



PHILIP MORRIS
INTERNATIONAL

Jacek Olczak
Chief Financial Officer

**Consumer Analyst Group of
New York (CAGNY) Conference**

February 22, 2017



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: 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 Reduced-Risk Products; 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-K for the year ended December 31, 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
- 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 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



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Agenda

- 2016 Results Overview
- 2017 Outlook
- RRP Portfolio Update

Note: Reduced-Risk Products ("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



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2016: A Pivotal Year for PMI

- Exciting progress in our transformation to a smoke-free future
- Cigarette portfolio remained the driver of our income growth
- RRP portfolio showing clear signs of its enormous potential

Note: Reduced-Risk Products ("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

Source: PMI Financials or estimates



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2016: Strong Financial Results, ex-Currency

% Growth vs. PY

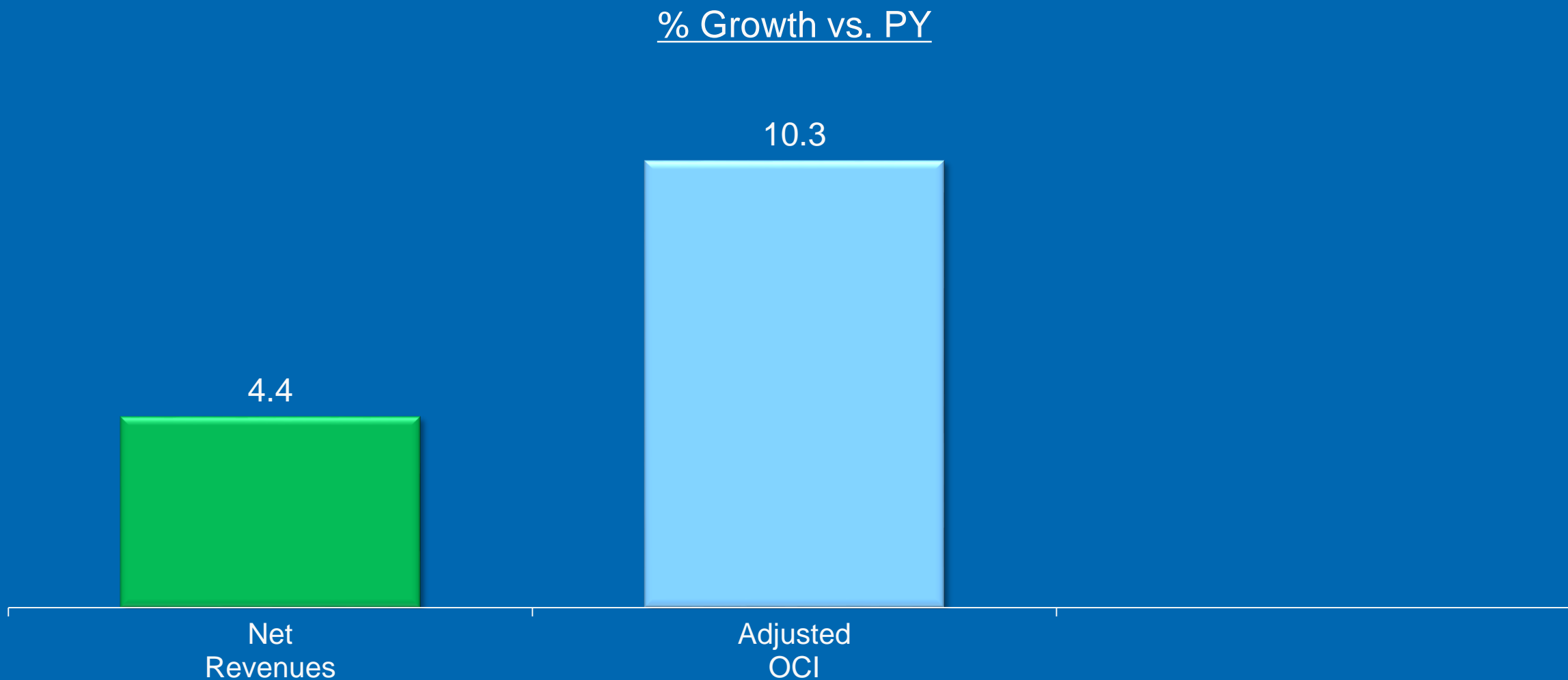




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2016: Strong Financial Results, ex-Currency

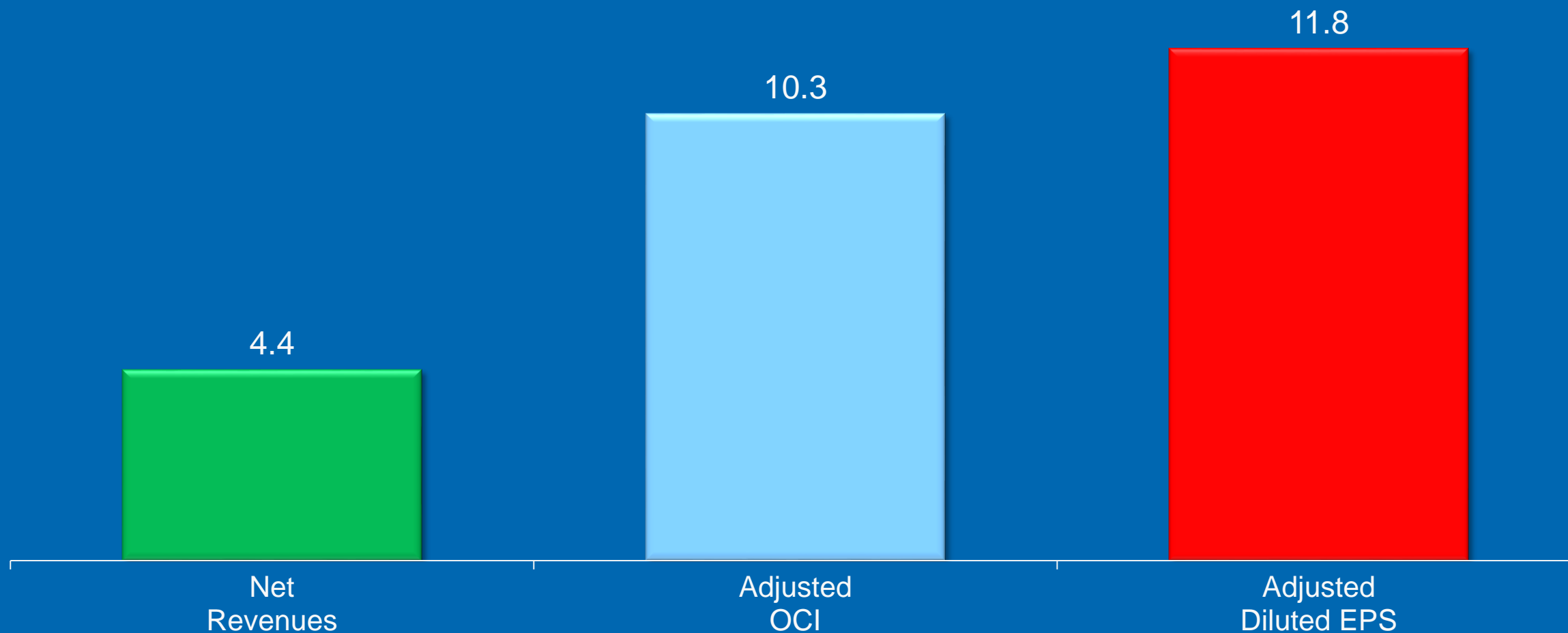
% Growth vs. PY





2016: Strong Financial Results, ex-Currency

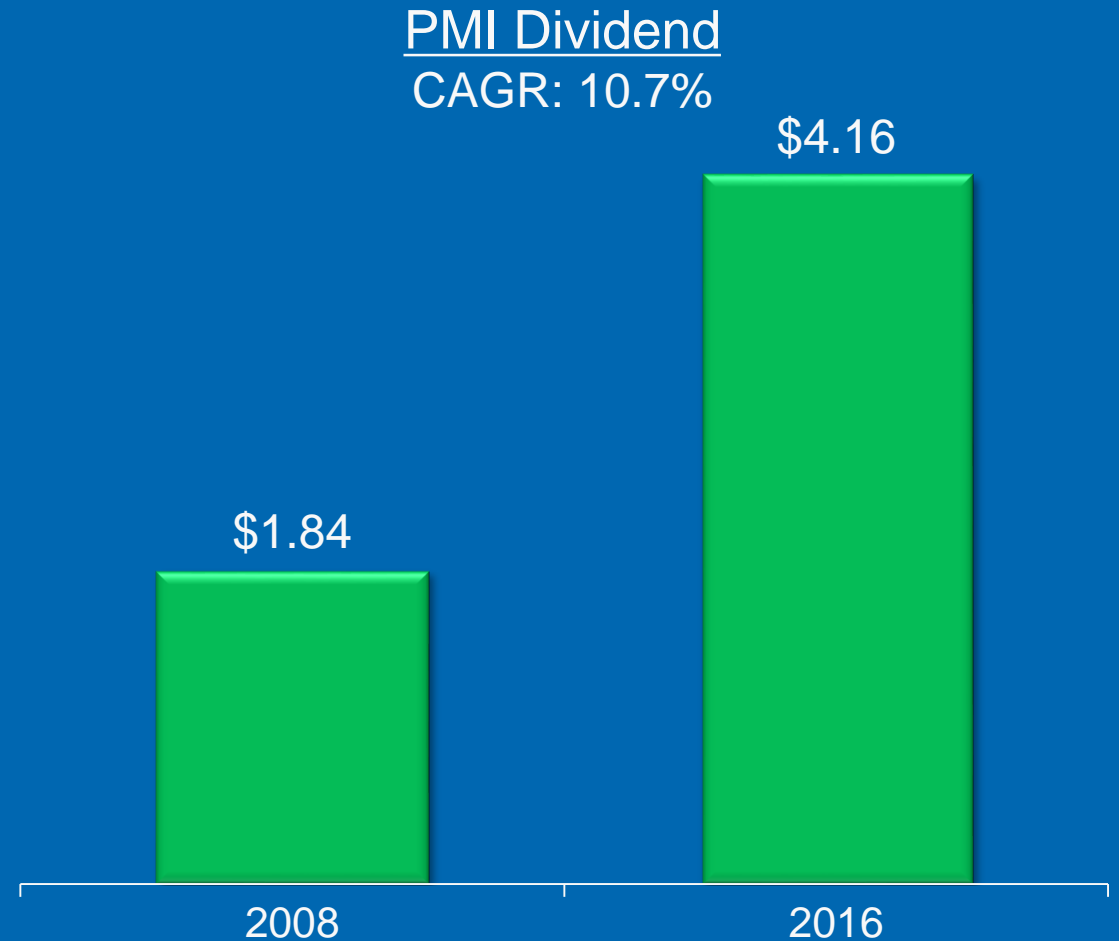
% Growth vs. PY





2016: Free Cash Flow In Line With Prior Year

- Free cash flow stable at \$6.9 billion, despite unfavorable currency of \$340 million
- Free cash flow increased by 4.9%, ex-currency
- Focused on rewarding our shareholders:
 - Nine consecutive dividend increases since 2008, representing a total increase of 126.1%

