



PHILIP MORRIS
INTERNATIONAL

2018 INVESTOR DAY

Designing a Smoke-Free Future

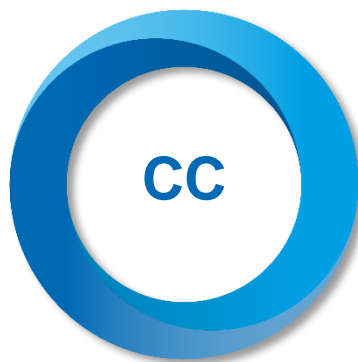
Investor Day

Lausanne, September 27, 2018

Jacek Olczak
Chief Operating Officer

OPERATING **AROUND THE ADULT CONSUMER**

Operating Around the Adult Consumer



Combustible
Cigarette
Performance

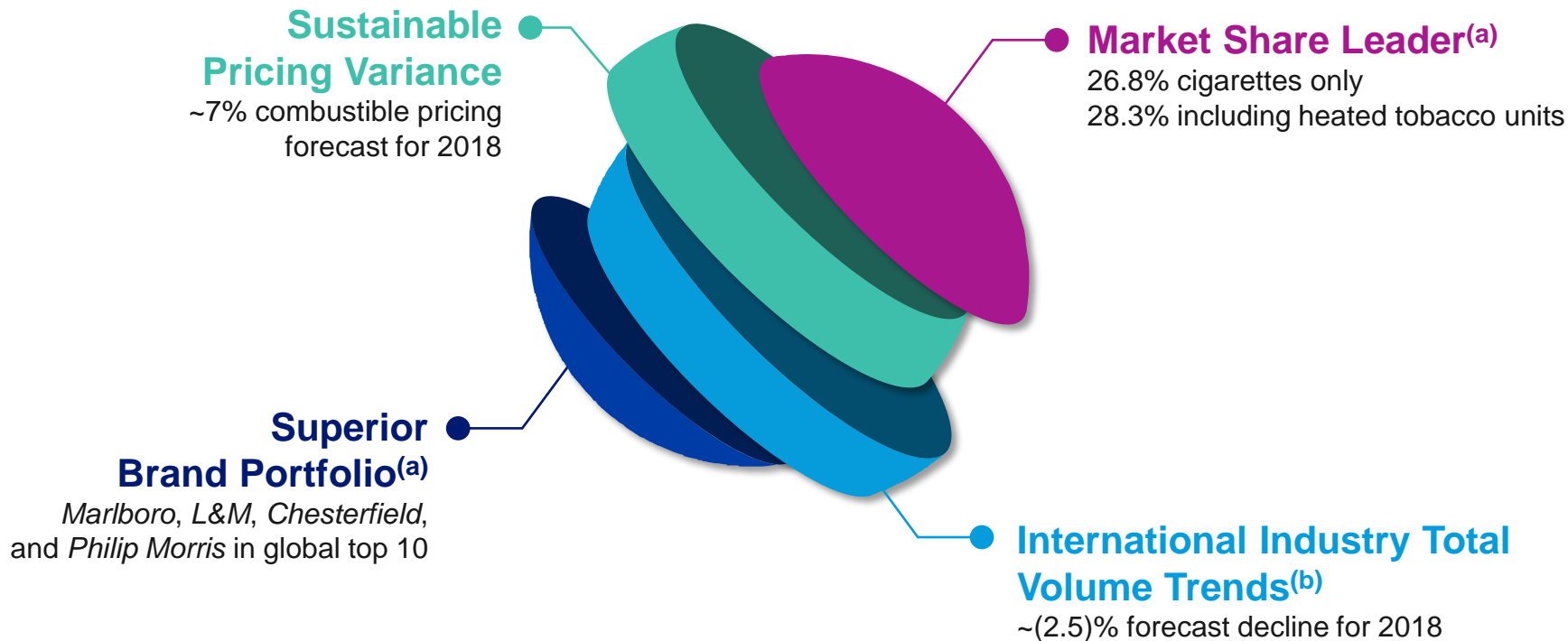


Reduced-Risk
Product
Performance



Upskilling
Our
Organization

Our Eye is On the Ball: Robust Cigarette Fundamentals



(a) YTD August, 2018. Excluding China and the U.S. Reflects cigarettes and heated tobacco units

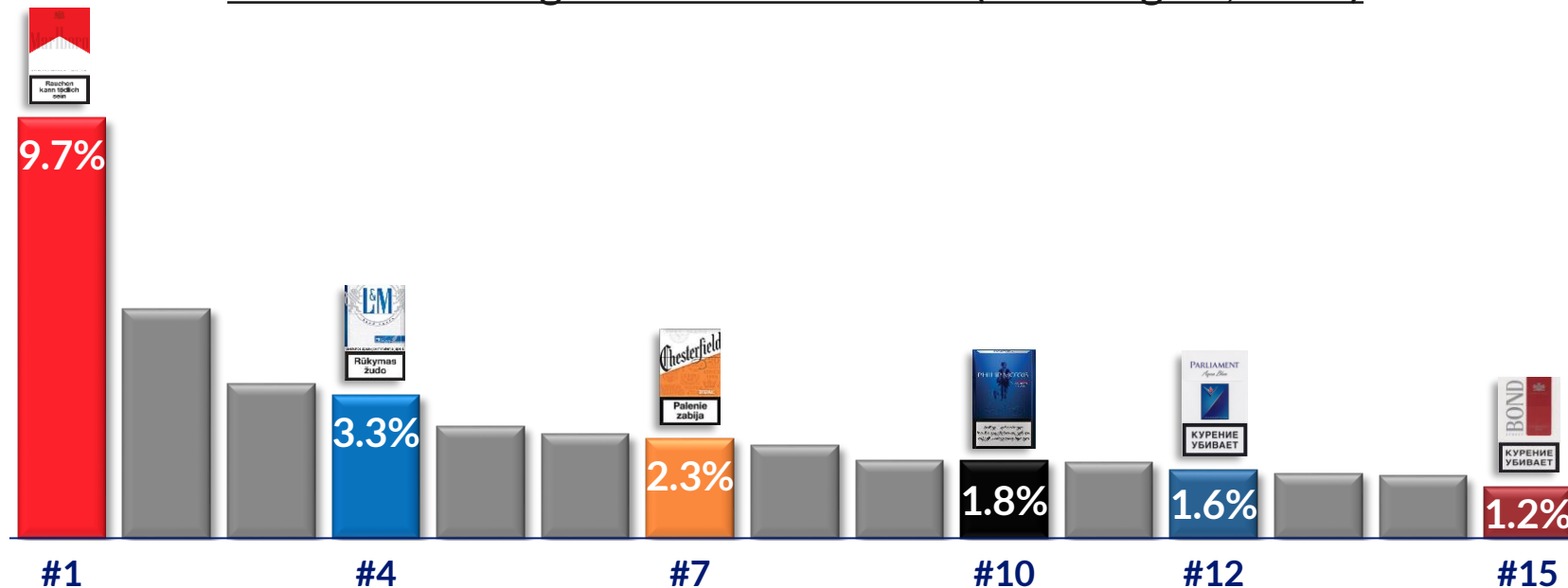
(b) Excluding China and the U.S. Reflects cigarettes and heated tobacco units

Source: PMI Financials or estimates

Our Strong Cigarette Brand Portfolio



International Cigarette Market Share (YTD August, 2018)



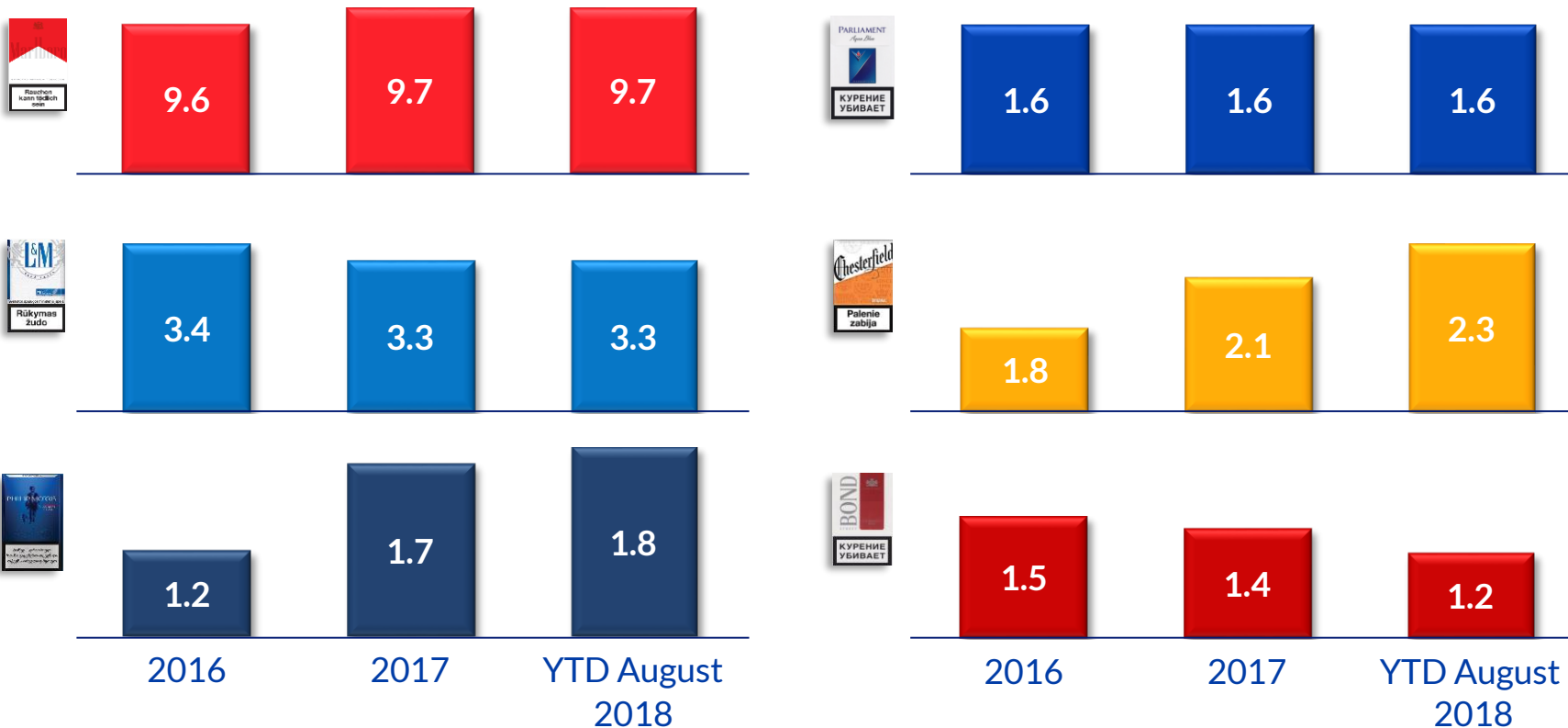
We Own Six of the World's Top 15 International Cigarette Brands

Note: Excluding China and the U.S. Reflects sales volume of PMI cigarettes as a percentage of cigarette industry sales volume

Source: PMI Financials or estimates

Solid Global Cigarette Brand Share of Market

(%)



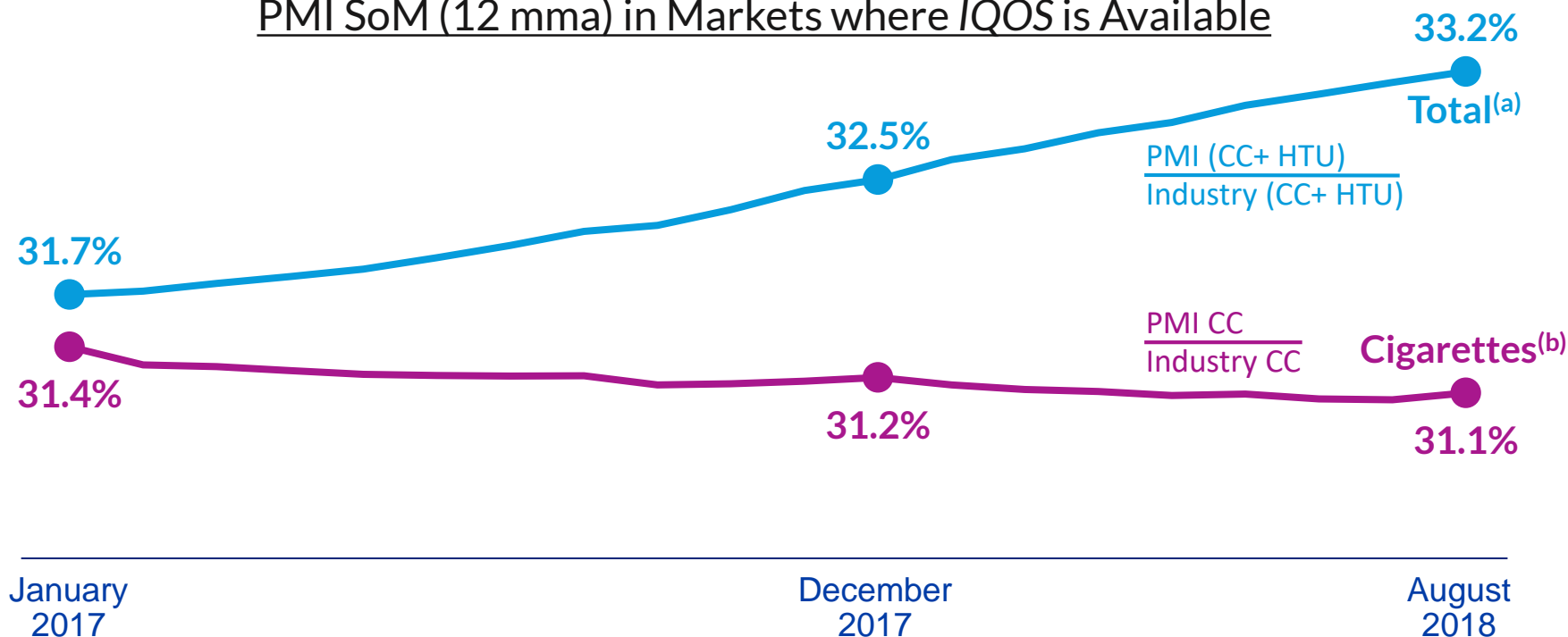
Note: Excluding China and the U.S. Reflects sales volume of PMI cigarettes as a percentage of cigarette industry sales volume

