

**Remarks by**  
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**Philip Morris International Inc.**

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**(SLIDE 1.)**

We now welcome Manuel Peitsch, our Chief Scientific Officer for Reduced-Risk Products, and Mirek Zielinski, our President Reduced-Risk Products, who will give you an update on our Reduced-Risk Product portfolio.

**(SLIDE 2.)**

Thank you Nick, and good morning Ladies and Gentlemen.

**(SLIDE 3.)**

I will take you through the exciting progress we are making on the scientific substantiation of our Reduced-Risk Product portfolio, and Mirek will update you on the current regulatory landscape and on our evolving portfolio and commercialization approach.

**(SLIDE 4.)**

We have mentioned in our previous communications and presentations that our aspirational goal is to demonstrate that our Reduced-Risk Products have a risk reduction profile that approaches that of cessation. The U.S. Institute of Medicine referred to smoking cessation as the “gold standard” for assessing Reduced-Risk Products.

**(SLIDE 5.)**

To assess how close our candidate Reduced-Risk Products are to this “gold standard,” we follow a multi-step research program that starts with the aerosol characterization of the product, progresses to clinical studies and tracks the impact of the product in

the real world after its launch in the marketplace. At each step we demonstrate a key component of the risk reduction potential and actual impact of a Reduced-Risk product before proceeding to the next step. Our assessment is aligned with the U.S. FDA's Draft Guidance for Modified Risk Tobacco Products and is described in a recent peer reviewed article published in *Regulatory Toxicology and Pharmacology*, available online at [PMIScience.com](http://PMIScience.com).

I will update you now on our progress and where we stand on our upcoming filing with the FDA.

As we have not submitted our applications yet, the FDA has neither reviewed, nor reached any conclusions about our data.

**(SLIDE 6.)**

I presented a summary of our non-clinical and clinical evaluation results for *iQOS* earlier this year at CAGNY. I highlighted that our results demonstrate that the aerosol from *iQOS* has significantly lower levels of Harmful and Potentially Harmful Constituents, HPHCs for short, and is significantly less toxic than cigarette smoke.

**(SLIDE 7.)**

I also highlighted that the *iQOS* aerosol reduces the risk of disease in laboratory models.

**(SLIDE 8.)**

Clinical studies are a corner stone of our assessment program and aim to demonstrate that switching completely to *iQOS* reduces the exposure of adult smokers to HPHCs and improves clinical risk markers.

At CAGNY, I presented the results of our 3-month reduced exposure clinical study conducted in Japan. In this study, which was conducted in a close-to-real world setting, we measured fifteen biomarkers of exposure to HPHCs, as well as nicotine, in adult smokers who switched to *iQOS*, quit or continued to smoke. The objective was to assess whether the reduction in formation of HPHCs results in a reduction in exposure to HPHCs in smokers who switch to *iQOS*. As reported, there was a significant reduction in the fifteen biomarkers of exposure in adult smokers who switched to *iQOS*, which approached that of those who quit smoking for the duration of the study.

**(SLIDE 9.)**

We conducted a similar study in the U.S. that will be part of our submission to the FDA. This graph depicts the results of that 3-month study. The results are consistent with the study conducted in Japan in that the average reduction in all fifteen biomarkers of exposure in adult smokers who switched to *iQOS* (orange bars) approached the reduction for those who quit smoking for the duration of the study (green bars).

**(SLIDE 10.)**

In both of these 3-month studies, we also measured six clinical risk markers. These clinical risk markers are reflective of disease mechanisms known to be affected by smoking and to reverse upon cessation. While these Reduced Exposure clinical studies were primarily designed to focus on biomarkers of exposure, the results are generally consistent with the expected direction of change and indicate that switching completely to *iQOS* led to an overall improvement of clinical risk markers affected by smoking after only three months. The results of these studies form the basis of our FDA applications.

**(SLIDE 11.)**

We have developed and conducted research to assess risk perception of, comprehension of, intention to use, and actual use of *iQOS* among various adult consumer groups, including adult former and never smokers. This Perception and Behavioral Assessment program, or PBA for short, is based on the U.S. FDA's Draft Guidance. Protocols for the program have been developed with the guidance of an external expert panel. The results of this program are an important component of our evidence package, responding not just to U.S. regulatory standards, but also to public health concerns about Reduced-Risk Products in general, including the potential impact on initiation and relapse as André mentioned.

As previously reported at CAGNY, less than 5% of adult former smokers and less than 1% of adult never smokers participating in the studies testing labelling and marketing materials, expressed an intention to use *iQOS*.

These results are supported by post-market cross-sectional studies conducted in Japan and Italy, where levels of relapse and initiation were respectively, below 2% and 1%, which is very encouraging.

Furthermore, the majority of adult consumers participating in these studies expressed the correct understanding of the tested modified risk communications as well as that *iQOS* is not without risk and is not an alternative to quitting.

At the end of a 6-week actual use study with *iQOS* in the U.S., predominant and exclusive use was in line with similar pre-market studies conducted in European markets.

