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2016
INVESTOR DAY

Investor Day

Lausanne, September 29, 2016

André Calantzopoulos
Chief Executive Officer



PMI Strategic Priorities

- Leverage the strengths of our existing business to continue leading the combustible product category and deliver against our current growth algorithm
- RRP's to ultimately replace cigarettes to the benefit of all stakeholders. PMI undisputed leadership of new category:
 - RRP's to be OCI accretive as of 2018 and enhance mid-term growth algorithm thereafter
- PMI very well positioned to deliver on both growth engines



Agenda

- 2016 EPS Guidance Update
- Growth Algorithm and Drivers:
 - Combustible Portfolio
 - RRPs



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PMI Results (2010 – 2015)

	<u>2010 – 2014</u>	<u>2014 – 2015</u>	<u>2010 – 2015</u>
Total Industry Volume	(1.8)%	(2.4)%	(1.9)%
PMI SoM	+0.3pp	+0.2pp	+0.5pp
PMI Cigarette Volume	(1.2)%	(1.0)%	(1.2)%
Net Revenues	4.6 %	5.8 %	4.9 %
Adjusted OCI	6.3 %	6.6 %	6.3 %
Adjusted Diluted EPS	12.5%	12.0%	12.4%

Note: Industry volume excludes China and the U.S. PMI volume excludes the U.S. only. Industry volume and share of market relate to cigarettes only. Financials exclude currency (Net Revenues and Adjusted OCI also exclude acquisitions). 2015 vs. 2014 figures are % changes. 2015 vs. 2010 and 2014 vs. 2010 figures are CAGRs. PMI SoM numbers represent Variances.

Source: PMI Financials or estimates



2016 EPS Guidance

- Revised PMI 2016 reported diluted EPS guidance is \$4.53 to \$4.58, versus prior guidance of \$4.45 to \$4.55 provided July 19, 2016:
 - Implies an increase of approximately 10.5% to 11.5% versus 2015 EPS of \$4.42, excluding an unfavorable currency impact of approximately 35 cents at prevailing exchange rates
- Guidance Factors:
 - Total industry volume decline forecast unchanged at 2.0% to 2.5%
 - PMI shipment volume declines in specific markets (e.g., Argentina, Pakistan, North Africa, Philippines) offset by momentum in higher margin EU, Turkey and *iQOS*
 - Expected total pricing variance unchanged at approximately 6% of net revenues
 - Expected cost growth unchanged at approximately 1%, including investments in RRP



Growth Algorithm

- Current growth algorithm to remain unchanged until 2018:
 - Organic volume flat to -1%
 - Currency-neutral net revenues growth targets of 4% to 6%
 - Currency-neutral adjusted OCI growth targets of 6% to 8%
 - Currency-neutral adjusted diluted EPS growth targets of 8% to 10%
- Targets are inclusive of RRP volumes, net revenues and investments for this period
- Algorithm to be revisited in 2018 to reflect RRP commercialization progress

Note: Net Revenues and OCI targets exclude acquisitions. Reduced-Risk Products ("RRPs") is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes

Source: PMI Financials or estimates



Excellent Combustible Fundamentals

- Improving cigarette industry volume/mix trend
- Broad and balanced geographic footprint with expansion opportunities
- Market share growth momentum
- Superior brand portfolio, led by *Marlboro*
- Strong pricing power
- Limited cost increases
- Highly motivated and focused organization



Cigarettes Industry Volume Trend Detail and Outlook

<u>Market Group</u>	<u>% of 2015 PMI Volume</u>	<u>Cigarettes Industry Volume Dynamics</u>				
		<u>% of 2015 Industry Volume</u>	<u>CAGR 2010 – 2014</u>	<u>Variance 2014 – 2015</u>	<u>H1 Variance 2015 – 2016</u>	<u>2017+ Outlook</u>
EU ^(a)	24%	18%	(4.9)%	(0.8)%	0.4%	(2)-(3)%
Korea	2	2	(0.7)	(23.6)	20.9	(1)-(2)
Other OECD	17	13	(3.0)	0.6	1.1	(2)-(3)
Total OECD	41%	31%	(4.0)%	(2.6)%	1.9%	(2.0)-(3.0)%
Russia	10	10	(4.8)	(6.4)	(5.3)	(5)-(7)
Philippines	8	3	(1.7)	(4.9)	(11.4)	(1)-(2)
Brazil	1	2	(6.3)	(9.5)	(5.8)	(6)-(8)
India, Pakistan, Bangladesh	2	8	0.1	(6.9)	(6.7)	(1)-(2)
Other Non-OECD	36	44	0.7	(0.3)	(1.1)	(0)-(2)
Total Non-OECD	59%	69%	(0.7)%	(2.5)%	(2.9)%	(1.5)-(2.5)%
Total	100%	100%	(1.8)%	(2.5)%	(1.5)%	(2.0)-(2.5)%

(a) Represent total EU Region figures including OECD and Non-OECD markets

Note: Excluding China, the U.S. and duty free. Totals may not add due to rounding. Other OECD includes all OECD markets except for Korea and those present in EU Region. Other Non-OECD includes all Non-OECD markets except for Russia, the Philippines, Brazil, India, Pakistan, Bangladesh and EU Region Non-OECD markets

Source: PMI Financials or estimates



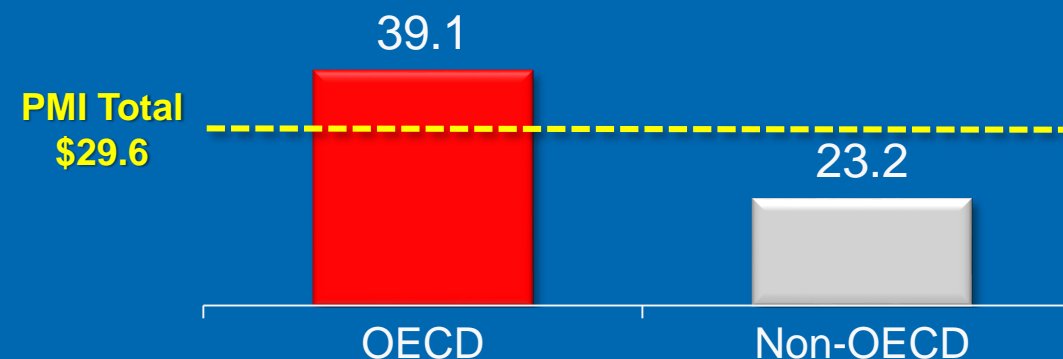
Cigarettes Industry Volume Trend Mix

Cigarettes Industry Volume Dynamics

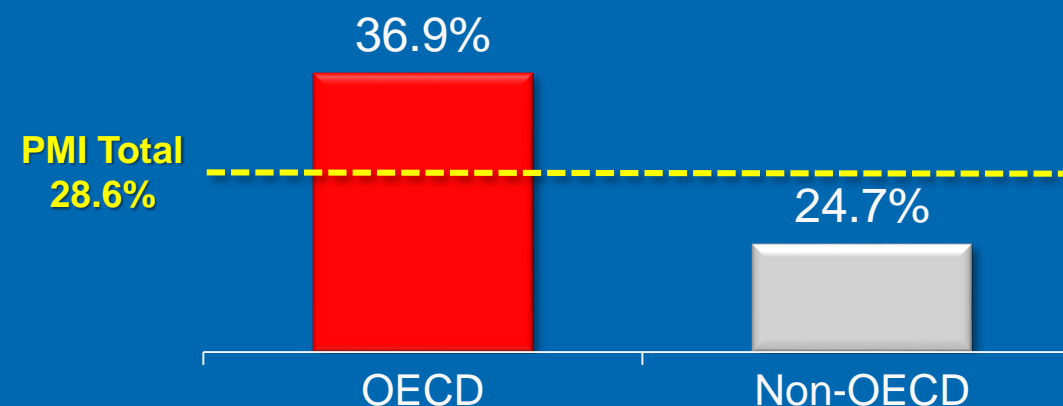
<u>Geography</u>	<u>CAGR 2010 – 2014</u>	<u>Variance 2014 – 2015</u>	<u>2017+ Outlook</u>
Total OECD	(4.0)%	(2.6)%	(2.0)-(3.0)%
Total Non-OECD	(0.7)%	(2.5)%	(1.5)-(2.5)%