Source: PMI Financials or estimates

Cigarette SoM Resilient Despite Investment Shift to RRP's



PMI SoM (12 mma) in Markets where IQOS is Available



(a) Sales volume of PMI cigarettes and HTUs as a percentage of the total industry sales volume for cigarettes and HTUs in the markets where IQOS was available at the end of August 2018

(b) Sales volume of PMI cigarettes as percentage of the total industry sales volume for cigarettes in the markets where IQOS was available at the end of August 2018

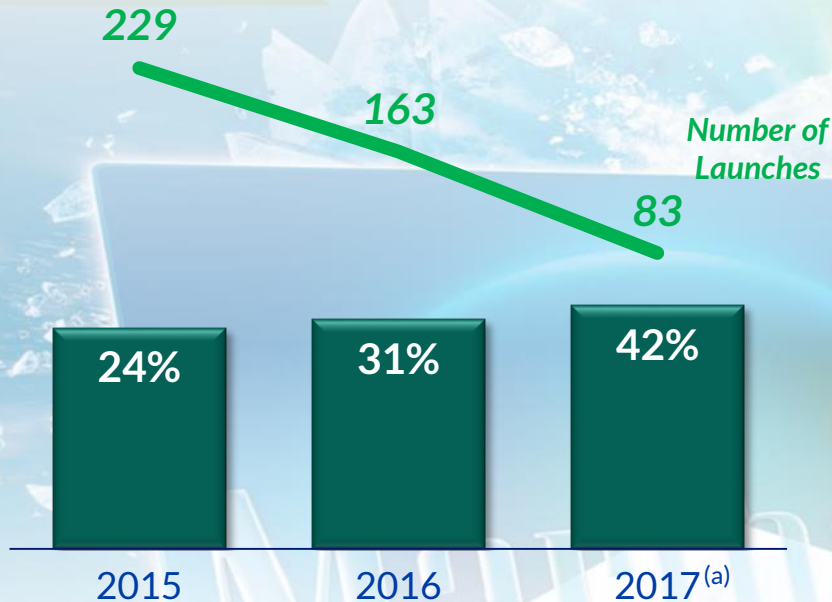
Source: PMI Financials or estimates

Focused Product Launches Yielding Higher Success Rate

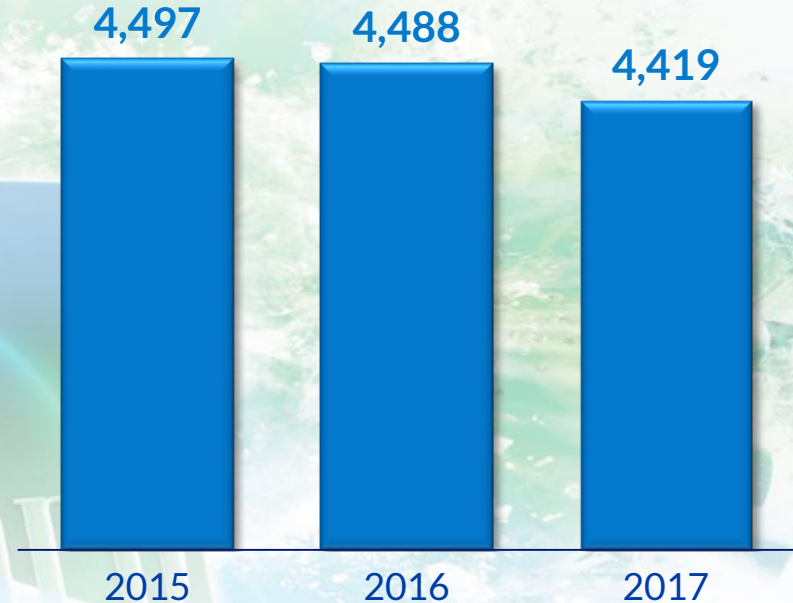


Strike Rate (%) & Number of Launches

(0.7% SoM in 12 months after launch)



Number of SKUs

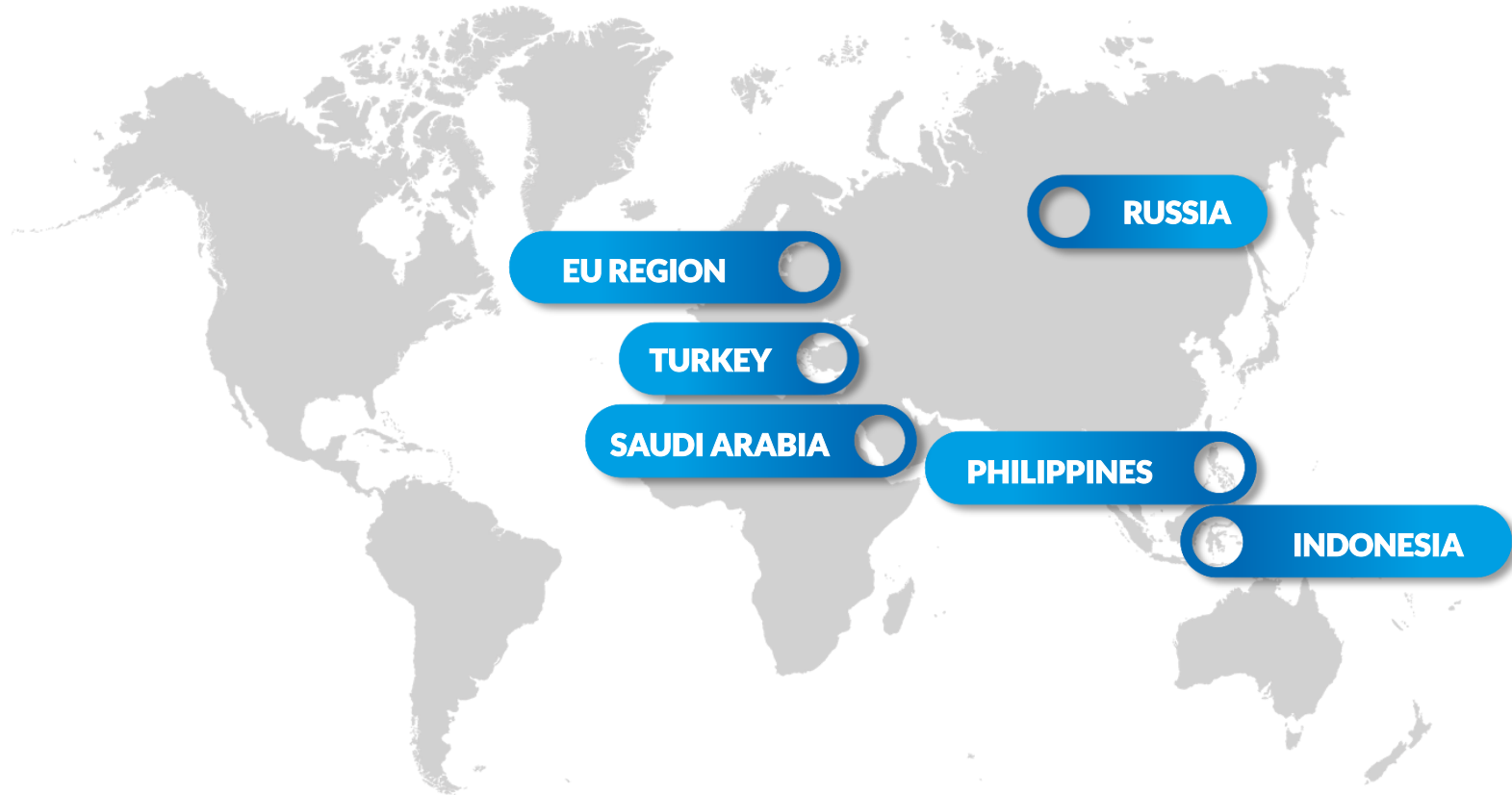


(a) Based on latest available share for 2017 launches

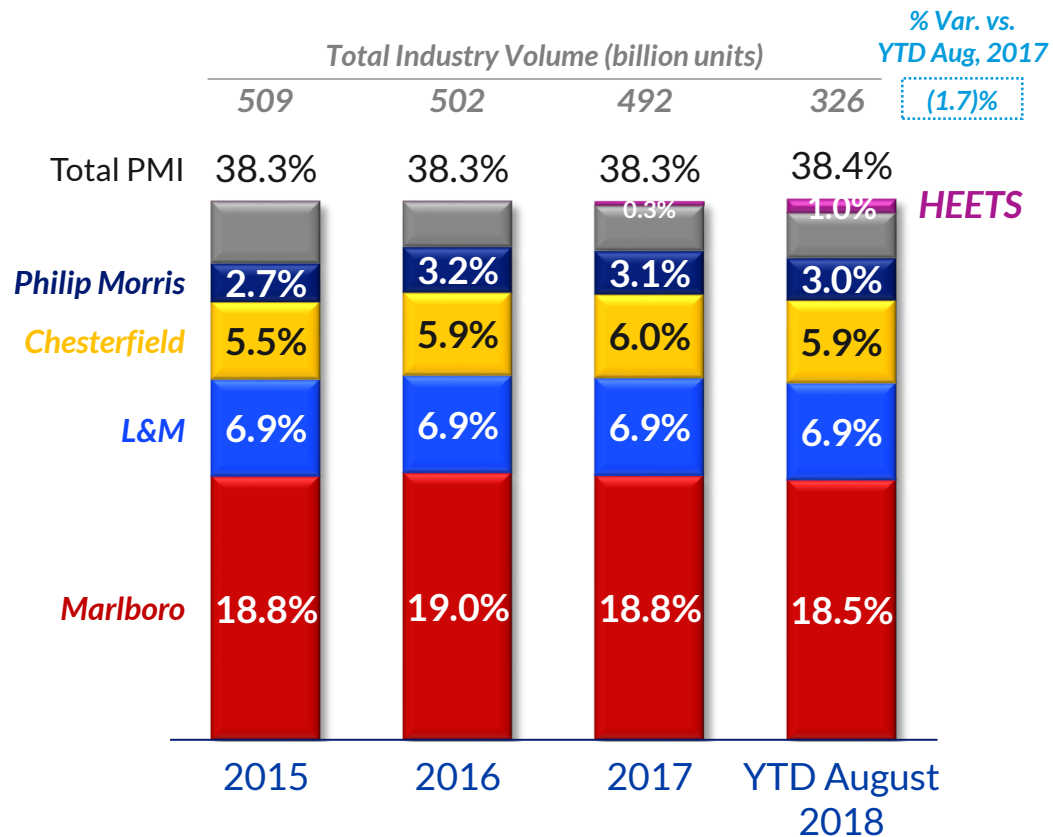
Note: Strike rate is defined as % of innovations meeting a pre-defined threshold, 12 months after launch