The PBA program for *iQOS* is completed and will form a key part of our Modified Risk Tobacco Product Application (MRTPA) submission to the FDA.

**(SLIDE 12.)**

We are currently compiling our Premarket Tobacco Application (PMTA) and MRTPA for *iQOS* to the U.S. FDA in accordance with sections 910 and 911 of the FD&C Act. A PMTA is required for new tobacco products that were not commercially marketed in the U.S. as of February 15, 2007.

The applications are extensive and address the statutory requirements of sections 910 and 911 of the FD&C Act. The totality of the evidence assembled supports the potential reduced individual risk compared to continued smoking and population health benefit of *iQOS*.

We remain on-track to file our MRTPA by the end of this year and will file the PMTA in the first quarter of 2017.

**(SLIDE 13.)**

Additionally, we are conducting longer-term studies primarily designed to measure such clinical risk markers over a longer period of time.

To establish a one-year “gold standard” of cessation for assessing Reduced-Risk Products, we are conducting Smoking Cessation Response study across a number of countries to measure the reversal of clinical risk markers when adult smokers quit smoking for one year.

Over 1,100 adult participants have enrolled, and the study is on track. A 6-month interim data report is expected by the third quarter of 2017, while the full 12-month results will be available by the first quarter of 2018.

The Exposure Response study is designed to measure clinical risk markers when adult smokers switch to *iQOS* over a 12-month period. The study is divided into two consecutive 6-month phases, focusing first on markers known to reverse more quickly on cessation and then on respiratory function which takes more time. These results will be benchmarked against those of the Smoking Cessation Response study.

Close to 1,000 adult participants have enrolled in the study, and all participants have completed the first 6-month phase. More than 80% of the adult participants enrolled have agreed to continue for the full year. Top line results of the first 6-month phase are expected by the second quarter of 2017. The full 12-month results of the Exposure Response Study are expected by the first quarter of 2018.

**(SLIDE 14.)**

While the long-term effects of switching to Reduced-Risk products are clearly the most important for public health, adult consumers are also interested in short-term benefits.

For many adult smokers, discoloration of teeth is an issue. Therefore, we have compared the dental discoloration caused by three weeks of *iQOS* aerosol exposure with that caused by an equivalent exposure to smoke of the 3R4F reference cigarette in laboratory tests. First, in contrast to 3R4F cigarette smoke, the *iQOS* aerosol did not cause clinically significant discoloration of the most widely used dental composite.

**(SLIDE 15.)**

Second, premolar teeth exposed to 3R4F cigarette smoke showed significant discoloration, whereas teeth exposed to the *iQOS* aerosol did not. Furthermore, no observable color mismatch between the dental composite and the surrounding tooth

was caused by exposure to the *iQOS* aerosol, in stark contrast to 3R4F cigarette smoke exposure.

**(SLIDE 16.)**

In summary, the scientific research conducted across a range of studies demonstrates that *iQOS* has a wide array of benefits compared to smoking cigarettes. We have focused on the health effects of the product and its potential to reduce risk; on the product's environmental impact including odor and indoor air quality; and on short-term benefits such as oral hygiene.

In each of these categories, we have substantiated important adult consumer messages.

Most importantly, the totality of the evidence generated to-date supports our conclusion that *iQOS* has the potential to reduce the risk of smoking-related diseases in adult smokers who switch to it completely.

Mirek will give you an overview of the substantiated claims currently being communicated in our launch markets during his presentation.

**(SLIDE 17.)**

Our post-market assessment program to evaluate the overall impact of *iQOS* on population harm is based on the FDA's Draft Guidance and well-established scientific standards.

For instance, we are using cross-sectional surveys to understand who uses *iQOS*, how *iQOS* is used, and the prevalence of *iQOS* use in the population. Furthermore, we use surveillance methods to monitor spontaneous health events.

We launched a cohort study in Japan to evaluate the effects of long-term *iQOS* use on exposure and clinical risk markers in comparison with continued smoking and smoking cessation.

**(SLIDE 18.)**

As outlined by André, and illustrated by the Harm Reduction Equation shown on the slide, significant individual risk reduction is a necessary but not sufficient condition to achieve population harm reduction. Adult smoker adoption and usage of Reduced-Risk products are also of paramount importance.

**(SLIDE 19.)**

To estimate the impact of a Reduced-Risk product on public health, we have developed a Population Health Impact Model that was published last year in the peer reviewed scientific journal *Regulatory Toxicology and Pharmacology*. The article is available online at [PMIScience.com](http://PMIScience.com).

Our Population Health Impact Model uses estimates of the relative risk of a Reduced-Risk Product and realistic assumptions regarding the prevalence of cigarette and Reduced-Risk Product use, individually and in combination, to evaluate the potential impact of a Reduced-Risk Product on smoking attributable mortality.

**(SLIDE 20.)**

I will now update you on the progress we are making on our other Reduced-Risk Product platforms.

