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Philip Morris International Inc.

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(SLIDE 1.)

It is a great pleasure to provide you with an overview of our Reduced-Risk Products plans. Reduced-Risk Products ("RRPs") is the term we use to refer to products that have the potential to reduce individual risk and population harm.

(SLIDE 2.)

Reduced-Risk Products is an emerging consumer category of its own, integrating fast moving consumer goods, consumer electronics and science. We will show you today how we are positioned to be the leader in this category. We are combining our deep understanding of adult smoker preferences with state-of-the-art multidisciplinary product development capabilities and industry-leading scientific substantiation to deliver a Reduced-Risk Products portfolio that can sustainably meet a broad spectrum of adult smoker preferences and strict regulatory requirements.

(SLIDE 3.)

Three pillars support the RRPs business. They are product innovation and scientific substantiation, science-based regulation and commercialization. Manuel

and I will take you through product innovation, scientific substantiation and science-based regulation. Fred is then going to show you our exciting plans for the marketing and commercialization of our first heat-not-burn product, as well as our plans for e-vapor products.

(SLIDE 4.)

We are going to cover PMI's R&D capabilities and assets, our RRPs portfolio and how we are assessing their potential to reduce risk.

(SLIDE 5.)

PMI anticipated the advent of RRPs and pioneered their development. In fact, we started building RRPs capabilities back in 2003. At that time we understood that success would depend on a seamless integration of scientific risk-reduction substantiation with adult smoker acceptance. Since the spin we have built a unique capability to lead this critical effort. We have invested approximately $2 billion to support our Reduced-Risk Products portfolio by focusing on fundamental research, product development, scientific substantiation and adult smoker understanding.

We have hired more than 300 world-class scientists and engineers in key disciplines, including material science, consumer electronics, clinical science and systems toxicology. We have also established a scientific and regulatory affairs group to lead our efforts in the emerging regulation of Reduced-Risk Products.

(SLIDE 6.)

In addition to our internal experts who are continually working on our technology pipeline and assessment in Neuchâtel and Singapore, we have established a global network of research and technology partners to enhance our critical competencies and capabilities. We are supplementing these efforts through open innovation, technology scouting, evaluation and acquisitions to ensure we are best-positioned to respond to adult smoker preferences, potentially disruptive technologies and what we believe will be a dynamic category.

(SLIDE 7.)

PMI's approach to innovation using both internal and external experts is best exemplified by the development and scale-up of Platform 1.

For our heat-not-burn tobacco consumable, we have developed unique technology and manufacturing processes in Neuchâtel and in our pilot plant near Bologna, Italy. In addition, as previously disclosed, we are constructing a new manufacturing facility in the same area that, along with the pilot plant, will provide an annual capacity of up to 30 billion units by the end of 2016. It is anticipated that, at full factory utilization, manufacturing costs of heat-not-burn consumables will be similar to those of combustible cigarettes. As the production of heat-not-burn consumables expands, it will eventually be integrated into existing PMI manufacturing facilities.

For the electronics, our engineers developed the proprietary technology and the design of Platform 1 devices with external partners specializing in medical devices and consumer electronics. The scale-up and manufacturing is contracted to a South East Asian-based Electronic Manufacturing Services ("EMS") provider. The manufacturing of devices for the pilot city launches has started.

(SLIDE 8.)

We have a portfolio of over five hundred granted patents worldwide relating to RRPs platforms and a pipeline of around one thousand pending patent applications. This patent portfolio reflects the superiority of our product development efforts. Patents and related legal protections for proprietary technology are the basis for our long-term Reduced-Risk Product pipeline which will allow us to address a range of adult smoker preferences.

(SLIDE 9.)

The quality and breadth of our Reduced-Risk Product science is unmatched.

The research we are conducting to assess the ability of our products to reduce risk is based on the FDA's Draft Guidance for Modified Risk Tobacco Product ("MRTP") Applications, similar to assessment methods used by the pharmaceutical industry, and complemented by innovative systems toxicology.

We are sharing our scientific methods and the data we generate with regulators and the scientific and public health communities.

Since 2010, we have published over 80 RRPs-related studies in peer-reviewed scientific journals, such as the American Journal of Physiology, Nature Biotechnology, and Regulatory Toxicology and Pharmacology, and are leading the industry on this key measure of scientific credibility. We are participating in international conferences where we present our data and RRPs assessment

approach. In line with the pharmaceutical industry's practices, all of our clinical studies are registered on the public website ClinicalTrials.gov.

(SLIDE 10.)

Let me take you briefly through our product portfolio.

(SLIDE 11.)

We have a multi-technology product portfolio that addresses a wide range of adult smoker preferences. Each of our product platforms is designed to significantly reduce or eliminate the formation of harmful and potentially harmful constituents (also referred to as "HPHCs") in the aerosol, while preserving as much as possible the taste, sensory experience, nicotine delivery profile and ritual characteristics of combustible cigarettes.