Source: PMI Financials or estimates

Region/Market Snapshot



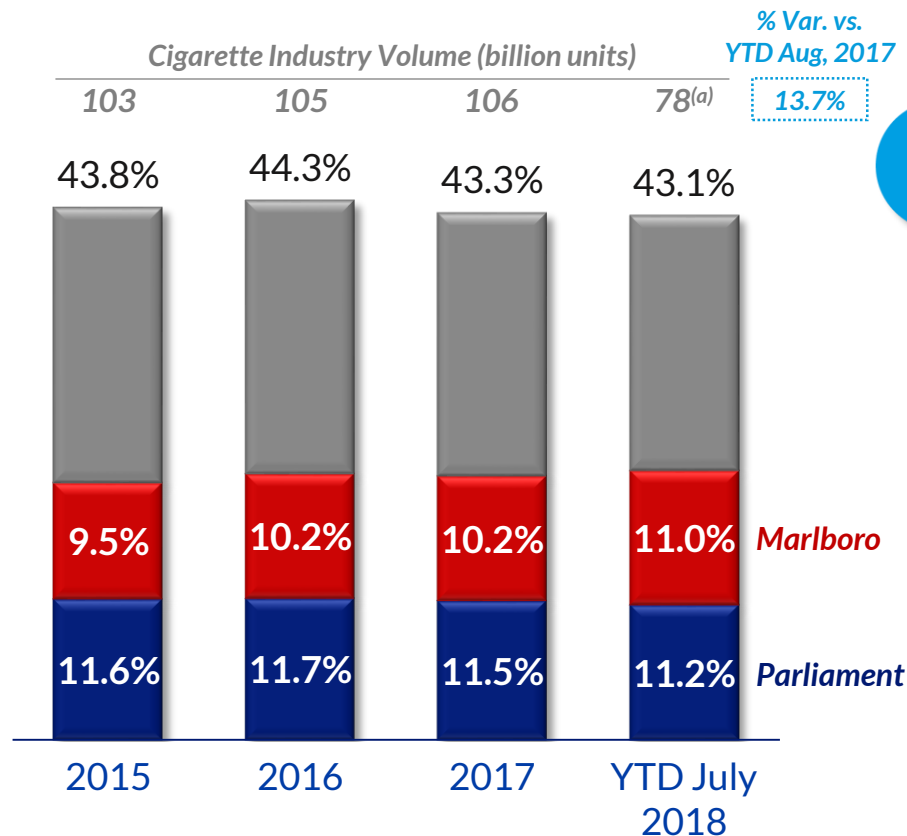
Strong Total Market Share Performance



EU REGION

Note: Total industry volume reflects cigarettes and heated tobacco units
Source: PMI Financials or estimates

Solid Business Fundamentals



TURKEY

- Amendment to cigarette excise tax structure on June 30, 2018:

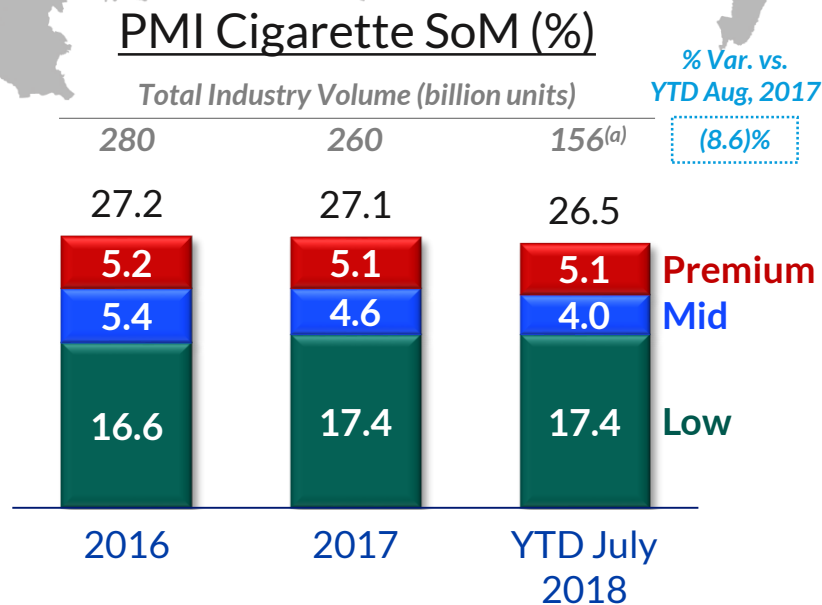
- Increased specific component
- Reduced ad valorem component

(a) YTD August, 2018

Source: PMI Financials or estimates, and Nielsen

Improved Pricing

- Strong pricing mainly driven by the annualization of pricing announced in H2, 2017, and further supported by price increases earlier this year
- July 1, 2018 excise tax increase with a pass-on of RUB 5/pack
- PMI HTU national IMS share of 0.7% YTD July, 2018



(a) YTD August, 2018

Note: Total industry volume reflects cigarettes and heated tobacco units. Cigarette share is based on cigarette industry only. Premium includes above premium. Low includes super-low

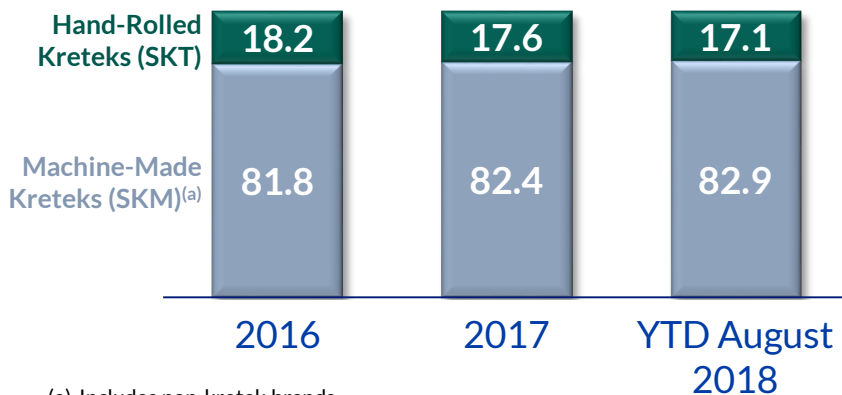
Source: PMI Financials or estimates, and Nielsen

Solid SoM Performance Supported by Marlboro

- PMI cigarette share growth driven by strong performances of *Marlboro Filter Black* and *Dji Sam Soe Magnum Mild*

INDONESIA

Industry Segment Split (%)

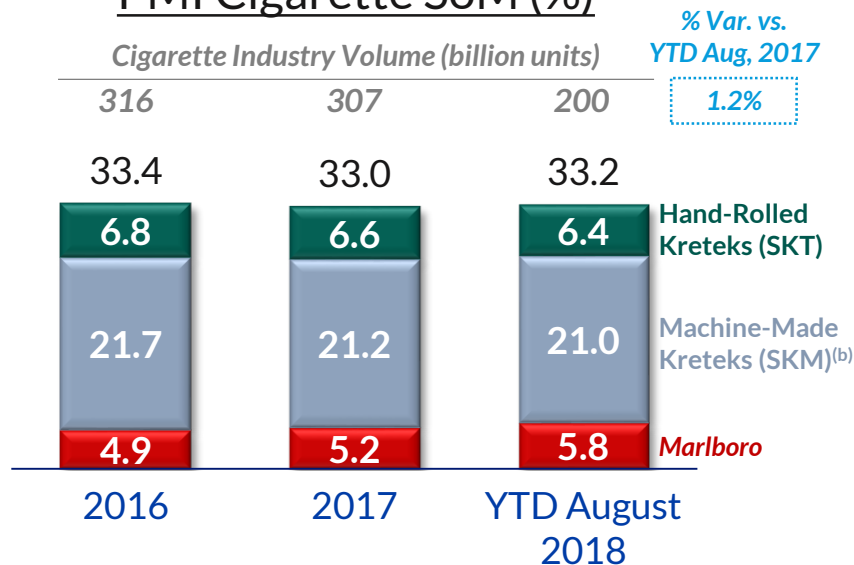


(a) Includes non-kretek brands

(b) Excludes *Marlboro* SKM

Source: PMI Financials or estimates

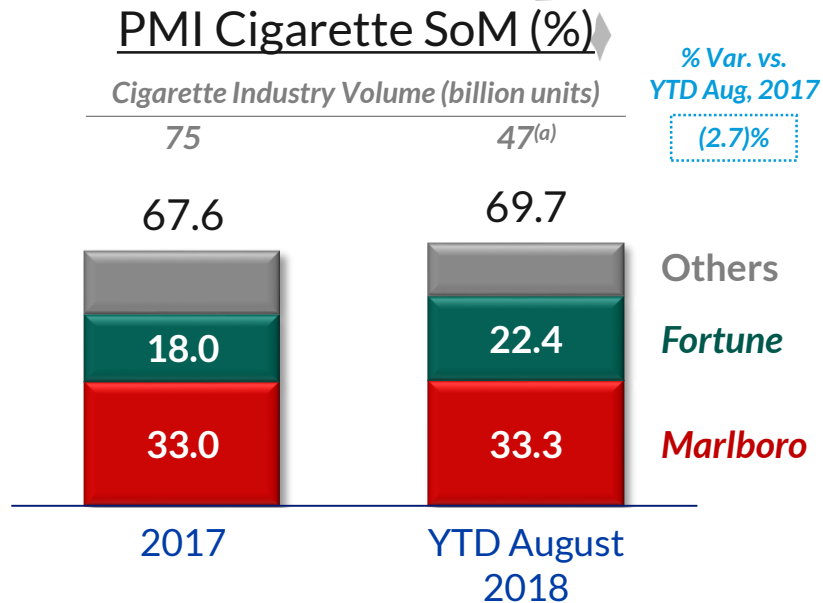
PMI Cigarette SoM (%)



Gaining Share and Increasing Profitability

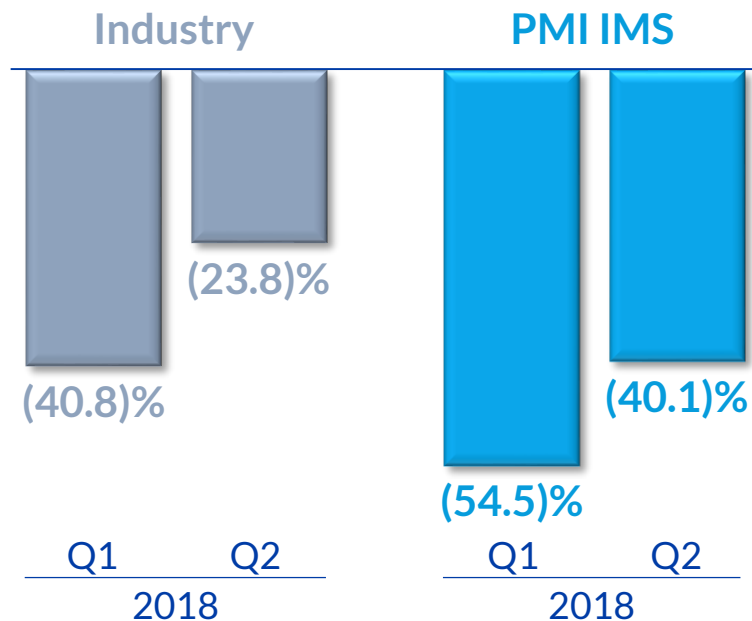
- Further profit growth from excise tax-driven price increases
- Strong PMI share growth led by:
 - *Fortune*: benefiting from narrowed price gaps vs. lower-priced brands
 - *Marlboro*: solid performance in spite of its price increase in December 2017
- Excise tax increase of PHP 2.50/pack (+7.7%) effective July 2018

PHILIPPINES



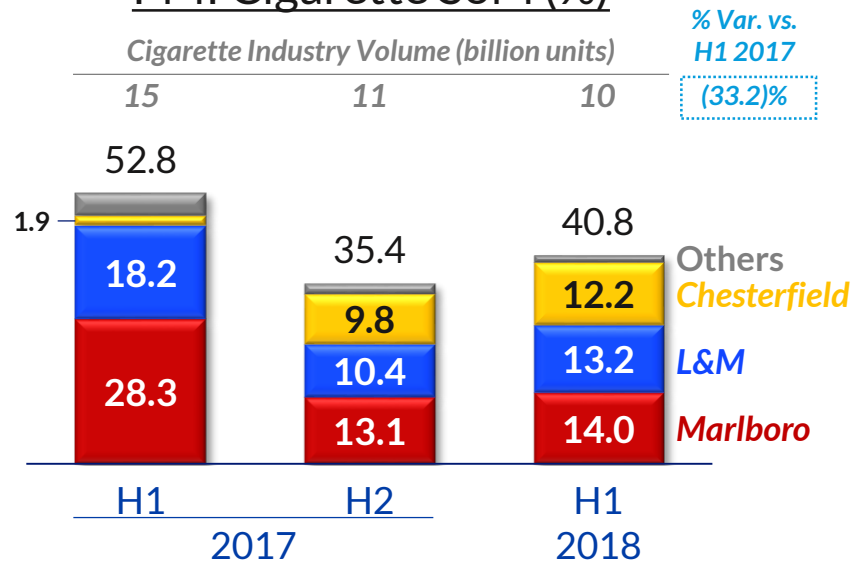
Sequential Improvement

Cigarette Volume (Variance vs. PY)

