



PHILIP MORRIS
INTERNATIONAL

Designing a Smoke-Free Future

Morgan Stanley Global Consumer & Retail Conference

New York, November 13, 2018

Martin King
Chief Financial Officer

Forward-Looking and Cautionary Statements



- This presentation and related discussion contain projections of future results and other forward-looking statements. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. In the event that risks or uncertainties materialize, or underlying assumptions prove inaccurate, actual results could vary materially from those contained in such forward-looking statements. Pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, PMI is identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by PMI
- PMI's business risks include: excise tax increases and discriminatory tax structures; increasing marketing and regulatory restrictions that could reduce our competitiveness, eliminate our ability to communicate with adult consumers, or ban certain of our 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, natural disasters and conflicts; 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, and limitations on the ability to repatriate funds; 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 and effectiveness of its data privacy policies. PMI's future profitability may also be adversely affected should it be unsuccessful in its attempts to produce and commercialize reduced-risk products or if regulation or taxation do not differentiate between such products and cigarettes; 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. Future results are also subject to the lower predictability of our reduced-risk product category's performance
- 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, 2018. 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



2018: Reaffirming EPS Guidance

- Reaffirming 2018 reported diluted EPS guidance range of \$4.97 to \$5.02 provided on October 18th, at the then prevailing exchange rates, compared to \$3.88 in 2017
- Guidance includes 12 cents of unfavorable currency
- Ex-currency, our guidance represents a growth rate of approximately 8% to 9% compared to our adjusted diluted EPS of \$4.72 in 2017
- Very challenging comparison in Q4:
 - Q4, 2017: net revenue growth of 18.8%, ex-currency
 - Q4, 2018: anticipate net revenue decline of approximately 5%, ex-currency

PMI: Strong Business Outlook

- **2018 business outlook remains intact, supported by:**
 - Robust fundamentals for combustible products
 - IQOS growth across a broader range of markets; anticipate a near doubling of PMI HTU IMS volume globally
- **Expect better business fundamentals in 2019**
- **Achievable three-year currency-neutral compound annual growth targets:**

Net
Revenues

≥5%

CAGR
ex-Currency

Adjusted
Diluted EPS

≥8%

CAGR
ex-Currency

IQOS: Global Launch of New Devices



IQOS 3

- **Stylish, discreet design**
- **Intuitive user experience**
- **Premium**
- **Faster-charging**
- **Longer battery life**
- **Creatively customizable**



IQOS 3 MULTI

- **Sleek, all-in-one pocket design**
- **Intuitive user experience**
- **Premium**
- **Consecutive use**
- **Creatively customizable**
- **Enhanced portability**

IQOS: Launched Mainstream-Priced HEETS in Japan





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Questions & Answers

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Or go to: www.pmi.com/irapp

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Glossary of Key Terms and Definitions, and Reconciliation of Non-GAAP Measures



Glossary: General Terms

- "PMI" refers to 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")
- Trademarks are italicized
- Comparisons are made to the same prior-year period unless otherwise stated
- Unless otherwise stated, references to total industry, total market, PMI shipment volume and PMI market share performance reflect cigarettes and heated tobacco units
- References to total international market, defined as worldwide cigarette and heated tobacco unit volume excluding the United States, total industry, total market and market shares are PMI estimates for tax-paid products based on the latest available data from a number of internal and external sources and may, in defined instances, exclude the People's Republic of China and/or PMI's duty free business
- "OTP" is defined as "other tobacco products," primarily roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos, and does not include reduced-risk products
- "Combustible products" is the term PMI uses to refer to cigarettes and OTP, combined
- In-market sales, or "IMS," is defined as sales to the retail channel, depending on the market and distribution model
- "PMI volume" is defined as the combined total of cigarette shipment volume and heated tobacco unit shipment volume
- Effective January 1, 2018, PMI began managing its business in six reporting segments as follows: the European Union Region (EU); the Eastern Europe Region (EE); the Middle East & Africa Region (ME&A), which includes PMI Duty Free; the South & Southeast Asia Region (S&SA); the East Asia & Australia Region (EA&A); and the Latin America & Canada Region (LA&C)

Glossary: Financial Terms



- Net revenues related to combustible products refer to the operating revenues generated from the sale of these products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. PMI recognizes revenue when control is transferred to the customer, typically either upon shipment or delivery of goods
- Net revenues related to RRP's represent the sale of heated tobacco units, IQOS devices and related accessories, and other nicotine-containing products, primarily e-vapor products, including shipping and handling charges billed to customers, net of sales and promotion incentives, and excise taxes. PMI recognizes revenue when control is transferred to the customer, typically either upon shipment or delivery of goods
- PMI has adopted Accounting Standard Update ASU 2014-09 "Revenue from Contracts with Customers" as of January 1, 2018 on a retrospective basis. PMI made an accounting policy election to exclude excise taxes collected from customers from the measurement of the transaction price, thereby presenting revenues, net of excise taxes in all periods. The underlying principles of the new standard, relating to the measurement of revenue and the timing of recognition, are closely aligned with PMI's current business model and practices
- PMI adopted Accounting Standard Update ASU 2017-07 "Compensation - Retirement Benefits" as of January 1, 2018 on a retrospective basis. Previously, total pension and other employee benefit costs were included in operating income. Beginning January 1, 2018, only the service cost component is required to be shown in operating income, while all other cost components are presented in a new line item "pension and other employee benefit costs" below operating income
- Prior to 2018, management evaluated business segment performance, and allocated resources, based on operating companies income, or "OCI." Effective January 1, 2018, management began evaluating business segment performance, and allocating resources, based on operating income, or "OI"
- "Adjusted OI margin" is calculated as adjusted OI, divided by net revenues
- Management reviews net revenues, OI, OI margins, operating cash flow and earnings per share, or "EPS," on an adjusted basis, which may exclude the impact of currency and other items such as acquisitions, asset impairment and exit costs, tax items and other special items