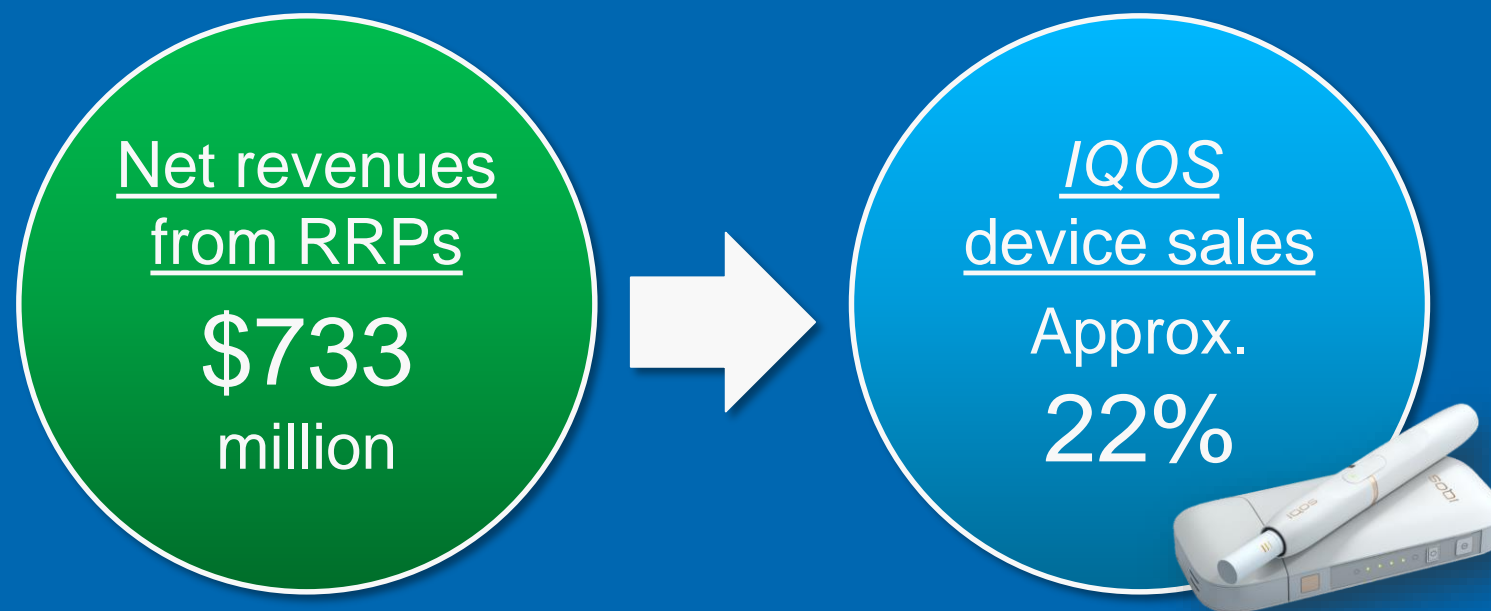


Note: Dividends for 2008 and 2016 are annualized rates. The 2008 annualized rate is based on a quarterly dividend of \$0.46 per common share, declared June 18, 2008. The 2016 annualized rate is based on a quarterly dividend of \$1.04 per common share, declared September 14, 2016

Source: PMI Financials or estimates



2016: First Important Net Revenue Growth Contribution from RRP



- Introductory discounts offered in the initial commercialization phase to accelerate adult smoker switching have negatively impacted the margin on IQOS devices
- Device economics expected to improve over time as we reach broader adult smoker acceptance

Note: Reduced-Risk Products ("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. Visual is for illustrative purposes only

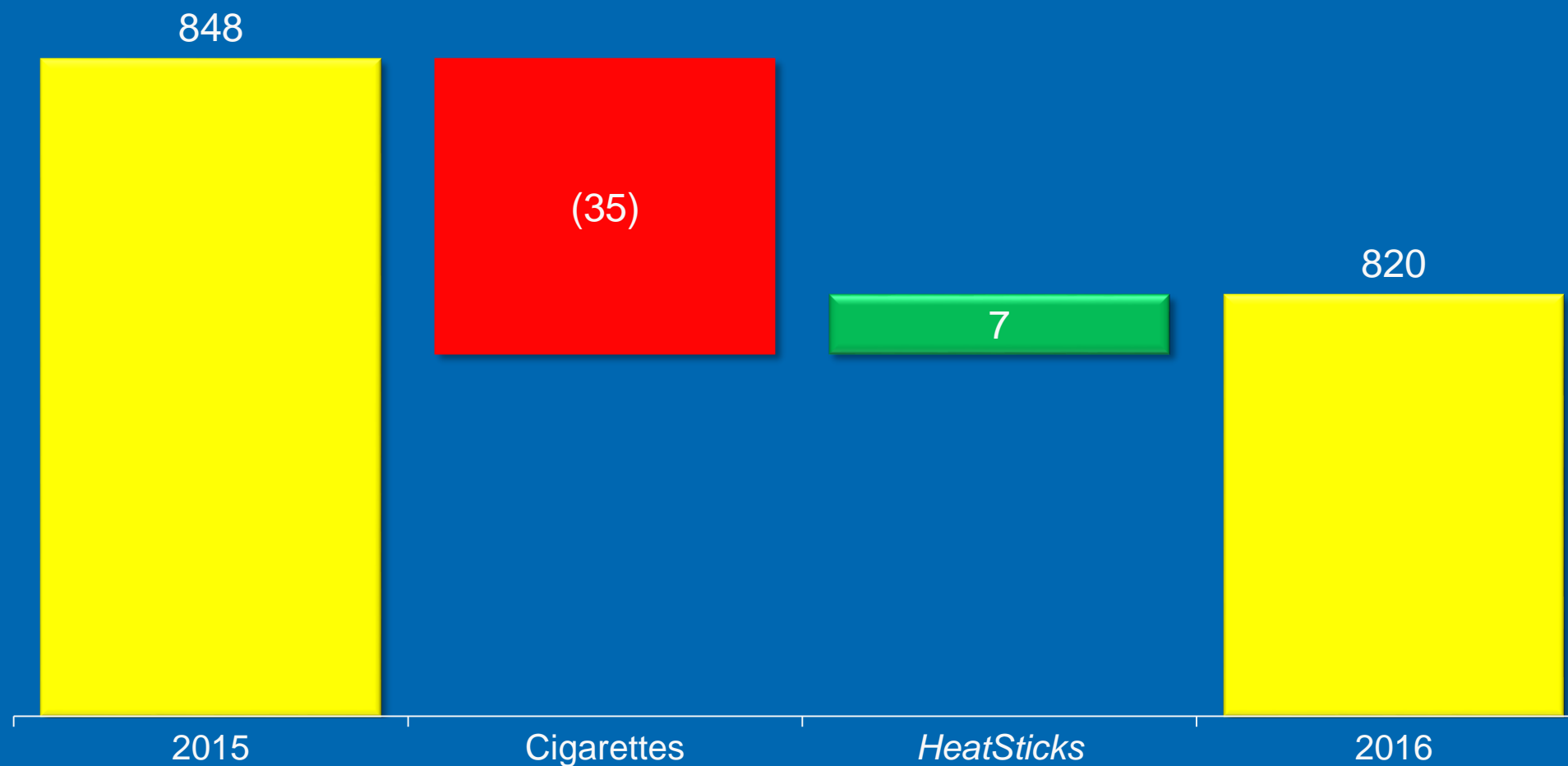
Source: PMI Financials or estimates



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2016: PMI Combined Cigarette and *HeatSticks* Volume

(units billion)



Note: Reduced-Risk Products ("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

Source: PMI Financials or estimates



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Moderating Currency Impact on PMI EPS

(\$ per share)

	<u>2015</u>	<u>2016</u>	<u>2017 Guidance</u>		
			<u>Feb 2nd</u>	<u>Feb 22nd</u>	<u>Variance</u>
Turkish Lira	(0.07)	(0.04)	(0.08)	(0.07)	0.01
Euro	(0.14)	—	(0.07)	(0.07)	—
Japanese Yen	(0.13)	0.03	(0.04)	(0.03)	0.01
Mexican Peso	(0.04)	(0.05)	(0.04)	(0.03)	0.01
Russian Ruble	(0.44)	(0.09)	0.10	0.13	0.03
Egyptian Pound	(0.02)	(0.21)	(0.02)	0.03	0.05
Others	(0.36)	(0.10)	(0.03)	(0.04)	(0.01)
Total Currency Impact	(1.20)	(0.46)	(0.18)	(0.08)	0.10

Note: Currency impact represents the variance vs. prior year period
Source: PMI Financials or estimates



Increasing 2017 EPS Guidance for Currency Only

- Increasing 2017 reported diluted EPS guidance to \$4.80 to \$4.95 at prevailing exchange rates, compared to \$4.48 in 2016:
 - Now includes approximately 8 cents of unfavorable currency at prevailing exchange rates (vs. 18 cents on February 2, 2017)
 - No share repurchases
- Excluding currency, our guidance continues to represent a growth rate of approximately 9% to 12% versus our adjusted diluted EPS of \$4.48 in 2016



2017 EPS Guidance: Key Variables

- RRPs introduce higher forecasting volatility
- Guidance reflects currency-neutral net revenue growth in excess of 6%, driven by:
 - Higher RRP volumes
 - Favorable pricing variance
- Guidance also reflects significant incremental investment behind the deployment of our RRP portfolio

Note: Reduced-Risk Products ("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

Source: PMI Financials or estimates



Cigarette Industry Volume Trends

- For most markets (including Indonesia, Pakistan, the Philippines and Russia) we expect 2016 cigarette industry volume trends to continue into 2017
- For the EU Region, we anticipate a 2017 cigarette industry volume decline of 2% to 3% (vs. 1.6% decline in 2016) due to:
 - An unfavorable comparison with 2016, which benefited from the estimated positive impact of immigration and a recovery from illicit trade
 - The impact of price increases

2017 EPS Guidance: Currency-Neutral Growth Slightly Skewed Toward Second Half of the Year

- We expect our currency-neutral adjusted diluted EPS growth in 2017 to be slightly skewed toward the second-half of the year, primarily reflecting:
 - The timing of *HeatSticks* capacity and phasing of RRP investments
 - Certain unfavorable cigarette industry volume comparisons vs. H1, 2016, notably in Argentina, the EU Region and Turkey
- Anticipate low-single-digit adjusted diluted EPS growth in Q1, ex-currency

Note: Reduced-Risk Products ("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

Source: PMI Financials or estimates

THIS CHANGES EVERYTHING



**Over
1.4 million
adult consumers**
have already given up
smoking and switched
to our RRP's

Note: Reduced-Risk Products ("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
Source: PMI Financials or estimates

RRPs: Our Product Platforms

Heated Tobacco Products

Platform

1



Platform

2



Platform

3



Platform

4



Note: Reduced-Risk Products ("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. The products depicted are subject to ongoing development and therefore the visuals are illustrative and do not necessarily represent the latest stages of product development

HELLO

TOBACCO PLEASURE

LE PLAISIR DU TABAC CHAUFFÉ



DÉCOUVREZ PLUS SUR WWW.IQOS.CH

L'ACCÈS EST RÉSERVÉ AUX CONSOMMATEURS ADULTES RÉSIDANT EN SUISSE.



IQOS

THIS CHANGES EVERYTHING

Dieses Tabakerzeugnis kann Ihre Gesundheit schädigen und macht abhängig. Ce produit du tabac peut nuire à votre santé et crée une dépendance. Questo prodotto del tabacco può nuocere alla tua salute e provoca dipendenza.

Note: Reduced-Risk Products ("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. Translation from French: "The Pleasure of Heated Tobacco. Discover more at www.IQOS.ch – Access to this page is intended for adult consumers with residence in Switzerland."

