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2014
INVESTOR DAY

Investor Day – Reduced-Risk Products Lausanne, June 26, 2014

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Note: Reduced-Risk Products ("RRPs") is the term we use to refer to products that have the potential to reduce individual risk and population harm

Reduced-Risk Products is a Consumer Category of its Own



Fast-Moving Consumer Goods for Adult Smokers



Consumer Electronics



Scientific Substantiation

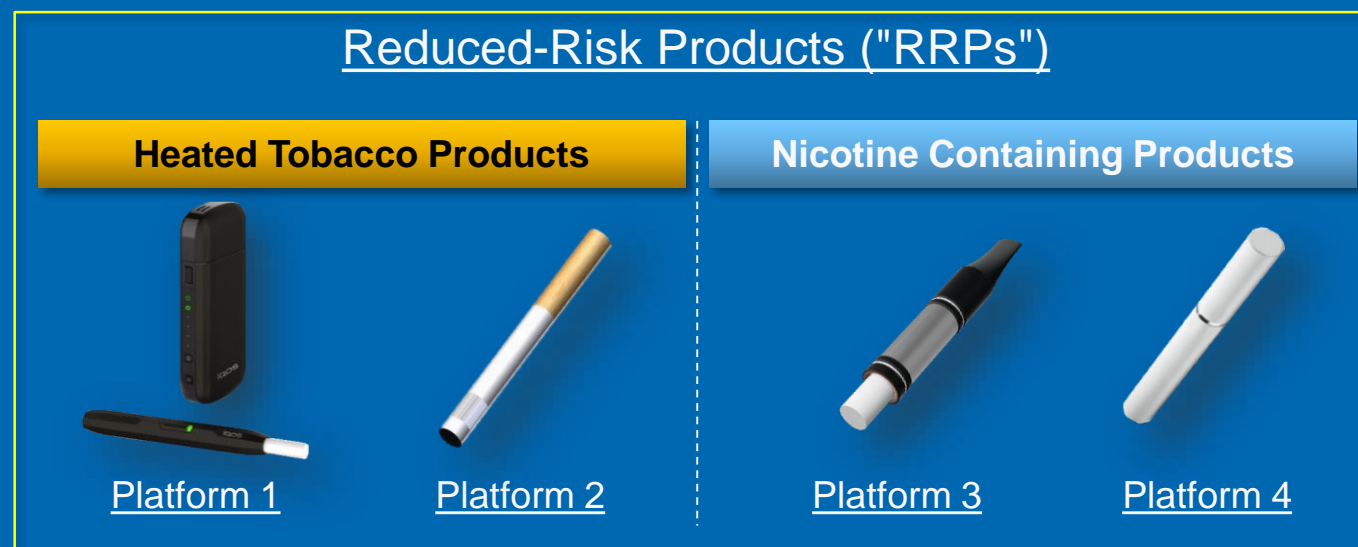


Note: Reduced-Risk Products ("RRPs") is the term we use to refer to products that have the potential to reduce individual risk and population harm. The RRP's depicted are subject to ongoing development and therefore the descriptions are illustrative and do not necessarily represent the latest stages of product development



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Leadership in Reduced-Risk Products



R&D and
Scientific Substantiation

RRPs
Regulation

Marketing and
Commercialization

Note: Reduced-Risk Products ("RRPs") is the term we use to refer to products that have the potential to reduce individual risk and population harm. The RRPs depicted are subject to ongoing development and therefore the descriptions are illustrative and do not necessarily represent the latest stages of product development



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Agenda

- R&D capabilities and assets
- RRP's portfolio
- Scientific substantiation

Best-In-Class R&D Capability in the Industry

- PMI's long experience in RRP
- Since the spin, PMI has significantly enhanced its R&D capabilities
- Invested approximately \$2 billion
- Hired over 300 scientists with deep expertise in key fields





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PMI R&D Centers and Global Partnerships Network



Technology and Scientific Network (2014)

- 2 R&D Centers
- Major partners and service providers



RRPs Development and Scale-up

- Heat-not-burn consumables:
 - Internally developed and manufactured
 - New factory (30 billion units by the end of 2016)
- Devices:
 - PMI's technology developed with external partners
 - Scale up and manufacturing by third-party
 - Manufacturing for pilot launches commenced

Bologna, Italy





Long-Term RRP Pipeline

- Portfolio of over 500 granted patents worldwide
- Pipeline of around 1,000 pending patent applications
- Basis for long-term RRP pipeline to address range of adult smoker preferences



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Developing Robust Evidence to Support a Claim of Reduced Risk

- Leading RRP science
- State-of-the-art product assessment
- Sharing and collaborating with the scientific community and regulators
- 80 peer-reviewed scientific publications
- Clinical studies registered on ClinicalTrials.gov



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Agenda

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RRPs: Our Product Platforms

Heated Tobacco Products

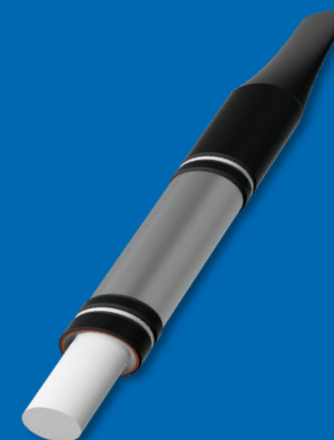


Platform 1



Platform 2

Nicotine Containing Products



Platform 3

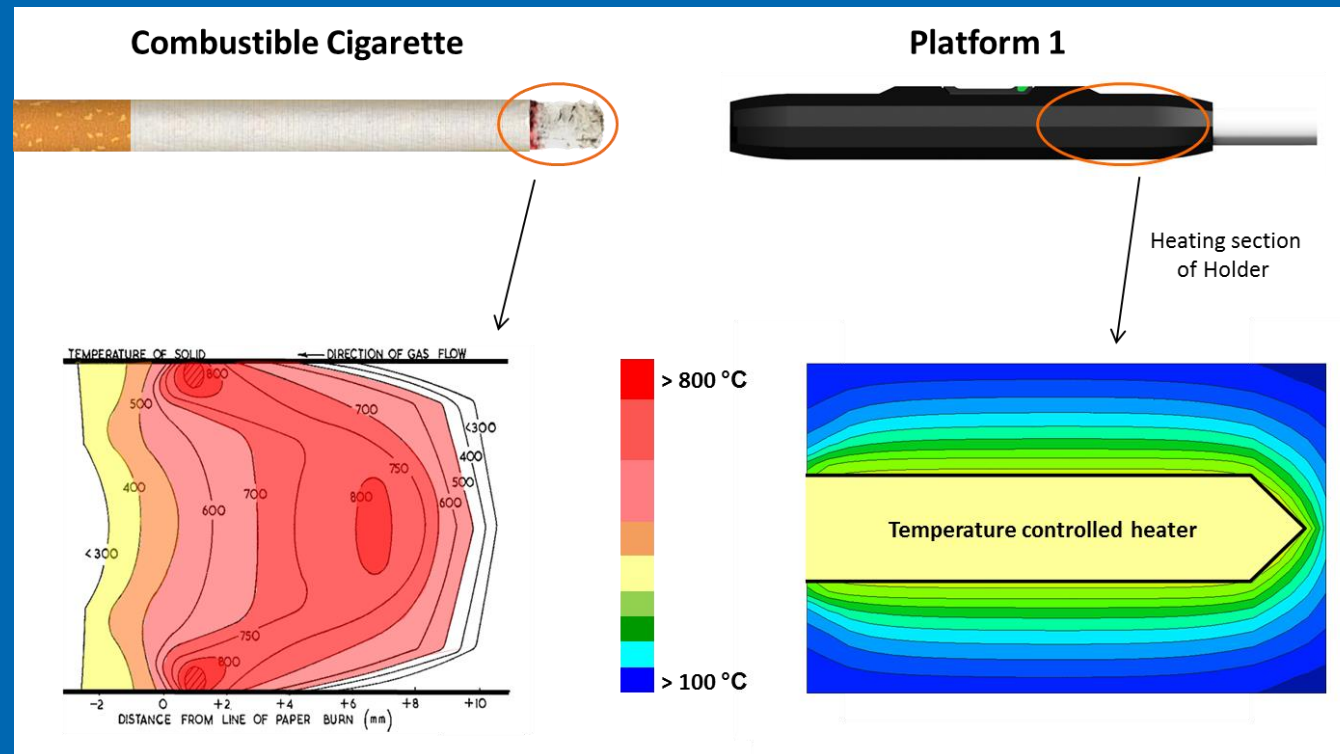


Platform 4

Note: Reduced-Risk Products ("RRPs") is the term we use to refer to products that have the potential to reduce individual risk and population harm. The RRP's depicted are subject to ongoing development and therefore the descriptions are illustrative and do not necessarily represent the latest stages of product development

Platform 1: Precisely Controlled Electrically-Heated Tobacco System

- Heater maintains tobacco temperature below combustion
- Custom designed *HeatStick* tobacco stick
- Aerosol delivers volume, flavor and satisfaction





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Platform 2: Heat-Not-Burn with Combustible Cigarette Ritual

- Pressed carbon heat source
- Tobacco temperature control by design:
 - Physically separated to prevent tobacco combustion
- Proprietary blend & flavor system
- Plan to start clinical studies in 2014
- Manufacturing synergies with Platform 1
- City launch in 2016



Platform 2



E-Vapor Products

- Current e-vapor product challenges:
 - Satisfaction
 - Consistency
 - Manual manufacturing
- PMI's approach:
 - Enter e-vapor product category in 2014
 - Develop innovative NCP delivery technology addressing current challenges



Platform 4: Innovative Technology

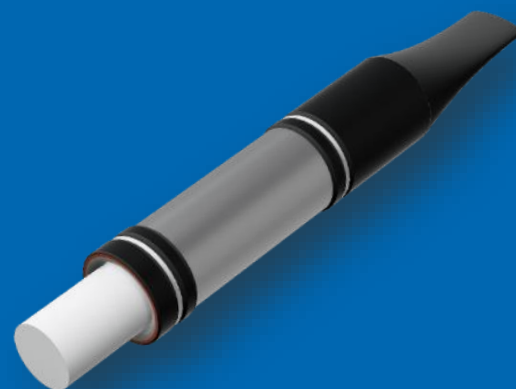
- Novel aerosolization technology:
 - Proprietary cartridge-battery combination
 - Improved e-liquid
 - Automated manufacturing
- Consistency of aerosol delivery
- Nicotine delivery profile superior to existing products
- Pilot city test in H2, 2016



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Platform 3: Effective Delivery of Nicotine Salt Aerosol

- Product development on-going
- Organic acid and nicotine contained in separate sections
- Nicotine salt is formed in a visible aerosol
- Provide nicotine delivery and satisfaction similar to combustible cigarettes
- Initial pre-clinical testing ongoing



Platform 3



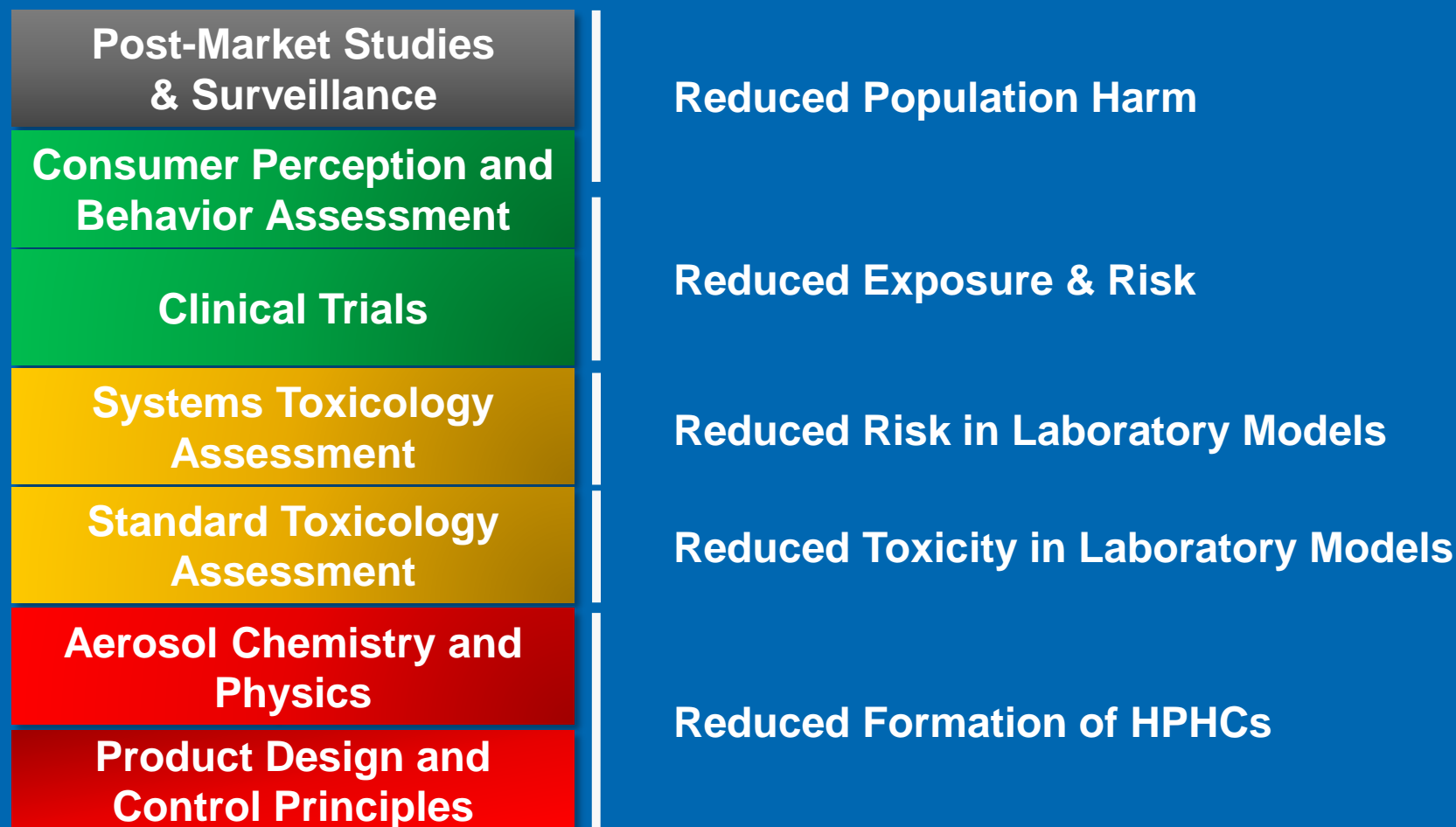
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Agenda

- R&D capabilities and assets
- RRPs portfolio
- Scientific substantiation

Substantiating Reduced Risk

- Developing robust evidence packages based on state-of-the-art science and best in class data





