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(SLIDE 1.)

It is a great pleasure for me to be back at the CAGNY Conference here in Florida. Let me extend a warm welcome to those joining us on the webcast.

Before I start my presentation I would like to introduce the team that is here with me. We have Jacek Olczak, our Chief Financial Officer, Mirek Zielinski, President Reduced-Risk Products, Manuel Peitsch, Chief Scientific Officer, Reduced-Risk Products, Peter Luongo, Vice President Treasury and Planning, and of course you all know Nick Rolli, Vice President Investor Relations.

(SLIDE 2.)

My remarks contain forward-looking statements and, accordingly, I direct your attention to the Forward-Looking and Cautionary Statements section of today's presentation. Reduced-Risk Products, or "RRPs," is the term we use to refer to products that have the potential to reduce individual risk and population harm in comparison to smoking cigarettes.

(SLIDE 3.)

Today, I will highlight the strength of our business fundamentals, talk about the successful transformation and growth of *Marlboro*, and provide a strategic overview of RRPs and harm reduction. Manuel will outline key scientific results of the rigorous risk reduction assessment of our heat-not-burn *iQOS* RRP platform. Mirek will then explain how we are successfully transforming this exciting product and science into a commercial success. Finally, I will come back with some concluding remarks before we take your questions.

(SLIDE 4.)

Our business fundamentals are in excellent shape. Cigarette industry volume trends have been improving. We have a broad and balanced geographic footprint. We have good market share growth momentum in almost all key markets, driven by our superior brand portfolio, led by the only truly global tobacco brand, *Marlboro*. This in turn underpins our strong pricing power. Limited cost increases and rigorous efforts to generate productivity savings are helping to drive margins higher. Our strong business momentum is further enhanced by the significant potential of RRPs, a category where we believe we are well ahead of competition in terms of science, product development and adult consumer acceptance. Finally, we have a highly motivated and focused organization.

(SLIDE 5.)

Last year, we achieved our best organic cigarette volume performance since 2012, with a modest decline of 1.0%. Net revenues and adjusted OCI for the year were up 5.8% and 6.6%, respectively, excluding currency and acquisitions. Finally, our adjusted diluted EPS grew by a remarkable 12.0%, excluding currency, in spite of significant investments behind the commercialization of *iQOS* and the further strengthening of our cigarette brands.

(SLIDE 6.)

An important element of our ability to continue to further grow our traditional business and invest in the development of the exciting potential of RRPs is our strong cash flow.

In 2015, unfavorable currency movements impacted our free cash flow by $2.0 billion. Despite this unprecedented headwind, we were able to increase our free cash flow last year by $300 million to $6.9 billion. This was achieved through higher net earnings, excluding currency, and a reduction in working capital.

In 2016, we expect to be able to generate a free cash flow that is broadly in line with last year's, despite continued currency headwinds.

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We remain focused on rewarding our shareholders generously, with the dividend serving as the primary use of our free cash flow. Last September, we increased our annual dividend for the eighth consecutive year since the spin in 2008, representing a total increase of approximately 122% and a compound annual growth rate of 12%.

Our dividend yield at the end of last week was 4.6%. This is very attractive in comparison to the yields of our company peer group and 10-year Treasury bills.

(SLIDE 8.)

Today, I am re-affirming our 2016 reported diluted EPS guidance of February 4th, at then prevailing exchange rates, of a range of $4.25 to $4.35, versus $4.42 in 2015. This includes an unfavorable currency impact of approximately 60 cents and assumes no share repurchases. Excluding currency, this guidance represents a growth rate of approximately 10% to 12%, compared to our adjusted diluted EPS of $4.42 in 2015.

While we do not provide quarterly guidance, you will be mindful that we had a particularly strong first quarter last year and a relatively weak fourth quarter. We are expecting the growth in our EPS in 2016 to be skewed towards the second half of the year.

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Since 2013, we have seen a gradual improvement in cigarette industry volume trends, excluding China and the U.S.

In 2016, we forecast a decline of 2.0% to 2.5% on the same basis, while our volume is expected to be down by 1.0% to 1.5%.

