

**Remarks by Matteo Pellegrini  
President, Asia Region  
Philip Morris International Inc.**

**Investor Day  
Lausanne, June 26, 2014**

**(SLIDE 1.)**

Thank you and good afternoon everyone. It is a great pleasure for me to have the opportunity to share with you today an overview of our Asian business.

**(SLIDE 2.)**

Our 2013 performance was solid in a challenging environment. While we currently face certain issues in key markets, I believe we have the right strategies and plans in place to regain momentum and deliver increasingly strong business growth in the years to come.

To begin with, the favorable economic and demographic environment in which we operate, with increasing consumer purchasing power in emerging markets, provides a fertile ground for our future growth.

Our superb brand portfolio is unparalleled, led by *Marlboro* and other well-known international brands. This is further complemented by an array of popular local heritage brands.

We have a proven track record to anticipate adult smokers' taste preferences, and we will continue to seek new innovation opportunities to further drive our growth.

Overall, the regulatory and fiscal environment in the Region remains manageable, although from time to time there is a risk of a government introducing a disruptively large excise tax increase. We also believe there are opportunities to further simplify excise tax structures in a number of markets.

We have a comprehensive plan and strong commitment to counter illicit trade, along with the appropriate authorities.

We will continue to pursue geographical expansion with a particular focus on those emerging markets where we still have a limited presence.

Finally, 2014 will be a pivotal year for PMI and the Asia Region. We are excited to roll out our first foray in Reduced-Risk Products starting in Japan as of quarter four, and over time Reduced-Risk Products are expected to generate additional revenue and profitability for the Region.

With our strong pricing power, driven by our superior brand portfolio, focused investment behind our brands, and our manufacturing footprint optimization initiatives, we are confident to achieve an annual average mid to long-term adjusted OCI growth target, ex currency, in the high single digit, underpinned by our key growth strategies and strong business fundamentals.

**(SLIDE 3.)**

Let me give you an overview of our Region.

In Asia, we operate in 24 markets with a growing population that is already close to four billion. Excluding China, these markets have a total cigarette volume of approximately 1.2 trillion units. Last year, our shipment volume reached 301 billion units and our adjusted OCI was \$4.6 billion.

We own 17 manufacturing facilities and in Indonesia we contract 38 third-party operators to manufacture our hand-rolled kretek cigarettes. Our organization in Asia has over 50,000 committed people contributing to our success, and in Indonesia, our third-party operators employ over 60,000 hand-rollers.

**(SLIDE 4.)**

Asia's GDP growth last year reached 4.8%, well above the world average, and is expected to remain so in 2014.

**(SLIDE 5.)**

Further to the strong macro-economic outlook, the demographic environment in Asia is particularly favorable.

While the population growth in Asia's OECD countries is 0.2%, the population in Asia's non-OECD countries continues to grow at a more significant rate of approximately 1%. Importantly, the middle class in Asia's non-OECD countries is increasing by 20 million households annually. As affordability increases, the middle class trades up to higher quality products and increasingly seeks innovation and differentiation, which provides a significant potential in the long term.

**(SLIDE 6.)**

In fact, between 2008 and 2013, the premium industry volume in Asia's non-OECD markets increased by 36 billion units, or 21%. The strong momentum of the

premium segment was mainly driven by Indonesia, India and Vietnam, and is attributable to adult smoker up-trading driven by the previously mentioned growth of the middle class and overall higher disposable income. Despite the challenges in the Philippines in 2013, we have a strong market share of this profitable segment, thanks to the continued growth of *Marlboro* and our premium local heritage brands, such as *Sampoerna A* in Indonesia.

**(SLIDE 7.)**

From 2008 to 2013, the industry size has remained resilient with a compound annual growth rate of 0.2% led by the growth in Indonesia partially offset by the contraction in Japan.

Excluding China, seven of the top ten markets in the world are in Asia. These top seven markets represent approximately 80% of the total Asia industry volume and a significant opportunity for volume growth.

Importantly, while we hold a significant share in four of these markets, we only have a limited presence in India, Vietnam and Bangladesh, markets where we have the ambition and the strategies to grow our business.

