



PHILIP MORRIS INTERNATIONAL

## 2016 Third-Quarter Results

October 18, 2016



# Introduction

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- Unless otherwise stated, we will be talking about results for the third quarter of 2016 and comparing them to the same period in 2015
- A glossary of terms, adjustments and other calculations, as well as reconciliations to the most directly comparable U.S. GAAP measures, are at the end of today's webcast slides, which are posted on our website
- Reduced-Risk Products ("RRPs") is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes. PMI's RRP's are in various stages of development and commercialization, and we are conducting extensive and rigorous scientific studies to determine whether we can support claims for such products of reduced exposure to harmful and potentially harmful constituents in smoke, and ultimately claims of reduced disease risk, when compared to smoking cigarettes. Before making any such claims, we will rigorously evaluate the full set of data from the relevant scientific studies to determine whether they substantiate reduced exposure or risk. Any such claims may also be subject to government review and authorization, as is the case in the U.S. today



# Forward-Looking and Cautionary Statements

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- This presentation and related discussion contain forward-looking statements. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions, and PMI is identifying important factors that, individually or in the aggregate, could cause actual results to differ materially from those contained in any forward-looking statements made by PMI
- PMI's business risks include: significant increases in cigarette-related taxes; the imposition of discriminatory excise tax structures; fluctuations in customer inventory levels due to increases in product taxes and prices; increasing marketing and regulatory restrictions, often with the goal of reducing or preventing the use of tobacco products; health concerns relating to the use of tobacco products and exposure to environmental tobacco smoke; litigation related to tobacco use; intense competition; the effects of global and individual country economic, regulatory and political developments; changes in adult smoker behavior; lost revenues as a result of counterfeiting, contraband and cross-border purchases; governmental investigations; unfavorable currency exchange rates and currency devaluations; adverse changes in applicable corporate tax laws; adverse changes in the cost and quality of tobacco and other agricultural products and raw materials; and the integrity of its information systems. PMI's future profitability may also be adversely affected should it be unsuccessful in its attempts to produce and commercialize products with the potential to reduce exposure to harmful constituents in smoke, individual risk and population harm; if it is unable to successfully introduce new products, promote brand equity, enter new markets or improve its margins through increased prices and productivity gains; if it is unable to expand its brand portfolio internally or through acquisitions and the development of strategic business relationships; or if it is unable to attract and retain the best global talent
- PMI is further subject to other risks detailed from time to time in its publicly filed documents, including the Form 10-Q for the quarter ended June 30, 2016. PMI cautions that the foregoing list of important factors is not a complete discussion of all potential risks and uncertainties. PMI does not undertake to update any forward-looking statement that it may make from time to time, except in the normal course of its public disclosure obligations



## 2016 EPS Guidance Reaffirmed

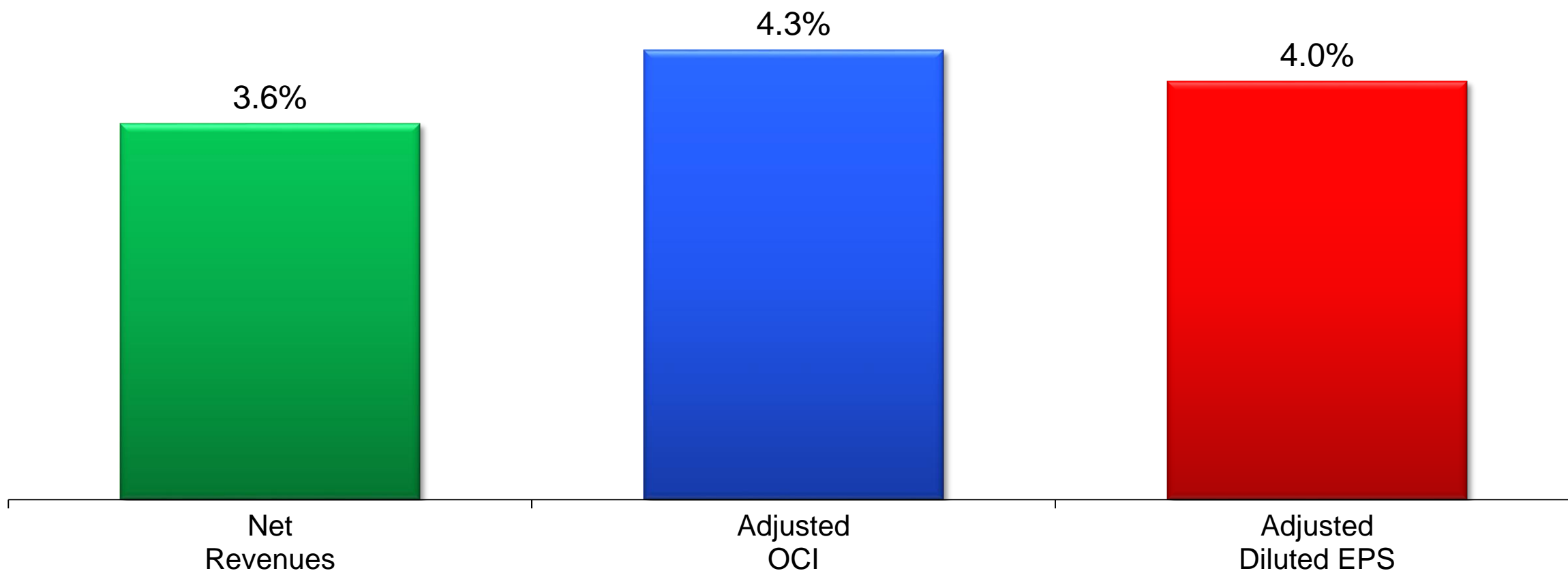
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- Reaffirming 2016 reported diluted EPS guidance of \$4.53 to \$4.58, at prevailing exchange rates
- Guidance includes 35 cents of unfavorable currency at prevailing exchange rates
- Excluding currency, guidance continues to represent a growth rate of approximately 10.5% to 11.5% compared to adjusted diluted EPS of \$4.42 in 2015



