

## Science and Innovation

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### Slide 1 – Opening Remarks

Thank you Nick, and hello ladies and gentlemen. I would like to answer at the beginning a few questions that I received. My weight loss has nothing to do with business performance, and nothing to do with pressure from André on me. It is purely related to IQOS and the fact that I have been using it for five years.

I would like to tell you now demonstrate, and hopefully convince you, that we have the right strategy, and right portfolio in place, to lead the conversion of 1.1 billion adult smokers out of combustion, as André mentioned. And, why we believe we also have the right business model in place, to make out of it a good business, to the satisfaction and benefits of our consumers, our shareholders, regulators and our employees. In order to reach this point, we in fact had to identify solutions which we didn't have before. In fact, prior to our scientific discovery, which neither us, or anybody else, could actually think about or understand. In order to identify the solutions, we had to go through the seismic shift in the way we are thinking, operating, engaging with stakeholders. And, how we find a solution to not only acquire, but also to retain our consumers, to prevent them from going back to combustible cigarettes, which are still representing the lion's share of our business. I know it may sound to you a bit ambitious, for my one-hour-only presentation today, but let me try. Before I start, I would like to show you a short video which I hope will better let you feel about where our strong beliefs in the Philip Morris' scientifically substantiated reduced-risk product is rooted. Video please.

### Slide 2 – Approximately 90-second video

[Full version can be viewed at [www.pmi.com/science-and-innovation](http://www.pmi.com/science-and-innovation)]

### Slide 3 – Our IQOS Journey: Current Business Model

So what was the beginning? We have created and developed the HeatControl Technology to replace tobacco combustion. We have developed solutions for the harm reduction equation. We've substantiated the risk reduction, and adult smoker high acceptance from sensorial satisfying nicotine-containing aerosols. We have prepared and started IQOS pilot launch, followed by global expansion.

It was a great time for us at the time. We're like a startup. We're learning for ourselves. We're everyday trying to correct what was not perfect the day before. We're talking to our friends, to our family members. In fact André talked and personally converted almost the entire smoking part of the SMT – the senior management team.

We recorded an unprecedented adult consumer acceptance at the beginning of this journey in Japan, with rapid growth. Today, it reached 43 markets where we are present. And it has unrivalled conversion rate, not only compared for cigarette, between any categories being launched on the market, the 70% of conversion rate which we observe for our products in many markets is unprecedented.

Why is important? The whole assumption at the beginning was made that based on the quality of aerosol and satisfaction, we can actually increase the number of users of IQOS who are exclusively using our product and not concomitantly with conventional product. This allows us also, while conducting our post-market studies, to compare the data for exclusive users of IQOS with the data which are coming from the pre-market studies.

#### **Slide 4 – Our IQOS Journey: Current Business Model**

I will talk more about what we mean by rock-solid foundation today. But we are clearly delivering reduced-risk products with 5.8 million adult smokers who stopped smoking and switched to IQOS, as mentioned already by André. I think, also importantly, when I look at our competitors' numbers and also your reports, I think we are today about 4 to 5 times with higher revenues than our next competitors in the reduced-risk products. The foundation of innovation pipeline was created with scientific substantiation product messages coming from our completed studies during the recent two years. We have emerging societal understanding of RRP category, but more importantly, we start having also regulatory recognition in different markets, but with some of them, actually more aggressively, or more intensely, pioneering the solutions within regulatory area. Most importantly, the new infrastructure which we had to build – and focused not only on acquisition, as I was talking, but retention – impacted the whole organization.

We decided to take this decision based on the experience before when we realized that 5.8 million smokers were interacting with our product now, exclusively. Curious, almost every day, about new propositions, changes to the product, they are not happy with what they had yesterday. They want to have more, they want to have smaller, they want to have faster, they want to have more friendly. We move people from conventional business, when innovation was within kind of big limits, and we took a lot of innovators, and early adopters as well, who joined our category. Not surprisingly, once they fully adopted, they wanted to continue innovating. So what we realized, it is not about coming with solutions for what they want. It is about creating their needs. It is about making sure that we can anticipate these needs and we are coming with not only one product, next production solutions, but with the entire portfolio of innovation propositions across all product categories which we identify. So, we had to build our innovation machine which would allow us not only to respond to consumer needs but could allow us to anticipate them, and furthermore, in fact, create them.