**(SLIDE 8.)**

PMI is the clear market leader in the Asia Region. From 2008 to 2013, our market share grew by 6 points to reach 25% in 2013 on the back of the strength of our superior brand portfolio and the business combination in the Philippines with Fortune Tobacco Corporation in 2010. Excluding the business combination in the Philippines, our organic growth was a solid 1.6 share points.

**(SLIDE 9.)**

From 2008 to 2013, Asia has significantly increased its contribution to PMI's key metrics of volume, net revenues and adjusted OCI, which grew over the period by 9, 10 and 14 percentage points, respectively.

**(SLIDE 10.)**

Our shipment volume grew at a compound annual rate of 6.1% from 2008 to 2013, with gains in more than half of our markets, mainly led by Indonesia, Korea and Vietnam, coupled with the favorable impact of the business combination in the Philippines.

From 2008 to 2013, net revenues almost doubled to \$10.5 billion for a compound annual growth rate ex-currency of 10.3%, and our adjusted OCI also more than doubled to \$4.6 billion for a compound annual growth rate ex-currency of 15.6%.

**(SLIDE 11.)**

Our cigarette volume for the first quarter of 2014 declined by 2.5%, principally due to a lower market share in Australia, Indonesia, Japan and Pakistan, as well as reflecting the adverse timing of our shipments in Japan. This was partially offset by the rebound of volume and share in the Philippines. Excluding the inventory distortions, we estimate our volume was essentially flat.

Net revenues and adjusted OCI, both ex-currency, declined by 8.7% and 14.3%, respectively. Unfavorable currency movements impacted our adjusted OCI of \$938 million by \$215 million. The lower net revenues and adjusted OCI were attributable to Japan and the Philippines, both of which were partially impacted by inventory distortions. I will cover later in my presentation the particular challenges we are facing in these two markets and our related strategies.

It is worth noting unfavorable currency movements across the last five quarters have impacted Asia's adjusted OCI by almost \$800 million.

**(SLIDE 12.)**

Since 2008, our adjusted OCI margin has increased by 10.8 percentage points to reach 44.3% last year, driven by pricing and favorable volume/mix.

In the first quarter of this year our adjusted OCI margin, ex-currency, remained strong at 45.3%.

In the long-term, we expect our adjusted OCI margin to further expand through a mix of price increases, volume and share growth, efficient cost management and productivity savings.

**(SLIDE 13.)**

The strength of our brands is the foundation of our sustainable pricing, which remains the key driver behind our long-term margin and adjusted OCI improvements. Excluding the exceptional year of 2011, our average pricing from 2008 to 2013 was \$462 million.

In 2011, we achieved significant favorable pricing of \$991 million. This was well above our historical average, primarily reflecting in Japan the timing of the tax-driven price increase which was amplified by JT's supply disruption.

In 2013, our favorable pricing of \$699 million included an unusually large excise tax-driven inventory movement in the Philippines caused by the disruptive tax increase in January 2013.

**(SLIDE 14.)**

The key to our success remains our superior portfolio led by *Marlboro* and other international brands, complemented by a number of strong local heritage brands.

In Asia, *Marlboro* alone, at 75 billion units in 2013, was larger than the total of BAT's main global drive brands. In addition, the volume of our three key local heritage brands, *Sampoerna A*, *Fortune* and *Dji Sam Soe*, combined, was even larger at 93 billion units.

Going forward, we will continue to leverage these brands through enhanced adult smoker understanding, innovation and the new commercial approach to drive long-term volume growth.

**(SLIDE 15.)**

*Marlboro* continues to perform strongly. Since 2008, *Marlboro* volume grew unabated to 81 billion units in 2012. In 2013, due to the disruptive excise tax increase in the Philippines and the growth of the illicit trade segment led by Mighty Corporation, *Marlboro* volume declined to 75 billion units. I am happy to report that *Marlboro* is back on its growth path, increasing almost one billion units, or 2.8%, in the course of the first five months of this year.

**(SLIDE 16.)**

One of the key drivers of *Marlboro*'s success is our ability to introduce product innovations that are relevant to adult smokers. For example, we command a leading position in the important and growing capsule segment with a share of 54.5%. Capsule products offer adult smokers the choice to increase the intensity of menthol or switch to a refreshing new taste.

