

Annual Meeting of Shareholders
Philip Morris International Inc.
May 9, 2018
New York, NY

(SLIDE 1.)

Good morning, ladies and gentlemen, and welcome to Philip Morris International's 2018 Annual Meeting of Shareholders. The meeting is now called to order.

I am Louis Camilleri, Chairman of the Board.

I would like to extend my warmest welcome to shareholders and employees who have joined us on our webcast, as well as those who are here in person today.

It is my privilege to welcome our Board of Directors, who are sitting in the front row.

On stage with me are André Calantzopoulos, our Chief Executive Officer, and Jerry Whitson, our Deputy General Counsel and Corporate Secretary.

In addition, I would like to introduce Chad Mueller of PricewaterhouseCoopers, our auditors. He is in the audience and will be available to answer questions after the meeting.

It is our intention to proceed in accordance with the Agenda and the rules for the meeting that have been placed on your seats.

(SLIDE 2.)

Our remarks today contain forward-looking statements and, accordingly, I direct your attention to the Forward-Looking and Cautionary Statements section of today's presentation. A glossary of terms, including the definition for reduced-risk products, or "RRPs," as well as adjustments, other calculations and 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.

(SLIDE 3.)

The Secretary will now present certain formal documents. Jerry.

Thank you, Mr. Chairman.

I present to the meeting, together with Affidavits of Mailing, a copy of the Notice of Meeting, form of Proxy, Proxy Statement and Annual Report, including financial statements for the fiscal year ended December 31, 2017.

The holders of record of common stock at the close of business on March 16, 2018 are entitled to vote at this meeting. I am informed that more than 88% percent of Philip Morris International Inc.'s common stock is represented here today and, therefore, a quorum is present for the transaction of business.

Thank you, Jerry.

Will you please file the documents with the records of the meeting.

I appoint as Inspectors of Election, Amilja Regan and Kevin Laurita of Computershare, the Transfer Agent for PMI's common stock.

The Inspectors are instructed to execute the oath, and to take custody of all proxies, and of the certified list of holders of common stock as of the close of business on March 16, 2018.

The list contains the names and addresses of all holders of common stock, and the number of shares held by each.

This list is available for inspection throughout the meeting.

The Inspectors will certify the vote on each of the matters to be presented to the meeting. Individual proxies and ballots are kept confidential, with exceptions outlined in the Proxy Statement.

It is now my pleasure to give the floor to André, who will review our business performance.

Thank you, Louis, and good morning, everyone.

(SLIDE 4.)

I would first like to address the most important issue currently on the minds of not only our shareholders, but also clearly of our Board and management: the sharp decline in our share price following the first-quarter earnings call last month. Although the market is the ultimate judge, it is very hard to explain an erosion in value of more than \$30 billion. This is tantamount to assigning a zero – or even negative – value to IQOS and the entire reduced-risk product portfolio of PMI.

We are certainly light years away from such an eventuality. As a reminder, in 2017, just two years after the scaled commercialization of IQOS, RRP net revenues alone amounted to \$3.6 billion and already contributed to PMI's total profit growth. In 2018, the in-market sales of heated tobacco unit consumables for IQOS are poised to more than double, while

the contribution of RRPs to the bottom line should increase significantly despite sizable incremental investments. In fact, *IQOS* is projected to grow this year in every single market where it has been commercialized – including Japan, which triggered the recent stock market reaction. This trajectory is remarkable in comparison to any new product category. In a few moments, I will explain in much more detail the current situation in Japan, as well as our action plans to accelerate our growth going forward despite an admittedly weaker first quarter than anticipated.

(SLIDE 5.)

Before doing so, however, it is crucial to underscore the fact that, despite the occasional expected or potentially unexpected speed bump, RRPs constitute our most promising growth opportunity, now and over the long term. Simply put, they are the future of PMI.

Historically, we have primarily relied on pricing to meet our income growth targets. Today, we have products that address fundamental consumer needs and which can make a significant contribution to public health. Any revolutionary product of this nature will invariably face some challenges and predicting its specific growth trajectory accurately will prove to be difficult for some time, as we have said time and time again. However, the key word is growth. Continued and sustained growth.