We have four platforms, two heat-not-burn tobacco products, Platforms 1 & 2, and two products that contain nicotine but no tobacco, Platforms 3 & 4.

(SLIDE 12.)

The Platform 1 system includes an electronic holder and a tobacco product which we call the *HeatStick*. The holder heats the tobacco in the *HeatStick* tobacco stick to less than 350 degrees Celsius without burning it to create a flavorful nicotine-containing aerosol. In comparison, the tobacco in a burning cigarette reaches a temperature of up to 800 degrees Celsius, as shown in red.

The combination of precisely controlled heating, the special tobacco blend and the unique design of the *HeatStick* tobacco stick provides adult smokers with an aerosol that delivers the volume, flavor and satisfaction that they expect.

(SLIDE 13.)

Platform 2 is also a heated tobacco product but is closer to the look and feel of a cigarette. It uses a pressed carbon heat source that, once ignited, heats the tobacco to generate a nicotine-containing aerosol.

Like Platform 1, Platform 2 has a specific and proprietary tobacco blend and flavor system that produces an aerosol that is close in taste and sensory experience to cigarette smoke. A proprietary design, which separates the tobacco from the carbon heat source, ensures an effective and controlled temperature transfer to produce the aerosol.

We are on track to initiate clinical trials for Platform 2 later this year. As both platforms share the same tobacco processing technology, we plan to install Platform 2 manufacturing capacity in our facility in Bologna in anticipation of a 2016 city launch.

(SLIDE 14.)

As André mentioned we have entered the e-vapor market. E-vapor products generate nicotine-containing aerosols without combustion. E-vapor products currently on the market present challenges that are well-known, ranging from user satisfaction to product consistency and manual manufacturing. These challenges have led to relatively low adoption rates.

We are developing innovative e-vapor products, including the next generation e-cigarette, which we believe can address these issues.

(SLIDE 15.)

We believe we can deliver a superior e-vapor product. We are developing novel aerosolization technology and a proprietary cartridge-battery combination. Our goal is to provide a consistent aerosol with improved e-liquid and nicotine delivery profiles. The technology should also improve energy management and allow automated manufacturing, which will increase product reliability and reduce manufacturing costs. We expect to be city testing this product by the second half of 2016.

(SLIDE 16.)

We are also continuing the development of Platform 3, which is based on technology that PMI acquired in 2011 from Professor Jed Rose and his co-inventors. This product creates an aerosol of nicotine salt formed by the chemical reaction of nicotine with a weak organic acid. We are exploring two routes for this platform, one with electronics and one without. The product replicates the feel and ritual of smoking without tobacco and without burning. We have begun pre-clinical testing of this product.

(SLIDE 17.)

Let me now describe the scientific approach and the battery of studies that we have implemented to assess the reduced risk potential of our RRPs.

(SLIDE 18.)

We are following a stepped approach to the scientific assessment of our products. At each step we are applying rigorous scientific standards to generate data that will be part of the evidence package to support product claims.

(SLIDE 19.)

First, we conduct tests to determine whether, compared to combustible cigarette smoke, the aerosol has significantly reduced levels of HPHCs, which are considered by the scientific community to be the likely causes of smoking-related diseases. We measure 58 HPHCs which are representative of specific toxicants and classes of toxicants of concern and also account for the heat-not-burn nature of the product.

(SLIDE 20.)

Second, we determine whether a reduction in HPHCs leads to a reduction in toxicity using standard toxicological tests.

(SLIDE 21.)

Third, we use innovative systems toxicology to determine whether a reduction in HPHCs reduces the disease risk in laboratory models.

(SLIDE 22.)

Fourth, we conduct clinical studies to assess whether the use of our products reduces exposure to HPHCs in adult smokers and whether this leads to a favorable change in smoking-related clinical risk endpoints. Clinical studies are at the core of our ability to substantiate claims.

(SLIDE 23.)

Fifth, we conduct adult smoker perception and behavior studies to assess whether adult smokers correctly understand potential communications about the product and to help us develop appropriate marketing and labeling.

(SLIDE 24.)

Finally, we will conduct post-market studies to understand how the products are used once they are introduced to the market.

We have been accumulating evidence on our heat-not-burn products for well over a decade and are in the process of reviewing the preliminary data from our most recent clinical studies. Our research has been sequenced to provide data relevant to a potential reduced-exposure claim and, subsequently, to produce data relevant to a potential claim of reduced-risk.

(SLIDE 25.)