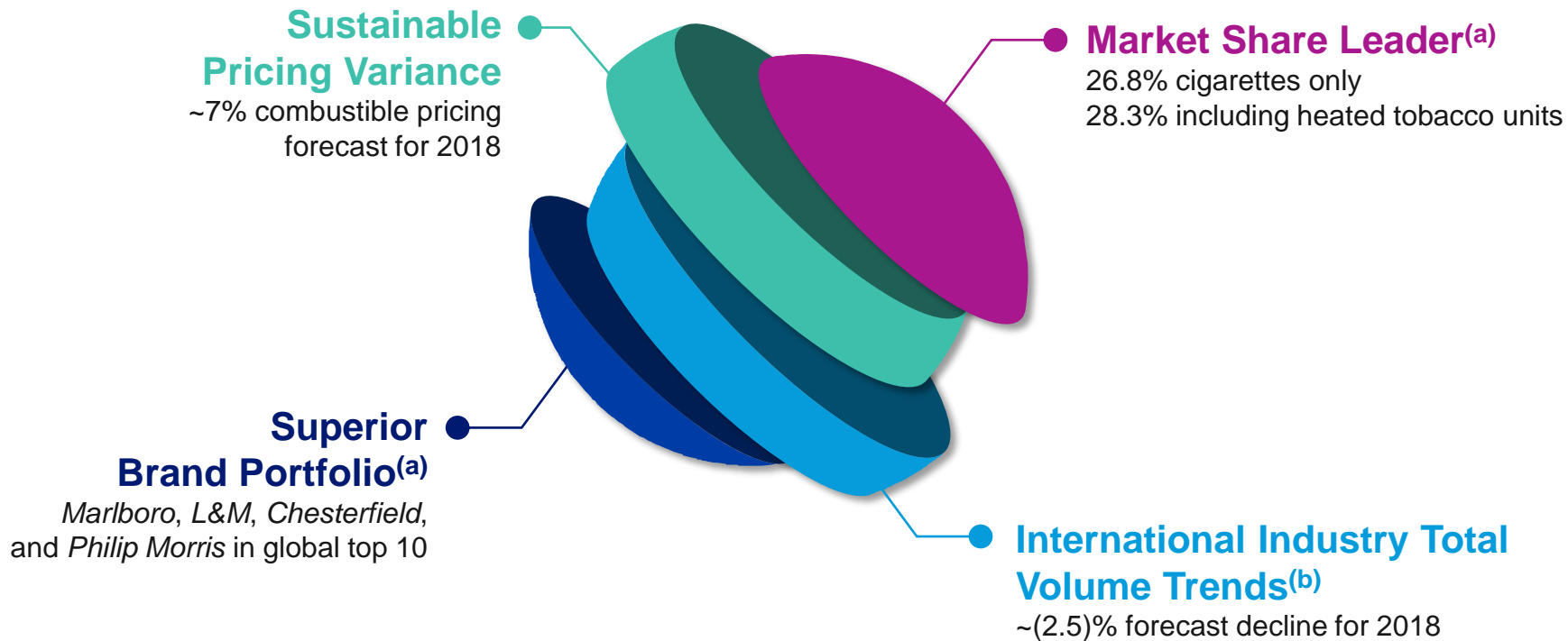


SAUDI ARABIA

PMI Cigarette SoM (%)



Our Eye is On the Ball: Robust Cigarette Fundamentals



(a) YTD August, 2018. Excluding China and the U.S. Reflects cigarettes and heated tobacco units

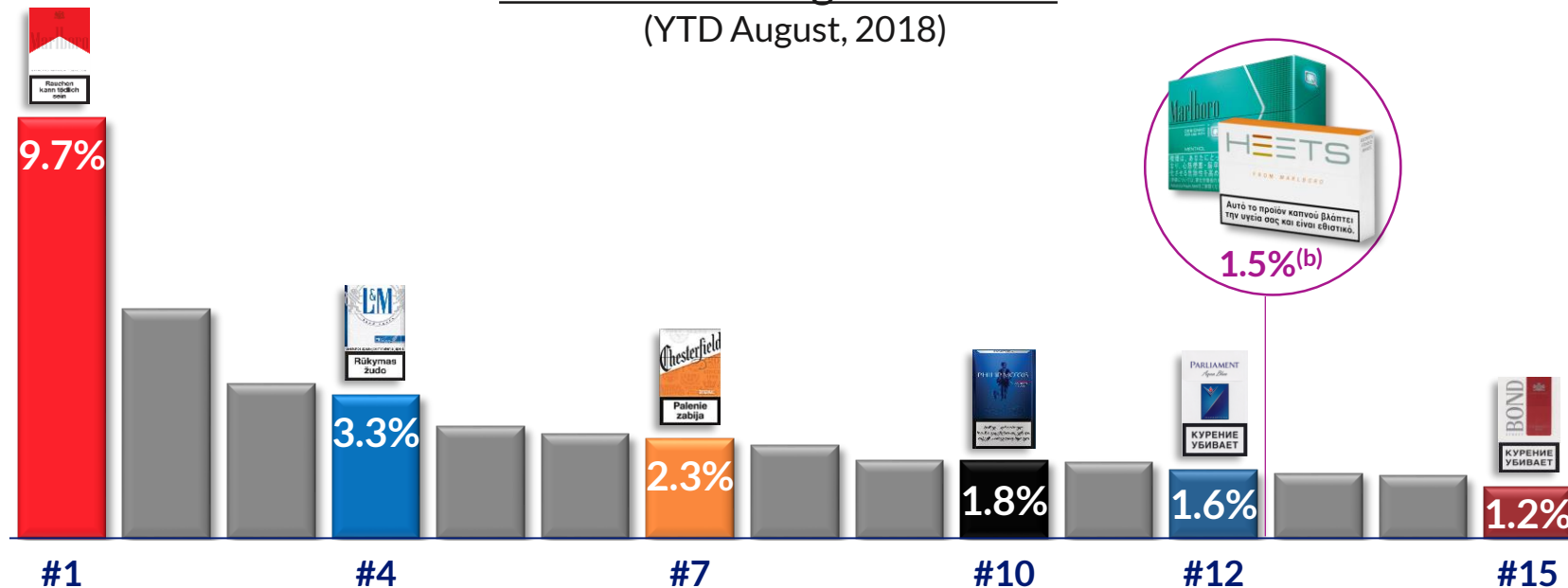
(b) Excluding China and the U.S. Reflects cigarettes and heated tobacco units

Source: PMI Financials or estimates

Everything Else Comes On Top



International Cigarette SoM^(a) (YTD August, 2018)



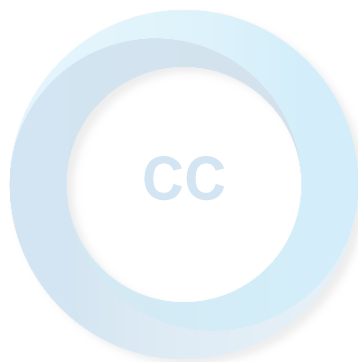
(a) Sales volume of cigarette brand as a percentage of the total industry sales volume for cigarettes

(b) Sales volume of PMI HTUs as a percentage of the total industry sales volume for cigarettes and HTUs

Note: Excluding China and the U.S.