I will reiterate what I said at the CAGNY conference in February. Our aspiration is that, by 2025, at least 30% of our volume – or over 250 billion units – will come from RRPs. 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 reduced-risk products by then. Nothing has changed to alter my conviction that this aspiration is realistic.

(SLIDE 6.)

The RRP category is still in its infancy. In many ways, it is a journey through uncharted territory for consumers, governments and the industry, as well as for our investors, who are also grappling with the less predictive nature of the category, but for whom we are providing as much information as we can.

As RRPs expand, there will be periods of acceleration and periods of slower growth, the timing of which is very hard for us to predict precisely, especially at this initial stage. This is the case of virtually every new product category, and *IQOS* will invariably go through these phases. But growth is inexorable, and will be for many years. It is our belief that any slowdowns will be temporary phenomena, and we are confident that we will be able to address them.

In Japan the category has already reached a phenomenal 20% share of the tobacco market within just a couple of years, with *HeatSticks* at close to 16% market share in the first quarter of 2018. Recent characterizations that I have read or heard pertaining to

IQOS, such as “hitting a wall” and “category maturity,” are plain wrong. From everything that we observe and know, RRP’s have no ceiling in sight. The only envisaged ceiling being the number of smokers worldwide – estimated to be around 1.1 billion.

(SLIDE 7.)

I am absolutely confident that our commitment to realize the unparalleled growth potential of our RRP portfolio, by remaining at the forefront of product innovation, science and consumer experience, is the strategy that will deliver strong business growth and shareholder returns in the years to come.

Rest assured that, as we transform the company, we are not neglecting our combustible business and its strong pricing power. We have the leading combustible product portfolio, which provides the fuel for our RRP investments. Despite the rapidly growing contribution of RRP’s, our combustible tobacco portfolio continues to constitute the lion’s share of our earnings and cash flow. As our smoke-free vision materializes, cigarette volumes will naturally decline over time. But I reiterate that we will not give any gifts to our competitors on this front and, over time, we intend to grow our share of this category.

(SLIDE 8.)

So, with that said, let me now turn to our strong 2017 performance, before returning to the specifics of *IQOS*’s recent results and longer-term outlook, particularly in Japan.

Last year, we recorded full-year net revenue growth of 9.4%, excluding currency, driven by higher volume for heated tobacco units and *IQOS* devices across all *IQOS* launch markets, coupled with favorable pricing for our combustible tobacco portfolio. Even excluding the impact of the business-critical net inventory increase in Japan, mainly related to heated tobacco units, full-year net revenues would have grown by approximately 7% on a currency-neutral basis, an achievement that would be the envy of the vast majority of companies in the fast-moving consumer goods sector.

Operating income and adjusted diluted EPS increased by 7.7% and 10.0%, respectively, both excluding currency. Importantly, RRP’s generated a positive annual profit contribution for the first time, driven by *IQOS*.

(SLIDE 9.)

Japan is the posterchild for our RRP success thus far. In just over two years since its national expansion, our *HeatSticks* brand has reached a share of nearly 16%. As of March 2018, 5.4 million Japanese consumers were using *IQOS*.

This constitutes a phenomenal growth pattern for an entirely new category, particularly when we recall that *IQOS* is priced at a premium over competitive offerings. To put this into perspective, *HeatSticks* is now the second-largest tobacco brand in the Japanese

market, with nearly double the share of *Marlboro* cigarettes. We have never witnessed anything close to this level of success for a new brand launch in the tobacco industry.

(SLIDE 10.)

IQOS's early success extends well beyond Japan. From Korea, where *HEETS* reached a first-quarter share of 7.3% less than one year after launch, to Greece, where *HEETS* recorded a quarterly share of 3.5%, the trend is undeniable.

As with any new product category, the pace of growth will vary by market. It will depend on factors such as the regulatory environment, which determines our ability to explain the RRP category to adult smokers, culture, category awareness levels, the propensity of word-of-mouth, and many other parameters. But the overall growth trend is clear across all markets.

(SLIDE 11.)

Simply put, *IQOS* is resonating with adult smokers globally because it addresses a fundamental unmet need: to allow those who choose to continue enjoying tobacco to do so in a form that is a significantly better alternative to smoking, both for themselves and those around them.

