Remarks by Frederic de Wilde
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Philip Morris International Inc.

Investor Day
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(SLIDE 1.)

Good afternoon, Ladies and Gentlemen. It's a great pleasure for me to share with you today an update of our exciting business in our EU Region.

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I'll begin by highlighting our strong business fundamentals and our strategic pillars. I'd also like to share with you some exciting insights about our transformation to a multi-category business and, in particular, our *iQOS* offering, which we believe will be a key growth catalyst for the EU Region and PMI. Following my concluding remarks, I will be happy to take any questions you may have.

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Before reviewing our specific performance, let me first take this opportunity to touch upon a few key data points in the EU Region. Our EU management area is comprised of the 28 European Union Member States, as well as other markets such as Iceland, Norway and Switzerland.

In 2015, total cigarette industry volume in the Region was over 500 billion units. Our cigarette shipments amounted to a substantial 195 billion units, equating to a 38.3% market share. This represented 23% of PMI's total cigarette volume. A characteristic specific to the EU is the sizeable Other Tobacco Products category. Within this category, fine-cut represents the largest component, amounting to 144 billion cigarette equivalent units. PMI held a Regional market share of 15.7% in fine-cut, which grew 1.9 points since 2012, and we are focused on strengthening our presence in this category.

In terms of financial performance, our adjusted OCI was $3.6 billion in 2015, representing 33% of PMI's adjusted OCI. Finally, I am extremely proud to lead a talented, diverse and dynamic organization of more than 11,000 highly motivated employees. They demonstrate on a daily basis their ability to take on significant challenges and seize opportunities for our business.

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We have seen a marked improvement in the main macroeconomic indicators since 2012 across the majority of our markets. Encouragingly, GDP growth accelerated in 2015, with 22 countries experiencing GDP growth of more than 1.5% versus seven in 2012. This contributed to an increase in real disposable income and consumer confidence, which are key for our business and gives us an optimistic outlook going forward. However, we are mindful of the persistent impact of high overall unemployment in Southern Europe and most notably among younger adults.

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The improved economic environment and, specifically, the increases I mentioned in real disposable income, led to a significant moderation in the decline of the total cigarette industry. Following the relatively steep declines during the economic downturn in 2012 and 2013, the volume decline in 2015 slowed to only 0.8%.

We also attribute the recent moderation of cigarette industry volume to other factors including changes in the dynamics of the e-vapor market, the successful fight against illicit trade and the estimated impact of immigration. Given these positive factors, further helped by the favorable temporary impact of additional selling days, total cigarette industry volumes in the first half of 2016 increased by 0.4%. However, we expect a lower contribution of these positive factors in the second half of this year. Consequently, year-to-date August industry volumes declined 0.2 points versus the prior year and we anticipate the total cigarette market to decline by approximately 1% for the total year.

Over the mid to long-term we expect that the total cigarette market will revert to its underlying decline of 2% to 3% per annum.

PMI's cigarette market share in the Region displayed a strong momentum, posting broad based share gains over the past few years. Our 38.5% share of market in the first half of 2016, clearly exemplifies our leadership position within the cigarette category.

Adjusted OCI growth increased robustly by a currency neutral 4.6% in 2015. Similarly, for the first half of this year, we posted an adjusted OCI growth of 3.5%, and expect this momentum to accelerate during the back half of the year. Based on these results and our current strong momentum, I am confident that the EU Region has indeed turned the corner and will be a key growth contributor to PMI going forward.

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Now allow me to provide you with a brief update of the EU Tobacco Products Directive, or "TPD2" which will regulate the industry over the coming years. The most visible requirement of the Directive is the introduction of a 65% health warning on both the front and back of the cigarette pack.

The Directive also requires the elimination of cigarette packs containing less than 20 sticks and a ban on characterizing flavors. Menthol, however, has been granted a grace period until 2020. In terms of total cigarette industry volume impacted, these segments account for approximately 120 billion cigarettes, or 23% of total industry volume in the EU Region, in 2015. From a manufacturing standpoint, compliance with these new regulations was a major undertaking for our business but was implemented flawlessly by our organization.