First, consistent with the *iQOS* results, the levels of HPHCs (excluding nicotine) in the Platform 2 aerosol were reduced on average by 90% compared with the smoke of the 3R4F reference cigarette.

This leads to a concomitant, greater than 85%, reduction in toxicity compared with cigarette smoke in standard laboratory toxicity tests that measure cytotoxicity and genotoxicity *in vitro*.

To refine our toxicological assessment of Platform 2, we conducted a 90-day sub-chronic inhalation study *in vivo*. Exposure to Platform 2 aerosol caused 95% less lung inflammation than 3R4F cigarette smoke. Histopathological changes in the upper respiratory tract were reduced by 50 to 95%, while there were no changes observed in the lungs of the rats.

**(SLIDE 21.)**

We conducted a 5-day Reduced Exposure clinical study in Poland, where we measured fifteen biomarkers of exposure to HPHCs, as well as nicotine, in adult smokers who either switched to Platform 2 or continued to smoke cigarettes.

The graph summarizes the results for all fifteen biomarkers of exposure measured at the end of the study. The results show a significant reduction in biomarkers of exposure in adult smokers who switched to Platform 2 compared with those who continued to smoke cigarettes.

The effects of cessation on the biomarkers was obtained in a previous study conducted at the same site with *iQOS* and is depicted by the green line.

The exposure reductions observed for Platform 2 approached those in adult smokers who quit for 5-days.

We have completed the clinical phase of a close-to-real-world 3-month reduced exposure study for Platform 2, and the results will be available at the end of the second quarter of 2017.

**(SLIDE 22.)**

In the same 5-day *ad libitum* study, we observed that the nicotine uptake in the group of adult smokers who switched to Platform 2 (shown in yellow) was similar to those who continued to smoke their own brand of cigarettes.

The reduction in Urge-to-Smoke after single-use of Platform 2 was comparable to what was observed for a cigarette. Therefore, Platform 2 may provide a satisfying alternative to cigarettes for adult smokers who would otherwise continue smoking.

**(SLIDE 23.)**

Our clinical assessment program for Platform 3 is also progressing well. We completed a pharmacokinetic study earlier this year in New Zealand.

As shown in the figure on the slide, the results confirm that the nicotine concentration profile of Platform 3 is comparable to that of a cigarette. Globally recognized experts based in New Zealand issued a press release on Monday announcing the completion of this study, stating that the product rapidly provides satisfactory levels of nicotine to smokers. We are very pleased with the outcome and see this as a positive step in our efforts to work with leading experts on our Reduced-Risk Products.

A study focusing on the pharmacodynamics effects of Platform 3 is currently ongoing in the U.S. The clinical phase of this study has been completed and analysis of the data has started.

Moreover, we will start a 6-month safety and efficacy study on Platform 3 in early 2017.

**(SLIDE 24.)**

With regard to our current e-vapor product offerings, we have completed a number of pre-clinical studies assessing aerosol chemistry and *in vitro* and *in vivo* toxicity.

As part of our *in vivo* toxicology assessment, we have completed a 90-day inhalation study in rats using aerosols generated from mixtures of the aerosol formers propylene glycol and glycerin with and without nicotine. No respiratory toxicity was observed in rats exposed to these aerosols.

We have evaluated the impact of using our e-vapor products *Solaris*, *Nicolites*, and *Vivid* on indoor air quality. Out of eight indoor air constituents measured, the concentrations of six constituents did not exceed background levels. Only glycerin, propylene glycol, and nicotine concentrations were above background levels, but their concentrations were significantly below existing air quality guidelines. The results of the study indicate that the use of these products did not negatively affect indoor air quality.

We are well advanced in the development of our “next generation” e-vapor product platform that leverages our new proprietary vaporization technology based on *MESH* heating. The non-clinical assessment has started, and our clinical assessments includes a pharmacokinetic study, and a reduced exposure study, that will start at the end of 2016 and early 2017, respectively.

Mirek will tell you more about our city test of our breakthrough *MESH* heating technology scheduled for the end of this year.

**(SLIDE 25.)**

We are committed to seeking independent verification of the scientific data we have generated on our Reduced-Risk Products. There are several components to this verification, each of which is progressing well.

The first component is the publication of peer-reviewed articles in the scientific literature. We have published over 160 peer-reviewed publications in the last five years. This is important, albeit traditional.

The second component is an in-depth analysis of study reports by independent experts. For example, a number of independent experts have verified the absence of combustion in *iQOS*, and the executive summaries on their reports can be found on [PMIScience.com](http://PMIScience.com).

For the third component of our assessment, we have developed a platform known as [sbvIMPROVER.com](http://sbvIMPROVER.com). [sbvIMPROVER](http://sbvIMPROVER.com) is a methodology applied through crowd-sourcing, which enables the verification of research methods and study results. We have already verified a large number of our scientific methods and non-clinical study results via this platform.