Since the introduction of *Marlboro Ice Blast* in 2010, we have launched a number of new *Marlboro* innovations, including *Marlboro Hybrid* in Korea and *W-Burst* in Japan. The brand has been gaining momentum in this segment, enabling *Marlboro*'s capsule volume to reach 6.5 billion units in the Asia Region. We have plans to continue to innovate behind *Marlboro* in this exciting and growing segment.

**(SLIDE 17.)**

The "Be *Marlboro*" campaign has been deployed in Indonesia, Japan, Korea, Malaysia and the Philippines. The campaign has successfully increased the brand's image and awareness. We plan to progressively roll out the campaign to other countries across the Region.

**(SLIDE 18.)**

Innovation will continue to drive the success of *Marlboro*. We have recently launched *Marlboro Fusion* in Malaysia and Singapore, and we are about to test market in Korea with both non-menthol and menthol variants. *Marlboro Fusion* uses especially aromatic tobaccos together with cloves to deliver a new taste dimension. We are confident that this latest innovation will further enhance *Marlboro's* leadership in the Region.

**(SLIDE 19.)**

We are now moving to the next level of *Marlboro's* evolution with the introduction of the *Marlboro Architecture 2.0*, as Fred already outlined. The objective of 2.0 is to further expand *Marlboro's* appeal. This month we deployed the new *Marlboro Red* in Singapore and we have plans in place for the rapid roll-out to the rest of Asia.

**(SLIDE 20.)**

Let me now turn to the fiscal environment. The majority of our markets currently operate under a specific excise tax structure although, in some of them, multiple tiers do exist. We estimate that in 2013, 80% of the industry volume in the Region was based on either multi-tier or single-tier specific excise tax structures. This represents significant progress from 55% back in 2008.

Recently, excise tax structures in Pakistan and Indonesia have been simplified. Pakistan's excise tax structure changed from a mixed to a specific system in 2013, while the Indonesia government eliminated the tax loophole for sister companies. Both changes provide governments with enhanced excise tax revenue predictability.

In the Philippines, while the initial phase of the excise tax reform initiated by the government was disruptive, we are encouraged that the law envisages a single-tier specific system by 2017 and subsequent increases of 4% per annum.

We believe that most governments in the Region increasingly understand that excessive increases can lead to unintended consequences. However, from time to time some governments implement disruptive increases, such as in the Philippines in 2013, which unfortunately resulted in a significant surge of illicit trade, and Australia in December last year. In Australia with three more significant excise tax increases planned, we expect illicit trade to further grow, compounded by the effect of plain packaging.

**(SLIDE 21.)**

In Asia, excluding China, illicit trade remains a significant challenge, it is now estimated to be well over 100 billion units in sales. As such illicit trade is now our third-largest competitor in the Region and represents a significant loss of

government tax revenues estimated at around \$4 billion in 2013, and an industry profitability loss conservatively estimated at around \$1 billion for Asia.

Illicit incidence levels are well above 10% in several of our markets. Illicit trade creates a cheap and unregulated source of tobacco products. These illicit products often do not meet the manufacturing and other regulatory standards that are applied to legal products. In addition, they undermine government revenue collection targets and depress industry profitability.

**(SLIDE 22.)**

We have deployed a number of strategies and actions to address illicit trade. We have commissioned an annual study to understand the levels and trends in all key issue-markets.

We contribute to educational programs to raise the awareness of retailers, adult smokers, the general public and politicians on the issue and its consequences. Hong Kong is an example of a recent success where an anti-illicit trade coalition's intensive campaign contributed to increased enforcement and a reduction of illicit trade. This contributed to a growth of 7.2% of the legal cigarette market in Hong Kong in 2013.

We co-operate with industry players, customs and law enforcement agencies and policy makers. For example, in Malaysia, the government is currently running a nationwide retail education campaign and enforcement program in cooperation with the industry. A new law that makes it illegal to possess illicit cigarettes in Malaysia has already led to almost a hundred retail raids, leading to arrests and court-sanctioned fines and imprisonment.

Finally, we are also advancing our technological initiatives and engaging with key stakeholders regarding solutions in line with the requirements of the WHO FCTC Protocol to Eliminate Illicit Trade in Tobacco Products.