Source: PMI Financials or estimates

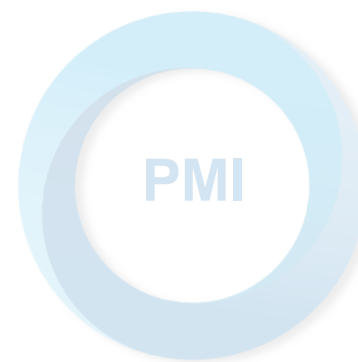
Operating Around the Adult Consumer



Combustible
Cigarette
Performance



Reduced-Risk
Product
Performance

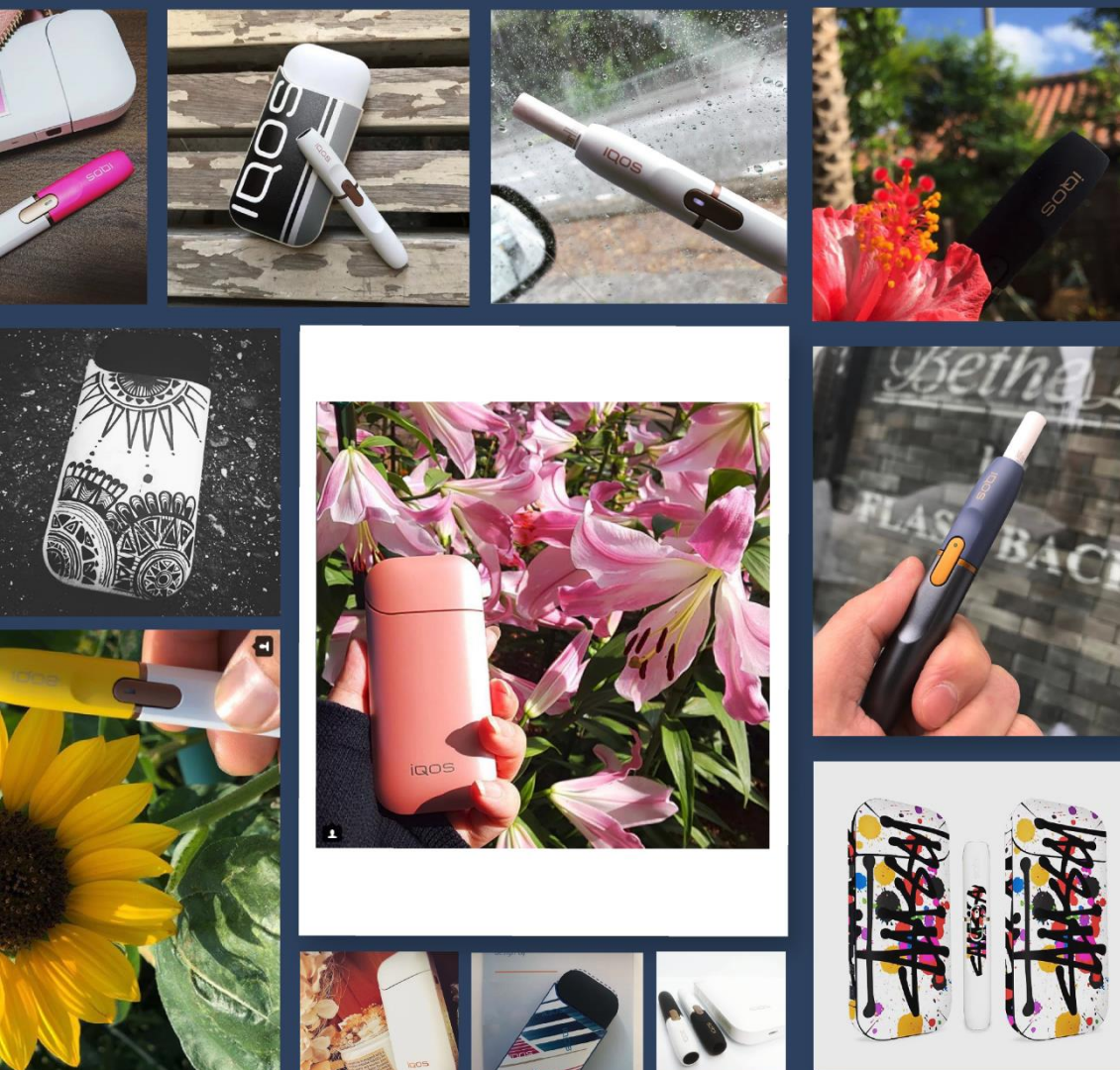


Upskilling
Our
Organization

Every Consumer Matters

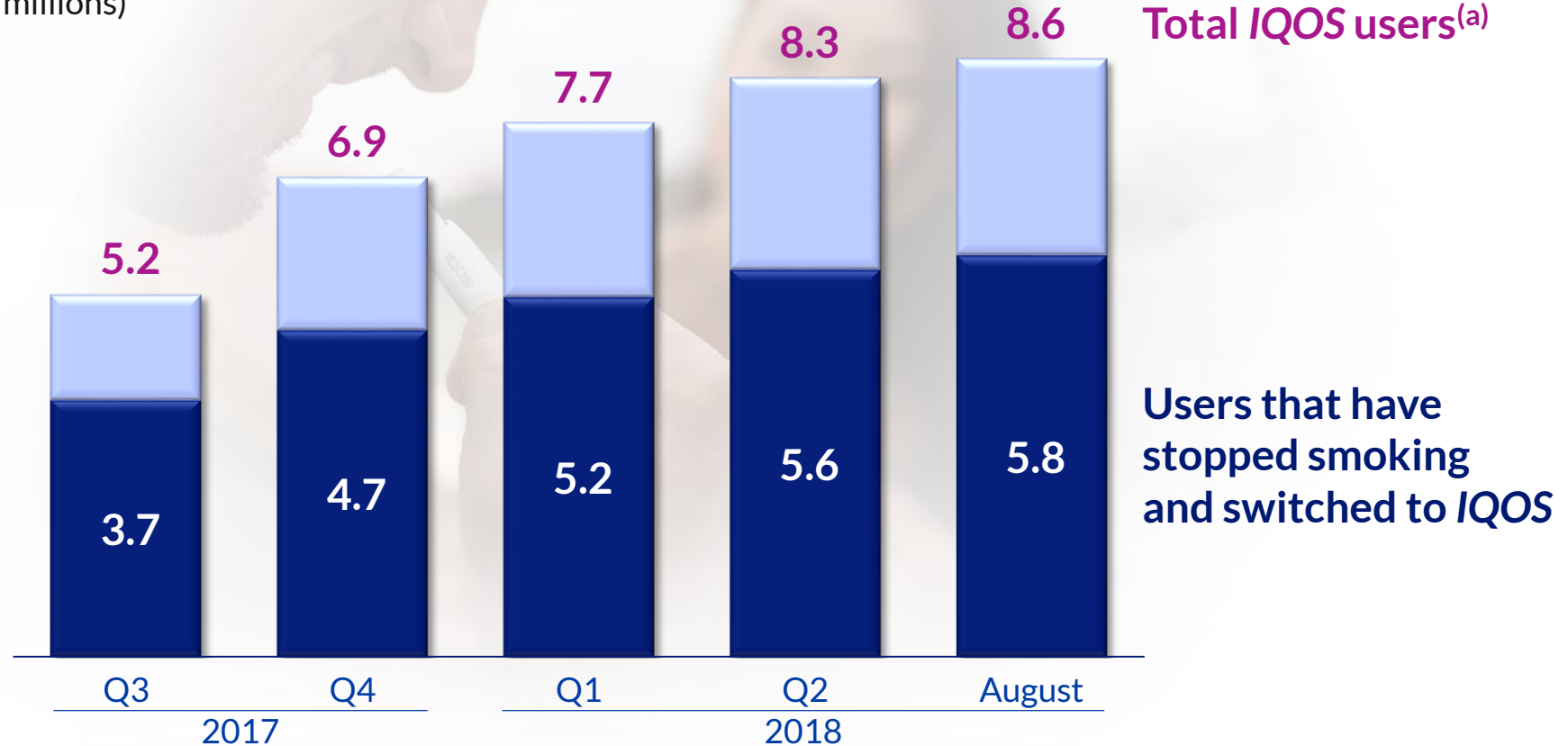
Approximately
5.8 million
adult consumers
around the world
have already
stopped smoking
and switched to *IQOS*

Note: Status at the end of August 2018
Source: PMI Financials or estimates, IQOS user panels, and PMI Market Research



Continued IQOS User Growth

(in millions)

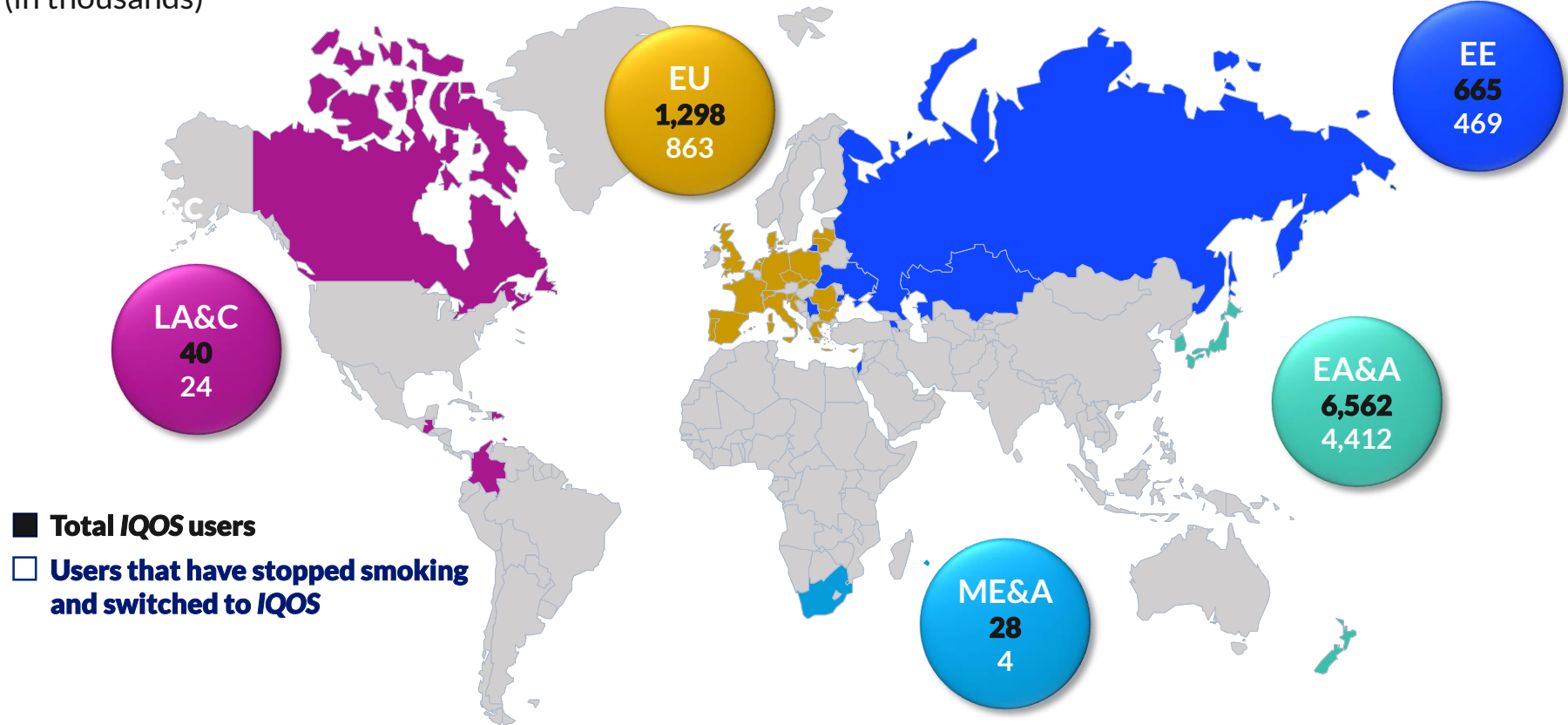


(a) Total IQOS users means the estimated number of Legal Age (minimum 18-year-old) who have used *HeatSticks/HEETS* for at least 5% of their daily tobacco consumption over the past seven days

Source: PMI Financials or estimates, and IQOS user panels and PMI Market Research

Total IQOS Users by Region

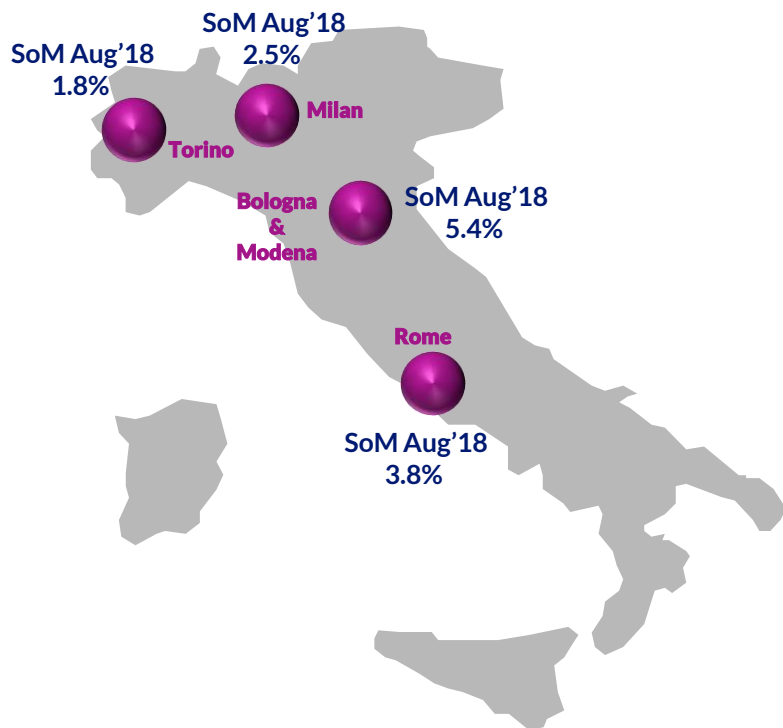
(in thousands)



Note: Status at the end of August 2018

Source: PMI Financials or estimates, IQOS user panels and PMI Market Research

IQOS in Italy



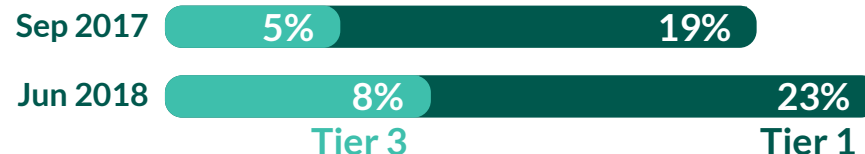
Total IQOS Users (in thousands)



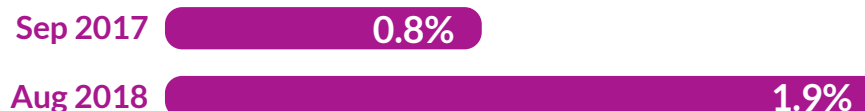
IQOS Conversion Rate (>95%)



Awareness Level



IMS SoM



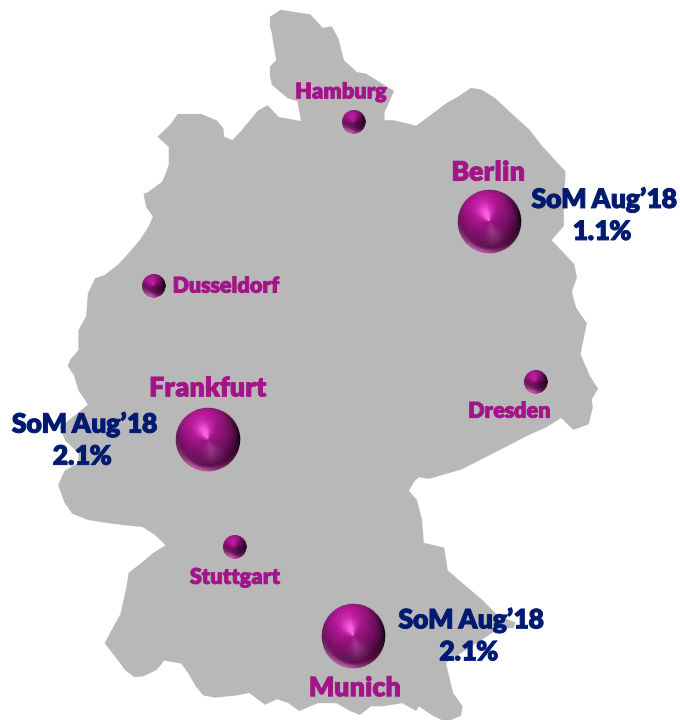
Notes: City share represents offtake share

Tier 1 Awareness: I have heard or seen IQOS and or HEETS

Tier 3 Awareness: I have heard of IQOS and HEETS, understand correctly what IQOS is or its benefits are and I find at least 1 benefit highly relevant

Source: PMI Financials or estimates, IQOS user panels and PMI Market Research

IQOS in Germany



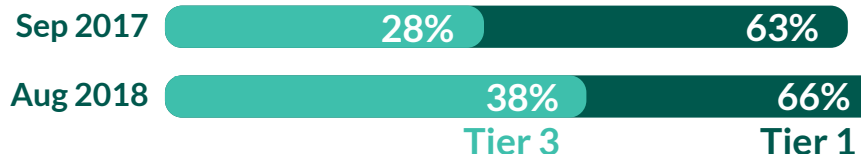
Total IQOS Users (in thousands)



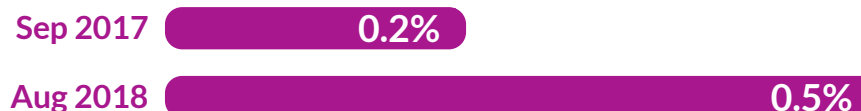
IQOS Conversion Rate (>95%)



Awareness Level (3 cities)



IMS SoM



Notes: City share represents offtake share

Source: PMI Financials or estimates, IQOS user panels and PMI Market Research

IQOS in Greece



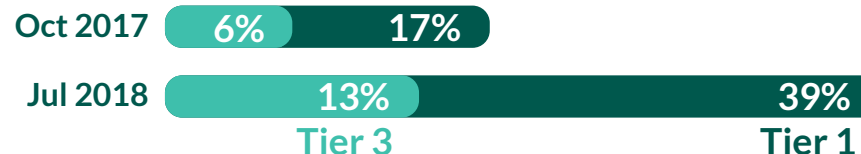
Total IQOS Users (in thousands)



