



PHILIP MORRIS INTERNATIONAL

# **Morgan Stanley Global Consumer & Retail Conference**

## **New York, November 18, 2015**

Jacek Olczak

*Chief Financial Officer*

Philip Morris International



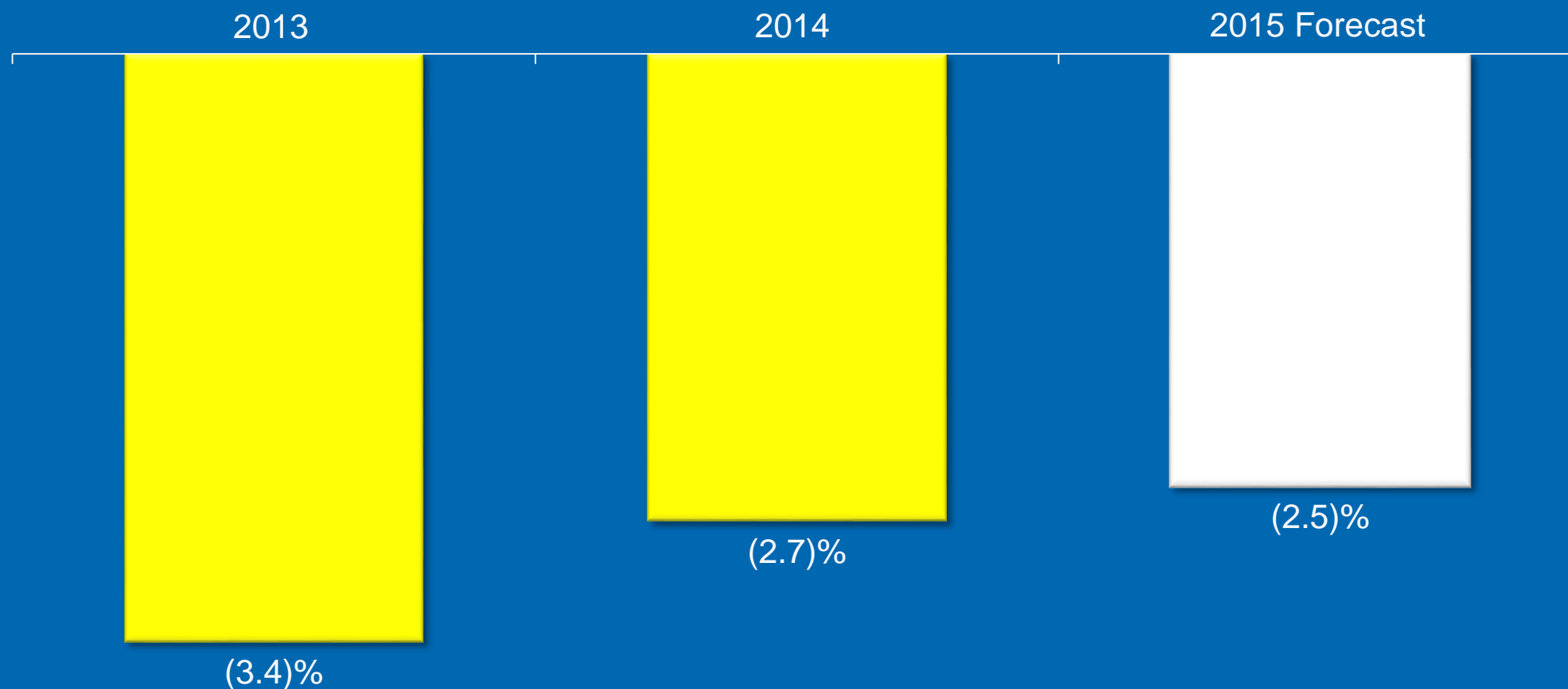
# Forward-Looking and Cautionary Statements

- This presentation and related discussion contain forward-looking statements. Achievement of projected 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 September 30, 2015. 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
- A glossary of terms, data tables showing adjustments to net revenues and OCI for currency and acquisitions, asset impairment, exit and other costs, free cash flow calculations, adjustments to EPS, and reconciliations to U.S. GAAP measures, are at the end of today's webcast slides, which are also 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 combustible cigarettes