Note: Excluding China, the U.S. and duty free
Source: PMI Financials or estimates

2015 PMI Net Revenues (\$ / thousand)



2015 PMI SoM, %



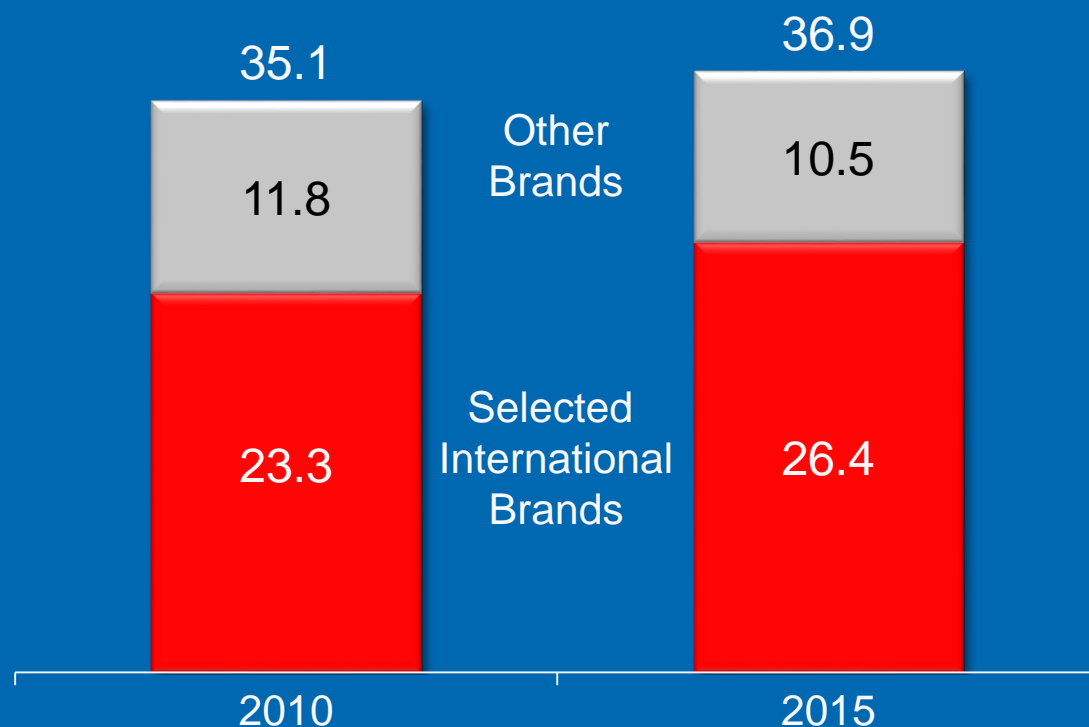


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PMI Cigarette Market Share Growth

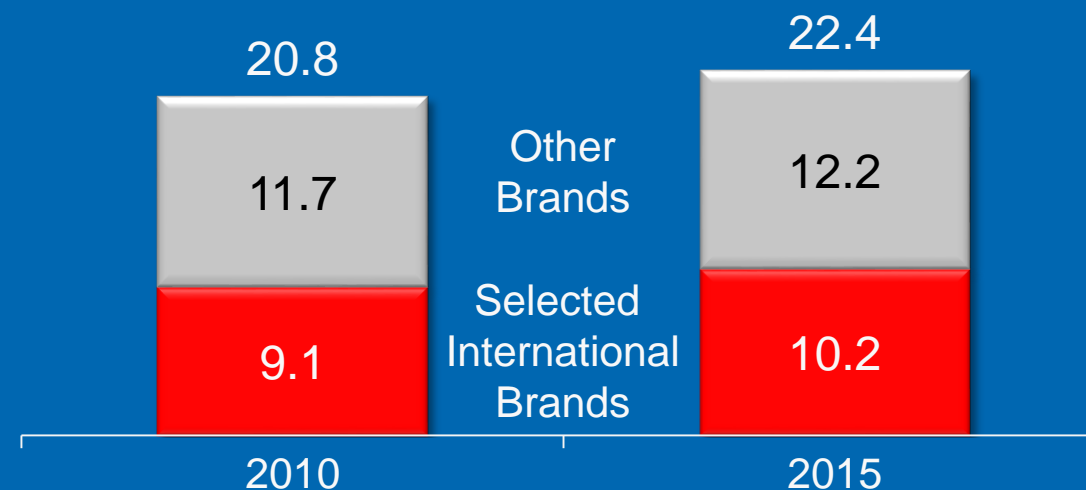
PMI OECD Share of Market (%)

Average growth per year: +0.4pp



PMI Non-OECD (excl. the Philippines) Share of Market (%)^(a)

Average growth per year: +0.3pp



(a) Including the Philippines, PMI Non-OECD Shares of Market were 24.3% in 2010 and 24.7% in 2015

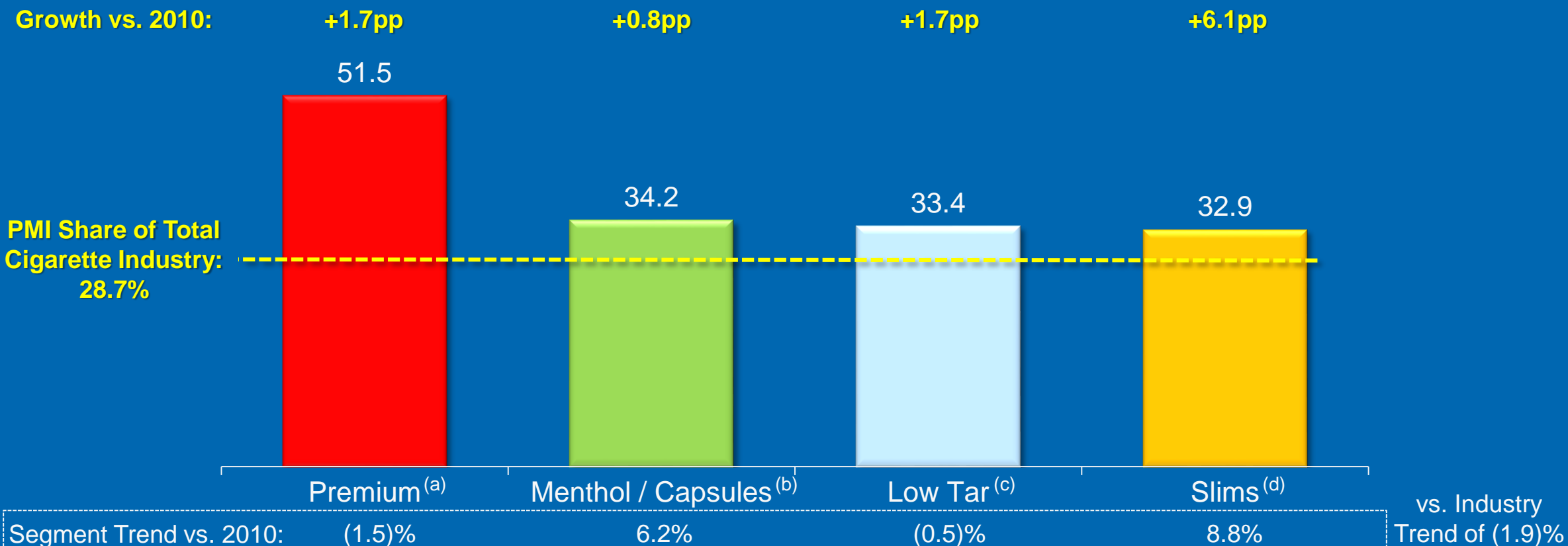
Note: Excluding China, the U.S. and duty free. Selected International Brands include *Marlboro*, *Parliament*, *Chesterfield* and *L&M*

