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ANDRE CALANTZOPOULOS

(SLIDE 1.)

Thank you, Jane. It is a great pleasure for me to be back at the CAGNY Conference. Let me extend a warm welcome to those joining us on the webcast.

I would like to introduce the team here with me today. On stage we have Jacek Olczak, Chief Operating Officer, Martin King, Chief Financial Officer, and Nick Rolli, Vice President Investor Relations. Also in attendance are Mirek Zielinski, President Science and Innovation, Manuel Peitsch, Chief Scientific Officer, and Frank de Rooij, Vice President, Treasury and Corporate Finance. All of us will be available at dinner this evening.

(SLIDE 2.)

Our 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 present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking.

(SLIDE 3.)

Today, I will provide an update on:

- our strategy for a smoke-free future, a very inspiring purpose that drives us all;
- an overview of the key success factors that are under our control, as well as factors primarily related to the regulatory environment and the attitudes of the public health community, which could significantly accelerate smoker switching to the RRP category; and
- how we are progressing on both fronts to accelerate growth.

Jacek will discuss the strength of our combustible business and explain in greater detail the operating model and investments driving the commercial success of our RRPs.

Martin will remind you of the assumptions in our 2018 guidance that we provided earlier this month, including our tax rate under the new U.S. tax law, and discuss our investment, capital structure and shareholder return priorities.

Finally, I will return with some concluding remarks.

(SLIDE 4.)

We have made significant progress on our smoke-free strategy since the last time I spoke here two years ago. To put our progress into perspective, let me share some of the noteworthy highlights, which compare year-end 2017 to year-end 2015 unless otherwise noted:

- Heated tobacco unit volumes increased from nearly 400 million units to over 36 billion…

(SLIDE 5.)

- RRP net revenues grew from $64 million to $3.6 billion and accounted for almost 13% of our total 2017 net revenues. RRPs already contributed to profit growth last year, compared to a previous assumption of breakeven…

(SLIDE 6.)

- *IQOS* has been launched in 38 markets, compared to just 7…

(SLIDE 7.)

- National *IQOS* share in Japan rose from 0.4% to 14.1% in December 2017…

(SLIDE 8.)

- We have completed ten clinical trials and an impressive number of other non-clinical scientific studies of our RRP platforms. The vast majority of our non-clinical studies have already been peer reviewed. We remain committed to scientific transparency and welcome independent, third-party verification. We have also submitted MRTP and PMTA applications to the FDA…

(SLIDE 9.)

- We have implemented a new organizational structure to enhance our executional focus and accelerate the growth of RRPs…

(SLIDE 10.)

- We have maintained the competitiveness of our combustible business through judicious resource reallocation and fewer, more effective commercial initiatives. In fact, our cigarette shares have been resilient in *IQOS* markets despite reallocation, and the pricing power of our combustible portfolio remains intact, as evidenced by a 5.9% combustible pricing variance alone in 2017, despite essentially no net pricing in Russia.

(SLIDE 11.)

- Reflecting our activities and tremendous efforts, we estimate that nearly five million adult consumers around the world have already stopped smoking and switched to *IQOS*, the most advanced of our smoke-free products.

(SLIDE 12.)

Since we embarked on this transformation journey, we have spent over $4.5 billion to develop, substantiate the reduced-risk profile of, and build manufacturing capacity for, a wide portfolio of smoke-free products. Most importantly, after only two years since significant commercialization started, nearly 40% of our worldwide commercial expenditure and nearly 75% of our global R&D expenditure were dedicated to these innovative products.

(SLIDE 13.)

Our results so far demonstrate the enormous potential of reduced-risk products. We want to give the world's 1.1 billion men and women who smoke the opportunity to choose better alternatives than continued smoking.

With approximately 10,000 people now switching from cigarettes every day, the impact of *IQOS* is already unprecedented compared to any tobacco regulatory measure.

The unique and historic opportunity to improve the lives of smokers, while positioning our RRP portfolio at the leading edge to capture the lion's share of this enormous business opportunity, is what drives and inspires everyone at PMI.

We are fully cognizant of the understandable skepticism among regulators and the public health community. We will do everything we can to demonstrate our seriousness, transparency and, ultimately, trustworthiness. We are making progress, but there are many who still need to see the merits of the RRP proposition. We also acknowledge that there are people who refuse to accept the proposition. As I will explain later, there has to be caution in this camp that their actions and positions do not mislead or confuse consumers into making ill-informed choices about RRPs.

(SLIDE 14.)