With these strategies and actions, we are hopeful that the estimated 100 billion units in illicit volume will gradually revert back to the legitimate industry.

**(SLIDE 23.)**

Let me now turn to our key markets starting with Japan.

Industry volume declined by 2.0% in 2013. As we already communicated in our first quarter earnings release this year, we expect a slight acceleration of the total market decline in the range of 3.0% to 3.5% in 2014. This is mainly driven by the overall higher retail prices resulting from the VAT increase in April this year. The pass-on at retail was about 14 Yen per pack. We received approval to increase *Marlboro's* retail price by 20 Yen to 460 Yen per pack and to increase *Lark* by 10

Yen to 420 Yen per pack. In October 2015, VAT is planned to increase further, from 8% to 10%. We expect the government to make a final decision on this second increase by the end of this year.

Quarter-to-date May, our market share rebounded to reach 26.5%, 1.0 share point higher than our first quarter share of 25.5%, which was impacted by the greater degree of trade inventory build-up by competition before the April VAT increase. This gives us a year-to-date May share of 25.9%, in line with our Q4, 2013 share, indicating an early sign of our market share stabilization.

The main driver behind our market share erosion in 2013 was our main competitor's first successful initiative in the capsule segment in May last year, which has put our leading share in this segment under pressure.

While our market share remains below last year's level, we have several exciting initiatives planned that, combined with the phased roll out of our new commercial approach, should enable us to improve our share performance in Japan.

**(SLIDE 24.)**

The first of these initiatives is the launch of *Marlboro Clear Hybrid* in August of this year. *Marlboro Clear Hybrid* will offer a superior smooth-tasting experience and the flexibility to enjoy a burst of fresh taste when crushing the capsule, all in a contemporary new pack.

Earlier this year, we started rolling out the "Be *Marlboro*" campaign, which was fully deployed nationwide starting in April. Based on our research, we have received extremely encouraging feedback and the campaign continues to gain momentum, improving *Marlboro's* image and perception in various key dimensions. Specifically, the results show that *Marlboro* is a brand that adult smokers can trust, it is inspirational and contemporary, and encourages adult smokers to re-think existing conventions.

**(SLIDE 25.)**

Let me now move to *Lark*. Our objective is to stabilize the brand's market share through innovative offerings together with brand consolidation.

In April, we started morphing the *Philip Morris* brand into a new line-up called *Lark Blue Smooth*, which is complemented by our newly-introduced *Lark Blue* 10 mg and 8 mg. According to the initial results, we have achieved a retention rate close to 100%. This initiative will enable us to be more focused on our marketing strategies and executions.

Together with the new *Blue Smooth* line-up and our newly introduced *Lark Royal Blend*, we are currently working on a new architecture, which will be unveiled later

this year. All of these initiatives, together with the new competitive price positioning of 420 Yen per pack, give me the confidence that *Lark* will return to growth in the future.

**(SLIDE 26.)**

One of our greatest opportunities lies in the commercialization of *iQOS*, with *Marlboro HeatSticks* tobacco sticks. In a recent home usage study in Japan, 30% of adult smoker participants adopted the product.

In the fourth quarter of this year, we will carry out a city test to assess adult smokers' reactions in a real life environment. Using the learning from the city test, we will further expand the distribution of *iQOS* in 2015.

We are confident that this innovative and technologically advanced new product will capture the attention of Japanese adult smokers for its superb taste and sensory experience, its nicotine delivery profile and the ritual characteristics that match as close as possible those of cigarettes.

**(SLIDE 27.)**

Turning to Indonesia, industry volume increased by 1.9% to reach 308 billion units in 2013, in line with the historical trends prior to the significant growth in 2011 and 2012.

The recent slowdown in growth is attributable to two main factors: the reduction in fuel subsidies last year, that together with higher food prices, has put pressure on low-income adult smokers, and the contraction of the low price segment, which was driven by the aforementioned legislation that eliminates the preferential excise tax for "sister companies" of large manufacturers.

We still expect consumption to be resilient and industry volume to increase by up to 1% for the full year 2014.

**(SLIDE 28.)**

On a macro-economic level, we continue to believe Indonesia represents a significant growth opportunity for PMI.