IQOS: Launched in Key Cities in Over 20 Markets To Date

EU Region

- Denmark
- Germany
- Greece
- Italy
- Lithuania
- Monaco
- Netherlands
- Portugal
- Romania
- Spain
- Switzerland
- United Kingdom

EEMA Region

- Duty Free^(a)
- Israel
- Kazakhstan
- Russia
- South Africa
- Ukraine

Asia Region

- Japan
- New Zealand

LA&C Region

- Canada

Expect to be in
key cities or
national in a total of

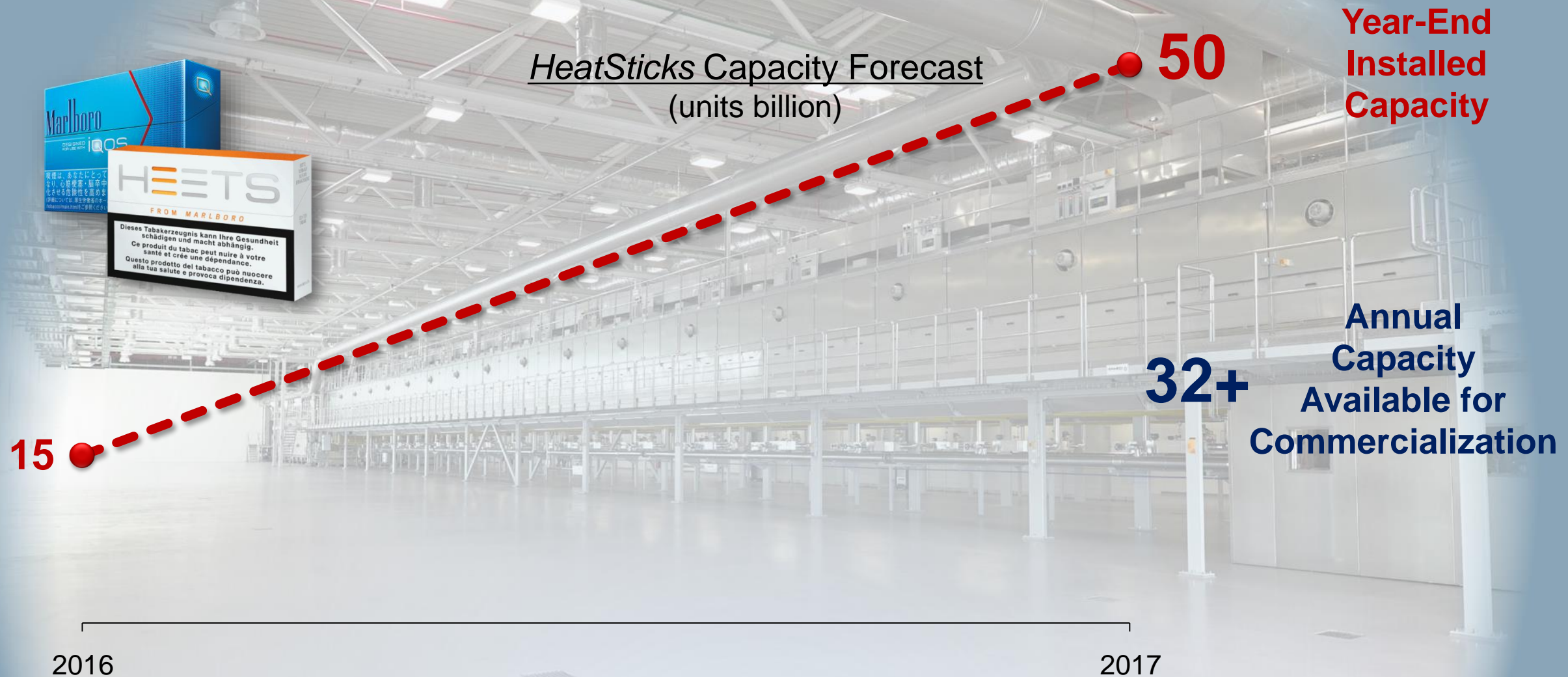
**30-35
Markets**
by end 2017



(a) Japan (Chubu, Fukuoka, Osaka and Tokyo airports); Switzerland (Zurich airport)

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IQOS: Expanding HeatSticks Capacity in 2017

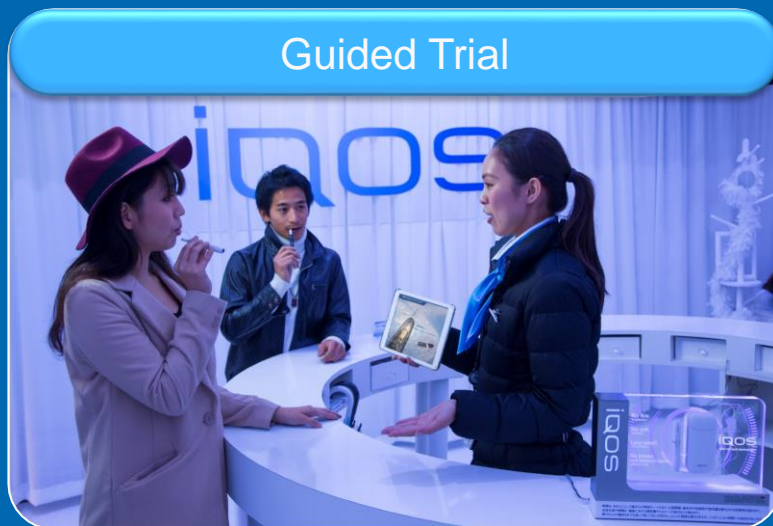


Note: Reduced-Risk Products ("RRPs") is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. Pack designs are for illustrative purposes only

Source: PMI Financials or estimates

IQOS: Commercialization Approach

Guided Trial



IQOS Retail Outlets



IQOS Embassies



Customer Care Programs



E-commerce / Digital Marketing



Note: Reduced-Risk Products ("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

IQOS: Approach to Commercialization



Note: Reduced-Risk Products ("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

IQOS: Product and Category Benefits Communication

- Substantiated and prioritized messages will be deployed in line with local laws and regulations
- Examples of current messages deployed:
 - Real tobacco taste and satisfaction
 - Reduced formation of HPHCs
 - Convenience (no ash, less smell, no risk of fire)
 - No negative impact on indoor air quality
 - Other benefits compared to continued smoking:
 - "Better breath"
 - "Less unpleasant aftertaste"
 - Less staining of teeth



Note: Reduced-Risk Products ("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. Translation for Swiss German: "HELLO FRESHNESS. Less Odor, Less Aftertaste. Discover more at www.IQOS.ch – Access to this page is intended for adult consumers with residence in Switzerland. *In comparison to a cigarette."



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/QOS: 2014 / 2015 Launch Markets



Japan



Italy



Switzerland



Portugal



Romania



Russia

Initial
Launch Date

November
2014

November
2014

August
2015

November
2015

November
2015

November
2015

Focus Area
(December 2016)

National

5
cities

6
cities

Lisbon

5
cities

Moscow /
St.
Petersburg

Focus Area Cigarette
Industry Volume
Coverage^(a)

~ 100%

~ 20%

~ 35%

~ 25%

~ 25%

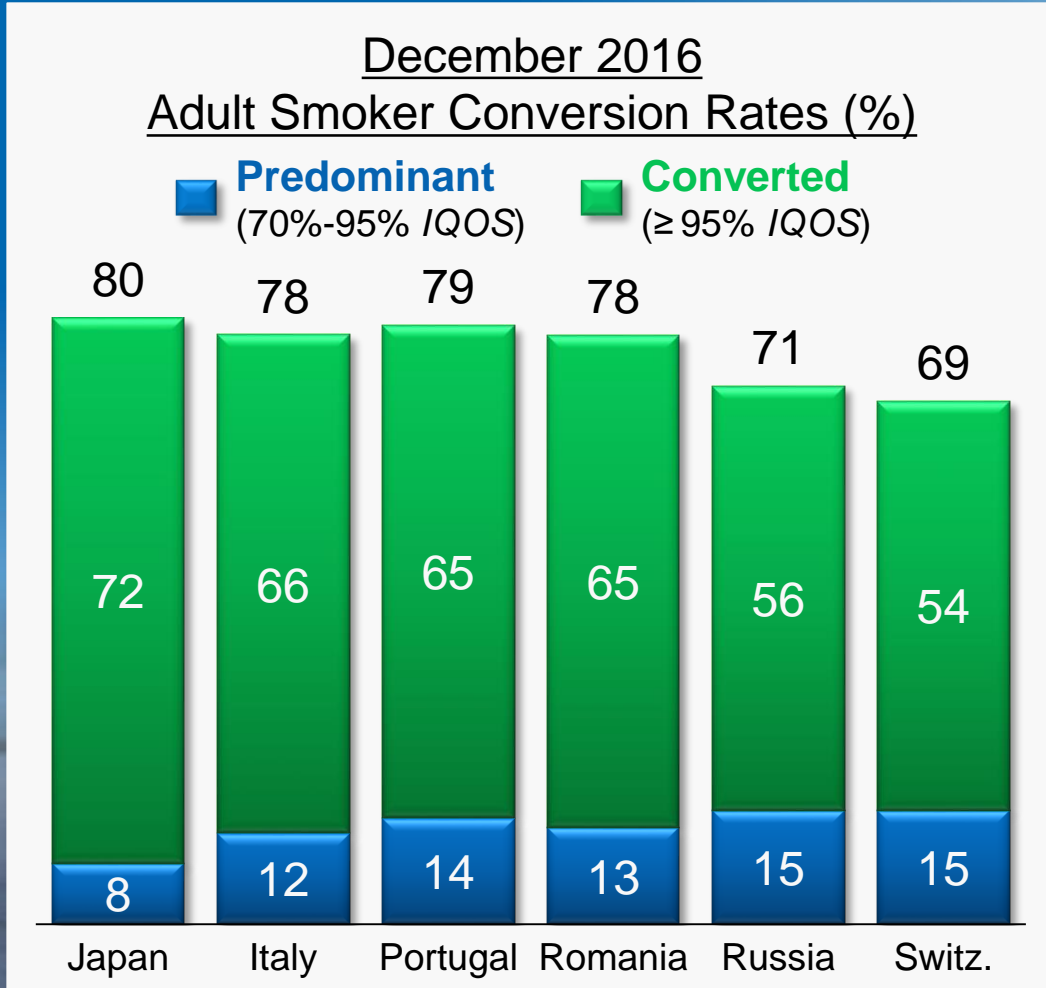
~ 10%

(a) Portion of cigarette industry volume covered by /QOS focus area in each market (as of December 2016)

Note: Reduced-Risk Products ("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

Source: PMI Financials or estimates

IQOS: High Conversion Rates



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Source: PM Japan / Italy / Portugal / Romania / Russia / Switzerland IQOS User Panels

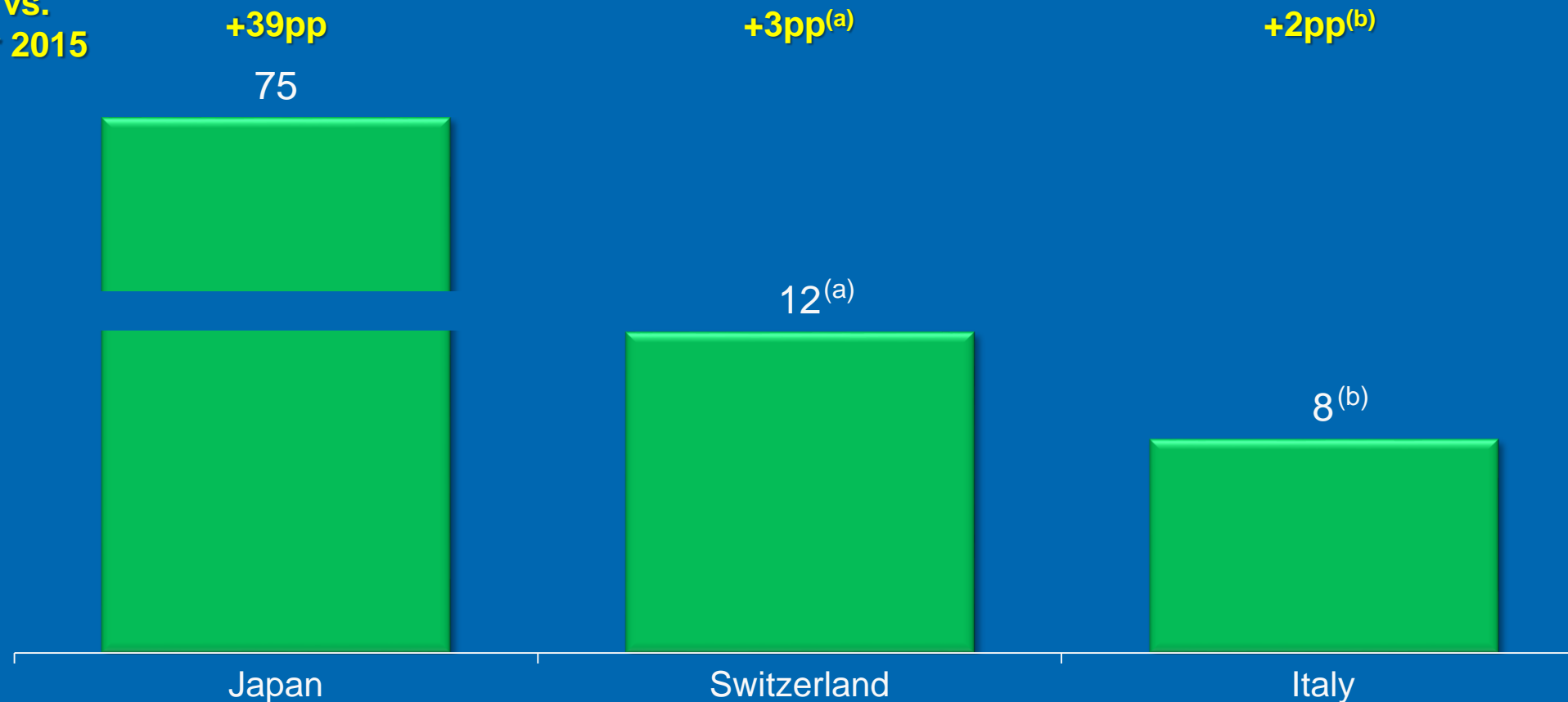




IQOS: Growing Awareness Among Adult Smokers

Level of Adult Smoker Awareness of IQOS at December 2016 (%)