I can use two examples. We created a demand for about 2 million households in Japan for replacing simple ashtrays at home with stick trays. Consumers, they did not know but very soon they would realize the characteristic of the product and they would like to have specifically designed products which covers sticks at home when they are already used. I think this is a discovery which we are making almost every day in every step because there is a growing number of consumers telling us about things which months before or certainly several months ago, not mentioning years, they could not even mention.

The other example is sequential heating in Japan which raised a lot of discussion. In fact, this need was created by our competitors. The competitors created the need for sequential heating, and when we used the scale which we have in Japan, and we downloaded dozens of thousands of devices which were replacing on an anonymous basis, and we collected data, we were able to build, in fact, the best experience regarding the sequential heating, knowing very

well what it means, what it means in practical use of the devices, and when consumers want it.

So we are talking about us influencing consumers, consumers influencing us, to a large extent, competition influencing our consumers, but not necessarily always, there is one solution for these needs because they are very dynamic. This approach with innovation pipeline, which I will explain, created a very strong innovation pipeline of solutions, which we are now able to put not only in one or two platforms but in all of them. I will talk through this during the course of my presentation.

### **Slide 5 – Our IQOS Journey: New Business Model**

What is the tomorrow of this whole move which we did? We believe we can continue having a leadership and we can do it in a sustainable way, and ensure the growth not only of the RRP but of the entire company, based on the developments we have made. Ecosystem of portfolio supporting better life for adult consumers is clearly today highlighted by consumers in almost every aspect of their communication. They are experiencing the benefits of using IQOS, they are expressing them, they are often changing the way they behave, they are telling us about it. We are informed about the benefits they have also related to switching out of combustion into reduced-risk product. More importantly, their lifestyle is changing once they have abandoned smoking.

It is clear that the future will be about enhanced regulatory environment helping to improve consumer understanding and comprehension. We believe we are at the very embryonic stage today, with regulatory driven standards which will become a driver for our business. I will talk about it later today.

The advantage which we have today with our scientific data, that the existing evidence accelerates substantiation and yields efficiency, not only for one platform Today, the studies which we are conducting are informing us of the potential benefits and risk reduction potential of other platforms. And, thanks to our proprietary data-breaching methodologies, we are able to ensure that we can optimize our cost regarding scientific substantiation while providing the evidences to the regulators and public at large, going forward.

We have to continue providing consumers with additional scientifically substantiated benefits. I mentioned it to you, they have, today, the recognition of certain areas which IQOS has set and is impacting them, and we want to make sure that our messages are scientifically substantiated in the areas which are of concern to smokers, and potentially to public as well. We have already initiated studies within oral health. We are starting studies related to cardiovascular diseases and exercise capacity, and we are also exploring opportunities to address other smoking-related diseases in our study. Overall, IQOS portfolio offerings will be driving PMI performance in the future.

### **Slide 6 – Rock Solid Foundation for New Business Model**

Let me now give you more details of the foundation and why we consider it solid. Consists of infrastructure in place to support our new business model. It considers consumer journey solutions at every touch point. Also, evolving and future channels which we have not used before, and the highest standard of responsibility which we embrace and the leader of the category. The infrastructure is built on scientific discoveries, substantiation and portfolio innovation, new technologies and a shift in our look, perception and possibilities to develop

innovation. Most of solutions in our conventional business were off-shelf solutions of our suppliers. Today, we have examples in our entire business where these solutions did not exist, and our engineers had to develop them from the beginning. As André mentioned, we have an advantage of collaborating with the leading electronic manufacturers and benefit from their wealth of experience in developing innovative solutions. But, in our company, we put a lot of efforts to make sure that we are able to come with solutions against consumer needs and not only with the ones which are available off shelf. André mentioned timing, he's very often telling me about, we need to speed up and do it faster. But, we all realize that when you work on solutions against needs, very often you need three, if not four years' time horizon to develop solutions which don't exist on the market.

Regulatory recognition, I mentioned, we have some, I would say, movement, some markets, which are clearly giving us, by far, more optimism than ever before, that the governments are starting to recognize the need for differentiation, and implementing the proper regulation regarding scientifically substantiated reduced-risk products. Consumer journey was a new discovery for us. We went through all encompassing digitalization and communication from a completely different perspective than we ever did before.

Brand retail, the home for IQOS which we created, became very important for us, for our e-commerce initiatives and the massive growth of sales in our e-commerce business; between first half of last year and first half of this year we have had 144% growth in this time. We realize certain rules which we could read in theories before for other product categories, but nobody could actually refer to our specific product because I do not think we ever had this experience as we have today. There is a substantially higher volume and value of consumers who manage to be in retail trade and visit our IQOS store, and see our brand retail, and furthermore to experience what we are providing there in the basket, or total revenues which they are then subsequently buying on the internet.

