

**Remarks by
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(CAGNY) Conference**

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Philip Morris International Inc.

(SLIDE 1.)

It is a great pleasure for me to be back at the CAGNY Conference here in Florida. Let me extend a warm welcome to those joining us on the webcast.

(SLIDE 2.)

My remarks contain forward-looking statements and, accordingly, I direct your attention to the Forward-Looking and Cautionary Statements section of today's presentation. Reduced-Risk Products, or "RRPs," is the term we use to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking.

(SLIDE 3.)

I will begin today's presentation with an overview of our 2016 results and 2017 outlook. I will then discuss our Reduced-Risk Products portfolio, with a primary focus on IQOS.

(SLIDE 4.)

2016 was a pivotal year for PMI, reflecting exciting progress in our transformation to a smoke-free future. While our cigarette portfolio continued to drive our income growth last year, we began to see clear signs of the enormous potential for our Reduced-Risk Products portfolio.

(SLIDE 5.)

Full-year net revenues increased by 4.4%, excluding currency, driven by a favorable pricing variance, equivalent to 6.0% of prior year net revenues, and the strong performance of RRP, notably *HeatSticks* and *IQOS* devices.

(SLIDE 6.)

Adjusted OCI increased by 10.3%, excluding currency, driven by higher net revenues, on the same basis, and a favorable cost comparison versus 2015 despite continued investment behind RRP. Adjusted OCI margin increased by 0.6 points to 41.8%, or by 2.4 points to 43.6%, on a constant-currency basis.

(SLIDE 7.)

Adjusted diluted EPS increased by 11.8%, excluding currency.

(SLIDE 8.)

Free cash flow was stable at \$6.9 billion, despite unfavorable currency of \$340 million.

Dividends are the primary strategic use of our free cash flow. Last September, we increased our annual dividend for the ninth consecutive year since the spin in 2008, representing a total increase of approximately 126% and a compound annual growth rate of approximately 11%.

(SLIDE 9.)

2016 marked the first year that RRP were an important contributor to our net revenue growth. Approximately 22% of our \$733 million in 2016 RRP net revenues were from *IQOS* devices. These yielded a negative margin due to introductory discounts offered in the initial commercialization phase to accelerate adult smoker switching. We expect the economics of *IQOS* devices to improve over time, as we reach broader adult smoker acceptance.

(SLIDE 10.)

Our strong financial results in 2016 were achieved despite a 3.2% decline in our combined cigarette and *HeatSticks* shipment volume that reflected two opposing dynamics.

First, cigarette shipment volume was pressured by specific challenges in select markets. These included the very large excise tax increase in Argentina, the surge of illicit trade in Pakistan and the cigarette industry volume decline in the Philippines. In aggregate, these items had an adverse effect on our volume and net revenues, but a very limited impact on our adjusted OCI due to the low corresponding margins.

Conversely, we recorded significant growth in *HeatSticks* volume, which reached 7.4 billion units and reflected our maximum manufacturing capacity for 2016. While a portion of this growth was driven by in-switching to *HeatSticks* from our own cigarette brands, we estimate that the majority was incremental.

As of the first quarter, we will also begin reporting our shipment volume on a combined basis, including both cigarettes and *HeatSticks*.

Turning now to 2017, we have entered the year with positive momentum and favorable trends across many of our key geographies.

(SLIDE 11.)

However, as we said on our full-year earnings call on February 2nd, currency volatility continues, as evidenced by the depreciation of the U.S. Dollar against a number of our key currencies in just the last three weeks.

As shown on this slide, our 2017 reported diluted EPS guidance, at prevailing exchange rates, now includes eight cents of unfavorable currency, compared to 18 cents of unfavorable currency in our February 2nd guidance. This ten cent moderation notably reflects the depreciation of the U.S. Dollar against the Egyptian Pound and Russian Ruble.

(SLIDE 12.)