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Between 2013 and 2015, we outperformed the industry, gaining 0.2 share points per year to reach a worldwide cigarette market share, excluding China and the U.S., of 28.7%. The momentum has been even stronger in our top-30 OCI markets, where we have gained 0.9 points over the past two years to reach a market share of 38.0%.

(SLIDE 11.)

We are the market leader in a wide range of geographies across both developed and emerging markets.

(SLIDE 12.)

Since the spin in 2008, we have generated an annual average of $1.8 billion in positive pricing variance. This represents an average 6.4% of net revenues. The variance of $2.1

billion in 2015 was boosted by a one-off pricing opportunity in Korea during the first quarter related to the large excise tax increase, which will not recur this year.

In 2016, we anticipate a pricing variance of around 6% of our 2015 net revenues.

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The excise tax environment remains largely rational, with no disruptive increases in any key markets so far this year. We are also witnessing a gradual improvement in the structure of excise taxes, with a trend towards a greater specific component. The current competitive pricing environment also appears to be quite reasonable.

(SLIDE 14.)

We are focusing on managing our total cost base, which amounted to $15.8 billion in 2015.

In 2016, we expect our total cost base, including RRPs, to increase by approximately 1%, excluding currency, reflecting certain non-recurring expenses, productivity and cost saving programs, and moderating prices for key inputs such as tobacco leaf, cloves and direct materials.

(SLIDE 15.)

I would now like to turn to *Marlboro* and our success in further reinvigorating the brand with the development and introduction of *Marlboro* 2.0.

(SLIDE 16.)

Marlboro is the only truly global cigarette brand. It is sold in 146 markets worldwide. In 41 of those markets, *Marlboro*'s share is 20% or higher, and it is the leading cigarette brand in half of our top-30 OCI markets.

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To unlock the brand's still significant untapped potential among adult smokers, we developed the *Marlboro* 2.0 Architecture. The aim was to make *Marlboro* smoother-tasting, more approachable and gender inclusive, while enhancing its premium quality and perception. This was achieved by upgrading and modernizing the packaging, and evolving the blend and cigarette construction to provide a more rounded sensory experience.

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Initial development started in Western Europe with *Marlboro Round Taste*. The new architecture was extended rapidly to the *Smooth Taste* and *Fresh Taste* families.

By the end of 2015, *Marlboro* 2.0 had been expanded to about 100 markets, and the overwhelmingly positive consumer reaction demonstrates that we have achieved our objective.

(SLIDE 19.)

Since 2013, we have been successful in increasing the share of *Marlboro Round Taste* in the full-flavor segment in the EU Region from 17.2% to 17.9% in 2015.

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Marlboro Smooth Taste has also made encouraging progress in the lighter-tasting segment in the EU Region, gaining 0.3 share points over the same period.

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Finally, *Fresh Taste* has significantly contributed to *Marlboro*'s success, fueled by innovative line extensions. *Marlboro* has gained approximately five share points in the menthol segment since 2008.

(SLIDE 22.)

The introduction of *Marlboro* 2.0 has generated very positive results in terms of market share momentum. Since 2013, *Marlboro*'s market share has grown in all four Regions. On a global basis, excluding China and the U.S., *Marlboro* expanded its market share from 9.3% in 2013 to 9.6% last year.

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Strict regulation of cigarettes is necessary given the health effects of the product. From a business perspective, we have proven that we can compete successfully in highly restrictive environments.

Currently, plain packaging is a focus of regulation in certain countries. There are two distinct aspects to plain packaging. One is the question of principle regarding the protection of intellectual property, including trademark rights, and the related deprivation that has been at the center of our arguments both with regulators and in various legal proceedings. The second aspect relates to the actual impact of plain packaging on market dynamics.

Regarding the question of principle, we are disappointed that, in the Australian case, we will not have the opportunity to debate the merits due to a jurisdictional issue. However, there are still important cases pending with the World Trade Organization and the U.K. High Court. We will know the outcomes in the course of this year.