# Improving Developments in International Cigarette Industry Volume

## International Cigarette Industry Volume Decline vs. PY<sup>(a)</sup>

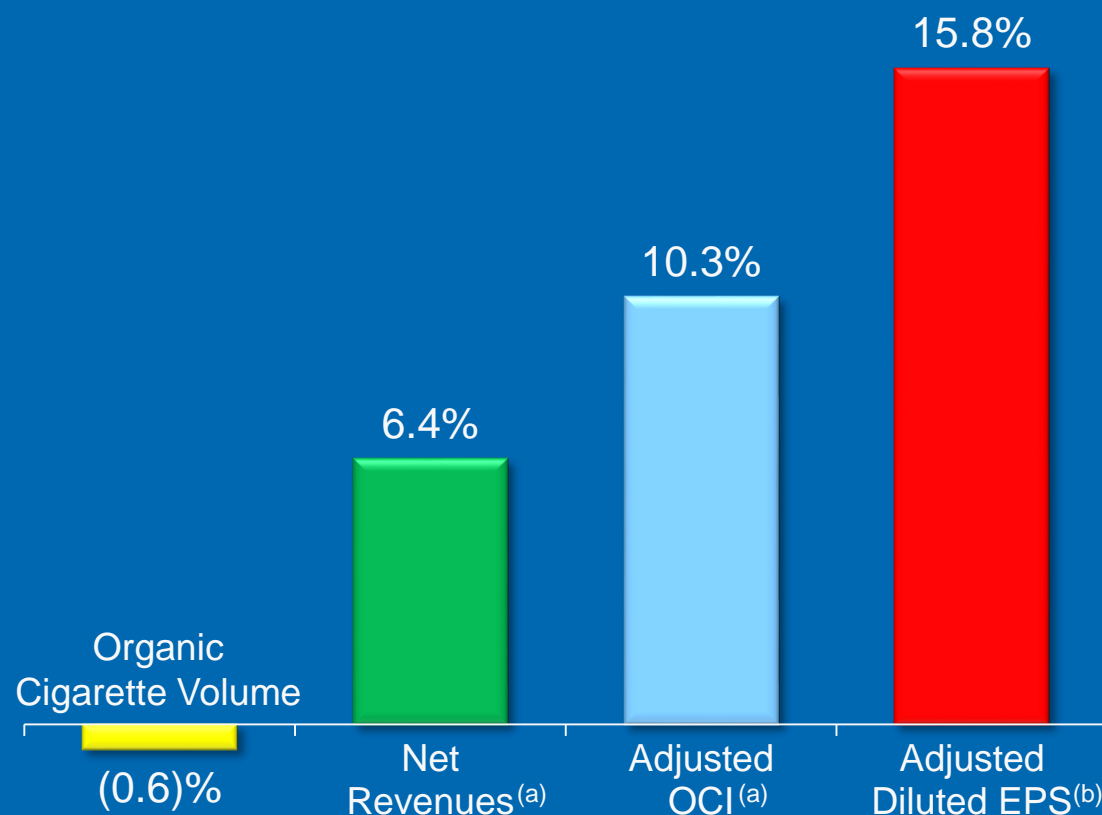


(a) Excluding China and the U.S.  
Source: PMI Financials or estimates



# Strong 2015 Financial Results and Outlook

## Variance (YTD Sept, 2015 vs. PY)



(a) Excluding currency and acquisitions

(b) Excluding currency

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 combustible cigarettes

Source: PMI Financials or estimates

## Q4, 2015 outlook:

- Incremental investments to support *iQOS* in Japan, Italy and Switzerland
- Accelerated spending behind forthcoming *iQOS* launches
- Incremental marketing investments to further reinforce the favorable momentum of our cigarette brand portfolio
- Recently increased our prices in the Philippines and announced higher prices in Russia



## Reaffirming 2015 EPS Guidance Range

- Reaffirming 2015 reported diluted EPS guidance range of \$4.35 to \$4.40, at prevailing exchange rates
- Guidance includes:
  - \$1.22 of unfavorable currency at prevailing exchange rates
  - \$0.01 for the favorable impact of the 2015 tax items recorded in Q3, 2015
- Excluding currency and tax items, guidance represents a growth rate of 11% to 12% compared to adjusted diluted EPS of \$5.02 in 2014
- Expect to be toward the upper end of this range