Where this trajectory takes us over the long term is outlined on this slide, and was also included in our 2016 Sustainability Report. Although these volumes conservatively assume a constant PMI market share of the combined RRP and combustible category outside China and the U.S., we do see a material shift in the make-up of our business over the next several years. As our RRP volumes grow, driven by adult smoker switching, it is natural that the size of the combustible business will contract. This is an outcome we are prepared for – and welcome. However, higher inherent volatility also accompanies this new future.

Our aspiration is that, by 2025, at least 30% of our volume – or approximately 250 billion units – will come from RRPs.

(SLIDE 15.)

Using today's pricing and excise tax assumptions, this could represent approximately $17 to $19 billion of RRP net revenues, or 38% to 42% of total PMI net revenues. Most importantly, 40 million people who would have otherwise continued smoking will have switched to our smoke-free products by then. We remain ready to support appropriate demand- and supply-side measures that will further accelerate an industry-wide transformation.

(SLIDE 16.)

To seize the RRP opportunity and make this vision a reality, there are three key areas in which we must excel:

First, we must always be at the forefront of product innovation and deploy an increasingly comprehensive ecosystem around our products that delights consumers throughout their journey, from providing compelling reasons to switch from cigarettes to remaining loyal to our platforms. Rigorous scientific substantiation, pre- and post-market, will remain the foundation for all our RRP platforms. So, in summary, superior science, technology and consumer experience will be at the core of our company's success.

Second, we must continue in our efforts to demonstrate to regulators, the scientific community and NGOs that RRPs will play a pivotal role in changing the lives and health trajectories of the hundreds of millions of men and women who smoke and, therefore can make a significant contribution to public health. And, that RRPs deserve specific regulatory regimes that are different from combustible products including demand and supply measures that can incentivize people to switch. From this perspective, last year's landmark policy announcement by the FDA and, more recently, the report from Public Health England, are of critical importance and I do hope they will become a catalyst for other governments to adopt similar sensible regulatory policies. I would reiterate that scientific substantiation by all manufacturers of RRP products is key for the credibility of the category in the eyes of consumers and regulators.

Third, these new business imperatives require that we continuously sharpen and expand our technical skills, including through partnerships or acquisitions. They require a higher degree of organizational agility, entrepreneurship, accuracy in communications and foresight, as we navigate highly promising, but uncharted waters that inherently increase business volatility. This is just the beginning of the journey, but my assessment is that we are progressing rapidly and are ideally positioned to succeed and deliver superior value in the years to come.

(SLIDE 17.)

We are encouraged by the increasingly open dialogue around RRPs and the recognition of our efforts to substantiate the reduced-risk profile of our products. However, it is important to understand that rigorous pre-market scientific assessments and due diligence are essential to significantly reduce scientific uncertainty, but they cannot provide absolute certainty. This principle routinely applies to innovations across all regulated product categories.

(SLIDE 18.)

It is therefore critical for both regulators and consumers that we continue to assess the risk profiles of our current and forthcoming RRPs compared to continued smoking, both in pre- and post-market settings.

We fully recognize the public skepticism regarding our science. To demonstrate the seriousness of our science, we are committed to full transparency of our research and to provide the tools for others to independently verify our results. To date we have taken the following steps:

Our scientific assessment program is built on the internationally recognized OECD testing guidelines, Good Laboratory Practices and Good Clinical Practices. We have also developed a systems toxicology-based approach to RRP assessment that employs state-of-the-art research technologies. In summary, we believe our scientific research capabilities are on par with the best in the life science industries.

We actively share our methods and study results, making them available for public review. We post all our clinical study protocols and subsequent results on ClinicalTrials.gov. Over the last two years, we published over 100 peer-reviewed articles in leading scientific journals, and shared our results at 150 scientific conferences.

Our systems toxicology methods and results are subjected to an even higher level of scientific scrutiny through the sbvIMPROVER methodology. The reviews of our *IQOS* studies were submitted to the FDA as part of our MRTP applications.

This year we are going one step further in our scientific transparency by making the raw data from our non-clinical and clinical RRP studies available to the public.

Furthermore, we welcome independent studies of our RRPs. Over the last year several such studies have already confirmed that *IQOS* emits reduced levels of toxicants compared to cigarettes. We encourage others to undertake serious non-clinical and clinical studies with *IQOS*.

We believe our consumers deserve our unwavering commitment to help them fully understand the benefits of switching to RRPs.

(SLIDE 19.)

We are not saying that RRPs are safe or a perfect solution. We are saying that switching to smoke-free products is a better choice than continuing to smoke, and that switching completely is likely to yield significant benefits over time.