Consumer care culture was a shifting change for us. This is not about customer care. This is about caring of every IQOS consumer. Everywhere at any time. You cannot do it without infrastructure. You cannot do it through certain cultural shift, mindset related to what caring really means. Consumers today do not expect any solutions in the middle. So how, at the same time, when you want to provide the higher standard, you are optimizing the cost and you are not making effort to unreasonably manage customer care to no avail for the one who is spending money and no benefits of consumers.

We are currently in the process of making sure that we differentiate our services and care to the level when consumers can recognize it as unique, and then in time they should be able to pay for the services if they want to maintain the highest service in a longer time.

Evolving channels and future touchpoints were important for us. We had to open channels which were either not present or present only partially. The channels were present before, but now it has changed its role for IQOS, and it is far more pronounced in the needs of consumers travelling, especially if they go to places where they cannot buy devices or HeatSticks. We are today present in international airport shops and cumulative market share in the shops which we are present is exceeding 30% market share.

We are very optimistic about development of this whole channel because, in fact, cannibalization, in our business in travel, happened to be smaller than in average market

which we have a present. There are consumers who are having needs and they are coming to this channel and they are not cannibalizing the volume of conventional products.

Furthermore, in IQOS-friendly venues, as we call them, we have today more than 200 hotels all over the world, which are offering IQOS-friendly rooms or opportunities for using IQOS in the hotel in IQOS-friendly places. This process develops, and we expect further the continuation of development of this channel.

We have also community care providers with whom we engage, including pharmacists and also dentists. We have prepared different programs with them and will be ready to roll out this going forward as of next year. Importantly, with our partners, we have been working on life insurance policies for users of significantly substantiated reduced-risk products, which we are contemplating for implementation with our partners. And, it is worth noting that today, the premium for smoker versus the insurance premium for the one who quits, or never smoked, is higher than 100% difference. So, there is clearly margin to be made, and we will look at introducing this together with our partners relatively soon.

As I mentioned, we have embraced the highest standard of responsibility. I will talk about it later. I will present to you what we summarized in good conversion practices. But what is important, we want to have, and defend, our rights to properly inform consumers but at the same time avoid unintended audiences in our IQOS franchise, which for us are youth, non-smokers, previous smokers and those who want to quit.

#### **Slide 7 – Totality of Scientific Evidence: Presents Less Risk of Harm**

Let me now give you the summary of our scientific studies which I mentioned at the beginning. We have completed a total of 18 non-clinical and 10 clinical studies on Platform 1. All individual studies support the risk reduction potential of Platform 1 and the totality of evidence available today shows that switching completely presents less risk of harm than continuing to smoke. We are hopeful for a decision from the US FDA on our pre-market tobacco application by year-end, and the scientific review of our MRTP application is still ongoing. We have supplemented our US FDA MRTP application this year with additional clinical and non-clinical studies. Full aerosol characterization, six-month clinical exposure response studies (ERS), and first ever 18-month non-clinical animal lung cancer study which André already mentioned.

I will take you through the exciting results of these studies next, and we also take this opportunity to present the first year's results of our post-market studies in Japan. These additional studies not only confirm the risk-reduction potential of Platform 1, but also inform us about the risk-deduction potential of our entire RRP portfolio. We leverage our extensive evidence database and data bridging strategies to accelerate substantiation and yield efficiencies across all our RRP platforms.

#### **Slide 8 – 6-Month Clinical Exposure Response Study Confirms the Risk Reduction Potential of Platform 1 (IQOS)**

The six-month clinical exposure response study confirms the risk reduction potential of Platform 1. The study met its predefined primary objective. All co-primary endpoints, epidemiology linked to smoking related diseases shift in the same direction as smoking cessation. Majority of co-primary endpoints are statically significantly different versus continuing smoking. The results are all the more encouraging as they were achieved for

participants in the IQOS group when cigarette use accounted for up to 30% of all products used concomitantly with IQOS. The results correlate with the amount of concomitant cigarette use. The ERS will continue for an additional six months, and the full results will be available by year-end.

**Slide 9 – First-Ever *In Vivo* Lung Cancer Study on Smoke-Free Tobacco Product Alternative Supporting Risk Reduction**

We concluded our 18-month inhalation study on A/J mouse that is known to develop lung inflation, emphysema and lung cancer in response to cigarette smoke exposure. The A/J mouse model is validated and suitable for cigarette-smoke-induced lung tumorigenesis. This is the first ever study of its kind that provides scientific evidence of the potential impact of a smoke free product on lung cancer development.