# iQOS: Geographic Expansion in Q4, 2015

- City launches this month in Moscow (Russia), Lisbon (Portugal) and Bucharest (Romania)
- *Parliament HeatSticks*, with a recessed filter, in Moscow
- Expansion in Italy to Rome and Turin
- National expansion in Japan. Expect to cover over 60% of the adult smoker population by year-end

## Russia

iQOS Kit  
RUB 7,000



Parliament HeatSticks  
RUB 150/pack



## Tokyo: Flagship Store



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 combustible cigarettes. Visuals are for illustrative purposes only. 20 *HeatStick* tobacco sticks per pack  
Source: PMI Financials or estimates



# Rewarding Our Shareholders: Optimizing Free Cash Flow and Increasing Dividends

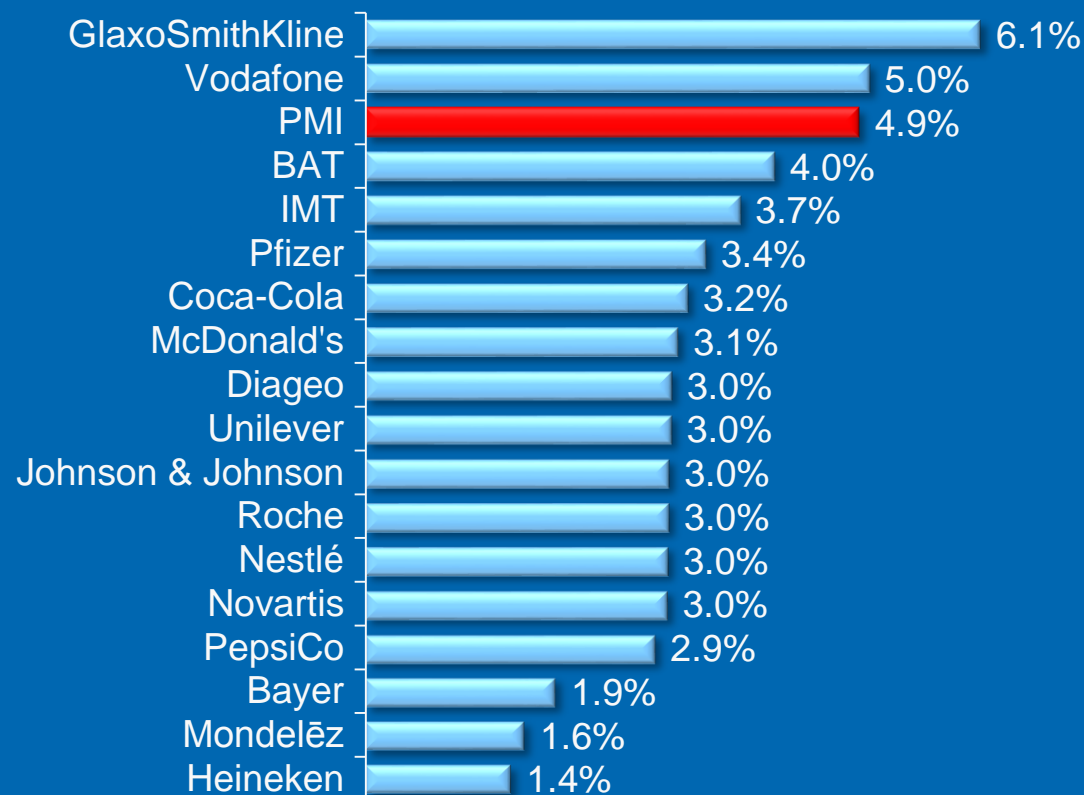
- Prudent management of capital expenditures and working capital
- Expect free cash flow in 2015 to be broadly in line with previous year despite unfavorable currency impact of some \$1.8 billion in the first nine months of this year
- Annual dividend rate increased to \$4.08 per share in September 2015
- Eight consecutive annual dividend increases since the spin in 2008, for a total increase of approximately 122%