In 2013, the premium and mid-price segments, which together represent about 80% of the market, increased by almost 18 billion and 12 billion units, respectively, compared to 2011, supported by an increased focus by all industry players on mid and premium-price products.

Importantly, this tremendous growth was fueled by adult smoker up-trading, primarily driven by a significant and continuous increase in the country's middle

class households, which grew by 2.8 million since 2011 and will reach approximately 18 million by the end of 2014. We believe this growing purchasing power will further drive adult smoker up-trading and this should benefit us given our more premium-skewed portfolio.

**(SLIDE 29.)**

Moving to the competitive landscape, we are the undisputed market leader in Indonesia. Despite the soft start in the first quarter of this year, our share has returned to growth sequentially, reaching 34.9% quarter-to-date May on the back of our leading brands *Sampoerna A*, *U Mild* and *Marlboro*.

**(SLIDE 30.)**

The soft start was principally due to the accelerated decline of the overall hand-rolled kretek segment of which PMI holds around 40%. This decline was compounded by the share loss of our hand-rolled kretek brand *Dji Sam Soe*, which crossed the critical price point of IDR 1,000 per stick during 2013. We project an improvement in the second half of the year as we expect competitive brands should cross equally critical price points.

Within the machine-made kretek Full Flavor segment, we have reached a segment share of 4.7% on the back of the steady growth of our *Dji Sam Soe Magnum Filter*.

In the large and growing machine-made kretek LTLN segment, which accounts for over 40% of the industry, we continue to grow our segment share despite the withdrawal of our tactical brands in response to Decree 131 implementation.

Within the whites segment, we are still performing strongly with *Marlboro* reaching a record segment share of around 80% in the current year.

**(SLIDE 31.)**

PMI quarter-to-date May record share of 48.3% of the growing machine-made kretek LTLN segment was led by our two flagship brands, *Sampoerna A* with 14.0% market share and 33.5% share of segment and *U Mild* with 5.6% market share and 13.4% share of segment. Both of these brands continue to perform strongly with a combined share growth of 1.2 share points year-to-date May.

We have other exciting initiatives in 2014 to further expand our footprint in this important and growing segment.

**(SLIDE 32.)**

We have strategically and successfully expanded our flagship hand-rolled brand *Dji Sam Soe*, which is known in Indonesia as the “King of Kretek”, in the growing machine-made kretek segment by capitalizing on the brand’s strong equity.

Aside from the already mentioned full flavor *Dji Sam Soe Magnum Filter*, the first of our new initiatives to further strengthen our presence in the machine-made kretek LTLN segment was the recent introduction of *Dji Sam Soe Magnum Blue* in April. Early data indicate that this addition to the *Dji Sam Soe* family is one of the most successful new product launches in the history of Sampoerna, and we fully expect *Dji Sam Soe Magnum Blue* will exceed 1 billion units in sales by the end of this year.

**(SLIDE 33.)**

In summary, the favorable macro-economic environment, the growing middle class, the opportunity for a simplified excise tax structure, and a growing industry make Indonesia an extremely exciting market for future growth.

In this favorable context, we will continue to expand and invest in our superb brand portfolio through product innovations that are relevant for adult smokers in the growing machine-made kretek segment.

In addition, the expected stabilization of clove prices, our continued productivity savings and cost optimization initiatives, together with our sustainable pricing power, will generate additional resources for both investment and future profitability growth.

**(SLIDE 34.)**

Let me now move to the Philippines. Despite a difficult 2013, we remain confident in the excellent growth potential of our business in this market. The Philippines benefits from a growing adult population and has witnessed steady economic improvements, backed by a stream of foreign remittances and urbanization.

In 2013, due to the disruptive excise tax increase, the volume declared for tax purposes in the Philippines was estimated at only 86 billion units. However, cigarette consumption in the Philippines is estimated to be well above 100 billion units. In fact, the recent Oxford Economics study puts illicit trade volumes at 19.1 billion units, the vast majority of which is represented by domestic illicit, and estimates government tax losses at approximately \$350 million in 2013.

**(SLIDE 35.)**

There are strong indications based on official tax statistics and Nielsen data that, in 2013, Mighty Corporation declared only about half of its sales volume for tax purposes.