Substantiating Reduced Risk





Substantiating Reduced Risk



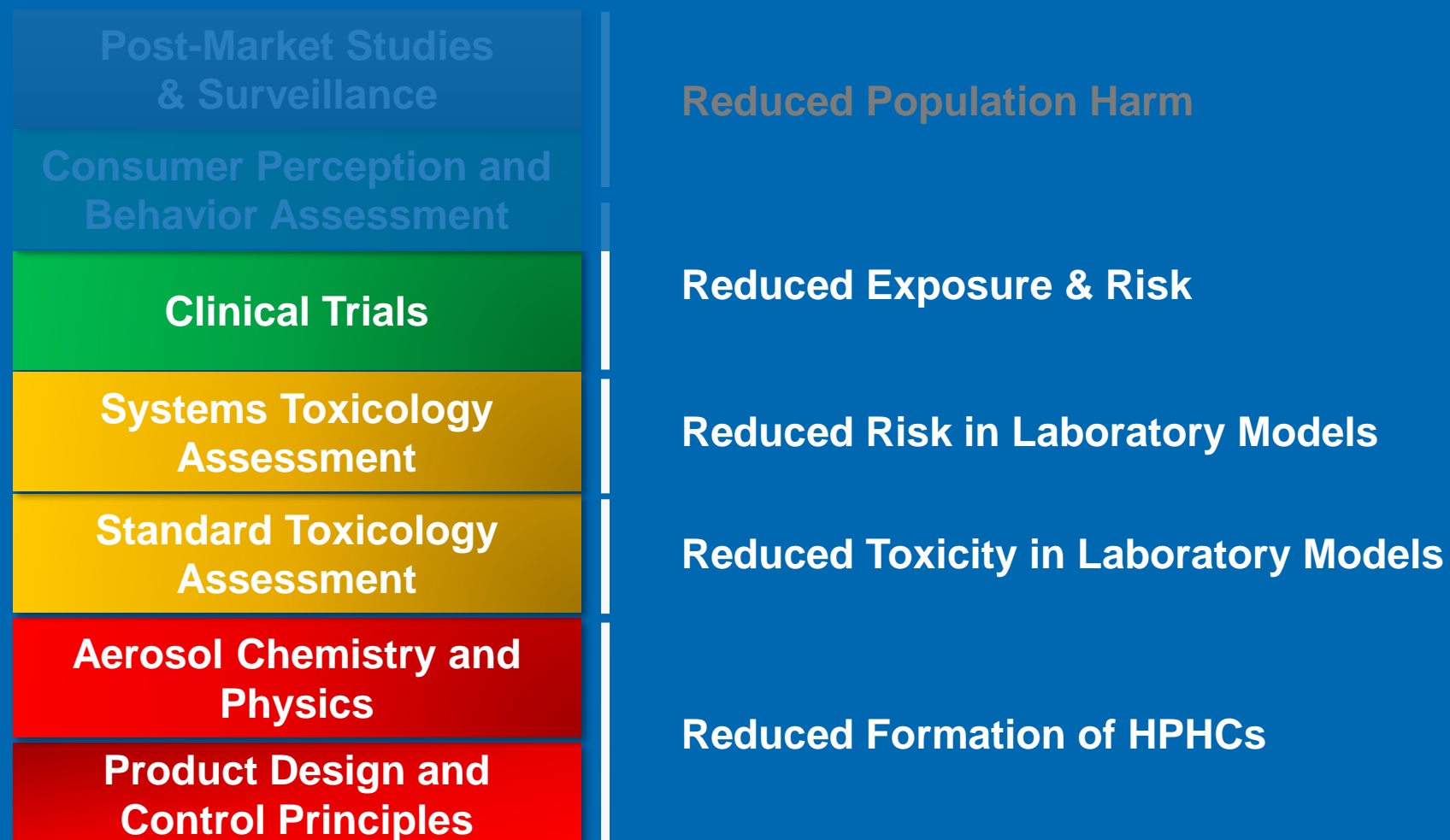


Substantiating Reduced Risk



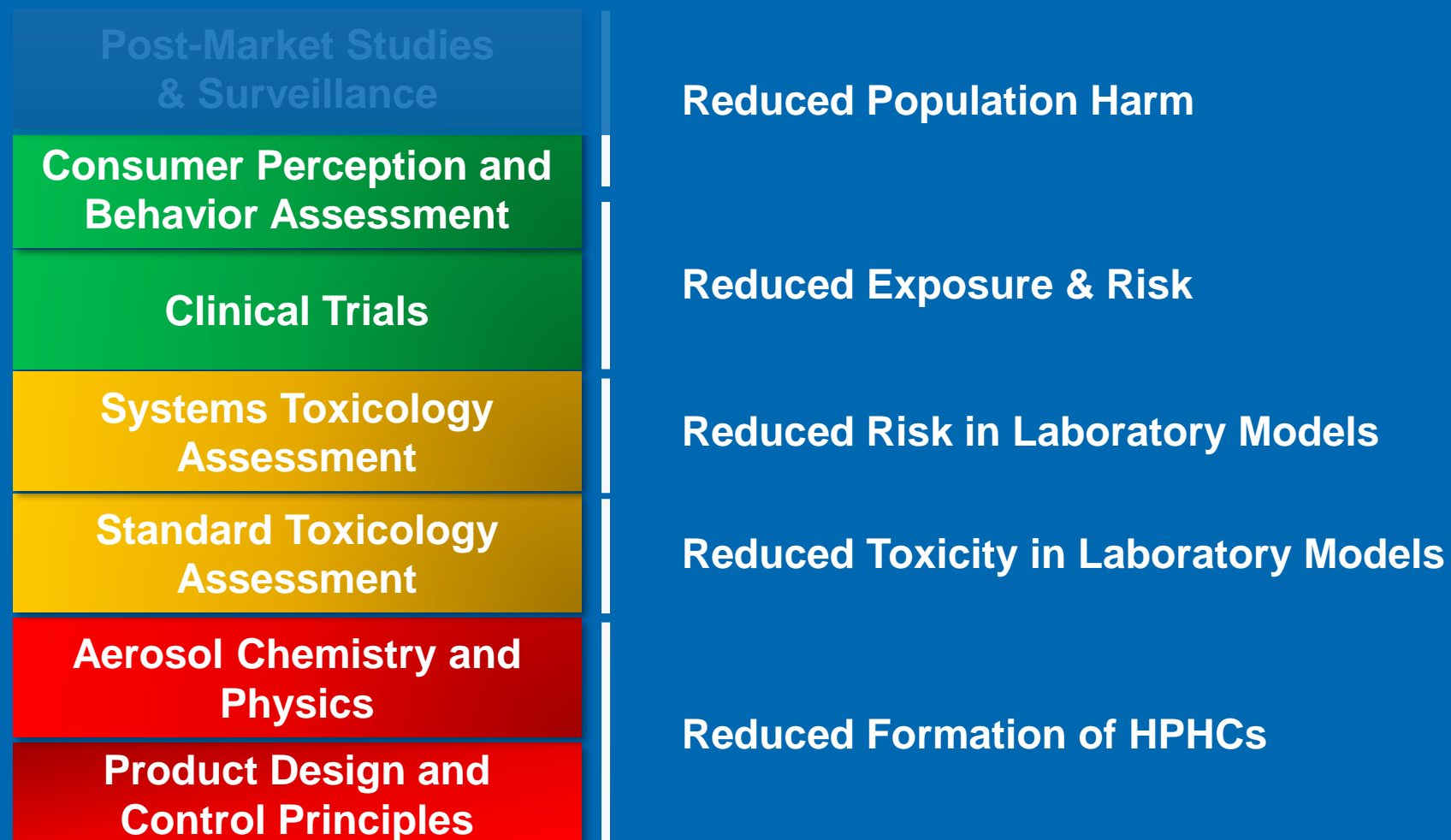


Substantiating Reduced Risk



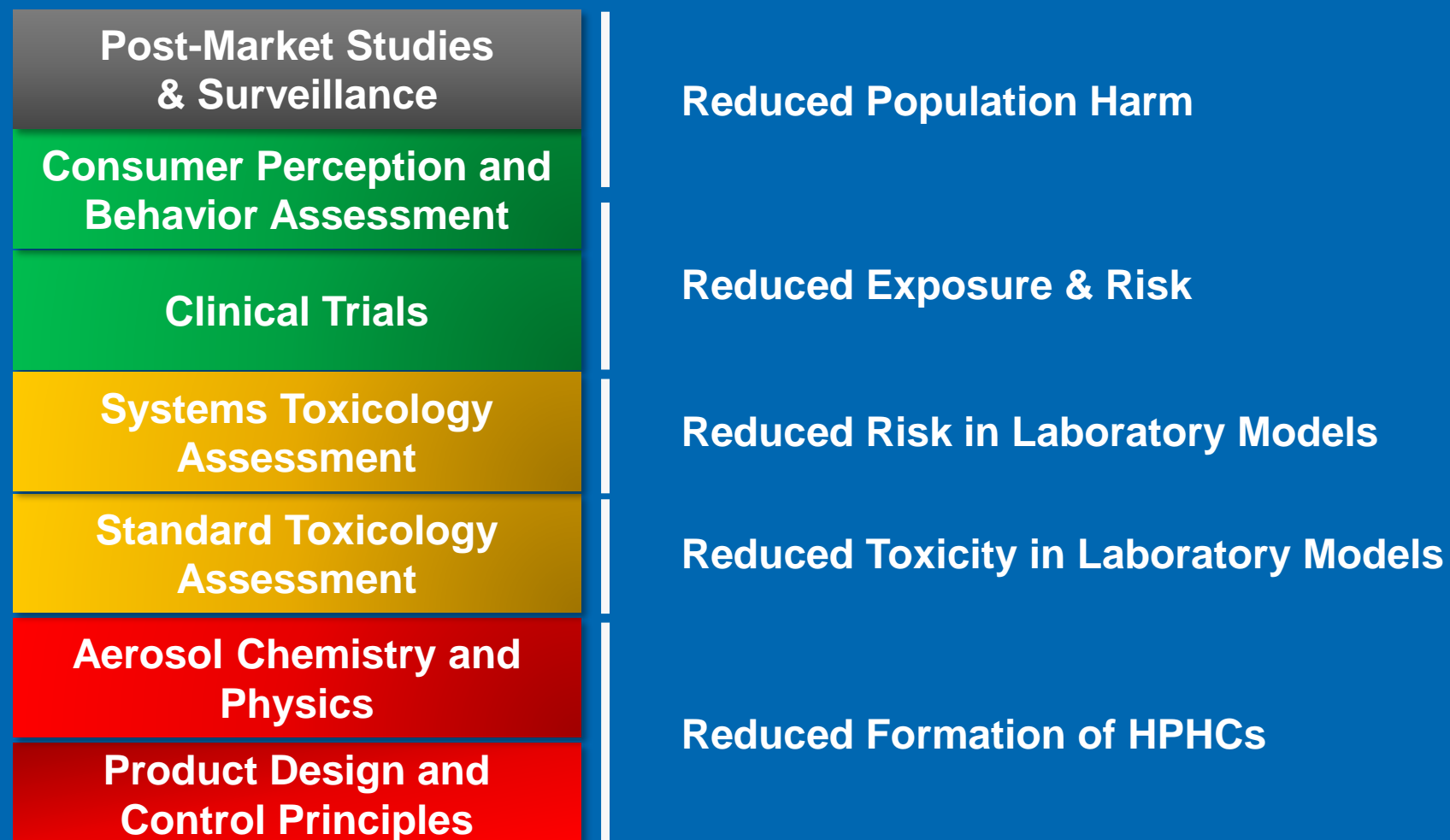


Substantiating Reduced Risk



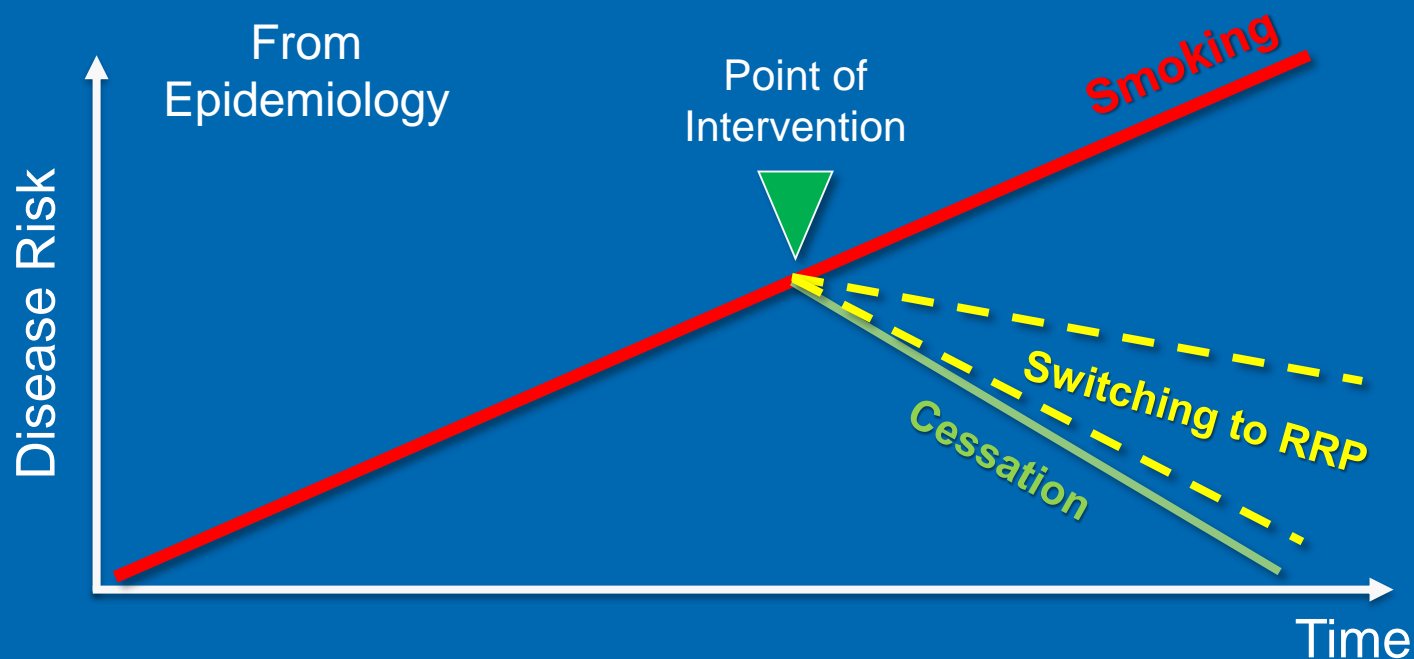


Substantiating Reduced Risk



Cessation: The "Gold Standard"

- We apply the US Institute of Medicine's "gold standard" for assessing risk reduction: comparability to cessation



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Source: IOM (Institute of Medicine), 2012, Scientific Standards for Studies on Modified Risk Tobacco Products. Washington, DC: The National Academies Press