Finally, we recently launched an Investigator-Initiated-Studies program that supports external scientists who can conduct independent research related to PMI's Reduced-Risk Products through the provision of products, equipment, and/or financial and technical support.

**(SLIDE 26.)**

In summary, the totality-of-the-evidence collected to-date on *iQOS* is very encouraging, both in terms of individual risk reduction potential and the pre-market assessment of population harm effects through our PBA program. We will therefore submit PMT and MRTP Applications to the FDA, and are on track to submit our MRTPA by the end of 2016.

In addition to *iQOS*, we are also making exciting progress on the assessment of our other Reduced-Risk product platforms.

Further information about our scientific approach, publications and presentations at conferences can be obtained from our website [PMIScience.com](http://PMIScience.com).

Let me now turn the floor over to Mirek, who will share with you an overview of the regulatory landscape and the exciting commercialization progress we are making on our Reduced-Risk Product portfolio.

**(SLIDE 27.)**

Thank you Manuel, and good morning Ladies and Gentlemen.



**(SLIDE 28.)**

I will take you through an overview of current regulatory trends, update you on our portfolio of Reduced-Risk Products, and provide details on our evolving commercialization approach.

**(SLIDE 29.)**

The current regulatory and fiscal trend is encouraging and reflects a growing understanding of harm reduction, its underlying science, and the growth of adult smokers' use of novel products in the market place. For example, several governments are considering reversing existing bans on e-cigarettes.

Regulators are also starting to recognize that heated tobacco products are fundamentally different from cigarettes. For example, the EU Tobacco Products Directive created a new category for novel tobacco products including noncombustible novel tobacco products such as *HeatSticks*.

Furthermore, over the past year, preeminent public health agencies and independent experts have expressed the need to educate adult smokers and the general public about the availability of alternatives to cigarettes and to distinguish the dangers of combustion from the risks of nicotine.

Whilst we are encouraged by these trends and developments, we have a significant journey ahead of us in terms of informing stakeholders on Reduced-Risk Products with an aim to secure appropriate regulation.

**(SLIDE 30.)**

The pace of evolution differs from market to market. For example, in the U.K., there is a greater recognition of harm reduction amongst scientific and public health institutions, while in some other countries e-cigarettes and smokeless tobacco products are banned.

Today many factors impact the regulatory and fiscal environment, ranging from skepticism of the industry's motives to stakeholder positions based on vested interests. Legitimate public health questions are being raised, including whether Reduced-Risk Products will increase youth initiation of nicotine consumption and cause relapse of former adult smokers.

PMI and others are taking steps to address these concerns and the available data are encouraging and have helped convince many skeptics. Over time, we are optimistic that harm reduction policies will prevail.

**(SLIDE 31.)**

As André mentioned, regulatory frameworks can help adult smokers switch to Reduced-Risk Products while mitigating other public health concerns. We are working with regulators and public health advocates across our markets to make the case for Reduced-Risk Products category-specific regulation.

We believe that regulations should provide minimum standards for Reduced-Risk Products and specific rules that differentiate them from conventional cigarettes. Regulations should be sufficiently rigorous to protect public health yet flexible enough to encourage switching, investment by manufacturers, and widespread participation in the Reduced-Risk Products category.

A very important focus for us is the adoption in markets of specific regulations regarding risk related claims. Manufacturers and adult smokers should know that clear standards govern the claims associated with Reduced-Risk Products ensuring that risk-related claims are scientifically substantiated.

Finally, regulation should include requirements for manufacturers to provide pre and post-market information regarding the impact of Reduced-Risk Products on population harm.

**(SLIDE 32.)**

We advocate a sensible approach to the taxation of novel products with groundbreaking potential. With *iQOS*, we have demonstrated to customs and excise authorities that the product is not a cigarette. We have provided scientific studies confirming that the product does not combust and that its aerosol is not smoke.

As André mentioned, in our launch markets, *HeatSticks* are taxed under a dedicated new excise category or as other-tobacco-products depending on national legislation. In the longer term, tax differentiation should recognize the products' scientifically substantiated reduced risk relative to cigarettes.

In fact, a differentiated tax treatment for Reduced-Risk Products is already supported by some harm reduction advocates.

**(SLIDE 33.)**

Before moving on to update you on our commercialization approach for *iQOS*, I will now briefly take you through an overview of the commercialization readiness of our other Reduced-Risk Product platforms.

In parallel with the significant scientific substantiation progress that Manuel has taken you through, we have finalized the commercial offer and marketing plans for Platform 2, our second heated tobacco product offering. This platform uses a pressed carbon heat source that, once ignited, heats the tobacco to generate a nicotine-containing aerosol. We will conduct a city test of this platform in 2017.

Our product development and scientific assessment of Platform 3 is also progressing as outlined by Manuel. This platform is based on an acquired technology that creates an aerosol of nicotine salt formed by the chemical reaction of nicotine with a weak organic acid. We remain on-track to conduct a city test of this platform in the second half of 2017.