With regards to the effect of plain packaging on market dynamics, we do not anticipate any material impact on total consumption, as confirmed by the evidence from Australia. Therefore, the question is the impact on illicit trade and, over time, on brand equity, potential downtrading and pricing power, if any. There is no simple general answer as the outcome will depend on specific market structures and dynamics. Overall, given the depth of our brand portfolio and excise tax structures that exist or can be adopted, we believe that the commercial impact of plain packaging should be manageable.

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Let me now turn to RRPs, starting with the regulatory aspects that are at the center of our efforts.

Products that are scientifically proven to significantly reduce the risks of smoking are a fundamental complement to the regulatory efforts to reduce smoking prevalence. Based on the World Health Organization's own predictions, there will be more than one billion smokers by the year 2025. Today, for the first time in history, we have products that have the potential to significantly and rapidly improve their health trajectories. Our stated ambition is to convince all current adult smokers that intend to continue smoking to switch to RRPs as soon as possible, but we cannot achieve this mammoth task on our own.

I believe it is high time that, in the interest of all these smokers, the World Health Organization, the public health community, regulators and anti-tobacco groups embrace the principle of harm reduction through the product and implement appropriate frameworks and unambiguous communication that will drastically accelerate current smoker adoption of RRPs and further foster innovation in this area.

We are mindful that RRPs are today uncharted territory for many regulators, but this should not be a reason for inaction. The faster public health authorities embrace this principle, in conjunction with on-going regulatory efforts on combustible products, the more immediate the public health benefit will be.

We are therefore strong supporters of robust regulatory frameworks that govern the deployment, assessment, commercialization, consumer communication and post-market surveillance of RRPs and are fully committed to the transparent sharing of our RRP science for unbiased third-party verification of both our product technologies and risk assessment science.

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Indeed, the risk assessment process has been our most complex undertaking in this journey. We had to establish an entirely new, state-of-the-art infrastructure and the scientific capabilities for the products' pre-clinical and clinical evaluation, in line with FDA guidelines and using methods from the pharmaceutical industry. The results so far are very encouraging and point to the conclusion that the effects on adult smokers who switch to these products are very close to those observed in people who quit smoking, a high

standard to meet in terms of individual risk reduction. Manuel will give you more details of our scientific results.

Significant individual risk reduction is a necessary but not sufficient condition to achieve population harm reduction. Adult smoker acceptance and adoption are also of paramount importance. Mirek will explain how we approach this task in various markets and the very promising results we have achieved so far. Today, we will focus primarily on *iQOS*. However, we have made very substantial progress on all of our other RRP platforms and expect to be in test markets with all of them within the next 18 months.

Let me now hand over to Manuel.

(SLIDE 26.)

Thank you André and good morning ladies and gentlemen.

(SLIDE 27.)

As outlined by André, the substantiation of the risk reduction potential of our novel product portfolio requires robust scientific evidence. More than 300 world-class scientists are deploying state-of-the-art capabilities in engineering, analytical chemistry, pre-clinical and systems toxicology, as well as clinical sciences to generate this evidence following internationally-recognized quality standards.

We are fully committed to transparent scientific data sharing for independent verification by third parties. Since 2011, we have published over 140 book chapters and articles in leading peer-reviewed scientific journals and are utilizing a very contemporary platform called sbvIMPROVER.com designed to verify both methods and results by independent scientists. We are participating in numerous international conferences and all our clinical studies are registered on the public website ClinicalTrials.gov.

(SLIDE 28.)

First let me to summarize our approach to assessing the risk reduction potential of our RRPs, or candidate Modified Risk Tobacco Products as defined by the U.S. FDA. As illustrated by this simplified graph, our aspiration is to demonstrate that our products have a risk reduction profile that approaches as much as possible that of cessation. The U.S. Institute of Medicine referred to smoking cessation as the “gold standard” for assessing risk reduction.

(SLIDE 29.)

To assess how close a candidate MRTP is to this “gold standard,” we are following a very comprehensive multi-step approach that spans from aerosol characterization to human clinical trials. At each step we demonstrate a key component of the risk reduction potential of a candidate MRTP before proceeding to the next step.

