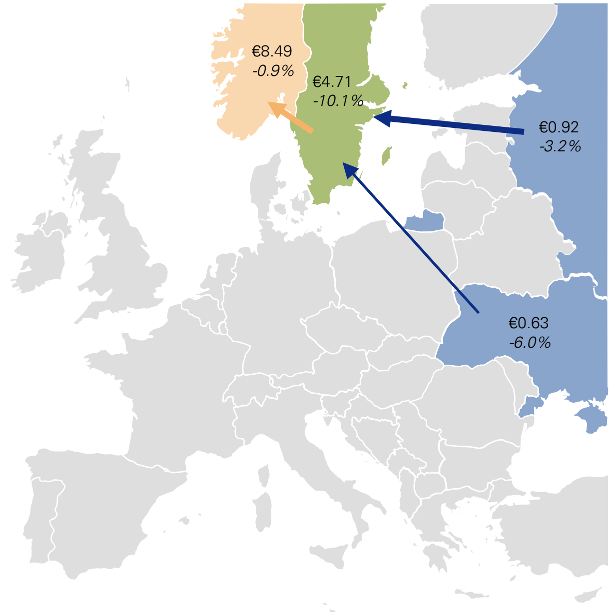
Sources: *(1) Spanish Statistics Office, accessed April 2010*
(2) Inbound tourism, Instituto de Estudios Turísticos, December 2009

Contents – country detail

Market Overview

The share of cigarette consumption in Sweden accounted for by counterfeit and contraband declined to 10.2% in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[1][2][a][b]



Key: Sweden Major source countries Major destination countries

Notes: (a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to larger flow, whilst arrow size indicates relative cigarette flow volume

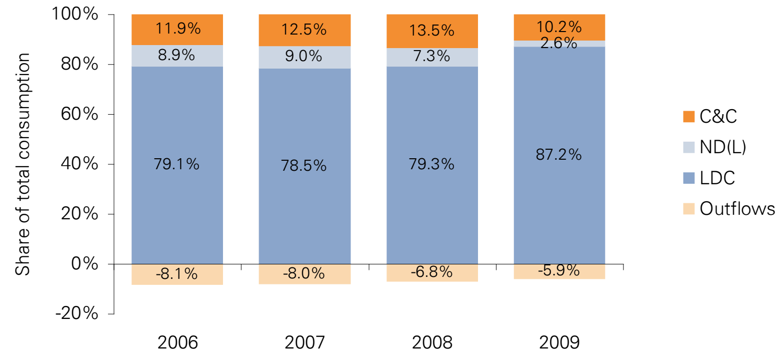
(b) Cigarette prices in Norway, Russia, Sweden and the Ukraine declined in euro terms in 2009 as a result of exchange rate changes of the kroner, rouble, krona, hryvnia and pound versus the euro

Sources: (1) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009

(2) KPMG EU Flows Model and interviews with PMI Local Management

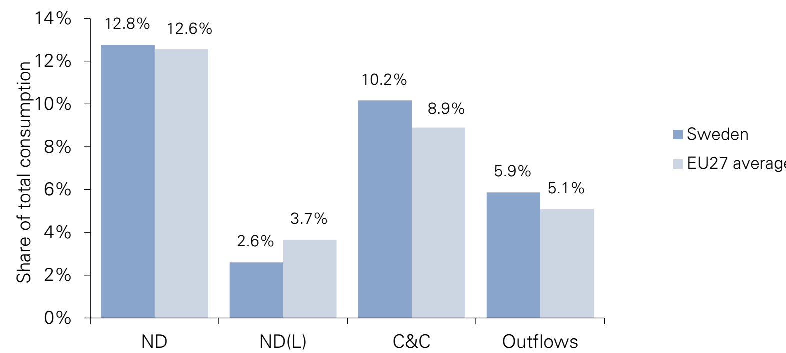
(3) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009

Share of Sweden consumption by type 2006-2009[2][3]



Volume (bn cigarettes)	**7.9**	**7.3**	**7.0**	**6.7**

Comparison of EU and Swedish consumption by type 2009[2][3]



Total non-domestic consumption

Consumption of non-domestic cigarettes declined to 0.85 billion cigarettes in 2009 compared to 1.44 billion in the previous year

Inflows from Poland, which was the largest single source of non-domestic cigarettes in 2008, declined significantly in 2009

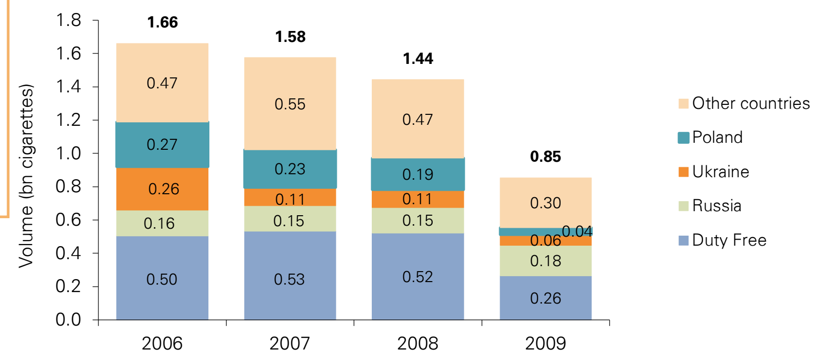
Total Sweden consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	6.93	6.33	6.00	6.22
Outflows	-0.64	-0.58	-0.47	-0.39
Legal domestic consumption (LDC)	6.29	5.74	5.52	5.83
Non-domestic legal (ND(L))	0.71	0.66	0.51	0.17
Counterfeit and contraband (C&C)	0.95	0.92	0.94	0.68
Total non-domestic	1.66	1.58	1.44	0.85
Total consumption	**7.95**	**7.32**	**6.97**	**6.68**

Outflows from Sweden[1]

Destination country (bn cigarettes)	2006	2007	2008	2009
Norway	0.50	0.37	0.31	0.23
UK	0.02	0.02	0.02	0.06
Denmark	0.10	0.10	0.10	0.05
Other EU	0.03	0.09	0.05	0.06
Total outflows	**0.64**	**0.58**	**0.47**	**0.39**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]

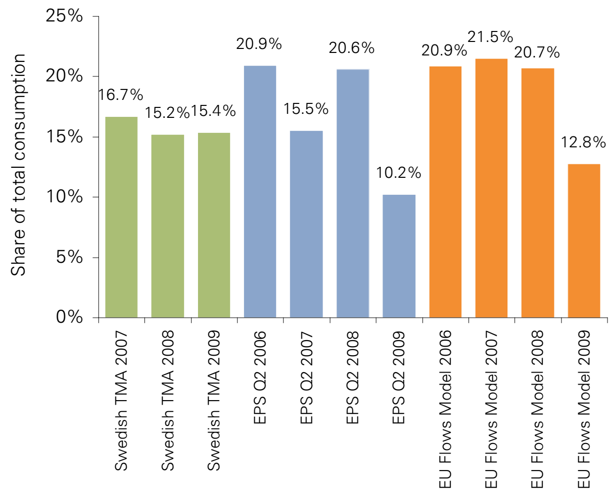


Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009

Comparison of external sources for non-domestic estimates

KPMG's estimate of non-domestic consumption is lower than that provided by the Swedish Tobacco Manufacturer Association

Non-domestic market estimates(1)(2)(3)



Sources: (1) KPMG EU Flows Model
(2) PMI EPS research Q2 2006, Q2 2007, Q2 2008 and Q2 2009
(3) The non-duty paid market for cigarettes in Sweden'. AB Handelns Utredningsintitut, 2009
(4) Swedish Statistics Office, accessed March 2010

Both the EU Flows Model and PMI Empty Pack Survey results indicate a decline in non-domestic incidence in 2009

- The PMI Empty Pack Survey indicated near zero non-domestic incidence for Linköping, Norrköping, Helsinborg and Umeå, which was inconsistent with trends observed historically and with local market observations
  - KPMG has, therefore, adjusted upwards the non-domestic incidence for these four cities to more accurately reflect the market trends in 2009 based on non-domestic consumption trends in the other cities in which the Empty Pack Survey was conducted
    - the volume impact of this adjustment was an uplift 0.2 billion cigarettes of non-domestic consumption in 2009
- The Empty Pack Survey results have been adjusted to correct the status of the Amor and Hamilton brands
  - these brands are not legally distributed for sale in Sweden and have been classified as non-domestic pack variant
  - the volume impact of this adjustment was an uplift of 0.04 billion cigarettes of non-domestic consumption in 2009

The Swedish Tobacco Manufacturers Association (TMA) indicates a higher level of non-domestic incidence than the EU Flows Model in 2009

- Differences in methodology between the TMA survey and the Empty Pack survey may also drive the different estimates for non-domestic consumption
  - the TMA survey was conducted in April 2009 whereas the PMI Empty Pack survey, which is the basis for the EU Flows Model, was carried out in June 2009

The decline in non-domestic incidence in the PMI Empty Pack Survey in 2009 was predominantly driven by lower levels of Duty Free and Polish inflows

- KPMG has corroborated these trends by analysing travel, migration and macroeconomic statistics
- Polish immigration has decreased by 26% in 2009 compared to 2008[4]
  - construction projects, which provide a good indication of Polish migration trends, also declined in 2009[4]

Counterfeit and contraband breakdown

Counterfeit and contraband inflows accounted for 0.68 billion cigarettes in 2009, down from 0.94 billion in 2008

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)]

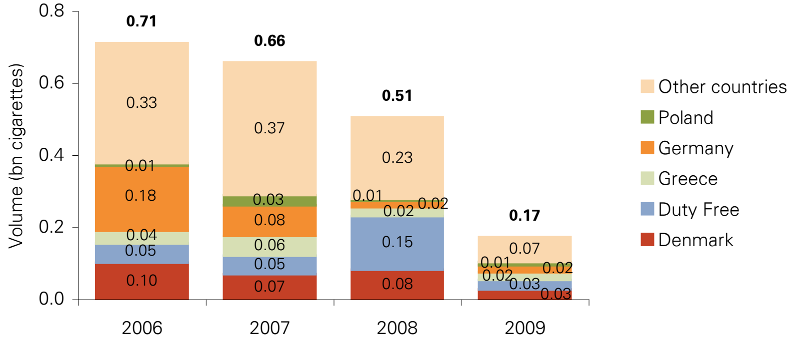
C&C share of consumption:	**12%**	**13%**	**13%**	**10%**
C&C share of non-domestic:	**57%**	**58%**	**65%**	**80%**

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009
(3) Interviews with PMI Local Management

Non-domestic (legal) breakdown

Non-domestic (legal) volumes decreased in 2009 to account for 0.17 billion cigarettes

Non-domestic (legal) by origin 2006-2009(1)(2)(3)



	2006	2007	2008	2009
ND(L) share of consumption:	**9%**	**9%**	**7%**	**3%**
ND(L) share of non-domestic:	**43%**	**42%**	**35%**	**20%**

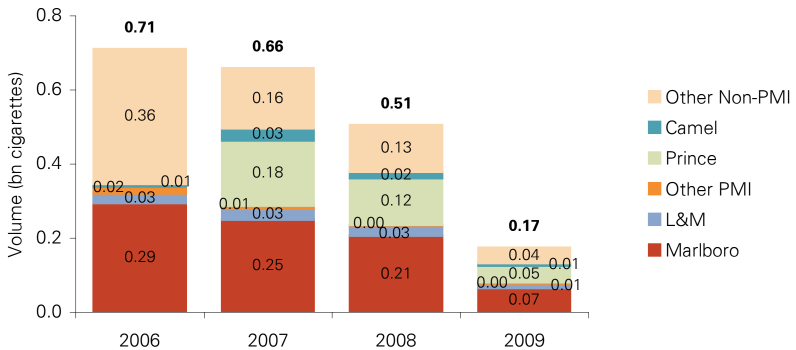
ND(L) analysis

	① Population 19+		② Propensity to travel		Propensity to purchase		③ Ave. no. of trips		④ Ave. purchases (cigarettes)		Total ND(L) (cigarettes)
Values 2009	7.1m	x	65%	x	21%	x	1.9	x	93	=	0.17bn
EU rank 2009	14		5		18		19		23		17

ND(L) analysis 2007-2009

	2007	2008	2009
Propensity to travel and purchase cigarettes 1 x 2	15.2%	16.2%	13.8%
Average annual cigarettes purchased 3 x 4	614	427	177

Non-domestic (legal) by brand 2006-2009(1)(2)(3)



	2006	2007	2008	2009
PMI share of ND(L):	**48%**	**44%**	**47%**	**46%**

Sources: (1) KPMG EU Flows Model
(2) AC Nielsen ND(L) research 2006, 2007, 2008 and 2009
(3) Interviews with PMI local management
(4) Arrivals of non-residents, Eurostat, accessed April 2010

A decline in the number of trips made by smokers has resulted in lower non-domestic (legal) inflows in 2009 compared to 2008