## Q3, 2016: Financial Results

Growth (Q3, 2016 vs. PY)<sup>(a)</sup>



(a) Excluding currency  
Source: PMI Financials or estimates



## Q3, 2016: Favorable Pricing in All Regions

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- Favorable pricing variance of \$440 million, reflecting positive contributions from all Regions, notably EEMA
- Announced or implemented price increases in a number of markets, including Argentina, Canada, Indonesia, Mexico and Turkey



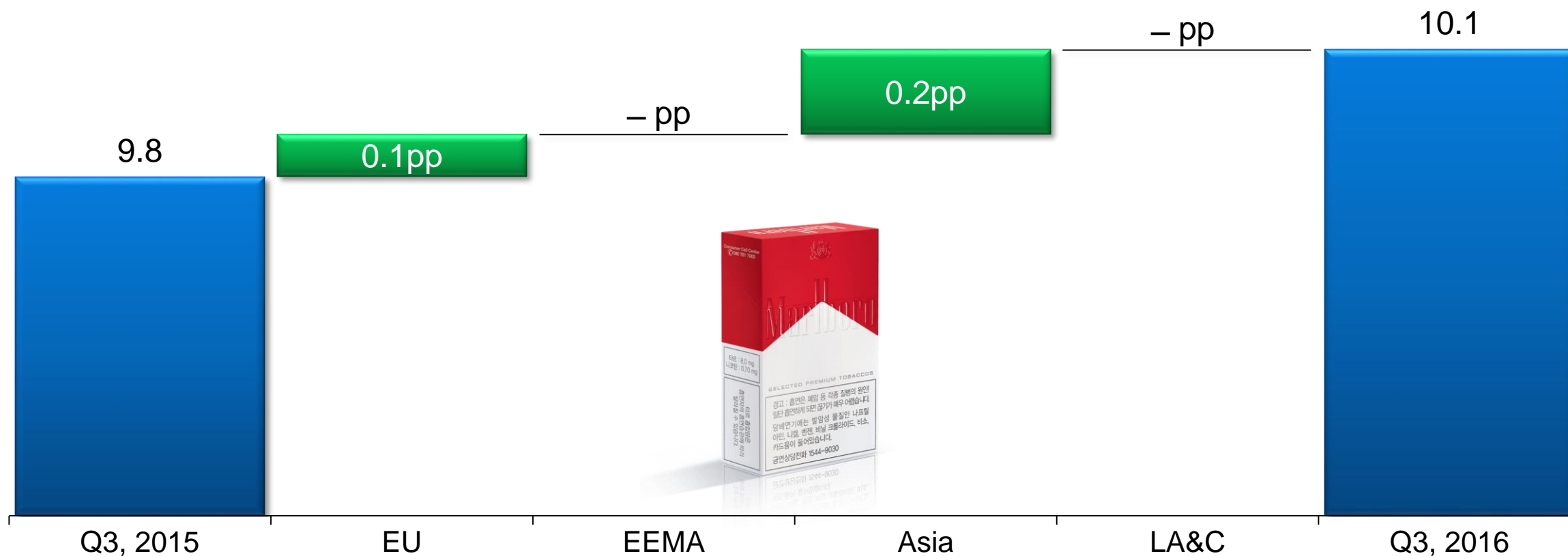
## Q3, 2016: PMI Organic Volume

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- Q3, 2016 organic cigarette volume down by 5.4%, due mainly to:
  - Lower cigarette industry volume in Argentina, Indonesia, the Philippines and Russia
  - Lower cigarette market share, notably in North Africa, the Philippines and Russia
  - Partly offset by market share growth in the EU Region
- YTD September organic cigarette volume down by 3.9%. Anticipate similar decline for the full-year
- Heated tobacco stick shipment volume reached 2.1 billion units, an increase of approximately 900 million units compared to Q2, 2016