First, we determine whether, compared to cigarette smoke, the aerosol has significantly reduced levels of Harmful or Potentially Harmful Constituents, “HPHCs” for short.

(SLIDE 30.)

Second, whether a reduction in HPHCs leads to a reduction in toxicity using standard toxicology tests.

(SLIDE 31.)

Third, we use innovative systems toxicology methods to determine whether a reduction in HPHCs reduces the disease risk *in vitro* and *in vivo*.

(SLIDE 32.)

Fourth, we conduct clinical studies to assess whether switching to our products reduces exposure to HPHCs in adult smokers and whether this leads to a favorable change in smoking-related clinical risk endpoints in comparison to both continued cigarette smoking and cessation.

(SLIDE 33.)

Fifth, we conduct adult smoker perception and behavior studies to assess whether various adult consumer groups correctly understand potential communications.

(SLIDE 34.)

Finally, we conduct post-market studies to understand how the products are adopted and used once they are introduced in the market. We should always remember that the ultimate objective of significantly reducing population harm can only be achieved if adult smokers switch to MRTPs.

We have been accumulating this staged evidence on *iQOS* for several years and I will summarize the key results of our scientific studies that constitute the cornerstone of the MRTP Application we intend to submit to the U.S. FDA towards the end of 2016. Furthermore, our assessment of Platforms 2, 3 and 4 is progressing according to plan and the results of our aerosol chemistry, standard toxicology and systems toxicology studies are equally encouraging.

(SLIDE 35.)

As I mentioned, the first step of our approach is to assess the HPHCs. While an average HPHC reduction of 50% would already be toxicologically relevant …

(SLIDE 36.)

… our candidate MRTPs must achieve a threshold of at least 75% reduction to qualify for further assessment.

(SLIDE 37.)

Our quantitative chemical analyses demonstrate that the aerosol generated by *iQOS* actually contains on average 90% less of all classes of HPHCs compared to the smoke of the standard reference cigarette 3R4F, a quite remarkable reduction.

(SLIDE 38.)

This reduction in HPHCs leads to a concomitant reduction of the biological impact of the *iQOS* aerosol compared to cigarette smoke in standard toxicity tests that measure cytotoxicity and genotoxicity *in vitro*. We obtained similar results in all our standard toxicology studies, which we conducted with *iQOS*, both *in vitro* and *in vivo*.

(SLIDE 39.)

We also evaluated the impact of *iQOS* usage on indoor air quality based on international standards in comparison to smoking a cigarette (*Marlboro Smooth Taste*) under identical conditions. Out of eighteen indoor air constituents measured, the concentrations of sixteen constituents did not exceed the background level established with non-smoking panelists. Only acetaldehyde and nicotine concentrations were above background, but still 90% lower compared to cigarette smoking. Therefore using *iQOS* does not negatively affect indoor air quality.

(SLIDE 40.)

To further refine our assessment of the reduced toxicity of the *iQOS* aerosol we conducted a long-term *in vivo* study designed to mimic the effect of switching from cigarette smoke to *iQOS* aerosol.

(SLIDE 41.)

The study is designed to compare the impact of exposing mice to cigarette smoke over a period of eight months …

(SLIDE 42.)

… with the impacts of cessation and switching to the aerosol from *iQOS* after two months of cigarette smoke exposure.

(SLIDE 43.)

In addition we also exposed mice only to *iQOS* aerosol and fresh air for the duration of the study. In this study, in addition to classical evaluation methods, we have applied an innovative systems toxicology-based approach that assesses the impact on gene expression and other molecular changes. The results of this study were published this month in the peer-reviewed journal *Toxicological Sciences*.

(SLIDE 44.)

Let me show the results of the systems toxicology approach.

(SLIDE 45.)

The first red column shows that cigarette smoke causes extensive perturbations of many biological mechanisms involved in disease …

(SLIDE 46.)

… while the second column shows that continued exposure to *iQOS* aerosol for eight months does not.

(SLIDE 47.)

Finally, the last two columns show that cessation and switching to *iQOS* lead to similarly reduced perturbations of these mechanisms.