While the TPD2 has placed further restrictions on combustible products, it also regulates new emerging categories of tobacco and tobacco-related products. For example, e-cigarettes are now regulated and a new category – "Novel Tobacco Products" – has been introduced. Our heated tobacco RRP platforms fall within this new "NTP" category, providing us with greater regulatory clarity to further develop and commercialize our RRP portfolio across the Region.

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In addition to the TPD2 regulations, plain packaging legislation has been adopted by four countries: France, Hungary, Ireland and the U.K. To date, a few other countries within our EU Region, such as Norway, Slovenia and Sweden, are considering what we believe to be ineffective legislation, but nothing to date has materialized. While we continue to speak out against plain packaging, our ultimate focus is the development and commercialization of RRPs, which will benefit adult smokers and public health much more than plain packaging.

Plain packs are now visible in France and the U.K. in limited quantities. However, by January and May of next year, plain packs will be fully present in the French and U.K. markets, respectively. Plain packaging legislation was passed in Hungary last month and will become effective in the market progressively through May 2019.

In France and the U.K., we are transitioning into this new and more restrictive regulatory environment with focused brand portfolios and good market share momentum. To improve our competitiveness in the U.K., we have taken back our distribution from Imperial Tobacco, built our own field force and significantly ramped up our trade and commercial activities. All of these initiatives are essential to ensure that we will be successful in plain packaging environments. More broadly in the Region, we continue to advocate for appropriate and effective fiscal structures.

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In the EU, two strategic pillars are key to our success: our combustible business and our emerging RRP portfolio. Over the mid-to-long term, we target annual currency-neutral mid-single-digit, adjusted OCI growth ex-RRP. We aim to achieve this by leveraging our leading cigarette brand portfolio, judicious pricing and disciplined cost management. This goal will be further supported through combating illicit trade and advocating for rational excise tax and regulatory environments.

The second key pillar, our RRP portfolio, will provide the Region and PMI with an additional growth catalyst going forward via a number of innovative offerings, led initially by *iQOS*.

We fully anticipated and prepared for the transition into the two-pillar strategy for quite some time. Last year, we launched a business restructuring program that focused on streamlining our processes and driving the implementation of best practices. This allowed us to effectively reallocate resources in preparation for this critical transformation. Furthermore, the implementation of our Commercial Approach, the streamlining of our portfolio and manufacturing footprint, along with the training of our dedicated organization, enable us to successfully transform into a multi-category business.

Overall, the EU Region is a reinvigorated growth contributor to PMI. We are well prepared for the commercialization of our RRP portfolio and are strongly positioned in our combustible business to drive sustained growth.

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Over the past few years, we have made significant progress optimizing our brand portfolio. Today, our cigarette portfolio is highly focused, with our four leading brands – *Marlboro*, *L&M*, *Chesterfield* and *Philip Morris* – representing over 90% of our total Regional cigarette volume.

While our four main brands reflect the majority of our cigarette volume, we also have a number of successful local "champion" brands. We will continue to leverage these strong heritage offerings in specific markets such as Greece, Italy and Portugal.

Our highly disciplined portfolio strategy, coupled with appropriate brand positioning and a robust adult consumer-relevant innovation pipeline, enable us to improve our competitive position across all key segments. Comparing 2015 to 2012, in the smooth or low tar corridor which represents almost half of all cigarettes in the region, we grew segment share by 0.7 points. Similarly over the same period, we gained segment share within the growing slims and menthol categories by 1.6 points and 2 points, respectively.

Our share growth within each of these segments is a testament to the robustness of our cigarette business. A few recent innovations include a "*Smart Seal*" for product freshness, as well as a slims cigarette pack that provides adult smokers with the added convenience of being able to insert a lighter.

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Marlboro continues to achieve remarkable results in the EU Region, particularly given the difficult economic conditions over the past few years. *Marlboro* has strengthened its position across most key markets to reach a notable Regional market share of 18.8% in 2015, an increase of 0.8 points since 2012. This outstanding performance was achieved thanks to the brand's significant equity, coupled with the deployment of consumer relevant innovations and appropriate marketing support, such as the "You Decide" campaign that Werner described this morning.