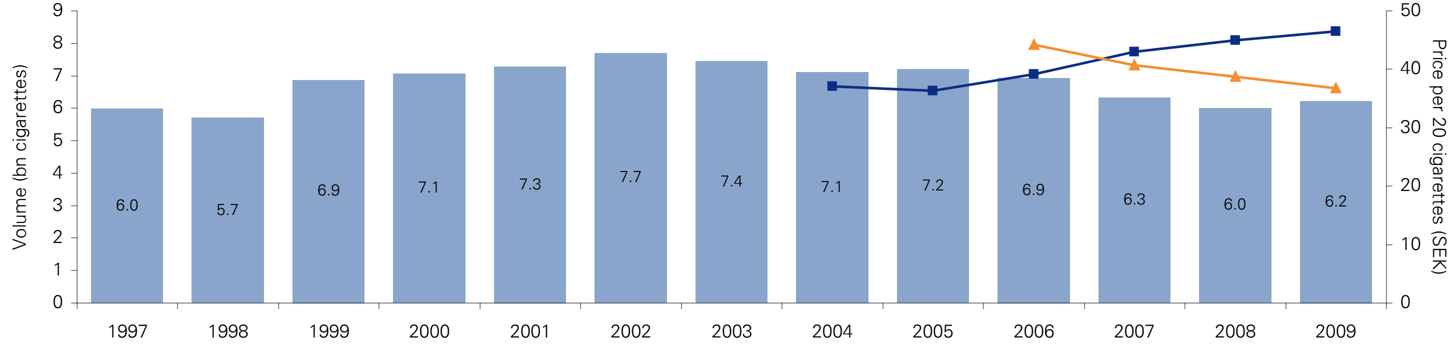
- Denmark showed the largest decline of all non-domestic (legal) source countries in 2009
  - Swedish travel to Denmark fell by 18.3% in 2009 compared to 2008[4]

Historic sales and pricing trends

Legal domestic cigarette sales increased by 3.7% in 2009

The weighted average pack price rose by 3.2% to SEK 46.50 in 2009

Historic cigarette prices and legal domestic sales 1997-2009[1][2]



CAGR (%)	1997-2002	2002-2006	2006-2009	2008-2009
Legal domestic sales	*5.2%*	*-2.6%*	*-3.6%*	*3.7%*
Average pack price	*n/a*	*2.7%[a]*	*5.9%*	*3.2%*
Consumption	*n/a*	*n/a*	*-5.6%*	*-4.1%*

Note: (a) Average pack price CAGR percentage is calculated from 2004 to 2006
Sources: (1) In Market Sales supplied by PMI
(2) Weighted average pack price supplied by PMI
(3) In Market Sales pack prices provided by PMI

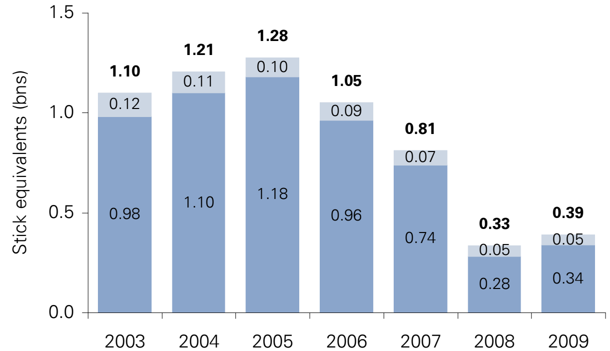
Legal domestic sales and average pack prices have increased in 2009 compared to 2008

- An excise driven price increase of approximately 1.4% was implemented in January 2009[3]

OTP market size and growth

Legal domestic sales of smoking tobacco were 0.39 billion stick equivalents in 2009

OTP sales in billion stick equivalents 2003-2009[1][a][b]



Cigarette sales (bn cigarettes)	7.4	7.1	7.2	6.9	6.3	6.0	6.2

CAGR (%)	2003-2005	2005-2009	2008-2009
Pipe tobacco	*-8.8%*	*-15.8%*	*-6.8%*
Fine cut tobacco	*9.6%*	*-26.7%*	*20.7%*
Total Smoking tobacco	***7.8%***	***-25.7%***	***16.4%***
Manufactured cigarettes	***-1.6%***	***-3.6%***	***3.7%***

Notes: (a) Smoking tobacco volumes have been calculated at 1 stick per 0.75 grams
(b) Cigars/cigarillos and smokeless tobacco has been excluded from this analysis

Source: (1) Until 2007, OTP volumes supplied by PMI. 2008 and 2009 volumes are estimates provided by PMI

Legal domestic sales of smoking tobacco and manufactured cigarettes have been decreasing at an average of 25.7% per year from 2005 to 2009

- Smoking tobacco sales have declined at a faster rate than sales of manufactured cigarette which declined by 3.6% over the same period

Sales of smoking tobacco increased in 2009, the first sales increase since 2005

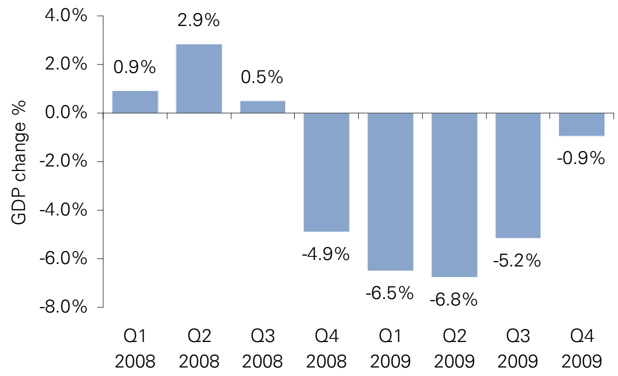
- This increase was driven by sales of fine cut tobacco which increased by 20.7% from 2008 to 2009

Market developments 2009

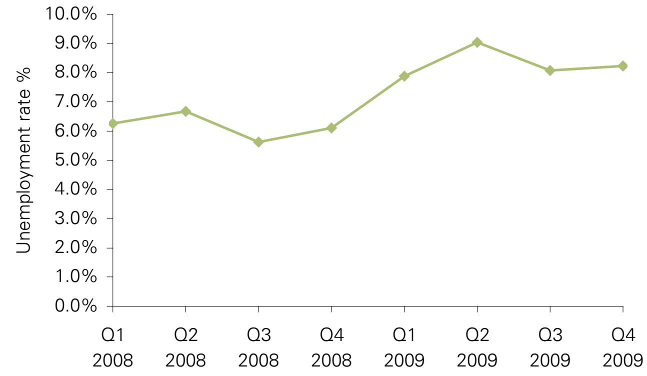
Economic conditions worsened in Sweden during 2009 with falling GDP and rising unemployment

The decrease in economic migrants, especially from Poland, is corroborated by a decline in construction projects in Sweden in 2009

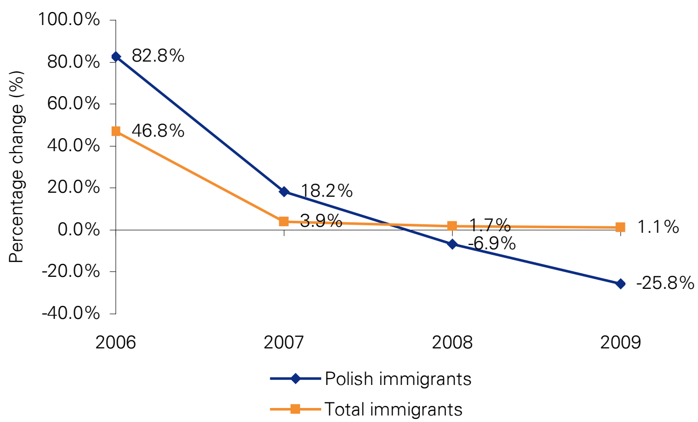
Change in Gross Domestic Product compared to corresponding period in prior year, 2008-2009[1]



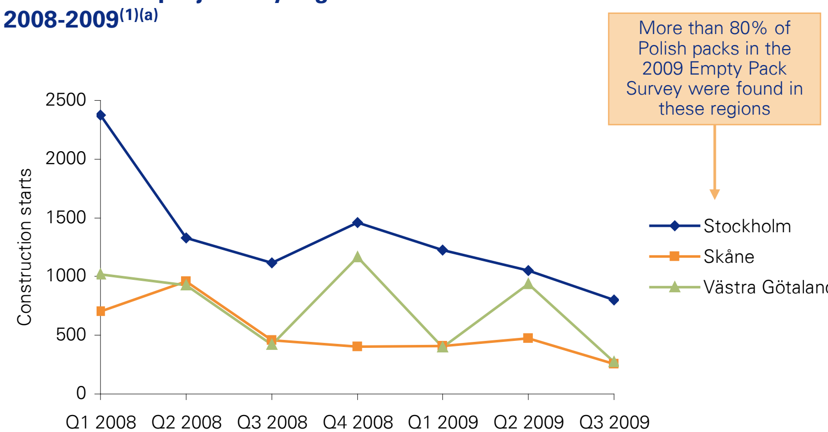
Unemployment rate by quarter 2008-2009[1]



Immigration to Sweden: percentage change compared to prior year 2006-2009[1]



Construction projects by region 2008-2009[1](a)



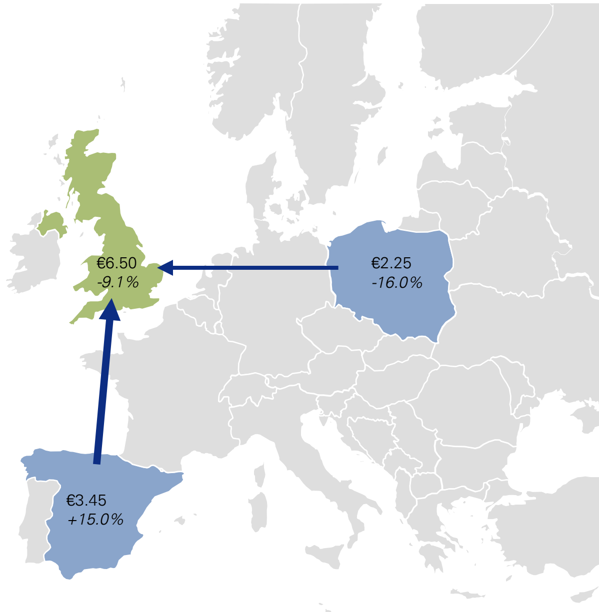
Note: (a) Includes construction of multi-storey and single person dwellings
Source: (1) Swedish Statistics Office, accessed March 2010

Contents – country detail

Market Overview

The share of cigarette consumption in UK accounted for by counterfeit and contraband products declined to 12.6% in 2009

Marlboro 2009 price comparison in Euros and percentage change from 2008[(1)(2)(a)(b)(c)]



Key: *UK* *Major source countries*

Notes: *(a) Map shows flows over 1% of consumption. Countries which are both source and destination countries are coded according to the larger flow, whilst arrow size indicates relative cigarette flow volume*

(b) ND(L) research was not updated in 2007, but corroborating research did not indicate any significant changes to 2006 results

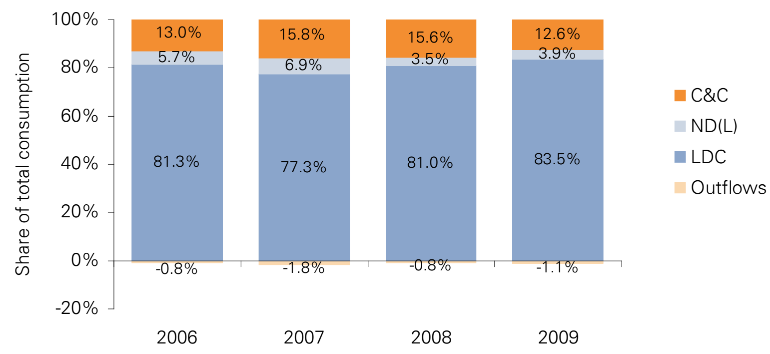
(c) Cigarette prices in the UK and Poland declined in euro terms in 2009 as a result of exchange rate changes of the pound and zloty respectively versus the euro

Sources: *(1) Marlboro retail selling price supplied by PMI based on PMI standard exchange rates as at June 2008 and June 2009*

(2) KPMG EU Flows Model and interviews with PMI Local Management

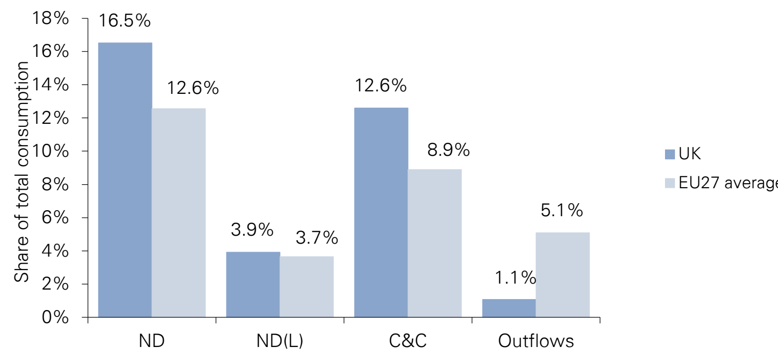
(3) AC Nielsen ND(L) research 2006, 2008, 2009

Share of UK consumption by type 2006-2009[(2)(3)]



Volume (bn cigarettes)	**59.7**	**59.4**	**55.0**	**53.5**

Comparison of EU and UK consumption by type 2009[(2)(3)]