Source: PMI Financials or estimates



Leading and Growing Segment Shares

2015 PMI Cigarette Industry Segment Shares (%)



(a) Includes premium and above premium

(b) Excluding the Philippines (menthol / capsules segment is ~46% of the total market volume); including the Philippines 2015 Segment Share was 40.6%, down 8.6pp vs. 2010 and segment trend of 4.0% vs. 2010

(c) Includes low tar nicotine (LTN), ultra LTN and Super LTN

(d) Includes slims, extra slims, super slims and micro slims

Note: Excluding China and the U.S. Segment and industry growth refer to volume CAGR

Source: PMI Financials or estimates

Balanced Geographic Footprint: Main Competitor Cigarette Shares by Region



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2015 Regional Market Shares (%)

	<u>EU</u>	<u>EEMA</u>	<u>Asia</u>	<u>LA&C</u>	<u>Total</u>
PMI	38%	26%	25%	39%	29%
BAT	20	22	17	48	22
JT	18	21	12	3	16
IMB	17	9	2	—	7
Others	7	22	44	10	26

784 billion units

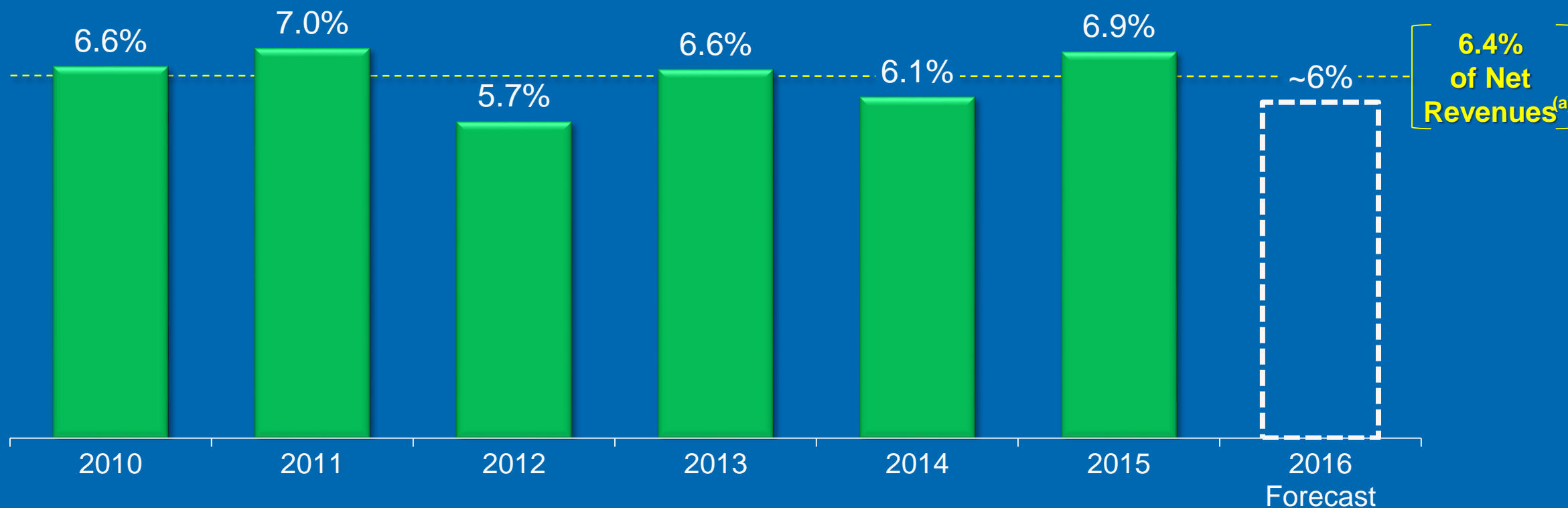


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Strong Favorable Pricing Variances

Pricing Variance as a % of PY Net Revenues

**Annual
Average
(2010-2015)**

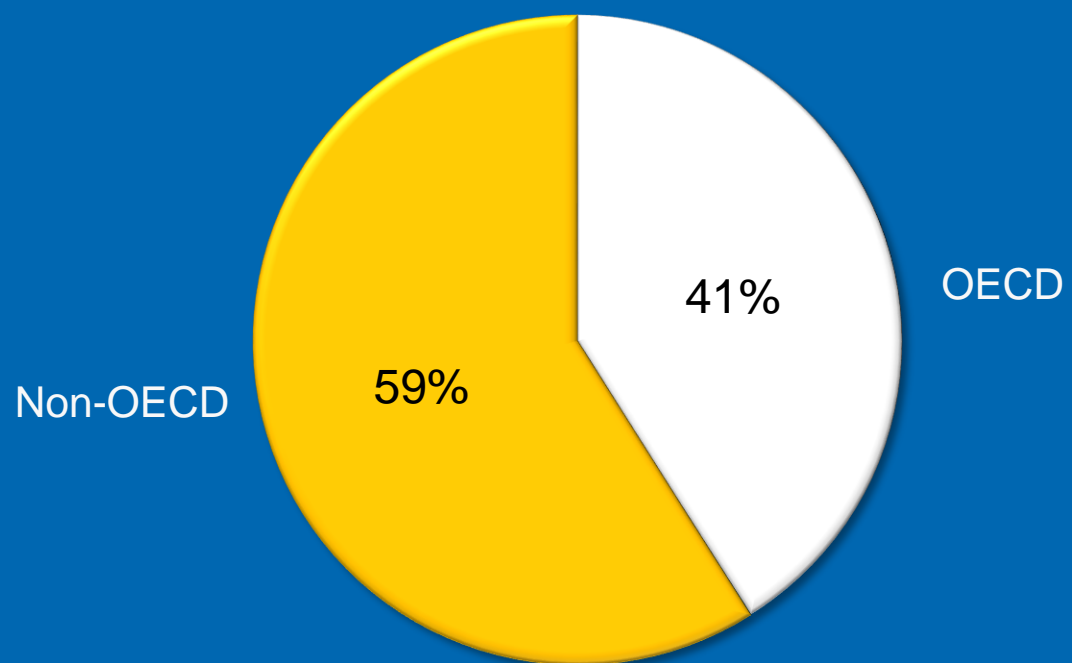


(a) Average net revenues 2010-2015, excluding excise tax
Source: PMI Financials or estimates