Consequently, we are increasing, for currency only, our 2017 reported diluted EPS guidance by ten cents to a range of \$4.80 to \$4.95, at prevailing exchange rates. Our guidance continues to represent a growth rate, excluding currency, of approximately 9% to 12% versus our adjusted diluted EPS of \$4.48 in 2016.

(SLIDE 13.)

As André noted on our earnings call, the advent of RRPs introduces some additional variables into the attractive and predictable growth equation of our industry. They are somewhat less range-bound and linear given the emerging nature of the category, but also offer exponential upside.

Our 2017 EPS guidance reflects net revenue growth in excess of our current currency-neutral annual growth target range of 4% to 6%. We expect this growth to be driven by two main factors: higher RRP volume, for both *HeatSticks* and *IQOS* devices, and a favorable pricing variance equivalent to approximately 6% of our 2016 net revenues.

At the time of our earnings call, we had implemented or announced over 60% of the pricing that is included in our guidance, including the January price increase in Germany of approximately 30 Euro cents per pack across our portfolio. We have subsequently increased prices in additional markets such as Argentina and Indonesia.

Our guidance also reflects significant incremental investment behind the deployment of our RRP portfolio, partly offset by the judicious reallocation of resources from our cigarette portfolio to RRPs. For 2017, we expect to expand our adjusted OCI margin, excluding currency.

(SLIDE 14.)

The additional level of variability introduced by RRPs when it comes to forecasting cigarette industry performance is particularly high. It is primarily for this reason that we have not provided a specific projection for total cigarette industry volume in 2017. That said, we expect 2016 cigarette volume trends to continue in most markets, notably Indonesia, Pakistan, the Philippines and Russia.

In the EU, however, we anticipate a total cigarette industry decline in 2017 of 2% to 3%. This projected reversion to the secular decline rate in the Region, compared to the 1.6% decline in 2016, is based on two principal factors: first, an unfavorable comparison with last year, which benefited from the estimated positive impact of immigration and a recovery from illicit trade; and, second, the impact of price increases.

(SLIDE 15.)

We expect our currency-neutral adjusted diluted EPS growth in 2017 to be slightly skewed toward the second-half of the year. This reflects the timing of *HeatSticks* capacity and phasing of RRP investments, as well as certain unfavorable cigarette industry volume comparisons with the first-half of 2016, notably in Argentina, the EU Region and Turkey.

Consequently, in the first quarter of 2017, we anticipate low-single-digit adjusted diluted EPS growth, excluding currency.

(SLIDE 16.)

We recently provided a detailed review of our cigarette portfolio's performance when we reported our full-year 2016 results. I will therefore focus the balance of my prepared remarks on Reduced-Risk Products.

We believe that our RRP portfolio provides us with the single-largest opportunity to significantly accelerate the growth of our business and generously reward our shareholders over the long term.

It is our vision that RRPs will one day replace cigarettes and, in fact, over 1.4 million adult consumers have already given up smoking and switched to our Reduced-Risk Products.

(SLIDE 17.)

Let me begin by outlining our RRP Portfolio, which consists of four platforms that have been developed to address a range of adult smoker preferences.

Our first two platforms heat tobacco to release a flavorful nicotine-containing vapor but without burning the tobacco. Platform 1, *IQOS*, uses an electronically controlled heating blade, while Platform 2 has a look and feel similar to a cigarette, and uses a pressed carbon heat source that is ignited.

We are also developing two product platforms that contain nicotine but not tobacco. Rather than heating tobacco to release tobacco flavors and nicotine, both of these tobacco-free platforms produce a nicotine-containing vapor using nicotine that is extracted from tobacco leaves. Platform 3 produces a vapor from a chemical reaction between nicotine and a weak organic acid, while Platform 4 heats a liquid, containing nicotine and flavors, with an electric heater to generate a vapor.

As a reminder, we began the city test of our Platform 4 *MESH* vaporization technology in Birmingham, U.K., in late 2016. We expect to conduct city tests for Platforms 2 and 3 this year.