In assessing pharmaceuticals, to highlight an important sector, regulators do not apply a standard of absence of risk. Rather, a drug is approved if the clinical significance and probability of its beneficial effects outweigh the likelihood and medical importance of its undesirable or harmful effects. This is also why a post-market program is necessary, something we fully support for RRPs.

Consequently, it is a logical imperative that adults who smoke should have access to accurate information about better alternatives. The opposite would be unacceptable for any product category. The core societal question is not whether to reduce smoking prevalence by replacing cigarettes with RRPs, but how best to do it. And how we can achieve this as soon as possible.

Encouragingly, there is also growing recognition that nicotine-containing products exist on a continuum of decreasing risk – cigarettes representing the highest risk – as stated by the FDA, Public Health England, the European Union and others. In other words, not all tobacco and other nicotine-containing products are the same from a risk perspective. There is significant confusion about this subject that we and regulators must clarify.

In reality, not all regulatory and fiscal rules that apply to cigarettes are relevant and justified for RRPs. Regulators must differentiate supply and demand measures – for example, product, communication and fiscal policies – based on product attributes and risk profiles. This is of critical importance for the people who smoke and who deserve policy choices that respect them, and their ability to decide. And policies should be sensible, and based on principled pragmatism rather than influenced by ideology. 1.1 billion men and women who smoke cannot be held hostage to, and misled by, absolutism that foments nihilistic rhetoric. Otherwise the vision of a smoke-free world will be harder and take longer to materialize, to their detriment.

(SLIDE 20.)

Indeed, there has long been public discourse about tobacco. But it is now taking place at a critical time for both public health and people around the world who smoke, as RRPs gain traction with consumers.

Emotions and ideological rhetoric are often fierce when tobacco is the topic. Unfortunately, this neither promotes sound public policy nor enables the public to understand important facts.

What is most troubling is when rhetoric is reported in media sources that purport to be objective. Often the headlines and stories are wrong on the facts and seem to drive a particular point of view or serve a particular interest. I am not talking about op-eds or editorial opinions. I am talking about content that is verifiably wrong – in a black and white way.

Ideology needs an enemy, and it is convenient to cast PMI in that role. Extreme ideology simply does not want RRPs in the market, let alone that we bring them. We at PMI understand that harsh media coverage or biased scientific studies are inevitable. But the headlines and stories are creating confusion for policy makers and the millions of people who smoke. And this cannot be allowed. Ethics tell us that the ends do not justify any means, especially when they mislead and confuse the very people whom they purport to protect.

On February 6th, Public Health England issued a report on e-cigarettes and heated tobacco products. The report zeroed in on misreporting of scientific studies by the media. After giving examples of headlines that didn't reflect the facts, the report stated: "The consequences of this inaccurate or inadequate reporting are that the general public is misled. This could induce smokers to carry on smoking rather than switching." That is a perfect description of a real problem.

You have been following the FDA's approach to tobacco and nicotine. In that regard, I appreciate and respect last year's bold policy announcement by the FDA to enable innovation that will be good for consumers and public health. The FDA faces significant pressure from all sides as it moves forward, but the Agency has clearly shown its commitment to progress. And, as we saw in its briefing to the Advisory Committee and during the TPSAC meeting, the FDA is conducting a rigorous process with professionalism and objectivity.

It was also encouraging to see how the FDA addressed a recent Swiss study on *IQOS* that made undue headlines, stating in writing that the study indeed has many flaws and does not bear on the FDA's assessment of *IQOS*.

These are crystal clear admonitions from prominent authorities about accuracy. We certainly take great care in our public statements and consumer information because the public and consumers expect – and deserve – no less. NGOs and the news media should also apply due diligence so that they can communicate accurately. We recognize the hurdles, but will do our best to fight and correct inaccuracies that pollute the information environment in which consumers, policy makers and investors are making important decisions.

(SLIDE 21.)

Turning now to the U.S. and our recent presentation to TPSAC, the meeting was part of the FDA's review of PMI's applications to commercialize *IQOS* in the U.S. as a Modified Risk Tobacco Product.

We believe that the Committee's discussions and interactions with presenters reflected respect for the integrity of our scientific data and our commitment to bring *IQOS* to the U.S. market in close collaboration with Altria. Although the Committee did not agree with some of the specific language related to consumer communications, it confirmed that the evidence supported the statement that switching completely to *IQOS* significantly reduces exposure to harmful chemicals.