There are two basic components needed for cancer: genetic damage; and two, a tumor promoting inflammatory environment. The carcinogens in cigarette smoke which cause genetic damage, are reduced by over 93% in the IQOS aerosol. HPHCs in cigarette smoke that cause inflammation, are reduced by over 90% in the IQOS aerosol, and while smoke of one cigarette contains half a trillion carbon based nanoparticles, the IQOS aerosol does not contain such particles. The results of this first-ever study showed that IQOS aerosol did not cause an increase in lung inflammation or emphysema, compared to air exposure in the A/J mouse model.

Also, IQOS aerosol did not cause an increase in occurrence on number of lung tumors compared to air exposure in the A/J mouse model. We will continue to carry out, publish, and invite the review of our scientific studies, helping to advance the agenda of tobacco harm reduction with regulation. Manuel Peitsch, who is present today, as you notice, can provide more details regarding this revolutionary study during the break, or later today.

**Slide 10 – Post-Market Studies Addressing Prevalence and Gateway Risk**

Post-market studies are a key component for robust scientific assessment. These studies address concerns of regulators, society, on product-used trajectories, including impact on cessation, initiation of tobacco and nicotine product, and use of it. Post-market studies are currently running in four markets: Germany, Italy, Japan and the United Kingdom. Results for the time period December 2016 to July 2017, for Japan, confirmed that 98% of IQOS users were previously using tobacco products. Significant conversion rate of 75% is already confirmed in mid-2017. No increase in prevalence of gateway effect observed. Minimal appeal to new tobacco users and only 0.1% of former smokers. In line with existing norm and regulations, our post-market studies are conducted with scientific rigor on an adult population only. With the support of regulators, scientists and public health experts, these studies could, and in our opinion should, be extended to cover youth. This could help to inform messages to prevent an increase in nicotine use among youth, as a result of the commercialization of novel nicotine-containing products. This issue is a major public concern, particularly in the United States currently, and it is present in our engaging efforts internationally. I will touch on our expanding portfolio of scientifically-validated consumer benefits before highlighting examples of increasing regulatory recognition for the category.

**Slide 11 – Broadening Scientifically Validated Consumer Benefits**

We continue to broaden our catalog of scientifically validated consumer benefits. This clearly differentiates the benefits and improvements from switching versus continued smoking. In addition to existing substantiated consumer benefits, such as hygiene, indoor air quality, reduced emissions of toxicants, reduced teeth staining, and less risk of harm, we have a number of additional clinical studies that have started or will start. This includes an oral health study, which is well under way, with the last patient out until December this year, an exercise capacity study which will start with the first patient in by November this year, and cardiovascular disease study in abdominal aortic aneurysm with the first patient in by December this year. And, we are also exploring the feasibility to conduct a number of studies on other diseases, such as other cardiovascular diseases, COPD, or male reproductive health. Experts have been engaged to explore these areas and define study protocols.

**Slide 12 – Heated Tobacco Category: Increasing Recognition (U.S.)**

We are very pleased with increasing recognition of the specific category in different markets all over the world. Let me start with the United States when the FDA put the strategy regarding nicotine, and they formulated a three-pillar strategy which is reflected in this quote from Commissioner Gottlieb: "Looking at ways to reduce nicotine levels in cigarettes, but not altering nicotine content of non-combustible products". They believed that "in a properly regulated marketplace of products capable of delivering nicotine without having to set tobacco on fire". Finally, they "recognized the innovation as the important leading factor to creating harmful products which under FDA oversights could be part of the solution".

**Slide 13 – Heated Tobacco Category: Evolving Regulatory Environment**

Internationally, Russia and Ukraine have put regulation where they recognize difference between the non-combustible and combustible products; Italy passed a secondary legislation which put in place the process for verifying and applying for the reduced risk; New Zealand announced plans to consider how best to apply risk proportional legislation to all tobacco products and vaping products; and finally, and probably most notably, the Science of Technology Committee of the UK House of Commons opined in the last inquiry into e-cigarettes that our products may have potential for reducing risk due to its non-combustible character, that regulation including advertising, taxation should be risk proportionate, and they advise to include heat not burn product in the next report related to electronic cigarettes in the UK.

Importantly, under the EU TPD, we already have novel tobacco smokeless products being distinguished from cigarettes as a separate product category, and today we are commercializing in 18 EU markets our product, including two markets where approval was necessary.