This is reflected in the high *IQOS* switching rates, with full and predominant conversion generally ranging from around 70% to 90% across markets. High full conversion rates for an RRP product are of fundamental importance. They demonstrate a high degree of product satisfaction and, from a consumer's perspective, one that is worth their investment in terms of time, money and personal effort to change their ritual from cigarettes. From a regulatory perspective, it underscores a higher potential to meaningfully improve public health, as it has a demonstrated ability to switch current smokers to proven better alternatives than cigarettes.

(SLIDE 12.)

Let me now review the dynamics of the heated tobacco category and *IQOS* in Japan. By way of background, after its late-2014 pilot launch in Nagoya, *IQOS* was expanded as of September 2015 to reach full national deployment in April 2016. The consumer response far exceeded our projections. We experienced significant supply shortages, first of heated tobacco units, and then of *IQOS* devices, the latter lasting until early 2018. All available product was immediately absorbed by the market. This was obviously a nice problem to have, but the consequence of the supply constraint was that it did not allow for an accurate picture of the evolving shifts in total demand.

In the course of 2017, competitive products *glo* and *Ploom TECH* were introduced in the market. *glo* is now available nationally, while the distribution for *Ploom TECH* continues to be expanded. These introductions supported the growth of the category, especially given the *IQOS* device supply shortage, but evidently also created a new market dynamic,

as consumers were able to experiment with a variety of products with different attributes at differing price points over recent months.

(SLIDE 13.)

This chart shows the percentage usage of any heated tobacco product over the prior seven days among all tobacco users from October 2015 through March 2018, when it reached 30.5%. This underscores the continuing strong consumer interest in the category, as well as its potential.

(SLIDE 14.)

This strong interest is confirmed by the progression of the number of consumers using a heated tobacco product, which is estimated to have reached seven million in March of this year. Over recent months, the pace of growth – although still very significant, with approximately half a million smokers switching to the category – was actually lower than we had initially projected.

Our expectation was that, with no further *IQOS* supply shortage, we would experience an uplift in adult smoker switching to *IQOS*, which has not yet materialized, for reasons which we are only now in a position to explain fully.

(SLIDE 15.)

IQOS is the undisputed heated tobacco category leader. In March 2018, an estimated 5.4 million consumers, representing around 76% of the category were exclusive or partial *IQOS* users.

Some 1.6 million *IQOS* users, or 29% of the total for *IQOS*, also own a competitive product. The majority of this group use *IQOS* on more occasions than competitive devices. However, they have either purchased a competitive product when it became available subsequent to *IQOS*, or bought *IQOS* after having first tried a competitive product. Thus, we are witnessing dual usage within the category. This is especially true among “Innovators” and “Early Adopters,” who seek out and try new products prior to finalizing their selection.

This current dual usage within the category may have been exacerbated by other factors, including the then prevailing supply constraints on *IQOS* and *HeatSticks*, their premium price positioning relative to competitive offerings, our requirement of face-to-face or digital trials, and the fact that the current version of *IQOS* does not offer immediate consecutive use.

Furthermore, we did face some regretful product reliability issues related to the *IQOS* devices that may have caused a level of frustration, although these issues are fully resolved and now behind us.

Dual consumption of competitive heated tobacco units during this temporary high-trial period is natural for a novel product category. Obviously, this has a dilutive effect on our sales, which we estimate at around 8% to 9% of our total heated tobacco unit volume in Japan, or the equivalent of approximately 1.3 to 1.5 share points. This is an immediate opportunity, and clearly points to the even greater potential as the category grows.

(SLIDE 16.)

Our extensive consumer research reveals that *IQOS* is perceived as a superior product compared to competitive offers. This is underscored by the fact that only around 2% of *IQOS* users have completely switched to a competitive heated tobacco product.

By vigorously addressing the actual and perceived shortcomings of *IQOS*, and improving our communications programs, we believe that we can convince these 1.6 million current dual users to use *IQOS* exclusively, while gaining further share of the category.

(SLIDE 17.)

IQOS's superior performance and obvious potential is highlighted by this chart on conversion rates and exclusive usage.

89%, or some 3.4 million consumers of *IQOS*, are exclusive or converted *IQOS* users. In other words, *IQOS* constitutes virtually 100% of their tobacco use. That reflects 71% of the entire category's fully-converted user base. And that excludes the further 14% of exclusive heated tobacco product consumers that use both *IQOS* and a competitive product, and who are predominantly *IQOS* users.