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Evidence Package

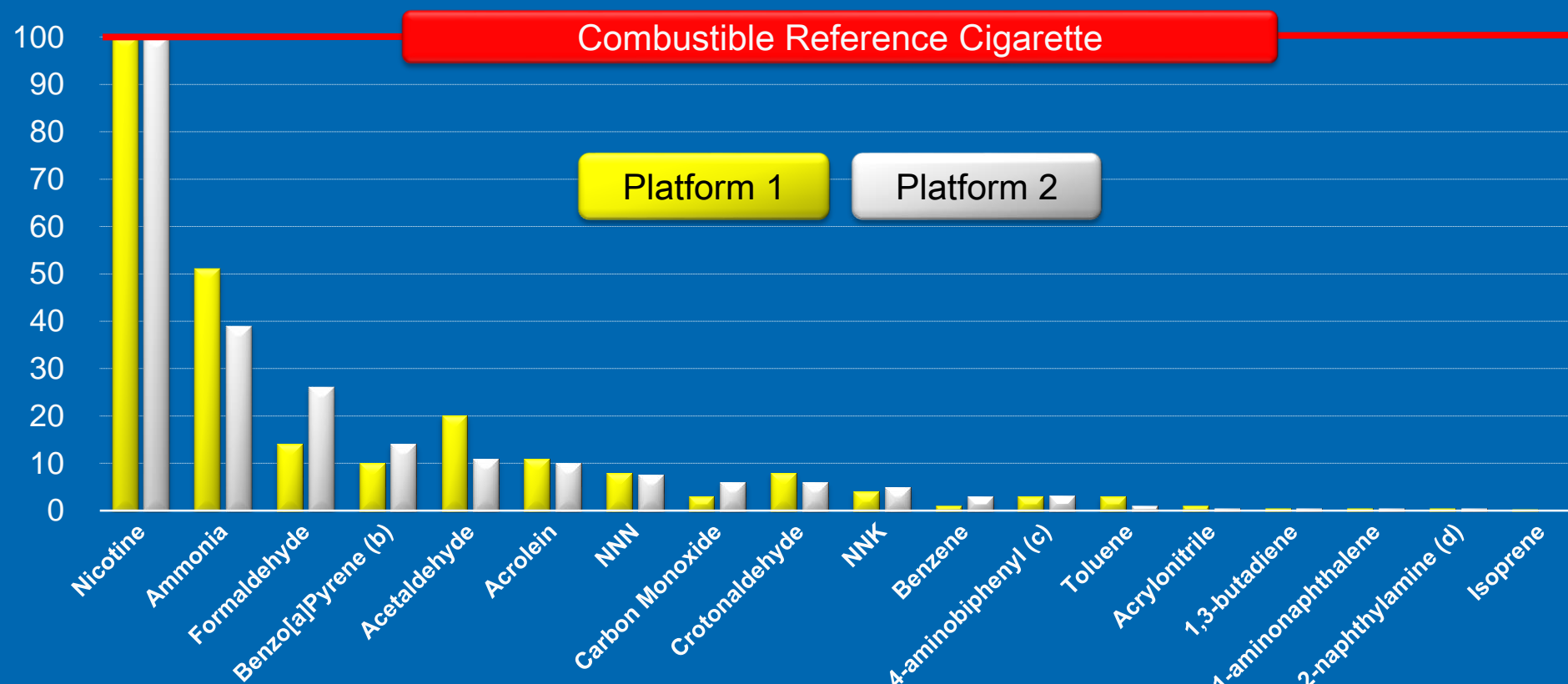




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Reduction of HPHCs in Platform 1 and Platform 2 Aerosols

Aerosol Composition^(a): Relative Amounts Reported on a Nicotine Basis Compared to a 3R4F Reference Cigarette (%)



Laboratory Filter Pad
Combustible Cigarette



Laboratory Filter Pad
Platform 1



(a) Aerosol collection with Intense Health Canada's Smoking Regime (55 mL puff volume, 2 second puff duration, 30 second interval puff)

(b) < LOQ in Platform 1

(c) < LOQ in Platform 1 and Platform 2

(d) < LOQ in Platform

Note: These data alone do not represent a claim of reduced exposure or reduced risk. LOQ refers to the Limit of Quantification

Source: PMI Research and Development



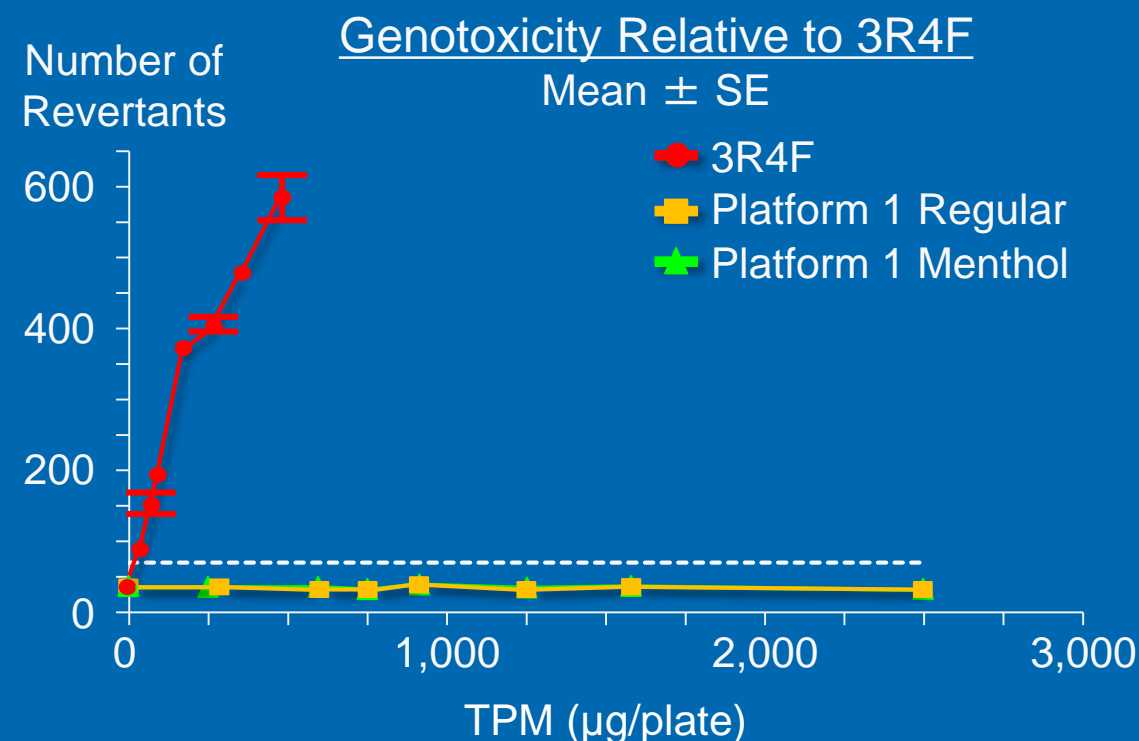
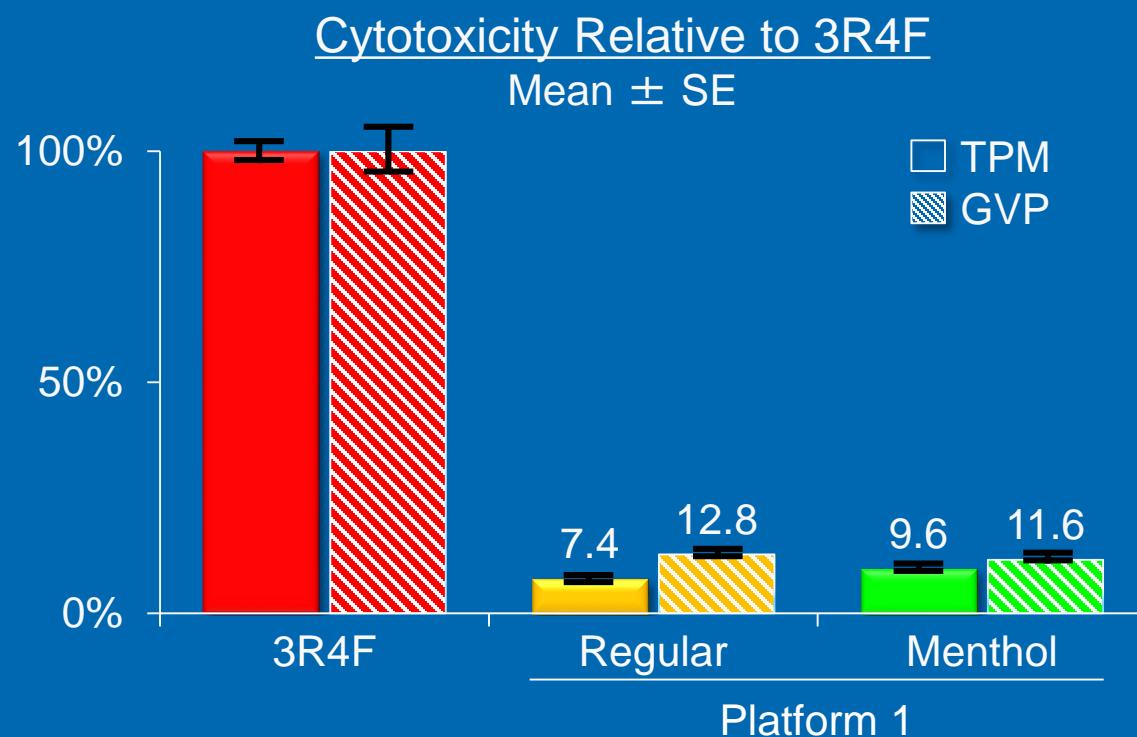
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Reduction of Toxicity in Heat-Not-Burn Platforms

- Compared to combustible cigarette smoke:
 - reduces biological activity (in vitro / in vivo)



Systems Toxicology-Based Risk Assessment

- Integrated large scale molecular measurements with advanced computational models of disease mechanisms
- Ability to quantify the perturbation of the core mechanisms leading to disease