Based on the excellent results of the *Marlboro* Red pack upgrade, we have rolled out the new pack architecture across all pillars of the brand. The new pack design has significantly reinvigorated the brand's perception among adult smokers by enhancing its modernity and appeal.

The introduction of price banding also enabled adult consumers to access the aspirational *Marlboro* brand from multiple price points. We have deployed this strategy successfully in a number of markets and with different offers. *Marlboro* Touch, as an example of price banding, has resonated well among consumers, especially female adult smokers.

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Competition in the below-premium price segment has been intensifying, due in large part, to the challenging economic environment. Over the past few years, we successfully strengthened the brand equity of our three below-premium international offerings, *L&M*, *Chesterfield* and *Philip Morris*, and are well positioned to gain segment share.

These three brands are performing very well, reaching a 20.6% share of the below premium segment in 2015, up 5.5 points versus 2012. This growth is broad based across a number of our key markets, including Germany, Italy, Poland, Spain and the U.K.; markets that also have the largest below-premium segments.

In addition to strong organic growth, these brands offer solid morphing destinations which provide additional growth opportunities. We have seen this in markets such as Italy with the successful morphing of *Diana* into *Philip Morris* and *Red & White* to *Chesterfield* in Poland and the Czech Republic.

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I would characterize the current fiscal environment as rational with essentially no disruptive tax increases implemented over the past few years. It is our aim to advocate for regular, reasonable tax increases in the form of multi-year plans in order to reach the dual government objectives for fiscal revenues and public health. This also provides predictability for our business.

Additionally, we have witnessed over the past few years the gradual improvement of tax structures. Notable improvements were implemented in multiple countries, including Austria, Belgium, France, Italy and Spain. As a result, the specific excise-to-total tax ratio increased from 30.9% in January 2012 to 35.1% in July 2016.

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Our broad-based pricing momentum in the Region remains robust. PMI's pricing decisions always aim to strike an appropriate balance between price gap management, brand positioning and consumer affordability. Consequently, through our well-balanced portfolio, improved macroeconomic conditions and lower levels of illicit trade, we are well positioned to deliver annual pricing in line with historical levels over the mid to long-term.

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Over the past few years, the level of illicit trade within the EU Region has been declining, driven largely by an improved macroeconomic environment, as well as more effective and coordinated law enforcement. Through our efforts, we were able to increase awareness of this important issue which has now been elevated onto the agendas of many governments. This increased focus has resulted in notable declines in the level of illicit trade in markets such as Bulgaria, Germany and Spain.

We remain committed to making investments and furthering our initiatives and cooperation with key stakeholders to tackle this issue. A tangible example of where increased awareness, enforcement and intelligence sharing have paid-off include the recent closure of 30 cigarette factories in Poland during the first half of 2016.

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Based on what I shared with you earlier, our adjusted operating margins continue to be robust reaching 49.2% during the first half of 2016. In addition to our top line growth driven by our pricing and market share gains, our highly disciplined cost base management further enhances our operating margins. These cost enhancement efforts include the ongoing streamlining and evolution of key business processes and our brand portfolios. Furthermore, we have delayered the organization and clustered our markets in order to achieve scale and drive back-office efficiencies.

We also maintain focus on productivity savings and the optimization of our manufacturing facilities. For example, we ceased cigarette manufacturing in our Bergen Op Zoom facility in the Netherlands in 2014. All of these initiatives in total, support my confidence that the EU Region can meet our OCI target over the mid to long-term.

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Let me now highlight the performance of our conventional business in three of our key markets in the Region: Germany, Italy and France.

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In Germany, cigarette industry volume was encouragingly stable during the first half of this year, supported by several one-off factors including lower illicit trade and the estimated impact of immigration.