**Slide 14 – Critical Importance of Product Standards**

As I mentioned before, we need to do a big journey together with governments on ensuring we have a proper standardization of the products, following the debate, the discussion, the regulation starting, from sometimes, simple things. Let me give you an example. Today, if we want to define what is non-combustible product, probably there is no one single definition. There will be different people trying to define in a different way. We have no regulation regarding manufacturing. We experienced this while being audited by FDA when they are

coming with audits regarding our manufacturing, but they cannot reference it to the existing regulation in regards to the standards in our product, they have to take other standards into consideration.

Standards and product categorization could enable the risk-proportioned regulation, taxation regimes reflecting different risk profiles of tobacco and nicotine product. This is a big challenge. Without doing it, without regulation the governments may consider positioning the logic of taxation versus conventional product, while in fact, we can assume, that not the cigarette base should be the base for taxation or reduced-risk product. But, the discussion should lead to the decision, how eventually more than no taxation should be considered for this product.

Obviously, it creates an issue with the collection of tax revenues. And, I think these are the challenges which today governments all of the world are facing, especially with the growing number of consumers moving to scientifically substantiated product, which have claims in this regard as well.

Most importantly, standards are needed by us and, I think, the other players in the industry, but also regulators. For consumers, what is the best way of informing consumers and answering a very simple question he or she may have? Should I switch, as a smoker, to reduced-risk product or not? And, under what arguments, conditions, I should pursue this. We have markets today, when I sit with a friend of mine in Switzerland, in the bar in this country, and there is a citizen of this country coming and seeing us using IQOS, and he is smoking, I cannot approach him. He has to approach me and ask questions. These type of situations might be counterproductive given the wealth of the science which is coming every year. And, I think the time came to start engaging on this whole subject, but also from the smokers perspective. The comparison of what is happening in Korea is pretty symptomatic, and André presented it to you. I think we should not allow situations when communication, which is going massively to the market, is inverting trends on combustible and non-combustible cigarettes, even if it is for a short period of time. I think we need, also, to start standards to protect consumers and explain to them the benefits in a more clear and in a way which they understood to improve their comprehension.

Finally, standards are needed but they should at the same time provide the level playing field for all market players, however, without compromising on ensuring that consumers can have access to the product within the rightly established standards.

### **Slide 15 – Leverage Learnings from Switching Consumers**

The learning which we received from 43 markets regarding the consumer journey of our consumers, and consumer delights and touchpoints, help us to improve the benefits which we are designing for consumers in the form of experience which our IQOS will be providing. Moreover, it is not only about learnings from our consumers, it is also learnings of how they communicate to their peers. We know today, and we realize it, that we can benefit from providing satisfying experience to consumers who are then willing to talk about their experience to their peers and to their friends. Finally, as I mentioned before, we are not only addressing needs, we are also defining them and very often influencing.

Benefits have to outweigh conversion challenges. These needs evolve. These benefits are changing. Pain points are changing. At the beginning of the journey, when smoker is moving



to our products, the taste and ritual changes are of the main impediment in taking the decision either to switch or to stay in the category. After time of exclusive use of RRP products, there is more focus on technical challenges they are making. They are asking for solutions in firmware, they are asking for solutions in size, and like I mentioned before, in sequential usage.

### **Slide 16 – Product and Quality Program Advances**

This information from consumers doesn't help to only improve our communication messages. In fact, we have replaced 500 billion puffs with cigarettes with 500 billion puffs of IQOS, since the launch of our proposition. This information, the experience consumers have, and the learnings which we are receiving, are allowing us to improve product design in a way that we are avoiding, going forward, certain mistakes like we have faced, for example with latch with our first 2.4 proposition. It also allows to design better electronics and most importantly, through manufacturing automation, implement a lot of process improvements against properly defined needs for consumers, and find a lot of efficiency. All in all, it allows us to introduce and trademark the ProtectPlus system, our seal quality for IQOS in the upcoming launches.

As you can see on the right side on the chart, the product return ratio in Japan substantially declined from quarter two 2017 to quarter one 2018. The chart illustrates changes on the per month basis from the first month of sales and production. As you can see, the decline is 67%, but more importantly, all lines subsequently from quarter two, three and four last year, particularly the one now, are plateauing much earlier, indicating that we should avoid having problems with the quality like we had last year.