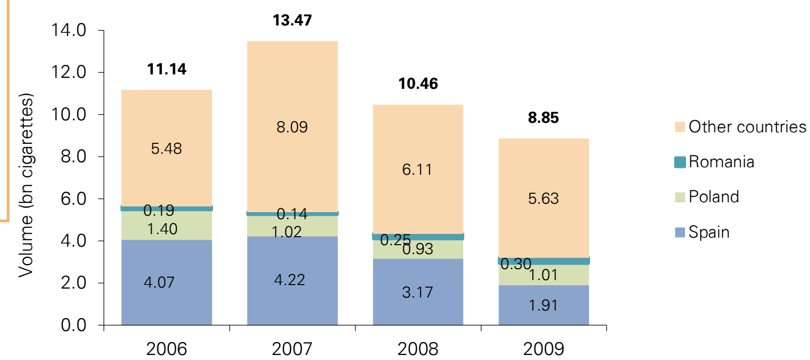
Total non-domestic consumption

Consumption of non-domestic cigarettes declined to 8.85 billion cigarettes in 2009 compared to 10.46 billion in the previous year

Total UK consumption[1][2]

Billion cigarettes	2006	2007	2008	2009
Legal domestic sales (LDS)	49.01	46.99	44.97	45.27
Outflows[a]	-0.48	-1.05	-0.47	-0.57
Legal domestic consumption (LDC)	48.53	45.94	44.50	44.70
Non-domestic legal (ND(L))	3.37	4.08	1.91	2.10
Counterfeit and contraband (C&C)	7.77	9.39	8.55	6.75
Total non-domestic	11.14	13.47	10.46	8.85
Total consumption	**59.67**	**59.41**	**54.96**	**53.54**

Total non-domestic inflows (ND(L) and C&C) by origin 2006-2009[1][2]



Note: (a) Ireland remains the major destination with outflows of 0.19 billion cigarettes in 2008 and 0.35 billion in 2009

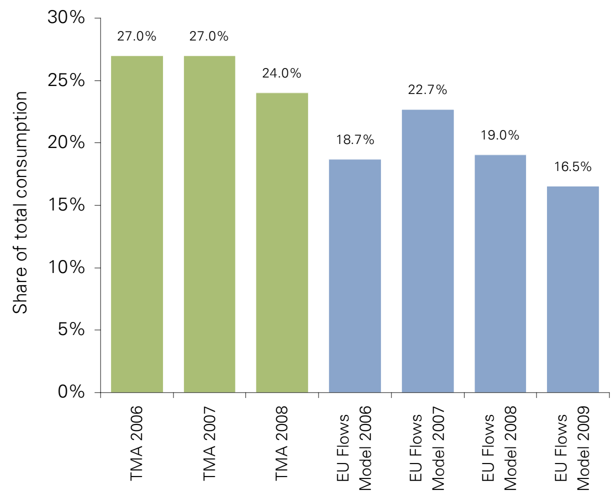
Sources: (1) KPMG EU Flows Model and interviews with PMI Local Management

(2) AC Nielsen ND(L) research 2006, 2008, 2009

Comparison of external sources for non-domestic estimates

The EU Flows Model results based on the PMI Empty Pack Survey show a decrease in non-domestic incidence in 2009 compared to 2008

Non-domestic market estimates[(1)(2)(3)(4)]



Notes:
(a) The TMA 2009 estimates for non-domestic incidence are not available
(b) This result represents the latest available information published in March 2010. The 12% estimate represents the mid-point of the range of estimates provided in the report

Sources:
(1) Estimates of non-UK Duty paid cigarette consumption, Tobacco Manufacturer's association, 2005-2008
(2) KPMG EU Flows Model based on PMI EPS results. These surveys were conducted between 29 August and 29 September 2006, 1 September and 25 September 2007, 2 September and 24 September 2008 and 26 September and 12 November 2009
(3) Discussion with TMA
(4) 'Measuring Tax Gaps', HM Revenue & Customs, March 2010

In previous years, the Trade Manufactures Association (TMA) has estimated a much higher level of non-domestic incidence compared to the EU Flows Model, albeit a similar declining trend from 2007 to 2008[(a)]

- The TMA use a different methodology than that applied by the EU Flows Model
  - the TMA estimate is of non-UK duty paid cigarette consumption. The methodology is based on consumption and prevalence levels and pack collection samples. The pack collection is carried out in various locations including sports events[(3)]

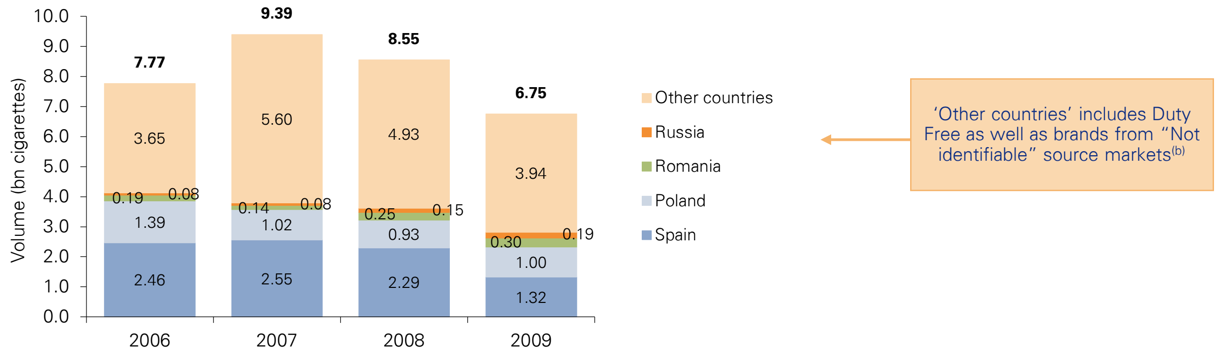
Project Star estimates that counterfeit and contraband cigarettes make up 13% of total consumption in 2009

- UK Customs estimate that approximately 12% of consumption comes from counterfeit and contraband cigarettes[(4)(b)]

Counterfeit and contraband breakdown

Counterfeit and contraband inflows declined to 6.75 billion cigarettes from 8.55 billion in 2008

Counterfeit and contraband by origin 2006-2009[(1)(2)(3)(a)]



	2006	2007	2008	2009
C&C share of consumption:	**13%**	**16%**	**16%**	**13%**
C&C share of non-domestic:	**70%**	**70%**	**82%**	**76%**

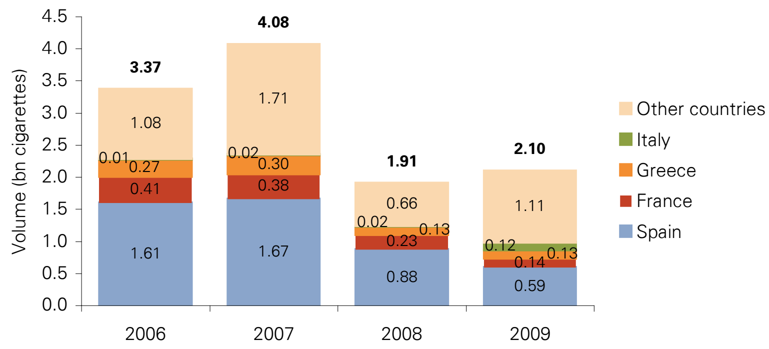
Notes:
- *(a) ND(L) research was not updated in 2007, but was assumed to have increased in proportion with the increase in non-domestic incidence i.e. ND(L) share of non-domestic was assumed to equal 30% in both 2006 and 2007. Therefore C&C share of non-domestic was assumed to equal 70% in both 2006 and 2007*
- *(b) In 2009, packs which had no clear indication of origin were classified as 'Not identifiable'. In prior years, such packs were classified as Duty Free. In 2009, not identifiable variant products account for 0.32 billion cigarettes and have been included in 'Other countries' on the above chart. The two largest inflows of brands from a source market that was 'Not identifiable' were Superkings and Mayfair with 0.08 billion and 0.03 billion cigarettes respectively*

Sources:
- *(1) KPMG EU Flows Model*
- *(2) AC Nielsen, ND(L) research 2006, 2008, 2009*
- *(3) Interviews with PMI Local Management*

Non-domestic (legal) breakdown

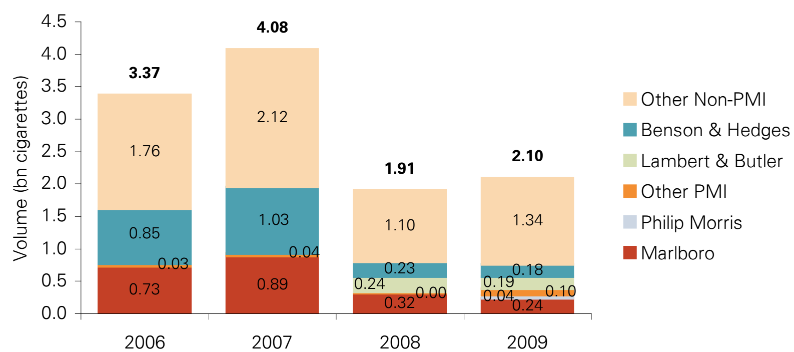
Non-domestic (legal) volumes increased in 2009 to 2.10 billion cigarettes

Non-domestic (legal) by origin 2006-2009[(1)(2)(3)(a)(b)]



	2006	2007	2008	2009
ND(L) share of consumption:	**6%**	**7%**	**3%**	**4%**
ND(L) share of non-domestic:	**30%**	**30%**	**18%**	**24%**

Non-domestic (legal) by brand 2006-2009[(1)(2)(3)(a)(b)]



	2006	2007	2008	2009
PMI share of ND(L):	**23%**	**23%**	**17%**	**18%**

ND(L) analysis

	1		2		3		4		
	Population 19+		Propensity to travel		Propensity to purchase		Ave. no. of trips		Ave. purchases (cigarettes)		**Total ND(L) (cigarettes)**
Values 2009	**47.7m**	**x**	**48%**	**x**	**25%**	**x**	**1.4**	**x**	**256**	**=**	**2.10bn**
EU rank 2009	**4**		**15**		**14**		**25**		**3**		**3**

ND(L) analysis 2007-2009

	2007	2008	2009
Propensity to travel and purchase cigarettes 1 x 2	8.1%	5.7%	12.1%
Average annual cigarettes purchased 3 x 4	1070	711	363

Notes: (a) ND(L) research was not updated in 2007, but was assumed to have increased in proportion with the increase in non-domestic incidence i.e. ND(L) share of non-domestic was assumed to equal 30% in both 2006 and 2007

(b) The non-domestic (legal) results are based on a larger sample size in 2009 compared to 2008

Sources: (1) KPMG EU Flows Model

(2) AC Nielsen ND(L) research 2006, 2008, 2009

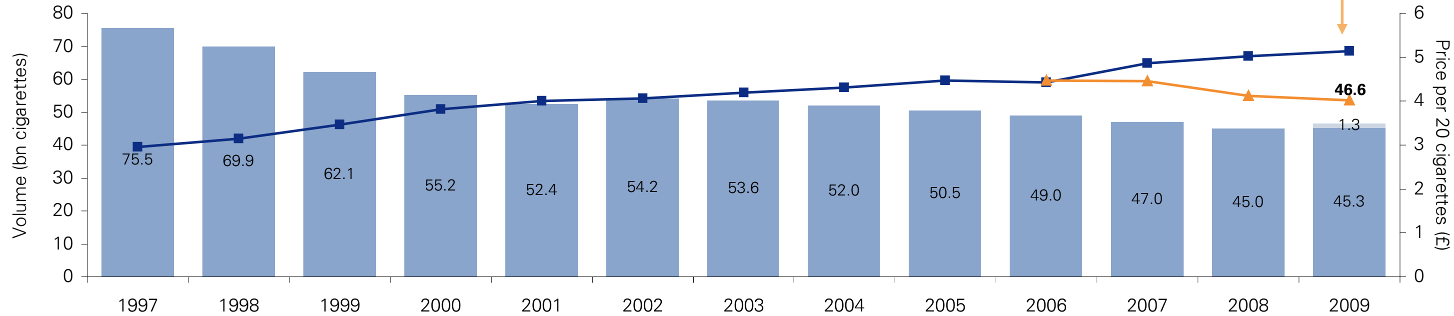
(3) Interviews with PMI Local Management

Historic sales and pricing trends

Legal domestic cigarette sales increased for the first time since 2002

Historic cigarette prices and legal domestic sales 1997-2009(1)(2)(a)

1.3 billion cigarettes related to additional inventories held at the end of 2009 have not been included within the 2009 Project Star results. For 2009, legal domestic sales of 45.3 billion cigarettes are used for the purposes of Project Star



CAGR (%)	1997-2001	2001-2006	2006-2009	2008-2009
Legal domestic sales	*-8.8%*	*-1.3%*	*-2.6%*[a]	*0.7%*[a]
Average pack price	*7.9%*	*2.1%*	*5.1%*	*2.4%*
Consumption	*n/a*	*n/a*	*-3.5%*	*-2.6%*

Notes: (a) IMS indicates legal domestic sales of 46.6 billion cigarettes in 2009. However, Project Star 2009 results use legal domestic sales of 45.3 billion which reflects an adjustment of 1.3 billion cigarettes to account for an increase in inventories held in December 2009 prior to the VAT increase on 1 January 2010. This adjustment will be carried forward and included within legal domestic sales in 2010