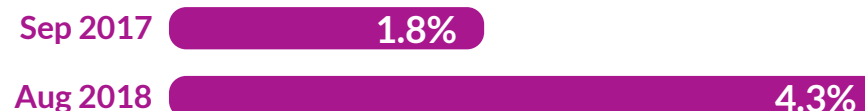
IQOS Conversion Rate (>95%)



Awareness Level



IMS SoM



Notes: City share represents offtake share

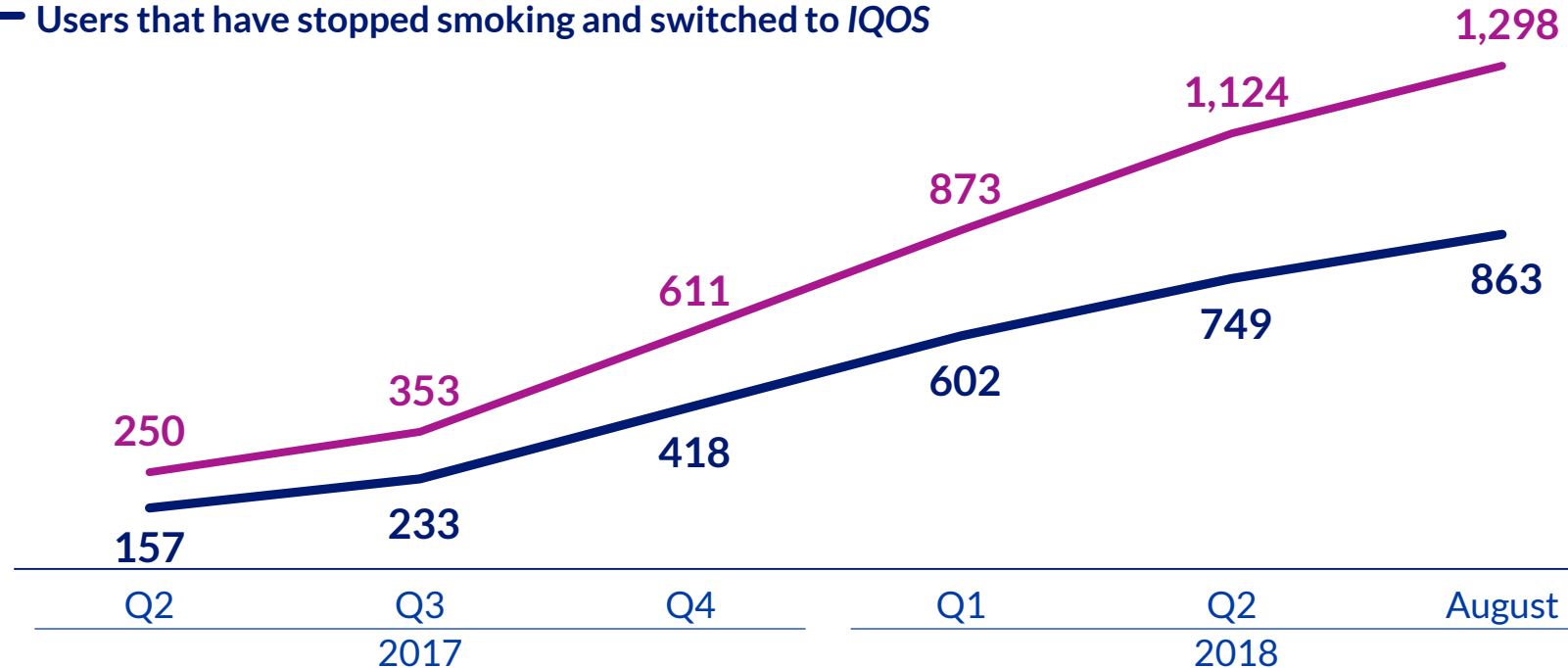
Source: PMI Financials or estimates, IQOS user panels and PMI Market Research

Growing IQOS User Base in the EU Region

(in thousands)

— Total IQOS users

— Users that have stopped smoking and switched to IQOS



IQOS in Russia



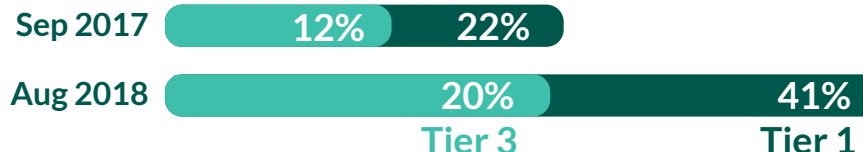
Total IQOS Users (in thousands)



IQOS Conversion Rate (>95%)



Awareness Level (Moscow)



IMS SoM



Notes: City share represents offtake share.

Source: PMI Financials or estimates, IQOS user panels and PMI Market Research

IQOS in South Korea



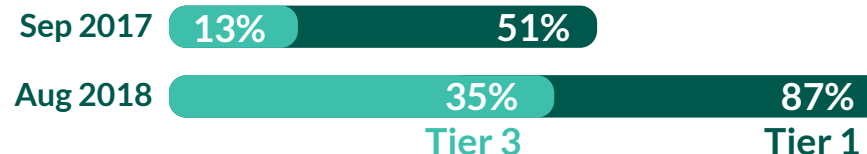
Total IQOS Users (in thousands)



IQOS Conversion Rate (>95%)



Awareness Level



IMS SoM



IQOS in Japan



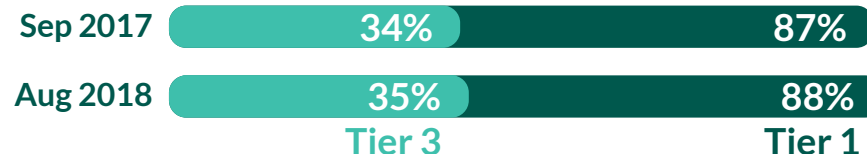
Total IQOS Users (in thousands)



IQOS Conversion Rate (>95%)



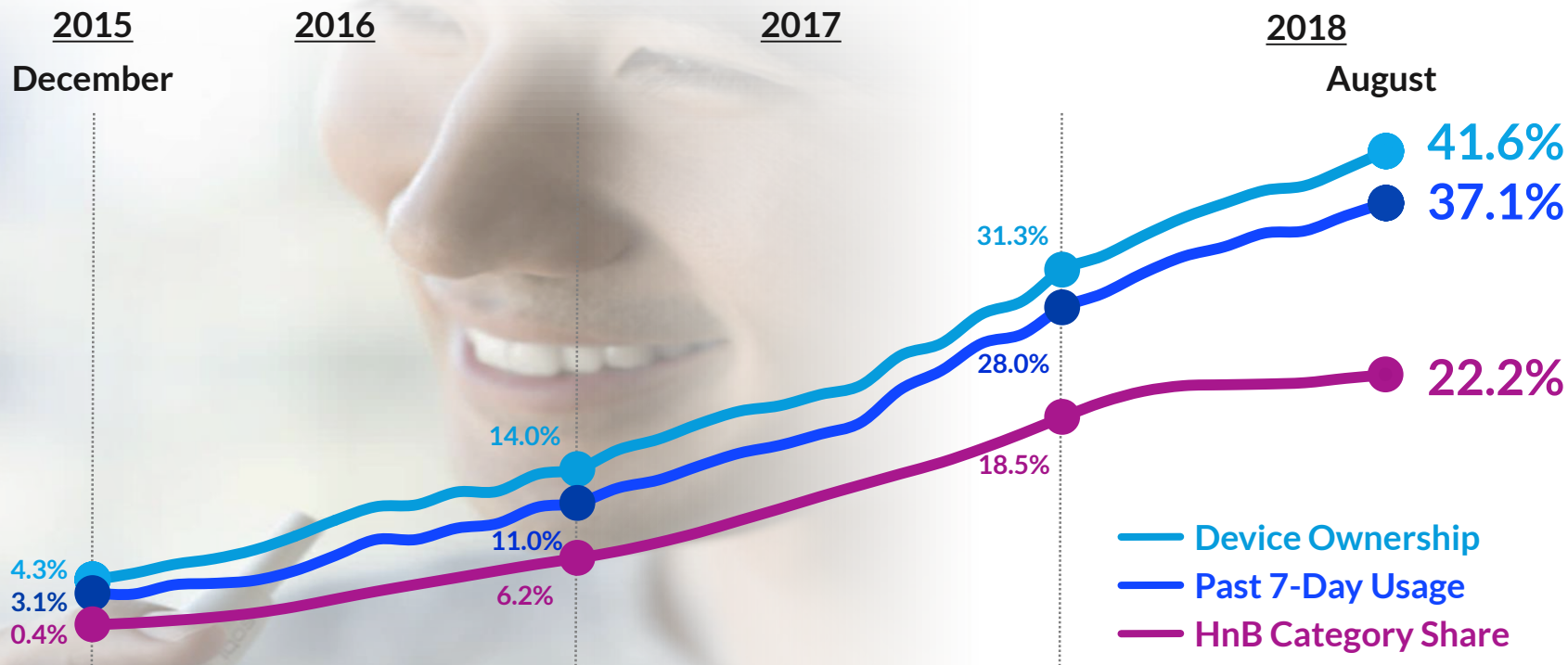
Awareness Level



IMS SoM



Japan: Market Opportunity for Smoke-Free Alternatives is Real



Note: All numbers reflect a three-month moving average

Device ownership of any heated tobacco product (IQOS, glo, Ploom TECH) among all adult tobacco users in Japan

Past 7-day usage of any heated tobacco product (IQOS, glo, Ploom TECH) among all adult tobacco users in Japan

HnB category share represent selected C-Store sales volume for HTUs as a percentage of the total retail sales volume for cigarettes and HTUs in these C-Stores

Source: PMI Financials or estimates, IQOS user panels and PMI Market Research

Initiatives in Japan



1



2.4 Plus Improved Device

2



Increased Second Holder Penetration

3



Simplified Warranty Registration Process
Improved Response Time

4



Campaign "5 Million"