In the first quarter of this year, although overall Mighty Corporation's estimated sales volume declined, the proportion of under-declaration for tax purposes has in fact further increased. This continues to prevent us from being able to operate on a level playing field, impacting both our market share and profitability.

Recently, Mighty Corporation was assessed with an initial penalty of \$20 million by the Philippines Customs authority for under-declared duties and its import bonded warehouse remains suspended. Moreover, the Philippines tax authorities are currently conducting a tax investigation and a congressional committee was established to look into Mighty's excise tax under-declaration.

The introduction of tax stamps, now expected in July, should to some extent help address this issue.

With continuous pressure, we remain optimistic that the Philippines will gradually return to a more stable and fair business environment.

**(SLIDE 36.)**

Our short-term strategy has been to protect our volume and share. In the first five months of this year our shipment volume increased by 6.1%, despite the absence of a level playing field. The growth was principally driven by *Marlboro*, whose volume increased by 10.3%, while all other brands combined grew by 5.0%.

Key to this performance has been the marketing support behind our main brands and the significant price investment in order to maintain competitive price gaps to Mighty Corporation's brands. The latter has substantially impacted our margins, which are currently well below 2012 levels. We are encouraged by the recent price increases that have occurred at the bottom of the market, although certain Mighty Corporation's brands still retail below the level of current excise tax and VAT combined.

**(SLIDE 37.)**

Notwithstanding the ongoing illicit trade issue, we continue to be the undisputed market leader and we are well positioned for future growth, leveraging our outstanding portfolio with which we hold a clear leadership position in all price segments.

Just recently, we have given *Fortune*, our local flagship brand, a new modern look and have complemented the *Fortune* franchise with a light-tasting line extension in a contemporary blue pack. In addition, we will soon launch *Marlboro Black Menthol 100s* to further expand in the growing menthol 100s segment.

Going forward, we will continue to complement and further strengthen our portfolio through the introduction of innovative offerings relevant to adult smokers.

We will also leverage a superb nation-wide distribution network that will continue to enable efficient trade coverage and effective penetration of our brands across the country.

**(SLIDE 38.)**

As I said earlier, while the initial phase of the excise tax reform implemented by the government was disruptive, we are encouraged that the law envisages a single-tier specific system by 2017.

Between now and 2017, the excise tax rate of the top tier will increase by 3 Pesos per pack while the lower tier will increase by 13 Pesos per pack. This should result in a narrowing of price gaps and position us very favorably given the strong position of our portfolio in the premium segment, led by *Marlboro*.

**(SLIDE 39.)**

Overall, we are confident that the Philippines will be a significant contributor to our long-term profit growth in the Region given the very favorable socio-economic trends, the sizable cigarette consumption of over 100 billion units, and our unmatched brand portfolio.

Our shipment volume is growing and we strongly believe this momentum will continue. However, the recovery of our profitability growth hinges on the resolution of the biggest issue facing us today in the Philippines, namely the under-declaration for tax purposes by Mighty Corporation. We will continue to encourage the authorities to act decisively and we are hopeful the fiscal tax stamp implementation expected in July will help address this.

Also, we expect to see a narrowing of price gaps as the specific tax system moves to a single tier in 2017.

**(SLIDE 40.)**

Turning now to Australia, a market backed by strong economic fundamentals. Despite the introduction of plain packaging in December 2012, cigarette industry volume was essentially stable at 18.7 billion units in 2013 and even grew slightly when including the OTP segment.

While our cigarette market share for 2013 was only marginally down, we have witnessed significant market share erosion in the first five months of 2014, following heavy price discounting by one of our competitors, which intensified after the excessive excise tax increase of 12.5% in December last year.

**(SLIDE 41.)**

The combination of the large excise tax increase, the heavy price discounting at the bottom of the market, together with the commoditization of the market, induced by plain packaging, have been accelerating down-trading to lower price, lower margin brands or even illicit products. In fact, since 2010, the low-price segment has grown from approximately 26% to now almost half of the market.

We are competing in this growing segment with *Bond Street* and *choice*, which together hold a share of 8.9% year-to-date May and continue to grow. We have recently responded with significantly increased investments in tactical price discounts for both brands to regain our market share position. As a result, our market share in the month of May reached 36.8%, a considerable improvement compared to our May year-to-date share of 34.4%, which you saw in the previous chart.