(b) Smoking tobacco volumes have been calculated at 1 stick per 0.75 grams

Sources: (1) In Market Sales supplied by PMI

(2) Weighted average pack price supplied by PMI

(3) UK Government, Budget statement, 22 April 2009

(4) OTP volumes provided by HM Revenue & Customs

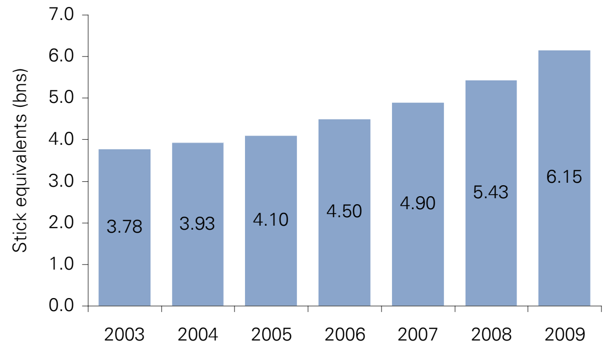
In Market Sales (IMS) suggest that legal domestic sales increased by 0.7% in 2009 compared to 2008

- A price increase of approximately 2% was implemented in May 2009[3], predominantly on 'Super low' price category cigarettes
- The weighted average price has increased by 2.4% to £5.14 in 2009[2]
- Sales of other tobacco products increased by 13.3% in 2009 to 6.2 billion stick equivalents[4][b]

OTP market size and growth

Sales of fine cut tobacco were 6.15 billion stick equivalents in 2009

Fine cut tobacco sales in billion stick equivalents 2003-2009[(1)(2)(a)(b)]



Cigarette sales (bn cigarettes)	53.6	52.0	50.5	49.0	47.0	45.0	45.3[(c)]

CAGR (%)	2003-2006	2006-2009	2008-2009
Fine cut tobacco	*4.3%*	*6.7%*	*13.3%*
Manufactured cigarettes	*-2.9%*	*-2.6%*	*0.7%*

Notes: (a) *Smoking tobacco volumes have been calculated at one stick per 0.75 grams, while cigars and cigarillos have been calculated on a stick for stick basis*
(b) *Smokeless tobacco is excluded from this analysis*
(c) *IMS indicates legal domestic sales of 46.6 billion cigarettes in 2009. However, Project Star 2009 results use legal domestic sales of 45.3 billion which reflects an adjustment of 1.3 billion cigarettes to account for an increase in inventories held in December 2009 prior to the VAT increase on 1 January 2010*
(d) *Total legal tobacco sales includes legal domestic cigarettes and fine cut tobacco. Smokeless tobacco is excluded*

Sources: (1) *Fine cut tobacco volumes supplied by PMI*
(2) *2009 fine cut tobacco volumes supplied by HM Revenue & Customs*

Legal domestic sales of fine cut tobacco increased by 13.3% compared to a 0.7% increase in sales of manufactured cigarettes in 2009

- Legal domestic sales of fine cut tobacco are equivalent to 12.0% of legal tobacco sales in the UK in 2009 compared to 10.8% in 2008[(d)]

Contents

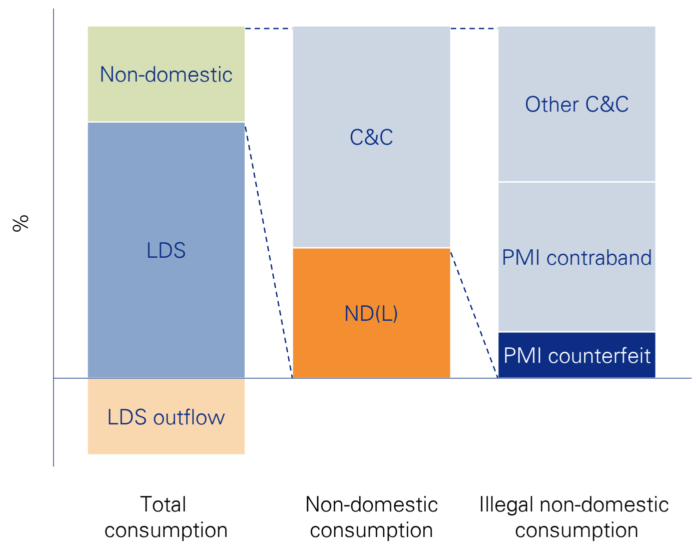
Overview

We have developed a methodology for quantifying C&C incidence across the 27 EU markets	**The methodology has been tested extensively and refined to ensure that it can deliver the most robust and defensible results possible** ● Our approach comprises four steps: initial information assessment, preliminary methodology design, pilot and refinement, and then implementation ● Our approach integrates multiple sources and custom-built analytical tools
The methodology is based primarily on objective evidence from legal domestic sales and Empty Pack Survey results	**The EU Flows Model is a dynamic, iterative model that is principally based on legal domestic sales and Empty Pack Survey results** ● Legal domestic sales are the starting point of the methodology, from which outflows of legal sales to other countries are then subtracted to determine legal domestic consumption ● Empty Pack Survey results provide the most credible indication of the incidence of non-domestic and PMI counterfeit packs by country of origin
Primary market research was used to quantify legal non-domestic cigarette purchases	**The key objective of the market research programme was to quantify genuine, legal non-domestic tobacco purchases in each market** ● ND(L) data for 2009 Project Star results is based upon approximately 160,000 full interviews and over 13,800 gross respondents. This research was updated in 20 Member States during 2009 ● Primary research is critical to deliver robust results as no other sources of sufficient detail and accuracy are available for legal cross border shopping **In addition to the research programme, ND(L) data is adjusted to reflect inbound visitor inflows from higher cost markets**
There are some specific limitations to the results that our methodology delivers	**Given the innate complexity of measuring C&C, some limitations to accurate quantification are to be expected** ● There are broadly two types of limitations, scope exclusions and source limitations, which are covered in more detail in this section – scope exclusions include areas which cannot or have not been accounted for in our approach, such as geographic, brand (non-PMI counterfeit), category exclusions (OTP) and legal domestic product flows out of the EU – source limitations cover potential errors inherent with any data sources such as sampling criteria, coverage issues and seasonality factors
In order to maximise the accuracy of results some minor refinements were necessary at a country level	**Triangulation of results from alternative sources identified a few markets where country-to-country flows required minor adjustment** ● In nearly all instances, overall country results and flows from the EU Flows Model appeared reasonable ● However, in a limited number of instances, specific adjustments were made to country-to-country flows on the basis of sound supporting evidence

Key terms and definitions

We have used a top-down approach to estimate PMI counterfeit and contraband volumes starting from total consumption

Overview of Project Star methodology and key terms

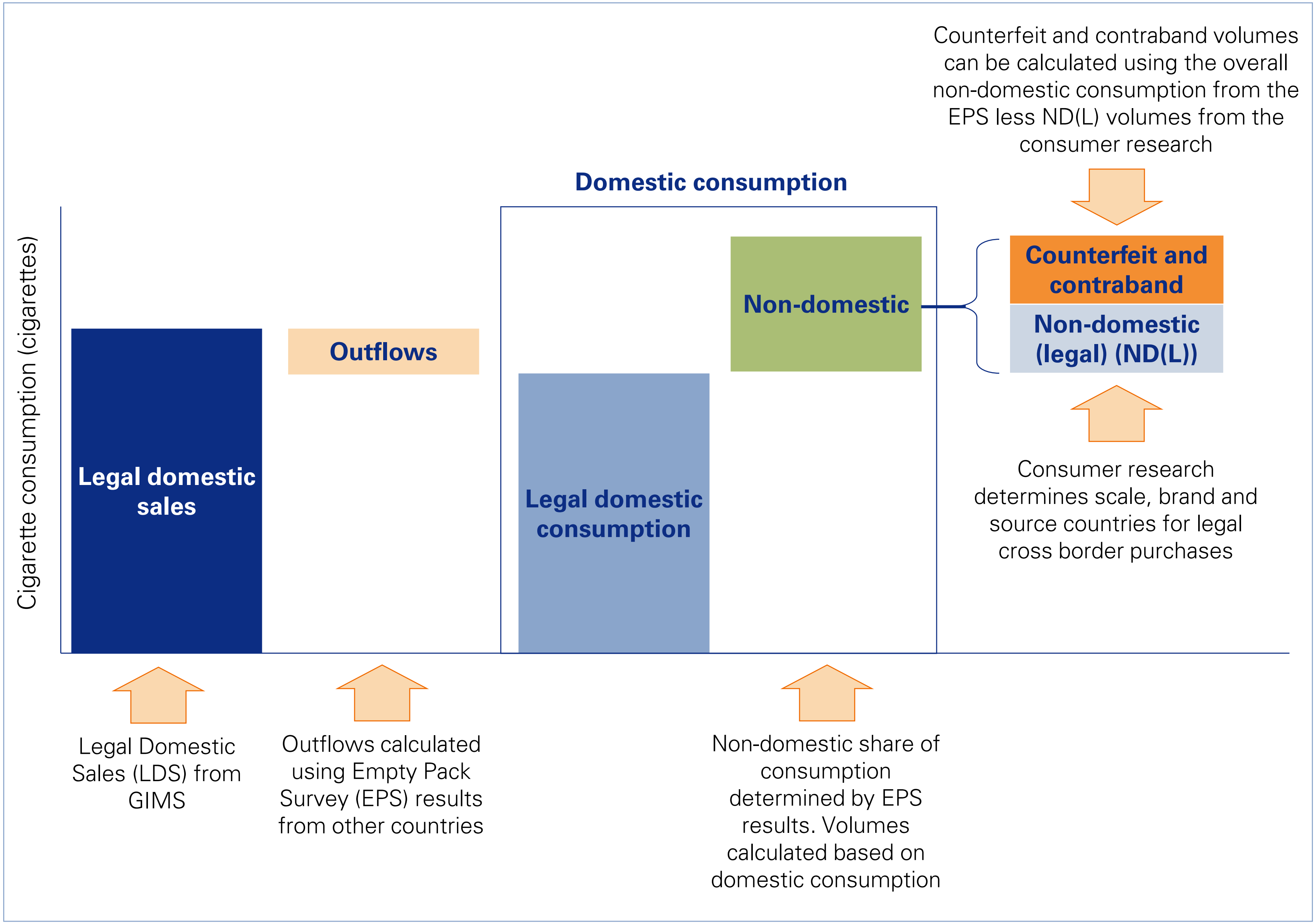


Our methodology is based on a dynamic, iterative model driven primarily from actual legal domestic sales and empty pack survey results

- **Legal domestic sales** are the key starting point for our methodology and are derived in most instances from shipment data
  - legal domestic sales are defined as sales of genuine domestic product through legitimate, domestic channels based on In Market Sales (IMS) data
- **Outflows** are defined as purchases of domestic product which are taken out of the country of purchase and consumed elsewhere
  - EPS provides a consistent data source across all 27 markets of non-domestic packs by country of origin from which we estimate total product outflow from a market to the other 26 countries
  - with the exception of outflows from Sweden to Norway, we have not quantified outflows to non-EU markets
  - however, given the high prices of cigarettes in Europe relative to the rest of the world, LDS outflows to the rest of the world are not expected to be material
- **Legal domestic consumption (LDC)** is defined as legal domestic sales net of outflows
- **Non-domestic** product is defined as product that was not originally intended for the market in which it is consumed
- **ND(L)** is defined as product that is brought into the market legally by consumers, such as during a cross-border trip
  - legal cross-border shopping: buying duty paid tobacco product in a neighbouring country for buyer's own consumption in amounts allowable under customs regulations
  - legal tourist shopping: buying tobacco products in a non-neighbouring country for buyers own consumption in amounts allowable under customs regulations
  - legal Duty Free sales: buying tax free products in amounts that are allowed under travellers' allowances
- **Contraband** is defined as genuine product that has been bought in a low-tax country and which exceeds legal border limits or acquired without taxes for export purposes to be illegally re-sold (for financial profit) in a higher priced market. There are generally two types of contraband:
  - **bootlegging**: the purchase of tobacco products in one country for consumption or resale in another country without paying the applicable taxes or duties
  - **large scale smuggling/organised crime**: occurs when tobacco products are sold without payment of taxes or duties, even in their country of origin
  - for the purpose of this investigation, we are not able to quantify accurately the split between smaller scale bootlegging and large scale smuggling. Consequently our contraband incidence may be larger than some external observations anticipate
- **Counterfeit product** is defined as cigarettes that are illegally manufactured and sold by a party other than the original trademark owner. For the purposes of this analysis, data relating to Counterfeit is not included within the definition of Contraband. Illicit flows of PMI brands are split into their separate Counterfeit and Contraband components. Illicit volumes of other manufacturer brands are reported as combined Counterfeit and Contraband flows

Overview of Project Star methodology

Project Star uses legal domestic sales, Empty Pack Survey results and consumer research to determine counterfeit and contraband consumption volumes

