Remarks by Jacek Olczak
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(SLIDE 1.)

Thank you, Judy. It is a great pleasure for me to participate in the Goldman Sachs Global Staples Summit. Let me also extend a warm welcome to those joining us on the webcast. In order to allow ample time for questions, I will limit my formal remarks to an update on key markets as I believe this will be of particular interest to the audience.

(SLIDE 2.)

My remarks contain forward-looking statements and, accordingly, I direct your attention to the Forward-Looking and Cautionary Statements section of today's presentation and our SEC filings.

(SLIDE 3.)

Let me start with Japan where cigarette industry volume increased by 9.6% in the first quarter of 2014. This was attributable to a build-up of trade and consumer inventories ahead of the April increase in the consumption tax, which impacted a wide range of products. In April, industry volume was 29% lower than last year and on a year-to-date April basis, it was down by 0.5%. As we have mentioned previously, we expect industry volume to decline some 3.0% to 3.5% for the full-year.

Our reported market share declined by 2.0 points to 25.5% during the first quarter of this year. However, this partly reflected the greater degree of trade inventory build-up by competition, which distorted market shares. Our first quarter estimated market share of 25.9% on an adjusted basis was in line with our 2013 fourth quarter share. As expected, our April market share reflected this distortion and thus rebounded to 26.8%, which brought our year-to-date April share to 25.8%.

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Turning to Indonesia, cigarette industry volume declined by 1.0% during the first quarter of this year. Two industry trends accelerated during this period. The first was a decline of the low price segment of 12.6%, driven by the implementation of Decree 131 and economic factors. Secondly, there was a decline of the hand-rolled, or “SKT”, segment of 16.4%. The decline was particularly evident at the premium price end of the SKT segment, which is led by our *Dji Sam Soe* brand. While we have lost segment share in SKT due to *Dji Sam Soe* moving above the important IDR 1,000 per stick price point, PMI is performing well in the other taste segments with *Sampoerna A*, *U Mild* and *Marlboro*. We will be investing more heavily this year to further boost the equity of our brands.

Our volume increased by 6.2% in April, partially benefiting from the launch of *Dji Sam Soe Magnum Blue*. While we do not have total market information for April yet, this result reinforces our expectation that industry volume could grow by up to 1% in 2014 and that we should be able to achieve an improved market share during the second half of the year.

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In the Philippines, tax-paid industry volume increased by 25.9% in the first quarter of this year, reflecting the timing of inventory movements. We estimate that Mighty Corporation continues to declare only about half of its sales volume for tax purposes. The company is coming under increasing pressure from the authorities. The introduction of tax stamps, expected in June, should help though it is not a silver bullet.

Our overall market share of 83.7% in the first quarter was higher than both our 2013 full-year and fourth quarter shares, but lower than our share in the first quarter of 2013. Importantly, the total share of the super-low price segment has declined. Going forward, the price increases that have occurred at the bottom of the market and our marketing efforts behind *Marlboro* and *Fortune* should enable us to further improve our market share, product mix trends and, over time, our margins.

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I will now turn to Russia, where we achieved double-digit profit growth in the first quarter of this year, excluding currency and before the attractive financial contribution from our investment in our distributor, Megapolis. Cigarette industry volume declined by an estimated 6.7% in the quarter as excise-tax driven price increases of 6 to 9 Rubles, announced in December, impacted adult smokers as of February. This month we announced a further price increase of 4 Rubles per pack across the majority of our portfolio. The new prices are expected to be in the market in the third quarter. The combination of these two price increases is forecast to result in a decline in industry volume of 9% to 11% for the full year.

Our brand performance in the first quarter was strong. Our market share of 26.7% was up by 0.5 points versus a year earlier and by 0.4 points compared to the fourth quarter of 2013. Our segment share was higher in the premium and low-price segments, notably behind the success of *Parliament* and *Bond Street*, while mid-price *L&M* gained 0.5 share points.

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The first quarter moderation in cigarette industry volume decline in the EU Region was confirmed in April, though the monthly data needs to be viewed cautiously due to some timing distortions. Preliminary data for April show an increase of 5.1% in cigarette industry volume, driven by favorable timing factors in Germany and more limited down-trading to e-vapor and illicit products in Italy. On a year-to-date April basis, Regional cigarette industry volume is estimated to be down by about 3%.

PMI continues to outperform the industry. Our Regional share was up by an estimated 0.9 points in the first quarter and by a similar amount on a year-to-date April basis. Our key brands, *Marlboro*, *L&M* and *Chesterfield*, all increased their share. *Marlboro* gained share notably in Belgium, the Czech Republic, France, Greece, Portugal and Spain, and was essentially stable in Italy, Poland and the UK.

In April, we announced to the trade in Germany a price increase of 20 Euro cents across most of our portfolio that would be effective by early June. However, for competitive reasons, we have suspended the planned implementation of our new price list.

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I will now wrap up with some concluding remarks.

Our business fundamentals remain solid. While our first quarter shipment volume was down by 4.4%, this was distorted and our underlying rate of decline was around 2.0%. Some of the adjustments occurred in April and by the end of last month our volume was down by a more moderate 2.2% on a year-to-date basis.

We expect 2014 to be characterized by solid pricing; improved volume trends; good market share momentum, notably in the EU Region; a gradual sequential improvement in our share in Japan; a more stable business environment in the Philippines; solid results in Indonesia; additional profits from recently completed business development projects; and a solid contribution from productivity gains. In addition, we remain on track for our initial Reduced-Risk Product city tests in the fourth quarter.

Thank you for your interest in our company. I strongly believe that PMI remains an attractive investment and I will now be happy to answer your questions.

(SLIDE 9.)

Q&A Session