# Marlboro: Cigarette Market Share Growth

## Marlboro International Cigarette Market Share (%)



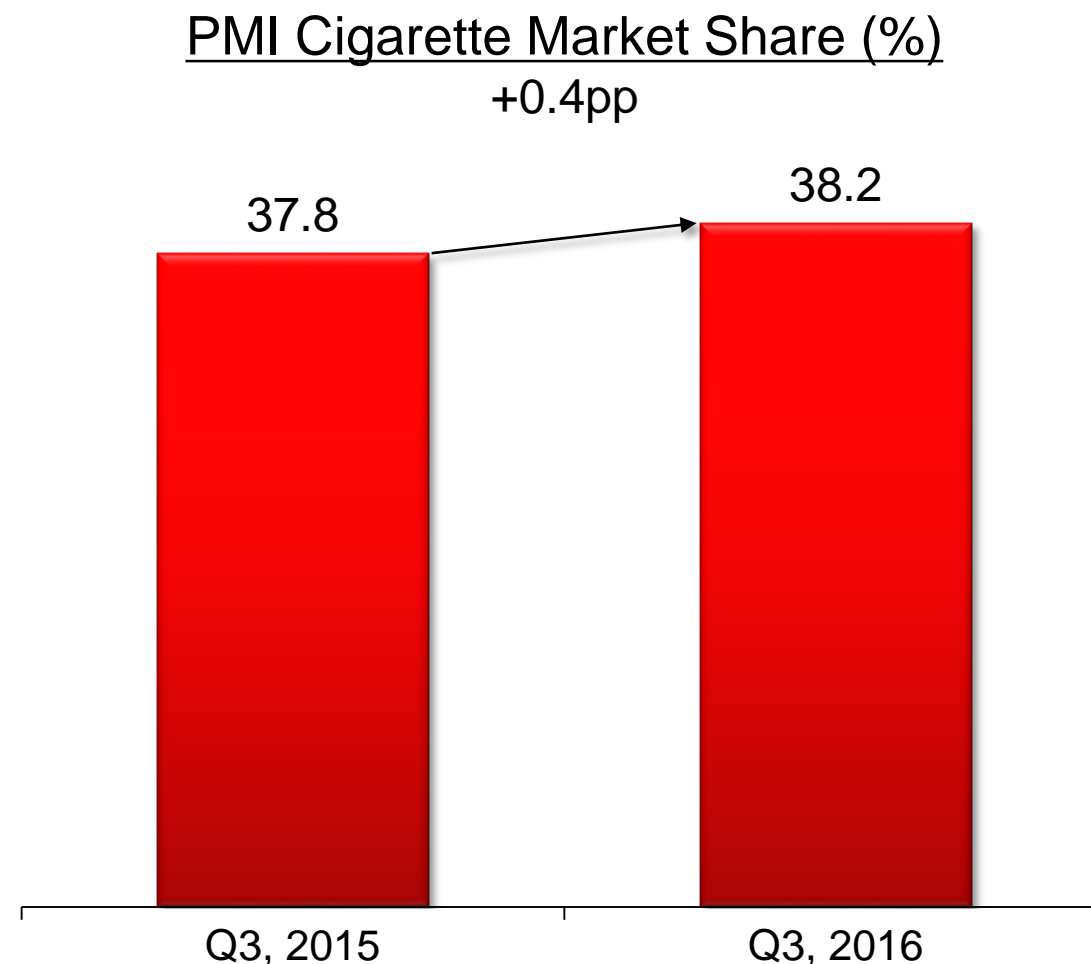
Note: Excluding China and the U.S. Pack visual is for illustrative purposes only  
Source: PMI Financials or estimates





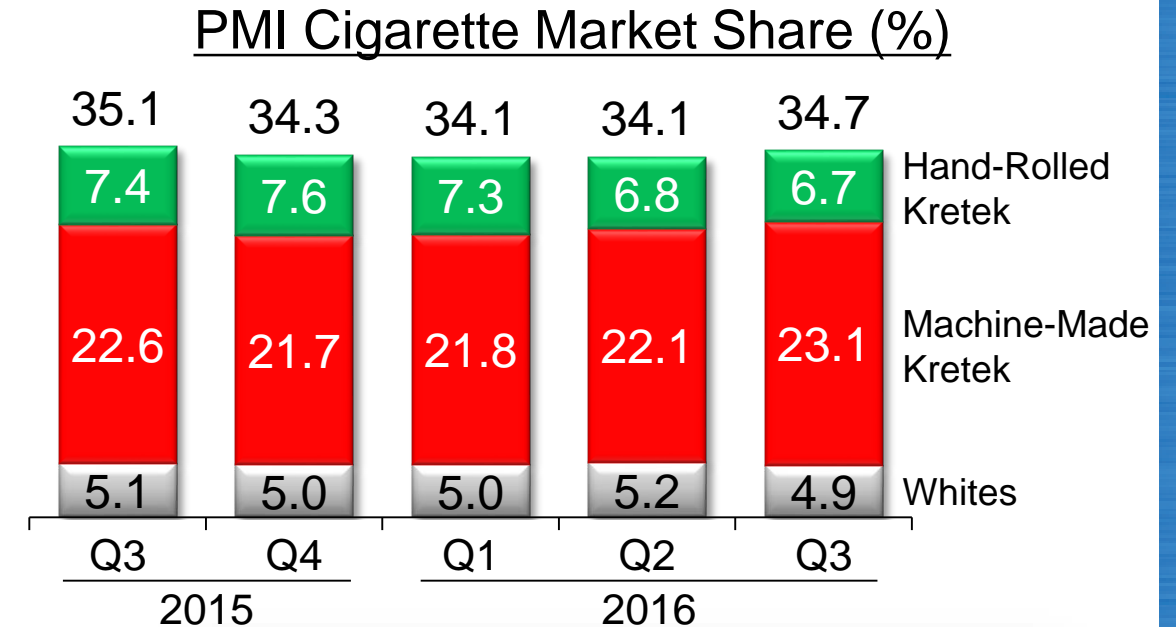
## EU Region: Strong Cigarette Market Share Performance