### **Slide 17 – Redefined Care Program**

I talk about redefining care. Building the whole culture is new for us. We have made a tremendous effort in regards to strengthening the entire infrastructure and our digital capabilities in order to ensure that we are not providing only manual services and per experience to our consumers, like André mentioned we had at the beginning, but we are also creating the growth of virtual interaction with our consumers. Inbound calls grow, you can see on the chart. Importantly remote coaching is today present in 30 markets, allowing to substantially improve not only cost infrastructure. When we look at the high quality remote coaching which we have today, in fact, we are also helping to improve the quality perception about our product, but more importantly we are, in fact, positively influencing the conversion rate.

### **Slide 18 – RRPs: Highest Standards of Responsibility for the Category**

As I mentioned, we have embraced good conversion practices and we made sure that we aligned the entire organization with the philosophy of ensuring that we lead standards in this regard by establishing our good conversion practices, which today encapsulates our philosophy in this regard. IQOS is for adult smokers who want to continue enjoying tobacco products. We do not offer IQOS to people who have never smoked or quit smoking. Our goal is to convert adult smokers who would otherwise keep smoking to smoke-free products such as IQOS. IQOS is not an alternative to quitting. To experience the benefits of IQOS, adult smokers should switch completely to IQOS and abandon cigarettes permanently. Finally, IQOS is not risk free and is not a safer alternative of cigarettes.

I was asked many times how serious we are really in pursuing this direction, and my answer is always the same. It is unconditional. The reason is, that in order to ask for more freedom in what we do, in order to have the right differences for our dialogue with consumers, based on scientific substantiation, we have to show, demonstrate, and I think in many cases prove, that we are responsible and we have the highest standard in this regards.

### **Slide 19 – PMI Innovation Machine**

So this is it. The Philip Morris Innovation Machine, which has scientific discoveries, evidence packages and bridging strategies at one end and societal understanding and support outreach on the other side. In between, strong technology and engineering, including quality assurance, design and user experience, brand retail, human insights and behavioral research, digital solutions and experience marketing, and responsible business practices at the top. What is important in this picture, that this machine can produce no more one, or limited number of solutions. This machine can produce solutions for different platforms at the same time. We will advance our perspective regarding those platforms and the next generation of devices, and today we are able to define our needs with the sufficient timing advance to formulate solutions in an even period of time, in a very efficient way. Without creating the model in which we can anticipate the needs, we can listen to what consumers are saying, we can develop scientific and communication messages and solutions. Without having possibility to prepare engineering solutions, we wouldn't be able to produce innovation at the pace we are doing today.

Our objective is to ensure that we can talk in three years' perspective about next generation of product being ready in our pipeline for the launch readiness. This machine requires, or the interlinkages require, a lot of oil, and we are sure that we will be providing it.

### **Slide 20 – Consumer Needs Continue to Inform Portfolio Innovation**

Consumers will continue informing us about the innovation requirements, and we know today, that smokers smoke cigarettes for many reasons, and they will not switch out of combustible product for one single individual product. Tobacco taste with a progressive ritual is of interest for many consumers with electronics. Tobacco taste without ritual similar to combustible product remains the interest of others. We have non-tobacco flavor exploration, simple usage, flexibility, no vaping cloud, no smell, on-demand and no electronics, clearly presented in consumers when we analyzed current market, and we have tobacco flavor explorations, progressive ritual with electronics and on-demand experience.

### **Slide 21 – RRP: Science and Innovation Based Brand Portfolio**

So this is it. This is our IQOS as an umbrella brand, which André mentioned. In every platform, we are today able to develop innovation pipeline of solutions and I will talk today more about Platform 1 and our new launch of IQOS 3 and IQOS 3 Multi. But let me please start from IQOS – from Platform 4 and IQOS MESH, and then through Platform 3 and 2, I will end up with IQOS Platform 1, which is the most advanced platform we have and which brought us to this stage where we are today. We are also developing innovation for consumables, and one of the important one we are working on is to ensure that we have stick recognition, which will allow to identify, by the device, our HEETS, and ensure that consumers are receiving uncompromised system, and not only choose one of these products, then compromising, potentially, on the impact it may have on them.

**Slide 22 – IQOS MESH: Experience and Performance Design**

We launched our IQOS Platform 4 in the UK. In July, we had very good initial sales with comments which were very important to us because the vapor from this device came satisfying. IQOS is reliable, it is convenience, it is a sensorial delight, it has 11 different flavor propositions, and we have today one core collection and one gourmet collection for consumers with positive impact. What was important is to put, for the very first time, IQOS Platform 4 in the same environment as our IQOS Platform 1 is. I think that it is important that we today commercialize our electronic IQOS in the same retail setting and in the same web setting and learning from this experience and interaction between consumers.