5



New IQOS Devices

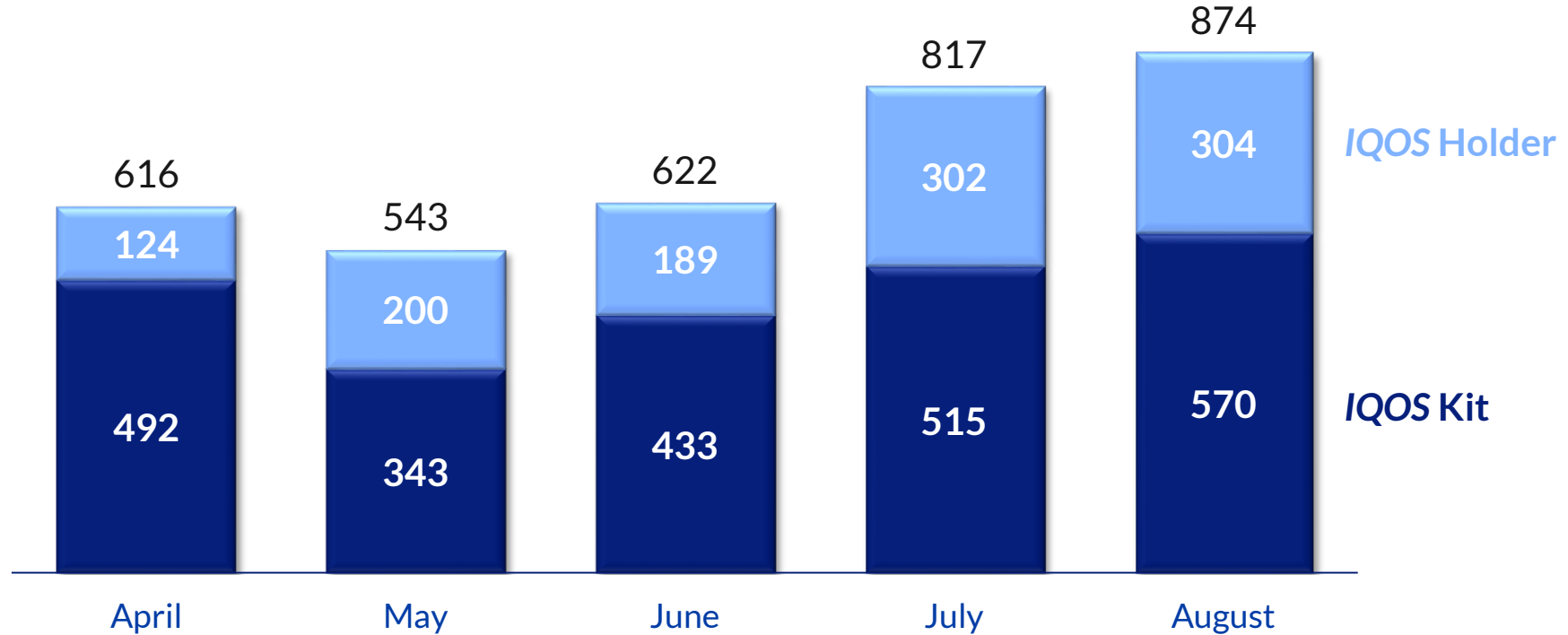
6



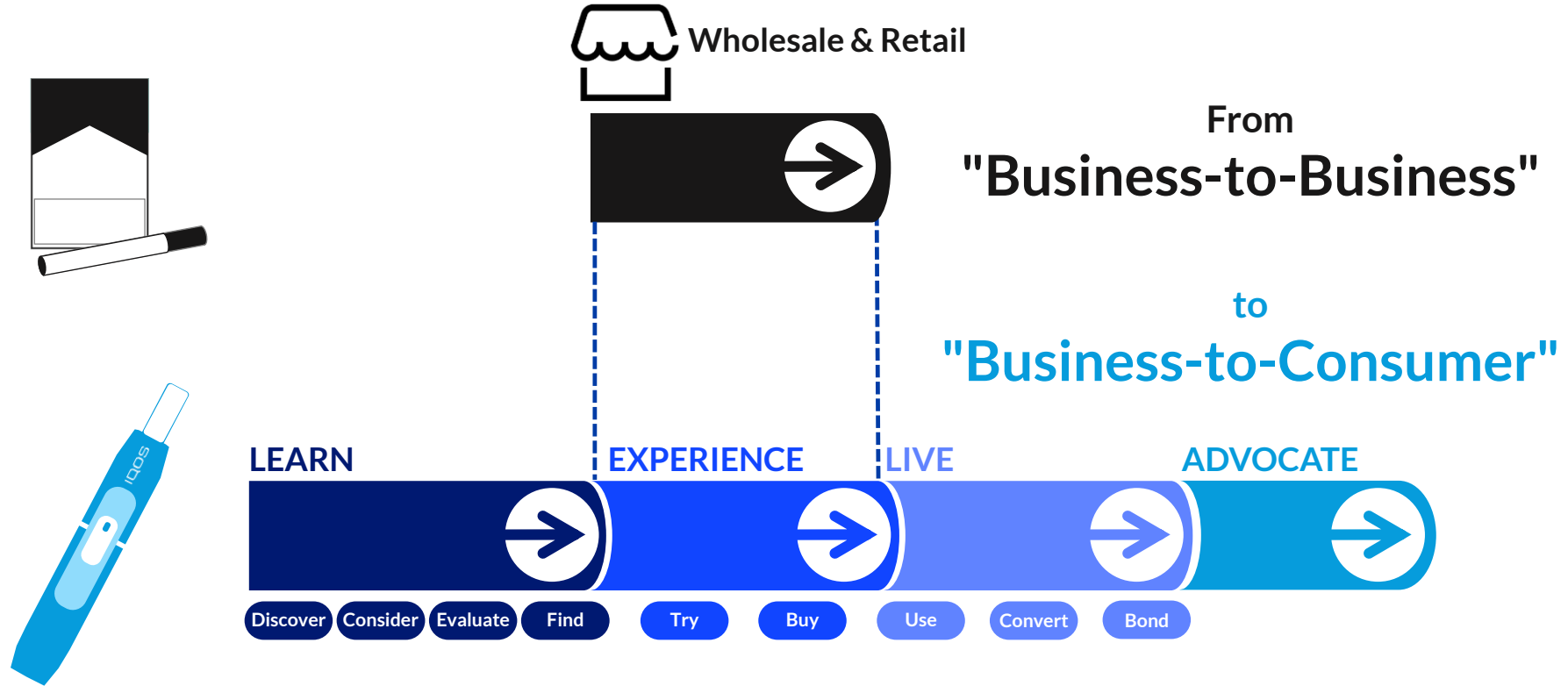
Stronger-Tasting HTU Variants

2018 IMS Evolution for IQOS Kit and Holder – Japan

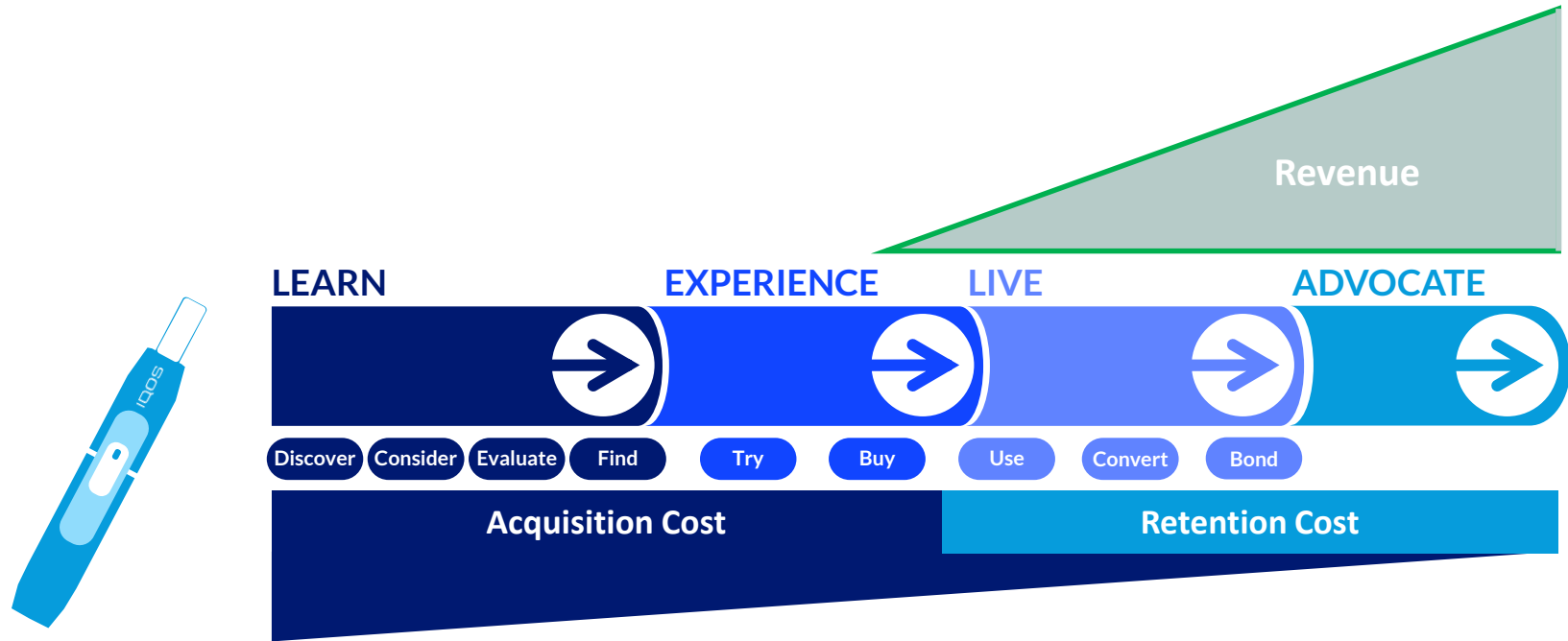
(in thousands)



Increasing Interactions with Adult Consumers

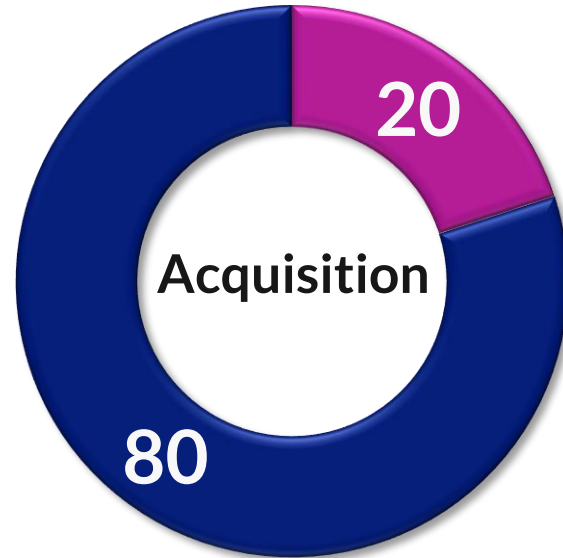


Investing for Revenue Growth



RRP Commercial Investment at Market Level

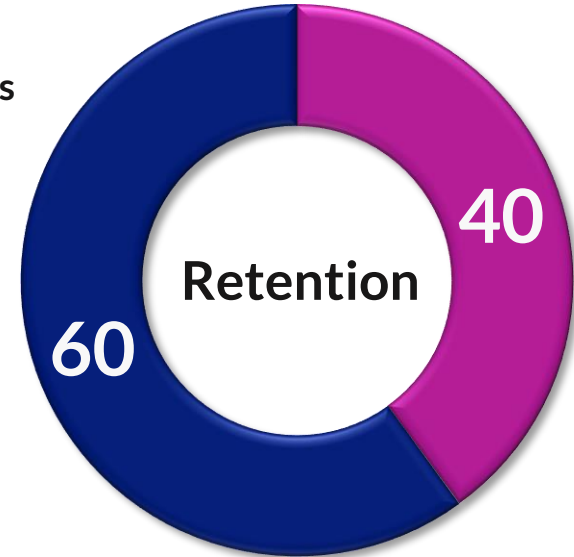
(2017 % split)



Variable
IQOS Coaches
Registration Incentive
Referral Programs
Marketing & Events

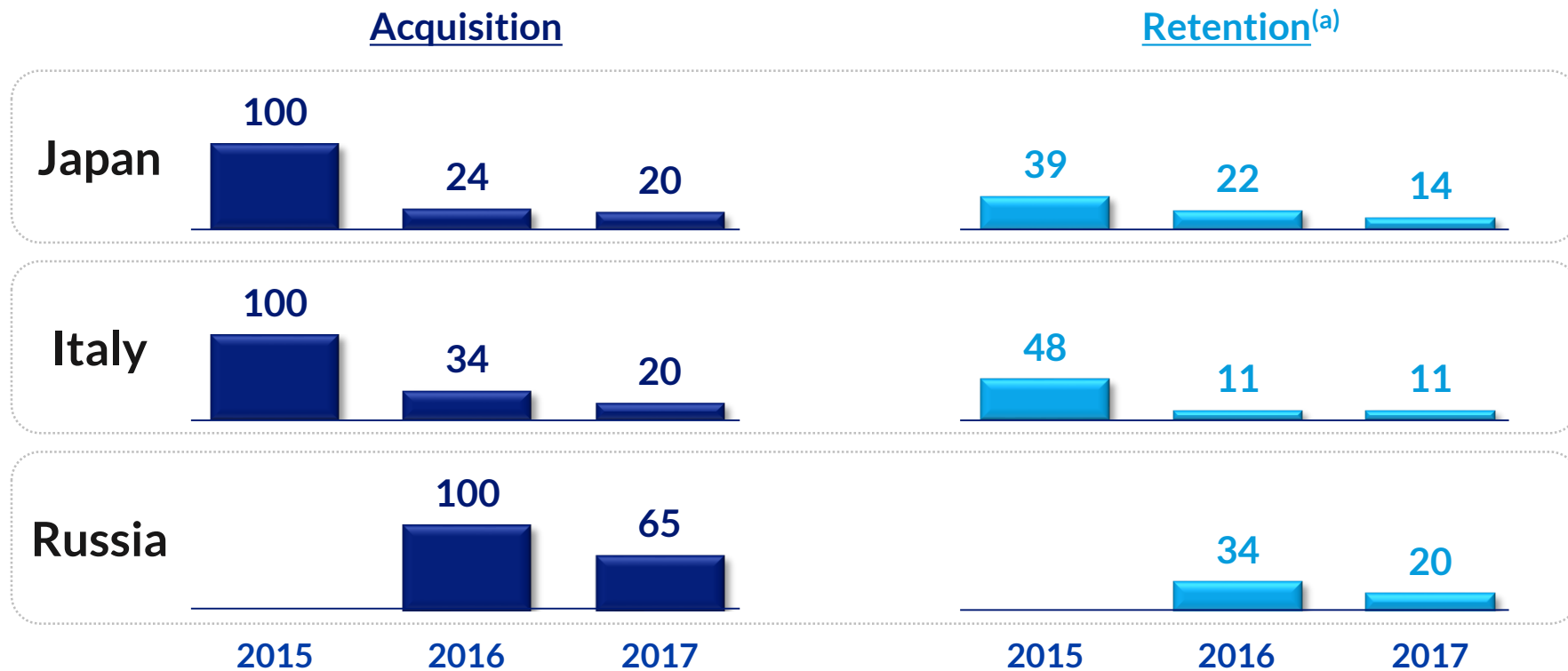
Split between
Acquisition and Retention Costs
depends on Market Maturity