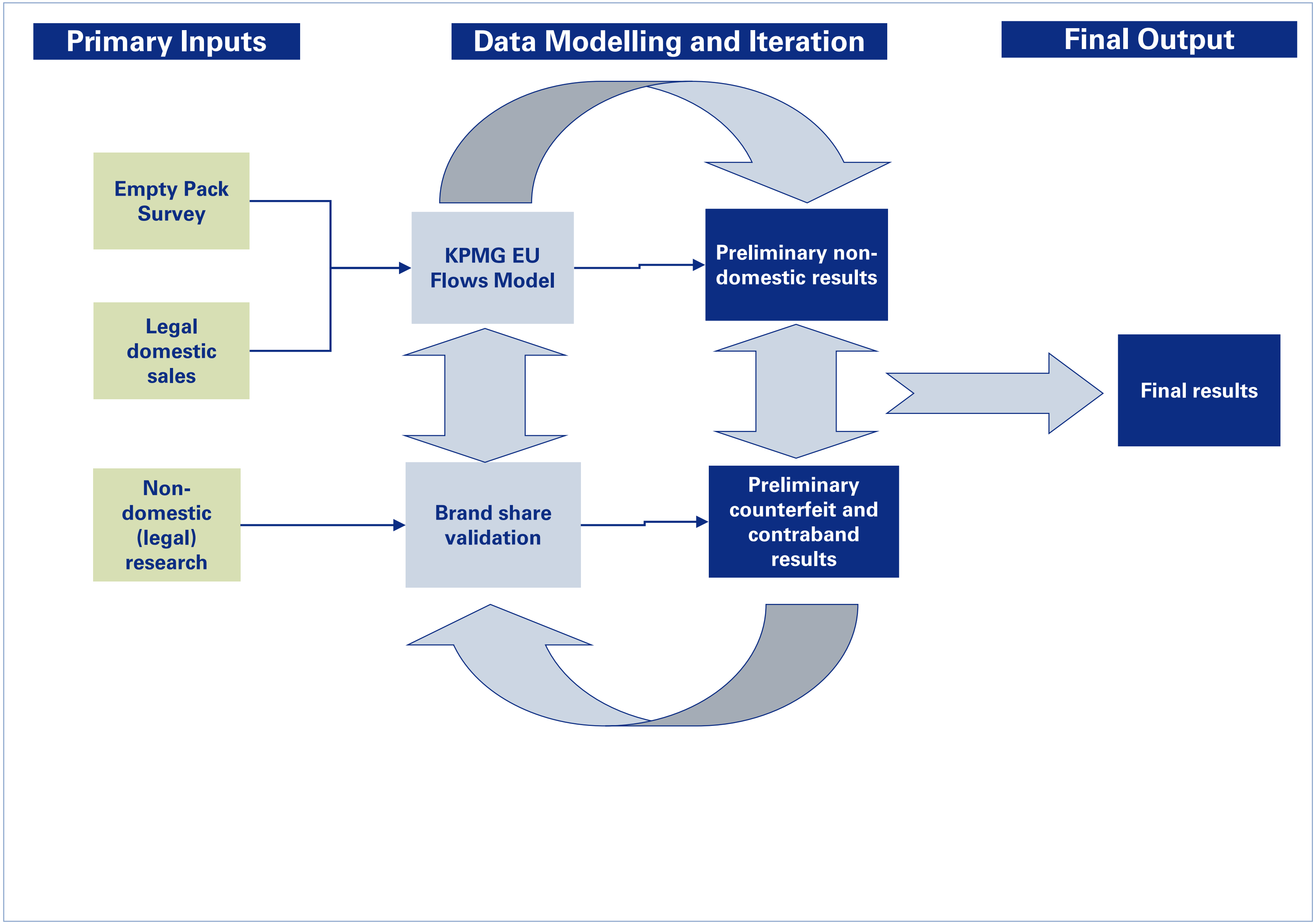


Primary information sources and tools

Our approach integrates multiple sources with custom-built analytical tools

The results have then been through extensive iteration and testing to finalise

Model refinements are informed by gap analysis, external public research and interviews with both cigarette manufacturers/ distributors and independent market experts



Corroboration of results

We have sought to triangulate our findings against alternative sources wherever available

Methodology steps and key information sources

	1.	2.	3.	4.	5.	6.
Calculation step	Measure legal domestic sales in all markets	Adjust legal domestic sales for product outflows	Add total non-domestic consumption to adjusted legal domestic sales to derive estimated total consumption	Deduct legal non-domestic purchases from total non-domestic volume to arrive at illicit purchase volume	Deduct PMI counterfeit volumes from total illicit purchase volume	Deduct PMI contraband volume from remaining illicit volume to arrive at non-PMI C&C
Primary source	Directly measured from shipment data or equivalent	Directly measured from 'on the ground' empty packs by country of origin in 27 country flow model	Legal domestic consumption plus EU Flows Model	ND(L) market research programme	Measured from Empty Pack Survey results	Directly calculated by the KPMG methodology
Corroboratory source	• Tax stamp receipts • Federal statistics	• PMI management estimates • Border sales surveys	• Consumption trends based on smoking prevalence and average daily consumption data from GCTS	• PMI Duty Free market estimates • External research • Expert interview programme	• Expert interview programme • Seizure data	• Expert interview programme • Seizure data

Preliminary results are subject to testing and review with local PMI management in each of the 27 EU markets

Primary information sources and tools – Empty Pack Surveys (1 of 3)

Empty Pack Surveys provide a highly objective and robust view of the population samples and, notwithstanding some scope constraints, represents the most credible indication of the incidence of non-domestic and counterfeit packs

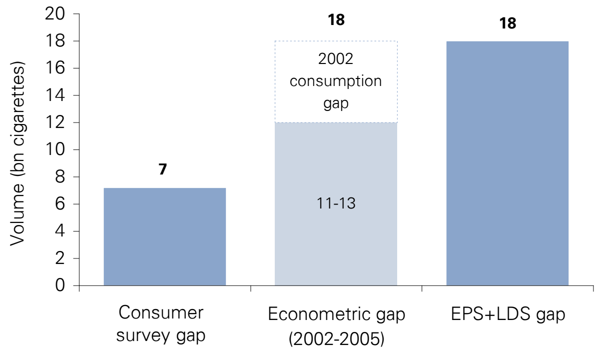
Overview	**Empty Pack Surveys are a system of collecting discarded empty cigarette packs, the results of which are used to estimate the share of non-domestic and counterfeit packs in each of the markets** ● Results are based on a large sample of packs collected in various cities throughout the countries, although the collection plan differs by country. Accuracy and credibility of results is driven by sound design of the sampling plan ● Results are not subject to subject to respondent behaviour and are therefore less prone to sampling errors than many other alternative methodologies ● Evidence is based on collected packs: no discrepancies or scope for respondent confusion ● Data reflects actual overall non-domestic share and provides good snapshot of brands consumed
Process	**Empty Pack Surveys measure shares of total consumption and avoids potential errors associated with estimating volumes** ● Once packs are collected, they are sorted by manufacturer and the number of packs with domestic versus non-domestic tax stamps are counted to determine the proportion of packs that did not originate from that jurisdiction (including duty-free variants) – in cases where tax stamps are not shown on a packet, health warning and packaging characteristics are used to define the source market ● In markets where collection is handled centrally, packs are sent to the manufacturers for analysis to determine which are genuine and which are counterfeit. Only the manufacturers can determine this, based on inks, paper and other characteristics. Results of these analyses are not released to competitors ● Empty Pack Surveys can also be used to extrapolate overall consumption in the market by projecting LDS (net of outflows) using the percentage of non-domestic cigarettes in the market as found through Empty Pack Surveys
Coverage	**Empty Pack Surveys are designed to be fit for purpose and the coverage per market is tailored by the size of the market, the likelihood of high non-domestic incidence and PMI's share of the legal market** ● Large surveys (10,000 packs collected; all cities with over 100,000 inhabitants covered / at least 20 cities): France, Germany, Italy, Poland, Spain, UK ● Medium surveys (5,000 packs collected, all cities with over 100,000 inhabitants or top 10 cities by population): Belgium, Bulgaria, Czech Republic, Denmark, Finland, Greece, Ireland, Lithuania, Netherlands, Portugal, Romania, Slovakia, Sweden – note that in Austria the Empty Pack Survey is carried out by the Tobacco Manufacturers Association based on a sample over 20,000 packs. In Hungary, the Empty Pack Survey is carried out by the GfK Hungária Market Research Institute and is based on a sample of 21,575 packs ● Small surveys (1,000 – 3,000 packs collected, top 4 – 5 cities covered): Cyprus, Estonia, Latvia, Luxembourg, Malta, Slovenia **In 2009, Empty Pack Surveys were conducted in 24 of the 27 EU Member States** ● Data from the latest prior year available was used for Cyprus, Luxembourg and Malta

Primary information sources and tools – Empty Pack Surveys (2 of 3)

During the pilot phase, the advantages of using Empty Pack Survey results to monitor non-domestic consumption became clear

The case of Germany provides a good example of the benefits of this approach

German consumption gap estimates by source



Sources: (1) GfK consumption survey 2006
(2) Legal Domestic Sales – PMI In Market Sales, In Market Sales 2006 01; KPMG analysis
(3) German EPS market study 2005

Implied EPS + LDS German consumption gap calculation (2006)

	Domestic		Non-domestic (consumption gap)		EPS implied consumption
% of packs collected	**82.7%**	**+**	**17.3%**	**=**	**100%**
cigarettes (bn) based on net LDS	**85.6**	**+**	**17.9**	**=**	**103.5**

We believe that Empty Pack Survey provides the most reliable indicator of non-domestic consumption

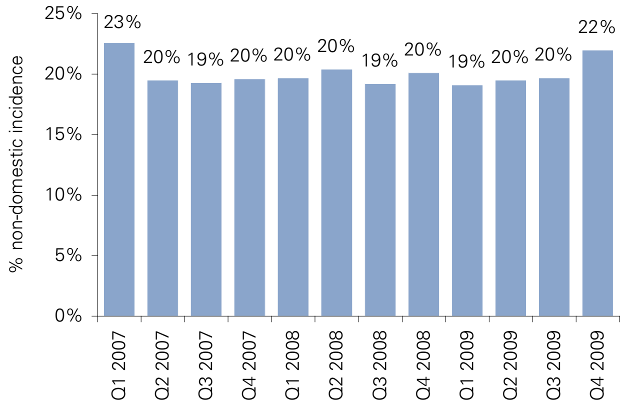
- The standalone consumption survey does not deliver a credible consumption result without a significant uplift for under-reporting (in the order of a further 15-20%)
  - estimates of consumption gap (i.e. the difference between legal sales and actual consumption) of 7 billion cigarettes for Germany from consumer research results alone was too low given external estimates of ND(L), C&C and results from border studies
- Econometric analysis provides corroboration of a significant growth in the consumption gap over the last few years
  - however, while this analysis can support the quantification of a gap, it would not be appropriate to use it as the primary source
- Given consumption limitations, we believe that Empty Pack Surveys provide the most credible indicator of the incidence of non-domestic and illicit packs. Benefits of Empty Pack Surveys include;
  - less potential for non-sampling error (e.g. results are not distorted by behavioural error such as systematic under-reporting of consumption)
  - evidence based on physical collected packs so there are no discrepancies or potential for respondent confusion
  - reflects actual consumption and provides good snapshot of brands consumed
- Therefore, we have used the Empty Pack Survey results to derive a consumption gap for our analysis, and have focused on this estimate rather than those obtained from consumer research
  - Empty Pack Survey results for 2006 show that non-domestic purchases represented 17% of overall German consumption. As a result, the total consumption in 2006 is estimated at 103.5bn cigarettes, with a consumption gap of approximately 18bn cigarettes

Primary information sources and tools – Empty Pack Surveys (3 of 3)

Empty Pack Surveys can provide a method for monitoring trends in individual markets

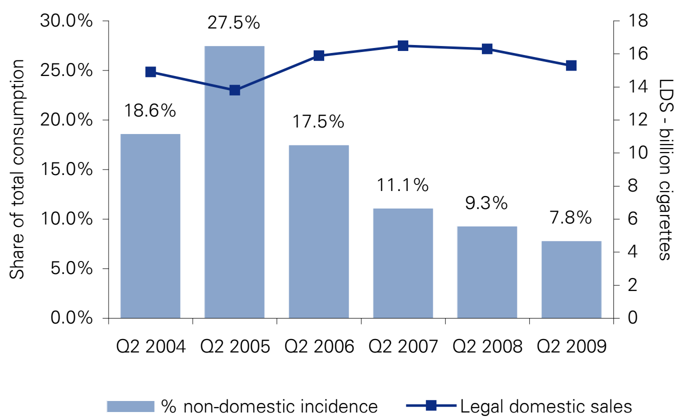
In countries where historical EPS data is available, there is a strong correlation between results and observed market trends in domestic sales and legal non-domestic flows

Germany historical empty pack survey results



Source: *"Yellow Bag" survey, an empty pack survey undertaken by the German Cigarette Industry Association (VDC) in 2007 and by IFT in 2008 and 2009. Full PMI results were available along with total non-domestic market size*

Hungary historical Empty Pack Survey results



Source: *GfK Empty Pack Surveys, 2004 to 2009*

The low level of variance in German results highlights the validity of using Empty Pack Surveys to monitor trends in cigarette consumption

- Empty Pack Surveys based on the Yellow Bag approach are conducted in Germany on an ongoing basis using the country's network of recycling centres
- Packs are collected monthly, with the results released on a quarterly basis
- The emergence and low level of variance in the trend for non-domestic consumption has been apparent in each survey at both national and regional levels

There is a strong correlation between changes in the German results and other sources including legal domestic sales, PMI shipment data and the observations of government bodies with respect to cross border flows

- Underlying trends in terms of country of origin and brand of cigarette are consistent with expectations and corroborated by external sources

Empty Pack Surveys conducted in Hungary have identified and quantified the rise and subsequent fall in non-domestic incidence since 2004

- The increase in non-domestic incidence to 2005 corresponded with an increase in excise taxes of 93.5% between 2002 and 2004
  - the impact of this tax change was a price increase of 63%
- In 2006, increased domestic sales and stricter border controls corresponded to a significant decline in non-domestic incidence
  - new enforcement measures implemented by Hungarian Customs included tightened border controls, vehicle confiscation powers, additional sniffer dogs and increasing the administrative burden of importing cigarettes