As we have stated, our aspiration is to demonstrate that our products have a risk reduction profile approaching that of cessation. The US Institute of Medicine ("IOM") referred to smoking cessation as the "gold standard" for assessing risk reduction. As the IOM explained, "in principle, the closer risks and exposures from the MRTP are to cessation products, the more confident a regulator can be in the chances for net public health benefit."

(SLIDE 26.)

Manuel will now go through the steps of our assessment and provide illustrative examples of the data that we are generating.

(SLIDE 27.)

Thank you Bertrand and good morning ladies and gentlemen. I will now show you results and preliminary indications of our scientific assessment on Platforms 1 and 2, beginning with the reduced formation of HPHCs.

(SLIDE 28.)

Our quantitative chemical analyses demonstrate that the aerosol generated by our heat-not-burn products contains significantly lower levels of HPHCs compared to the smoke from combustible cigarettes.

For instance, of the 18 HPHCs that the FDA has prioritized for reporting, all were significantly reduced and the majority were reduced by more than 80% in both Platform 1 and 2 aerosols compared to cigarette smoke on an equivalent nicotine basis.

The photos on the right provide a simple, qualitative depiction of the different nature of the heat-not-burn aerosol compared to cigarette smoke: the top photo

shows the residue of cigarette smoke captured on a laboratory filter pad, while the bottom image shows the visible difference with the aerosol residue from Platform 1.

While these data alone cannot support a claim, they are an important building block in developing substantiation for reduced exposure and reduced risk claims.

(SLIDE 29.)

We have completed our analysis of aerosol chemistry and physics for both platforms, and I will now describe our work in standard and systems toxicology.

(SLIDE 30.)

To test whether the reduction in HPHC formation shown in the previous slide reduces the toxicity of the aerosol, we compare the aerosol with combustible cigarette smoke in standard toxicological tests.

Here we present two representative examples.

First, in the cytotoxicity test, which is a test that measures the propensity to kill cells *in vitro*, the Platform 1 aerosol reduced cytotoxicity by over 85% compared to the combustible reference cigarette smoke. The results were similarly significant for total particulate matter ("TPM"), shown as solid bars, and the gas-vapor phase ("GVP"), shown as striped bars, of the aerosol.

Similar results were seen in the bacterial genotoxicity test that measures the propensity to cause mutations *in vitro*. We found that the Platform 1 aerosol significantly reduced the number of mutations compared to the smoke of a reference combustible cigarette.

We obtained similar results in all our toxicological studies, which we conducted both *in vitro* and *in vivo* on the Platform 1 aerosol. These data indicate that the aerosol is significantly less toxic than the smoke of a reference combustible cigarette.

As with the HPHC formation data, these data alone cannot support a claim but they are another important building block in developing substantiation for reduced exposure and reduced risk claims.

(SLIDE 31.)

To further refine our understanding of the biological impact of these products in comparison to combustible cigarettes, we are implementing an innovative systems toxicology-based risk assessment approach which combines advanced experimental and computational methods.

We built computable biological network models to represent the major biological mechanisms involved in smoking-related diseases, such as inflammation, cell proliferation, cell stress and several mechanisms implicated in cell death.

Then, by measuring large-scale molecular changes at the genome, protein and metabolite level, we use our novel computational methods to quantify the perturbation of these networks when exposed to cigarette smoke.

Using this approach, we found that combustible cigarette smoke exposure over time caused significant and increased perturbations of those biological networks in mouse models, as illustrated by the corresponding colors in the charts at the bottom of the slide.

(SLIDE 32.)

Systems toxicology allows us to compare the impact of heat-not-burn aerosols with combustible cigarette smoke on a mechanism-by-mechanism basis. We can, for example, determine whether the heat-not-burn aerosol has the same effect on inflammation or cell death as cigarette smoke.

We are applying this novel approach in studies designed to mimic the effect of switching from combustible cigarettes to a heat–not-burn platform. For example on Platform 2, we compared the impact of exposing mice to cigarette smoke over a period of seven months with the impacts of cessation and switching to the aerosol from a Platform 2 prototype after two months of cigarette smoke exposure. We also studied the impact of the continuous exposure to the Platform 2 prototype and continuous exposure to fresh air for seven months. We are currently conducting similar studies on Platform 1.

(SLIDE 33.)

As outlined earlier, we found that combustible cigarette smoke exposure caused significant perturbations of biological networks involved in smoking-related diseases.

The second group of mice, the cessation group, was first exposed for two months to combustible cigarette smoke and then for five months to air. We found that cessation led to a greater than 90% reduction in the perturbation of these networks.

(SLIDE 34.)

The third group of mice, the switching group, was first exposed for two months to combustible cigarette smoke and then for five months to the Platform 2 prototype aerosol. We found that switching to the Platform 2 prototype led to a greater than 90% reduction in perturbations of these biological networks. In fact, the attenuating effects of switching were of the same magnitude as the effects seen in cessation.