Biological Networks

Inflammation

Cell
Proliferation

Cell Stress

DNA Damage

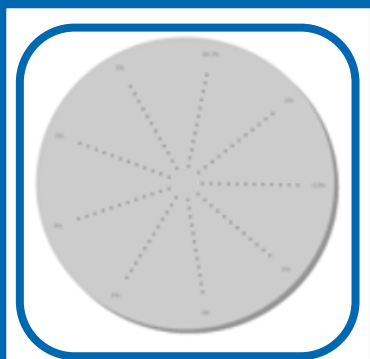
Apoptosis

Autophagy

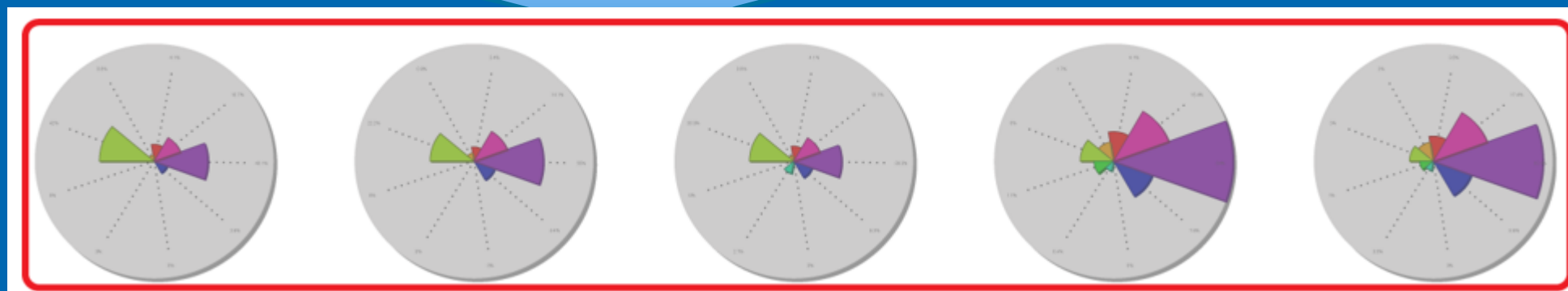
Necroptosis

Senescence

Cigarette Smoke



Start



Month 1

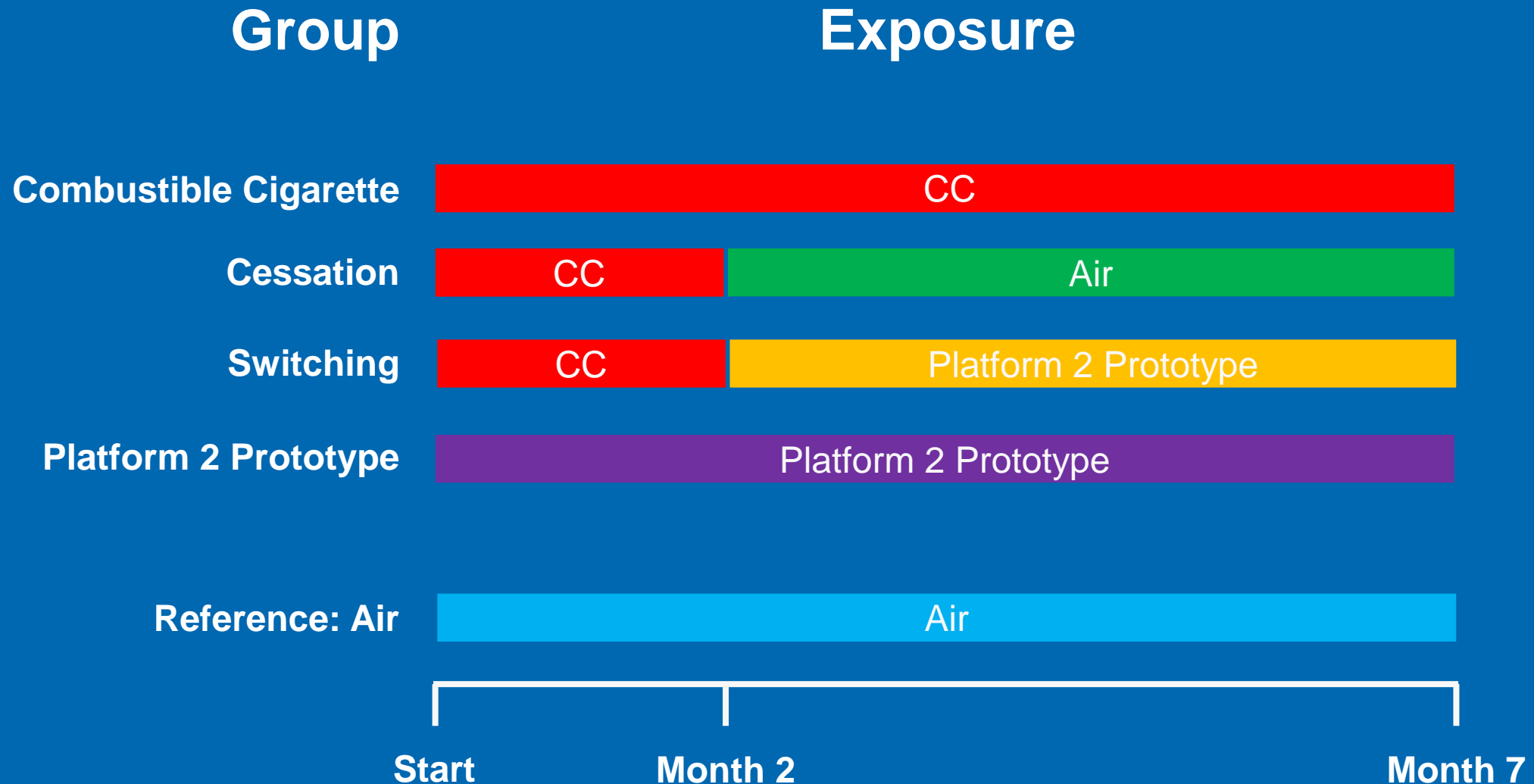
2

3

5

Month 7

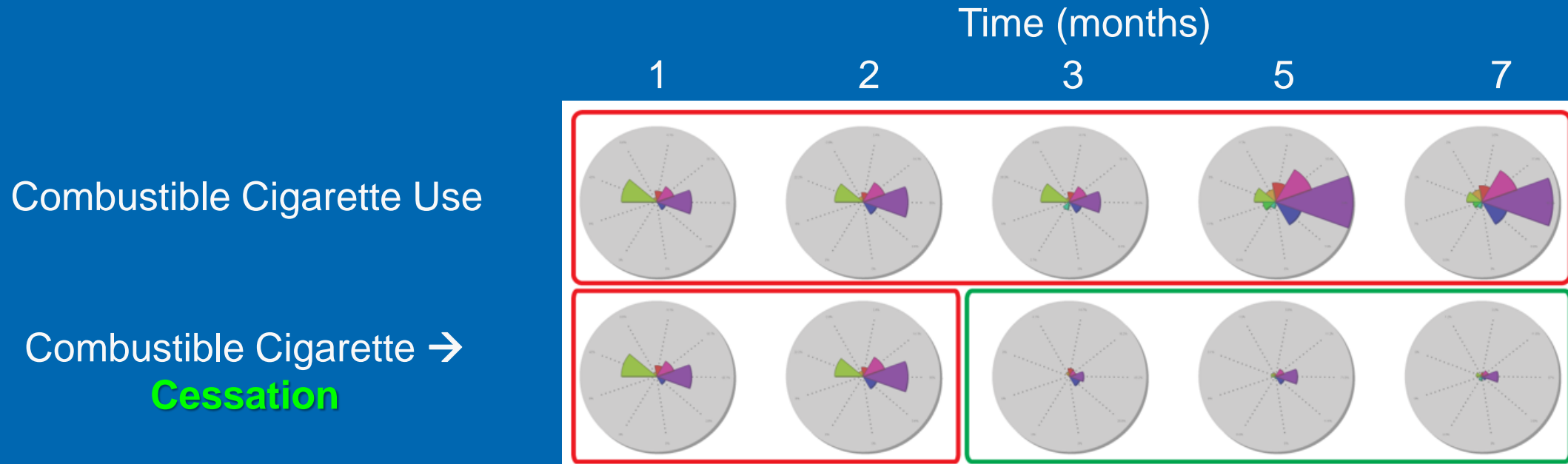
Compare Heat-not-Burn Platforms with Continued Smoking and Cessation in Mouse Model: Impact on Disease Mechanisms



Compare Heat-not-Burn Platforms with Continued Smoking and Cessation in Mouse Model: Impact on Disease Mechanisms



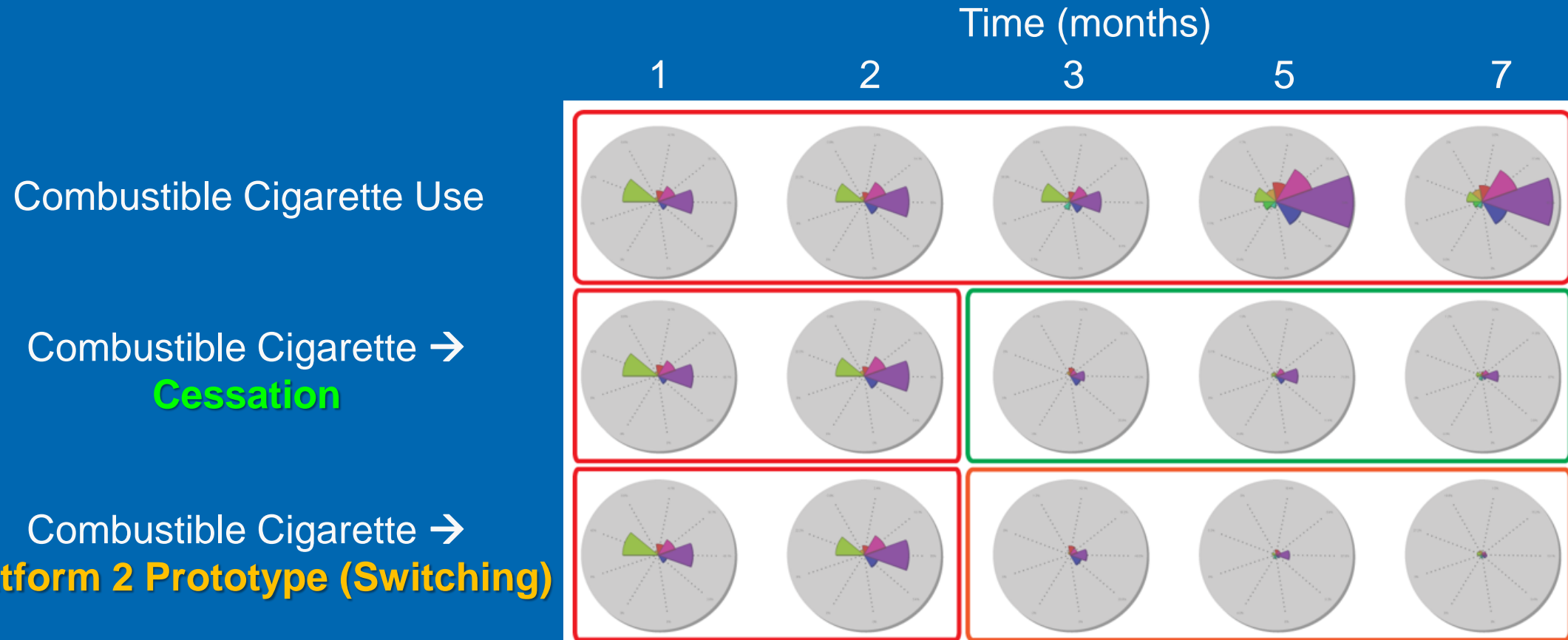
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Compare Heat-not-Burn Platforms with Continued Smoking and Cessation in Mouse Model: Impact on Disease Mechanisms



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Note: These data alone do not represent a claim of reduced exposure or reduced risk. Prototype of Platform 2
Source: PMI Research and Development

Compare Heat-not-Burn Platforms with Continued Smoking and Cessation in Mouse Model: Impact on Disease Mechanisms



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Time (months)

1

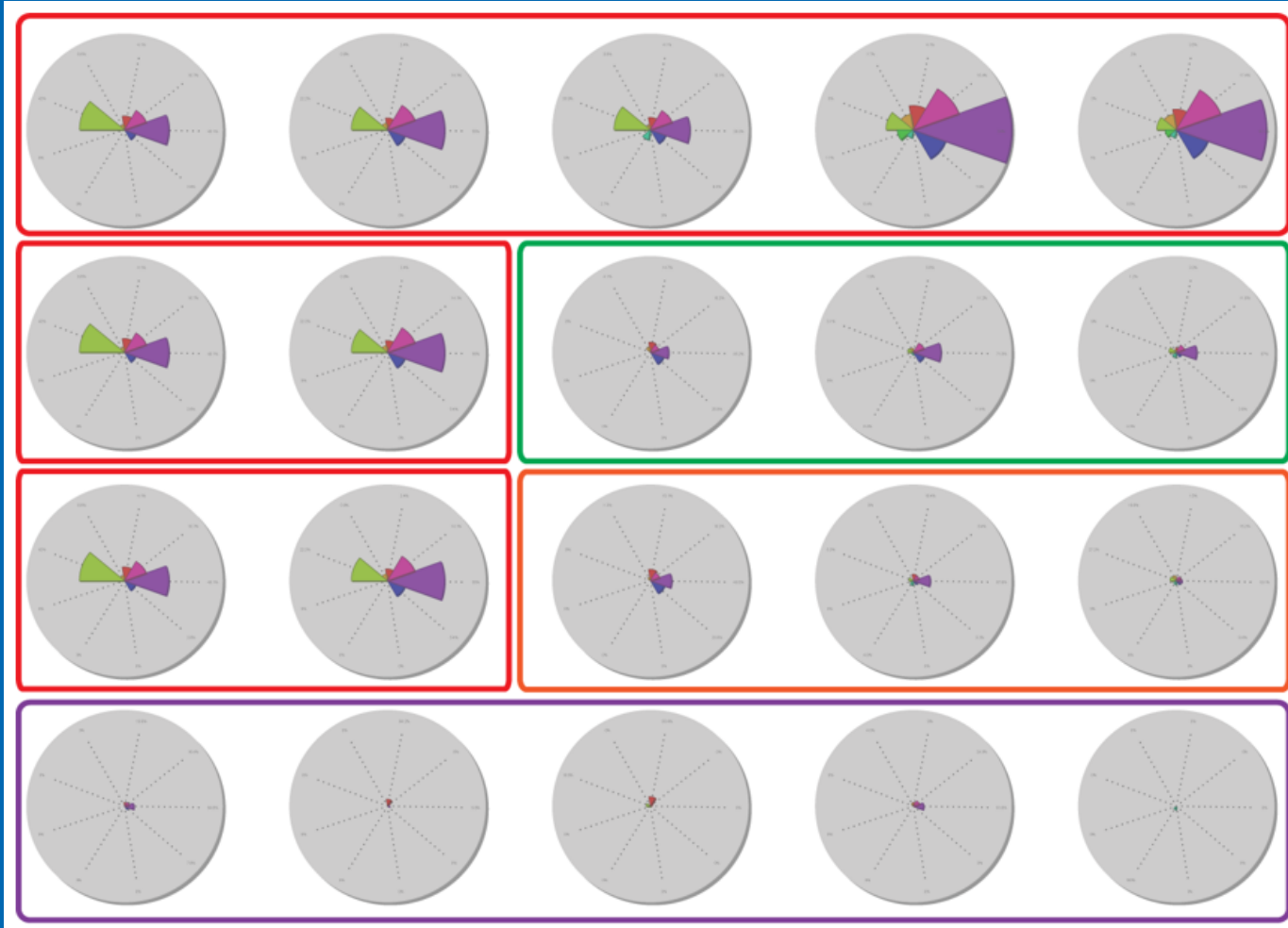
2

3

5

7

Combustible Cigarette Use



Combustible Cigarette →
Cessation

Combustible Cigarette →
Platform 2 Prototype (Switching)

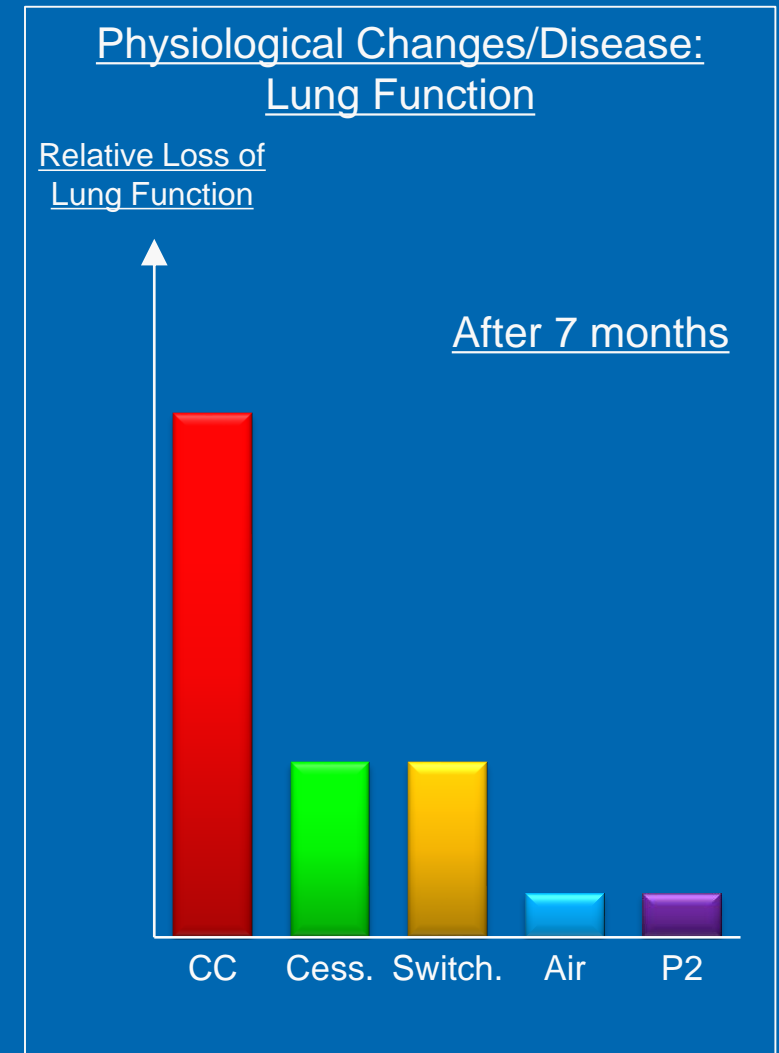
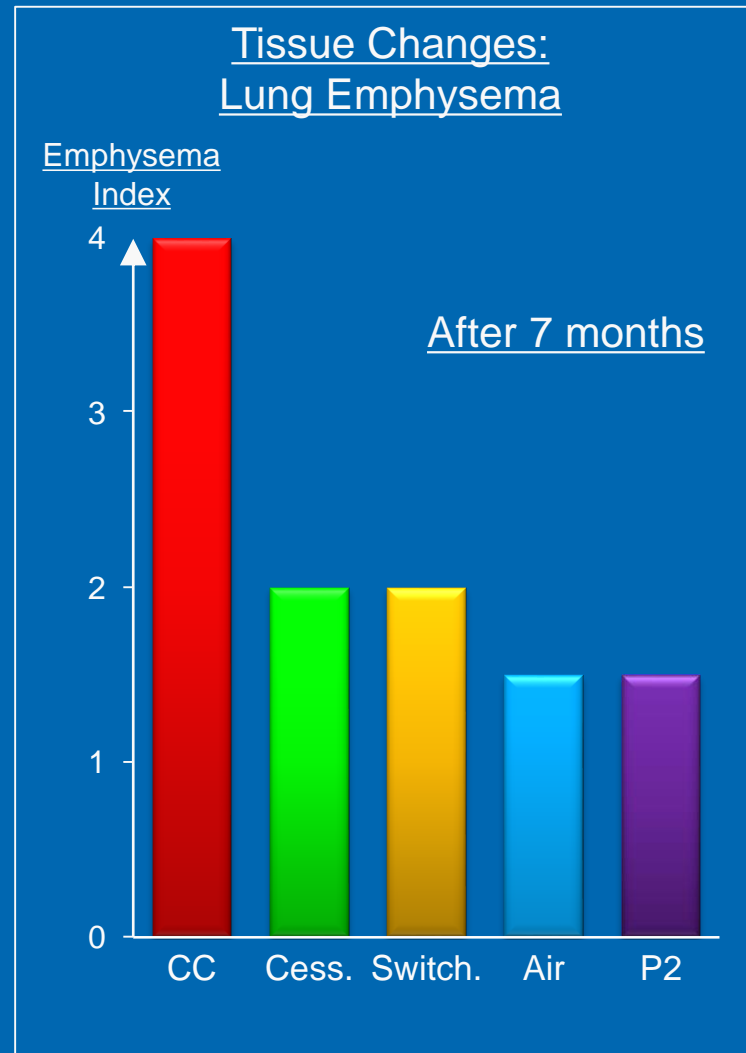
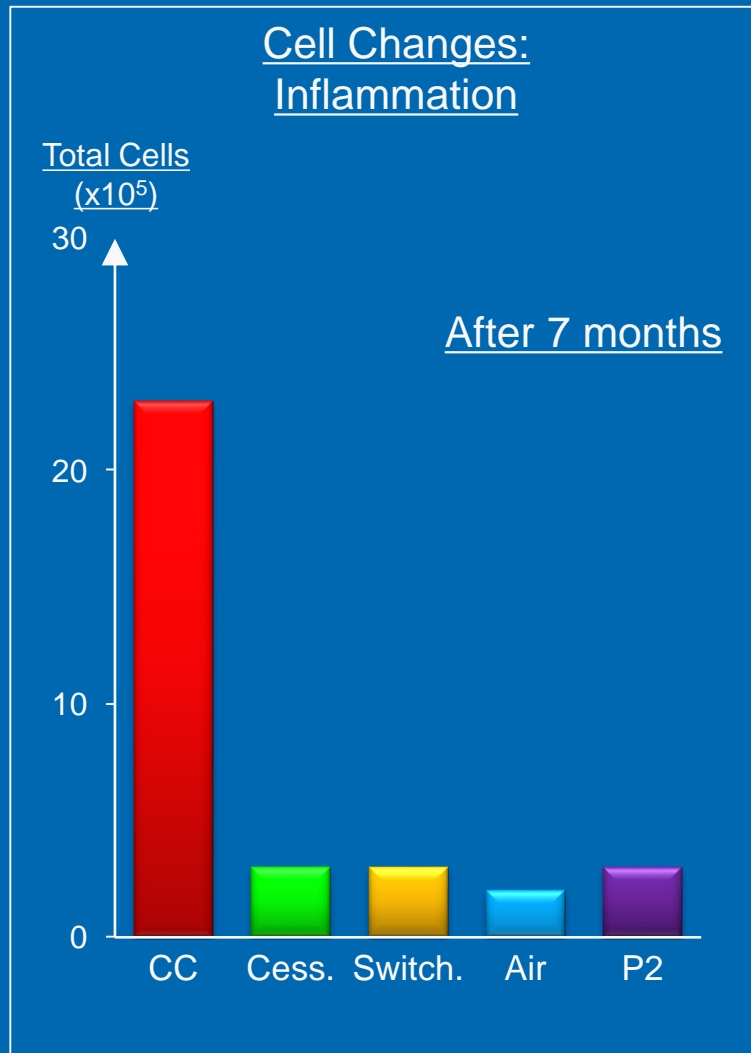
Platform 2 Prototype Use