Fixed
Brand Retail
Trade & LAMPs
Overheads



Variable
Customer Care
E-commerce
Loyalty Programs

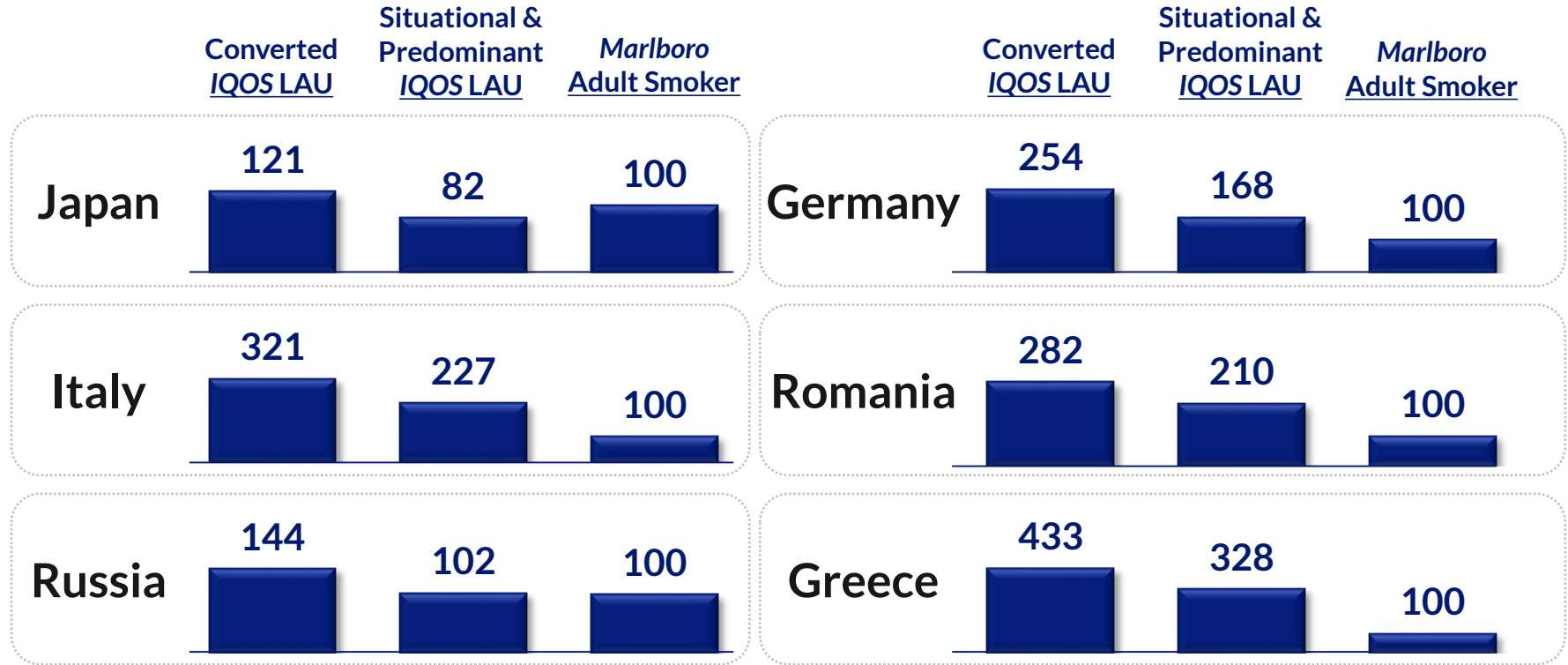
Cost per IQOS User - Index



(a) Indexed to base year acquisition cost per IQOS user
Source: PMI Financials or estimates

IQOS User Economics - Index

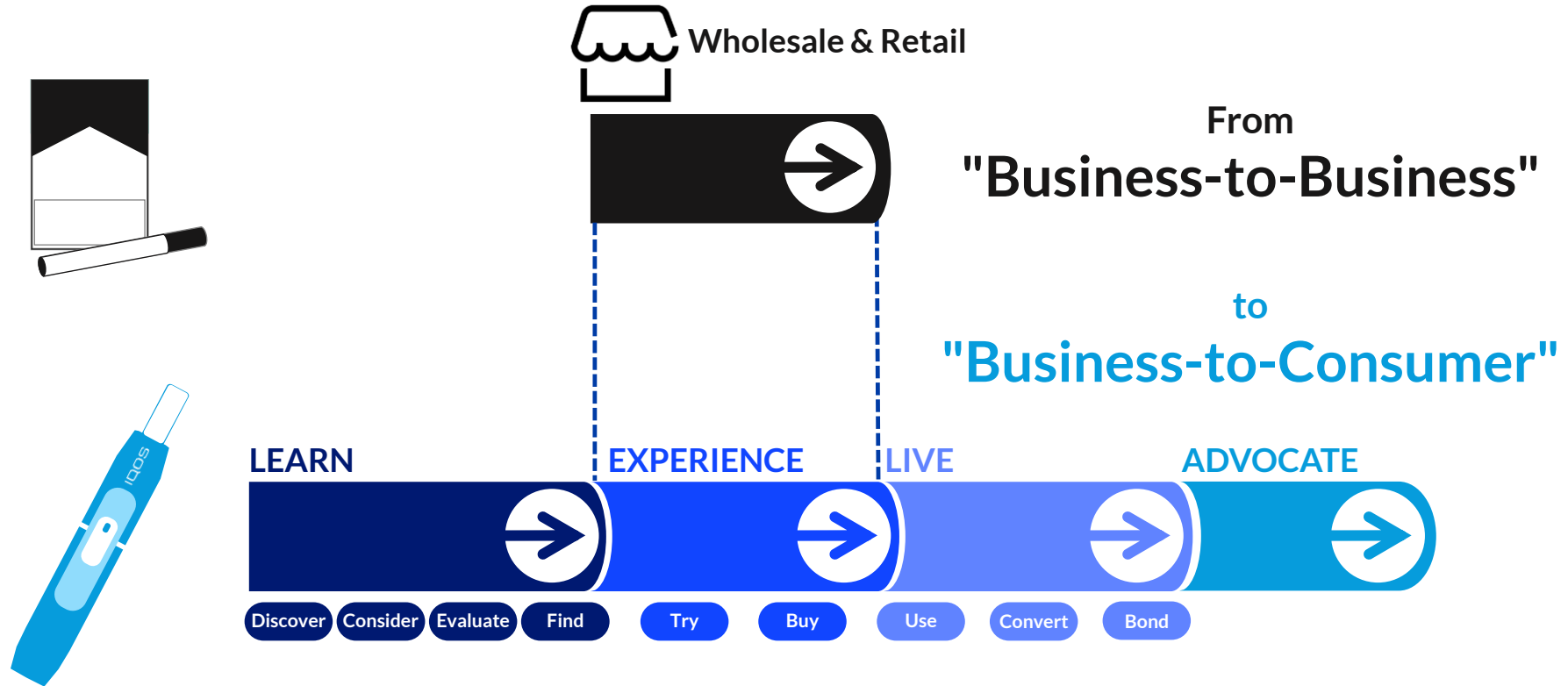
(2017 marginal contribution per user; Index = marginal contribution per *Marlboro* adult smoker)



Note: 2017 annualized marginal contribution per user. Marginal Contribution per user represents customer revenues before considering discounts and incentives to consumers, less the volume driven components of "Cost of sales". It excludes fixed manufacturing costs and distribution costs

Source: PMI Financials or estimates

Business Model Evolution Opens New Doors



RRP Portfolio Drives New Revenue Opportunities



Cigarettes



Tobacco

IQOS



Consumables

+



Device &
Accessories

+

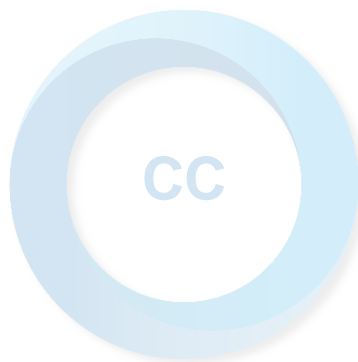


Services

Tomorrow: Wider Range



Operating Around the Adult Consumer



Combustible
Cigarette
Performance

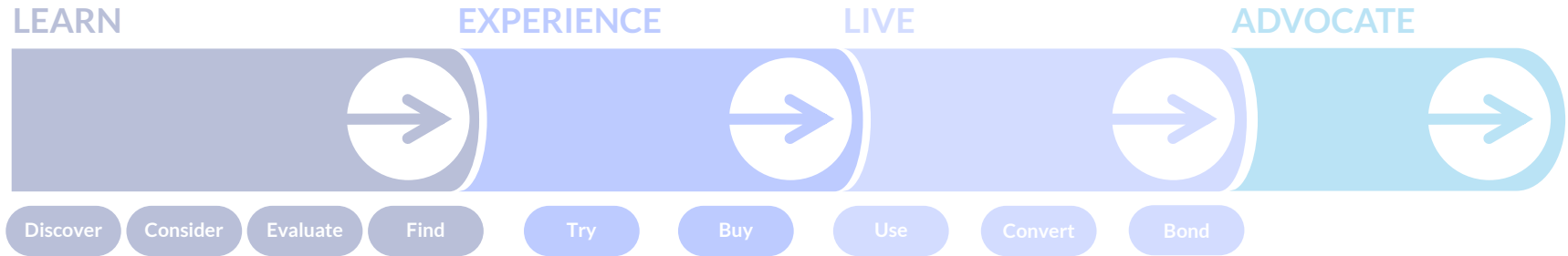


Reduced-Risk
Product
Performance



Upskilling
Our
Organization

Aligning Organization Along The RRP Consumer Journey



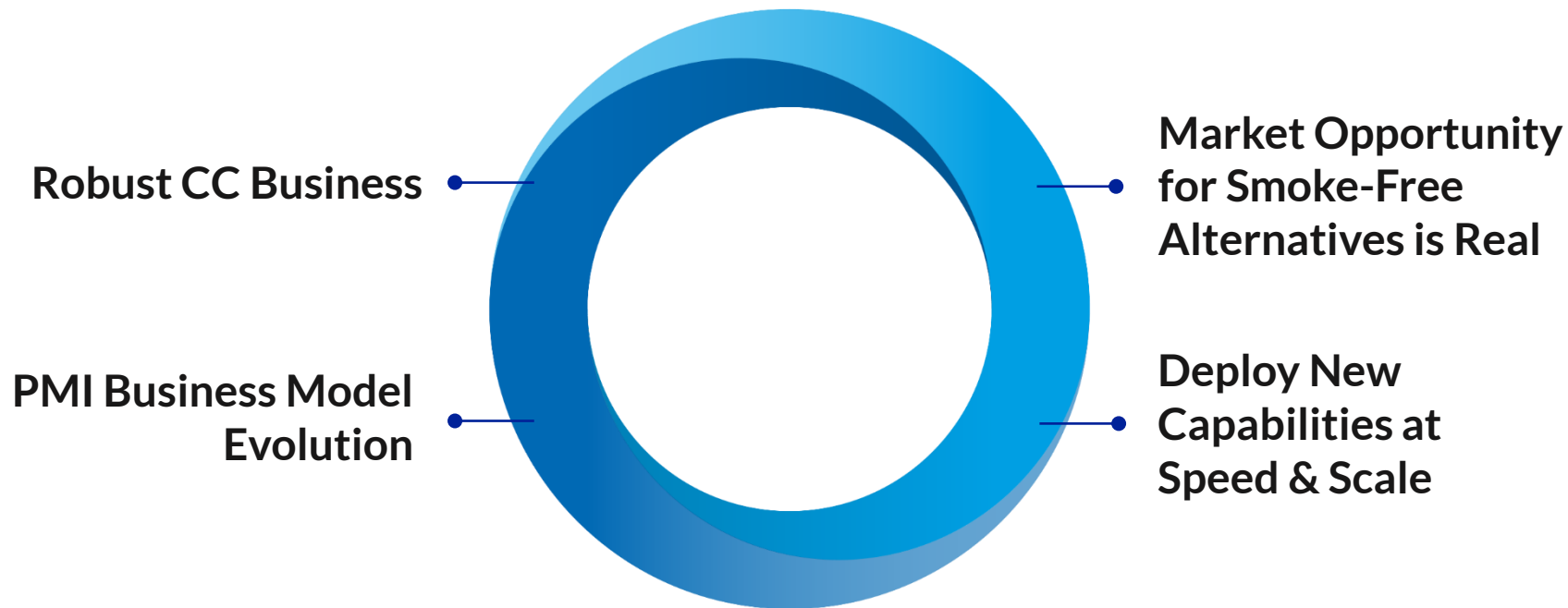
ACQUISITION



RETENTION

- Understand consumer needs faster
- Enhance & add new capabilities
- Deploy new organization at speed & scale

Summary





PHILIP MORRIS
INTERNATIONAL

2018 INVESTOR DAY

Designing a Smoke-Free Future

Investor Day

Lausanne, September 27, 2018