We are also well advanced in the development of our “next generation” e-vapor products platform that leverages our new proprietary *MESH* vaporization technology. We will conduct a city test of our new technology at the end of this year. Under our 2015 Joint Research, Development and Technology Sharing Agreement, the new vaporization technology will also be available to Altria.

**(SLIDE 34.)**

Let me now update you on our commercialization approach for *iQOS*. We continue to optimize our route-to-consumer strategies, reflecting continuous learnings from launch markets.

Central to our commercialization approach is securing adult smokers’ understanding of the offer and commitment to fully convert. In order to achieve this, we have developed messages that are tailored, relevant and communicated in convenient and unique occasions, at venues where adult smokers can learn about and experience the product. As mentioned at the CAGNY conference earlier this year, the category is new and more time is required to communicate to adult smokers the benefits of *iQOS* compared to cigarettes. Traditional touch points are not always suited for such comprehensive engagement activities.

We also support adult smokers through the initial days of their conversion to help them adjust to the ritual change and different taste of heated tobacco aerosol compared to cigarette smoke. As mentioned by Manuel, we know from post-market cross-sectional studies conducted in Japan and Italy that less than 2% of adult smokers who fully convert to *iQOS* switch back to cigarettes.

We have evolved our marketing toolbox across retail venues and communication channels, including digital communications.

We continue to optimize and enhance our product offer. We have already introduced a new version of *iQOS* and continue to improve the adult consumer experience offered by the device as well as expand the consumable variant line-up. We have finalized the development of the next version of *iQOS* and have the pleasure to introduce it to you today in our Innovation Lounge. We have a strong pipeline of developments that, whilst keeping the aerosol chemistry intact, will further enhance the functionality and, ultimately, adult smoker acceptance.

Finally, we have evolved our marketing campaign focus to increase understanding of the difference between combusting and heating tobacco, and I will also share some of the campaign executions.

**(SLIDE 35.)**

The costs associated with launching *iQOS* are different than those associated with launching a cigarette brand. Most important, as noted, we need to inform adult smokers about the category, the product’s benefits and to support adult smokers through the initial days of conversion. This entails investing in additional field resources to engage with adult smokers, trade and other stakeholders, and in flagship stores as well as in customer care service infrastructure.

Once the understanding of the category and its benefits are established in adult smoker communities, the proposition has an inherent word of mouth where adult smokers are sharing experiences with friends and peers. Over time and as the category and its benefits become more established, the need for time-intensive 1-to-1 communication reduces. Consequently, the cost per incremental new converted user reduces significantly as illustrated by this chart. Additionally, as the user base grows, fixed costs, as related to retail experience and customer care, are spread over an expanding user base, further improving business economics.

We continue to optimize launch plans and related investments, continually increasing our effectiveness of converting adult smokers to *iQOS*.

**(SLIDE 36.)**

*iQOS* device penetration is improving across all launch geographies illustrating the strong adult smoker interest in the category. Indeed, our sales of *iQOS* in Japan over the last 12 months have reached an accumulated 2.0 million devices sold, equivalent to 9.5% of the adult smoker population. Similarly, we observe strong trends of *iQOS* device sales in other markets as shown on the slide.

*iQOS* device sales reflect first device purchases, and adult smokers buying more than one device, in the launch area. The number also reflects device purchases by adult smokers from outside the launch area but who are interested in the *iQOS* proposition. This latter group influences *HeatStick* sales volume only to a very limited extent until the geographic coverage is expanded.

Due to the stronger than forecasted performance of *iQOS* in Japan, we experienced supply shortages as of June. In spite of this, we are continuing to grow market share as reflected in the graph.

Martin will also provide additional comments on the performance of *iQOS* in Japan as part of his regional update later today.

**(SLIDE 37.)**

The commercialization of *iQOS* continues to progress well across other metrics. We are achieving combined full and predominant conversion levels in line with those in Japan in all other launch markets.

**(SLIDE 38.)**

Due to the combination of strong *iQOS* purchase performance and adult smoker conversion ratios we are seeing a solid trend in volume performance across launch markets as summarized in this chart.

**(SLIDE 39.)**

Japan remains our lead market driven by the optimized commercialization model we deployed for the national roll-out. We have achieved exceptional performance to-date

with *HeatSticks*. Market share has increased steadily since the national roll-out in mid-April this year and has now reached an estimated 4.1% as of mid-September.

We observe that *HeatStick* share growth follows device penetration in view of the adult consumer conversion performance.

**(SLIDE 40.)**

We are progressing well with the deployment of our optimized commercialization approach and field force mechanics in Italy and Switzerland. This is reflected in increasing *iQOS* device and *HeatStick* offtake share momentum. The device penetration ratio, calculated as the offtake of devices measured against adult smoker populations in the launch and marketing focus area, has reached an equivalent of 1.3% and 4.5%, respectively. Our *HeatStick* offtake volume performance compared to the launch area industry size continues to progress, reaching 0.6% and 1.1% share of market. Very encouragingly, in Switzerland, we reached a market share of 1.4% in the launch area in the most recent full week.