(SLIDE 18.)

IQOS is the furthest along of our RRP platforms in terms of commercialization and scientific substantiation.

(SLIDE 19.)

To date, we have launched *IQOS* in key cities in over 20 markets, as shown on this slide. We aim to expand further in many of these markets this year as additional *HeatSticks* capacity becomes available. By year end, we expect *IQOS* to be in key cities or national in a total of 30 to 35 markets, subject to capacity.

(SLIDE 20.)

We began 2017 with approximately 15 billion units of installed annual *HeatSticks* capacity and continue to anticipate approximately 50 billion units of installed annual capacity at year end. This translates to over 32 billion units in expected total capacity available for commercialization in 2017. To support the expansion, we increased our planned total capital expenditures for this year to \$1.5 billion, reflecting growth of over \$300 million compared to 2016.

We look forward to unlocking the true potential of *IQOS* once the pressure on *HeatSticks* capacity eases as the year unfolds.

(SLIDE 21.)

In commercializing *IQOS*, we are keenly focused on building awareness of the product among specific adult smoker groups and communicating its benefits. In doing so, we are deploying our organization and field sales forces to engage with adult smokers on a one-to-one and one-to-many basis.

Key components of our marketing approach include guided trial, *IQOS* retail outlets and embassies, customer care programs, and e-commerce and digital marketing programs. We continuously optimize these components in each market based on local conditions.

(SLIDE 22.)

As the heated tobacco category is new and full conversion of adult smokers is the most important objective, more time is required to communicate product benefits compared to smoking cigarettes. We are therefore training a significant number of field personnel – both existing employees and new recruits – to perform quality guided trials with adult smokers and explain the fundamental differences between cigarettes and *IQOS*.

For an adult smoker, a successful guided trial experience leads to the purchase of an *IQOS* kit and the start of the conversion journey. Once the adult smoker has successfully converted to *IQOS*, and is experiencing the communicated benefits of the proposition, he or she becomes, in effect, a brand ambassador, sharing personal experiences with other adult smokers.

We are deploying digital tools to further assist adult consumers in their conversion journey and enhance post-purchase customer care.

(SLIDE 23.)

Central to our commercialization approach is securing adult smokers' understanding of *IQOS* and commitment to fully convert. To help achieve this, we have developed scientifically-substantiated messages that are tailored, relevant and communicated in convenient and unique occasions at venues where adult smokers can learn about, and experience, the product.

In line with local laws and regulations, and following message comprehension testing to verify that our messages are correctly understood, we are deploying these messages to relevant adult smoker groups.

For example, today we are informing adult smokers in certain launch markets of the real tobacco taste and satisfaction provided when using *IQOS*, the reduced formation of harmful and potentially harmful constituents by *IQOS*, as well as convenience benefits such as no ash, less smell and no risk of fire.

We are also deploying messages in select markets covering indoor air quality and benefits such as “better breath,” “less unpleasant aftertaste” and less staining of teeth, all as compared to continued smoking.

(SLIDE 24.)

Let me now take you through the commercialization status and performance of *IQOS* in the initial six markets with city launches in 2014 and 2015.

Japan is, at present, our only launch market with national coverage. In the remaining five markets, we are currently focusing on cities that collectively account for approximately 10% to 35% of cigarette industry volume, depending on the market. As additional *HeatSticks* capacity becomes available, we plan to increase our *IQOS* coverage in these markets.

(SLIDE 25.)

Across all six of these initial launch markets, we have been able to achieve very high rates of *IQOS* buyers who have either fully or predominantly converted to the product. Based on the latest available data, the conversion rates stood at approximately 70% or higher, with many markets around 80%.

Importantly, based on post-market continuous research panels conducted in Japan and Italy, we estimate that a low-single-digit percentage of adult smokers who fully convert to *IQOS* switch back to cigarettes. Furthermore, from our cross-sectional studies, we estimate a similar low level of *IQOS* adoption by former or never smokers.