- Cigarette industry volume down by 1.4% in Q3, 2016. Expect full-year decline of around 1%
- *Marlboro* cigarette share was up in four of the top six largest EU Region markets by industry volume in Q3, 2016, with particularly strong growth in Germany and Spain



## Indonesia: Sequential Market Share Growth in Q3, 2016

- Sequential market share growth in Q3, 2016, driven by our strong performance in the full-flavor machine-made kretek segment
- Launched *Marlboro Filter Black* (full-flavor machine-made kretek) in 25 cities in September 2016
- In 2017, excise taxes will increase by an industry weighted-average of approximately 10% (vs. around 15% in 2016)

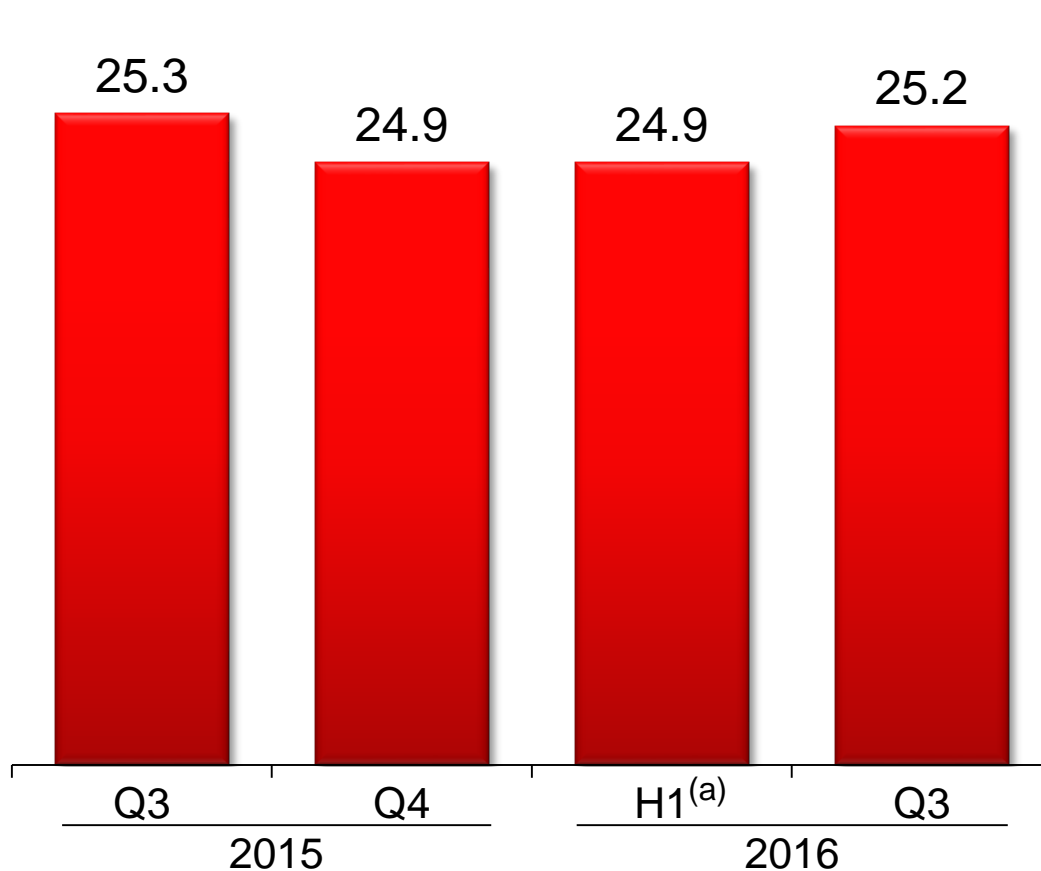