**(SLIDE 41.)**

Similarly, in Moscow and Bucharest, we are progressing well. In August the penetration ratio of *iQOS* devices reached 0.6% and 1.2%, respectively, in these two cities, while *HeatStick* offtake share of market reached 0.2% and 0.3%.

**(SLIDE 42.)**

In Lisbon and Monaco, the penetration ratio of *iQOS* devices reached 1.4% and 5.0%, respectively. *HeatStick* offtake share of market has reached 0.3% and 3.8%.

The recent acceleration in performance shown on these slides reflects an optimization in the execution of our commercialization program, notably in the recruitment and training of incremental field-force resources.

**(SLIDE 43.)**

Finally, in the greater Frankfurt area the penetration ratio of *iQOS* devices reached 0.7% after only 8 weeks, while *HeatStick* offtake share of market reached 0.1% for the period, and 0.3% in the most recent full week.

The performance in Frankfurt has been supported by a deployment of our field-force organization, an outdoor campaign, as well as the opening of an *iQOS* flagship store. We are very excited about the response of adult smokers in Germany to *iQOS* and look forward to updating you on further performance progress.

**(SLIDE 44.)**

In line with local laws and regulations, we are deploying scientifically substantiated messages that have relevance for adult smoker groups.

Today, we are informing adult smokers in launch markets of the real tobacco taste and satisfaction as well as the related convenience benefits of no ash, less smell, and no risk of fire.

In Japan and Russia, we are deploying indoor air quality and reduced formation of HPHCs messages.

In Romania and Switzerland, we have piloted the substantiated short-term benefit message of “better breath” and are informing adult smokers in Switzerland of “less unpleasant aftertaste” compared to smoking cigarettes.

We will continue to enhance our catalogue of substantiated benefits and translate these into relevant adult smoker messages in the different geographies.

**(SLIDE 45.)**

The *iQOS* retail experience is a way for us to introduce adult smokers to the brand experience and to facilitate quality-guided trials of *iQOS*. Our experience in Japan has taught us that the interaction within these *iQOS* stores provides a solid foundation for adult smokers to truly understand the benefits of the product, and ultimately facilitate full conversion to *iQOS*.

We have adopted a scalable strategy for the *iQOS* retail spaces, ranging from a full-fledged flagship store, to boutiques and pop-up stores in high-traffic, urban areas. We know that each market has its unique requirements and needs when it comes to the development and execution of *iQOS* retail spaces. To facilitate this, we are developing retail format guidelines to ensure global consistency in the brand expression as well as adult smoker experience in these retail spaces.

The retail spaces developed for *iQOS* will also be used to introduce adult smokers to our other Reduced-Risk Product platforms.

You will get the opportunity to see and experience our boutique executions in our campus retail lab tomorrow morning.

**(SLIDE 46.)**

As digital communication becomes more and more important in the daily lives of adult smokers, we are also developing several ways for *iQOS* to connect with adult smokers through this channel.

To facilitate conversion, we will be testing a mobile app later this year in Switzerland and Japan. This mobile app will encourage adult smokers to switch from combustible cigarettes to *iQOS* by providing a digital registration and familiarization tool, helpful hints and tips for their daily use of *iQOS*, as well as messaging that will assist and encourage adult smokers in their conversion journey.

A global website is under development, which will include e-commerce, local events information, testimonials from other adult consumers around the world, and customer support.

**(SLIDE 47.)**

We continue to develop the *iQOS* device to include additional functionalities. A first incremental model (Version 2.4 Plus) is currently in the industrialization phase and will be available for new market launches in 2017, as well as for existing markets.

New features include an improved user interface and a significant reduction in the device charging time. The new version will also introduce connectivity (via Bluetooth) and a related *iQOS* App.

This year's market launches and geographic expansions will enable us to further identify adult smoker preferences and to incorporate these into future *iQOS* device versions.

You will be able to view and try our new *iQOS* 2.4 Plus device in our Innovation Lounge.

**(SLIDE 48.)**

A new portfolio of accessories including colored caps, leather pouches, Legal-Age-Meeting-Point charging stations and *HeatStick* trays that will significantly enhance adult consumer customization have been developed and were deployed to the markets at the end of June.

The *iQOS* ecosystem is, and will continue to play, a key strategic role in helping adult smokers switch to Reduced-Risk Products. We will therefore continue to enhance and expand the range of our *iQOS* accessories portfolio and make them available at all *iQOS* stores around the world as well as online.

**(SLIDE 49.)**

Let me introduce you to our new Reduced-Risk Product brand architecture.

Today, *iQOS* symbolizes our clear leadership in Reduced-Risk Product science and technology. As such, it deserves to be elevated to encompass all four Reduced-Risk Product platforms. On this foundation we have built the new brand architecture for our Reduced-Risk Products where *iQOS* stands for precise heat control technology, advanced science, and superior quality endorsement across all platforms.