**Slide 23 – IQOS MESH: Consistent Vape, No Burnt Taste**

IQOS MESH has the MESH heater technology which was designed in Switzerland, and is produced today in Germany. It is present in every cap. It allows consumers to not experience the need of replacing the heater, but just after using the cap, throw away it together with the MESH. As you can see, because of the system of controlling electronically the liquid level in MESH, we do not have a problem during the liquid depletion with creating average formaldehyde, which is very important for us. Because, when you look at this chart, while the liquid depletion increases, dry wick and coil is a characteristic for the product, and this generation. We do not have it, in the case of IQOS MESH.

**Slide 24 – IQOS MESH: Innovation Focus**

Let me walk you through the explanation of the major innovation phenomena which today electronic cigarettes are trying to address, and we believe that so far, there is no one single solution to this challenge. The dotted green line illustrates, just for simplicity, the ideal curve, which is the target to achieve cigarette-equivalent daily nicotine levels. So when you look at our clinical studies, we know today that consumers are balancing between more nicotine, less cloud, more cloud, less nicotine.

The space below the curve, in fact, suggests that consumers might not be satisfied if they compare the experience to cigarettes. This is on the average comparison to the 3R4F cigarettes.

The space above this curve may suggest that consumers have either too much cloud or too much nicotine.

As you remember, e-cigarette light tried to position the first launch with a size which was similar to experience of cigarettes, but they did not manage to achieve the curve of the ideal equivalent daily nicotine levels during the use. After massive trials, the consumers were not staying with the proposition.

**Slide 25 – IQOS MESH: Innovation Focus**

The next step was coil and wick with 900 milliampere hour (mAh) batteries, which was providing better size of the plume (TPM). But again, it ended up below the curve and we had many trials of these products, but in fact the conversion was very low.

**Slide 26 – IQOS MESH: Innovation Focus**

And then, manufacturers went in two different directions and they tried to reach the point in which, as close as possible, they are satisfying consumers. We have, in fact, two today positionings of electronic cigarettes. We have big vape, with MOD's at 200 mAh, which is

providing a lot of vape with limited nicotine experience. That is why, kind of forcing consumers, to enjoy vape, to talk about it, and to show how it is good to use a lot of vape, and have a lot of cloud. Manufacturers are successfully building the interest in vapers with big devices. But, the reality is that the permanent conversion among these units because of missing nicotine element cannot be had. In regard to US competitors which are using small batteries, and they are in fact competing on the market today with only big vape as far as satisfaction is concerned, as far as target which everybody is trying to achieve, or is aiming at. Despite from perspective of consumers, 200 mAh device is very small, very convenient. It provides satisfaction from the nicotine level, but the reality is that consumers are still looking for balance, and sooner or later they will either adopt different completely habit that they had with cigarettes, or they will be looking for being somewhere in the middle of this graph, like I showed you before.

### **Slide 27 – IQOS MESH: Innovation Focus**

The EU TPD limit is further complicating this chart. Today in EU, there is a limit of 20mg/ml for the nicotine and that effectively positions it at the level of cigarette standards, cigarettes available. And from that perspective, competitors who are using higher nicotine level will have to find a solution, which direction they would like to have. They would like to increase the device or they would like to stay further from the ideal, theoretical but confirmed in our clinical studies line.

### **Slide 28 – IQOS MESH: Innovation Focus**

We have prepared IQOS MESH, which is now on the line. That is why we are happy with the response of consumers. However, we are aware that this device is somewhat too big for some of the consumers who are looking for smaller devices. We've been working on this. We believe we have portfolio and pipeline of innovative products in place. But, I can assure you that we have a solution and we know how we are going to develop it. And, make sure that we are also addressing consumers who are looking for smaller devices in line with the design and architecture of IQOS, but they are providing them satisfaction with the proper balance between nicotine level and the TPM of the cloud.

### **Slide 29 – IQOS MESH: Innovation Focus**

This is the positioning for the future for us for the product with sensorially superior consumables, and we are also looking at flavor propositions to enhance our proposition of P4 with unique flavors and the fully scientifically substantiated quality of the device as far as deliveries are concerned.

### **Slide 30 – Potential of Platforms 3 and 2**

Platform 3 is a unique innovative product, which you know. We have prepared prototype. We have completed the studies for P3 this year and have prepared prototypes for safety testing and consumer research which we will conduct this year.