**Growth vs.
December 2015**



(a) Data is based on 3-month moving average

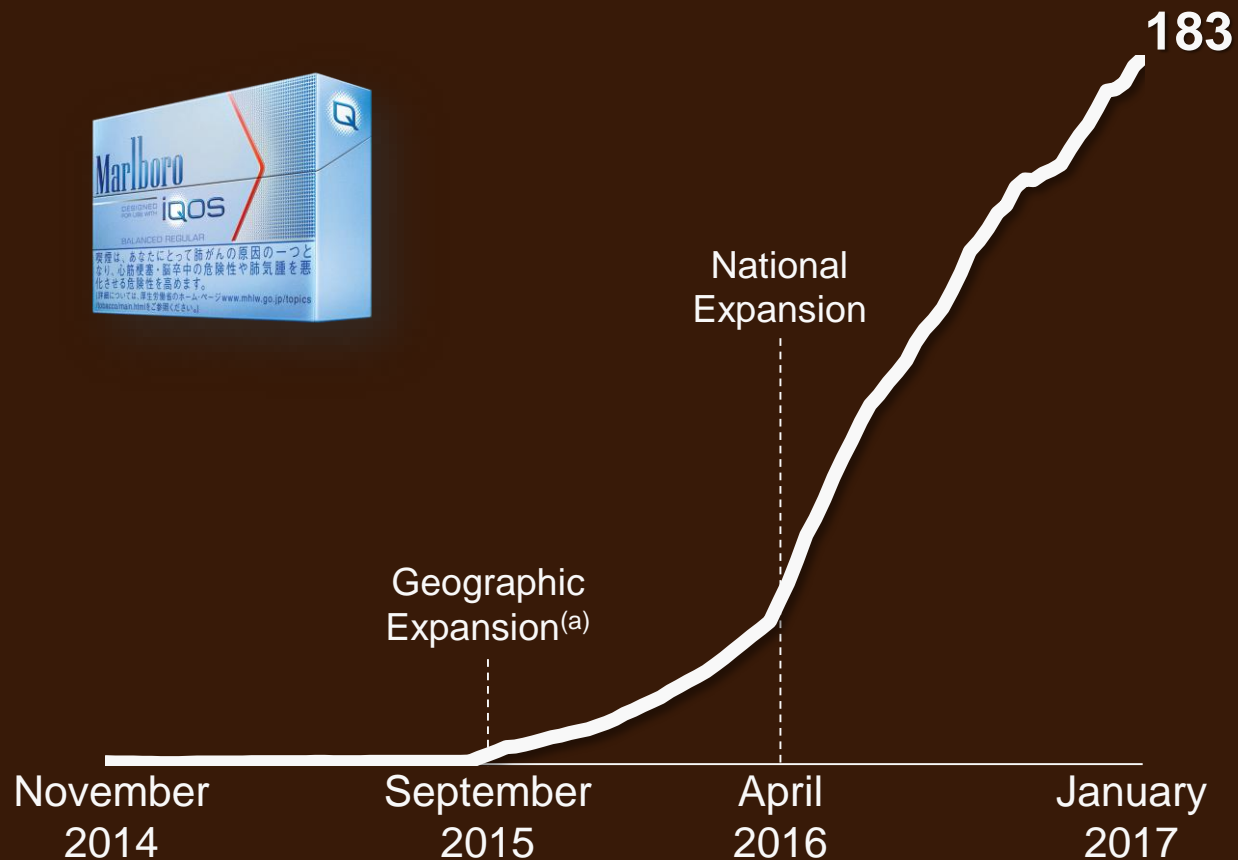
(b) Data is based on 12-month moving average

Note: Reduced-Risk Products ("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

Source: PMI Market Research

IQOS: Japan Commercialization Update

Weekly HeatSticks Offtake Volume (units million)
(4-week moving average)



(a) First wave of expansion to over 60% of the adult smoker population

Note: Reduced-Risk Products ("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. Pack design is for illustrative purposes only

Source: PMI Financials or estimates





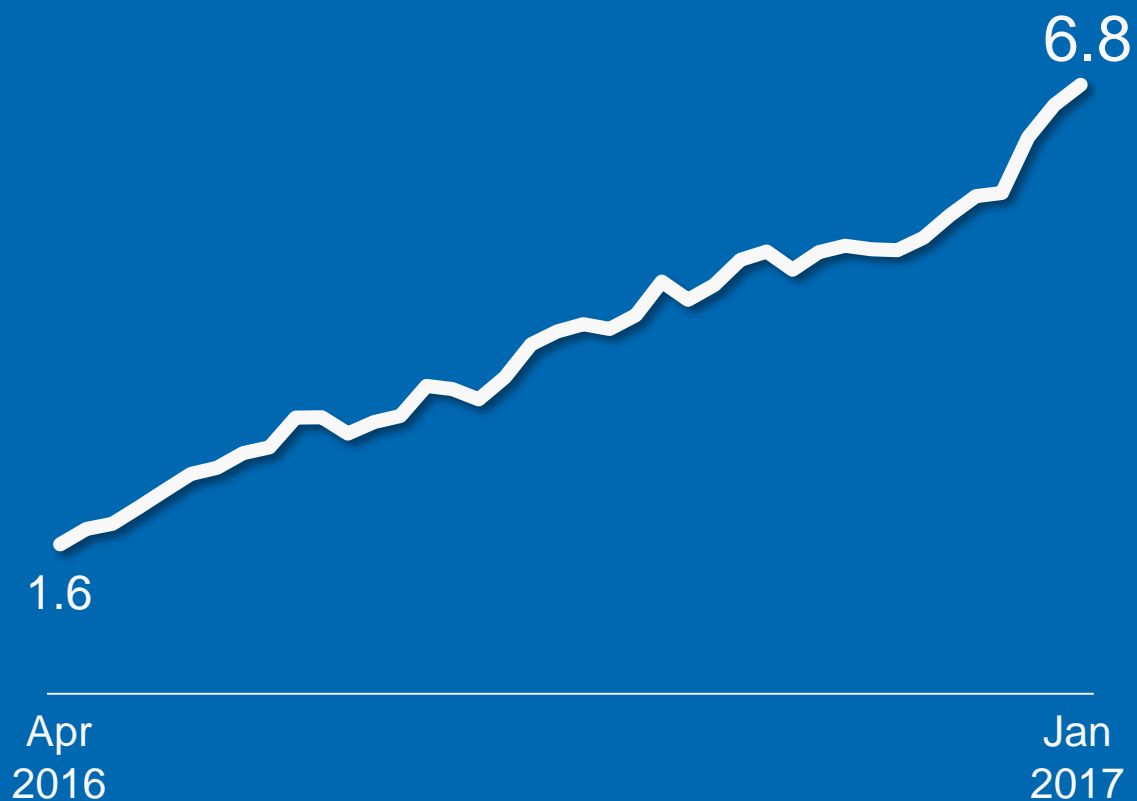
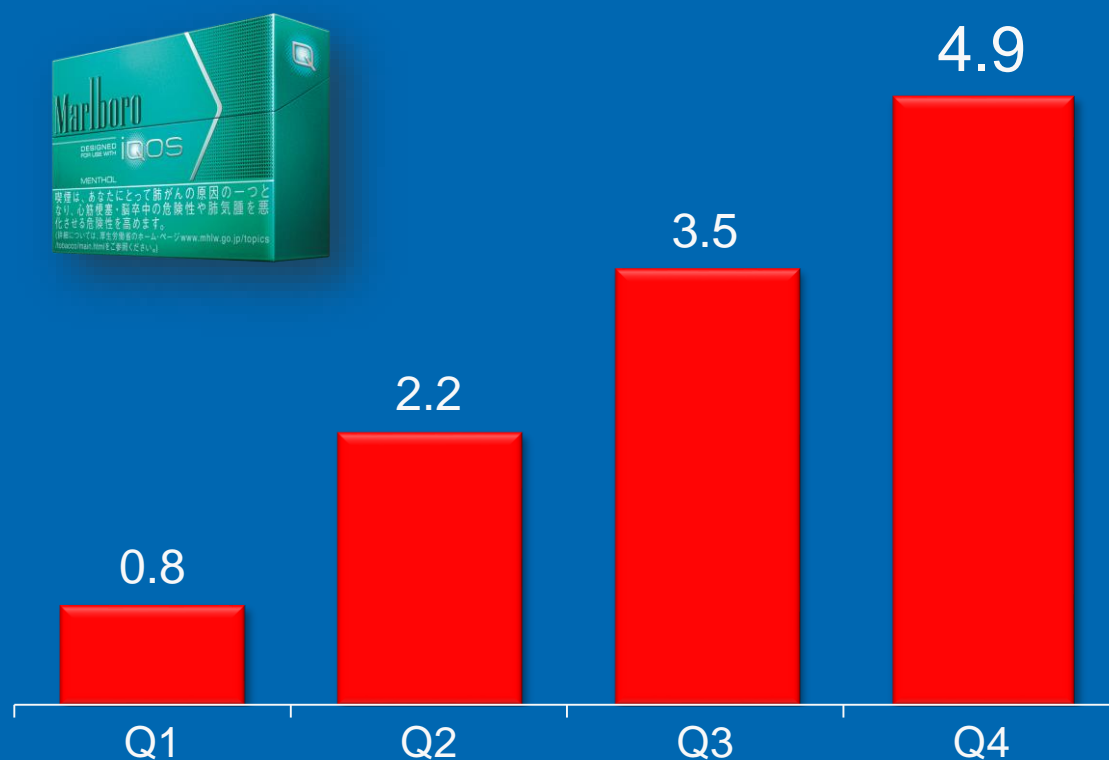
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IQOS: Strong Sequential *HeatSticks* Share Growth in Japan

2016 *HeatSticks* Market Shares (%)

Quarterly

Weekly



Note: Reduced-Risk Products ("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. Pack design is for illustrative purposes only