(SLIDE 48.)

Furthermore, the *in vivo* study shows that the reduced biological impact of exposure to *iQOS* aerosol leads to a reduction in associated disease endpoints in the exposed mice. On the left panel we see that cigarette smoke causes extensive emphysema in the lung, while exposure to *iQOS* aerosol for eight months, as well as cessation and switching lead to significantly reduced emphysema scores. The right panel shows that cigarette smoke causes extensive growth of atherosclerotic plaque in the aortic arch while all other cases lead to significantly reduced plaque growth. Again, for both endpoints, the effects of switching approach those of cessation.

In summary, the entire pre-clinical evaluation points to a significantly lower toxicological impact of *iQOS* that, *in vivo,* approaches that of cessation.

(SLIDE 49.)

Human clinical studies are a cornerstone of our assessment program. We have completed two three-month reduced exposure studies with *iQOS*, in Japan and in the U.S. In these studies we measured fifteen biomarkers of exposure to HPHCs, as well as

nicotine and its metabolites, in adult smokers who switched to *iQOS*, smokers who quit for the duration of the study and smokers who continued to use cigarettes. Biomarkers of exposure were measured in each of the three groups over ninety days in a close-to-real-world setting. I will now share with you the main results obtained in our study conducted in Japan, which were confirmed by the study conducted in the U.S.

(SLIDE 50.)

This slide shows the detailed results for four out of fifteen biomarkers of exposure over time, which indicate that in the group that switched to *iQOS* (shown in yellow) the four primary endpoints approach those of the group who quit smoking for the duration of the study (shown in green).

(SLIDE 51.)

The nicotine uptake of the group of adult smokers who switched to *iQOS* (shown in yellow) is similar to those who continued to use their own brand of cigarettes. Their exposure to the tobacco-specific carcinogen NNK was reduced to levels that approach those of the adult smokers who quit for the duration of the study. Furthermore, following an initial adaptation period, the smoking satisfaction of those adult smokers who switched to *iQOS* approaches that of cigarette users.

(SLIDE 52.)

This graph shows the summary results for all fifteen biomarkers of exposure at the end of the study. The results indicate that the average reduction in biomarkers of exposure in adult smokers who switched to *iQOS* (yellow bars) approached that of those who quit smoking for the duration of the study (green bars). We will publish these results and the results of the U.S. counterpart study in a peer-reviewed scientific journal this year.

(SLIDE 53.)

In addition to the fifteen biomarkers of exposure, 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. The results of our studies are consistent with the expected direction of change and show that switching to *iQOS* led to an overall reversal of clinical risk markers associated with smoking, after only three months.

In summary, the totality-of-the-evidence collected by our multi-step evaluation clearly indicates the risk reduction potential of *iQOS,* which is very encouragingly close to the “gold standard” of cessation.

(SLIDE 54.)

As part of our evidence package, we are also conducting specific research to assess risk perception of, comprehension of, and intention to use *iQOS* among various adult consumer groups, including former smokers and never smokers, which will help us develop appropriate labeling and marketing. This program is based on the FDA's Draft Guidance, which recommends perception and behavior assessment ("PBA"), and its protocols have been developed with an external advisory board. Our studies show that adult smokers react positively to *iQOS* and that a third express intention to use. Furthermore, adult smokers express correct understanding of the tested reduced risk communication as well as that *iQOS* is not without risk or an alternative to quitting. Importantly, less than 5% of the former smokers and less than 1% of the never smokers express intention to use the product. This is corroborated by early data from our pilot post-market cross-sectional studies in Nagoya (Japan) and Milan (Italy) showing negligible initiation and relapse. The PBA program is progressing according to plan and will be completed in the coming months.

(SLIDE 55.)

Following the launch of *iQOS* in Japan, we are conducting a post-market research program also based on the FDA's Draft Guidance and well-established scientific standards. The program includes: cross-sectional market surveys to track the use of *iQOS*; a surveillance program to monitor any adverse health events; and a cohort study to monitor how consumers use *iQOS* and to evaluate, in real life, clinical risk markers of *iQOS* users over a prolonged period.