Note: These data alone do not represent a claim of reduced exposure or reduced risk. Prototype of Platform 2
Source: PMI Research and Development

Compare Heat-not-Burn Platforms with Continued Smoking and Cessation in Mouse Model: Impact on Disease Mechanisms



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Note: These data alone do not represent a claim of reduced exposure or reduced risk. Cess. is Cessation, Switch. is Switching and P2 is Platform 2 (Prototype)
Source: PMI Research and Development



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Evidence Package





PMI's Approach to Clinical Assessment

Clinical Assessment

1

Pharmacokinetics /
Pharmacodynamics

Measures:
Nicotine Uptake
Subjective Effects

1 week in a clinic

2

Reduced Exposure

Measures:
Biomarkers of Exposure
Clinical Risk Endpoints

1 week in a clinic
3 months at home

3

Exposure Response

Measures:
Clinical Risk Endpoints
Product Use

6-12 months at home

Platform 1 Clinical Assessment: Pharmacokinetic Preliminary Results

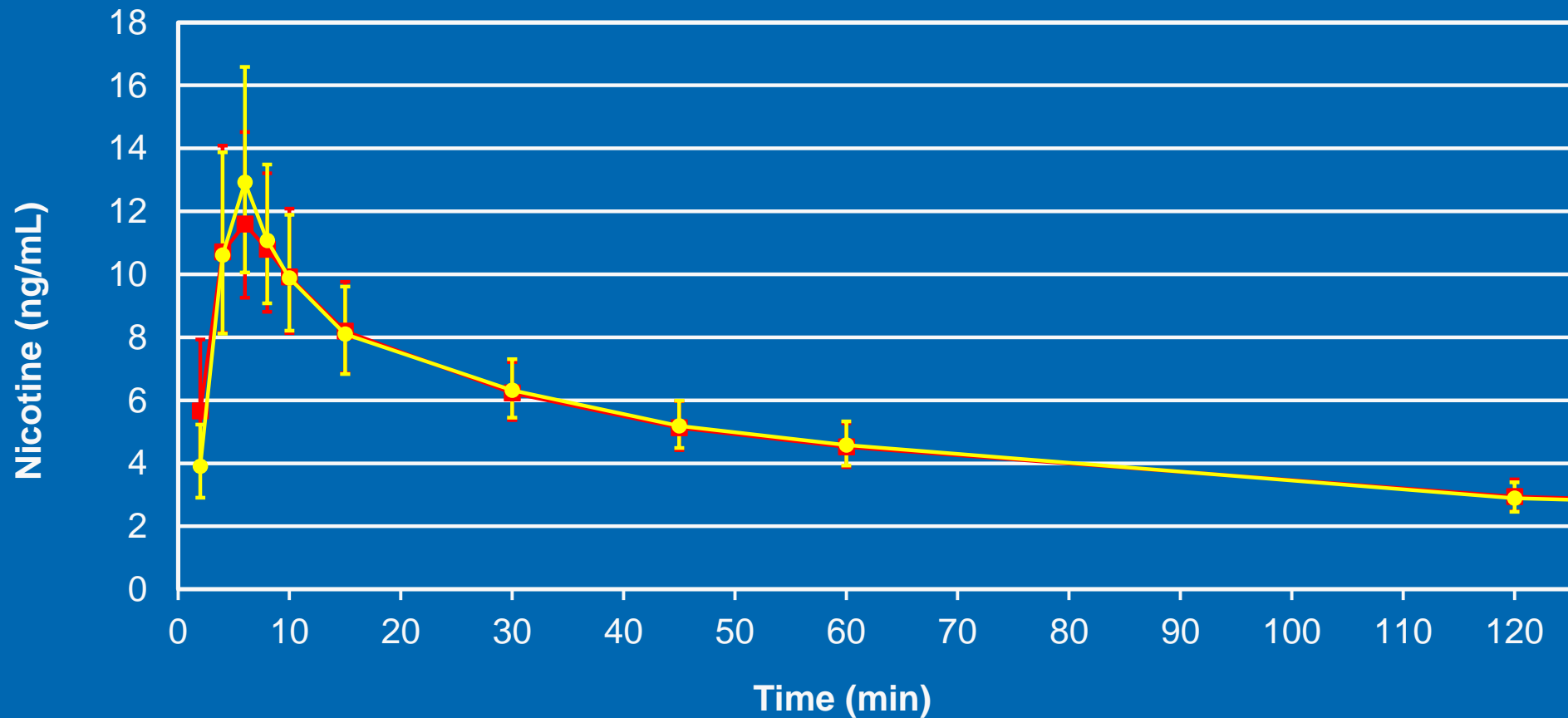


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Combustible
Cigarette

Platform 1

Nicotine Pharmacokinetic Profile



Note: These data alone do not represent a claim of reduced exposure or reduced risk
Source: PMI Research & Development

Platform 1 Clinical Assessment: Reduced Exposure Preliminary Results

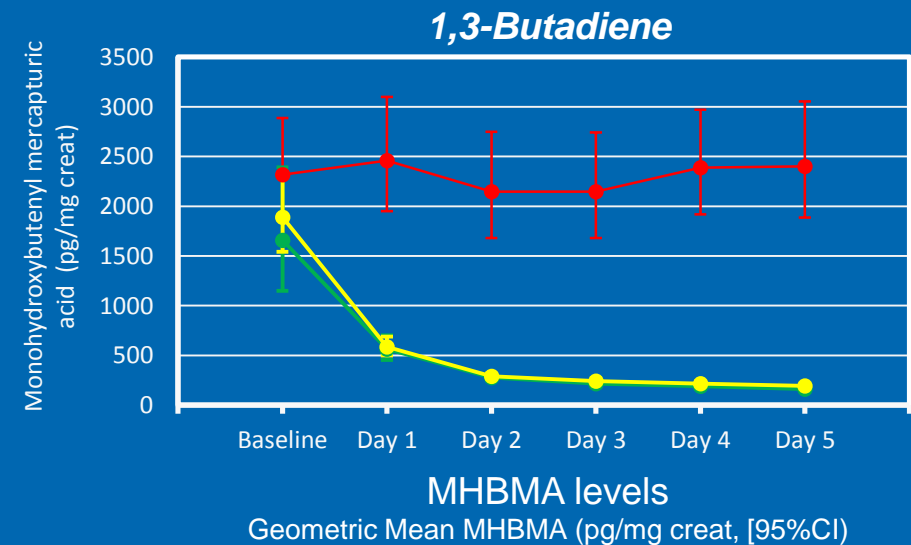
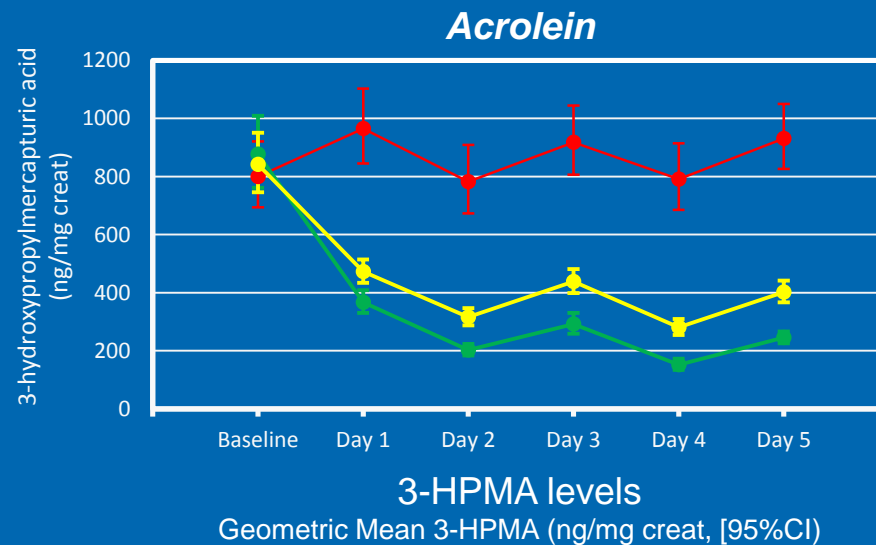
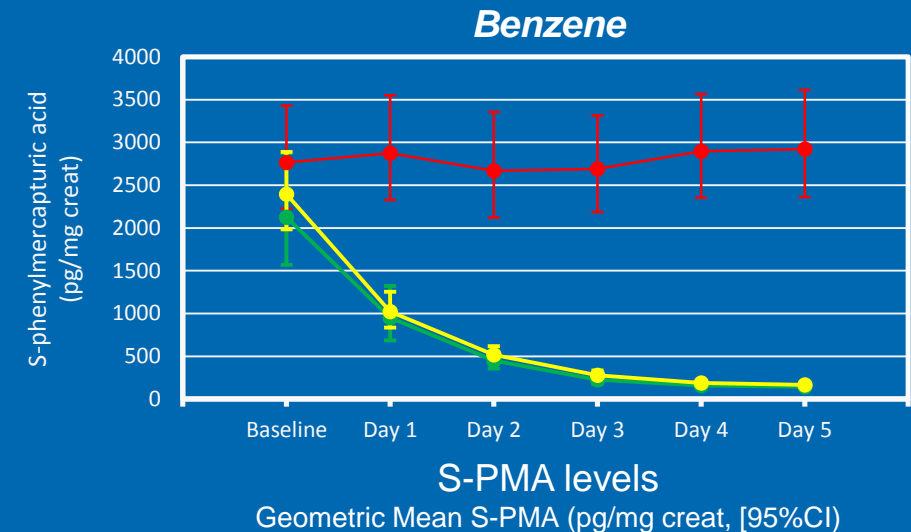
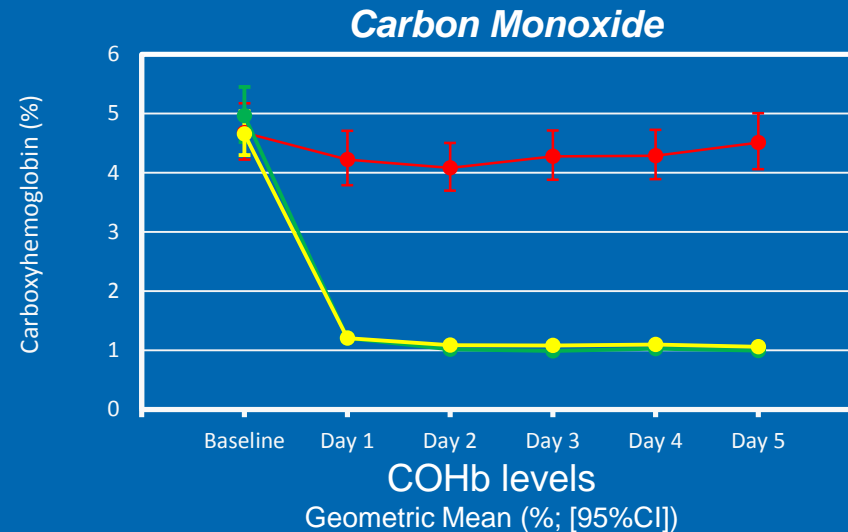


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Continued smoking

Switched to
Platform 1

Quit during study



Note: These data alone do not represent a claim of reduced exposure or reduced risk
Source: PMI Research & Development

Platform 1 Clinical Assessment: Reduced Exposure: Ambulatory and Exposure Response Study

Reduced Exposure Studies (3-month Ambulatory)

- 160 adult smokers
- Confined & Ambulatory
- Exposure to harmful and potentially harmful constituents, product use
- Multiple countries and ethnicities

- Primary endpoints: 5 biomarkers of exposure
- Secondary endpoints: additional biomarkers of exposure and clinical risk endpoints

Exposure Response Study

- 950 adult smokers
- Ambulatory
- Changes in clinical risk endpoints, functional health markers and blood chemistry, product use
- Multiple ethnicities