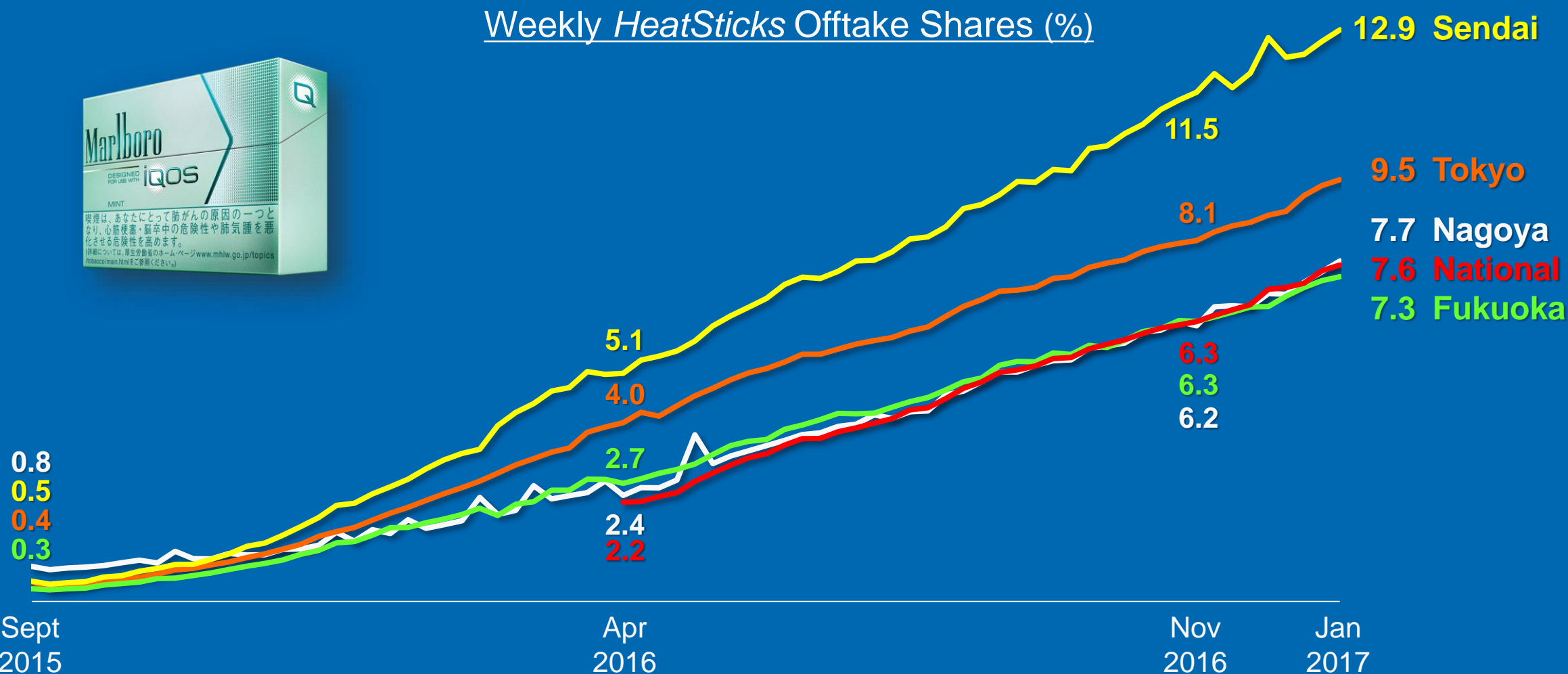
Source: PMI Financials or estimates, and Tobacco Institute of Japan



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IQOS: Strong Weekly *HeatSticks* Offtake Share Growth in Japan

Weekly *HeatSticks* Offtake Shares (%)



Note: Reduced-Risk Products ("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. Pack design is for illustrative purposes only

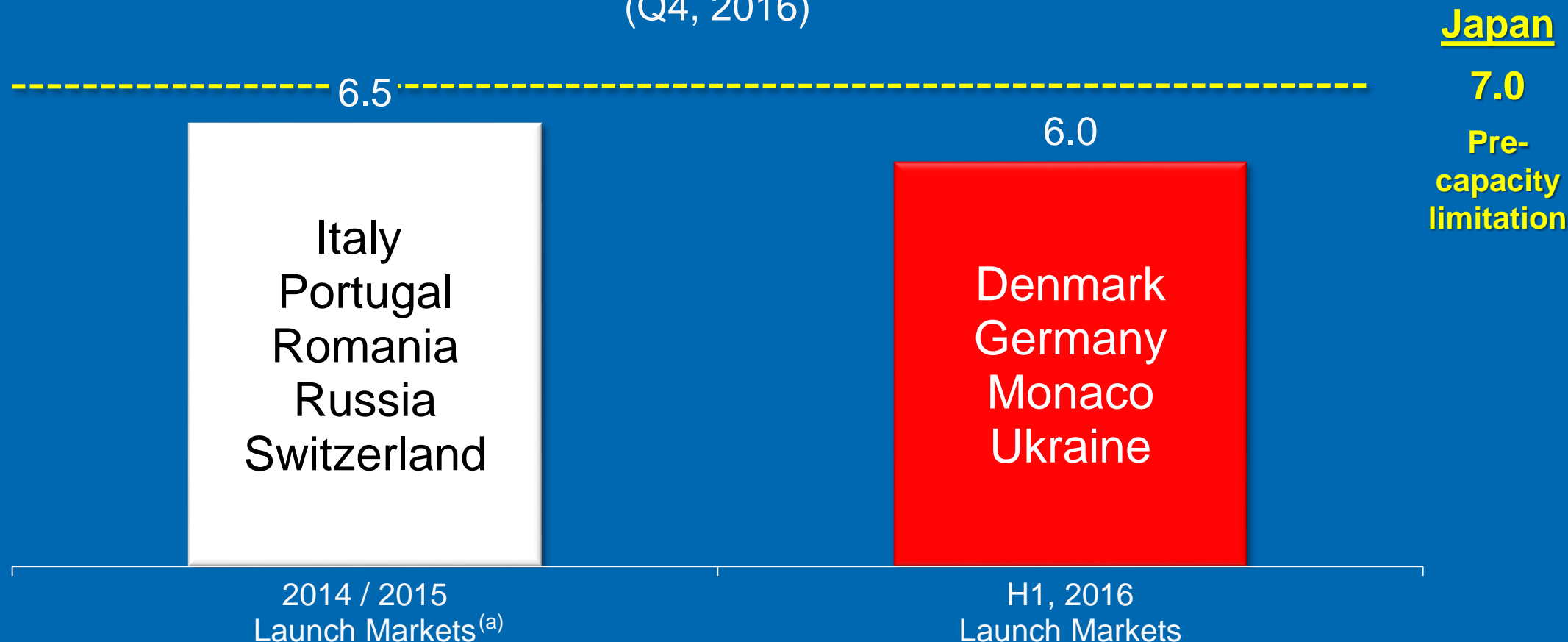
Source: PMI Financials or estimates



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IQOS: Growing HeatSticks Offtake Volume in Our Launch Markets

Compound Weekly Offtake Volume Growth Rate (%)
(Q4, 2016)



(a) Excluding Japan and duty free

Note: Reduced-Risk Products ("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. Compound weekly offtake volume growth rate = four-week moving average at end of Q4, 2016 vs. four-week moving average at end of Q3, 2016

Source: PMI Financials or estimates



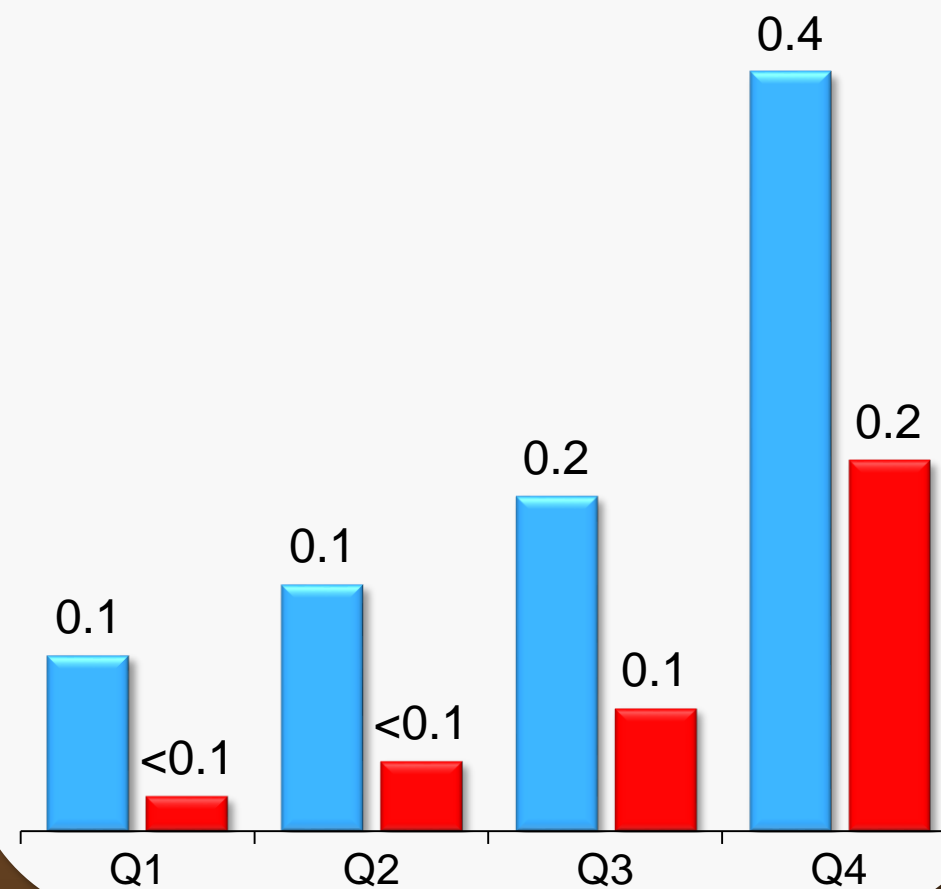
Italy



2016 *HeatSticks* Offtake Share (%)

Focus Area

National



Note: Underlying *HeatSticks* offtake share data is unrounded.

Reduced-Risk Products ("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

Source: PMI Financials or estimates



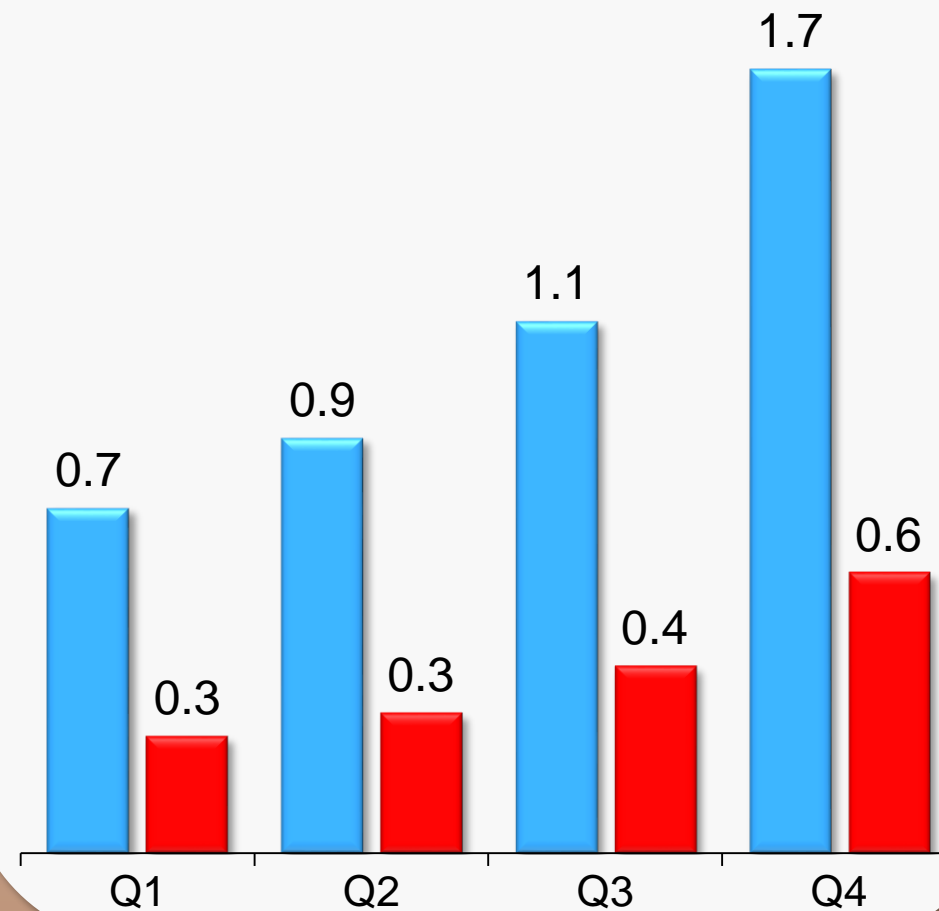
Switzerland



2016 *HeatSticks* Offtake Share (%)

■ Focus Area

■ National



Note: Underlying *HeatSticks* offtake share data is unrounded.