The meeting with TPSAC was just one step in a broader, on-going review of our MRTP applications by the FDA, and the recommendations and votes of the Committee, while important, are advisory. In order to make a final decision, the FDA will now consider the topics discussed at the meeting, including public comments, along with the totality of the evidence we submitted and additional information we had already committed to submit. We look forward to working with the FDA to clarify any outstanding points, while recognizing that some questions can only be realistically answered in a post-market scenario.

Separately, we have submitted a Pre-Market Tobacco Application to the FDA which, if granted, will permit the commercialization of *IQOS* in the U.S. without modified risk messages. This application was not before the Committee as it follows a parallel regulatory pathway. Based on the FDA's statutory timeline, a decision on the application could be made in the coming months.

It is now my pleasure to introduce our Chief Operating Officer, Jacek Olczak.

(SLIDE 22.)

JACEK OLCZAK

Thank you, André.

(SLIDE 23.)

Good morning, everyone. It is great to be back at CAGNY.

Let me begin with the recent trend in total industry volume, which aggregates cigarettes and heated tobacco units. The annual decline of the international market, excluding China and the U.S., has ranged from 2.2% to 2.8% since 2014. This year, we anticipate a total industry decline in the range of 2% to 3%, consistent with recent years.

For PMI, we anticipate a total shipment volume decline in 2018, at the low end of the total industry decline range, with a decrease for cigarettes partly offset by the strong growth of heated tobacco units.

(SLIDE 24.)

Our total international market share was essentially stable last year, following a decline in 2016 that primarily reflected pressure on our low-margin brands in the Philippines, which has since abated.

The growing contribution of heated tobacco units to our total share was clearly visible in 2017, reaching 0.8 points, an increase of 60 basis points compared to the prior year.

(SLIDE 25.)

On a quarterly basis, we recorded strong sequential growth in our total international share last year, led by our heated tobacco products, which reached a fourth-quarter share of 1.2%, nearly a full percentage point above the level in the fourth quarter of 2016.

(SLIDE 26.)

While we focus on our total performance, we realize that investors remain interested in the underlying strength of our combustible tobacco portfolio.

In this regard, I am very pleased by the continued growth of *Marlboro*, which reached a cigarette share of 9.7% in 2017, a 30 basis point increase over three years. The brand's share of the premium segment increased by 1.4 points over the same period to reach 33.4%.

Importantly, this performance has come despite the disproportionate impact on the brand of out-switching to our heated tobacco products in *IQOS* launch markets as well as the volume contraction in Saudi Arabia.

(SLIDE 27.)

I am also pleased by the continued strong pricing delivered by our combustible tobacco portfolio.

Historically, our combustible products have generated an average annual pricing variance of over 6% of prior year net revenues. At 5.9%, our combustible pricing in 2017 was broadly in line with this level, despite essentially no net pricing from Russia, one of our largest markets in terms of profits. For 2018, we anticipate combustible tobacco pricing of around 7%.

As the contribution of RRPs to our business has grown, so too has its dilutive impact on our combined pricing variance, primarily reflecting the adverse impact of allowances – namely introductory discounts on *IQOS* devices. We expect this impact to continue over the near term, as we establish the category and prioritize consumer acquisition. However, over the mid to long-term, we see device pricing as a clear opportunity.

(SLIDE 28.)

As we transform our business towards a smoke-free future, we remain focused on maintaining:

- our leadership of the combustible tobacco category outside China and the U.S.; and
- the premium positioning of our brands in every segment in which we compete.

In support of this ambition, we are consolidating our cigarette brand portfolio through the morphing of local brands into international trademarks. This consolidation is important because it allows us to focus our innovation and more efficiently support a smaller number of brands with greater volume. It also removes complexity, and thus costs, from our production processes.

In 2017, our top six international cigarette brands accounted for approximately 72% of our total cigarette volume, an increase of nine percentage points since 2014.

(SLIDE 29.)

Our innovation review process has become even more rigorous. It has a clearly defined market share threshold for authorizing – and subsequently evaluating the success of – new launches, and has been supported by the use of an internally-developed predictive model that employs machine learning.

This enables us to reduce the number of new product launches while, at the same time, significantly increasing our success rate, resulting in net market share and cost benefits. This focus is very important with the advent of RRPs. It also allows us to more effectively manage the number of cigarette SKUs.

Recent examples of successful launches include *Marlboro Filter Black* in Indonesia and *L&M Forward* in Portugal, an *IQOS* market.

Clearly, our combustible tobacco portfolio still contributes the lion's share of our earnings and cash flow, so we continue to invest behind it judiciously – in terms of both management focus and financial support – as we transform our business to a smoke-free future.

(SLIDE 30.)