We have defined the naming of consumables for our Reduced-Risk Product platforms incorporating the iconic "E" throughout the entire portfolio to signify coherence and temperature control.

For example, *Marlboro HEETS* is a consumable brand for Platform 1 *HeatSticks*.

**(SLIDE 50.)**

We believe that *iQOS* has the potential to change the future of our company, the industry and the lives of many adult smokers. We encapsulated this promise into the brand's tagline: *iQOS* – This Changes Everything.

**(SLIDE 51.)**

To support this communication platform, we have revamped the *iQOS* mobility kit packaging and campaign. We have adopted the hummingbird to symbolize movement and transformation. Ancient civilizations called the hummingbird the “tobacco bird”. Our goal is to create a brand image that appeals to adult smokers and engenders a feeling of movement towards a positive change.

In addition, in line with our efforts to establish the understanding of the difference between combusting and heating tobacco, we are presenting *iQOS* as a solution to a burning problem.

**(SLIDE 52.)**

Our consumables are being renamed *Marlboro HEETS* to emphasize the importance of heated tobacco in the daily interaction with adult consumers. In essence, the name *HEETS* is a nice, concise way to get across the idea of heated tobacco sticks. We believe that the re-naming of our consumables will result in a broader adult smoker appeal, especially among adult smokers of competitor cigarette brands. In addition, this new brand architecture emphasizes the fact that this is an entirely new category, instead of a line extension of our existing trademark. The *Marlboro* endorsement provides the quality assurance that adult smokers look for. We are learning from this new approach and believe that this new architecture will further our efforts in establishing the heated tobacco category.

*HEETS* provides the real taste of true tobacco through the use of *iQOS HeatControl™* Technology.

*Marlboro HEETS* currently come in three variants to address different adult smoker preferences: *HEETS* Amber and Yellow labels are non-menthol variants. *HEETS* Amber label delivers a richer taste, while *HEETS* Yellow label delivers a smoother taste.

We also have a menthol variant called *HEETS* Turquoise label, for adult smokers who prefer a fresh taste.

*Marlboro HEETS* are being rolled out in many markets in the EU between now and the end of the year, such as Switzerland, Monaco, and Germany. We will learn from this new brand architecture and assess our options in markets where we currently still have *Marlboro HeatSticks* such as Japan, and *Parliament HeatSticks* such as Russia.

We are working on new blends and flavor systems, and you will have the opportunity to try some of our new product variants under development in our Innovation Lounge.

**(SLIDE 53.)**

The *iQOS* communication campaign is developed to give the brand an optimistic, joyful and friendly tone of voice, as adult smokers are embarking on their conversion journey



from smoking to heating tobacco. The tagline “IQOS – This Changes Everything” encapsulates the revolutionary nature of the offer.

**(SLIDE 54.)**

The communication is meant to educate adult smokers about *iQOS* – that this is a heated tobacco product, where adult smokers get the true taste of real tobacco – heated not burned.

**(SLIDE 55.)**

Here we emphasize the innovative nature of our *iQOS* device through “*iQOS HeatControl™* Technology”.

**(SLIDE 56.)**

And here we present the benefits of the product, which is a cleaner way to enjoy tobacco, without fire and ash and with less lingering smell.

**(SLIDE 57.)**

This Point-of-Sale communication shows the *iQOS* System with the *Marlboro HEETS* tobacco sticks, together providing adult smokers with the pleasure of heated tobacco.

**(SLIDE 58.)**

Regarding our Platform 2 heated tobacco product, based on the positive results from our whole offer test conducted at the end of last year, we are preparing for a city launch early next year.

We are utilizing the new brand architecture with Platform 2 as well, and are calling the product *Marlboro TEEPS*.

To emphasize the fact that *Marlboro TEEPS* is a heated tobacco product, we have developed an accessory that both heats the carbon tip at the beginning of the experience, and extinguishes it at the end of the experience.

**(SLIDE 59.)**

I will now introduce our new vaporization technology.

The *MESH* heating technology is a completely new approach to e-vapor generation and will be the core engine in our next generation e-vapor platform. E-liquid is precisely heated on a metal alloy mesh imbedded in a cartridge. Contrary to typical coil and wick based products, our *MESH* heaters are designed in such a way that cartridges will be manufactured, assembled and filled in a fully automated GMP compliant process in our European production facilities at competitive cost. Combined with a low liquid level detection system, this novel technology ensures the consistency and quality of the aerosol generated. This will address concerns of current and potential adult vapers related to quality, safety, consistency and origin. In addition, the

technology will allow us to apply for a marketing authorization for the product such as a future Medicines & Healthcare Products Regulatory Agency license in the U.K.

**(SLIDE 60.)**

We will conduct a city test of our new vaporization technology in the U.K. at the end of this year.

This test launch will be focused on assessing adult consumer response to the new technology, technology messages, as well as the introduction of a range of new unique and proprietary flavors and related communications.