Clearly, *IQOS* has the highest per-device heated tobacco unit consumption, and other products appear to dilute the correlation between the number of users and category share.

Of note are the over 2.2 million consumers who currently consume a heated tobacco product while continuing to smoke conventional cigarettes. They represent an immediate opportunity as they evolve to 100% usage. Our fair share of these consumers would equate to a volume of some five to six billion units on an annual basis.

(SLIDE 18.)

Our volumes, and hence revenues, will clearly depend on our ability to continue to lead the category and to spur both its growth and to maintain *IQOS*'s remarkable conversion to 100% usage.

We remain convinced that the apparent slowdown in the category's growth is a temporary phenomenon, and we have initiatives in place to reignite strong growth. Numerous actions are planned in the coming months.

(SLIDE 19.)

We will accelerate our commercial activities to cater to the needs of the more conservative adult smoker groups, which constitute the majority of the 70% of Japanese adult smokers who have not yet entered the category, both in terms of content, channels and locations, including direct engagement by our field forces.

Furthermore, we will shortly introduce a stronger-tasting version in order to facilitate full flavor adult smoker switching and we plan to launch a product offering for more price-sensitive consumers in the course of the year.

In addition:

- We have simplified the registration process for new users, which was a significant barrier to entry, particularly for older smokers.
- We will introduce a new range of colors and a vastly improved variety of accessories for the *IQOS* device, which we believe has strong consumer news value.
- We are intensifying our loyalty programs and deploying more targeted and relevant communications for our existing *IQOS* users.
- And, last but quite importantly, after several years of research and development, we are looking forward to the launch of a new version of *IQOS* prior to year-end, with a significantly improved design and user interface that addresses key consumer needs, including consecutive use.

(SLIDE 20.)

The current market dynamics and the timing and success of our actions render a precise volume target difficult to predict today.

Quantitatively, the impact of one million consumers delaying by one quarter their decision to enter the category has a category volume impact of approximately 1.2 to 1.5 billion units and, based on current pricing and *IQOS* share, a related PMI revenue impact of some \$120 to \$130 million, almost half of which is device sales.

Nevertheless, I remain very confident that *IQOS* will substantially grow volume and market share in Japan this year. Add this performance to its sustained strong growth in all other markets in which it has been launched, and I can confidently project that our global 2018 in-market sales, which exclude any distributor inventory build-up, will more than double.

(SLIDE 21.)

My confidence rests on the fact that Japan, our largest *IQOS* market, will continue to grow. This chart highlights the growth of in-market sales of *HeatSticks* in Japan over recent quarters.

(SLIDE 22.)

Beyond Japan, we anticipate strong in-market sales growth, particularly in markets such as Italy, Korea and Russia.

As seen on this chart, these other markets have generated higher sequential volume growth – in both percentage and absolute terms – over recent quarters.

(SLIDE 23.)

Let me now return to our combustible tobacco business, which, as I noted earlier, continues to contribute the lion's share of our earnings and cash flow, thus fueling our transformation toward a Smoke-Free Future.

Clearly, the advent of reduced-risk products is having – and will continue to have – an impact on cigarette industry volume, as adult smokers switch to RRPs. This is, as I said, a welcome development and fits squarely within our transformation strategy.

Given this dynamic, we counsel investors to focus on total industry volume – that is, cigarettes and heated tobacco units combined – in order to better understand the development of the total tobacco category.

For 2018, we anticipate a total industry volume decline, excluding China and the U.S., of between 2% and 3%. This is consistent with the declines recorded over recent periods, such as the past five years and 2017 specifically.

(SLIDE 24.)

Against this backdrop, we expect a total PMI shipment volume decline of approximately 2%, reflecting a decline for cigarettes, partly offset by the strong performance of our reduced-risk product portfolio, led by IQOS.

(SLIDE 25.)

Our anticipated total shipment volume outperformance vis-à-vis the total industry is driven by a forecast increase in our full-year 2018 total market share, excluding China and the U.S., reflecting growth in our heated tobacco brands, partly offset by lower share for our cigarette brands.