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Source: PMI Financials or estimates

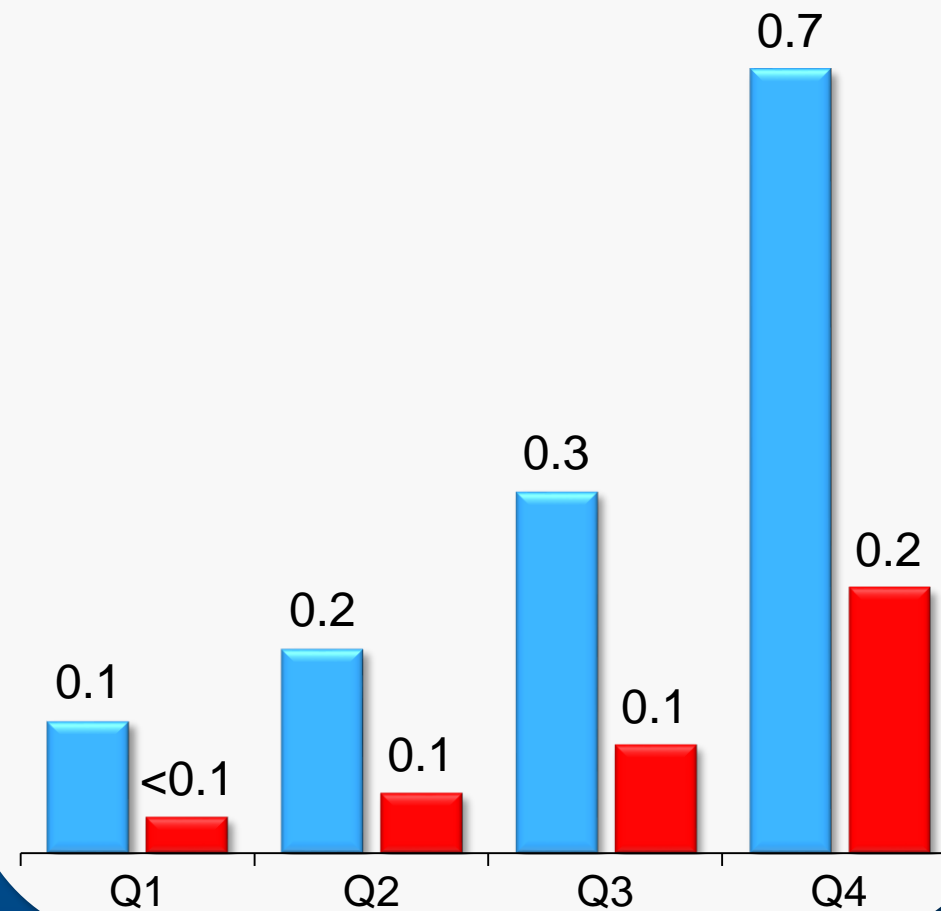


Portugal

2016 HeatSticks Offtake Share (%)

Lisbon

National



Note: Underlying HeatSticks offtake share data is unrounded.

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Source: PMI Financials or estimates

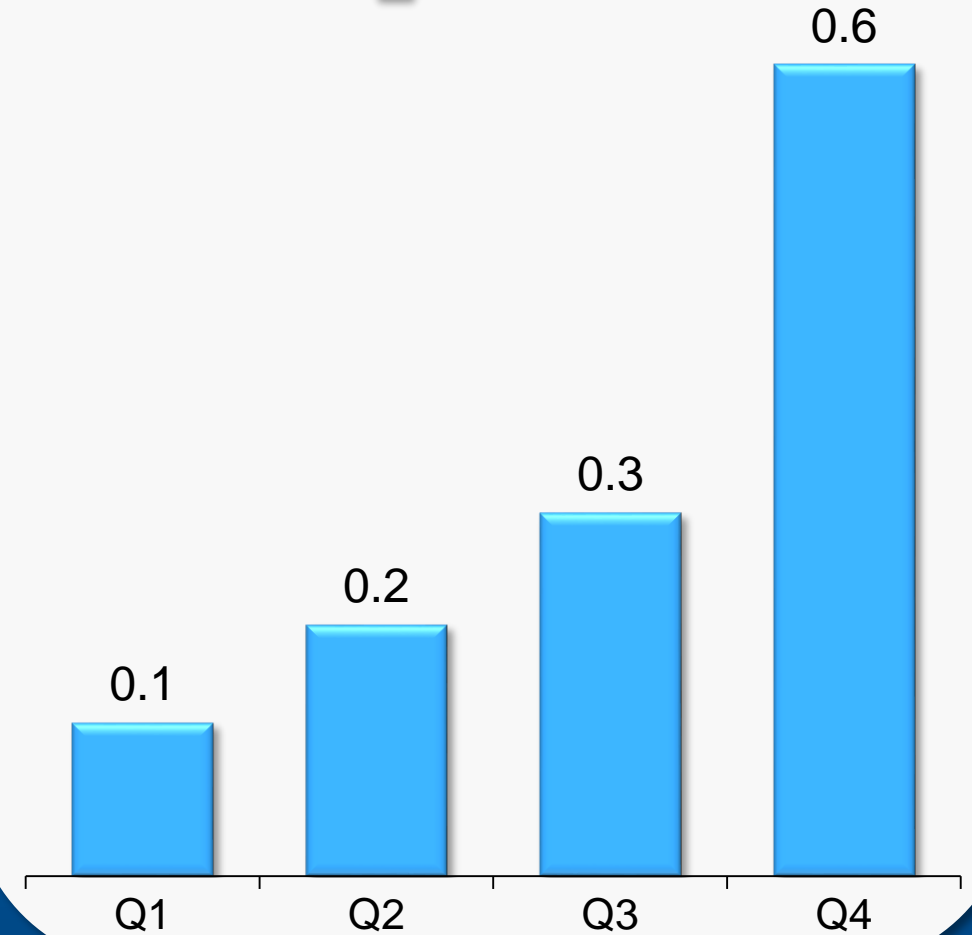


Romania



2016 HeatSticks Offtake Share (%)

■ Focus Area



Note: Underlying HeatSticks offtake share data is unrounded.

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Source: PMI Financials or estimates

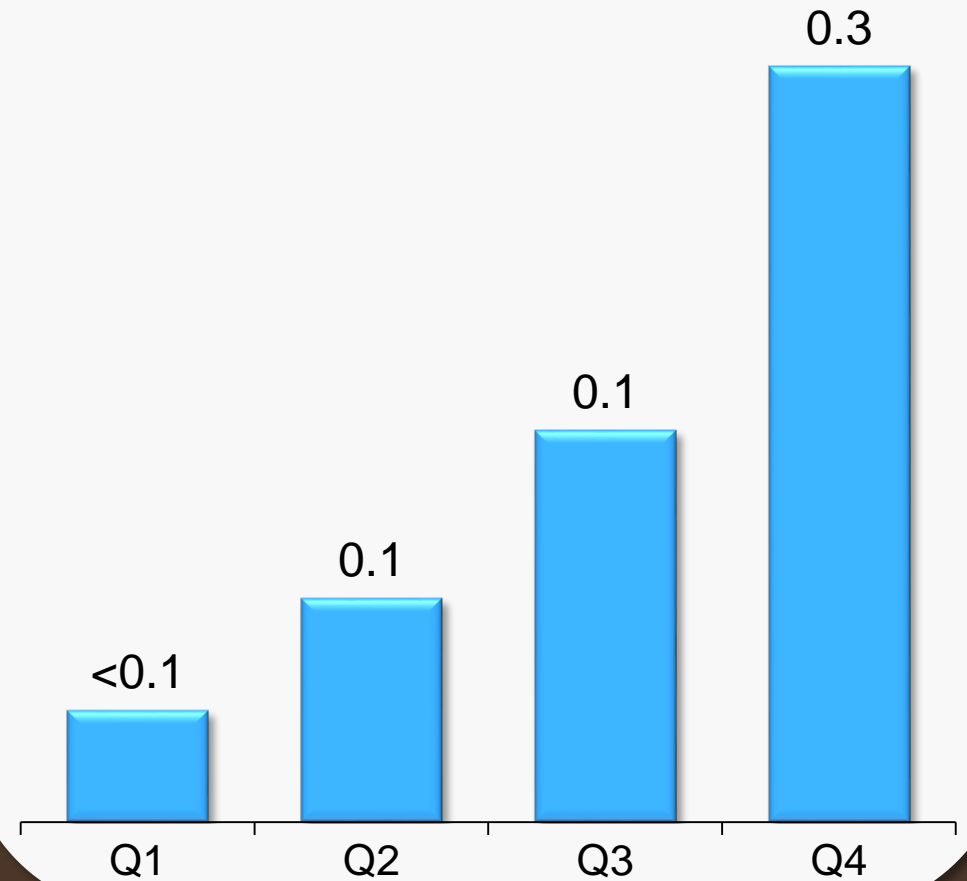


Russia



2016 *HeatSticks* Offtake Share (%)

■ Moscow & St. Petersburg






Note: Underlying *HeatSticks* offtake share data is unrounded.

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Source: PMI Financials or estimates

IQOS Converted Users vs. Adult Cigarette Smoker Population

			
	<u>Japan</u>	<u>Italy</u>	<u>Switzerland</u>
Gender	Female	(17)pp	(2)pp
	Male	+17	+2
Age	Legal Age-29	+2	+5
	30-39	+11	+5
	40-49	+11	+3
	50+	(23)	(13)
		(13)	(13)
Cigarette Price Class	Premium	+9	+7
	Mid	(5)	(5)
	Low	(5)	—

Note: Totals for variances may not foot due to rounding. Legal age: Japan (20 years old); Italy (18 years old); Switzerland (18 years old).

Premium includes above-premium. Low includes super-low. Reduced-Risk Products ("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

Source: PM Japan / Italy / Switzerland IQOS User Panels, and PMI Market Research (December 2016)



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/QOS: In-Switching from PMI Cigarette Brands (December 2016)



Japan



Italy



Switzerland

In-switching
to *HeatSticks*

30%

67%

46%

**Decline vs.
December 2015**

7pp

7pp

5pp

Cigarette SoM

24%

51%

42%

Note: Reduced-Risk Products ("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

Source: PMI Financials or estimates, Tobacco Institute of Japan and PM Japan / Italy / Switzerland /QOS User Panels

/QOS: Incremental Product Improvements



Nagoya Pilot (2014)

Base device



2016

Product Improvements

- Aesthetics
- Automatic blade cleaning
- Easier holder insertion



2017

Product Improvements

- Aesthetics
- Improved user interface
- Reinforced opening system
- Faster charging of holder
- Bluetooth connectivity
- Mobile App