# Japan: Stabilizing Cigarette Share; *HeatSticks* Share Growth Continues

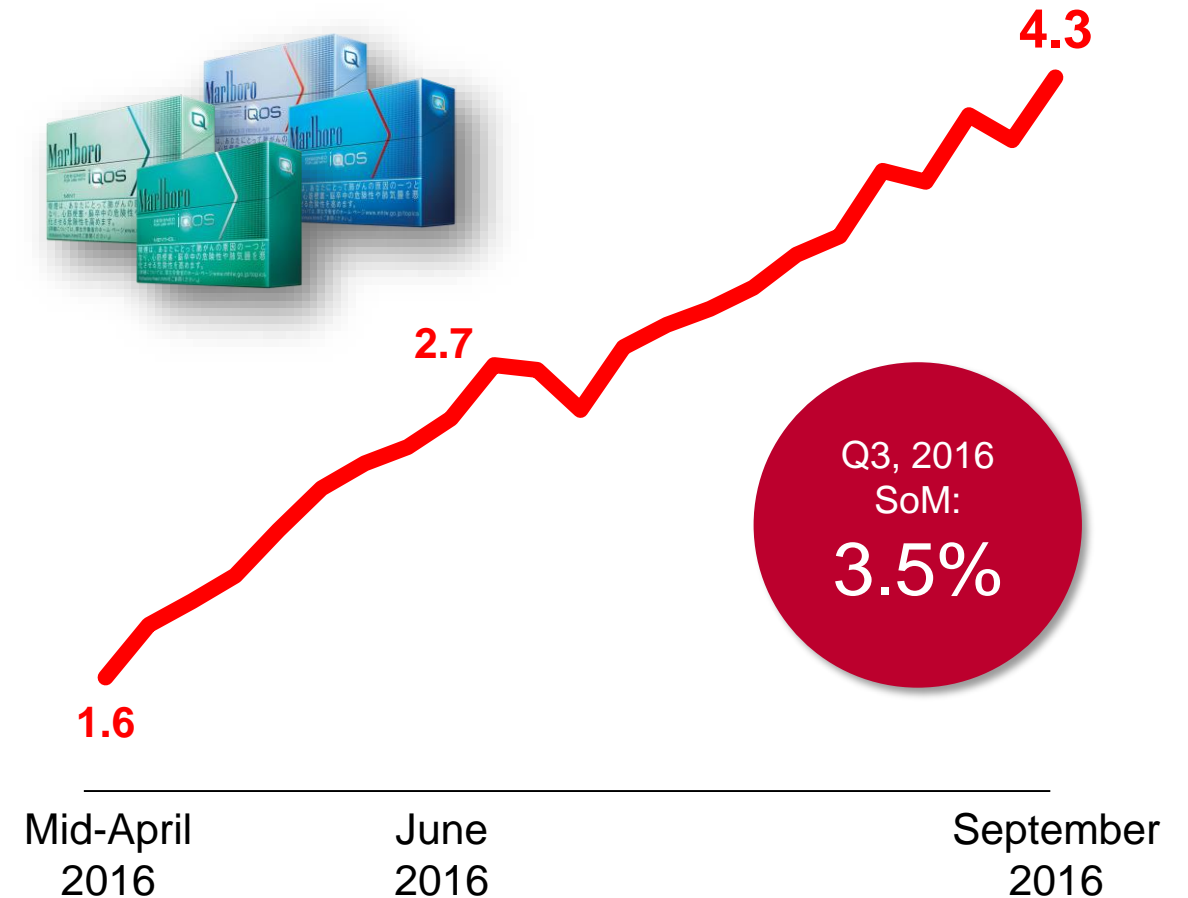


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PMI Cigarette Market Share (%)



Weekly *HeatSticks* Market Share (%)



(a) H1, 2016 period used due to significant trade inventory movements in Q1 and Q2

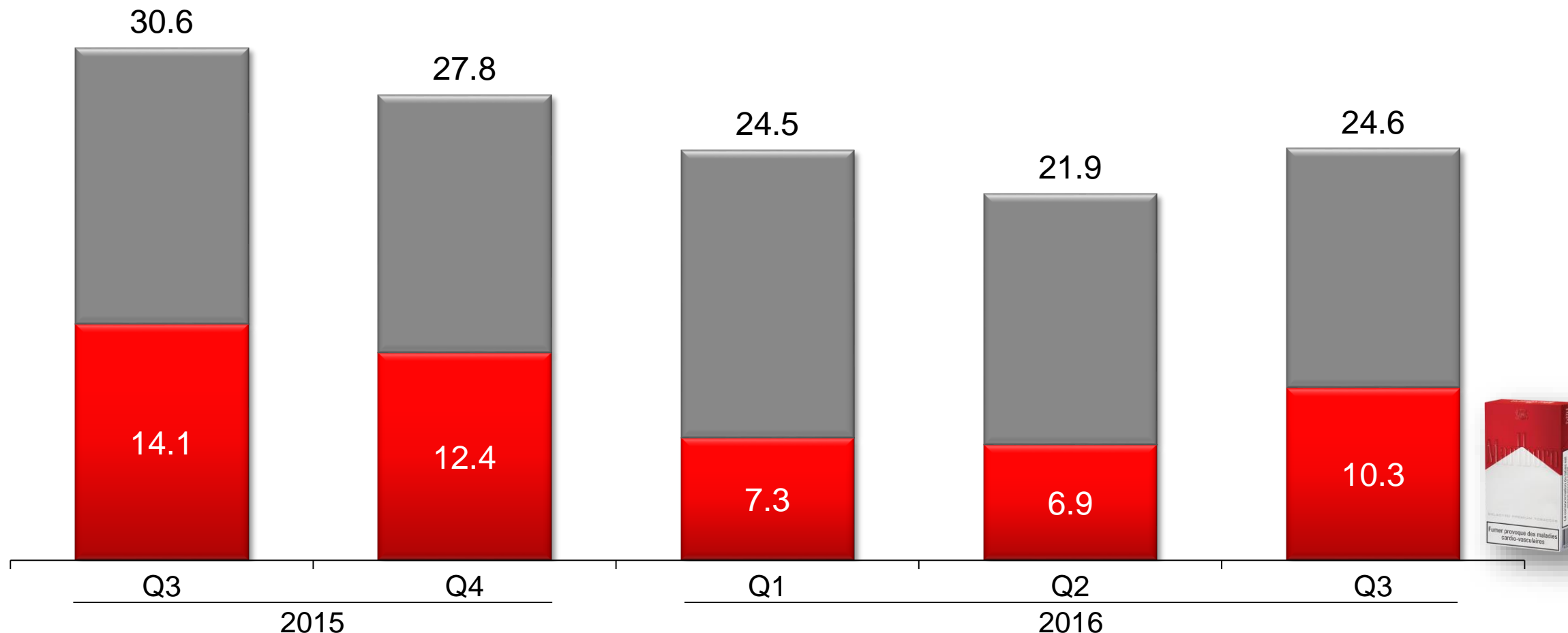
Note: Reduced-Risk Products ("RRPs") is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes. *HeatSticks* market share represents the total sales volume for *HeatSticks* as a percentage of the total estimated sales volume for cigarettes and *HeatSticks*. Pack designs are for illustrative purposes only