Glossary: Reduced-Risk Products

- "Reduced-risk products," or "RRPs," is the term PMI uses 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. PMI has a range of RRP in various stages of development, scientific assessment and commercialization. Because PMI's RRP do not burn tobacco, they produce an aerosol that contains far lower quantities of harmful and potentially harmful constituents than found in cigarette smoke
- "Aerosol" refers to a gaseous suspension of fine solid particles and/or liquid droplets
- "Combustion" is the process of burning a substance in oxygen, producing heat and often light
- "Smoke" is a visible suspension of solid particles, liquid droplets and gases in air, emitted when a material burns
- The "IQOS" heat-not-burn device is a precisely controlled heating device into which a specially designed and proprietary tobacco unit is inserted and heated to generate an aerosol
- "Heated tobacco product," or "HTP," is a manufactured tobacco product that delivers a nicotine containing vapor (aerosol), without combustion of the tobacco mixture
- "Heated tobacco units," or "HTUs," is the term PMI uses to refer to heated tobacco consumables, which include the company's *HEETS*, *HEETS Marlboro* and *HEETS FROM MARLBORO*, defined collectively as *HEETS*, as well as *Marlboro HeatSticks* and *Parliament HeatSticks*
- Heated tobacco unit "offtake volume" represents the estimated retail offtake of heated tobacco units based on a selection of sales channels that vary by market, but notably include retail points of sale and e-commerce platforms
- Heated tobacco unit "offtake share" represents the estimated retail offtake volume of heated tobacco units divided by the sum of estimated total offtake volume for cigarettes, heated tobacco units and, where the data is available, other RRP
- National market share for heated tobacco units is defined as the total sales volume for heated tobacco units as a percentage of the total estimated sales volume for cigarettes and heated tobacco units



Glossary: Reduced-Risk Products (cont.)

- "Converted IQOS Users" means the estimated number of Legal Age (minimum 18-year-old) IQOS users that used *HeatSticks* /*HEETS* heated tobacco units for over 95% of their daily tobacco consumption over the past seven days
- "Predominant IQOS Users" means the estimated number of Legal Age (minimum 18-year-old) IQOS users that used *HeatSticks* /*HEETS* heated tobacco units for between 70% and 95% of their daily tobacco consumption over the past seven days
- New PMI methodology as of 2018 for estimating the number of people who have stopped smoking and made the change to IQOS: for markets where IQOS is the only heated tobacco product, daily individual consumption of PMI heated tobacco units represents the totality of their daily tobacco consumption in the past seven days. For markets where IQOS is one among other heated tobacco products, daily individual consumption of heated tobacco units represents the totality of their daily tobacco consumption in the past seven days, of which at least 70% are PMI heated tobacco units
- "Situational IQOS Users" means the estimated number of Legal Age (minimum 18-year-old) IQOS users that used *HeatSticks* /*HEETS* heated tobacco units for between 5% and less than 70% of their daily tobacco consumption over the past seven days
- "Abandoned IQOS Users" means the estimated number of Legal Age (minimum 18-year-old) IQOS users that used *HeatSticks* /*HEETS* heated tobacco units for less than 5% of their daily tobacco consumption over the past seven days

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



Reconciliation of Reported Diluted EPS to Adjusted Diluted EPS
(Unaudited)

	Year Ended 2017
Reported Diluted EPS	\$ 3.88
Asset impairment and exit costs	-
Tax items	0.84
Adjusted Diluted EPS	\$ 4.72



PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures

Adjustments of Net Revenues for the Impact of Currency and Acquisitions
(\$ in millions) / (Unaudited)

Net Revenues	Currency	Net Revenues excluding Currency	Acquisitions	Net Revenues excluding Currency & Acquisitions	Quarters Ended December 31,	Net Revenues	Total	Excluding Currency	Excluding Currency & Acquisitions
2017					PMI	2016	% Change		
\$ 2,264	\$ 139	\$ 2,125	\$ -	\$ 2,125	European Union	\$ 1,944	16.5%	9.3%	9.3%
793	53	740	-	740	Eastern Europe	690	14.9%	7.2%	7.2%
971	(76)	1,047	-	1,047	Middle East & Africa	1,108	(12.4)%	(5.5)%	(5.5)%
1,211	(37)	1,248	-	1,248	South & Southeast Asia	1,194	1.4%	4.5%	4.5%
2,224	(67)	2,291	-	2,291	East Asia & Australia	1,250	77.9%	83.3%	83.3%
831	2	829	-	829	Latin America & Canada	785	5.9%	5.6%	5.6%
\$ 8,294	\$ 14	\$ 8,280	\$ -	\$ 8,280	Total PMI	\$ 6,971	19.0%	18.8%	18.8%



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