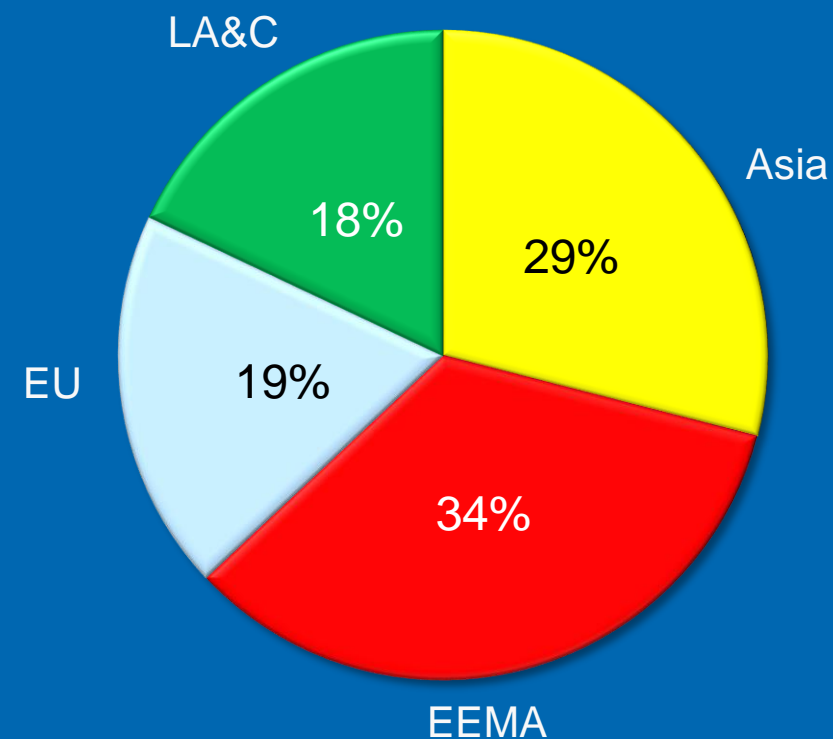


Balanced Pricing

Pricing Contribution OECD / Non-OECD^(a)
(2010 – 2015)



Pricing Contribution by Region
(2010 – 2015)



(a) The split of pricing contribution excludes duty free

Note: Excluding China, the U.S. pricing variances for the period 2010 to 2015

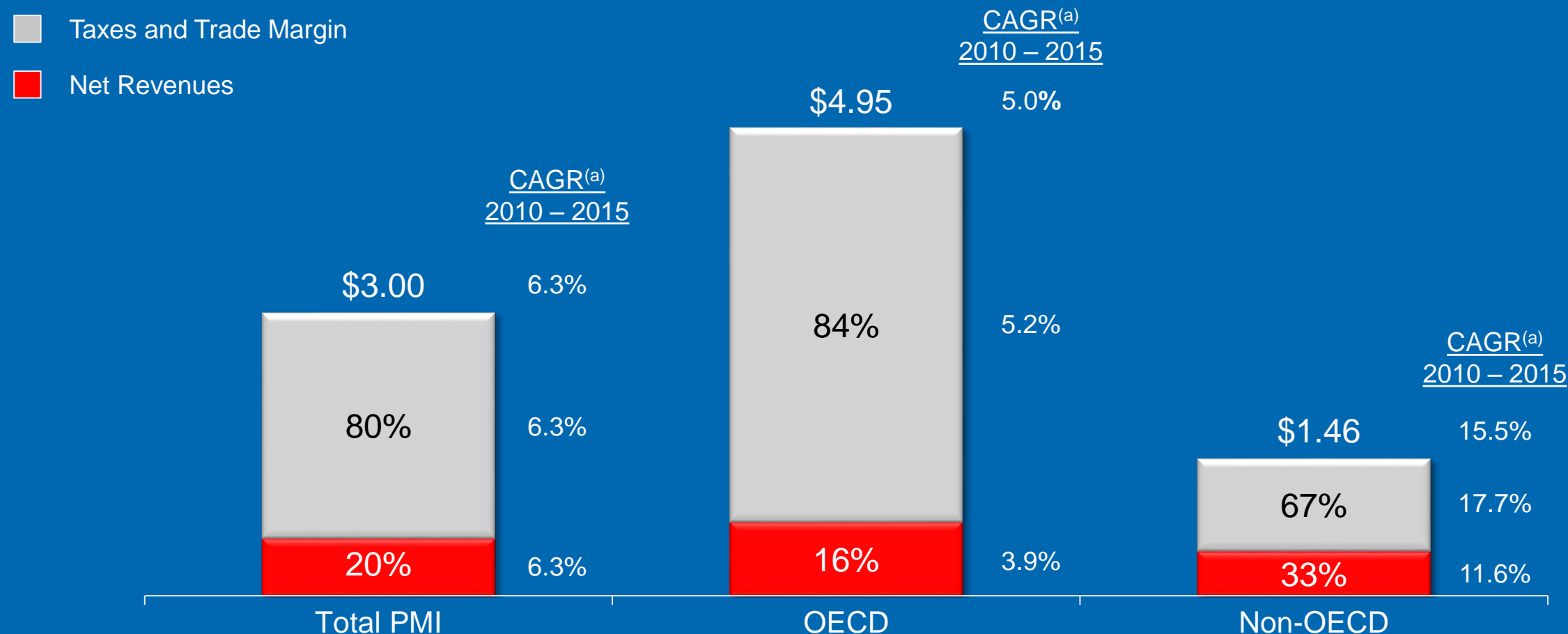
Source: PMI Financials or estimates



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Average PMI Retail Sales Price per Pack (2010 – 2015)

PMI Average Retail Sales Price Evolution (\$ / pack)



(a) Growth rates are shown on a 2015 constant currency basis

Note: Excluding China, the U.S. and duty free. Assumes average pack size of 20 cigarettes