- Primary endpoints: 8 clinical risk endpoints
- Secondary endpoints: additional biomarkers of exposure and clinical risk endpoints



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Consumer Perception and Behavior Assessment

- Based on FDA guidance
- Designed to assess consumer perception and understanding of RRP
- Assess label, labeling and marketing material
- Assess intent to use among adult consumer groups
- Progressing according to plan



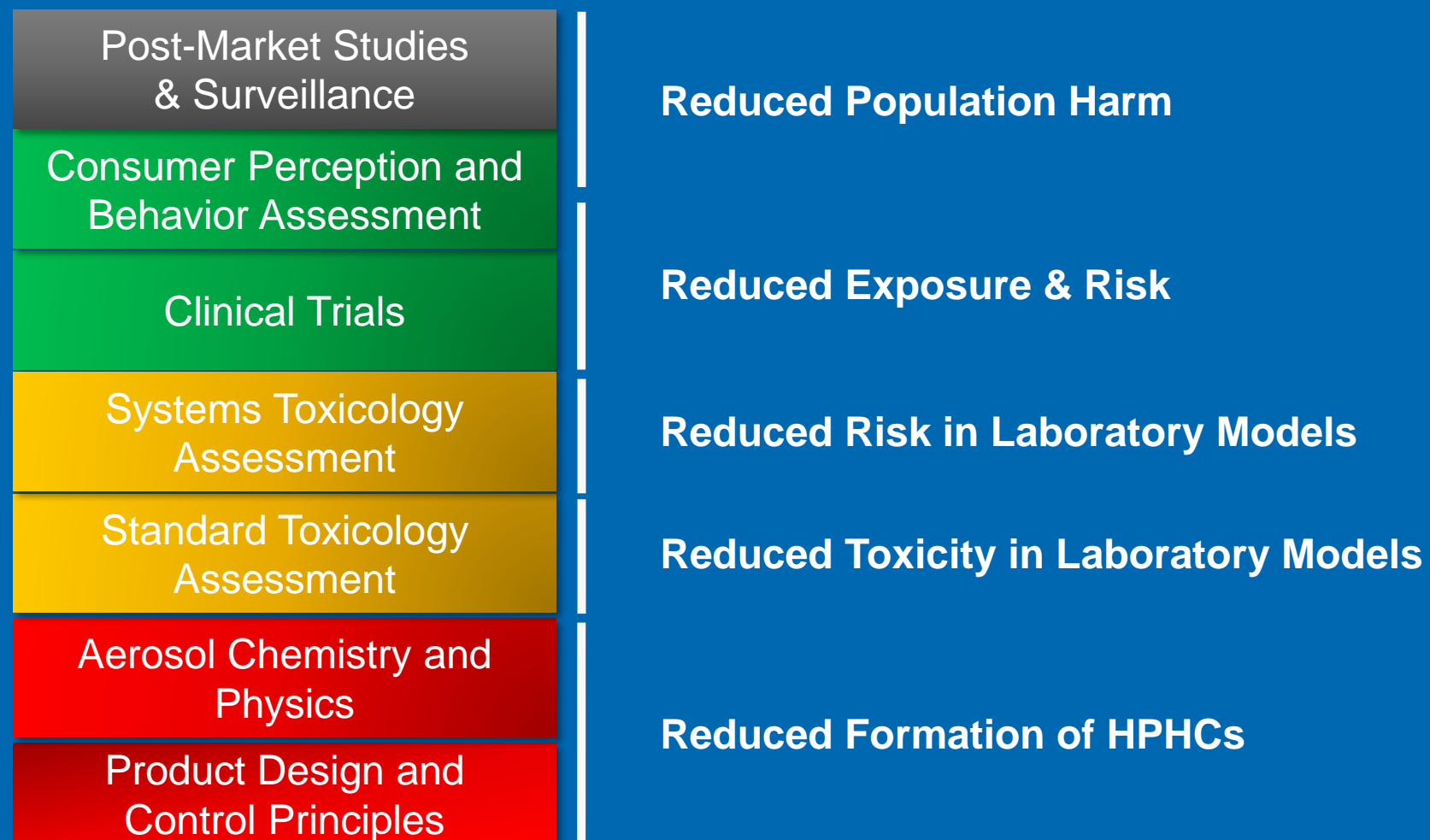
PMI's Post-Market Assessment

- Surveys and surveillance to:
 - Understand how product is used
 - Monitor spontaneous health events (safety surveillance)
- Under development; to be initiated as of pilot market launch



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Reduced-Risk Products: R&D

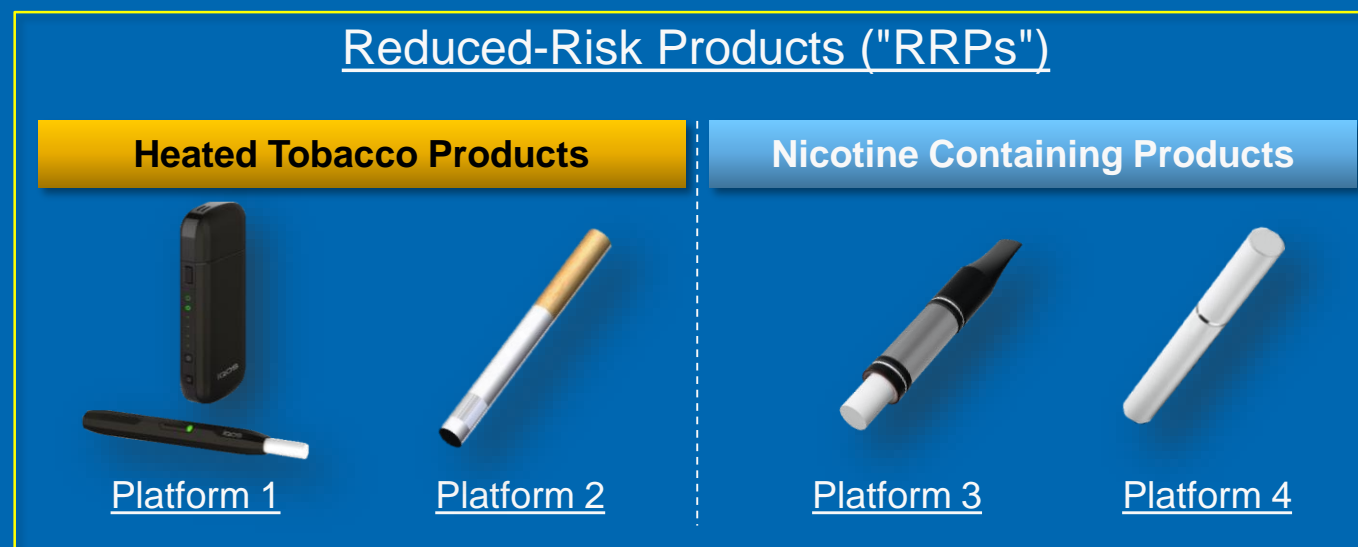
R&D and Scientific Substantiation

- Ready for RRPs era
- Strong product portfolio and innovation pipeline
- Industry-leading risk assessment capabilities

RRPs
Regulation

Marketing and
Commercialization

Reduced-Risk Products: Regulation



R&D and
Scientific Substantiation

RRPs
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Reduced-Risk Products: Regulation

- Advocating rigorous regulatory standards, which can provide:
 - Assurance to regulators and the public
 - Confidence for consumers
 - Clarity for the marketplace
- Momentum for evidence based RRP's regulation



Reduced-Risk Products: Regulation

- US FDA:
 - Statute and MRTP Draft Guidance
 - "Deeming Regulations"
- EU Tobacco Products Directive:
 - E-cigarettes regulated as tobacco-related products
 - "Novel Tobacco Products"



Reduced-Risk Products: R&D

RRPs Regulation

- Uncharted territory
- Can provide assurance to regulators, public and consumers
- Clarity for marketplace
- PMI well-positioned

R&D and Scientific
Substantiation

Marketing and
Commercialization



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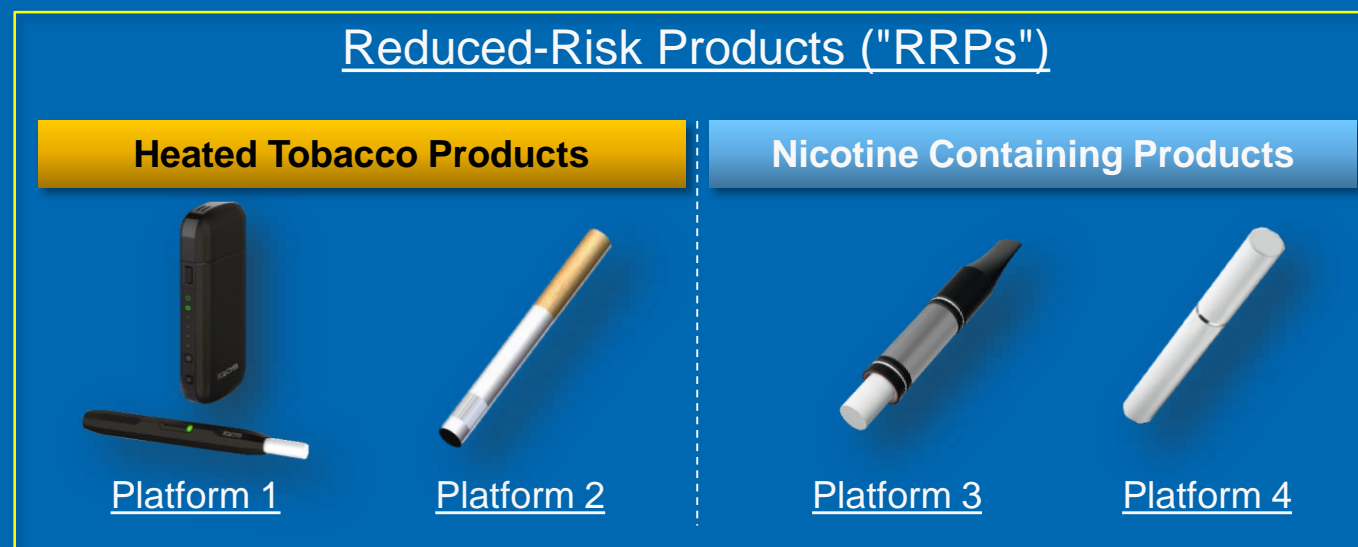
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Frederic de Wilde

Senior Vice President, Marketing & Sales

Reduced-Risk Products: Commercialization



R&D and
Scientific Substantiation

RRPs
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Marketing and
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Commercialization of RRPs

- Evolution of E-Vapor Product market
- PMI's RRPs portfolio
- PMI's Platform 1 commercialization
- PMI's Platform 4 commercialization



Evolution of E-Vapor Products Market

- Changing the dynamics of the industry
- Classified as medicinal or prohibited product in more than half of OECD markets
- Growth driven by adult smokers' desire for Reduced-Risk Products, but also by:
 - Lower price particularly for e-liquid products
 - Convenience, less smell, no ash

Evolution of E-Vapor Products Market

- Some markets dominated by e-liquid products – rechargeable "tanks" with nicotine containing liquids – whilst in others "cartomizer" products are leading
- Wide range of penetration levels in various markets
- High interest but potential of the category currently limited by:
 - Lack of taste and sensory satisfaction

"Cartomizer" Products



"Tank" Systems / E-liquids





Maturity Levels of E-Vapor Markets

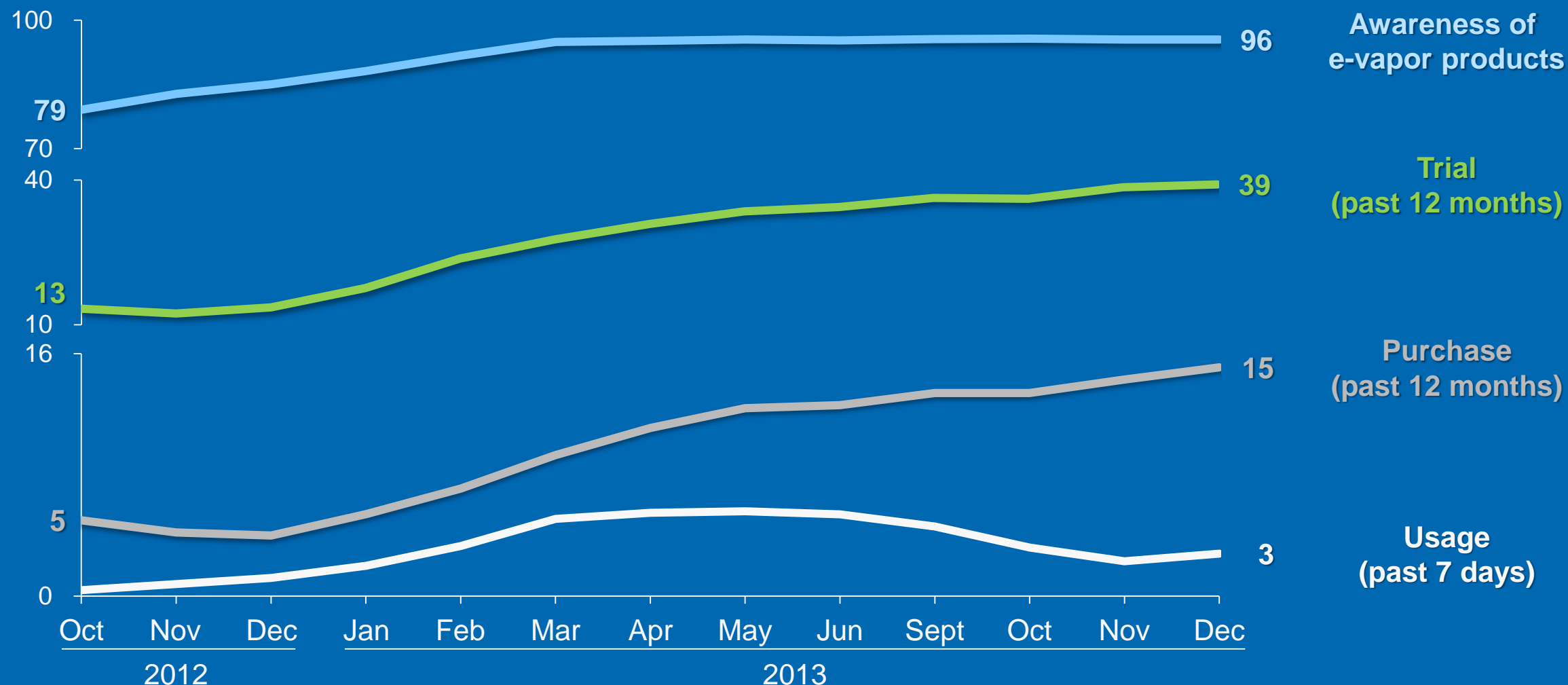
- Mature markets:
 - UK (7.8% adult smokers used an e-vapor in the past 7 days), Poland (4.9%), Italy (3.5%)
- Developing markets:
 - France (11.9%), Spain (2.0%), Denmark (7.6%), Netherlands (3.8%)
- Low penetration markets:
 - Germany (0.4%), Austria (1.2%)