2018+

Continued
innovation



IQOS Limited Editions



IQOS Colored Caps & Soft Leather Pouches



IQOS Charging Station



HeatSticks Disposal Tray

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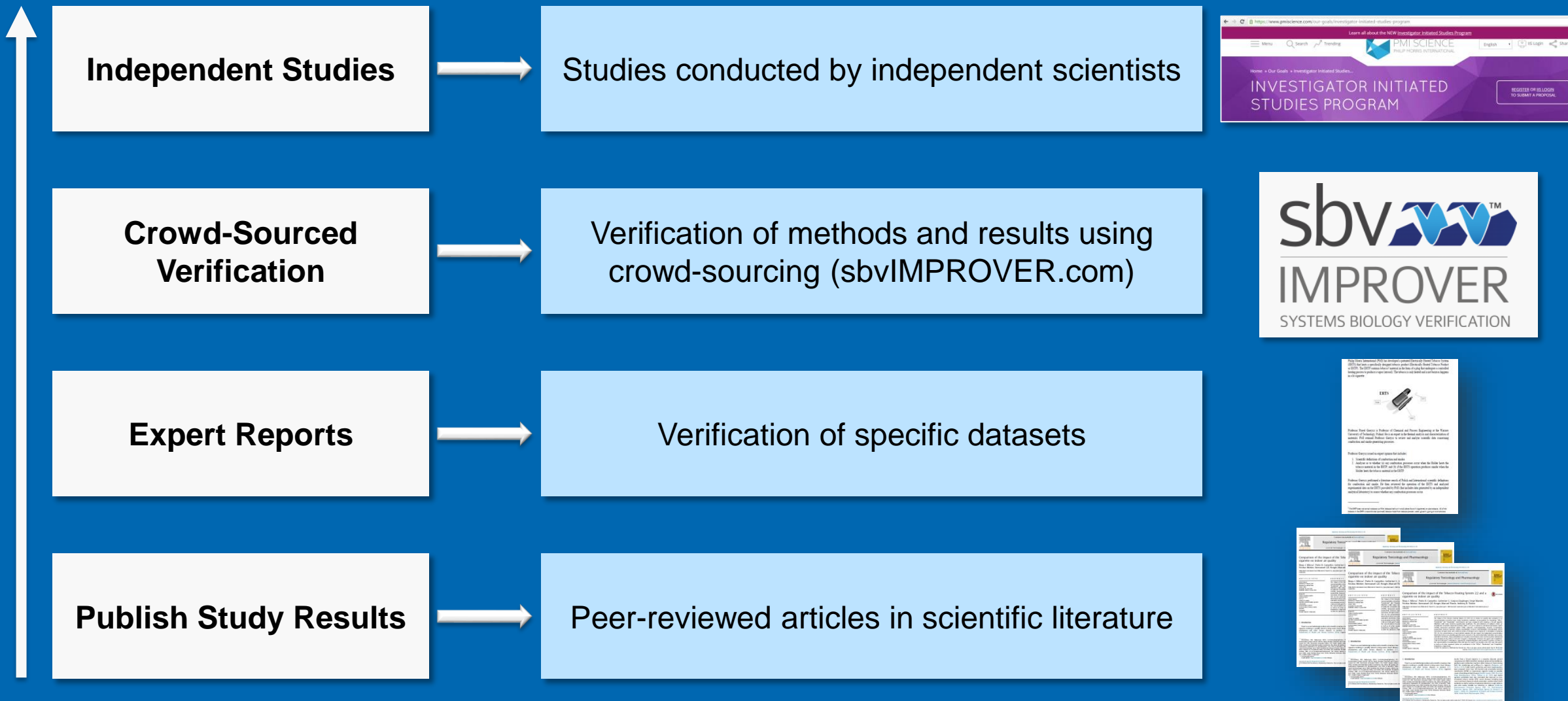


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IQOS: U.S. FDA MRTPA & PMTA Filing Status

- Submitted Modified Risk Tobacco Product Application to FDA in December 2016
- On track to submit Premarket Tobacco Product Application to FDA in Q1, 2017

RRPs: Independent Verification of PMI's Science

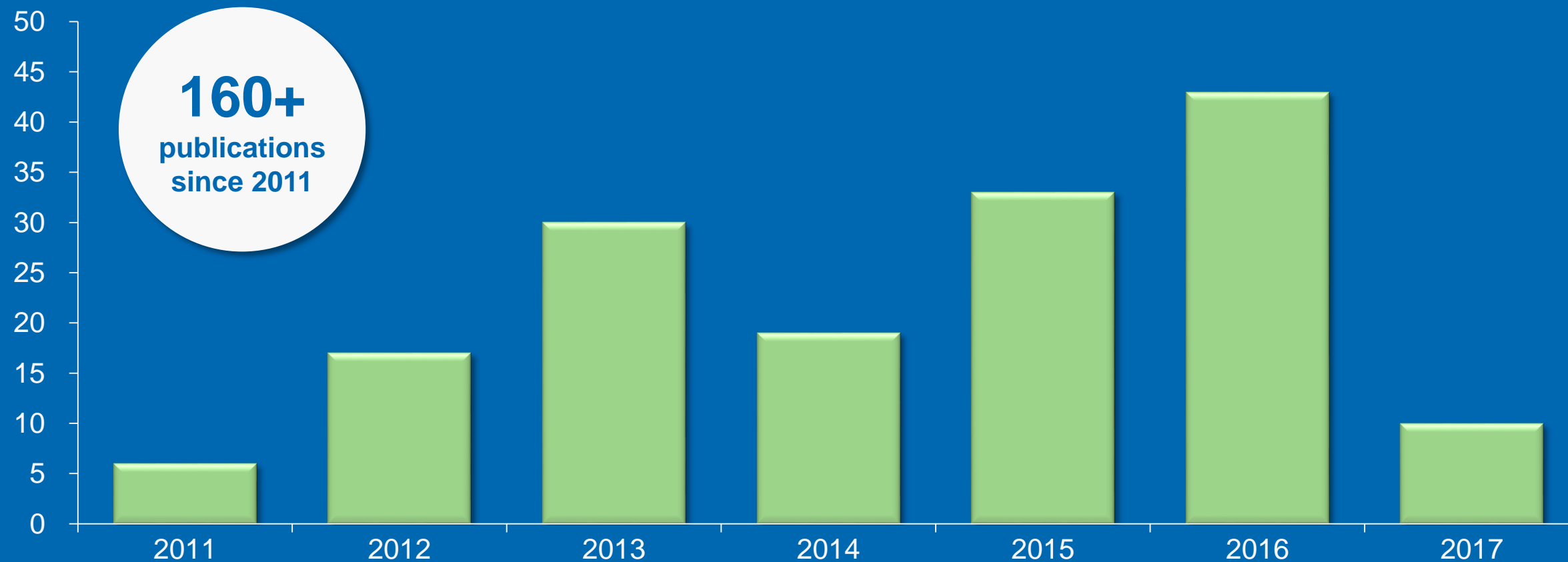


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RRPs: Scientific Publications

Scientific Publications on RRP (number of publications per year)



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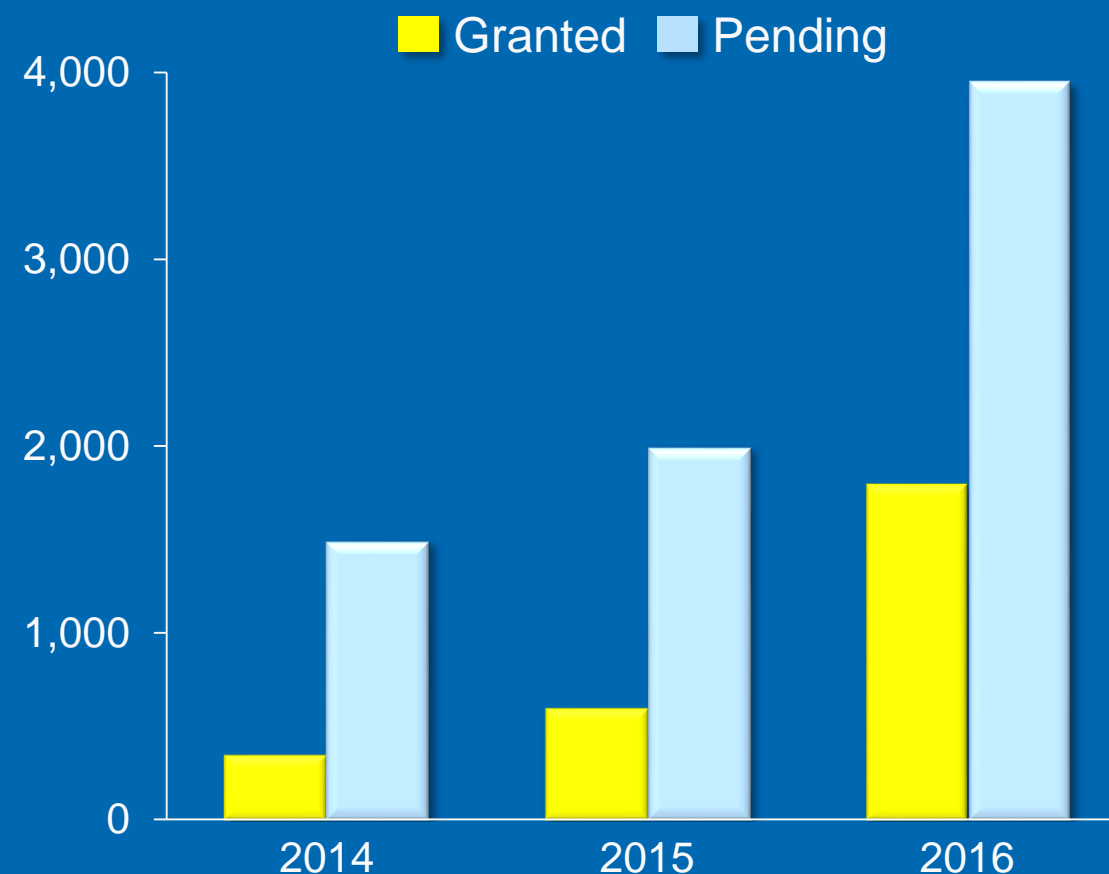
Source: PMI Research & Development



RRPs: PMI Published Patents

- Rapidly increasing RRP IP portfolio of granted patents and pending applications
- Majority of our patents have a lifetime beyond 2030

PMI RRP Published Patents Worldwide^(a)



(a) Cumulative status at December 31

Note: Reduced-Risk Products ("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

Source: PMI Research & Development



Conclusion

- 2016 was a pivotal year for PMI:
 - Exciting progress in our transformation to a smoke-free future
 - Strong currency-neutral financial results, driven by our cigarette portfolio
- Steadfast commitment to shareholder value
- Increased 2017 guidance, for currency only, which continues to represent a growth rate of approximately 9% to 12%, ex-currency, versus adjusted diluted EPS of \$4.48 in 2016
- RRP's provide us with the single-largest opportunity to significantly accelerate the growth of our business

Note: Reduced-Risk Products ("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

Source: PMI Financials or estimates



Philip Morris International

Designing a Smoke-Free Future

How long will the world's leading cigarette company be in the cigarette business?