(SLIDE 56.)

In summary, the totality-of-the-evidence collected to-date is very encouraging, both in terms of individual risk reduction potential and the assessment of pre-market population harm effects through our PBA program. We therefore intend to submit an MRTP Application to the U.S. FDA towards the end of 2016. Further information about our scientific approach, publications and presentations at conferences can be obtained from our website PMIScience.com.

Let me now turn the floor over to Mirek, who will share with you the exciting commercial development of *iQOS*.

(SLIDE 57.)

Thank you, Manuel, and good morning ladies and gentlemen. It is a pleasure for me to address the CAGNY conference.

(SLIDE 58.)

Let me first briefly outline our RRP Portfolio. We have four platforms, two heat-not-burn tobacco products, *iQOS* and Platform 2, and two products that contain nicotine but no tobacco, Platforms 3 and 4.

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I will focus on *iQOS* in today's presentation, but let me start with a few remarks on the progress we are making with our other RRP platforms.

We are on track for an initial city test of Platform 2 this year. This platform uses a pressed carbon heat source that, once ignited, heats the tobacco to generate a nicotine-containing aerosol. We are encouraged by the better-than-expected adult smoker feedback, and 60% predominant use, following a four-week whole offer test conducted in Romania at the end of 2015. We will continue to further assess the full potential of the platform in other markets and are progressing on finalizing the commercial offer and marketing plans.

With regard to nicotine-containing products we are also well advanced in the development of our "next generation" e-vapor products leveraging our new proprietary vaporization technology and our joint research and development agreement with Altria. We expect to conduct a city test in the last quarter of this year.

Product development is also progressing with regard to Platform 3, which is based on acquired technology and creates an aerosol of nicotine salt formed by the chemical reaction of nicotine with a weak organic acid. We expect to be ready to conduct a city test for the platform in early 2017.

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At the core of our *iQOS* strategies is the deployment of a consumer-focused, scientifically-substantiated product offer and communication.

It is fundamental to establish an understanding of the difference between combusting and heating tobacco with regulators, adult smokers, trade partners and the public at large.

As André mentioned, harm reduction through the product is novel and uncharted territory for the vast majority of regulatory authorities and the public health community, and we are actively engaging with them to define appropriate product standards, regulations and fiscal treatments for the RRP categories.

As *HeatSticks* are not cigarettes, they have either been classified under newly-created excise tax categories for non-combustible products, or under existing alternatives to cigarettes.

We continue to optimize and enhance our product offer. We have already introduced a new version of *iQOS* and continue to improve the consumer experience offered by the device as well as expand the *HeatStick* variant line-up. We have a strong pipeline of developments that, whilst keeping the aerosol chemistry intact, will further enhance the functionality and, ultimately, consumer acceptance.

We also continue to optimize our route-to-consumer strategies, reflecting continuous learnings from launch markets. As the category is new, more time is required to communicate to adult smokers the benefits of *iQOS* compared to cigarettes, in order to ensure understanding beyond simple awareness and trial. It is important, for example, to ensure commitment to exclusively use *iQOS* during the initial few weeks, which are critical for full conversion. We know that consumers who fully adopt *iQOS* do not switch back to cigarettes. Traditional points-of-sale are not always suited for such comprehensive engagement activities.

Consequently, we are expanding our marketing toolbox to include the right venues and communications suite to achieve these objectives. Different approaches are being tested in the various launch markets.

This has been, undeniably, a much more complex undertaking than cigarette marketing, but we are very pleased with both the knowledge we have accumulated thus far and the very promising consumer feedback. Therefore, we are preparing to broaden our geographic presence.

Let me now take you through the initial commercialization results for *iQOS*.

(SLIDE 61.)

As we communicated during our fourth-quarter 2015 earnings call, Japan is our most advanced market. Last September, we expanded beyond our Nagoya pilot city to a geographic area that encompasses more than 60% of the adult smoker population.