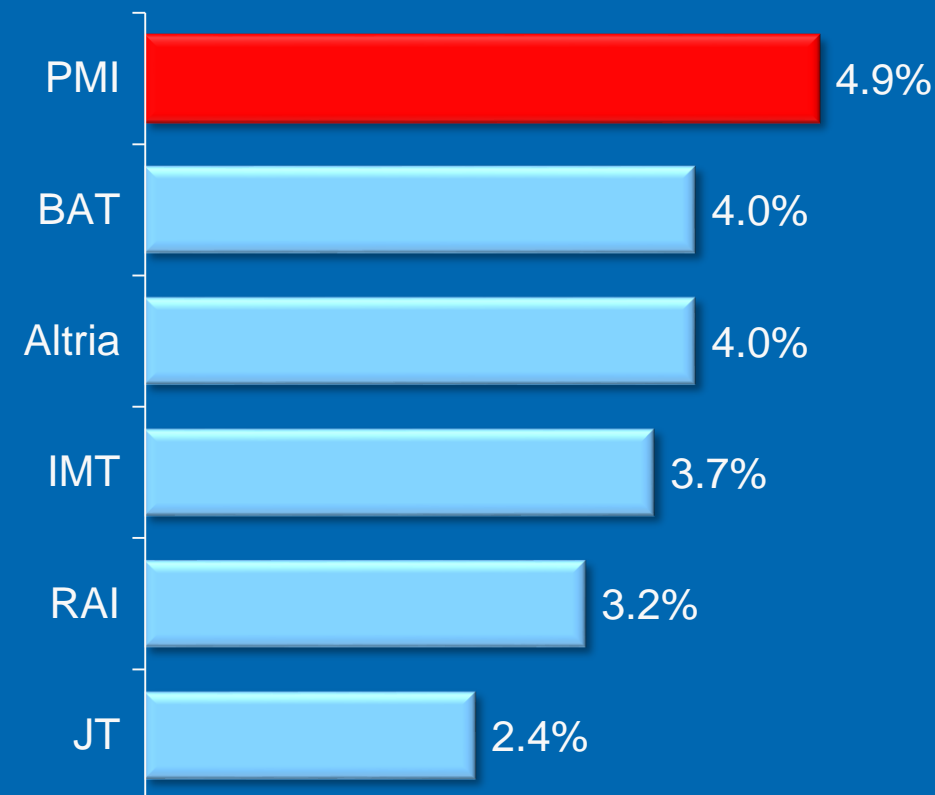
# Rewarding Our Shareholders: Attractive Dividend Yield

## PMI Dividend Yield

### vs. Compensation Survey Group (November 13, 2015)



### vs. Tobacco Peer Group (November 13, 2015)



Note: Dividend yield represents the annualized dividend on November 13, 2015 over the closing share price on that date. The current annualized dividend for PMI is \$4.08. The closing share price for PMI was \$83.40 as of November 13, 2015

Source: FactSet, compiled by Centerview





## Positive Outlook for 2016

- Favorable international cigarette industry volume developments
- Favorable momentum driven by our superior brand portfolio, led by *Marlboro*
- Pricing has remained strong, supported by a reasonable excise tax environment
- 2016 EPS guidance to be provided in February
- Lower adverse currency impact expected next year
- At prevailing exchange rates applied to PMI's anticipated full-year 2015 financial results, PMI estimates a full-year unfavorable currency impact in 2016 of approximately 27 cents per share