(SLIDE 35.)

The fourth group of mice was continuously exposed to the aerosol from the Platform 2 prototype, which led to no more than 5% of the perturbations caused by combustible cigarettes, even after seven months.

(SLIDE 36.)

These reductions in biological network perturbations observed in both cessation and switching to the Platform 2 prototype led to a statistically significant and corresponding reduction in cellular changes indicative of lung inflammation, lung tissue damage (expressed as the emphysema index) and lung function loss. Similarly, seven months of exposure to the aerosol from the Platform 2 prototype did not cause significant cellular or physiological changes when compared to air.

(SLIDE 37.)

We are close to completing the standard toxicology assessments for both platforms and our systems toxicology studies for Platform 1. I will now describe our clinical studies.

(SLIDE 38.)

We are conducting three types of clinical studies.

First, we are conducting single use pharmacokinetics and pharmacodynamics (“PK/PD”) studies to measure the kinetic profile of nicotine in adult smokers who use our heated tobacco platforms compared to adult smokers who use combustible cigarettes.

Second, we are conducting clinical studies to assess whether adult smokers who switch to our heated tobacco platforms reduce their exposure to HPHCs and how these reductions compare to adult smokers who continue to smoke combustible cigarettes and to smoking abstinence. These studies are conducted for one week in confinement or three months at home.

Finally, we are conducting an exposure response study designed to assess whether switching to our heated tobacco platforms leads to favorable changes in clinical risk endpoints that are benchmarked to smoking cessation. This is a longer-term ambulatory study conducted with adult smokers.

The final results for our six short-term studies are anticipated in the third quarter of 2014. We expect the results of our three-month reduced exposure ambulatory studies in the first quarter of 2015. The exposure response study is expected to begin in the second half of this year, with the final results available by mid-2016.

(SLIDE 39.)

All of our PK/PD studies for Platform 1, which were conducted at several locations, have been completed and we are currently analyzing the data. Preliminary results from one of our studies show that the nicotine PK profile of Platform 1 is comparable to combustible cigarettes. The time-to-peak nicotine concentration was around six minutes. The maximum nicotine concentration and the total nicotine absorption were comparable to those of a combustible cigarette.

The preliminary data suggest that Platform 1 provides adult smokers with nicotine at comparable levels to combustible cigarettes. Further analysis is ongoing and we will be able to complete the analysis of the PK/PD studies in the third quarter of this year.

(SLIDE 40.)

We have completed the short-term clinical reduced exposure studies for Platform 1 and we are currently analyzing the data. In these studies we measured 17 biomarkers of exposure in three groups of adult smokers: adult smokers who continued smoking, adult smokers who switched to Platform 1, and adult smokers who quit for the duration of the study. The slide shows preliminary results for 4 primary endpoints.

These data indicate that in the group of adult smokers who switched to Platform 1 (shown in yellow) the 4 primary endpoints approach those of the group who quit smoking for the duration of the study (shown in green). The levels of biomarkers

of exposure to the 4 HPHCs presented on the slide were reduced for the smokers who switched to Platform 1 between 50% and 90%. Our analysis of these data is ongoing and final results will be available in the third quarter of this year.

(SLIDE 41.)

Our longer-term reduced exposure studies are ongoing. These studies will allow us to better evaluate the use and acceptance of Platform 1 and will provide longer-term data regarding the extent of reductions in exposure to HPHCs compared to cigarette smoking.

In the exposure response study, we will measure the changes in eight clinical risk endpoints in adult smokers who switch to Platform 1 compared to a benchmark of changes that has been well-established by the scientific community for smoking cessation. We will also measure secondary endpoints including biomarkers of exposure and clinical risk endpoints in areas such as lung function, inflammation, cholesterol metabolism and blood coagulation. If the changes observed in adult smokers who switch from combustible cigarettes to Platform 1 approach the changes observed in smokers who quit, this will be another strong piece of evidence in developing substantiation for reduced risk claims.

(SLIDE 42.)

Our clinical studies for Platform 1 are well underway and we are preparing to initiate similar studies for Platform 2. The next steps on our evidence ladder is our research program on adult smoker perception and behavior and our post-market studies and surveillance.

(SLIDE 43.)

We are conducting a research program to assess our RRPs, including risk perception and intent to use among various adult consumer groups. This program is based on the FDA's Draft Guidance for MRTP Applications. Our research program has been developed with an expert advisory board. It will allow us to develop appropriate marketing and labeling, and verify that certain groups, including never smokers and former smokers, understand that RRPs are not intended for them. Through our whole offer tests, which Fred will describe, we have also studied adult smokers' interest in, acceptance of, and use patterns for, our RRPs.

(SLIDE 44.)