I will spend the remainder of my remarks on RRPs, which represent a significant change in how we operate and manage our business, particularly with regard to how we interact with adult consumers.

In short, we are shifting from primarily a business-to-business model revolving around distribution and retail trade to a model where consumer centricity is a must.

(SLIDE 31.)

As the heated tobacco category is new, more time is required to communicate product benefits compared to smoking, as adult smokers are very demanding and therefore quite reluctant to change their behaviors.

We are therefore deploying a significant number of additional specialized field personnel, or “coaches,” that have been rigorously trained to perform quality guided trials with adult smokers and explain the fundamental differences between cigarettes and *IQOS*.

For an adult smoker, a successful guided trial – a truly personalized experience – leads to the purchase of an *IQOS* kit and the start of the conversion journey. Customer care service, including digital tools, is then available to follow up, encourage consumers not to fall back to cigarettes and address any questions or issues.

Once the adult smoker has successfully switched to *IQOS*, and is experiencing the communicated benefits of the proposition, he or she becomes, in effect, a brand ambassador, sharing personal experiences with other adult smokers, which ultimately accelerates *IQOS* expansion.

(SLIDE 32.)

The up-front investments associated with launching *IQOS* are therefore much greater than those required for launching a cigarette brand.

They entail:

- additional specialized field resources to engage with adult smokers, the trade and other stakeholders;
- retail spaces, which range from full-fledged flagship stores to boutiques and pop-up stores in high-traffic, urban areas, and select *IQOS* partner outlets from our existing retail infrastructure;
- customer care service infrastructure for after-sales support; and
- digital platforms.

(SLIDE 33.)

To provide some perspective on the step-up in investment required as we expand *IQOS*, let me give a few specific examples.

In 2017, we had nearly seven thousand *IQOS* coaches who gave over 5.1 million guided trials. Both figures represented more than three-fold increases compared to the prior year.

Quality guided trials and customer care are driving our high *IQOS* switching rates and allow us to establish direct relationships with consumers.

(SLIDE 34.)

We also significantly increased the total number of *IQOS* flagship stores and boutiques to 62 at year-end 2017 versus just 22 the year before.

(SLIDE 35.)

Third-party retail locations, such as *IQOS* shop-in-shop and pop-up stores, increased even more significantly, reaching over 750 in 2017.

(SLIDE 36.)

I will now cover the evolution of switching costs, using Japan as an example.

The chart on the left shows the cost of consumer acquisition, which has declined significantly over the past three years. As the understanding of the category and its benefits are established in adult smoker communities, *IQOS* starts enjoying word-of-mouth, as adult smokers share experiences with friends and peers. Although this varies according to countries and cultures, it is universally true.

Over time, and as the category becomes more established, the need for time-intensive, one-to-one communication is significantly reduced. Furthermore, as the user base grows, infrastructure costs, such as those related to retail experience and customer care, remain stable or grow at a much slower pace than the consumer base, further improving the economics of *IQOS*.

It is also useful to consider how our commercial expenditures behind *IQOS* evolve over time relative to those for combustible products, as shown in the chart on the right.

On a cost per thousand units basis, our commercial expenditures for heated tobacco in Japan declined considerably over the same three-year period, approaching those of cigarettes as of 2017.

Today, if we exclude Japan, the corresponding cost per thousand units for heated tobacco units across PMI is around 25 times that of cigarettes, similar to the early stages in Japan. Logically, we would expect a similar convergence to occur over time outside Japan as volume of RRPs expands.

(SLIDE 37.)

In absolute terms, our total commercial expenditures in Japan increased by 10% from 2015 to 2017, and reflects a significant reallocation from cigarettes to heated tobacco, essentially reaching an equal split.

(SLIDE 38.)

As you think about the financial impact on our business of the growth of RRPs, it is helpful to understand the key drivers of the unit economics of *IQOS* devices and heated tobacco units. In this respect, it is important to keep in mind the way we approach the profitability of *IQOS*, with a focus on total profitability by consumer, as opposed to the individual components of the platform.

For devices, the first element is the retail selling price. The global average RSP was around $110 in 2017, which includes VAT, sales tax and trade margin.

The introductory discounts that we offer to consumers play a key role. On average, these discounts equate to approximately 25% of the RSP.

While we have not provided the unit cost of devices, it fell by around 15% in 2017, mainly reflecting economies of scale and the addition of our second supplier late last year. This trend will continue in 2018. We are also recording lower costs related to warranty service and replacements, as inevitable quality-related teething pains are addressed.

Finally, it is important to note the small contribution of *IQOS* accessories, which have high unit margins.