PHILIP MORRIS INTERNATIONAL

# Morgan Stanley Global Consumer & Retail Conference

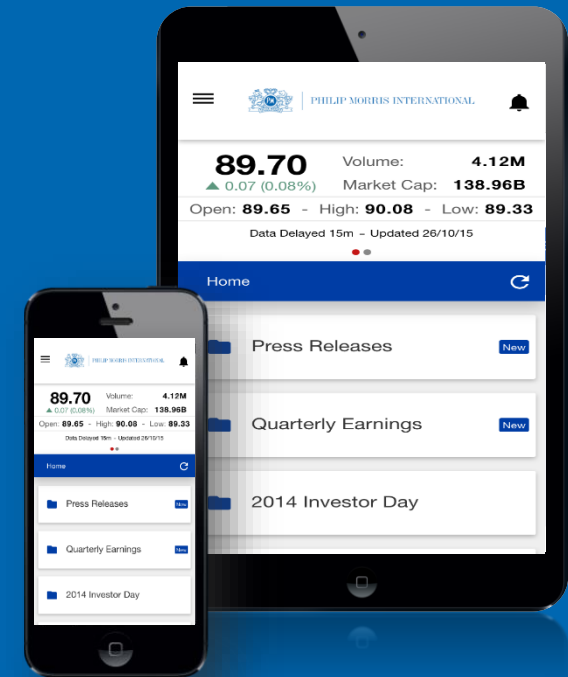
## Questions & Answers

Download PMI's Investor Relations App

iOS



Android





PHILIP MORRIS INTERNATIONAL

# Glossary and Reconciliation of Non-GAAP Measures



## Glossary: General Terms

---

- 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, total cigarette market, total market and market shares reflect our best estimates of tax-paid volumes based on a number of internal and external sources
- Trademarks are italicized



## Glossary: Financial Terms

---

- 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 reported OCI adjusted for asset impairment, exit and other costs
- OCI growth rates are on an adjusted basis
- EPS stands for Earnings per Share
- Free cash flow is defined as net cash provided by operating activities less capital expenditures



## Glossary: Industry/Market Terms

---

- 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





## Glossary: Reduced-Risk Products

- *HeatStick* tobacco sticks are novel patented tobacco products specifically designed by PMI for use with PMI's *iQOS* system. The tobacco in the *HeatStick* is heated by our *iQOS* technology to provide adult smokers with real tobacco taste and satisfaction without combustion
- *iQOS* is the new brand name under which PMI has chosen to commercialize the Platform 1 electronic system
- 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 combustible 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 combustible 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 approval, as is the case in the U.S. today

# PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

## Reconciliation of Non-GAAP Measures



PHILIP MORRIS  
INTERNATIONAL

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

2015								2014			% Change in Reported Net Revenues excluding Excise Taxes		
Reported Net Revenues	Less Excise Taxes	Reported Net Revenues excluding Excise Taxes	Less Currency	Reported Net Revenues excluding Excise Taxes & Currency	Less Acquisi- tions	Reported Net Revenues excluding Excise Taxes, Currency & Acquisitions		Reported Net Revenues	Less Excise Taxes	Reported Net Revenues excluding Excise Taxes	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$ 18,909	\$ 12,988	\$ 5,921	\$ (1,188)	\$ 7,109	\$ 11	\$ 7,098	European Union	\$ 22,225	\$ 15,462	\$ 6,763	(12.5)%	5.1%	5.0%
14,915	9,055	5,860	(1,464)	7,324	1	7,323	EEMA	16,347	9,621	6,726	(12.9)%	8.9%	8.9%
14,683	8,399	6,284	(625)	6,909	-	6,909	Asia	14,515	7,790	6,725	(6.6)%	2.7%	2.7%
7,030	4,693	2,337	(345)	2,682	4	2,678	Latin America & Canada	7,078	4,722	2,356	(0.8)%	13.8%	13.7%
<b>\$ 55,537</b>	<b>\$ 35,135</b>	<b>\$ 20,402</b>	<b>\$ (3,622)</b>	<b>\$ 24,024</b>	<b>\$ 16</b>	<b>\$ 24,008</b>	<b>PMI Total</b>	<b>\$ 60,165</b>	<b>\$ 37,595</b>	<b>\$ 22,570</b>	<b>(9.6)%</b>	<b>6.4%</b>	<b>6.4%</b>

2015								2014			% Change in Reported Operating Companies Income		
Reported Operating Companies Income		Less Currency	Reported Operating Companies Income excluding Currency	Less Acquisi- tions	Reported Operating Companies Income excluding Currency & Acquisitions			Reported Operating Companies Income		Reported Operating Companies Income	Reported	Reported excluding Currency	Reported excluding Currency & Acquisitions
\$ 2,904		\$ (712)	\$ 3,616	\$ (2)	\$ 3,618	European Union		\$ 2,875			1.0%	25.8%	25.8%
2,794		(843)	3,637	(1)	3,638	EEMA		3,218			(13.2)%	13.0%	13.1%
2,421		(298)	2,719	-	2,719	Asia		2,614			(7.4)%	4.0%	4.0%
849		(147)	996	3	993	Latin America & Canada		734			15.7%	35.7%	35.3%
<b>\$ 8,968</b>		<b>\$ (2,000)</b>	<b>\$ 10,968</b>	<b>\$ -</b>	<b>\$ 10,968</b>	<b>PMI Total</b>		<b>\$ 9,441</b>			<b>(5.0)%</b>	<b>16.2%</b>	<b>16.2%</b>

# PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

## Reconciliation of Non-GAAP Measures



PHILIP MORRIS  
INTERNATIONAL

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

2015							2014			% Change in Adjusted Operating Companies Income			
Reported 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		Reported Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Adjusted	Adjusted excluding Currency	Adjusted excluding Currency & Acquisitions
\$ 2,904	\$ -	\$ 2,904	\$ (712)	\$ 3,616	\$ (2)	\$ 3,618	European Union	\$ 2,875	\$ (472)	\$ 3,347	(13.2)%	8.0%	8.1%
2,794	-	2,794	(843)	3,637	(1)	3,638	EEMA	3,218	-	3,218	(13.2)%	13.0%	13.1%
2,421	-	2,421	(298)	2,719	-	2,719	Asia	2,614	(24)	2,638	(8.2)%	3.1%	3.1%
849	-	849	(147)	996	3	993	Latin America & Canada	734	(7)	741	14.6%	34.4%	34.0%
\$ 8,968	\$ -	\$ 8,968	\$ (2,000)	\$ 10,968	\$ -	\$ 10,968	PMI Total	\$ 9,441	\$ (503)	\$ 9,944	(9.8)%	10.3%	10.3%

2015							2014			% 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
\$ 3,616	\$ 7,109	50.9%	\$ 3,618	\$ 7,098	51.0%	European Union	\$ 3,347	\$ 6,763	49.5%	1.4	1.5
3,637	7,324	49.7%	3,638	7,323	49.7%	EEMA	3,218	6,726	47.8%	1.9	1.9
2,719	6,909	39.4%	2,719	6,909	39.4%	Asia	2,638	6,725	39.2%	0.2	0.2
996	2,682	37.1%	993	2,678	37.1%	Latin America & Canada	741	2,356	31.5%	5.6	5.6
\$ 10,968	\$ 24,024	45.7%	\$ 10,968	\$ 24,008	45.7%	PMI Total	\$ 9,944	\$ 22,570	44.1%	1.6	1.6

(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



PHILIP MORRIS  
INTERNATIONAL

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

	2015	2014	% Change
<b>Reported Diluted EPS</b>	<b>\$ 3.62</b>	<b>\$ 3.73</b>	<b>(2.9)%</b>
Adjustments:			
Asset impairment and exit costs	-	0.26	
Tax items	(0.01)	-	
<b>Adjusted Diluted EPS</b>	<b>\$ 3.61</b>	<b>\$ 3.99</b>	<b>(9.5)%</b>
Less:			
Currency impact	(1.01)		
<b>Adjusted Diluted EPS, excluding Currency</b>	<b>\$ 4.62</b>	<b>\$ 3.99</b>	<b>15.8%</b>

# 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)

	2014
<b>Reported Diluted EPS</b>	<b>\$ 4.76</b>
Adjustments:	
Asset impairment and exit costs	0.26
Tax items	-
<b>Adjusted Diluted EPS</b>	<b>\$ 5.02</b>

# PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

## Reconciliation of Non-GAAP Measures



PHILIP MORRIS  
INTERNATIONAL

Reconciliation of Operating Cash Flow to Free Cash Flow and Free Cash Flow, excluding Currency  
For the Nine Months Ended September 30,  
(Unaudited)

	For the Nine Months Ended September 30,		% Change
	2015	2014	
<b>Net cash provided by operating activities<sup>(a)</sup></b>	<b>\$ 5,993</b>	<b>\$ 6,385</b>	<b>(6.1)%</b>
Less:			
Capital expenditures	636	804	
<b>Free cash flow</b>	<b>\$ 5,357</b>	<b>\$ 5,581</b>	<b>(4.0)%</b>
Less:			
Currency impact	(1,809)		
<b>Free cash flow, excluding currency</b>	<b>\$ 7,166</b>	<b>\$ 5,581</b>	<b>28.4%</b>





PHILIP MORRIS INTERNATIONAL

# **Morgan Stanley Global Consumer & Retail Conference New York, November 18, 2015**