Finally, following launch of the product in the market, we will continue to conduct research with a post-market research program based on the FDA's Guidance and well-established scientific standards. We will also rely on existing resources. For example, extensive market surveys already exist for tracking the use of combustible cigarettes. This survey method will be adapted to assess patterns of RRPs use. The surveillance we are planning to implement will also allow us to monitor spontaneous health events. We plan to initiate the program with our pilot launch.

Thank you. That concludes my review of our scientific assessment program.

(SLIDE 45.)

Manuel has taken you through our extensive assessment strategy and the progress achieved. In summary, the data from the non-clinical and clinical studies to-date suggest that heat-not-burn products may have the potential to reduce risk. Clearly, final conclusions cannot be drawn until the nonclinical and clinical data set have been completed and analyzed as a full evidence package.

(SLIDE 46.)

We fully understand that in the RRPs era, product life cycles will be shorter and that disruptive technologies may emerge. We are prepared for this change in the business model because we have anticipated it and have the infrastructure and strategies that will allow us to remain at the forefront of RRPs innovation. As I have described, our innovation and product development processes, our manufacturing model and, most importantly, our risk assessment capabilities positions PMI as the industry leader in R&D capabilities.

(SLIDE 47.)

Regulation is the second pillar supporting our RRPs business model.

(SLIDE 48.)

To date RRPs regulation remains uncharted in most of our markets.

PMI has been seeking RRPs regulation because we see several benefits to rigorous regulatory standards for this new product category. Regulation provides assurance to regulators that RRPs claims are supported by rigorous scientific substantiation. Regulation gives consumers confidence that product information is reliable, and regulation establishes clarity in the marketplace for the industry.

The momentum for evidence-based regulation of RRPs is growing. Many public health advocates who have long opposed tobacco products are supporting reduced risk alternatives including e-vapor products and, recently, heated tobacco products. They have spoken out against bans or excessive regulations of RRPs and have called for tax regimes and marketing rules that would encourage switching.

We anticipate more regulation in this area as governments recognize that alternatives to combustible cigarettes can offer public health benefits. We are confident that our risk assessment and regulatory capabilities position us to be well-placed to comply with future regulatory regimes.

(SLIDE 49.)

The US law and FDA's Draft Guidance are the first and only detailed processes for authorizing RRPs claims. More recently, the FDA has proposed "Deeming Regulations" for currently non-regulated products including e-cigarettes. The FDA is seeking comment on its proposed regulations and related issues. Among the issues raised by the FDA is the concept of a continuum of risk presented by nicotine-delivering products. PMI is reviewing the FDA's proposal and will be filing comments.

Although much of the EU Tobacco Products Directive is disappointing, the Directive regulates e-cigarettes as tobacco-related products, not medicines. It also established a category of tobacco products, called "Novel Tobacco Products," requiring manufacturers to submit scientific data prior to marketing some of which are similar to the data required by the FDA in an MRTP Application. Member States have the option of introducing a pre-market authorization system and standards for approval.

(SLIDE 50.)

We see RRPs regulation as an opportunity, although it is, as I said, largely uncharted in most markets today. In that regard, it is likely that we will be launching our products in markets without specific regulations for RRPs claim authorization. As our evidence packages are developed, we will review our ability to make claims based on existing laws and regulations and, as we are doing already, engage with regulators and share our evidence packages with them.

This concludes my presentation on our innovative product platforms, our significant R&D capabilities, our robust approach to scientific substantiation and our support for Reduced-Risk Products regulation.

(SLIDE 51.)

Fred will now provide you with details on our approach to the commercialization of Reduced-Risk Products.

(SLIDE 52.)

Thank you Bertrand and good morning, ladies and gentlemen. I will now share with you how we intend to commercialize PMI's RRPs.

(SLIDE 53.)

My presentation includes a short overview of the evolution of the e-vapor market, followed by an update on our RRPs portfolio and our Platform 1 commercialization plans. I will also briefly cover our Platform 4 commercialization plans.

(SLIDE 54.)

There is no doubt that e-vapor products have created a new dynamic in the industry, they have generated awareness among adult smokers of the heat-not-burn principle and have become widely distributed in some markets.

However, these products have been introduced without any specific scientific evidence package related to their toxicological profile. Additionally there was some concerns about their manufacturing practices. This greatly contributed to the fact that e-vapor products are regulated as medicines or banned in more than half of OECD markets and, where they are present, the regulatory environment is rapidly evolving.

The growth of the category can be explained by adult smokers' desire for reduced-risk products, but also by their lower retail selling price compared to combustible cigarettes. This is particularly the case for the so called "e-liquid" products.

In addition, the fact that, compared to combustible cigarettes, e-vapor products produce less smell and no ash, is also a key driver of their popularity.

(SLIDE 55.)