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Italy: Adoption of E-Vapor Products

(% of adult smokers)



Note: n ~ 2,300 for each wave

Source: PMI RRP Market Research (3 months moving, no fieldwork in July and August)



E-Vapor Market: Conclusions

- E-vapor is a product category which is here to stay
- The category will continue to grow at different rates depending on the market specificities and product improvements
- Excise taxation will probably be implemented
- E-vapor products do not fully respond to evolving preferences of adult smokers
- Innovation will be a key driver for the evolution of the e-vapor products category



A portfolio approach with different product options is required to address emerging preferences of adult smokers



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RRPs Commercialization

- Evolution of E-Vapor Product market
- PMI's RRP's portfolio
- PMI's Platform 1 commercialization
- PMI's Platform 4 commercialization

PMI's RRP Portfolio Addresses Adult Smokers Preferences and Market Opportunities



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Importance of satisfaction



Openness to departure from cigarette flavor and ritual

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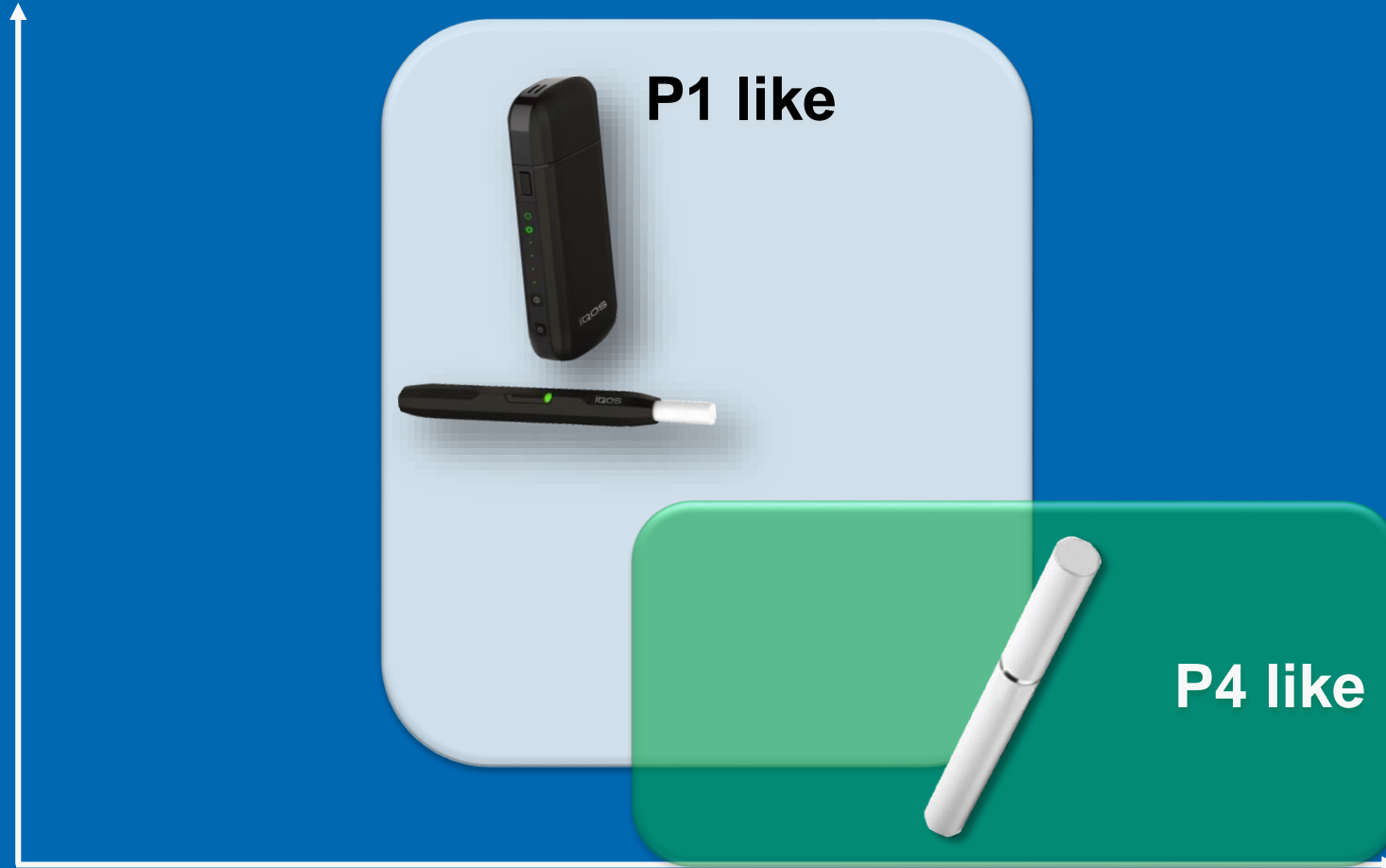
Source: PMI RRP Market Research

PMI's RRP Portfolio Addresses Adult Smokers Preferences and Market Opportunities



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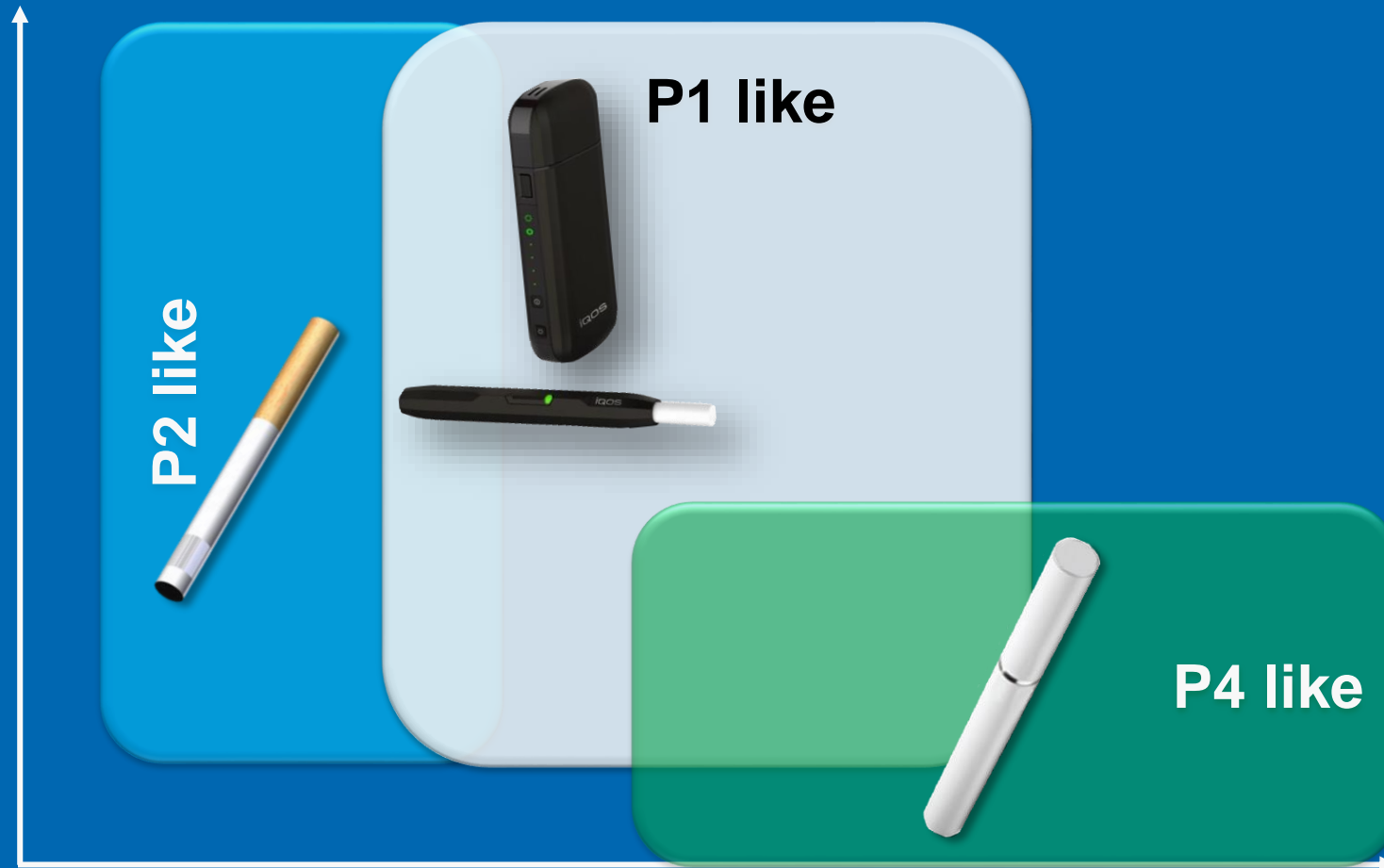
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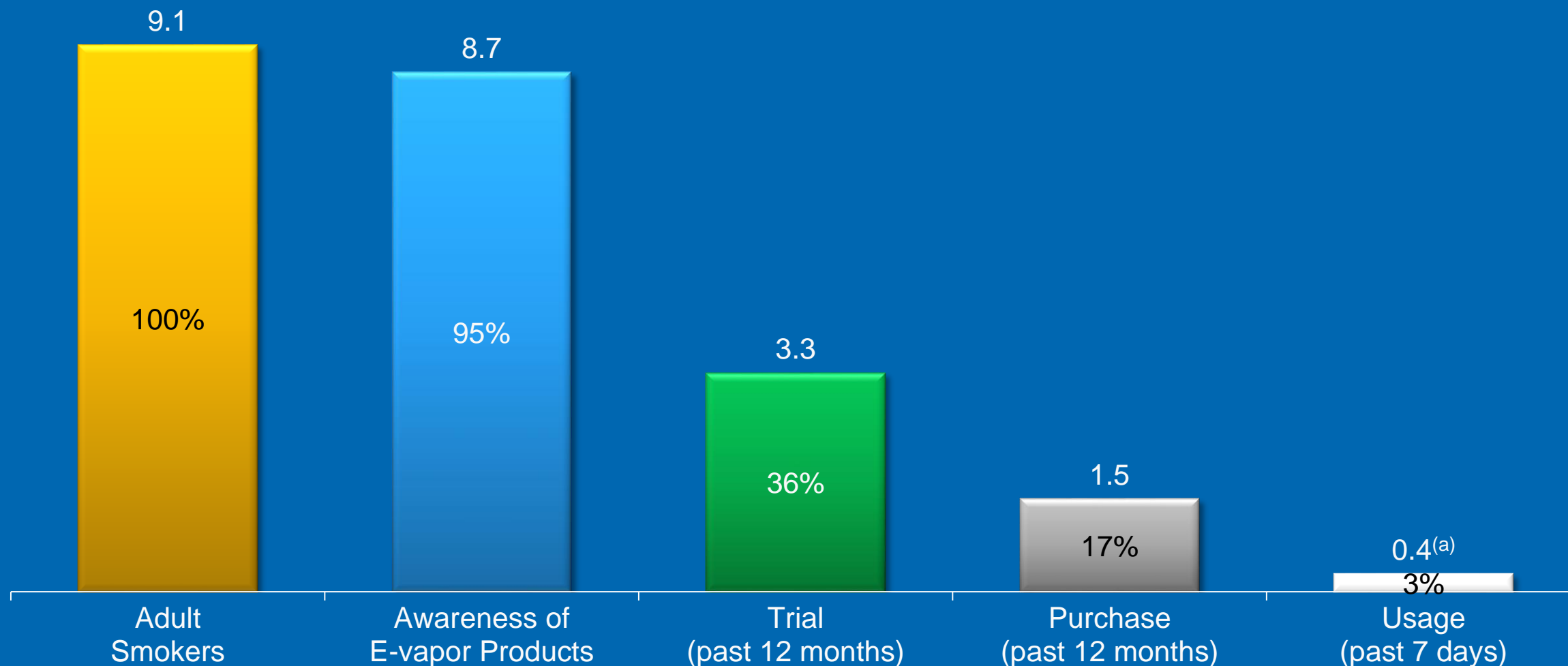
Source: PMI RRP Market Research



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Italy: Adoption of E-Vapor Products

(million adult smokers)



(a) Includes all users of tobacco products in the past 7 days

Note: Number of adult smokers: Italy n ~ 2,300

Source: PMI RRP Market Research (3 months-moving average, February 2014 – April 2014)



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Italy: Size of the Opportunity

of Adult
Smokers
(millions)



Adult Smokers

3.1%

e-vapor product users

0.4

Platform 4



- Current generation taste satisfaction
- Electronics
- Convenience, less smell, no ash
- Price advantage

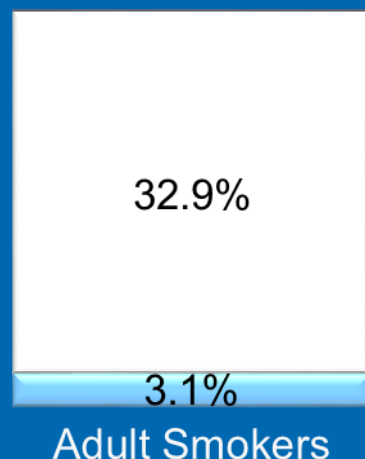
No Tobacco

Note: The RRP's depicted are subject to ongoing development and therefore the descriptions are illustrative and do not necessarily represent the latest stages of product development. Number of adult smokers: Italy n ~ 2300
Source: PMI RRP Market Research (3 months-moving average, February 2014 – April 2014)



Italy: Size of the Opportunity

of Adult
Smokers
(millions)