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CONSUMER
Corner



CAREERS
at PMI



INVESTOR
Relations



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Center



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Consumer Analyst Group of New York (CAGNY) Conference

Questions & Answers



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Glossary 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
- PMI volumes refer to PMI cigarette shipment data, unless otherwise stated
- 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
- EEMA refers to the Eastern Europe, Middle East & Africa Region and includes our international duty free business
- EU refers to the European Union Region
- FDA stands for the U.S. Food and Drug Administration
- IP stands for intellectual property
- LA&C refers to the Latin America & Canada Region
- SoM stands for share of market



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)/loss in unconsolidated subsidiaries, net. Management evaluates business segment performance and allocates resources based on OCI
- Adjusted OCI margins are calculated as adjusted OCI, divided by net revenues
- Free cash flow is defined as net cash provided by operating activities less capital expenditures
- Management reviews OCI, OCI margins, earnings per share, or "EPS," and free cash flow on an adjusted basis, which may exclude the impact of currency and other items such as acquisitions, asset impairment and exit costs, discrete tax items and other special items
- Management reviews these measures because they exclude changes in currency exchange rates and other factors that may distort underlying business trends, thereby improving the comparability of PMI's business performance between reporting periods. Furthermore, PMI uses several of these measures in its management compensation program to promote internal fairness and a disciplined assessment of performance against company targets. PMI discloses these measures to enable investors to view the business through the eyes of its management



Glossary: Reduced-Risk Products

- Reduced-Risk Products ("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's in various stages of development, scientific assessment and commercialization. Because our RRP's do not burn tobacco, they produce far lower quantities of harmful and potentially harmful compounds than found in cigarette smoke
- HPHCs stands for harmful or potentially harmful constituents which have been identified as likely causes of tobacco related diseases
- IQOS is the brand name under which PMI has chosen to commercialize its Platform 1 controlled heating device into which a specially designed and proprietary consumable tobacco product is inserted and heated to generate an aerosol
- The term *HeatSticks* refers to *Marlboro HeatSticks*, *Parliament HeatSticks* and *HEETS* from *Marlboro*
- *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
- *HeatSticks* volume refers to *HeatSticks* and *HEETS*
- Net revenues, excluding excise taxes, related to RRP's represent the sale of heated tobacco consumables, including *IQOS HeatSticks*, *IQOS* devices and related accessories, and other nicotine-containing products, primarily e-vapor products, net of sales and promotion incentives



Glossary: Reduced-Risk Products

- National market share for *HeatSticks* in Japan is defined as the total sales volume for *HeatSticks* as a percentage of the total estimated sales volume for cigarettes and *HeatSticks*
- *HeatSticks* offtake volume represents the estimated retail offtake of *HeatSticks* based on a selection of sales channels that vary by market, but notably include retail points of sale and e-commerce platforms
- *HeatSticks* offtake share represents the estimated retail offtake volume of *HeatSticks* divided by the sum of estimated total offtake volume for cigarettes, *HeatSticks* and, where the data is available, other RRP
- "Converted IQOS Users" means the estimated number of Legal Age (minimum 18-year-old) IQOS users that used *HeatSticks* for 95% or more 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* for between 70% and 94.9% of their daily tobacco consumption over the past seven days
- Aerosol refers to a gaseous suspension of fine solid particles and/or liquid droplets
- E-liquids refer to a liquid solution that is used in/with e-cigarettes. E-liquids contain different levels of nicotine in a propylene glycol and/or vegetable glycerin based solution with various flavors
- An e-vapor product is an electrical product that generates an aerosol by heating a nicotine or non-nicotine containing liquid, such as electronic cigarettes (or "e-cigarettes")



Glossary: Reduced-Risk Products

- *MESH* is the brand name that PMI has chosen for the city test of its "next generation" Platform 4 Reduced-Risk Product that leverages new proprietary vaporization technology
- MRTP stands for Modified Risk Tobacco Product, the term used by the U.S. FDA to refer to RRP
- MRTPA application refers for the Modified Risk Tobacco Product Application under section 911 of the FD&C Act
- PMTA application refers for the Premarket Tobacco Product Application under section 910 of the FD&C Act

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



PHILIP MORRIS
INTERNATIONAL

Adjustments for the Impact of Currency and Acquisitions
For the Years Ended December 31,
(\$ 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
\$ 27,129	\$ 18,967	\$ 8,162	\$ (147)	\$ 8,309	\$ -	\$ 8,309	European Union	\$ 26,563	\$ 18,495	\$ 8,068	1.2%	3.0%	3.0%
18,286	11,286	7,000	(600)	7,600	-	7,600	EEMA	18,328	10,964	7,364	(4.9)%	3.2%	3.2%
20,531	11,850	8,681	(8)	8,689	-	8,689	Asia	19,469	11,266	8,203	5.8%	5.9%	5.9%
9,007	6,165	2,842	(525)	3,367	-	3,367	Latin America & Canada	9,548	6,389	3,159	(10.0)%	6.6%	6.6%
\$ 74,953	\$ 48,268	\$ 26,685	\$ (1,280)	\$ 27,965	\$ -	\$ 27,965	PMI Total	\$ 73,908	\$ 47,114	\$ 26,794	(0.4)%	4.4%	4.4%

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
\$ 3,994	\$ 34	\$ 3,960	\$ -	\$ 3,960	European Union			\$ 3,576			11.7%	10.7%	10.7%
3,016	(839)	3,855	-	3,855	EEMA			3,425			(11.9)%	12.6%	12.6%
3,196	52	3,144	-	3,144	Asia			2,886			10.7%	8.9%	8.9%
938	(282)	1,220	-	1,220	Latin America & Canada			1,085			(13.5)%	12.4%	12.4%
\$ 11,144	\$ (1,035)	\$ 12,179	\$ -	\$ 12,179	PMI Total			\$ 10,972			1.6%	11.0%	11.0%

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



PHILIP MORRIS
INTERNATIONAL

Reconciliation of Operating Companies Income to Adjusted Operating Companies Income &
Reconciliation of Adjusted Operating Companies Income Margin, excluding Currency and Acquisitions
For the Years Ended December 31,
(\$ in millions)
(Unaudited)

2016										2015			% Change in Adjusted Operating Companies Income		
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
\$ 3,994	\$ -	\$ 3,994	\$ 34	\$ 3,960	\$ -	\$ 3,960	European Union			\$ 3,576	\$ (68)	\$ 3,644	9.6%	8.7%	8.7%
3,016	-	3,016	(839)	3,855	-	3,855	EEMA			3,425	-	3,425	(11.9)%	12.6%	12.6%
3,196	-	3,196	52	3,144	-	3,144	Asia			2,886	-	2,886	10.7%	8.9%	8.9%
938	-	938	(282)	1,220	-	1,220	Latin America & Canada			1,085	-	1,085	(13.5)%	12.4%	12.4%
\$ 11,144	\$ -	\$ 11,144	\$ (1,035)	\$ 12,179	\$ -	\$ 12,179	PMI Total			\$ 10,972	\$ (68)	\$ 11,040	0.9%	10.3%	10.3%

2016								2015			% Points Change	
Adjusted Operating Companies Income excluding Currency	Net Revenues excluding Excise Taxes & Currency ^(a)	Adjusted Operating Companies Income Margin excluding Currency		Adjusted Operating Companies Income excluding Currency & Acquisitions	Net Revenues excluding Excise Taxes, Currency & Acquisitions ^(a)	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions		Adjusted Operating Companies Income	Net Revenues excluding Excise Taxes ^(a)	Adjusted Operating Companies Income Margin	Adjusted Operating Companies Income Margin excluding Currency	Adjusted Operating Companies Income Margin excluding Currency & Acquisitions
\$ 3,960	\$ 8,309	47.7%		\$ 3,960	\$ 8,309	47.7%	European Union	\$ 3,644	\$ 8,068	45.2%	2.5	2.5
3,855	7,600	50.7%		3,855	7,600	50.7%	EEMA	3,425	7,364	46.5%	4.2	4.2
3,144	8,689	36.2%		3,144	8,689	36.2%	Asia	2,886	8,203	35.2%	1.0	1.0
1,220	3,367	36.2%		1,220	3,367	36.2%	Latin America & Canada	1,085	3,159	34.3%	1.9	1.9
\$ 12,179	\$ 27,965	43.6%		\$ 12,179	\$ 27,965	43.6%	PMI Total	\$ 11,040	\$ 26,794	41.2%	2.4	2.4

(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

Calculation of Adjusted Operating Companies Income Margins
(\$ in millions)
(Rounded)

For the Year Ended December 31, 2015

	Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Adjusted Operating Companies Income Margin
European Union	\$ 3,576	\$ (68)	\$ 3,644	\$ 26,563	\$ 18,495	\$ 8,068	45.2%
EEMA	3,425	-	3,425	18,328	10,964	7,364	46.5%
Asia	2,886	-	2,886	19,469	11,266	8,203	35.2%
Latin America & Canada	1,085	-	1,085	9,548	6,389	3,159	34.3%
PMI Total	\$ 10,972	\$ (68)	\$ 11,040	\$ 73,908	\$ 47,114	\$ 26,794	41.2%

For the Year Ended December 31, 2016

	Operating Companies Income	Less Asset Impairment & Exit Costs	Adjusted Operating Companies Income	Net Revenues	Less Excise Taxes	Net Revenues excluding Excise Taxes	Adjusted Operating Companies Income Margin
European Union	\$ 3,994	\$ -	\$ 3,994	\$ 27,129	\$ 18,967	\$ 8,162	48.9%
EEMA	3,016	-	3,016	18,286	11,286	7,000	43.1%
Asia	3,196	-	3,196	20,531	11,850	8,681	36.8%
Latin America & Canada	938	-	938	9,007	6,165	2,842	33.0%
PMI Total	\$ 11,144	\$ -	\$ 11,144	\$ 74,953	\$ 48,268	\$ 26,685	41.8%

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 Years Ended December 31,
(Unaudited)

	2016	2015	% Change
Reported Diluted EPS	\$ 4.48	\$ 4.42	1.4%
Adjustments:			
Asset impairment and exit costs	-	0.03	
Tax items	-	(0.03)	
Adjusted Diluted EPS	\$ 4.48	\$ 4.42	1.4%
Less:			
Currency impact	(0.46)		
Adjusted Diluted EPS, excluding Currency	\$ 4.94	\$ 4.42	11.8%

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 Quarters and Years Ended December 31,
(\$ in millions)
(Unaudited)

	For the Quarters Ended December 31,			For the Years Ended December 31,		
	2016	2015	% Change	2016	2015	% Change
Net cash provided by operating activities^(a)	\$ 2,149	\$ 1,872	14.8%	\$ 8,077	\$ 7,865	2.7%
Less:						
Capital expenditures	438	324		1,172	960	
Free cash flow	\$ 1,711	\$ 1,548	10.5%	\$ 6,905	\$ 6,905	– %
Less:						
Currency impact	(338)			(340)		
Free cash flow, excluding currency	\$ 2,049	\$ 1,548	32.4%	\$ 7,245	\$ 6,905	4.9%

PHILIP MORRIS INTERNATIONAL INC. and Subsidiaries

Reconciliation of Non-GAAP Measures



PHILIP MORRIS
INTERNATIONAL

Selected Financial Data by Product Category
(\$ in millions)
(Unaudited)

	2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full-Year
<u>Net Revenues</u>					
Combustible Products ^(a)	\$ 16,732	\$ 18,917	\$ 19,721	\$ 18,844	\$ 74,214
Reduced-Risk Products ^(b)	56	124	214	345	739 ^(c)
PMI Total	\$ 16,788	\$ 19,041	\$ 19,935	\$ 19,189	\$ 74,953
<u>Net Revenues excluding Excise Taxes^(e)</u>					
Combustible Products	\$ 6,028	\$ 6,526	\$ 6,770	\$ 6,628	\$ 25,952
Reduced-Risk Products	55	123	212	343	733 ^(d)
PMI Total	\$ 6,083	\$ 6,649	\$ 6,982	\$ 6,971	\$ 26,685

(a) Net revenue amounts for our Combustible Products refer to the operating revenues generated from the sale of these products, net of sales and promotion incentives. These net revenue amounts consist of the sale of our cigarettes and other tobacco products combined. Other tobacco products primarily include tobacco for roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos and do not include Reduced-Risk Products

(b) Net revenue amounts for our Reduced-Risk Products refer to the operating revenues generated from the sale of these products, net of sales and promotion incentives. These net revenue amounts consist of the sale of our 1) heat-not-burn consumables, which include *HeatSticks*, our *IQOS* devices and related accessories, and 2) other nicotine-containing products, which primarily include our e-vapor products. Reduced-Risk Products 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. We have a range of Reduced-Risk Products in various stages of development, scientific assessment and commercialization. Because our Reduced-Risk Products do not burn tobacco, they produce far lower quantities of harmful and potentially harmful compounds than found in cigarette smoke

(c) Primarily in Asia Region. Reduced-Risk Products net revenues in our Asia Region are as follows: Q1: \$47, Q2: \$111, Q3: \$196, Q4: \$312 and full year: \$666

(d) Primarily in Asia Region. Reduced-Risk Products net revenues, excluding excise taxes, in our Asia Region are as follows: Q1: \$47, Q2: \$111, Q3: \$196, Q4: \$312 and full year: \$666

(e) PMI often collects excise taxes from its customers and then remits them to governments, and, in those circumstances, PMI includes the excise taxes in its net revenues and in excise taxes on products. In some jurisdictions, including Japan, PMI is not responsible for collecting excise taxes



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Consumer Analyst Group of New York (CAGNY) Conference

February 22, 2017