Source: PMI Financials or estimates

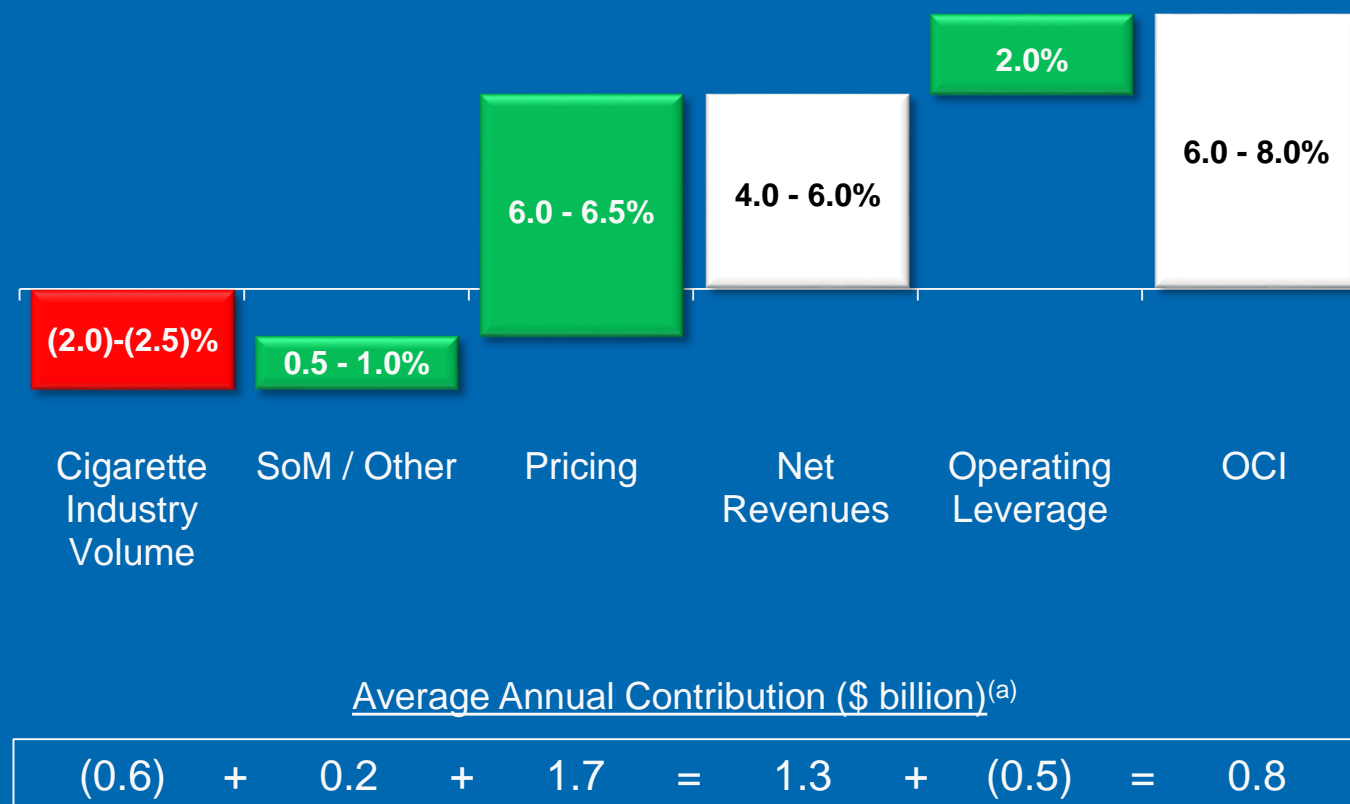


Cost Evolution

- Anticipating total cost increases of approximately 1% for 2016
 - Net expense reductions and productivity in excess of \$300 million on combustible business
 - More than offset by higher incremental costs for RRPs
- Maintaining target of total cost increases of 1% to 3% going forward
 - Including RRP-related expenses



Current OCI Growth Algorithm and Sensitivities



	Sensitivity	OCI Impact ^(b)	
		\$ million	% Growth
Industry Volume	0.5% / (0.5%)	\$100	0.9%
SoM	0.1pp / (0.1pp)	70	0.6
NEFP ^(c) Pricing	0.5% / (0.5%)	140	1.3
Cost Base	(1.0%) / 1.0%	160	1.5

(a) Numbers may not add-up due to rounding; annual contribution is calculated for mid-point values

(b) Numbers are shown at 2015 currency exchange rates

(c) NEFP stands for Net ex-Factory Pricing

Note: Reduced-Risk Products ("RRPs") is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes

Source: PMI Financials or estimates



Business Model Evolution

Parameter

Combustible Products

Total Industry Volumes	Long-term outlook based on societal trends, demographics and pricing / taxation
Regulation	Well-defined, relatively clear trajectory
Taxation / Trade Margins	Generally predictable and structurally stable
Product Offering	Straightforward consumable with highly optimized manufacturing process
Pricing / Margins	Sustainable at ~6%-6.5% of net revenues, Known elasticities and high margins
Share Gains	Modest incremental gains (+0.2pp-0.3pp per year on average)
Marketing / Commercialization	Highly restrictive in most markets, but well-understood
Innovation / Science	Incremental features / Taste dimensions, Generally internally developed
Organization	Highly experienced and talented team with well established processes and procedures

Attractive, but "Linear" Growth Model



Business Model Evolution

<u>Parameter</u>	<u>Combustible Products</u>	<u>RRPs</u>
Total Industry Volumes	Long-term outlook based on societal trends, demographics and pricing / taxation	Speed of conversion difficult to predict, but exponential upside potential
Regulation	Well-defined, relatively clear trajectory	New and emerging territory, with potential to accelerate conversion
Taxation / Trade Margins	Generally predictable and structurally stable	Positive initial developments, long-term to be shaped
Product Offering	Straightforward consumable with highly optimized manufacturing process	More complex from manufacturing and logistics perspective, but manageable
Pricing / Margins	Sustainable at ~6%-6.5% of net revenues, Known elasticities and high margins	Complex due to innovation/science, price versus conversion and potentially lower tax incidence
Share Gains	Modest incremental gains (+0.2pp-0.3pp per year on average)	Potential for material changes
Marketing / Commercialization	Highly restrictive in most markets, but well-understood	New approaches required, including more intense engagement and digital ecosystems
Innovation / Science	Incremental features / Taste dimensions, Generally internally developed	Foundational, sourced internally and externally, with significant scientific substantiation
Organization	Highly experienced and talented team with well established processes and procedures	Greater agility, flexibility, new ways of working, new skills and learning
	Attractive, but "Linear" Growth Model	Exponential Growth Potential



Reduced-Risk Products: Key Topics

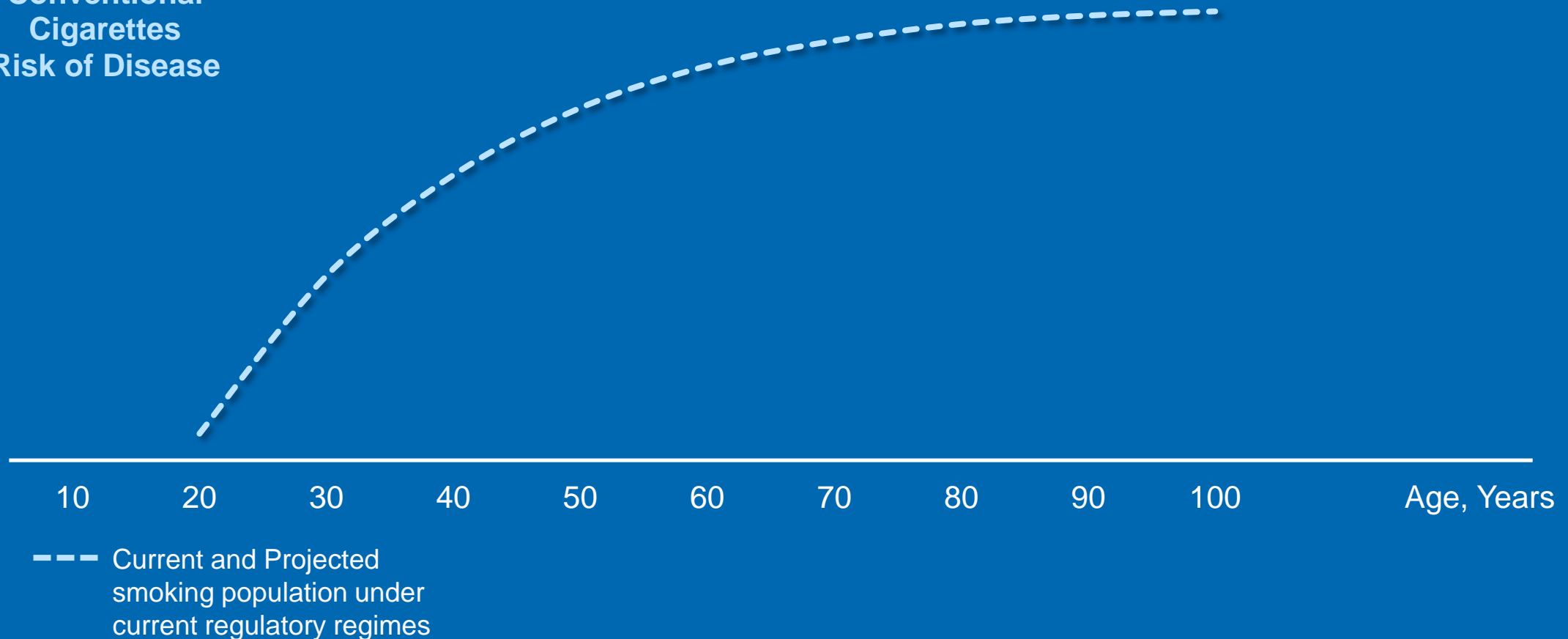
- Harm Reduction and Regulation Principles
- Portfolio Approach
- Commercialization Update
- Actions Required to Accelerate Conversion
- Underlying Economics
- Strategic and Organizational Implications