We expect that prices will continue to rise significantly on the back of the already announced 12.5% excise tax increases this year in September and for the following two years. This is in addition to the regular twice a year excise tax increase based on salary inflation indexation.

Regretfully, since the introduction of plain packaging in December 2012, illicit trade has reversed its declining trend over the prior years and reached a new record level of approximately 14% in 2013.

Plain packaging, together with large excise tax driven price increases, will likely accelerate mix deterioration, and will also fuel a continuous increase in illicit trade. This is expected to have a minimal impact on consumption, without achieving the government stated objective of reducing smoking prevalence.

**(SLIDE 42.)**

Let me now turn to Korea. Cigarette industry volume in Korea was 88 billion units in 2013 and has declined over the last three years at an annual rate of around 1%.

Our market share continues to grow, reaching 20.0% year-to-date May, despite a temporary setback following our price increase in February 2012, while KT&G has not yet changed its prices. Our share has proven to be much more resilient than that of our international competitors through the successful introduction of several innovative products.

We will continue to capitalize on innovative product launches and enter into new taste segments to drive further growth in this significant market.

**(SLIDE 43.)**

Since 2011, there were 71 new launches in Korea, which contributed 11.8 market share points by 2013. During this period, we have launched a number of very successful product innovations, such as *Marlboro Ice Blast*, *Parliament Hybrid* and *Virginia Super Slim Clear Finish*, which cumulatively have achieved a 30% share of all new product launches.

In 2014, we have continued to introduce innovative offerings that are relevant for adult smokers and we will continue with the planned test market of *Marlboro Fusion* in both the menthol and non-menthol segments in July.

**(SLIDE 44.)**

Let me now move on and show you the tremendous opportunities that still exist in our Asia Region.

Excluding China, the total industry volume that is not in the hands of any of the large international competitors accounted for 536 billion units, or 45.3%, of total Asia Region volume.

Although we already hold sizable shares in some of these markets, for example Indonesia, Korea and Thailand, other geographies such as India, Vietnam and Bangladesh represent significant opportunities for business expansion in the long-term.

**(SLIDE 45.)**

In Vietnam, India and Bangladesh, where we currently only focus on *Marlboro* in key cities, we have more than doubled our volume in the last two years, reaching 3.5 billion units in 2013.

In Vietnam, *Marlboro* is leading in the growing premium segment, recording 53.4% segment share in 2013.

With favorable demographics and the long-term economic growth potential in these markets, we believe there will be a significant up-trading potential and volume upside.

We will therefore continue with our investments in distribution, visibility, adult smoker engagement and our organization to accelerate future growth in these very promising markets.

**(SLIDE 46.)**

Finally, and I do believe most importantly, we have a young, diverse, talented and committed organization that has been the foundation of our success to date, and

is the catalyst for a promising future. This didn't happen overnight, but is the result of our steadfast commitment to recruiting, developing and retaining the best talent.

Our ability to produce results that consistently drive robust shareholder returns and to confront the challenges and seize the opportunities that will shape our future, is due, in large part, to the exceptional diversity, caliber and commitment of the over 50,000 employees in the Asia Region.

**(SLIDE 47.)**

To conclude, the operating environment in Asia is favorable with a positive economic and demographic outlook driven by emerging markets.

While we have been facing specific issues impacting our performance in 2013 and a large part of 2014, we have solid strategies and plans in place to address these challenges. Our business fundamentals remain strong, characterized by our clear market share leadership and our strong financial performance. This is backed by a leading brand portfolio with a focus on innovation, which underpins our sustainable pricing power.

I am confident that all this, coupled with further opportunities for efficient resource management, will enable us to deliver an annual average mid to long-term adjusted OCI growth target, ex currency, in the high single digit.

More importantly, the planned introduction of our Reduced-Risk Products will represent a phenomenal opportunity for us in Asia to further capitalize on our leadership position and our superb infrastructure. In addition, this new product offering can accelerate the penetration in those geographies where we currently have only a limited presence. I believe this will further support the long-term sustainability of our adjusted OCI growth.

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