The expected decline for cigarettes is due mainly to Saudi Arabia – particularly in the first half of the year, before we lap the June 2017 excise tax-driven price increases – as well as the impact of adult smoker out-switching to IQOS.

(SLIDE 26.)

While the growth of RRP's has impacted cigarette volume and share dynamics, it has not fundamentally altered the strong pricing afforded by our leading combustible tobacco brand portfolio.

Supported by a broadly rational excise tax environment, we anticipate combustible tobacco pricing in 2018 of approximately 7% of prior year net revenues on the same basis. This compares favorably to the 6.4% combustible tobacco pricing that we have realized, on average, since the spin in 2008.

While exceptions to this overall rational excise tax backdrop can occur – Saudi Arabia and France serve as recent examples – they remain just that: exceptions, and are manageable in the context of a global footprint of some 180 markets in which we operate.

Our 2018 expected pricing reflects higher announced net pricing in Russia, following essentially no net pricing in this market last year. The timing of price increases at retail in Russia remains a potential issue, although the start to the year has been encouraging.

(SLIDE 27.)

Our continued RRP growth, underpinned by robust pricing on combustible products, is supporting our strong outlook for 2018.

As announced in our press release this morning, we are revising our 2018 reported diluted EPS guidance, for currency only, to a range of \$5.15 to \$5.30, representing a projected increase of approximately 33% to 37% versus \$3.88 in 2017. Our guidance includes a favorable currency impact of approximately six cents per share, at prevailing exchange rates, and represents a growth rate, excluding currency, of approximately 8% to 11% compared to our adjusted diluted EPS of \$4.72 in 2017.

(SLIDE 28.)

We continue to target operating cash flow of over \$9.0 billion in 2018, and anticipate capital expenditures of approximately \$1.7 billion, of which around 60% relate to RRP's.

We remain committed to restoring, over time, our leverage multiples to the ranges associated with our current credit rating. Importantly, both Moody's and S&P have recently affirmed our rating, with S&P revising our outlook from "negative" to "stable."

(SLIDE 29.)

Moving now to shareholder returns, dividend increases will continue to be the primary use of our operating cash flow after capital expenditures. Last September, we increased our annual dividend for the tenth consecutive year since the spin in 2008, representing a total increase of approximately 133% and a compound annual growth rate of 9.8%.

We remain steadfast in our commitment to generously reward our shareholders over the long term.

(SLIDE 30.)

In conclusion, reduced-risk products remain our greatest opportunity to drive long-term shareholder value and we are confident in the further growth potential for /QOS, both in Japan and globally.

Clearly, the pace of global switching to reduced-risk products will depend in part on the actions of governments and regulators. We believe that they should recognize the potential health benefits of reduced-risk products and encourage those who would otherwise continue to smoke to make the switch.

Our leading combustible tobacco portfolio continues to support strong pricing, while contributing the lion's share of our earnings and cash flow, and fueling our transformation to a Smoke-Free Future.

Finally, the full-year outlook for our business remains strong. While I explained why our /QOS-related volume and net revenues remain somewhat unpredictable, we are confident in reaching our 2018 full-year EPS guidance, which we are revising today, for currency only. This guidance reflects a growth rate of approximately 8% to 11%, excluding currency, compared to adjusted diluted EPS of \$4.72 in 2017, underpinned by net revenue growth that will continue to lead the fast-moving consumer goods sector.

(SLIDE 31.)

Thank you for your interest in our great company. I will now turn the podium back to Louis.

(SLIDE 32.)

Thank you very much, André.

I will now open the meeting for questions and comments. This period will be followed by the resolution of items for voting.

I would ask that we all remember that this meeting represents an opportunity for shareholders, or their representatives, to express their views, whether favorable or otherwise. While I value highly the chance to listen to your opinions and address your questions, I do expect the process to be based on mutual respect for the differing views represented in the audience.

As noted in the Agenda, each speaker is kindly asked to limit his or her comments to two minutes to allow everyone an opportunity to be heard. Shareholders should confine their remarks to matters that relate directly to the business of the meeting.

Also, please note that those who wish to speak a second time may do so only after all others who wish to speak have had their turn.

I have asked Jerry to serve as our timekeeper, so that everyone will have an equal amount of time.