The e-vapor category as it stands today, can be divided in three different segments: disposable products, rechargeable cartomizers, and e-liquids.

In most cases, the usual entry point in the category is through disposable products. These are single-use cigarette look-alike products which offer no recharging opportunity.

Once adult smokers have tried the disposable products, usually they move to rechargeable e-vapor products, which comprise a rechargeable battery and a pre-filled cartridge containing a nicotine solution that is replaced once it is exhausted. These types of e-vapor products are very popular in markets such as the UK.

Adult smokers also consider e-liquid products mostly for economic reasons but also because they are available in many flavors and nicotine concentration levels, allowing taste customization. These offers are rechargeable e-vapor devices, also called “tanks”, which can be refilled with nicotine-containing liquids. The e-liquid products are growing in several markets and they represent the vast majority of e-vapor sales in France and Italy.

The e-vapor category is not developing at the same speed in every market. We observe a wide range of penetration levels. While these products have generated a high level of interest among adult smokers, their potential seems to be currently limited because they do not satisfy adult smokers.

(SLIDE 56.)

As I said before, the penetration level of e-vapor products among adult smokers varies from market to market. In the most mature e-vapor markets, the category shows sign of stabilization or even decline. This is the case in the UK, Poland and Italy where the number of adult smokers who used an e-vapor product in the past seven days is relatively stable or declining.

In other markets the category continues to grow. For example, in France, the penetration of e-vapor products among adult smokers reached 11.9% in terms of “past seven days usage”.

Finally in some countries, such as Germany and Austria, the penetration of e-vapor products remains stable at relatively low levels.

(SLIDE 57.)

Let me share with you an example of the dynamics in a mature e-vapor market, in this case Italy.

The slide illustrates how the e-vapor category has developed in 2012 and 2013. The awareness of e-vapor products among adult smokers grew rapidly and reached 96%. Trial also increased very quickly. By the end of 2013, almost 40% of adult smokers in Italy had tried an e-vapor product and 15% had purchased one on at least one occasion.

However, only a limited portion of adult smokers who tried e-vapor products converted into e-vapor users as demonstrated by the past seven day usage data. The past seven days usage of e-vapor products among adult smokers peaked at 5.6% in May 2013, but then started to decline to reach a level of around 3% at the end of 2013.

(SLIDE 58.)

Despite the different market dynamics, we can conclude that e-vapor products is a category that is here to stay and will continue to develop, at different rates, depending on market specificities and future product improvements.

We can also assume that, in line with what has been observed in some US States and in Italy, for instance, excise taxes will likely be applied to e-vapor products in many geographies.

Although the bans on these products that exist in some markets might be lifted in recognition of the reduced-risk potential of these products, overall, more regulation for the category is necessary.

The emergence of e-vapor products and the huge interest they have created clearly indicates that a large number of adult smokers are looking for alternatives to combustible cigarettes.

However, it is clear that current e-vapor products do not fully respond to adult smokers' preferences and in particular do not meet their expectations in terms of taste, sensory experience and overall satisfaction.

As a consequence, there is a big opportunity for PMI not only to bring innovation to the existing e-vapor category but, most importantly, to deploy its entire portfolio of RRPs that we believe can much better address the different adult smokers' preferences.

(SLIDE 59.)

Let me now discuss how PMI's RRPs portfolio addresses adult smokers' preferences and market opportunities.

(SLIDE 60.)

As Bertrand described, PMI has a compelling RRPs portfolio comprised of two heated tobacco products, Platforms 1 and 2, and two nicotine-containing products, Platforms 3 and 4.

We can map adult smokers' preferences in many different ways but we know that taste satisfaction is a key driver of adult smokers' product choices and that the openness to adjust to a different ritual is also important.

Current e-vapor products, as explained before, only partially respond to adult smokers' taste satisfaction preferences and require a significant ritual change. Platform 4 will be developed to address the limitations of these products.

(SLIDE 61.)

Platform 1, also requires a ritual change but it has been demonstrated in research to be capable of fulfilling adult smokers' taste and sensory satisfaction preferences thanks to the real tobacco taste and nicotine profile delivered by the *HeatSticks* tobacco sticks.

(SLIDE 62.)

Platform 2 delivers a similar level of taste satisfaction to Platform 1 but it is designed for those adult smokers who want to maintain a ritual that is close to that of combustible cigarettes.

(SLIDE 63.)

Finally, Platform 3 is a significant innovation in nicotine-containing products: it will offer a ritual similar to current e-vapor products but it will provide much better satisfaction.

To sum up, our product portfolio offers every segment of adult smokers a Reduced-Risk Product that is tailored to their wishes.

(SLIDE 64.)

With this in mind, let me go back to the Italian example that I covered before.