For this initial launch we will use the brand *MESH* to highlight the novel technology.

We will continue to develop our e-vapor products incorporating adult consumer feedback to our new technology into future offers under the *VEEV* consumables.

To support the city test, we have developed communication to emphasize the “Intelligent vaping” concept: No burning, consistent vape delivery and precision manufacturing.

**(SLIDE 61.)**

As André mentioned, the heat-not-burn category and other novel e-vaping technologies are new to adult smokers. Forecasting the speed of adult smoker conversion will therefore remain a challenge. Due to the stronger than forecasted performance of our national expansion of *iQOS* in Japan, we experienced shortages in *HeatStick* supply.

In Japan, we have addressed this situation by controlling the amount of *iQOS* devices released into the market to allow a substantial number of new adult smokers to convert to *iQOS* while ensuring the supply of *HeatSticks* for existing adult consumers.

Through capping the number of devices in Japan, we have been able to reserve capacity to initiate launches in other markets. However, deployment of our activation resources and initiatives in all launch markets have been adjusted considering the supply situation.

Based on recent performance and our capacity expansion plans, we expect this interim shortage to ease in the first quarter of 2017.

The accelerated sales and deployment timelines for the *iQOS* device have presented us with additional challenges, such as addressing a higher than foreseen volume of customer care support needed as well as device replacements. We have been addressing these challenges on an ongoing basis, and the related costs are reflected in our budgets and guidance.

Our state-of-the-art Greenfield factory in Bologna with initial capacity for 30 billion *HeatSticks* commenced production in February this year. As the commercialization of our Reduced-Risk Products expand, we will initiate further Greenfield expansions and

will also integrate the *HeatStick* production into existing PMI cigarette manufacturing facilities.

In addition, we are progressing on building manufacturing capacity in Europe for Platform 2 and Platform 4 to support our city tests. While Platform 2 shares the same primary process as Platform 1, it is slightly more complex to assemble and package due to the carbon-tip handling.

For Platform 4, we will use the internal capabilities of our flavor centers to produce e-liquids, and are installing automated assembly and filling lines.

I will now show you a short video on our brand new Reduced-Risk Product manufacturing facility in Bologna.

**(SLIDE 62.)**

[Video]

**(SLIDE 63.)**

As you can see from the video, there is a significant amount of complexity related to developing manufacturing solutions for Reduced-Risk Products. In addition to the usual quality standards we apply to all of our products, Reduced-Risk Products must comply with more rigorous manufacturing standards necessary for risk related claim substantiation.

During the development and scale-up of our portfolio of Reduced-Risk Products we have therefore developed and implemented a controlled manufacturing process to ensure product stability and performance consistency.

In addition, we have generated significant intellectual property. Our intellectual property portfolio protects a broad range of inventions, from tobacco substrates, to aerosol generation and control, to manufacturing process and device industrial designs.

The majority of our Reduced-Risk Product related patents have a lifetime beyond 2030, and more than 50% of our patent portfolio relates to *iQOS* technology.

**(SLIDE 64.)**

Overall we are very pleased with the progress of our Reduced-Risk Product program. We have a strong lead in the heated tobacco category with our *iQOS HeatControl*<sup>™</sup> technology and we are on track with the development and market introduction of our other platforms.

The performance from an optimized *iQOS* marketing and commercialization model is exceeding our expectations in Japan while at the same time showing very encouraging results in other launch markets. Our cumulative learnings from commercializing Reduced-Risk Products in different operating environments positions us to fully leverage our deployment tools as well as scaled up and trained human resources.

We will continue with the geographical expansion of *iQOS* and will conduct city tests of our Platform 2 and Platform 3 in 2017.

To test our newly developed vaporization technology based on *MESH* heating technology, we have scheduled a city test in the U.K. at the end of this year under the brand name *MESH*.

As described by Manuel, we are making significant progress on risk reduction substantiation and third party verification of our science.

Reduced-Risk Products represent a significant opportunity for tobacco-related harm reduction – which is increasingly being recognized by regulators, scientists and other stakeholders.

**(SLIDE 65.)**

We expect that *iQOS* will be present in key cities in more than 30 markets by the end of 2017, while increasing our geographical coverage in existing launch markets. These markets have a total industry volume in excess of 1 trillion units.

As André mentioned in his presentation, we expect RRP volume to reach 3% to 5% of the markets in scope by 2020 and to be profitable as of 2018.

With the observed in market performance of *iQOS* to-date, we are even more confident today that we will meet or exceed these targets.

Our goal is to lead a full-scale effort to ensure that Reduced-Risk Products ultimately replace cigarettes to the benefit of adult smokers, society, our company and our shareholders. Our business model is very clear and holds great promise for our shareholders: to become the undisputed leader in Reduced-Risk Products.

Manuel and I thank you for your attention and are pleased to take questions after a short video that highlight the promise of *iQOS* and its benefits to adult smokers.

**(SLIDE 66.)**

[Video]