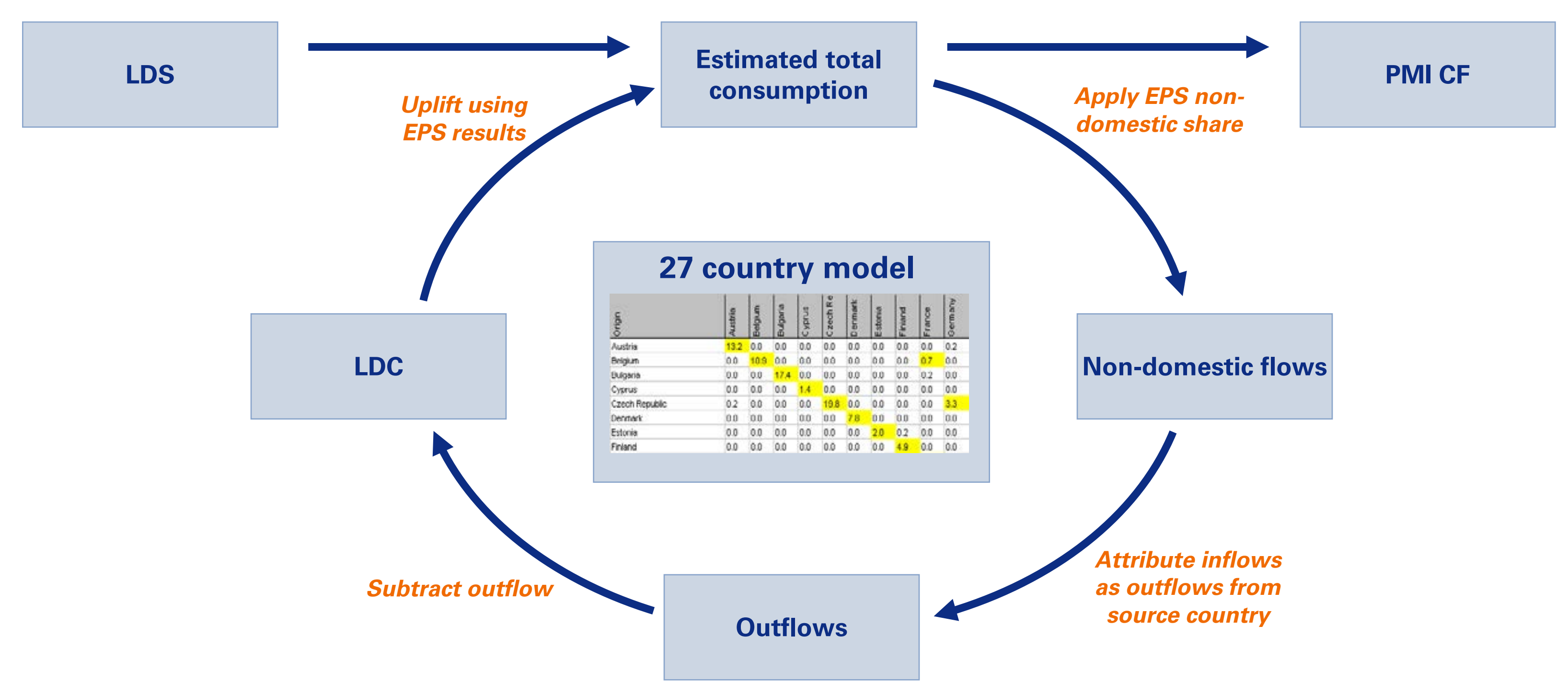
EPS results from Q2 2007, Q2 2008 and Q2 2009 show a continued decline in non-domestic incidence

- This reduction is in line with the understanding of Hungarian Customs. Changes in border controls may have contributed to lower non-domestic flows in the past two years
  - for example, in 2008 individuals bringing in more than 40 cigarettes to Hungary were required to complete a declaration for the cigarettes imported
- The fall in non-domestic consumption from 2006 to 2009 is also corroborated by trends in legal domestic sales and PMI shipment data

Primary information sources and tools – EU Flows Model

We have built a dynamic, iterative model based primarily on objective evidence from legal domestic sales and empty pack survey results

Dynamic outflow and LDC calculation – EU Flows Model



Origin	Austria	Belgium	Bulgaria	Cyprus	Czech Re	Denmark	Estonia	Finland	France	Germany
Austria	13.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Belgium	0.0	10.9	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0
Bulgaria	0.0	0.0	17.4	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Cyprus	0.0	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Czech Republic	0.2	0.0	0.0	0.0	19.8	0.0	0.0	0.0	0.0	3.3
Denmark	0.0	0.0	0.0	0.0	0.0	7.8	0.0	0.0	0.0	0.0
Estonia	0.0	0.0	0.0	0.0	0.0	0.0	2.0	0.2	0.0	0.0
Finland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.9	0.0	0.0

The EU Flows Model is a dynamic, iterative model that is principally based on legal domestic sales and empty pack survey results

- Legal domestic sales are the starting point of the model from which outflows of legal sales to other countries are then subtracted to determine legal domestic consumption in a market
- EPS results provide a measurement of the share of non-domestic packs by country of origin in all markets
  - EPS results provide a consistent source across all 27 markets of non-domestic packs by country of origin from which we can calculate total product outflow from each market to the other 26 markets
- We have then iterated the model to refine estimates for legal domestic consumption

Primary information sources and tools – non-domestic (legal) analysis (1 of 2)

Primary market research was conducted to quantify legal purchases of non-domestic cigarettes by a Member State's inhabitants

During 2009, research was updated in 20 key markets

Approach

- Our approach was to measure the number and volume of tobacco purchase occasions from a complete, nationally representative sample of males and females, aged 19 years and over who have travelled abroad in the past 12 months
  - these results were then weighted and projected by age and gender to a national level to estimate the volume of legal non-domestic cigarettes brought back into each market by travellers returning from overseas
  - during 2009 research was updated in 20 markets

Sample

- The sample was drawn from the most complete, nationally representative database available and was representative of both urban and rural areas, age and gender
  - a fully random sample approach was used to ensure results were as 'certifiable' as possible and could be projected to the total target population
- A target of 7,000 gross contacts (i.e. agreed to be interviewed and aged 19 years and over) or 500 net contacts (i.e. travelled abroad and purchased tobacco products in the past year) was set
  - these targets were considered sufficient to derive accurate volume estimates once projected to the national population and set based on past experience from the research agencies and findings from the pilot process
  - the target was achieved in all markets except Estonia
- The number of net contacts was increased to 1,000 for France and Germany in 2008 and for the UK in 2009 to improve accuracy of volume estimates

Data collection

- Computer Aided Telephone Interviewing (CATI) was the data collection method in each market
- The interview script was consistent across all markets, translated into local language and back translated into English for quality control purposes

Validation tools

- Numerous validation tools were built into the script to enhance the accuracy of responses, for example
  - respondents were asked to recall all trips abroad in the past year and purchase volumes and brands for each trip
  - for each trip, the purpose of visit was also recorded to ensure final results appear logical and within a reasonable range

Results capping

- To ensure that we were recording legal personal purchases only, results were capped at an individual respondent level
  - total annual purchases were limited to a maximum of 1,000 packs per person as this was considered the absolute upper level for a heavy smoker who makes all of their purchases abroad
  - purchases from non-EU destinations were limited to a maximum of 10 packs per trip in line with Duty Free purchase restrictions
  - purchases were also capped for intra-EU purchases where limits are enforced

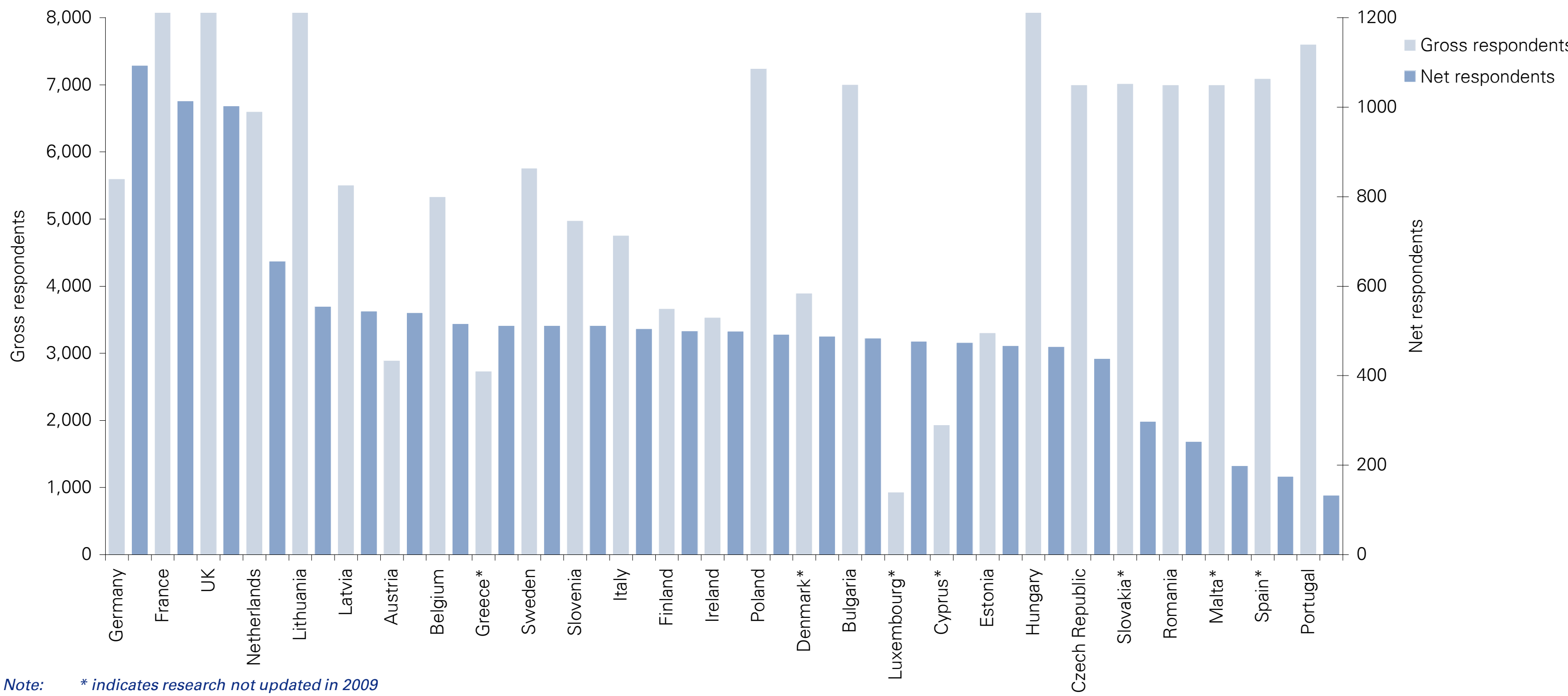
Primary information sources and tools – non-domestic (legal) analysis (2 of 2)

The project has involved an extensive primary research programme

ND(L) for Project Star results in 2009 is based upon over 13,800 full interviews from over 159,000 gross respondents contacted during the second halves of 2006, 2007, 2008 and 2009

ND(L) data is also adjusted to reflect inbound visitor inflows

Gross versus net respondents by country, 2009



*Note: * indicates research not updated in 2009*

The key objective of the market research programme is to quantify genuine, legal non-domestic tobacco purchases in each market

- The 2009 market research programme incorporated an extensive interview programme across the 20 markets, using recognised market research specialists AC Nielsen and Synovate
  - research for the remaining 7 Member States was conducted during 2006, 2007 or 2008 by either AC Nielsen or Synovate
- ND(L) data for countries where research was not carried out during 2008 was updated in line with overall non-domestic trends for each country
  - in some examples further adjustments were made on the basis of additional corroborating data
- In the EU 27 countries, ND(L) results are based on a total of 159,164 contacted respondents and 13,805 successful interviews with adults (age 19+) who had travelled abroad and purchased tobacco products in the preceding twelve months.