Our strong cigarette brand portfolio continued its positive broad based momentum, reaching a total market share of 37.8% in the first half of this year. The growth was equally shared by *Marlboro* in the premium segment and *L&M* in the below-premium segment. We have successfully reinvigorated the *Marlboro* franchise through strengthening its brand equity and relevance to consumers. This has resulted in its highest market share since 2010. Our second growth driver, *L&M* is also performing strongly, reaching an 11.9% market share during the first half of this year.

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In Italy, the total cigarette market increased during the first half of 2016, which we attribute mainly to lower illicit products and the absence of price increases mainly in the first quarter.

In contrast to Germany, our market share in Italy is currently under pressure, down 1.0 point to 52.9% in the first half of 2016. This was mainly due to *Marlboro*, since it has crossed the key €5/pack price point in 2015, with the main competitors remaining at or below this price point. In order to counter this temporary dynamic in the market, we have in place appropriate banding offers which successfully capture approximately 60% of down-traders. In addition, we are ensuring that the core fundamentals and image attributes of our offerings remain strong.

Within the growing below premium segment, our brands are performing very well, reaching a 39.5% share of segment in the first half of this year. *Chesterfield,* in particular has tripled its overall market share since 2012 and has become the second largest brand in the market. At the same time, we have established *Philip Morris* as a solid second leg in the segment, supported by the recent morphing of *Diana*.

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Turning to France, total cigarette industry volume in 2016 is expected to be in line with 2015. The absence of tax and price increases to date have slowed the increase of non-domestic duty-paid products into the country experienced over the past few years. However, being close to 30% in 2015, the non-domestic duty paid incidence remains one of the highest in Europe.

While a limited amount of plain packs are currently visible in the market, by next year they will be fully present. We enter into this more restrictive environment with a strong and streamlined portfolio of well-recognized brands and a solid share momentum. Our share of market has grown 2.5 points since 2012 to reach 42.1% in the first half of 2016. *Marlboro* itself has grown market share for the third consecutive year, achieving 26.1% in the first half of 2016, benefiting from its strong equity amongst French adult smokers. Likewise, *Philip Morris* is performing well in the premium segment and has reached a 10.1% market share in the first half of 2016, up 1.8 points since 2012.

Together with our brands and dedicated team on the ground, our excellent relationship with our trade partners will also contribute to operating successfully in a more restrictive environment.

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Our most exciting and key growth catalyst in the EU Region, and by far our biggest opportunity, is the commercialization of our RRP portfolio, led today by *iQOS*. In line with our multi-category approach, we also continue to play an active role in the e-cigarette category. In the U.K., our e-cigarette business reported an 18.1% market share in June 2016, as measured by Nielsen. Going forward, we will continue to commercialize a pipeline of innovative products such as the new *MESH* technology described earlier by Mirek.

Our organization is energized by the RRP propositions and encouraged by the early progress we have made. In particular, *iQOS* and our ambitious commercialization plans open up new ways of conducting business for PMI. This demands that we reinvent the fundamental ways in which we operate and the methods in which we engage adult smokers and our trade partners in order for them to fully understand the benefits of our products.

In addition, we are building the groundwork for the commercialization of our RRP portfolio. We advocate for countries to establish appropriate regulatory frameworks based on the TPD2 to support the communication of the benefits of these products. Similarly, we have been granted in multiple markets a differentiated tax classification for the heated tobacco category which is required for successful commercialization.

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The majority of EU Member States have now transposed the TPD2 on a one-to-one basis into national legislation, thus establishing the Novel Tobacco Product and e-cigarette categories.

PMI has submitted a notification, including our scientific package, to the EU and several Member States in accordance with the TPD2. While the Directive requires manufactures to submit available scientific studies, a risk/benefit analysis of the product and predicted consumer perception, it does not set specific standards. Therefore, PMI will continue to work with Member States to clearly define specific notification requirements, based on qualitative criteria, for both the commercialization of and claims associated with Reduced-Risk Products.

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To date, *iQOS* is available in key cities in eight markets across the EU Region. At a national level, these markets in aggregate account for approximately 200 billion cigarettes, or close to 40% of cigarette industry volume. By the end of this year, we intend to further expand our presence in an additional three to five markets. And although *iQOS* is not yet fully rolled-out nationally, these countries represent approximately 60% to 70% of total EU cigarette industry volume.