Harm Reduction: Illustrative Disease Risk Reduction Impact of RRP's vs. Current Regulatory Approach



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Conventional
Cigarettes
Risk of Disease



Note: Reduced-Risk Products ("RRPs") is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes
Source: PMI Financials and estimates; WHO global report on trends in tobacco smoking 2000-2025; WHO global report on trends in prevalence of tobacco smoking 2015; U.N. World Population Prospects, 2015 Revision

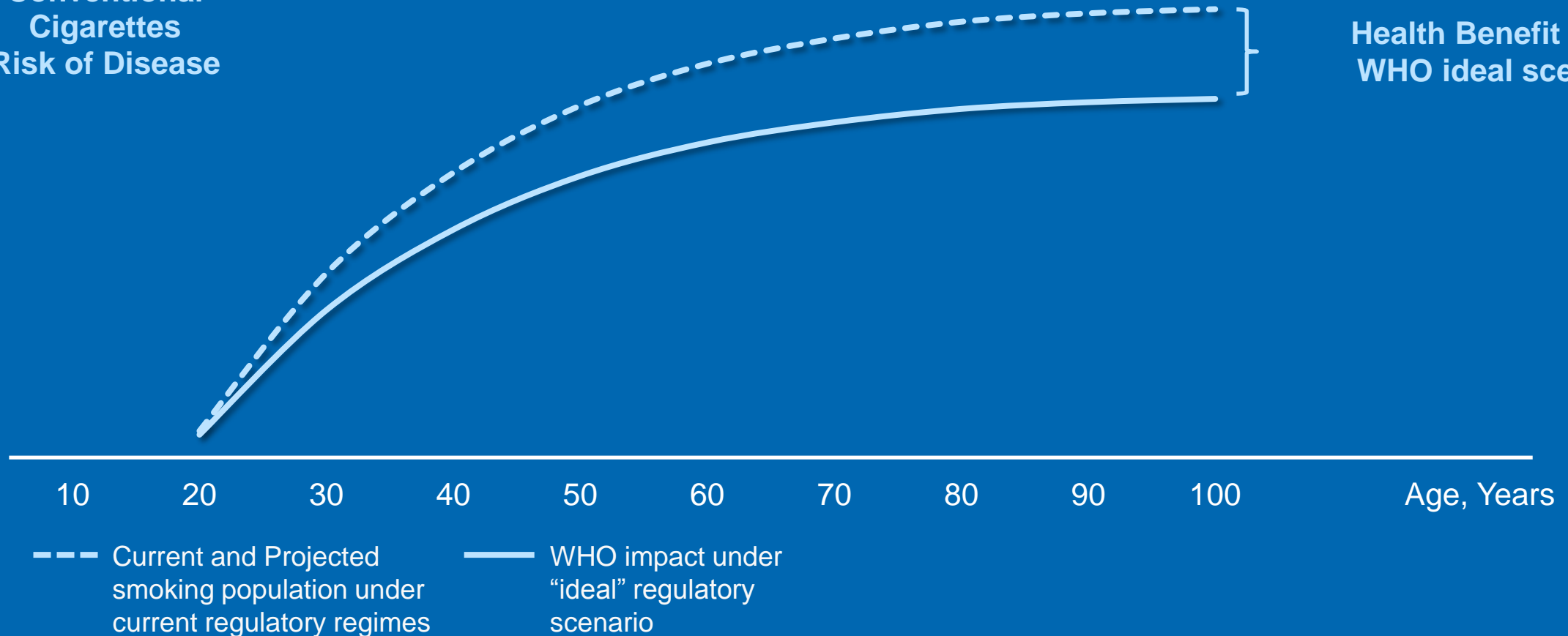
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Conventional
Cigarettes
Risk of Disease