In addition to the research programme, ND(L) data is adjusted to reflect inbound visitor inflows

- Non-domestic product found in Empty Pack Surveys from high cost inbound tourist /visitor countries is likely to represent an incidental inflow and is therefore categorised as legal
  - flows attributable to inbound tourism and visitors can not be identified in the market research programme
  - adjustments to reflect inbound tourism/visitors totalled 2.0 billion cigarettes in 2009

Primary information sources and tools – brand share validation

A combination of two brand share calculation methodologies, combined with IMS / ND(L) analysis and applied with market understanding and judgment in case of substantial variances, ensures the most robust brand-level results

Methodology comparison

Subhead	Methodology one	Methodology two
Description	Brand share of total non-domestic x Total consumption gap	Non-domestic share of brand x Domestic sales by brand
Key assumption	● Brand share of non-domestic in the EPS is representative of the national picture – any overstatement of domestic share of premium brands in EPS is not reflected in their non-domestic shares	● Non-domestic share of a brand in the EPS is representative of the national picture – any overstatement of premium brands' domestic and non-domestic share is proportional
Strengths	● Brand totals tally to overall total of non-domestic ● Can track flows by brand and country ● Can calculate non-domestic volumes where no legal sales are present	● More robust for brands which are overweight in the EPS samples at a non-domestic brand share level
Limitations	● Some potential to overstate premium brands due to concentration on cities in EPS ● Small IMS share / large EPS share discrepancies	● Totals by brand will not necessarily match total overall – most effective as an estimate of share of non-domestic for major brands ● Small IMS share / high EPS non-domestic level discrepancies

Two parallel methodologies for calculating non-domestic brand share were used to ensure that the most reliable and realistic results were achieved

- While results at an overall market level were all highly robust and credible, smaller sample sizes at a brand level have the potential to introduce distortions at this lower level
- In order to maximise the accuracy of brand results, a dual methodology was used to estimate non-domestic brand-level results in each markets
- The results from both approaches were then compared to both IMS and ND(L) brand results for corroboration
- In almost all markets and for the vast majority of brands the results for the two approaches were highly consistent
- In a few markets there were some brand-level discrepancies. In these markets, adjustments were made based on the weight of evidence from both approaches and the IMS and ND(L) findings to determine the most credible non-domestic brand share

Brand share methodology two was used in a limited number of instances to ensure that the results were both as reliable and realistic as possible

- Methodology one is the most universally applicable and was therefore used where both approaches were consistent. Where an adjustment from methodology one was required, a combination of both approaches or methodology two was applied as appropriate
- For Marlboro inflows in a few countries, a combination of both approaches or methodology two was used as it appears to give more reliable and robust results
  - methodology two was used for Marlboro in France, Ireland and UK
  - a combination of both approaches was used for Marlboro in Spain and Belgium

Primary information sources and tools – external public research and expert interviews

Analysis of external data sources has provided significant cross-validation of our research results

Although the interview programme delivered good circumstantial supporting evidence for our findings, interviews were not effective in delivering consistent and accurate estimates for the quantum of contraband and counterfeit

External public research

- We have undertaken extensive research into external data sources in each of the 27 EU markets
- Research covered a wide variety of data sources, including:
  - third party information available within PMI
  - press articles
  - retail trade and tobacco industry associations
  - universities and other academic institutions
  - ministries of health and social affairs
  - customs departments
  - other government and policy-making institutions
  - market research publications
  - industry related journals and publications
  - federal statistics
- We have reviewed, collated and used the information available to cross-check and test our research results
  - we tested the reasonableness of our research results against a range of quantitative estimates obtained on the size and scale of C&C in each market

Expert interviews

- In addition, we have undertaken structured interviews with industry specialists to canvas their opinions on C&C in each of the 27 EU markets where possible
- Our contacts were identified from multiple sources, including:
  - PMI recommendations
  - OLAF recommendations
  - KPMG external search
  - other interviewee recommendations
- We have interviewed specialists across a broad spectrum of areas and backgrounds, including:
  - governmental and policy-making organisations
  - academic research institutes
  - trade and industry associations
  - PMI management, both centrally and at a country level
- We devised a structured interview process for each interview category which underwent multiple iterations to ensure consistency and accuracy of both questioning and capturing results

Conclusions

- Analysis of external research has been highly effective in:
  - improving our understanding of local market dynamics, trends and the nature of C&C in each country
  - facilitating our judgement on the potential limitations of our findings
- However, external data is not sufficiently detailed on its own to obtain a credible estimate of the size and scale of C&C as:
  - basis for estimates is often unknown and may not be objective
  - data sources and estimates across countries lack consistency
  - data is often sparse and patchy
- External expert interview programme has provided good soft corroboration of trends and issues
  - however, it has been less effective in delivering quantitative results

Contents

Overview

We have designed a methodology that is as robust and inclusive as we believe could practicably have been delivered

However, given the innate complexity of C&C, our methodology does have limitations

Scope limitations

- There are specific scope exclusions which cannot be or have not been accounted for in our approach:
  - geographic exclusions
  - brand exclusions – non-PMI counterfeit
  - category exclusions – OTP
  - LDS product flows out of the EU

Source limitations

- Limitations are, of necessity, present with any primary information sources
- This primarily affects EPS, LDS and ND(L) sources
- For example, limitations can arise from
  - sampling criteria
  - coverage issues
  - timing/seasonality factors
  - specific regional or demographic exclusions

Scope limitations

Our methodology has certain specific scope limitations

Limitation	Detail	Impact	Adjustment
Geographic coverage	• We have limited our geographic coverage in some markets where extension would significantly impair confidence levels in the ND(L) research for the further territories included • In some instances (e.g. Greek islands), shipment data is also insufficient for the purposes of this study	• Spanish results only cover mainland Spain and do not include the Canary Islands, Balearic Islands or Ceuta & Melilla • French results cover only mainland France and do not include Corsica • Portuguese results only cover mainland Portugal and do not include Madeira or the Azores • Greek results only cover mainland Greece and do not include the Greek islands • UK results only cover Great Britain and Northern Ireland and do not include the Channel Islands	Not adjusted for
Non-PMI counterfeit	• Empty Pack Survey results do not identify non-PMI brand counterfeit packs – only the manufacturer / trademark owner can confirm whether their brand pack is genuine	• In some instances, the volume of legal domestic consumption may be overstated where domestic counterfeit variants are identified – this may lead to minimal understatements of C&C volumes for non-PMI brands • Moreover, we cannot distinguish between non-PMI brand counterfeit (non-domestic variants) and contraband product, although this will not impact the overall volume of C&C	Not adjusted for
OTP	• Empty Pack Surveys collect cigarette packs only – non-domestic consumption for OTP cannot be measured via empty pack survey results	• Anecdotal evidence suggests that there do exist some non-domestic flows of OTP within the EU. However, based on extensive interviews, seizure data and analysis of other available information, the scale of non-domestic OTP consumption is believed to be limited when compared to manufactured cigarettes	Not adjusted for
Non-EU outflows	• In order to calculate consumption, we have assumed no outflows of LDS outside the EU, with the exception of Sweden (see country-specific refinements)	• Net outflows besides Sweden are believed to be minimal, supported by anecdotal evidence from non-EU EPS surveys (including Switzerland and Turkey) • Non-EU LDS outflows are not considered to be material due to the high prices relative to other parts of the world and Duty Free import restrictions • Potential minimal overstatement of EU consumption	Partially adjusted for

Source limitations (1 of 2)

Although there are limitations to any source, we are comfortable that we have used the most appropriate sources available

Source	Limitations
Empty Pack Surveys	• In some geographies, the results may not be absolutely representative of total consumption because of the sample size, or, more likely, practical limitations to collection locations – depending on the source of packs collected, either homes and workplaces or public spaces (in Germany) are not covered – the sample is more heavily weighted towards populous, urban areas and therefore may not be fully representative of consumption habits in rural regions • Results from Germany are based on a monthly analysis of approximately 10,000 packs collected at recycling centres and so are not directly comparable with the EPS results from other countries due to the difference in methodology • Empty Pack Surveys are only conducted at set periods and results may be influenced by seasonal factors such as tourist inflow – in some instances the timing of an EPS has changed between years. In order to ensure comparability of results, monthly LDS figures, consumption trends and visitor data are all analysed and adjustments made where appropriate • Brand and market variant share can only be extrapolated with a degree of statistical accuracy for brands where a sufficiently large number of packs have been collected – EPS results are analysed to identify any outliers that may impact results, such as geographic concentrations of a specific brand or market variant. Brand specific data is also compared to known sales in the source market to identify whether results are credible – where data suggests a sampling or data capture error may have occurred at a specific location, results are adjusted and the remainder of the survey is re-weighted accordingly • In some specific instances, it is not possible to differentiate between duty-free and duty-paid variants from the empty packs collected as the tear tape on the packet is required in order to make the necessary distinction • However, EPS represents the most consistent source of non-domestic share across markets. We believe, especially at a total market level, that these results are credible and robust. Brand trends and analysis of country flows from EPS results further supports this conclusion • When allied to other methods of corroboration, such as consumption index modelling, we believe the results are fully fit for purpose
Legal domestic sales	• Shipment data is the most reliable source for legal domestic sales in a market. However, in some markets it is not available. In the absence of shipment data, we have used either AC Nielsen Retail Audit data or tax stamp data as available – in some cases tax stamp data may not correspond to the calendar year and may also be distorted by inventory holdings in advance of increases in taxation. In these instances we have used the LDS source considered by local PMI management to be the most representative of smoker consumption during the calendar year • AC Nielsen Retail Audit data is derived from retail sales information but may exclude particular sales channels or retailers – in markets where we have used Retail Audit data, PMI local management have calculated the appropriate uplift to derive total market sales, including volumes not accounted for in Retail Audit data • Slight timing variances may arise between the date the product was shipped and actual consumption but, following discussions with local management, this is not considered significant and the full year LDS information we have is considered to be a fair and accurate representation of full year 2009 sales in each market

Source limitations (2 of 2)

Although there are limitations to any source, we are comfortable that we have used the most appropriate sources available

Source	Limitations
ND(L)	• As with any CATI-based market research approach, our samples may potentially exclude certain demographic segments, in particular, those without a permanent home, registered address or telephone line • The nature of the market research programme requires that people can recall, with a high degree of accuracy, trip and purchase volumes undertaken over the past year. However, pilot and roll-out results give us confidence that this is not a significant issue for respondents • Respondents are asked to recall purchase volumes in packs and we assume 20 cigarettes per pack for our pack to cigarette conversion • To ensure that we record legal imports only, we have capped total individual purchases and applied a cap to imports from certain source countries where import restrictions apply • Due to the nature of the survey, market research does not capture non-domestic (legal) product arising from inbound tourism. However, these flows are likely to be limited in nature and, in many cases, can be adjusted within the ND(L) methodology through the use of corroborating sources • It is not possible to reliably distinguish between Duty Free and Duty Paid variant in the ND(L) research due to the consumer confusion when buying cigarettes abroad, particularly in airports when travelling intra-EU. We have however attempted to estimate legal Duty Free purchases by using ND(L) inflows from non-EU markets as an approximation. This approach assumes that EU nationals purchase Duty Free variants when they travel to non-EU markets and buy cigarettes as measured by the ND(L) research – this assumption is predicated on the fact that Duty Free variants are typically available at a lower prices than legal tax-paid cigarettes in non-EU destination countries

Contents

Country results refinements (1 of 6)

Where required we have made specific modifications to refine results at a country level

Country	Rationale	Description	Impact
Belgium brand share	• Non-domestic Marlboro brand share appeared to be overstated	• An average of brand share methodology one and brand share methodology two has been used which is more in line with ND(L) results and domestic brand share	• Average of methodology one and methodology two brand share applied to total non-domestic volume for Marlboro • Adjustments made to 'Other Non-PMI' to compensate for changes to Marlboro volumes
Czech Republic	• In 2009 two EPS were conducted in the Czech Republic reporting non-domestic incidence of 5.0% in Quarter 2 and 7.6% in Quarter 3 • Analysis of changes in the economic environment in the Czech Republic indicated that a higher weighting to the Quarter 3 EPS would more accurately reflect the full year picture than applying an equal weighting to the two surveys	• The Quarter 2 EPS was weighted to represent the first three months of 2009, with the Quarter 3 EPS representing the remaining nine months	• Total non-domestic inflows increased by 0.13 billion cigarettes

Finland	• Implied inflows from Russia appeared to be understated given relative pricing and cross border travel statistics for 2009	• Cross border travel statistics for 2009 indicated a comparable level of travel to and from Russia compared to 2008 and 2007, which did not support the trend observed in EPS results
		  – this was corroborated by further interviews and travel trend analysis
		• Russian inflows uplifted by 0.53 billion cigarettes to 0.83 billion
		  – this has been estimated by applying the annual change in cross-border travel between Finland and Russia to the Project Star 2007 estimate
			• Russian inflows increased by 0.53 billion cigarettes
			  – this resulted in a 0.53 billion increase to C&C inflows

Country results refinements (2 of 6)

Where required we have made specific modifications to refine results at a country level

Country	Rationale	Description	Impact
France inflows	• Implied inflows from Spain appeared to be understated given legal sales trends in bordering regions in Spain and France	• Spanish inflows adjusted upwards by 1.25 billion cigarettes to 2.40 billion based on regional sales trends • This adjustment is based on the analysis of legal domestic sales and consumption trends in the border regions of Spain and France – legal sales in the border region of Spain were 9.22 billion cigarettes in 2009 whilst domestic consumption was estimated at 6.83 billion cigarettes in the region – see Spain country section for detail	• 1.25 billion of non-domestic Duty Free volumes reallocated to Spanish non-domestic • Total non-domestic level unchanged
France brand share	• Non-domestic Marlboro brand share appeared to be overstated	• Brand share methodology two has been used which is more in line with ND(L) results and domestic brand share	• Methodology two brand share applied to total non-domestic volume for Marlboro • Adjustments made to 'Other Non-PMI' to compensate for changes to Marlboro volumes
Ireland inflows	• Spanish legal sales of UK/Irish virginia brands suggest there is a shortfall in outflows to Ireland as measured by the Irish EPS • Legal sales trends on both sides of the Republic of Ireland/Northern Ireland border suggest a shortfall in outflows from the UK to Ireland as measured by the Irish EPS	• Inflows from Spain uplifted by 0.17 billion cigarettes to 0.37 billion – see Spain country section for detail • Inflows to Ireland from he UK uplifted by 0.20 billion cigarettes to reflect legal sales trends in the border regions of the Republic of Ireland/Northern Ireland border – analysis of regional sales data suggests that an increase in sales in Northern Ireland was driven by cross-border shoppers from Republic of Ireland taking advantage of the favourable euro versus GBP exchange rate	• Non-domestic Duty Free reallocated to Spanish non-domestic • Inflows from the UK increased by 0.20 billion cigarettes • Total non-domestic level, therefore, increased by 0.20 billion cigarettes