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Our share performance in this expansion area has exceeded our expectations and is increasing steadily. We achieved an estimated offtake share for *Marlboro HeatSticks* of 1.6% in the expansion area at the end of January 2016, up by 0.5 percentage points since the end of December. In Tokyo, we reached an estimated offtake share of 2.4%, up by 0.7 percentage points since year end, a very positive indicator for the future potential of *iQOS* in Japan.

We will expand further to reach full national coverage in Japan as of next month.

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Our performance is supported by broad interest among adult smokers across all segments despite the premium positioning of *HeatSticks*. 35% of *iQOS* users are coming from our own cigarette brands, while 65% are sourced from competitors' cigarette brands. For reference, our full-year cigarette market share in Japan for 2015 was 25.3%.

As expected during the initial stages, *iQOS* is particularly attractive to male adult smokers in the 35-plus age group. At the same time, we have an opportunity to increase conversion among female adult smokers, where we are currently under-indexed and have plans to address this.

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Importantly, the conversion rate of adult smokers to *iQOS* users continues to increase. Four months after the pilot city launch in Nagoya, our market research data indicated that we achieved a combined full and predominant conversion rate of 48%. We define full and predominant *iQOS* users, as those who stated that *HeatSticks* account for more than 70% of their daily tobacco consumption. By December 2015 we had achieved a combined full and predominant conversion rate of 57% in the entire expansion area, which demonstrates the increased effectiveness of our consumer engagement activities based on what we learned from the Nagoya pilot launch.

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We have observed that adult smokers who convert to *iQOS* do so after only a few weeks, which, as I mentioned previously, is shaping our marketing focus. Adult smokers who have adopted *iQOS* appreciate the taste and inherent benefits of the offering, and do not switch back to cigarettes. We estimate that over 100,000 Japanese adult smokers have already quit smoking and use *iQOS* exclusively, a very encouraging result.

(SLIDE 66.)

We deployed a number of new marketing programs and activities in support of the geographic expansion in Japan.

For the expansion area, we introduced a new version of the *iQOS* device which is now available in slate and white colors, and has an enhanced look and feel to broaden appeal. In addition, we are successfully introducing limited edition metallic red and blue versions, which we plan to add as permanent extensions later this year.

We also launched two additional *HeatStick* variants, a less intense menthol and a smoother regular taste. All four *Heatstick* variants on the market retail at 460 Yen per pack, at parity with *Marlboro* cigarettes.

We have also started to leverage relationship marketing programs and business-to-business engagements to increase category awareness and usage acceptance among adult smokers in different business communities with positive results.

In support of adult smoker conversion, our core selling messages have thus far focused on the product convenience benefits of “no fire,” “no ash” and “less smell.”

(SLIDE 67.)

As Manuel explained, we have clearly substantiated that using *iQOS* does not negatively impact indoor air quality. Based on this, we introduced an indoor air-quality message to adult smokers in Japan in September last year as shown on this visual.

In Japan many local authorities have implemented outdoor smoking restrictions. Philip Morris Japan is engaging with those local authorities to explain the convenience benefits and the science behind *iQOS*. We already have confirmation from 17 local authorities that *iQOS* can be used in outdoor places where cigarette smoking is banned.

Furthermore, in line with our commitment to evolve adult smoker messaging as our scientific substantiation progresses, we have recently started informing adult smokers in Japan of the significantly reduced levels of harmful chemicals inhaled when using *iQOS* compared to cigarette smoking.

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Our flagship stores have proven to be extremely valuable. They are an excellent venue to introduce the innovative nature of heat-not-burn technology, to establish the brand and the proposition through expert guided trials, purchase and after-sales service. We have six flagship stores in the expansion area. They ideally complement *iQOS*’s presence in convenience stores and general trade.

(SLIDE 69.)

In October last year, we opened our first *iQOS* airport lounge in Osaka International Airport. Adult smokers can now discover and enjoy *iQOS* in a pleasant environment compared to existing smoking lounges.

(SLIDE 70.)

To summarize, we are extremely happy with the initial performance of *iQOS* in Japan.

We will continue to work diligently to build category awareness and to establish an appropriate regulatory framework for RRPs. We are continuously evolving and focusing our marketing and consumer engagement platforms to increase their relevance to diverse adult smoker communities in order to further accelerate full conversion. There is a lot of work in front of us but the prospects in this important market are very promising.