Given the diversity of the markets, their very different regulatory frameworks, and the various communication tools available to engage adult smokers, it has taken us some time to build key insights in order to develop and implement the appropriate commercial techniques.

Today, we have solid learnings and have developed a robust commercial toolbox that we are deploying consistently across our lead commercialization markets. For example, guided trials, which are driving high conversion rates among adult smokers, are key to our performance across multiple geographies.

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Let me now share with you the progress of *iQOS* in a few specific launch areas.

In Italy, we launched *iQOS* in Milan in a very restrictive environment. The conversion results were below our initial expectations but generated a number of important insights. This allowed us to adjust our business model and our overall approach in the market.

Today, we are focusing on high-quality guided trials, which we believe to be the key driver for consumers to fully understand the benefits of the offer. To conduct such guided trials we have invested in building up a highly qualified engagement force, which we are further expanding in order to accelerate our reach and penetration. We have also opened a number of premium *iQOS* embassies in select locations which further improves the consumer experience and provides a hub for premium and personalized interactions. Moreover, we have put additional emphasis on closely accompanying consumers after their initial *iQOS* experience.

As a result of this, and highlighted in Mirek's presentation, we are experiencing a conversion ratio of 68% of both fully converted and predominant users of *iQOS*. With this new approach, we have now expanded to five key cities in Italy which show encouraging trends in both volume and share of market offtake.

Commercialization in Switzerland is also progressing well, particularly in the French speaking areas where we reached a 2% market share. This good result was achieved by increasing the number and quality of one-to-one guided trials complemented by relevant follow-ups and digital interactions with consumers. We are now expanding this approach to the German speaking areas and are encouraged by our traction to date.

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Based on the refinement of our commercial models and tools which are generating high levels of conversion, we have now further expanded to additional geographies including Lisbon, Bucharest, Monaco and most recently to three key cities in Germany, Frankfurt, Berlin and Munich.

In Portugal, we are encouraged by the recent results after having adjusted our commercial initiatives. In the third quarter the penetration ratio doubled to 1.4% and the market share in the launch area reached 0.3% with a conversion ratio of 68%.

In Romania, our initial *iQOS* launch in Bucharest is showing high consumer interest for the product. During the quarter to date September period, our offtake penetration ratio is accelerating, reaching 1.2% with a corresponding 0.3% market share. This was achieved with limited focused commercial support. We are now rolling out our full commercial toolbox in order to further establish our *iQOS* business in Bucharest.

Monaco as you know is a very concentrated area, which enabled us to fully deploy our commercial suite in a focused manner. These activities allowed us to quickly reach a high penetration rate of 5.0% leading to a market share of 3.8% in September 2016.

As we have experienced in the markets where we have commercialized *iQOS*, the differences in the regulatory environments will impact both the mix and reach of commercial tools we deploy. As a result, the pace of penetration will differ market by market. However, the current high conversion ratios observed across all launch areas give us full confidence in the high potential of *iQOS* across all of our EU markets.

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As you have heard, our business in the EU Region is reinvigorated, underpinned by a solid macroeconomic environment and a leading brand portfolio led by *Marlboro*. We are well positioned for the future and are clearly the undisputed leader in the cigarette category based on our market share, further bolstered by our pricing momentum and attractive operating margins.

In addition, we enjoy exciting opportunities as we transform into a multi-category business. Specifically, our RRP portfolio, led by *iQOS*, will serve as a game changer and growth accelerator for our business. We continue to rapidly commercialize our innovative RRP offerings across the EU Region and our organization is energized, agile and well prepared for these challenges.

These factors, and our current strong momentum, give me the confidence that the EU Region can deliver against our target of annual currency neutral mid-single digit adjusted OCI growth in our cigarette business over the mid to long-term. Our RRPs will provide an attractive, incremental growth catalyst for the EU Region and PMI.

Thank you for your interest in our Regional business. I would be happy to take any questions you may have.