Health Benefit under
WHO ideal scenario

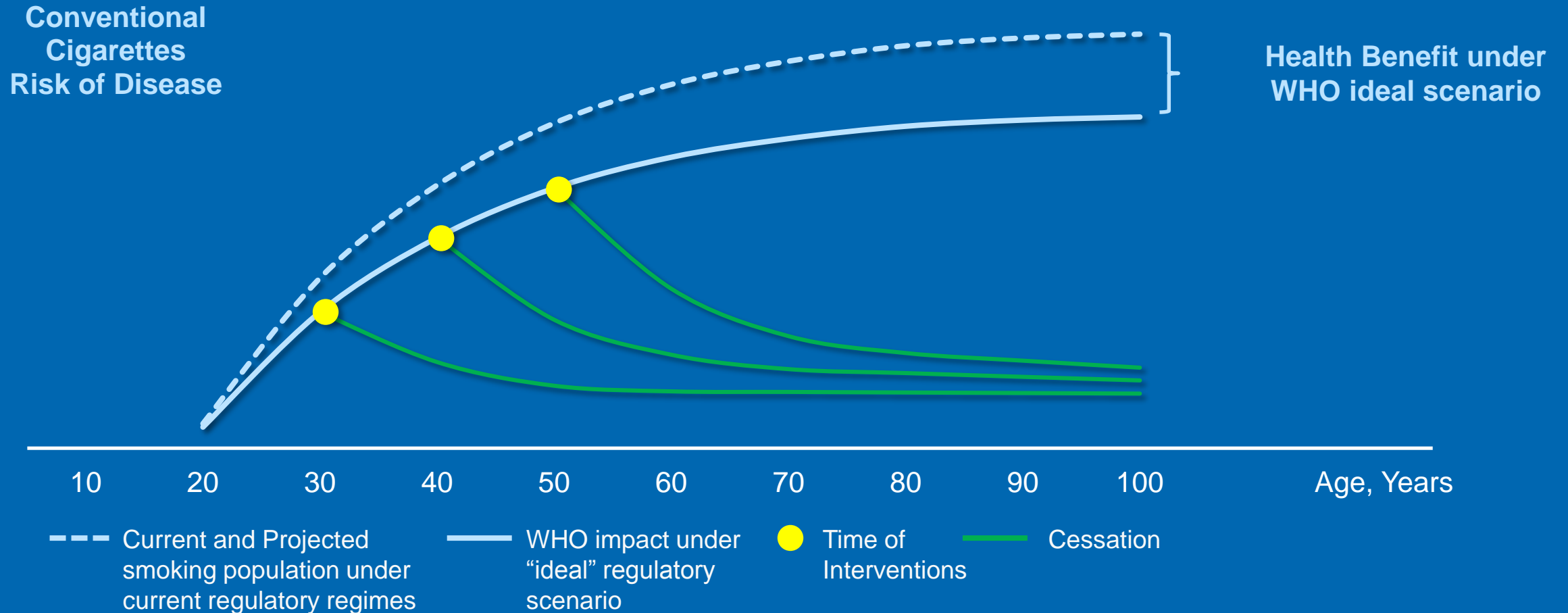


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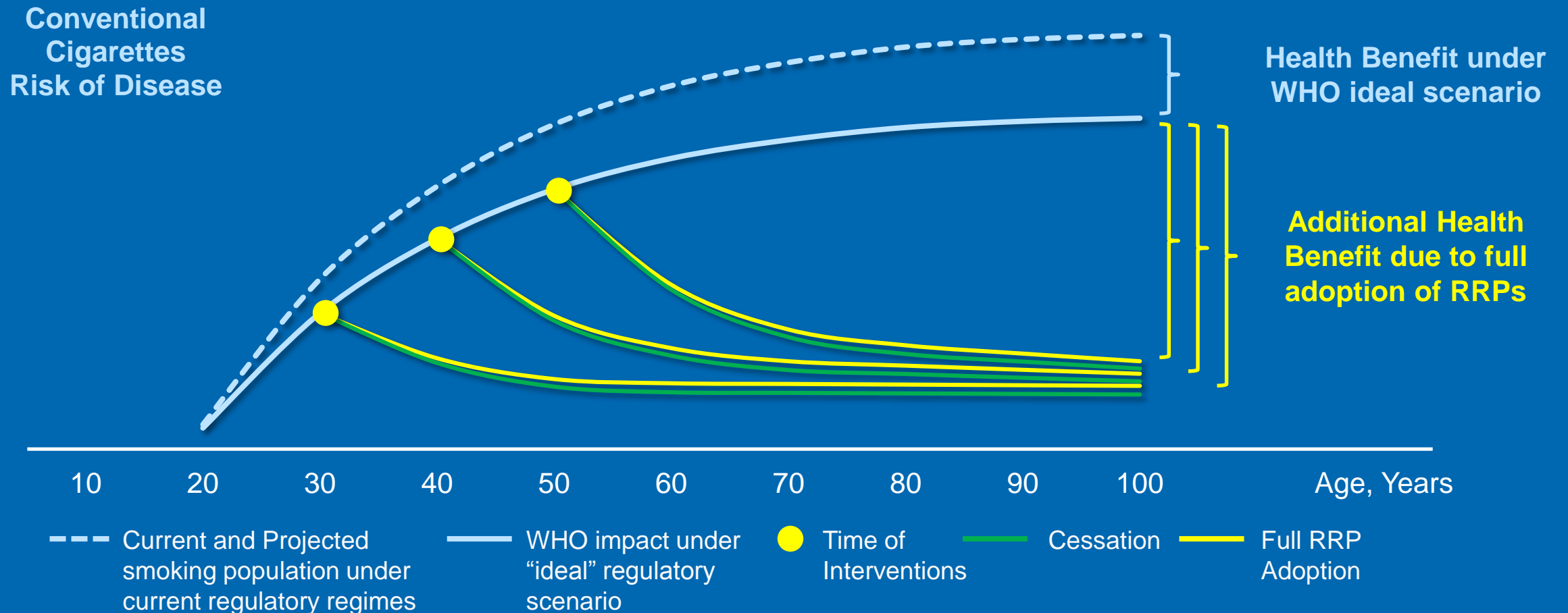


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Harm Reduction: Illustrative Disease Risk Reduction Impact of RRP's vs. Current Regulatory Approach



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Solutions which come closer to cessation will likely have greater impact

Note: Reduced-Risk Products ("RRPs") is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes
Source: PMI Financials and estimates; WHO global report on trends in tobacco smoking 2000-2025; WHO global report on trends in prevalence of tobacco smoking 2015; U.N. World Population Prospects, 2015 Revision



RRPs: Population Harm Reduction Factors

- We recognize change in population harm is a multi-dimensional equation:

$$F\left(\begin{array}{c} \Delta \text{ in Individual} \\ \text{Risk} \end{array} ; \begin{array}{c} \Delta \text{ in} \\ \text{Initiation} \end{array} ; \begin{array}{c} \Delta \text{ in} \\ \text{Quitting} \end{array} ; \begin{array}{c} \Delta \text{ in} \\ \text{Relapse} \end{array} ; \begin{array}{c} \Delta \text{ in Dual} \\ \text{Usage} \end{array} ; \begin{array}{c} \Delta \text{ in Adoption} \\ \text{Rate} \end{array} ; \begin{array}{c} \text{Gateway} \\ \text{Effect to CC} \end{array} \right)$$

- Pre-market studies allow us to estimate these with varying degrees of confidence, but robust post-market surveillance will be needed to confirm the overall impact:
 - Post-market surveillance also necessary to monitor and act on behavioral changes as well as to confirm pre-market clinical data and establish epidemiological data on RRP



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Harm Reduction: Illustrative Individual Risk Drivers

Reduction in
Exposure



A Conventional Cigarettes **B** *iQOS* **C** E-Vapor **D** P3 **E** NRT **F** Cessation **G** Never Smoked



Probability of
Adoption by
Current Smokers

Full Conversion: Higher on *iQOS* than e-vapor

Note: Reduced-Risk Products ("RRPs") is the term the company uses to refer to products with the potential to reduce individual risk and population harm in comparison to smoking cigarettes. Charts are used for illustrative purposes; not to scale.

RRP Portfolio Approach to Maximize Conversion and Leverage Efficiencies and Economies of Scale



Platforms / Attributes	P1	P2	P3	P4
Tobacco-containing	Yes	Yes	No	No
Heat Source	Electronic	Carbon Tip	Electronic / Non-electronic	Electronic
Ritual Comparability	Medium	High	Low	Low
Taste Satisfaction	Medium-High	Medium-High	Medium	Low-Medium

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RRP Portfolio Approach to Maximize Conversion and Leverage Efficiencies and Economies of Scale



Platforms / Linkages	P1	P2	P3	P4
Common Branding	✓			
Common Primary Process	Shared tobacco processing / equipment			
Common Electronic Heating Device (mid-term goal)	✓		✓	✓
Common Digital Platforms / Ecosystems	✓		✓	✓

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RRPs: *iQOS* Commercialization Progress

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 - Consumer understanding and initial commitment to the product are critical
 - Requires appropriate forums with sufficient time for proper engagement
 - Substantial and growing consumer engagement forces on the ground



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- Wider switching accelerates once “critical mass” achieved (e.g., 2% to 3% market share):
 - Increased normalization; broader awareness and product understanding
 - Already-converted smokers are the best advocates



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- Results to-date stunted by current manufacturing capacity constraints – full potential untested:
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 - Already-converted smokers are the best advocates
- Results to-date stunted by current manufacturing capacity constraints – full potential untested:
 - Capacity constraints expected to ease by end of Q1, 2017
- Continuing to judiciously expand geographically:
 - In 20 markets by the end of 2016 and an additional 10 to 15 markets in 2017

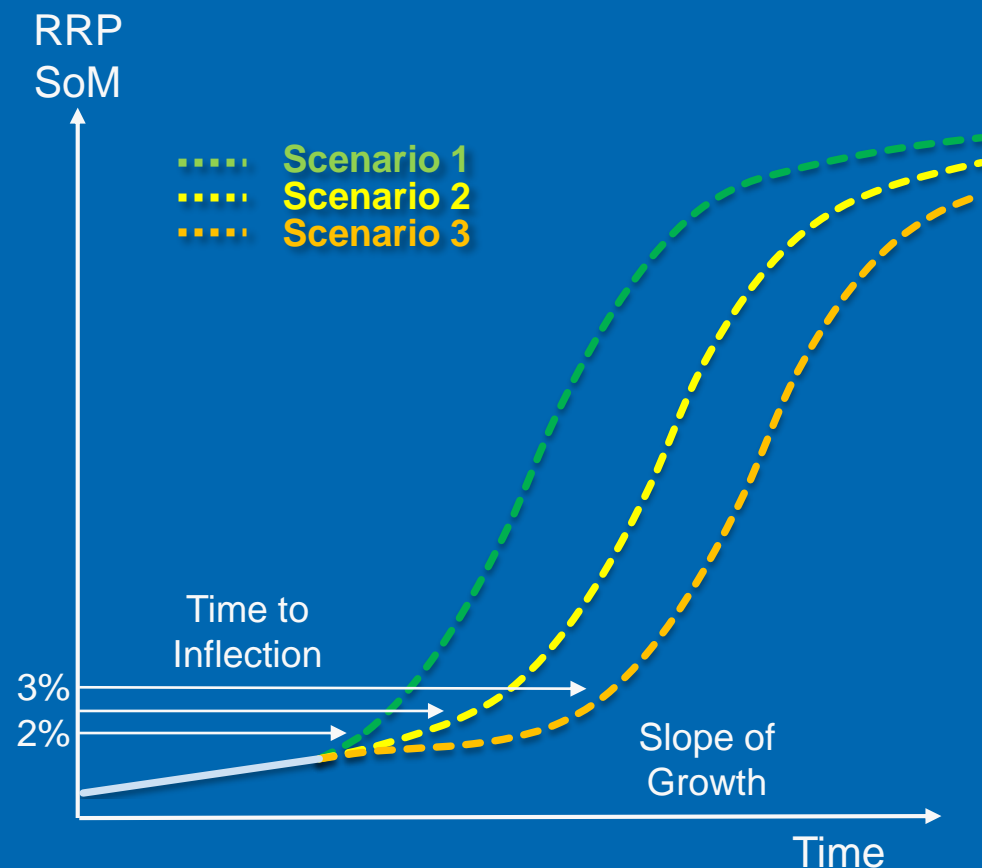
RRPs: iQOS Commercialization Progress – Manufacturing Capacity to Support Expansion