Source: PMI Financials or estimates, and Tobacco Institute of Japan



## North Africa: Sequential Market Share Improvement in Q3, 2016

PMI Cigarette Market Share (%)



Note: Pack design is for illustrative purposes only  
Source: PMI Financials or estimates



## Russia: 2017 Excise Tax Increase Proposal

- On October 1<sup>st</sup>, Ministry of Finance submitted a proposal to raise the specific and minimum excise tax levels for 2017 by approximately 10% above what is currently in the tax code
- If approved by the Duma and signed into law, it will result in a total tax pass-on of approximately RUB 11/pack<sup>(a)</sup>

<u>Excise Tax Structure</u>	<u>2016</u>	<b>2017 Excise Tax</b>	
		<u>Current</u>	<u>Proposed</u>
Ad Valorem Excise Tax (% of MRSP)	12.0%	13.0%	13.0%
Specific Excise Tax (RUB/000)	1,250	1,420	1,560
Minimum Excise Tax (RUB/000)	1,680	1,930	2,120

(a) Assuming full tax pass-on

Note: MRSP stands for Maximum Retail Selling Price

# Argentina: Cigarette Industry Showing Signs of Adjustment to Significant Excise-Tax Driven Price Increases in 2016

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- Cigarette industry volume declined by 14.1% in Q3, due mainly to the impact of significant excise-tax driven price increases in May
- Early signs that adult smokers are adjusting to the higher retail prices:
  - Average monthly decline in August and September of 8.0%
- Cigarette industry volume decline forecast:
  - 2016: down by around 12%
  - During 2017: return to the low single-digit historical decline rate, once the May 2016 excise tax increase has been lapped



## Conclusion: Full-Year 2016 Outlook Remains Strong

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- Q3, 2016 results in line with of our expectations
- Reaffirming 2016 reported diluted EPS guidance. Ex-currency, our guidance continues to represent a growth rate of approximately 10.5% to 11.5% compared to adjusted diluted EPS of \$4.42 in 2015



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# 2016 Third-Quarter Results

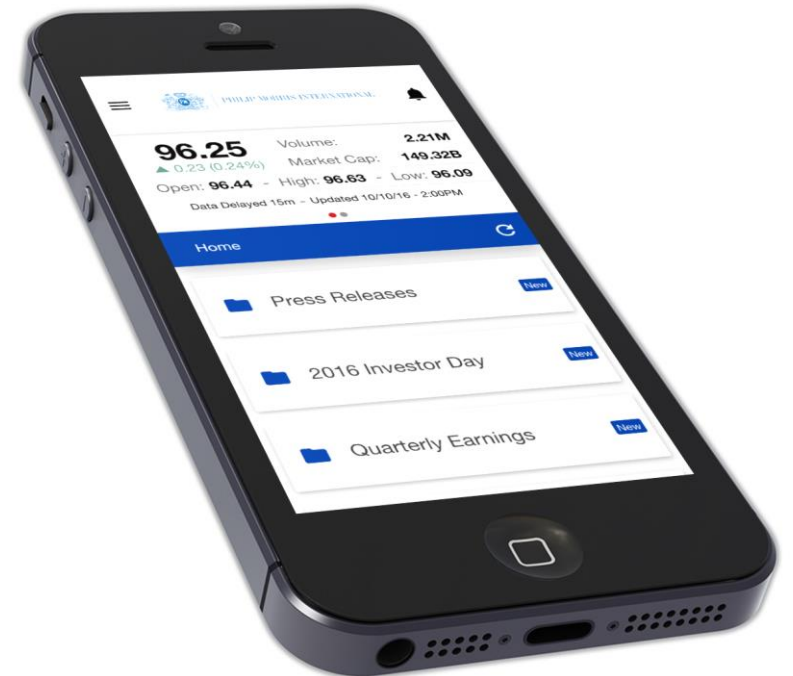
## Questions & Answers

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# **Glossary and Reconciliation of Non-GAAP Measures**