(SLIDE 26.)

Alongside these high conversion rates, we have witnessed growing levels of *IQOS* awareness, on a national basis, among adult smokers. In Japan, awareness steadily increased in 2016, particularly following the national roll-out in April. By December, awareness had reached 75%, nearly 40 percentage points above the level a year earlier. For reference, adult smoker awareness of *Marlboro* cigarettes in Japan averages above 90%.

Adult smoker awareness of *IQOS* in Italy and Switzerland is far lower than in Japan, largely due to the limited deployment in these markets. As in Japan, we expect the growth in awareness to accelerate as *IQOS* becomes more widely available and the consumer base builds.

(SLIDE 27.)

Let me now highlight some market-specific *IQOS* performance in the initial launch markets, beginning with Japan.

As seen on this slide, *HeatSticks* offtake volume growth began to accelerate following the initial wave of expansion to around 60% of the country in September 2015. The acceleration continued following the national expansion last April, and growth has remained strong despite the limits placed on *IQOS* device sales beginning last June.

(SLIDE 28.)

HeatSticks recorded strong sequential share growth in Japan in 2016, with national market share reaching 4.9% in the fourth quarter.

In the final week of January, national market share for *HeatSticks* further increased to an estimated 6.8%, over one percentage point above the estimated weekly share at the end of December.

(SLIDE 29.)

We also closely monitor our *HeatSticks* retail offtake share trends in Japan. As seen on this slide, weekly offtake shares recorded steady growth in 2016 and the trend has continued into this year. By the end of January, weekly offtake share reached 7.6% nationally, 7.3% in Fukuoka, 9.5% in Tokyo and 12.9% in Sendai. Additionally, offtake share has continued to grow in Nagoya, over two years after the pilot launch.

(SLIDE 30.)

While the exceptional performance of *IQOS* in Japan clearly stands out, we have also recorded strong performance in our other 2014 and 2015 launch markets. During the fourth quarter of 2016, offtake volume in these markets grew at a compound weekly rate of 6.5%. This is comparable to the 7.0% weekly growth rate in Japan prior to the limits we placed on *IQOS* device sales.

In markets with *IQOS* launches in the first half of 2016, we recorded compound weekly offtake volume growth of 6.0% in the fourth quarter. We are pleased by such strong early results, as we are still in the process of optimizing our commercialization strategies in these markets.

(SLIDE 31.)

This volume momentum has driven an acceleration in retail offtake share growth, with strong fourth-quarter performances across the initial launch markets.

In Italy, offtake share reached 0.4% in the focus area and 0.2% nationally.

(SLIDE 32.)

In Switzerland, offtake share reached 1.7% in the focus area and 0.6% nationally.

(SLIDE 33.)

In Portugal, offtake share reached 0.7% in Lisbon and 0.2% nationally.

(SLIDE 34.)

In Romania, offtake share reached 0.6% in the focus area.

(SLIDE 35.)

And finally, in Russia, offtake share reached 0.3% in Moscow and St. Petersburg.

(SLIDE 36.)

Before closing on the performance of *IQOS*, let me provide some insight into the adult smokers who are converting to the product in Japan, Italy and Switzerland. In this table, we have compared the profile of converted *IQOS* users against that of the adult smoker population in each market across three segments: gender, age and cigarette price class.

While *IQOS* has proved to be a product that appeals to adult smokers across market segments, conversion to date has been somewhat more concentrated in specific demographics.

For example, we estimate that male converted *IQOS* users are over-indexed, particularly in Japan and Italy. In the case of Japan, the estimated proportion of converted *IQOS* male users is 17 percentage points higher than that of male adult cigarette smokers.

We also estimate that converted *IQOS* users are over-indexed to the legal age to under-50 age group in these markets.