If we translate the e-vapor product penetration results into actual numbers of adult smokers, we can observe that, as of April 2014, 3.3 million adult smokers in Italy had tried an e-vapor product in the previous twelve months, 1.5 million purchased an e-vapor product at least once, but only about four hundred thousand adult smokers had used them during the previous week.

(SLIDE 65.)

Today, in Italy, around 3% of adult smokers are regular users of e-vapor products and should show interest in our Platform 4.

(SLIDE 66.)

There is another group, though, that has shown interest in e-vapor products by trying them, but, for the various reasons explained before, did not convert into regular users. This group accounts for one-third of adult smokers in Italy, or about 3 million adult smokers for which, we believe, Platform 1 should represent a very compelling alternative.

(SLIDE 67.)

We should not forget that around 5.4 million Italian adult smokers are aware of e-vapor products but have not tried them. Thanks to its tobacco-containing *HeatSticks,* Platform 1 should also be regarded as an alternative for a portion of this large adult smoking population.

(SLIDE 68.)

Platform 2, because of its convenience and a ritual that is very close to combustible cigarettes is a proposition that should also be of high interest for many of the adult smokers who have not tried e-vapor products.

(SLIDE 69.)

Finally, as explained by Bertrand, we are working on the next generation of Platform 4, which will provide a nicotine delivery profile superior to existing e-vapor products.

In addition, Platform 3 will deliver nicotine delivery and satisfaction similar to

combustible cigarettes. These two platforms developments will complement our RRPs portfolio to address the evolving preferences of adult smokers looking for alternative products.

(SLIDE 70.)

Let me now move to a more concrete illustration of how we plan to commercialize our RRPs portfolio, starting with Platform 1.

As of now, let's stop talking about Platform 1 and let me introduce you to PMI's latest brand, *iQOS*.

(SLIDE 71.)

[Video]

(SLIDE 72.)

iQOS is the new brand name under which we have chosen to commercialize the Platform 1 electronic system.

iQOS conveys a sense of technology and modernity. It also has the advantage of being short, easy to remember and to pronounce in different languages.

The *iQOS* System is comprised of two main components. The holder that you have seen in the video and the pocket charger, which has enough power to recharge the *iQOS* holder for up to 20 experiences.

(SLIDE 73.)

Here you can see how the *iQOS* System kit will look when it is commercialized later this year.

(SLIDE 74.)

The kit contains one *iQOS* holder, one *iQOS* pocket charger, a cleaner, the plug together with its cable and a user manual.

(SLIDE 75.)

And here you can see in more detail the various components of the *iQOS* System

kit.

(SLIDE 76.)

We also plan to commercialize the various *iQOS* components separately.

In addition to the *iQOS* System kit, we have developed what we call the "*Connected Kit*, a device that can be connected to any USB port to recharge the *iQOS* holder.

(SLIDE 77.)

Going forward, we will also offer adult smokers the possibility to customize the *iQOS* device with different colors and finishing touches.

(SLIDE 78.)

The *iQOS* System is designed to be used with specially-made tobacco sticks. Let me now introduce you to *Marlboro HeatSticks.*

Marlboro HeatSticks tobacco sticks, provide real tobacco taste and satisfaction powered by our heat-not-burn *iQOS* technology. In addition there is no side stream smoke, no ash and less smell.

The *Marlboro HeatSticks* line-up comes in a range of three different tastes to address different market specificities and adult smokers' preferences:

- Two regular tobacco taste *HeatSticks* variants: one that delivers a richer taste, presented in a dark blue pack, and one with a lighter tobacco taste, presented in a light blue pack;
- We also have a menthol variant for those adult smokers who like a refreshing taste, shown here in the green pack.

(SLIDE 79.)

The *Marlboro* for *iQOS HeatSticks* tobacco stick packs contain two compartments of ten tobacco sticks each.

(SLIDE 80.)

I will now talk about the *iQOS* communication and commercialization toolbox.

Let me start with the *iQOS* product and image campaign.

(SLIDE 81.)

The introductory campaign we are developing underlines the beginning of a new era in tobacco.

Thanks to the *iQOS* heat-not-burn technology adult smokers now can enjoy real tobacco with no fire, no ash and less smell

(SLIDE 82.)

iQOS with its heat-not-burn technology is clearly a revolution in the category.

(SLIDE 83.)

We also plan to display the *Marlboro HeatSticks* in combination with the *iQOS* System, with more emphasis on *Marlboro* in this visual.

(SLIDE 84.)

And more emphasis on the *iQOS* holder in this one.

(SLIDE 85.)

The campaign will also feature visuals showing the product in use, highlighting the benefits of the offer.

(SLIDE 86.)

To ensure a successful commercialization of such an innovative offer we will leverage all the knowledge and resources available in the markets.

At the same time, we are developing new capabilities and channels to fully exploit the potential of *iQOS*.