## Glossary: General Terms

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- PMI stands for Philip Morris International Inc. and its subsidiaries
- Until March 28, 2008, PMI was a wholly owned subsidiary of Altria Group, Inc. ("Altria"). Since that time the company has been independent and is listed on the New York Stock Exchange (ticker symbol "PM")
- Unless otherwise stated, results are compared to those of the same period in the preceding year
- PMI volumes refer to PMI cigarette shipment data, unless otherwise stated
- Organic volume refers to volume excluding acquisitions
- References to total international cigarette market, defined as worldwide cigarette volume excluding the U.S., total cigarette market, total market and market shares are PMI tax-paid estimates based on the latest available data from a number of internal and external sources and may, in defined instances, exclude China and/or PMI's duty free business
- Trademarks are italicized



## Glossary: Financial Terms

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- Net revenues exclude excise taxes
- Operating Companies Income, or "OCI", is defined as operating income, excluding general corporate expenses and the amortization of intangibles, plus equity (income) or loss in unconsolidated subsidiaries, net
- Adjusted OCI is defined as OCI adjusted for asset impairment, exit and other costs
- OCI growth rates are on an adjusted basis
- EPS stands for Earnings per Share



## Glossary: Industry/Market Terms

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- EEMA refers to the Eastern Europe, Middle East & Africa Region and includes our international duty free business
- EU refers to the European Union Region
- LA&C refers to the Latin America & Canada Region
- North Africa: Algeria, Egypt, Libya, Morocco and Tunisia
- SoM stands for Share of Market
- "Whites" stands for non-kretek cigarettes



## Glossary: Reduced-Risk Products

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- *HeatSticks* and *HEETS* tobacco sticks are novel patented tobacco products specifically designed by PMI for use with PMI's *iQOS* system. The tobacco in *HeatSticks* / *HEETS* is heated by our *iQOS* technology to provide adult smokers with real tobacco taste and satisfaction without combustion. Includes *Marlboro HeatSticks*, *Parliament HeatSticks* and *HEETS* from *Marlboro*
- *iQOS* is the new brand name under which PMI has chosen to commercialize its Platform 1 controlled heating device
- Reduced-Risk Products ("RRPs") is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes. PMI's RRP's are in various stages of development and commercialization, and we are conducting extensive and rigorous scientific studies to determine whether we can support claims for such products of reduced exposure to harmful and potentially harmful constituents in smoke, and ultimately claims of reduced disease risk, when compared to smoking cigarettes. Before making any such claims, we will rigorously evaluate the full set of data from the relevant scientific studies to determine whether they substantiate reduced exposure or risk. Any such claims may also be subject to government review and authorization, as is the case in the U.S. today

# PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

## Reconciliation of Non-GAAP Measures

Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS  
For the Year Ended December 31,  
(Unaudited)

	<u>2015</u>
<b>Reported Diluted EPS</b>	<b>\$ 4.42</b>
Adjustments:	
Asset impairment and exit costs	0.03
Tax items	<u>(0.03)</u>
<b>Adjusted Diluted EPS</b>	<b><u>\$ 4.42</u></b>

# PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

## Reconciliation of Non-GAAP Measures



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Adjustments for the Impact of Currency and Acquisitions  
For the Quarters Ended September 30,  
(\$ in millions)  
(Unaudited)

2016							2015					% Change in Net Revenues excluding Excise Taxes		
Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Less Currency	Net Revenues excluding Excise Taxes & Currency	Less Acquisi- tions	Net Revenues excluding Excise Taxes, Currency & Acquisitions		Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Total	Excluding Currency	Excluding Currency & Acquisitions	
\$ 7,387	\$ 5,187	\$ 2,200	\$ (6)	\$ 2,206	\$ -	\$ 2,206	European Union	\$ 7,018	\$ 4,895	\$ 2,123	3.6%	3.9%	3.9%	
5,122	3,186	1,936	(141)	2,077	-	2,077	EEMA	5,107	3,091	2,016	(4.0)%	3.0%	3.0%	
5,113	2,977	2,136	59	2,077	-	2,077	Asia	4,880	2,896	1,984	7.7%	4.7%	4.7%	
2,313	1,603	710	(108)	818	-	818	Latin America & Canada	2,417	1,613	804	(11.7)%	1.7%	1.7%	
\$ 19,935	\$ 12,953	\$ 6,982	\$ (196)	\$ 7,178	\$ -	\$ 7,178	PMI Total	\$ 19,422	\$ 12,495	\$ 6,927	0.8%	3.6%	3.6%	