Despite the premium positioning of *IQOS*, adult smokers switching to the product have come from all cigarette price segments in these markets, with only a slight over-indexation toward the premium end.

We are particularly focused on our ability to encourage female adult smokers to switch fully to *IQOS*, and indeed increased their proportion in each market by an estimated five percentage points, on average, between September and December 2016.

(SLIDE 37.)

As expected, the in-switching of *IQOS* users from our own cigarette brands – particularly early on – has exceeded our corresponding cigarette market shares in our launch markets.

Naturally, as *IQOS* awareness has increased, the rate of in-switching from our own cigarette brands has declined. Over the past year, the rate has decreased by seven percentage points in Japan and Italy, and five points in Switzerland.

(SLIDE 38.)

As we progress with the commercialization of *IQOS*, we continue to develop the *IQOS* device to include additional functionalities and plan to launch a new version in the second quarter of this year.

New features of the device will include an improved user interface and a significant reduction in the holder's charging time. The new version will also provide connectivity and access to an *IQOS* App.

(SLIDE 39.)

We also continue to expand the range of items available for adult consumers to customize and enhance their *IQOS* experience. These include limited edition *IQOS* devices in colors such as red, blue and pink, as well as *IQOS* caps and pouches in different colors and styles.

Other items include *IQOS* charging stations and cleaning kits, as well as *HeatSticks* disposal trays.

(SLIDE 40.)

Let me now remind you where we stand on our scientific substantiation of *IQOS*, beginning with our applications with the U.S. Food and Drug Administration. In December, we submitted our Modified Risk Tobacco Product Application, which, if accepted, will undergo substantive scientific review. Separately, we remain on track to submit our Premarket Tobacco Product Application to the FDA this quarter.

(SLIDE 41.)

As part of the scientific substantiation process, we are committed to seeking independent verification of the scientific data we have generated on our Reduced-Risk Products. There are several components to this verification, including: the publication of peer-reviewed articles in the scientific literature; an in-depth analysis of study reports by independent experts; the verification of research methods and study results through our sbvIMPROVER web platform; and finally, our Investigator-Initiated-Studies program, which supports external scientists who can conduct independent research related to our RRP through the provision of products, equipment, and/or financial and technical support.

(SLIDE 42.)

As an example, we have published over 160 peer-reviewed publications related to RRPs since 2011. Among these, 28 describe the results of our studies conducted with *IQOS*, from aerosol chemistry to non-clinical and clinical assessment.

(SLIDE 43.)

We have also generated significant intellectual property during the development of our Reduced-Risk Products. Our intellectual property portfolio covers a broad range of inventions, from tobacco substrate, to aerosol generation and control, to manufacturing process.

The majority of our RRP-related patents have a lifetime beyond 2030.

(SLIDE 44.)

In conclusion, 2016 was a pivotal year for PMI, reflecting exciting progress in our transformation to a smoke-free future.

We recorded strong full-year currency-neutral financial results, driven by our cigarette portfolio and including an important net revenue growth contribution from RRP's for the first time.

We remain steadfast in our commitment to generously reward our shareholders, and in September last year increased our dividend for the ninth straight year.

The outlook for our business remains strong. Today, we have increased, for currency only, our 2017 reported diluted EPS guidance by ten cents to a range of \$4.80 to \$4.95, at prevailing exchange rates. Our guidance continues to represent a growth rate, excluding currency, of approximately 9% to 12% versus our adjusted diluted EPS of \$4.48 in 2016.

Our Reduced-Risk Products portfolio, led by IQOS, provides us with the single-largest opportunity to significantly accelerate the growth of our business.

(SLIDE 45.)

Finally, I encourage you to visit our new corporate website at www.pmi.com to learn about our efforts to design a smoke-free future. For those of you here today, we have kiosks situated outside the auditorium that provide access to the website and further showcase our efforts on this front.

(SLIDE 46.)

Thank you. I will now be happy to answer your questions.