On Platform 2, I received questions if we did not lose our energy and belief in this product after the launch in DR. I can assure it is actually the contrary. We have recorded very high conversion level in the Dominican Republic at about 59%, which is comparable to initial IQOS tests. We got information about satisfaction from the product, and the simplicity of ritual was considered an important comparison of the previous habit. They also highlighted convenience. However, we wanted to understand the interaction of consumers with our heat

source. We have an extremely, engineering-wise, complicated device,- which, because of physical characteristics of the carbon during the heating process, may not have 100% reliability of the heat source, because it may happen, with very small percentages that the heat source may drop when consumers are using it.

So we had several hundred users in DR of P2, and we monitored them directly, reporting every situation and the comments and how they react. And today we decided to push in our pipeline, the two directional solutions which are coming. One is related to addressing the characteristic of the heat source, which we have solutions and we put it in development, and the second is enhancing the ritual which consumers have in order to avoid problems which we could have if we decide to ramp up the production based on the learnings which we got, and then, later on, start facing problems with consumer dissatisfaction. In this business we are now in, we should not take the risk that consumers might be dissatisfied after some period of using the product. What happened in DR, we launched simultaneously also IQOS Platform 1, which obviously allowed consumers from Platform 2 to move to Platform 1, although they still continued using Platform 2.

### **Slide 31 – IQOS Platform 1: The Journey Ahead**

Let me now move to our next big step in the journey of our IQOS Platform 1.

The journey is ahead of us. And, we are very proud we will be able to launch soon to the market our new IQOS 3 and IQOS 3 Multi. And, I would like to present to you some elements of this launch and outline to you the key elements, the most important ones but I would like to ask you, and to repeat what Nicholas said at the beginning: could you please make sure that you allow our consumers to be the first one who will discover the entire beauty of this during the launch, and not make photographs and pictures for what I am going to show?

### **Slide 32 – Platform 1: Progressive New Product Introductions**

This is the history of our device. As you can see, at the beginning it took us two years to come with improvements between 2.2 and 2.4. Then, with smaller improvements, we were coming with them in one year. Today, in one year's time, following the launch of 2.4 Plus last year, we managed to come with the product which has new design language, it is more robust, it is faster chagrining on holder, a sequential heating, more intuitive. And, it doesn't have utility accessories only, it has the entire portfolio of accessories. It is compact and allows for personalization in more than 500 options, which we will provide consumers with.

### **Slide 33 – Platform 1: Expanded Heated Tobacco Unit Variants**

We are also making roll out of the new flavor line proposition regarding our HEETS. We have also the clear explanation to our consumers about the type of products, and they can decode by proper signature and proper signage and color coding what are the characteristics of the product between aroma, body and intensity. We have tobacco line, we have fresh line and we have rich and satisfying line. We will continue having innovation in our HEETS, also including the proposition which we started to have here. However, our key objective is to ensure that any of our flavors that are going to the market are not creating issue related to attractiveness to unintended audiences, and that is why we are conducting studies in this regard, and we are perfectly in line with our good conversion practices in communicating these propositions.

**Slide 34 – Ecosystem of Lifestyle Experiences**

We are going with omni-channel standardized communication between brand retail, customer care interaction and portfolio new generation accessories. You will have an opportunity to visit our store today, where our colleagues will explain to you the experience we are providing in store, but also give you opportunity to see some elements of our IQOS launch. Customer care and interaction is in place, and we have accessories which are now following the needs expressed to us by consumers, in regards to spaces when they interact: on the go, in the car, at home and at work.

Let me now show you a short video.

**Slide 35 – Approximately 90-second video****Slide 36 – Closing Remarks**

I hope you enjoyed it. So, IQOS will lead the transformation of adult smokers out of combustion. We have significant category potential demonstrated by its unrivalled conversion rates. We will continue to build consumer comprehension of our product or relevant benefits and seek regulatory understanding and support. We have rock solid foundation and infrastructure established to enable continued innovation. We have our innovation machine in place which allows us to meet adult consumer evolving expectation, with speed and uncompromising quality, while influencing and impacting them at the same time. We believe that IQOS 3 and IQOS 3 Multi will redefine adult consumer expectations as far as the category is concerned through nascent standards, and the strong portfolio of innovation pipeline will support our sustainable growth long term. Finally, we are committed to deliver better life solutions for adult smokers and for to the society, to the benefits of the society at large. Thank you very much.

[END OF TRANSCRIPT]