2016					2015					% Change in Operating Companies Income		
Operating Companies Income	Less Currency	Operating Companies Income excluding Currency	Less Acquisi-tions	Operating Companies Income excluding Currency & Acquisitions		Operating Companies Income	Total	Excluding Currency	Excluding Currency & Acquisitions			
\$ 1,120	\$ 29	\$ 1,091	\$ -	\$ 1,091	European Union	\$ 1,045	7.2%	4.4%	4.4%			
962	(127)	1,089	-	1,089	EEMA	1,002	(4.0)%	8.7%	8.7%			
761	57	704	-	704	Asia	690	10.3%	2.0%	2.0%			
224	(53)	277	-	277	Latin America & Canada	294	(23.8)%	(5.8)%	(5.8)%			
\$ 3,067	\$ (94)	\$ 3,161	\$ -	\$ 3,161	PMI Total	\$ 3,031	1.2%	4.3%	4.3%			

# PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

## Reconciliation of Non-GAAP Measures



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Reconciliation of Operating Companies Income to Adjusted Operating Companies Income &  
Reconciliation of Adjusted Operating Companies Income Margin, excluding Currency and Acquisitions  
**For the Quarters Ended September 30,**  
(\$ in millions)  
(Unaudited)

(Unaudited)								% Change in Adjusted Operating Companies Income						
2016							2015							
Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Less Currency	Adjusted Operating Companies Income excluding Currency	Less Acquisitions	Adjusted Operating Companies Income excluding Currency & Acquisitions		Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions	
\$ 1,120	\$ -	\$ 1,120	\$ 29	\$ 1,091	\$ -	\$ 1,091	European Union	\$ 1,045	\$ -	\$ 1,045	7.2%	4.4%	4.4%	
962	-	962	(127)	1,089	-	1,089	EEMA	1,002	-	1,002	(4.0)%	8.7%	8.7%	
761	-	761	57	704	-	704	Asia	690	-	690	10.3%	2.0%	2.0%	
224	-	224	(53)	277	-	277	Latin America & Canada	294	-	294	(23.8)%	(5.8)%	(5.8)%	
\$ 3,067	\$ -	\$ 3,067	\$ (94)	\$ 3,161	\$ -	\$ 3,161	PMI Total	\$ 3,031	\$ -	\$ 3,031	1.2%	4.3%	4.3%	

2016						2015			% Points Change		
Adjusted Operating Companies Income excluding Currency	Net Revenues excluding Excise Taxes & Currency <sup>(a)</sup>	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income excluding Currency & Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions <sup>(a)</sup>	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions		Adjusted Operating Companies Income	Net Revenues excluding Excise Taxes <sup>(a)</sup>	Adjusted Operating Companies Income Margin	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions
\$ 1,091	\$ 2,206	49.5%	\$ 1,091	\$ 2,206	49.5%	European Union	\$ 1,045	\$ 2,123	49.2%	0.3	0.3
1,089	2,077	52.4%	1,089	2,077	52.4%	EEMA	1,002	2,016	49.7%	2.7	2.7
704	2,077	33.9%	704	2,077	33.9%	Asia	690	1,984	34.8%	(0.9)	(0.9)
277	818	33.9%	277	818	33.9%	Latin America & Canada	294	804	36.6%	(2.7)	(2.7)
\$ 3,161	\$ 7,178	44.0%	\$ 3,161	\$ 7,178	44.0%	PMI Total	\$ 3,031	\$ 6,927	43.8%	0.2	0.2

(a) For the calculation of net revenues excluding excise taxes, currency and acquisitions, refer to previous slide



# PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

## Reconciliation of Non-GAAP Measures



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Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS and Adjusted Diluted EPS, excluding Currency  
For the Quarters Ended September 30,  
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
<b>Reported Diluted EPS</b>	<b>\$ 1.25</b>	<b>\$ 1.25</b>	<b>- %</b>
Adjustments:			
Asset impairment and exit costs	-	-	
Tax items	-	(0.01)	
<b>Adjusted Diluted EPS</b>	<b>\$ 1.25</b>	<b>\$ 1.24</b>	<b>0.8%</b>
Less:			
Currency impact	(0.04)		
<b>Adjusted Diluted EPS, excluding Currency</b>	<b>\$ 1.29</b>	<b>\$ 1.24</b>	<b>4.0%</b>

# PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

## Reconciliation of Non-GAAP Measures



PHILIP MORRIS  
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Reconciliation of Reported Diluted EPS to Reported Diluted EPS, excluding Currency  
For the Quarters Ended September 30,  
(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>% Change</u>
<b>Reported Diluted EPS</b>	<b>\$ 1.25</b>	<b>\$ 1.25</b>	<b>- %</b>
Less:			
Currency impact	<u>(0.04)</u>	<u></u>	
<b>Reported Diluted EPS, excluding Currency</b>	<b><u>\$ 1.29</u></b>	<b><u>\$ 1.25</u></b>	<b>3.2%</b>



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## **2016 Third-Quarter Results**

October 18, 2016