We have allowed up to one hour for questions. There is a microphone in each of the two aisles.

If there is not enough time for all of your questions during this morning's meeting, please feel free to ask an usher for a card, fill it out and return it to an usher at the end of the meeting. We will respond to you as soon as possible.

Please address all of your questions or comments directly to me, and be kind enough to identify yourself.

Are there any questions or comments?

That concludes our question and comment period. We will now move on to the next stage of the meeting.

(SLIDE 33.)

The matters set forth in the notice of meeting will be put before the meeting at this time. Comments on each matter can be made after each one has been formally presented.

Now, I would like to ask the ushers to distribute Proxy Cards to any shareholders who may not have returned their proxies for voting on the matters to come before the meeting.

Shareholders who have already returned proxies need not submit a new Proxy Card. If anyone requires a Proxy Card, please raise your hand.

The ushers will collect these cards, and deliver them to the Inspectors of Election, after the final item of business has been presented.

The first order of business is the election of fourteen directors.

(SLIDE 34.)

The individuals on this slide have been nominated for election as director, each to hold office until the next Annual Meeting of Shareholders and until his or her successor shall have been duly chosen.

We warmly welcome the newest member, Lisa Hook, who will add to an already formidable group. As President and CEO of Neustar, Inc. Ms. Hook will bring to the Board

valuable experience as the Company is transitioning to a consumer-centric, highly digitalized business model.

(SLIDE 35.)

In accordance with the Company's by-laws, no other nominations may be made at this time.

If you would like to comment on the nominations, please proceed to a microphone.

Again, each speaker is asked to limit his or her comments to two minutes.

Please identify yourself before you begin.

The meeting is now open for comments on the nominations.

Are there any comments?

Thank you.

We will now turn to the second item on the agenda, that the Company's shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company's Proxy Statement for the 2018 Annual Meeting of Shareholders.

Are there any comments on this matter?

Thank you.

The final item is the ratification of the selection of PricewaterhouseCoopers as independent auditors of the Company for the fiscal year ending December 31, 2018.

Are there any comments on this matter?

Thank you.

The matters to be voted on have now been formally presented to the meeting. If you have not already done so, please complete your Proxy Card. After you have done so, raise your hand and the ushers will collect all the Proxy Cards and deliver them to the Inspectors of Election.

Since all shareholders have now had time to vote, I declare the polls closed.

The ushers should now have collected all the proxies, and they are directed to deliver the proxies to the Inspectors of Election for counting.

In Andre's remarks earlier this morning, you heard that the fundamentals of our business remain robust, supported by our leading portfolio in the combustible product category, and how our smoke-free alternatives continue to provide us with the single-largest opportunity to accelerate our business growth and generously reward our shareholders.

It is said that what changes industries is not companies, but people. Certainly, those people changing our industry include our consumers. We estimate that more than five million adult smokers around the world have quit smoking cigarettes. With approximately 10,000 people now switching from cigarettes every day, the impact of IQOS is already unprecedented.

Undoubtedly, the key architects of change are our 81,000 outstanding employees. They are at the forefront of a transformation of the tobacco industry and our company the likes of which has never been seen. Their task – to switch, as quickly as possible, hundreds of millions of adult smokers to less harmful alternatives than continued smoking – is enormous. But so is their professionalism, dedication and resolve. I am supremely confident that they will rise to this formidable challenge and I invite you to join me in saluting their immense contribution to date, and their undoubted successes yet to come.

Thank you.

I will now ask one of the Inspectors of Election to deliver their report to the Secretary.

Will the Secretary please read the report.

Mr. Chairman, the Inspectors of Election have completed the preliminary count of the vote, which I have now received. The preliminary voting results are as follows:

Each of the nominees for director has been elected.

The advisory vote to approve executive compensation has been approved.

The selection of PricewaterhouseCoopers as independent auditors has been ratified.

Mr. Chairman, that concludes the report.

Thank you, Jerry.

I would now ask you to file with the records of the meeting, the Inspector's Report, the oath of the Inspectors of Election, their certificate and the proxies. Final voting results will be included in a Form 8-K that we will file with the SEC in the next couple of days.

And now, there being no further business to come before the meeting, I hereby declare the meeting adjourned. Thank you all very much for coming.