Over time, we expect the unit economics of devices to continue to improve. Clearly, any new generation of devices will follow similar dynamics.

(SLIDE 39.)

For heated tobacco consumables, the unit economics are much more straightforward, with the cost of goods sold per unit approaching that of premium cigarettes. In fact, the lower manufacturing machine speed resulting in higher labor and fixed manufacturing expense is largely compensated by lower tobacco weight. This equation will continue to improve over time as machine efficiency increases. Trade margins are consistent with those of cigarettes.

Consequently, as heated tobacco units are priced at the premium end of the market, they provide a unit margin in line with premium cigarettes – assuming similar excise tax treatment – and thus result in a positive mix benefit as consumers up-trade. In reality, the excise tax treatment of heated tobacco varies by market, and thus far has generally resulted in a lower level compared to cigarettes, which is logical given the risk profile of *IQOS*.

Although we believe that the premium positioning of *IQOS* is critical to the credibility of the category, over time we are committed to offering products that address the varying affordability preferences of consumers in order to accelerate heated tobacco category growth. Obviously, more favorable excise tax treatment can play an important role in this regard.

(SLIDE 40.)

Turning to our commercial roll-out of *IQOS*, we are now present in 38 markets worldwide. We have rolled out *IQOS* nationally in Japan and Korea, and have focused on key cities with varying levels of distribution coverage in the other markets.

For 2018, our priority is to go deeper with *IQOS* into our existing launch markets. We feel comfortable with the number of markets where we are present, and plan to further deploy our many learnings across these markets to accelerate growth.

(SLIDE 41.)

As André discussed during our full-year results call earlier this month, we recorded sequential growth in our heated tobacco unit national market shares in 2017.

(SLIDE 42.)

This growth trend continued in January of 2018, with standout performances in Korea, Portugal and Romania.

(SLIDE 43.)

There was a similar growth trend in the focus area offtake shares for our markets that are more targeted geographically.

(SLIDE 44.)

This strong growth continued in January.

(SLIDE 45.)

Our weekly offtake shares in Japan continued to grow in January, both nationally and in the prefectures where the heated tobacco category is the most mature from a competitive standpoint – Fukuoka, Sendai and Tokyo.

(SLIDE 46.)

In Sendai specifically, our weekly offtake share growth in January drove further growth in our heated tobacco category share. In fact, the category's growth was driven primarily by *IQOS*.

(SLIDE 47.)

Our strong share performances for *IQOS* continue to be underpinned by high *IQOS* switching across markets, which generally reflects rates of full and predominant conversion ranging from around 70% to 90%.

IQOS switching rates in certain markets are beginning to reflect the emerging presence of competition in the heated tobacco category, as *IQOS* purchasers experiment with newly available products, even if just temporarily.

(SLIDE 48.)

The most obvious example is Japan, where there are now several heated tobacco products. Looking at *IQOS* switching, an estimated 68% of *IQOS* purchasers have switched exclusively to the heated tobacco category.

Of this group, the vast majority – an estimated 82% – only use *IQOS* within the heated tobacco category. Another 9% use *IQOS* predominantly, reflecting at least 70% of their daily tobacco use. Importantly, only 1% have completely switched from *IQOS* to other competitive heated tobacco products, which makes *IQOS*, by far, the most preferred alternative within the heated tobacco category.

(SLIDE 49.)

There is clearly a correlation between our ability to communicate the benefits of the heated tobacco category to consumers and the share progressions of *IQOS*. The main factor behind this is the regulation around adult smoker communication.

As noted earlier, *IQOS* is a product that requires substantial consumer education, particularly early in the conversion process. It is critically important to be able to conduct quality guided trials with adult smokers, in order for them to truly understand the heated tobacco category and the specific benefits of *IQOS*. Regulation plays a key role in how and where we communicate with adult smokers, including with regard to health-related messages.

Other important factors that impact the rate of *IQOS* share progression include the attitudes of consumers regarding smoking-related health concerns, societal acceptance of smoking tobacco, consumers' prior experience with e-cigarettes and cultural traits related to word-of-mouth.

These factors can contribute to considerably different levels of *IQOS* awareness in launch markets, for example the approximately 20% awareness in Italy and the nearly 90% awareness in Japan.

(SLIDE 50.)

I will close with an update on the commercialization status of our three other RRP platforms.

We began a small-scale city test of our Platform 2 product, *TEEPS*, in the Dominican Republic in December 2017, and while still early, we are very excited by its potential.

We continue to progress on the development of our Platform 3 product, for which we plan a consumer test this year.