(SLIDE 87.)

We intend to make full use of our current infrastructure to ensure product availability and visibility at c-stores, in the general trade and at tobacconists.

Our field forces will capitalize on their strong relationships with our retail partners to promote *iQOS* among adult smokers. Our promotion teams will leverage our large touch point universe to create awareness and generate trial.

iQOS, being such an innovative product, it will require longer interactions with adult smokers to explain how to use the device and its benefits, especially at the introductory phase with early adopters. We are therefore ensuring that our engagement forces will have sufficient time and the appropriate tools to effectively guide them through the *iQOS* experience.

(SLIDE 88.)

Turning now to new channels that we intend to leverage, we will create *iQOS* flagship stores. This is where adult smokers will have the opportunity to be exposed to the entire *iQOS* experience in a modern and relaxing setting.

(SLIDE 89.)

Inside the store adult smokers will receive all the information related to *iQOS*, and will be invited to try the product and to purchase it.

(SLIDE 90.)

The flagship stores will also provide adult smokers with after sales service and customer care.

(SLIDE 91.)

We have also developed an age-verified digital platform that will provide high quality services to our adult smokers. It comprises an application for smartphones and an e-commerce site that includes video tutorials, frequently asked questions, users experience and an e-shop for the on-line purchase of *iQOS*, where permitted by local regulation.

We have designed a comprehensive customer care platform that provides after sales technical support and consumer information both on and offline.

In addition, we have developed an operating model and the supporting infrastructure necessary to manage the entire *iQOS* electronics supply chain. This includes storage, inventory management, distribution and reverse logistics.

(SLIDE 92.)

We have confirmed the potential of *iQOS* during our extensive adult consumer research conducted in several markets.

The whole offer tests we ran in Japan and in Italy indicated that, after four weeks of usage, respectively 30% and 12% of the adult smokers who used the product, adopted it.

Based on these positive results, we have invested in manufacturing capacity. The production for the test cities has started and we will introduce *iQOS* in Japan and Italy during the fourth quarter of 2014.

We plan to expand nationally in these two countries in 2015 and a comprehensive plan for the expansion of *iQOS* in many other markets is in place.

(SLIDE 93.)

I will now talk briefly about our Platform 4 commercialization plans.

(SLIDE 94.)

We previously announced in December last year that we entered into an agreement with Altria for the commercialization of their e-vapor products outside of the USA.

Whilst continuing to invest in the development of the second generation of e-vapor products for global expansion, we are entering the category this year.

We have also been exploring acquisition opportunities that could accelerate the achievement of significant presence in certain markets. Today, as Andre announced, it is with great pleasure that I can talk about the acquisition of Nicocigs Limited.

(SLIDE 95.)

Nicocigs is an e-vapor company based in Birmingham, UK, that was founded in 2008. It has a strong market position in the e-vapor category in the UK and Ireland.

One of Nicocigs strength's lies in its very responsive and efficient supply chain that has been built over the last six years.

Nicocigs also enjoys a skilled and well trained commercial organization that allows them to have a wide coverage of the UK retail universe.

Nicocigs commercializes *Nicolites*, which is the second largest e-vapor brand in the UK with 26% retail share of market and it is present in more than 20,000 stores. *Nicolites* is a cartomizer type of e-vapor product, available both in disposable and rechargeable variants with 5 different flavors and 4 nicotine strengths.

With Nicocigs, PMI gains an immediate strong presence in one of the largest e-vapor markets, the UK. We will also capitalize on Nicocigs' excellent supply chain for faster deployment of the current generation of e-vapor products.

With the Nicocigs acquisition, our own developments and Altria's products, we are building a robust portfolio of different e-vapor brands and the capabilities that will allow us to expand into several markets.

(SLIDE 96.)

In conclusion, we have invested heavily in the development of a comprehensive portfolio of RRPs that addresses all adult smoker preferences, and we have strong commercialization plans.

Platform 1 is not a project anymore: it has become a reality that will hit the market with the *iQOS* name at the end of this year and expand to other geographies during 2015.

We will also participate in the existing e-vapor category with Altria's product and the Nicocigs acquisition, whilst we continue investing in the development of an improved second generation of such products.

(SLIDE 97.)

PMI is well positioned to lead the RRPs category. We have leveraged our strong science and deep adult smoker knowledge to understand and address the preferences of adult smokers looking for alternatives to combustible cigarettes.

PMI’s three pillar strategy - built upon R&D and scientific substantiation, active advocacy for a science based regulatory framework and strong commercialization plans - positions us well for success in the RRPs category. We will activate our RRPs portfolio of products in several markets starting as of the second half of this year.

(SLIDE 98.)

Thank you very much for your attention. This concludes our RRPs presentation. Bertrand, Manuel and I will be glad to take your questions.