- Manufacturing capacity expanding to address current constraints and future surges:
 - To be able to produce at least 32 billion *HeatSticks* units during 2017 with year-end installed capacity of 50 billion units
 - Ability to add approximately 4 billion of incremental capacity per month as of the beginning of 2018 with approximately \$16 to \$18 million of investment per 1 billion additional capacity
- Capital expenditures will be elevated vs. historical levels during expansion:
 - Current expectation of \$1.2 billion of total CAPEX this year and \$1.5 billion in 2017
- Overall net cash flow impact and returns positive:
 - Rapid return on investment – payback less than one year from installation / start of production

RRPs: *iQOS* Commercialization Progress (Cont'd)

- Outside of Japan, other launch markets showing equally promising results:
 - Conversion rates
 - Device penetration
 - *HeatSticks* offtake trends
- Initial adoption necessarily linear due to high level of consumer engagement required to reach critical mass:
 - Time to achieve is market specific and also very much correlated with marketing restrictions
- Difficult to accurately predict timing or slope of inflection point of growth curve at this stage

Illustrative Growth Trajectories





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RRPs: Accelerating Consumer Conversion to *iQOS*

- Committed to achieving wide-spread conversion to RRP



RRPs: Accelerating Consumer Conversion to *iQOS*

- Committed to achieving wide-spread conversion to RRP
- Regulators and other stakeholders have a critical role to play:
 - Establishing regulatory and fiscal frameworks based on the principle of harm reduction
 - Consumer Demand Drivers (e.g., reduced excise taxes to enhance affordability, more tailored communication and usage restrictions, official encouragement for switching)
 - Supply Drivers: regulatory or governmental incentives or inducements for adult smokers to switch to, or for manufacturers to produce, RRP



RRPs: Accelerating Consumer Conversion to *iQOS*

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 - Supply Drivers: regulatory or governmental incentives or inducements for adult smokers to switch to, or for manufacturers to produce, RRP
- We welcome all alternatives to achieve a combustion-free world as quickly as possible
- To underscore our commitment, we will announce and publish transparent and verifiable KPI's regarding our investments and efforts behind RRP



RRPs: Regulatory Submissions

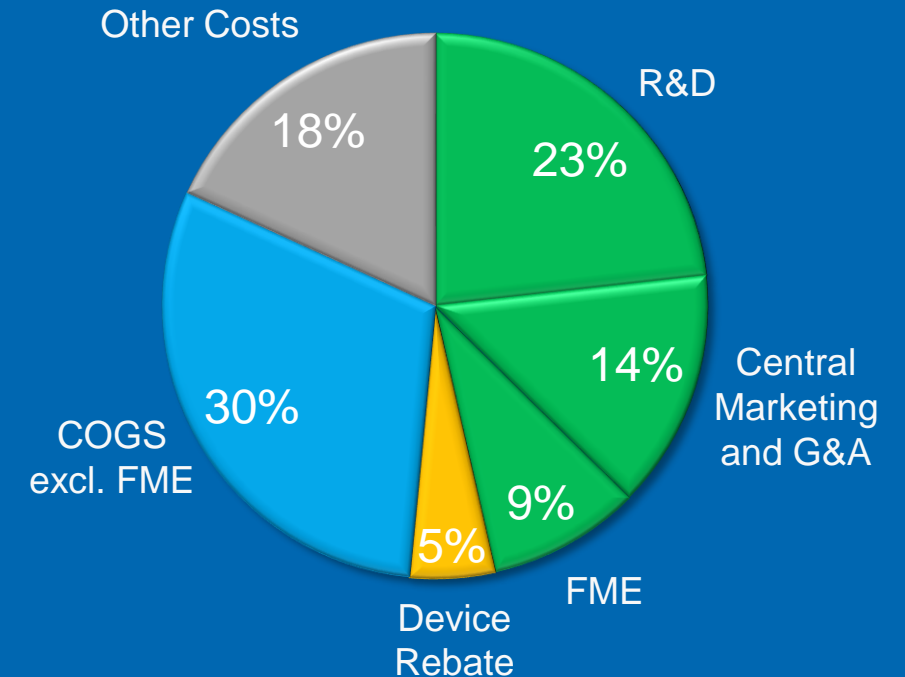
- On-track for FDA submissions:
 - Modified Risk Tobacco Product Application (MRTPA) later this year
 - Premarket Tobacco Product Application (PMTA) in early 2017
- Tobacco Product Directive (TPD) submissions in a number of EU markets completed
- Focus on obtaining regulatory frameworks, and approvals, for Reduced-Risk Product claims and communication



RRPs: *iQOS* Underlying Financial Drivers

- Favorable unit net revenues for *HeatSticks*:
 - Up-trading potential, especially initially
 - Reasonable ratio of own consumers vs. competitors
 - Tax classification
- *HeatSticks* production cost broadly in-line with cigarettes
- Overall RRP profitability impacted by large initial infrastructure cost base:
 - R&D and scientific substantiation
 - Dedicated central marketing and G&A
 - Fixed manufacturing expense
 - Initial launch market expenses
 - *iQOS* device discount to encourage conversion

2016 Forecast
RRP Cost Composition





RRPs: *iQOS HeatSticks* – Incremental Net Revenues Potential

Net Revenues (\$ million per billion units)^(a)

Cigarettes

PMI Average
Pricing

\$36

HeatSticks with SoM uplift^(b)

PMI Average
Cigarette Pricing

\$57

PMI Premium
Cigarette Pricing

\$66

+\$21

+\$30

Cannibalization Rate (%): —

40%

40%

% Increase vs. Base: —

60%

85%

(a) Weighted on PMI Cigarette Volumes for 20 Markets with planned P1 launch in 2016. Calculations are based on 2016 Financials forecast

(b) Total net revenues per 1 billion of initial cigarettes, including impact of net SoM uplift from *HeatSticks*

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Source: PMI Financials or estimates



RRPs: Strategic and Organizational Implications

- Ongoing success in RRP's will continue to require new ways of working and adjustments to our business model
- We will increasingly shift resources from our conventional business to RRP's over time, mindful that conventional represents over 100% of our profit today
 - Approach will be tailored and function / market-specific
- Dual objective of achieving critical mass in RRP's while harnessing the strength of our combustible business
- Confident in our ability to meet these challenges



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Lausanne, September 29, 2016



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Reconciliations of non-GAAP measures included in this presentation to the most comparable GAAP measures are provided on our website at: www.pmi.com/2016InvestorDay/RecSlides

Glossary of Terms: www.pmi.com/2016InvestorDay/Glossary