(SLIDE 71.)

Let me now turn to the performance of *iQOS* in other launch markets.

In Milan, Italy the commercialization of *iQOS* presented specific challenges due to the restricted marketing environment, the nature of the traditional trade channels that proved sub-optimal for quality consumer engagement and a certain reluctance of a number of adult smokers to experiment with a new category given their prior dissatisfaction with e-vapor products.

We achieved an estimated *HeatStick* offtake share of 0.3% in the greater Milan area at the end of December, which was below our expectations at that stage. As a result, we have re-focused our marketing approach and continue to optimize our touch-points to increase the effectiveness of our engagement.

In December 2015, we expanded beyond our pilot city in Milan to the cities of Modena, Rome and Turin.

Our new adult smoker consumer touch-points include "*iQOS* Embassies." Similar to our flagship stores in Japan, our *iQOS* Embassies in Italy will provide consumers with product information, opportunities to try *iQOS,* purchase it and receive after-sales support. *iQOS* Embassies have now been opened in all three cities. Also, similar to Japan we are reaching a variety of adult smoker communities through tailored programs.

We will launch the sale of *iQOS* devices through our e-commerce platform in March and have expanded *HeatSticks* distribution in Italy beyond the four cities.

Let me show you a short video illustrating our new *iQOS* Embassies in Italy.

(SLIDE 72.)

[Video]

(SLIDE 73.)

In August last year, we launched *iQOS* in 16 points-of-sale across six cities in Switzerland, deploying a different commercialization approach. Using grassroots marketing, as well as e-commerce, we reached an estimated *HeatStick* offtake share of 0.7% in the launch area by the end of January 2016. In response to the growing acceptance of *iQOS*, we have now increased *HeatStick* distribution to 72 points-of-sale.

Our performance reflects broad interest in *iQOS* among adult smokers from a wide range of segments. Around 50% of *iQOS* users are sourced from adult smokers of our own cigarette brands. For reference our full-year cigarette market share in Switzerland in 2015 was 40.9%.

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We are increasing the conversion rate of adult smokers to *iQOS* users. By the end of December 2015, we achieved a full and predominant conversion rate of 70% in the six cities, which compares very favorably to the 57% observed in Japan. We will maintain our focus on adult smoker conversion while scaling up our activities.

(SLIDE 75.)

At the end of 2015, we launched *iQOS* in Bucharest and Lisbon with *Marlboro HeatStick*s and in Moscow with *Parliament HeatSticks*.

While it remains too early to discuss performance in these other markets, we are encouraged by the initial consumer response.

I am pleased to announce that we commenced our 2016 commercialization plans for *iQOS* with a city launch in Kiev on the first of this month. As we have previously mentioned, we expect *iQOS* to be present in key cities in around 20 markets by the end of the year.

We will continue to update you on our progress on this exciting journey.

iQOS user feedback is very important to us. Let me share with you some *iQOS* user testimonials from Switzerland, which highlight their experiences and challenges when switching to *iQOS*.

(SLIDE 76.)

[Video]

(SLIDE 77.)

Let me now hand over to Andre for his final remarks.

Thank you, Mirek and Manuel.

This is an exciting time to be in the tobacco industry, without doubt the most exciting moment I have experienced in my 31 years with PMI. For the first time in history, we have products with the real potential to both accelerate harm reduction and grow our business. Indeed, we stand on the cusp of a true revolution.

When I spoke to you at our Investor Day in June 2014, I told you that we expected to achieve a market share, net of cannibalization, of between 3% and 5% in the trillion-unit market initially in scope. We projected that the incremental volume of 30-50 billion units would generate a potential additional margin of between $720 million and $1.2 billion per

year. Today, I am more confident than ever that we should be able to be within this range by 2020.

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 continue to lead the current category and to become the undisputed leader of the new one, and that is why we are accelerating our efforts to get there.

(SLIDE 78.)

Thank you. My team and I will now be happy to answer your questions.