Finally, the city test in the U.K. of our Platform 4 product with *MESH* technology has been well received by adult consumers and has provided important insights and uncovered opportunities for product improvement. This year, we plan to commercialize a next-generation version of the product, which we believe will address the major deficiencies of current e-vapor products using novel technologies.

Thank you very much. I will now turn the presentation over to Martin.

(SLIDE 51.)

MARTIN KING

Thank you, Jacek, and good morning.

(SLIDE 52.)

As you have heard today, our transformation to a smoke-free future is well underway.

Given the already significant investments that this has entailed – both financial and in terms of management focus – I would like to begin by highlighting the strong results that we have delivered since we first launched *IQOS* in late-2014.

On a currency-neutral basis, we recorded average annual growth over the last three years of 6.5% for net revenues, 8.1% for adjusted OCI and 11.3% for adjusted diluted EPS.

(SLIDE 53.)

In PMI's transformation journey, 2017 was a landmark year. Our RRP net revenues of over $3.6 billion represented a significant acceleration compared to 2016, and contributed to profit growth for the first time.

To put this remarkable performance in perspective, our 2017 RRP net revenues rank above those of 15% of the companies in the S&P 500 Index – after just three years.

(SLIDE 54.)

Moving to our outlook for this year, today we are re-affirming our 2018 reported diluted EPS guidance of February 8th, at the then prevailing exchange rates, of a range of $5.20 to $5.35, versus $3.88 in 2017. Our guidance includes a favorable currency impact of approximately 16 cents per share and represents a growth rate, excluding currency, of approximately 7% to 10% compared to our adjusted diluted EPS of $4.72 in 2017.

While we recognize that currency spot rates versus the U.S. Dollar have moved in a favorable direction over the past two weeks, they nevertheless remain highly volatile. We will revisit the impact of currency when we provide guidance with our first-quarter earnings on April 19th.

As a reminder, we expect reported diluted EPS of approximately 87 cents in the first quarter, including approximately three cents of favorable currency, based on the then prevailing rates at the time of our February guidance.

(SLIDE 55.)

Our 2018 forecast assumes currency-neutral net revenue growth of over 8%, underpinned by sizable up-front investments behind RRPs, primarily *IQOS*.

As André discussed during our results call earlier this month, our incremental RRP spending in 2018 – net of lower spending on our combustible portfolio – is projected to be approximately $600 million, excluding currency.

The incremental spending will be concentrated primarily in the EU Region, Japan and Korea, accounting collectively for around 80% of the total. Approximately 50% of the spending – such as for consumer promotions and activities – is more variable in nature and is likely to grow in absolute amounts over future years as we gain more consumers and expand geographically. It will, however, decline on a unit-basis, as Jacek showed earlier. The remainder relates to infrastructure-type costs – including digital platforms, retail shops and *IQOS* coaches – which are sizeable upfront, but remain stable or expand at a much slower pace.

(SLIDE 56.)

As previously disclosed, we estimate an effective tax rate of approximately 28% for 2018. The difference between this rate and the 21% statutory rate under the new law, reflects the fact that PMI operates in markets outside of the U.S. and is driven by three main factors: foreign tax rate differences, the non-deductibility of interest expense in the U.S. and the partial disallowance of foreign tax credits related to the application of the rules for global intangible low-taxed income.

I must add the caveat, however, that our estimate reflects our current capital structure, as well as our current interpretation of the new tax law, which may change as implementing regulations and clarifications become available. In addition, under the new territorial-based system, we may face greater variability in our effective tax rate going forward, largely reflecting any changes in earnings mix by taxing jurisdiction, as well as tax rate changes in these jurisdictions.

Let me finish this discussion on taxes with a useful way to think about our effective tax rate beyond 2018. Assuming no change in our total interest expense or earnings mix going forward, the marginal tax rate applied to any incremental pre-tax earnings would be our blended foreign tax rate, or approximately 23%. Thus, in this example, our total effective tax rate going forward would reflect the weighted-average of our base rate of 28% on existing pre-tax earnings and our blended foreign tax rate on any incremental pre-tax income.

In a hypothetical example assuming an 8% growth of operating income, our effective tax rate in 2020 would be approximately 27%.

(SLIDE 57.)

We are targeting operating cash flow of over $9.0 billion in 2018. This is above last year's level, despite our initial payment of approximately $130 million related to the repatriation tax on our unremitted earnings under the new tax law. We plan to use this cash flow primarily for capital expenditures to support the growth of our business, and for dividends, at the Board’s discretion.

(SLIDE 58.)