Country results refinements (3 of 6)

Where required we have made specific modifications to refine results at a country level

Country	Rationale	Description	Impact
Ireland brand share	• Non-domestic Marlboro brand share appeared to be overstated	• Brand share methodology two has been used which is more in line with ND(L) results and domestic brand share	• Methodology two brand share applied to total non-domestic volume for Marlboro • Adjustments made to 'Other Non-PMI' to compensate for changes to Marlboro volumes
Latvia	• Two EPS were conducted in Latvia reporting non-domestic incidence of 19.9% in Quarter 2 2009 and 33.2% in Quarter 4 2009 • Analysis of the changes in the economic environment in Latvia indicated that a higher weighting to the Quarter 4 EPS would more accurately reflect the full year picture than applying an equal weighting to the two surveys	• The Quarter 2 EPS was weighted to represent the first four months of 2009, with the Quarter 4 EPS representing the remaining eight months	• Total non-domestic inflows increased by 0.08 billion cigarettes
Lithuania	• Non-domestic incidence appeared to be understated in the 2009 EPS results – analysis of the timing of EPS fieldwork compared to legal domestic sales did not support a declining trend in non-domestic incidence indicated by EPS results between 2008 and 2009	• Legal domestic sales and non-domestic inflows were considerably volatile during 2009 • Consequently, extrapolating full year consumption on the basis of annual legal sales volumes and average non-domestic incidence from the EPS results would not be representative of full year trends • Total consumption was, therefore, calculated for the two quarters where EPS results were available and factored up to represent the full year	• Non-domestic inflows increased by 0.40 billion cigarettes
Luxembourg	• Outflows of legal domestic sales are not accurately captured in destination market EPS results, leading to an unrealistic implied consumption trend	• Decline in legal sales in Luxembourg in 2009 reflects lower outflows rather than a substantial decline in domestic consumption • Net outflow (modelled to outside of the EU) decreased from 1.93 billion cigarettes in 2008 to 1.66 billion in 2009	• Net reduction in outflows

Country results refinements (4 of 6)

Where required we have made specific modifications to refine results at a country level

Country	Rationale	Description	Impact
Netherlands	• Non-domestic incidence appeared to be understated in the 2009 EPS results – analysis of timing of the EPS fieldwork compared to legal domestic sales did not support the magnitude of decline in non-domestic incidence from 2008 to 2009 as indicated by the EPS – analysis of the NMA quarterly studies of non-domestic incidence compared with quarterly sales also indicated a substantial variance in quarterly consumption levels	• As a results of this quarterly legal sales and non-domestic inflows volatility, extrapolating full year consumption on the basis of annual legal sales volumes and average non-domestic incidence from the EPS results would not be representative of full year trends • Total consumption has therefore been calculated for the quarter in which the EPS was conducted and then factored up to reflect the quarterly consumption trend	• Total non-domestic volume increased by 0.43 billion cigarettes
Poland	• Two EPS were conducted in Poland reporting non-domestic incidence of 10.7% in Quarter 2 2009 and 14.6% in Quarter 4 2009 – Analysis of changes in the economic environment in Poland and the timing of price increases indicated that applying a higher weighting to the Quarter 4 EPS would more accurately reflect the full year picture than applying an equal weighting to the two surveys	• The Quarter 2 EPS was weighted to represent the first five months of 2009, with the Quarter 4 EPS representing the remaining seven months	• Total non-domestic inflows increased by 0.21 billion cigarettes

Country results refinements (5 of 6)

Where required we have made specific modifications to refine results at a country level

Country	Rationale	Description	Impact
Romania	• Two EPS were conducted in the Romania reporting non-domestic incidence of 11.6% in Quarter 2 2009 and 16.2% in Quarter 3 2009 – analysis of changes in the economic environment in Romania indicated that applying a higher weighting to the Quarter 3 EPS compared to the Quarter 2 EPS would more accurately reflect the full year picture • Empty Pack Survey sampling plans are based on urban centres and therefore may not fully capture regional disparities in non-domestic incidence	• The Quarter 2 survey was weighted to represent the first four months of 2009, with the Quarter 4 EPS representing the remaining eight months • EPS results have also been reweighted to more accurately reflect relative regional populations – for example, prior to adjustment, Bucharest represented 30% of the total sample whilst only accounting for 11% of the total Romanian population	• Total non-domestic inflows increased by 0.46 billion cigarettes
Spain	• Analysis of Spanish legal sales of UK/Irish virginia brands indicated a shortfall in outflows to the UK and Ireland as measured by the UK and Irish EPS • Non-domestic volumes of Spanish inflows appeared to be understated in French 2009 EPS results	• Outflows to the UK and Ireland were increased to reflect actual sales of UK/Irish virginia brands in Spain net of estimated consumption by UK and Irish nationals resident in Spain and tourist consumption whilst in Spain • Outflows to France increased, see France for detail	• Spanish outflows increased resulting in a net reduction in consumption and therefore total C&C volume
Spain brand share	• Non-domestic Marlboro brand share appeared to be overstated	• An average of brand share methodology one and brand share methodology two has been used which is more in line with ND(L) results and domestic brand share	• Average of methodology one and methodology two brand share applied to total non-domestic volume for Marlboro • Adjustments made to 'Other Non-PMI' to compensate for changes to Marlboro volumes

Country results refinements (6 of 6)

Where required we have made specific modifications to refine results at a country level

Country	Rationale	Description	Impact
Sweden	• EPS results indicated near zero non-domestic incidence in Linköping, Norrköping, Helsinborg and Umeå which was inconsistent with historical trends and local market observations	• Non-domestic inflows for these four cities have been uplifted to reflect the average national non-domestic consumption patterns in 2009 – analysis of current year travel trends and non-domestic consumption patterns in prior years confirmed that the initial EPS results for these four cities did not accurately reflect non-domestic consumption in 2009	• Total non-domestic inflows and C&C inflows uplifted by 0.14 billion cigarettes
	• The EPS results highlighted the presence of domestic Amor and Hamilton packs – these brands are not legally distributed for sale in Sweden	• Amor and Hamilton packs were classified as non-domestic variant	• Total non-domestic inflows and C&C inflows uplifted by 0.04 billion cigarettes
UK brand share	• Non-domestic Marlboro brand share appeared to be overstated	• Brand share methodology two has been used which is more in line with ND(L) results and domestic brand share	• Methodology two brand share applied to total non-domestic volume for Marlboro
UK inflows	• Spanish legal sales of UK virginia brands suggest there is a shortfall in outflows to the UK as measured by the EPS • Implied EPS inflows from Cyprus appeared to be understated given 2009 tourism statistics • Implied EPS inflows from Malta appeared to be understated given 2009 tourism statistics	• For Spanish flows, see Spain for detail – inflows from Spain uplifted by 1.09 billion cigarettes • Inflows from Cyprus increased by 0.15 billion cigarettes to reflect the 2008-2009 trend in UK tourists arriving in Cyprus • Inflows from Malta increased by 0.02 billion cigarettes to reflect the 2008-2009 trend in UK tourists arriving in Malta	• Non-domestic Duty Free volumes reallocated to Spanish. Cyprus and Malta non-domestic • Total non-domestic level unchanged

Adjustments to non-domestic (legal) research (1 of 2)

A limited number of adjustments to ND(L) results have been made on the basis of corroborating evidence

The net impact of these adjustments is a 0.8 billion cigarette reallocation from C&C to ND(L)

Non-domestic (legal) results validation process

Nature of adjustment	Impact
Corroboration with total non-domestic volumes ● Some discrepancies may exist between the ND(L) data and total non-domestic volumes which leads to a negative C&C level	● Netherlands to Germany flow: reallocation of 1.35 billion cigarettes from ND(L) to C&C – ND(L) research overstated flows from Netherlands. Volumes capped at total non-domestic inflows from the Netherlands ● Spain to Germany flow: reallocation of 0.54 billion cigarettes from ND(L) to C&C – ND(L) research overstated flows from Spain. Volumes capped at total non-domestic inflows from the Netherlands – both of these adjustments result in a reduction of total German ND(L) volumes to 8.62 billion cigarettes compared to 10.52 billion cigarettes
Review of key indicators for specific flows ● Results for a small number of flows into various destination countries suggested over/under reporting of pack purchases given the price differentials between the source and destination markets	● Poland: reallocation of 0.53 billion cigarettes from ND(L) to C&C – ND(L) research overstated flows from more expensive EU countries. ND(L) volumes from these more expensive countries capped at ten packs per trip from those countries based on observed purchasing behaviour on other key shopping routes with similar price differentials between markets ● Russia to Finland flow: 0.30 billion cigarette reallocation from C&C to ND(L) – average packs purchased by smokers very low at one pack per trip given significant price savings available (€3.88 per pack of Marlboro) – average packs per trip increased to ten in line with import allowance
Cross referencing with tourist and border crossing data ● Number of trips made is a key driver of ND(L) volumes, particularly where there is a large differential between cigarette pricing and stringent import restrictions between neighbouring countries	● Czech Republic to German flow: 1.55 billion cigarette reallocation from C&C to ND(L) – visitor numbers reported during research programme understated versus actual data – flow volume recalculated based on actual visitor numbers and average packs per trip data from survey ● Poland to Germany flow: 0.37 billion cigarette reallocation from C&C to ND(L) – visitor numbers reported during research programme understated versus actual data – flow volume recalculated based on actual visitor numbers and average packs per trip data from survey ● Spain to UK flow: 0.25 billion cigarette reallocation from C&C to ND(L) – visitor numbers reported during research programme understated versus actual data – flow volume recalculated based on actual visitor numbers and average packs per trip data from survey

Adjustments to non-domestic (legal) research (2 of 2)

A limited number of adjustments to ND(L) results have been made on the basis of corroborating evidence

The net impact of these adjustments is a 0.9 billion cigarettes reallocation from C&C to ND(L)

Non-domestic (legal) results validation process

Nature of adjustment	Impact
Cross referencing with tourist and border crossing data ● Number of trips made is a key driver of ND(L) volumes, particularly where there is a large differential between cigarette pricing and stringent import restrictions between neighbouring countries	● Slovenia to Austria flow: 0.47 billion cigarette reallocation from C&C to ND(L) – visitor numbers reported during research programme understated versus actual data and local market observations of legal inflows – flow volume recalculated based on the assumption that C&C volumes from Slovenia remained stable in 2009 ● Hungary to Austria flow: 0.26 billion cigarette reallocation from C&C to ND(L) – visitor numbers reported during research programme understated versus actual data and local market observations of legal inflows – flow volume recalculated based on the assumption that C&C volumes from Hungary remained stable in 2009 ● Estonia to Finland flow: 0.11 billion cigarette reallocation from C&C to ND(L) – visitor numbers reported during research programme understated versus actual data and local market observations of legal inflows – flow volume recalculated based on the assumption that legal proportion of inflows from Estonia to Finland remained stable in 2009

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External data sources (1 of 3)

Our assessment incorporates analysis from several sources

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Contents

1. Through this study we will update individual research reports covering the estimated size and composition of the total cigarette market (including counterfeit and contraband products), as detailed below, for each of the 25 EU Member States covered in the first phase of Project Star; i.e. the 25 Member States as at September 2005.
2. In addition we will cover the cigarette market in the two new Member States of Romania and Bulgaria from year two.
3. The findings from the 27 Member States will be used to produce an overall view of the total EU market. We will also comment on counterfeit and contraband cross border flows on a pan-European basis.
4. Information from several independent sources will be combined assisting representativeness and reliability. These sources will include:
    - Tobacco industry research and statistics
        - Sales statistics, consumer surveys and empty pack surveys provided by PMI and/or Tobacco Manufacturers' Associations.
        - In year three, empty pack surveys will be conducted in the following countries; Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, UK.
    - Existing public studies and statistics
        - Research and data published by government agencies (including Ministries of Finance), health bodies, customs authorities, market researchers and academics
    - Independent research
        - New research designed to calibrate and augment existing data.
        - For year three, surveys to analyse the flows of non-domestic (legal) sales will be undertaken in the following countries; Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Netherlands, Poland, Romania, Slovenia, Spain, Sweden, UK
    - Third party research will be directed by KPMG, but will be contracted directly by PMI. Where agreed, data gained through this research will be passed directly to KPMG, and will not be released to PMI, for example data regarding the prevalence of smoking among the juvenile segment of the population
    - Expert opinions and expert panel data
        - Structured interview programmes designed to capture and quantify the opinions of relevant expert groups including, among others, customs and law enforcement officials

5 Interviews and data from external sources will be obtained on a best efforts basis. We will work with PMI to identify and contact key customs and Manufacturer's Associations members. We will require access to identified PMI personnel throughout this project and our ability to deliver this scope depends on this access being made available

6 We will design and develop a multi-year multi-country database EU flows model. This shift from a spreadsheet-based tool to a database approach will have significant benefits in: comparability of year-on-year results; ease of adding in new countries or incorporating other market developments; and speed of analysis given the large volumes of data involved.

7 We will communicate our final findings to OLAF and the Member States as set out in Appendix 3. Provision for more extensive communication of findings to OLAF or the Member States is not covered by this engagement letter.

8 PMI will be responsible for the development and maintenance of country dashboards for each of the Member States.