Tried and rejected
e-vapor products

3.0

e-vapor product users

0.4

Platform 1



- Taste satisfaction
- Convenience, less smell, no ash
- Electronics

Platform 4



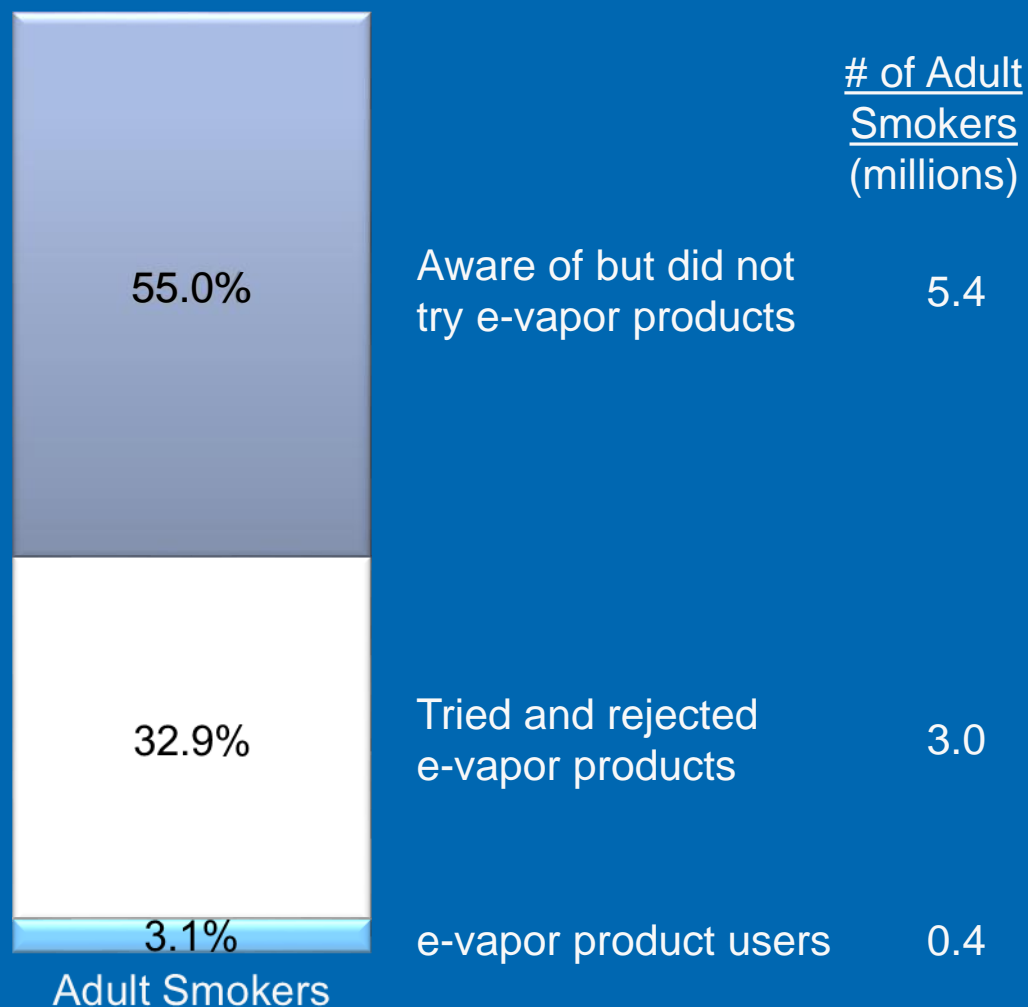
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Tobacco

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Italy: Size of the Opportunity



Platform 1



- Taste satisfaction
- Convenience, less smell, no ash
- Electronics

Platform 4



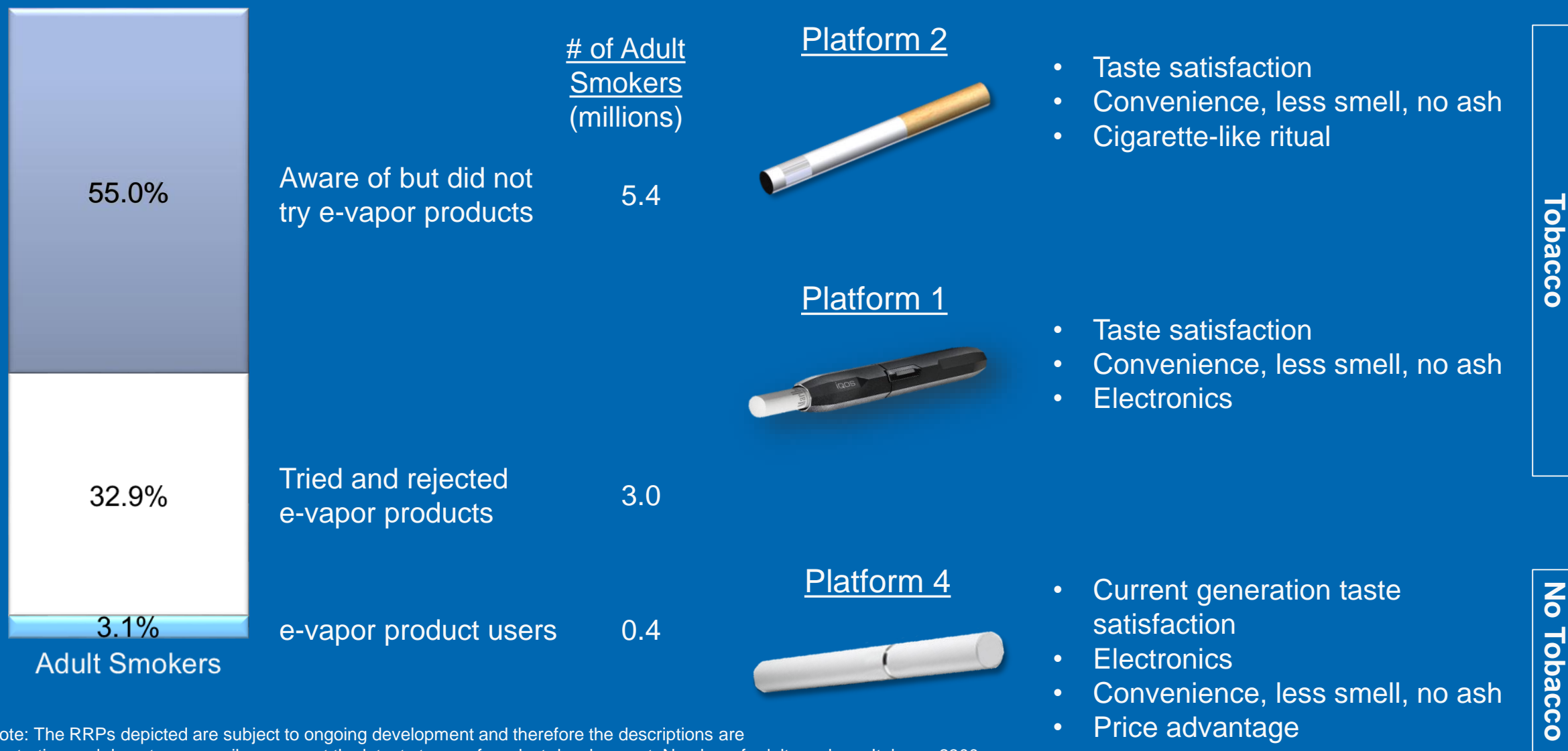
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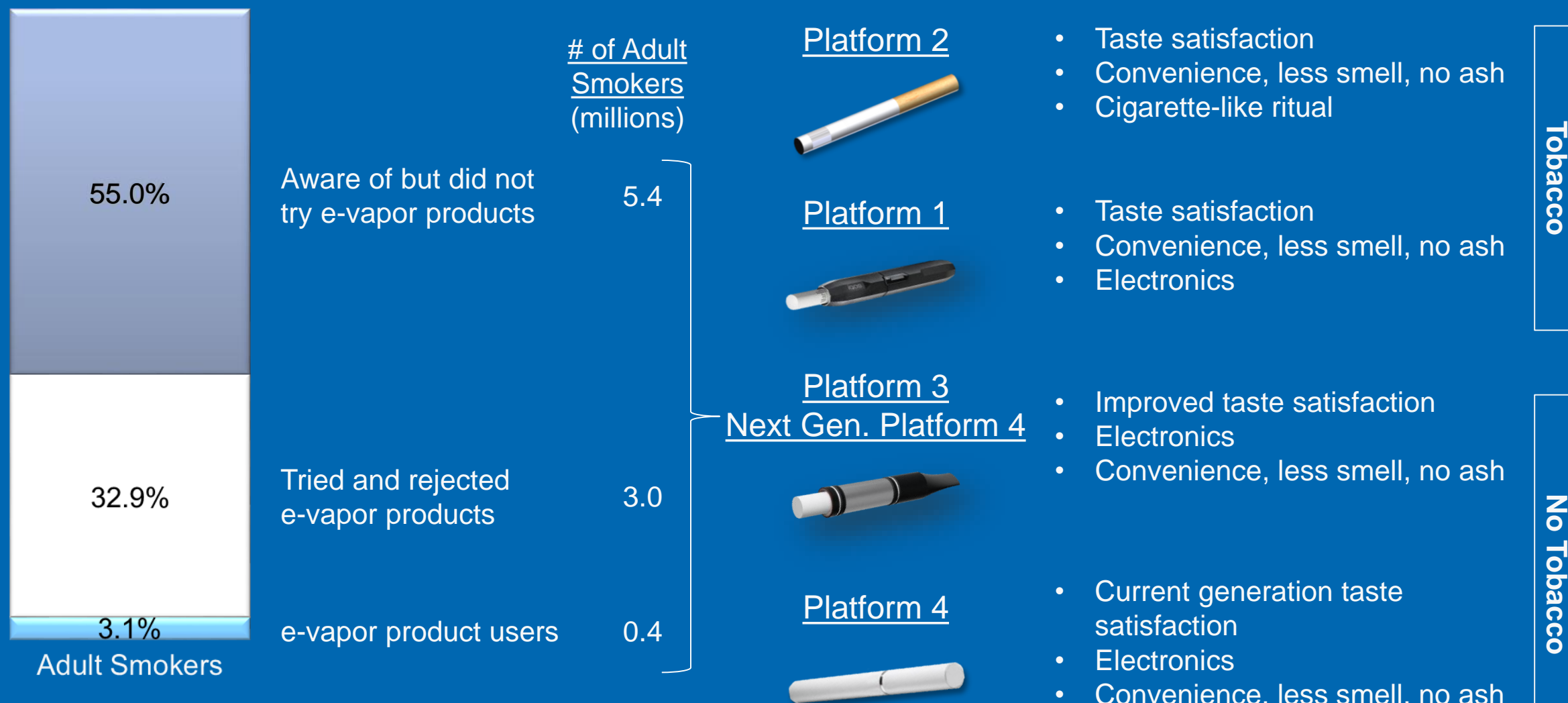
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Source: PMI RRP Market Research (3 months-moving average, February 2014 – April 2014)

Italy: Size of the Opportunity



Note: The RRP's depicted are subject to ongoing development and therefore the descriptions are illustrative and do not necessarily represent the latest stages of product development. Number of adult smokers: Italy n ~ 2300
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Italy: Size of the Opportunity



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RRPs Commercialization

- Evolution of E-Vapor Product market
- PMI's RRP's portfolio
- PMI's Platform 1 commercialization
- PMI's Platform 4 commercialization



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2014
INVESTOR DAY

Investor Day – Reduced-Risk Products Lausanne, June 26, 2014

Video

(Approximately 45-second video)

Introducing The iQOS System

iQOS



iQOS Kit Packaging



iQOS Kit Packaging



iQOS Kit Packaging Components



Note: Reference images only

iQOS Components Line-Up



Note: Reference images only

iQOS Device Color Customization



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Note: Reference images only

Marlboro HeatStick: Tobacco Sticks Specially Designed for iQOS



Marlboro HeatStick: Tobacco Sticks Specially Designed for iQOS



iQOS Communication and Commercialization

- iQOS campaign
- Leverage current infrastructure
- New capabilities and channels

Visual Not Shown

Visual Not Shown

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Visual Not Shown

Visual Not Shown



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iQOS Communication and Commercialization

- iQOS campaign
- Leverage current infrastructure
- New capabilities and channels



Leverage Current Infrastructure

- Ensure product availability in C-stores and general trade
- Traditional media to boost awareness
- Leverage existing touch points
- Develop engagement activities to enable longer interaction

Visual Not Shown

Visual Not Shown

Visual Not Shown

- iQOS shows high potential to address the emerging preferences of adult smokers
- The iQOS system and *Marlboro HeatSticks* tobacco sticks manufacturing has started
- iQOS will be introduced in two test cities in Q4 2014, one in Japan and one in Italy
- National expansion starting in 2015 and launch in other markets planned
- Commercialization toolbox developed for all relevant channels



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Platform 4



Platform 4: Commercialization Plan

- Agreement with Altria to commercialize their products
- Invest in the development of second generation products for global expansion
- Enter the category starting in the second half of 2014
- Explore acquisition opportunities that could accelerate the achievement of significant presence in certain markets

Nicocigs: Company Information

- Founded in 2008, based in Birmingham
- Strong market position in the UK & Ireland
- Excellent supply chain capability
- Skilled and well trained marketing & sales teams
- *Nicolites*: company's main brand:
 - 26% YTD April Retail SoM
 - Present in more than 20,000 POS





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Reduced-Risk Products: Marketing and Commercialization

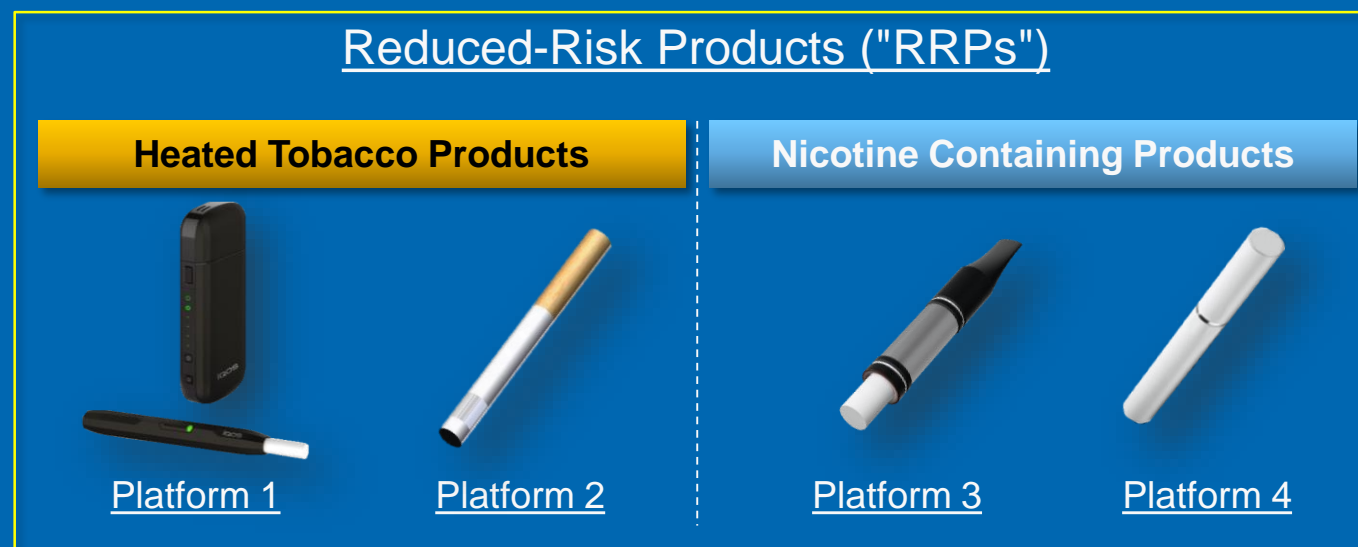
R&D and
Scientific
Substantiation

Regulation

Marketing and Commercialization

- A strong RRP's portfolio to address all adult smoker preferences
- New iQOS city launches in Q4, 2014
- Entered e-vapor in 2014 / Nicocigs acquisition

Reduced-Risk Products: Conclusions



R&D and
Scientific Substantiation

RRPs
Regulation

Marketing and
Commercialization



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Questions & Answers



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Reconciliation of non-GAAP measures included in this presentation to the most comparable GAAP measures are provided on our website at: www.pmi.com/2014InvestorDay/RecSlides

Glossary of Terms: www.pmi.com/2014InvestorDay/Glossary