We anticipate capital expenditures of approximately $1.7 billion this year, versus $1.5 billion in 2017. To underscore our commitment to a smoke-free future, we expect RRP-related investment to account for approximately 60% of our total capital expenditures in 2018.

We continue to invest behind cigarette innovation and production as appropriate, with related capital expenditures at levels that generally offset depreciation.

(SLIDE 59.)

We remain committed to restoring, over time, our leverage multiples to the ranges associated with our current credit rating. Importantly, the new tax law provides us with greater flexibility on cash repatriation, which will significantly help the process.

The rating is central to our financial strategy because it provides us with the flexibility to successfully manage through events such as the 2008 financial crisis and the unprecedented currency headwinds that we've faced over recent years, while still making significant investments behind RRPs. It also puts us in a better position to respond to potential acquisition opportunities, particularly with regard to the rapidly-evolving RRP category and related technologies.

(SLIDE 60.)

Our net debt to adjusted EBITDA ratio stood at 2.1 times at the end of December last year, continuing the slight decline from its high of 2.2 times in 2015.

While the methodology varies from one rating agency to another, our current debt multiples are generally outside the ranges associated with our current credit rating. This can be seen in the examples for Moody's and S&P in the table on the right of this slide, which reflects 2016 data.

The agencies have not yet published their full-year 2017 multiples, which may be subject to adjustments for the U.S. tax reform, among other factors.

(SLIDE 61.)

We remain focused on generously rewarding our shareholders over the long term, with dividends currently serving as the primary use of our operating cash flow after investments behind the growth of our business.

In September, the Board of Directors approved an increase in our quarterly dividend to an annualized rate of $4.28 per share. This was the tenth consecutive year in which we increased our dividend, representing a total increase of approximately 133%, or a compound annual growth rate of 9.8%, since we became a public company.

I will now turn the presentation back to André for his concluding remarks.

(SLIDE 62.)

ANDRE CALANTZOPOULOS

For years, PMI has been seen as a value stock with strong cash flows and a high dividend yield.

Today, I believe we are exhibiting more of the attributes of a growth stock as well. I am confident our 8% plus currency-neutral net revenue growth is not just a 2017 or 2018 phenomenon. In our 2018 guidance, the net revenue growth of our RRPs is in a staggering range of 80% to 90% compared to the $3.6 billion in 2017.

Despite $600 million of net incremental spending on RRPs, and the very significant impact of the GCC tax increase, and without the benefit of share buybacks, our guidance this year reflects a currency-neutral adjusted diluted EPS growth rate of 7% to 10%, which would be the envy of many companies.

Although volatile, currencies appear to be on our side for the first time since 2011. Cash repatriation flexibility will also help foster faster correction of our debt multiples and will ultimately further enhance our ability to generously reward our shareholders.

Initial *IQOS* consumer switching costs are high, exceeding 25 times those of cigarettes on a per unit basis, but as Jacek discussed, over a few years as RRP volume and share expands, they tend to normalize to levels close to those of cigarettes, on a same market basis, and therefore significantly enhance the bottom line.

For sure, competition in the RRP category is also increasing, but this should accelerate category development. I am confident we will compete effectively, as we are offering a superior RRP product ecosystem and scientific substantiation. And as an organization, we are becoming better and more efficient every day in delivering value to consumers.

The absence of RRP-specific regulation in the vast majority of markets is often a hurdle for consumer switching, which requires considerable effort and resources on our side. But we see encouraging progress, and I am optimistic that, over the mid-term, regulators will put in place more sensible RRP regimes that are different from those that apply to cigarettes and that can act as a catalyst for accelerated consumer switching to better alternatives than continued smoking.

Be assured, we are not neglecting our combustible business and its pricing power. Cigarette volumes will naturally decline over time, but we will not give any gifts to our competitors.

A significant part of the incremental cost, our contribution to the Foundation for a Smoke-Free World and the GCC impact will be in the base next year and will not impact our EPS growth rate. The returns on our investment to accelerate consumer switching this year will mostly be realized next year, further improving our year-over-year comparisons. So, EPS results in 2019 are very likely to be better than those this year.

Finally, we contemplate higher dividend growth in 2018 compared to the recent past, the magnitude of course, will be at the Board's discretion.

In conclusion, I hope you share our enthusiasm about the tremendous potential for RRPs, and the great promise that a smoke-free world carries for the men and women who smoke, for society and, for you, our shareholders.

(SLIDE 63.)

Thank you again to those joining us on the webcast. And to those of you here in Florida, we look forward to seeing you at dinner this evening.

Jacek, Martin and I will take your questions in the break-out session.